

Juturna (European Loan Conduit No. 16) plc

(Incorporated with limited liability in England and Wales)

£813,320,000 5.0636% Commercial Mortgage Backed Fixed Rate Guaranteed Notes due 2033

unconditionally and irrevocably guaranteed as to scheduled

payments of principal and interest pursuant to

a financial guarantee issued by



Capital Strength. Triple-A Performance.

MBIA Assurance S.A.

(Originally registered on 3 May, 1990 with the Nanterre Register of Trade and Companies.

Currently registered with the Paris Register of Trade and Companies under No. B377883293 (98 B 05130))

30700
per pro SFM Directors Limited,
as Director

Application has been made to the Irish Stock Exchange Limited (the "Irish Stock Exchange") for the £813,320,000 5.0636 % Commercial Mortgage Backed Fixed Rate Guaranteed Notes due 2033 (the "Notes") of Juturna (European Loan Conduit No. 16) plc (the "Issuer") to be admitted to the Official List of the Irish Stock Exchange. A copy of this offering circular (this "Offering Circular"), which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with requirements of the European Communities (Stock Exchange) Regulations, 1984 (as amended) of Ireland (the "Regulations"), has been delivered to the Registrar of Companies in Ireland in accordance with the Regulations.

The Notes will be unconditionally and irrevocably guaranteed as to scheduled payments of interest and principal (excluding any additional amounts relating to prepayment or acceleration) in respect of the Notes pursuant to a financial guarantee (the "Note Financial Guarantee") to be issued by MBIA Assurance S.A. ("MBIA") as set out in the section entitled "Note Financial Guarantee".

Interest on the Notes will be payable quarterly in arrears in pounds sterling on the 10th day of February, May, August and November in each year, subject to adjustment for non-business days as described herein (each a "Note Payment Date"). The first Note Payment Date will be 10 November, 2003. The Notes will bear interest at a fixed rate of 5.0636 per cent. per annum.

The Notes are expected on issue to be assigned the ratings set out in the table below by Fitch Ratings Limited ("Fitch"), Moody's Investors Service Inc. ("Moody's") and Standard & Poors Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P" and together with Fitch and Moody's, the "Rating Agencies"). The rating to be assigned to the Notes will be based solely upon the financial strength rating of MBIA. 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 one or more of the assigning rating organisations. The ratings from the Rating Agencies address the likelihood of timely receipt by any Notcholder of interest and the likelihood of timely receipt by any Notcholder of principal of the Notes.

Fitch	Moody's	S&P	Initial Principal Amount	Rate of Interest	Maturity/Amort. Life	Expected First Note Payment Date	Monthly Date	Issue Price
AAA	AAA	AAA	£813,320,000	5.0636%	22.5 years	10 August, 2003	10 August, 2003	100%

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer and, pursuant to the Note Financial Guarantee, MBIA. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, Morgan Stanley Dean Witter Principal Funding Inc. ("MSDW PFI") or any other affiliate of Morgan Stanley, or of or by the Managers, the Servicer, the Cash Manager, the Trustee, the Security Trustee, the Collection Agent, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, any other Paying Agent, the Agent Bank, the Swap Provider, the Swap Guarantor, the BBC, the Issuer Operating Bank, the Borrower Operating Bank or the Co-Owner Operating Bank (each as defined herein) or any of their respective affiliates and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

The Notes will be issued on the Closing Date. The Notes will all be secured by the same security, and will all rank pari passu with and without priority over other Notes. Prior to redemption on the Note Payment Date falling in August, 2033 (the "Maturity Date"), the Notes will be subject to mandatory redemption in certain circumstances. See "Terms and Conditions of the Notes - Redemption and Cancellation".

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE NOTES ARE BEING OFFERED BY THE ISSUER ONLY TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (OR OTHERWISE PURSUANT TO TRANSACTIONS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT) AND IN ACCORDANCE WITH APPLICABLE LAWS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO ANY U.S. PERSONS.

THE NOTES ARE NOT DESIGNED FOR, AND MAY NOT BE PURCHASED OR HELD BY, ANY BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYER RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") (A "BENEFIT PLAN") WHICH IS SUBJECT THERETO, OR ANY PLAN (AS DEFINED IN SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE")) (A "PLAN"), OR BY ANY PERSON ANY OF THE ASSETS OF WHICH ARE, OR ARE DEEMED FOR THE PURPOSES OF ERISA OR SECTION 4975 OF THE CODE TO BE, ASSETS OF SUCH BENEFIT PLAN OR PLAN, AND EACH PURCHASER OF A NOTE PURSUANT TO REGULATION S WILL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED THAT IT IS NOT, AND FOR SO LONG AS IT HOLDS A NOTE ISSUED PURSUANT TO REGULATION S WILL NOT BE, SUCH A BENEFIT PLAN OR PLAN.

If any withholding or deduction for or on account of tax is applicable to payments of interest or principal on the Notes, such payments will be made subject to such withholding or deduction without the Issuer being obliged to pay any additional amounts as a consequence.

The Notes are expected to settle in book entry form through the facilities of Euroclear and Clearstream, Luxembourg (each as defined herein) on their date of issue (the "Closing Date") against payments therefor in immediately available funds.

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes.

MORGAN STANLEY
SOLE BOOK RUNNER
JOINT LEAD MANAGER

Barclays Capital

The date of this Offering Circular is 16 July, 2003

THE ROYAL BANK OF SCOTLAND
JOINT LEAD MANAGER

HSBC

Document approved
16 July 03
[Signature]

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Lina Campbell

MBIA Assurance

16 July 2003

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Fitch	Expected Ratings Moodys's	S&P	Initial Principal Amount	Rate of Interest	Estimated Average Life	Expected Final Note Payment Date	Maturity Date	Issue Price
AAA	Aaa	AAA	£813,320,000	5.0636%	22.3 years	10 August, 2033	10 August, 2033	100%

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer and, pursuant to the Note Financial Guarantee, MBIA. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, Morgan Stanley Dean Witter Principal Funding Inc. ("MSDW PFI") or any other affiliate of Morgan Stanley, or of or by the Managers, the Servicer, the Cash Manager, the Trustee, the Security Trustee, the Collection Agent, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, any other Paying Agent, the Agent Bank, the Swap Provider, the Swap Guarantor, the BBC, the Issuer Operating Bank, the Borrower Operating Bank or the Co-Owner Operating Bank (each as defined herein) or any of their respective affiliates and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

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SOLE BOOK RUNNER
JOINT LEAD MANAGER

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The date of this Offering Circular is 16 July, 2003

THE ROYAL BANK

OF SCOTLAND

JOINT LEAD MANAGER

HSBC

IMPORTANT NOTICE

The Notes will be sold in offshore transactions in reliance on Regulation S under the Securities Act ("**Regulation S**"). The Notes will be in bearer form and in denominations of £25,000 and integral multiples of £1000. The Notes will initially be represented by a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons or talons attached.

On or about the Closing Date, the Temporary Global Note will be deposited with HSBC Bank plc (the "**Common Depositary**") as 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**"), which term shall be deemed to include any successor entity thereto). The Temporary Global Note will be exchangeable for interests in a permanent global note (the "**Permanent Global Note**" and, with the Temporary Global Note, the "**Global Notes**"), without interest coupons or talons attached, 40 days after the Closing Date upon customary certification of non-U.S. beneficial ownership, which will also be deposited with the Common Depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Notes will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Interests in the Permanent Global Note will be exchangeable for definitive Notes in bearer form ("**Definitive Notes**") only in the limited circumstances described in "Description of the Notes - Issuance of Definitive Notes" at page 118. Definitive Notes will be issued in bearer form only in the denominations of £25,000 and integral multiples of £1,000 with coupons and talons attached. See also "Description of the Notes" at page 117.

The Issuer accepts responsibility for all information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. In addition to the Issuer, Daunus Limited (the "**Borrower**") accepts responsibility for all information relating to it in "The Borrower" at pages 56 to 57. The information relating to the British Broadcasting Corporation (the "**BBC**") in "The Background and Business of the BBC" at pages 88 to 95 and in Appendices 3 and 4 is based upon publicly available information.

In addition, MBIA accepts responsibility for the information contained in the sections entitled "Note Financial Guarantee", "MBIA", "MBIA Insurance Corporation", "Financial Statements of MBIA Assurance S.A. for the year ended 31 December 2002" and in paragraphs 2, 7, 11 and 13 of the section entitled "General Information" (together, the "**MBIA Information**") at pages 141 to 150, 151 to 154, 155 to 159, in Appendix 2 and at page 164 respectively. To the best of the knowledge and belief of MBIA (which has taken all reasonable care to ensure that such is the case), the MBIA Information is in accordance with the facts and does not omit anything likely to affect the import of such information. MBIA accepts no responsibility for any other information contained in this Offering Circular. Save for the MBIA Information, MBIA has not separately verified the information contained in this Offering Circular. No representation, warranty or undertaking, expressed or implied, is made and no responsibility or liability is accepted by MBIA as to the accuracy or completeness of any information contained in this Offering Circular (other than the MBIA Information) or any other information supplied in connection with the Notes or their distribution. Each person receiving this Offering Circular acknowledges that such person has not relied on MBIA nor any person affiliated with it in connection with its investigation of the information contained herein (other than the MBIA Information).

No person is or has been authorised in connection with the issue and sale of the Notes to give any information or to make any representation not contained in this Offering Circular in connection with the Issuer, the Borrower, MBIA or the sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Borrower, MSDW PFI or any other affiliate of Morgan Stanley, the BBC, the Managers, MBIA, the Servicer, the Cash Manager, the Trustee, the Security Trustee, the Collection Agent, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, any other Paying Agent, the Agent Bank, the Swap Provider, the Swap Guarantor, the Borrower Operating Bank, the Co-Owner Operating Bank or the Issuer Operating Bank. Neither the delivery of this Offering Circular nor any offering, sale or allotment made in connection with the offering of any of the Notes or delivery of any Note shall, under any circumstances, constitute a representation or create any implication that there has been no change in the information contained herein since the date hereof or that the information contained herein is correct as of any time subsequent to its date 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 or MBIA since the date hereof. Unless otherwise indicated herein, all information in this Offering Circular is given as of the date of this Offering Circular.

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and MBIA and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Notes should consult independent professional advisers.

Other than the approval by the Irish Stock Exchange of this Offering Circular as listing particulars in accordance with the requirements of the Regulations and the delivery of a copy of this Offering Circular to the Registrar of Companies in Ireland for registration in accordance with the Regulations, no action has been or will be taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular (or any part hereof) comes are required by the Issuer, MBIA and the Managers to inform themselves about, and to observe, any such restrictions. Neither this Offering Circular nor any part hereof constitutes an offer of, or an invitation by or on behalf of the Issuer, MBIA or the Managers to subscribe for or purchase any of, the Notes and neither this Offering Circular, nor any part hereof, may be used for or in connection with an offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. For a further description of certain restrictions on offers and sales of the Notes and distribution of this Offering Circular (or any part hereof) see "Subscription and Sale" below at pages 162 and 163.

All references in this document to "sterling" or "pounds" or "£" are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

In connection with this issue, Morgan Stanley & Co. International Limited or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on Morgan Stanley & Co. International Limited or any of its agents to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

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SUMMARY

The following information is a summary of the principal features of the issue of the Notes. This summary should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Offering Circular. Certain terms used in this summary are defined elsewhere in this Offering Circular. A list of the pages on which these terms are defined is found in the "Index of Principal Defined Terms" in Appendix 5 at the end of this Offering Circular.

Transaction Overview

The transaction described in this Offering Circular involves the issue of the Notes by the Issuer. On the Closing Date the Issuer will issue the Notes and will apply the proceeds of such issuance primarily to:

- (a) acquire from MSDW PFI a loan (the "**Loan**") made by MSDW PFI to the Borrower pursuant to a credit agreement dated 1 July, 2003 (to be amended on or prior to the Closing Date) between, among others, MSDW PFI and the Borrower (the "**Credit Agreement**"), together with MSDW PFI's other rights under the Credit Agreement and its beneficial interest in a trust created over the various security interests granted in respect of the Loan (the "**Security Trust**");
- (b) make an initial payment to Morgan Stanley Capital Services Inc. (the "**Swap Provider**") in connection with a swap agreement (the "**Swap Agreement**") between the Issuer and the Swap Provider;
- (c) fund an account (the "**Issuer Expense Account**") which will be used by the Issuer to make payment of certain on-going expenses which may be incurred by it from time to time; and
- (d) to pay certain fees and expenses of the Financial Guarantor.

The payments of interest on and the repayments of principal of the Loan will provide the primary source of income to the Issuer, and will be used by the Issuer, together with amounts received by it under the Swap Agreement, to make payments of interest on and repayments of principal of the Notes.

MSDW PFI will make the Loan to the Borrower on the Closing Date. The Borrower will use the proceeds of the Loan primarily to:

- (a) acquire an interest in a lease (the "**Headlease**") granted by the BBC for a term of 150 years in respect of a property known as Broadcasting House which is located at 1 Portland Place, London, W1A 1AA (the "**Property**") and to contribute towards the stamp duty and registration costs incurred in connection with such acquisition;
- (b) acquire a membership interest (the "**Membership Interest**") in Morgan Stanley Alpha Investments LLP, a limited liability partnership incorporated in England and Wales (the "**Limited Liability Partnership**"), by making a capital contribution to the Limited Liability Partnership and to make certain additional payments related to such acquisition; and
- (c) make a deposit with MBIA Inc. (the "**GIC Provider**") in connection with a guaranteed investment contract (the "**Borrower GIC**") from which withdrawals will be made to fund:
 - (i) certain expenses incurred in undertaking a development programme in respect of the Property (the "**Development Programme**") principally pursuant to a development agreement (the "**Development Agreement**") between the Borrower, and Land Securities Trillium (Media Services) BH Limited (the "**Developer**"), a subsidiary of Land Securities Trillium (Media Services) Limited ("**LST**") and the BBC; and
 - (ii) certain payments of principal and interest in respect of the Loan prior to the commencement of the Final Period,

as well as to fund two separate accounts, the first being an account (the "**Borrower Expense Account**") which will be used by the Borrower to make payment of certain on-going expenses and the second being an account (the "**Borrower Restrictive Covenant Retention Account**") which will be used by the Borrower to

make payment of certain amounts to owners of adjoining property in connection with undertaking the Development Programme. Proceeds of the Loan will also be used to pay certain closing fees, costs and expenses in respect of the arrangement of the Loan.

On the Closing Date, the Limited Liability Partnership, in turn, will use the proceeds of the capital contribution made by the Borrower to fund the subscription of certain preference shares (the "**Co-Owner Class A Preference Shares**") issued by Morgan Stanley Gamma Investments (the "**Co-Owner**") which are to be held by Morgan Stanley Beta Investments Limited (the "**Preference Share Nominee**") on trust for the Limited Liability Partnership. The Co-Owner is an unlimited liability company incorporated in England and Wales which will use the proceeds of this subscription primarily to:

- (a) acquire, together with the Borrower, an interest in the Headlease and to contribute towards the stamp duty and registration costs incurred in connection with such acquisition; and
- (b) make a deposit with the GIC Provider in connection with a guaranteed investment contract (the "**Co-Owner GIC**") from which withdrawals will be made to fund a contribution by the Co-Owner towards certain expenses incurred in undertaking the Development Programme (the "**Co-Owner Development Contribution**").

On the Closing Date, the BBC will grant the Headlease jointly to the Borrower and the Co-Owner (each a "**Headlessee**" and together, the "**Headlessees**") in accordance with their respective interests, such interests being set out in the Headlease.

The interest of the Borrower in the Headlease is hereinafter referred to as the "**Borrower Headlease Interest**" and the interest of the Co-Owner in the Headlease is hereinafter referred to as the "**Co-Owner Headlease Interest**".

The Headlessees will, on the Closing Date, grant to the BBC (in such capacity, the "**Tenant**") a lease (the "**Underlease**") of the Property for a term of 30 years. The terms of the Underlease require the Tenant, among other things, to repair and insure the Property.

Under the terms of the Underlease, the Tenant will make certain payments of rent (the "**Rent Payments**") to an account in the joint names of the Headlessees (the "**Collection Account**"). Immediately upon Rent Payments being received in the Collection Account, Morgan Stanley Mortgage Servicing Limited (in such capacity, the "**Collection Agent**") will allocate such Rent Payments between the Borrower and the Co-Owner in accordance with their respective interests in the Headlease, and will transfer the relevant amounts into separate accounts in the name of the Borrower (the "**Borrower Rent Account**") and the Co-Owner (the "**Co-Owner Rent Account**") respectively.

The portion of the Rent Payments paid to the Borrower is hereinafter referred to as the "**Borrower Rent Distributions**" and the portion of the Rent Payments paid to the Co-Owner is hereinafter referred to as the "**Co-Owner Rent Distributions**".

Between the Closing Date and 14 September 2005 (the "**Initial Period**"), the Tenant will make no Rent Payments. The Borrower will, during the Initial Period, use amounts paid to the Borrower pursuant to the Borrower GIC to pay principal and interest on the Loan.

Between 15 September 2005 and 14 September 2008 (the "**Intermediate Period**"), the Tenant will make Rent Payments in amounts less than the amounts due after the expiry of the Intermediate Period. During the Intermediate Period, the Co-Owner will use the Co-Owner Rent Distributions to make distributions in respect of the Co-Owner Class A Preference Shares to the Limited Liability Partnership (the "**Co-Owner Distributions**"). The Limited Liability Partnership will, in turn, use the proceeds of such Co-Owner Distributions immediately on receipt thereof, to make distributions to the Borrower in its capacity as a member of the Limited Liability Partnership (the "**LLP Distributions**"). The Borrower will, during the Intermediate Period, use the aggregate of the Borrower Rent Distributions, the LLP Distributions and amounts paid to the Borrower pursuant to the Borrower GIC to pay principal and interest on the Loan.

Between 15 September 2008 and 15 March 2033 (the "**Final Period**") the Tenant will make Rent Payments payable quarterly in advance in a notional amount of £10,710,000 and on 15 June 2033 will make a final Rent Payment, subject to uplifts, as described below. The Co-Owner will use the Co-Owner Rent Distributions,

immediately on the receipt thereof, to make Co-Owner Distributions to the Limited Liability Partnership, which will, in turn, use such amounts, immediately on the receipt thereof, to make LLP Distributions to the Borrower. The Borrower will use the Borrower Rent Distributions and the LLP Distributions to pay interest on and make repayments of principal of the Loan.

The Co-Owner, the Preference Share Nominee, the Limited Liability Partnership and all matters incidental thereto or connected therewith are collectively referred to hereinafter as the "**Co-Ownership Structure**".

The notional amounts of the Rent Payments are subject to annual uplifts related to the rate of inflation prevailing in the United Kingdom, as is the principal amount of the Loan. The process of uplifting the Rent Payments and the principal amount of the Loan is referred to hereinafter as "**Indexation**", such uplifts being made by reference to an index entitled the limited price index (the "**LPI**"). The LPI, which is not an official price index, is based upon the annual rate of inflation prevailing in the United Kingdom from time to time, subject to a cap of 5% and a floor of 0% and is derived from the United Kingdom General Index of Retail Prices (for all items) published by the Office of National Statistics (the "**Index**"). The principal amount of the Notes are not, however, subject to Indexation though the rate of interest applicable to the Notes is set on the basis of certain assumptions with respect to the rate of inflation prevailing in the United Kingdom during the term of the Notes (the "**Implied Rate of Inflation**"). Thus, the Issuer is exposed to a mismatch between receiving payments which are adjusted for Indexation and having to make payments which are not adjusted for Indexation. This mismatch may have an adverse effect on the ability of the Issuer to make payments of interest on and repayment of principal of the Notes if the rate of inflation on which Indexation is based were to be less than the Implied Rate of Inflation. In order to protect the Issuer against this risk (the "**Indexation Risk**") the Issuer will enter into a swap transaction (the "**Issuer Swap Transaction**") with the Swap Provider pursuant to the Swap Agreement. The obligations of the Swap Provider under the Issuer Swap Transaction will be guaranteed by the Swap Guarantor. The obligations of the Issuer under the Issuer Swap Transaction will be guaranteed by the Financial Guarantor pursuant to the Swap Financial Guarantee.

The outstanding balance of the Loan (the "**Outstanding Loan Balance**") on the Closing Date will be £782,089,341, which is subject to Indexation as described above. The scheduled maturity date of the Loan is 15 July, 2033 (the "**Loan Maturity Date**"). Interest on the Loan is payable quarterly in arrear and accrues at a fixed rate and the principal amount of the Loan will be repayable in accordance with a fixed amortisation schedule (the "**Loan Amortisation Schedule**"), commencing on 15 October, 2003. The amounts available to the Borrower by way of Borrower Rent Distributions, LLP Distributions and withdrawals under the Borrower GIC to pay interest on and repay the principal of the Loan have been structured so as to enable the Borrower to pay interest on the Loan as it falls due for payment and to make principal repayments on the Loan in accordance with the Loan Amortisation Schedule, which provides for the principal amount outstanding of the Loan to amortise to zero on the Loan Maturity Date, which occurs shortly before the Maturity Date in respect of the Notes, regardless of the rate of inflation prevailing in the United Kingdom from time to time during the term of the transactions described in this Offering Circular.

Following the acquisition of the Loan by the Issuer, which will occur pursuant to a loan sale agreement to be entered into between the Issuer and MSDW PFI on the Closing Date (the "**Loan Sale Agreement**"), on each payment date under the Credit Agreement (each a "**Loan Payment Date**") the Security Trustee, acting upon the instructions of the Servicer, will, to the extent that funds are available for such purpose, transfer to an account in the name of the Issuer with the Issuer Operating Bank (the "**Issuer Transaction Account**") all amounts then due to the Issuer under the Credit Agreement. On each payment date under the Notes (each a "**Note Payment Date**"), the Cash Manager will, on the basis of information provided by the Servicer, after payment of those obligations of the Issuer having a higher priority and to the extent that funds are available for such purposes, apply the relevant funds standing to the credit of the Issuer Transaction Account in payment of interest due on the Notes and in payment of the relevant principal amount outstanding of the Notes.

There is no intention to accumulate any surplus funds in the Issuer as security for any future payments of interest and principal on the Notes, though there will be amounts standing to the credit of the various accounts of the Issuer from time to time.

The obligations of the Issuer to the Noteholders in respect of the Notes, to the Financial Guarantor in respect of the Guarantee and Reimbursement Agreement and to other secured parties will be secured pursuant to a deed of charge and assignment (the "**Deed of Charge and Assignment**") governed by English law. The Issuer will create, pursuant to the Deed of Charge and Assignment, among other things, (a) an assignment by way of security of the Loan and the Issuer's rights under the Credit Agreement, (b) an assignment by way of

security of the Issuer's beneficial interest in the Security Trust, (c) an assignment by way of security of the Issuer's rights under certain contracts entered into in connection with the issuance of the Notes including, without limitation, those relating to the Issuer Swap Transaction, (d) an assignment by way of security of the Issuer's interests in the Issuer Transaction Account, the Issuer Expense Account and certain other bank accounts in which the Issuer may place and hold cash, and (e) a floating charge over the whole of the undertaking and assets of the Issuer other than those assets that are otherwise secured by way of an effective fixed security interest (together, the "**Issuer Security**").

Scheduled payments of principal and interest on the Notes are unconditionally and irrevocably guaranteed by the Financial Guarantor pursuant to the Note Financial Guarantee. Under the terms of a guarantee and reimbursement agreement (the "**Guarantee and Reimbursement Agreement**") between, among others, the Issuer and the Financial Guarantor, the Issuer will be obliged to reimburse the Financial Guarantor in respect of payments made by the Financial Guarantor under the Note Financial Guarantee and under the Swap Financial Guarantee and under the terms of an indemnification deed (the "**Indemnification Deed**") between, among others, the Issuer and the Financial Guarantor, the Issuer will be obliged to indemnify the Financial Guarantor in certain circumstances.

The fees payable to the Financial Guarantor in consideration for the issuance of the Note Financial Guarantee and the Swap Financial Guarantee are set out in a fee letter between the Issuer and the Financial Guarantor (the "**Guarantee Fee Letter**") and the Guarantee and Reimbursement Agreement. The Issuer will pay or procure to be paid to the Financial Guarantor, a portion of the guarantee fees on the Closing Date. The balance of the guarantee fees will be paid over time.

The Financial Guarantor will have control of various matters in relation to the Notes and the Issuer Security in its capacity as controlling party (the "**Controlling Party**") unless and until such time as the Trustee has determined that an MBIA Event of Default has occurred and has not been cured to the satisfaction of the Trustee or waived by the Trustee or the holders of the Notes (the "**Noteholders**"), in which case the Financial Guarantor will cease to be the Controlling Party, which role will then fall upon the Trustee as the representative of the Noteholders.

The Parties

The major transaction parties are as follows:

The Issuer..... Juturna (European Loan Conduit No. 16) plc (the "**Issuer**").

The Issuer is a public company incorporated in England and Wales with limited liability. The activities of the Issuer are restricted to purchasing the Loan and the Related Security pursuant to the Loan Sale Agreement, issuing the Notes and entering into transactions incidental to these activities.

For further information about the Issuer, see "The Issuer" at page 52.

The Originator Morgan Stanley Dean Witter Principal Funding Inc. ("**MSDW PFI**" or the "**Originator**").

The activities of the Originator include making loans secured by commercial real property in various countries around the world.

For further information about the Originator, see "The Parties – Morgan Stanley Dean Witter Principal Funding Inc." at page 58.

The Financial Guarantor MBIA Assurance S.A. ("**MBIA**" or in such capacity the "**Financial Guarantor**").

The Financial Guarantor will issue the Note Financial Guarantee in respect of the Notes with the Trustee being the beneficiary thereof, and will issue the Swap Financial Guarantee to the Swap Provider in

respect of the Issuer's payment obligations under the Issuer Swap Transaction.

For further information about the Financial Guarantor, see "MBIA" at page 151. For further information about the Note Financial Guarantee, see "Note Financial Guarantee" at page 141. For further information about the Swap Financial Guarantee, see "Credit Structure - Swap Financial Guarantee" at page 104.

The GIC Provider..... MBIA Inc. is the GIC Provider.

The GIC Provider will enter into the Borrower GIC and the Co-Owner GIC.

For further information about the GIC Provider, see "The Parties – The GIC Provider" at page 58. For further information about the operation of the Borrower GIC and the Co-Owner GIC, see "The Accounts Structure and Cash Flow Control – The Guaranteed Investment Contracts" at page 98.

The GIC Guarantor..... MBIA Insurance Corporation (the "**GIC Guarantor**").

The GIC Guarantor will guarantee the obligations of the GIC Provider in respect of both the Borrower GIC (the "**Borrower GIC Guarantee**") and the Co-Owner GIC (the "**Co-Owner GIC Guarantee**").

For further information about the GIC Guarantor, see "The Parties – The GIC Guarantor" at page 58. For further information about the guarantees provided by the GIC Guarantor, see "The Accounts Structure and Cashflow Control – The Guaranteed Investment Contracts" at page 98.

The GIC Custodian..... Wells Fargo Bank Minnesota, National Association (the "**GIC Custodian**").

In order to collateralise its obligations in respect of both the Borrower GIC and the Co-Owner GIC, the GIC Provider will, on the Closing Date, enter into two custodial agreements with the GIC Custodian (the "**GIC Custodial Agreements**") pursuant to which the GIC Provider will deposit cash and/or securities (the "**GIC Collateral**") with the GIC Custodian in an amount sufficient to fully collateralise the GIC Provider's obligations under the Borrower GIC and the Co-Owner GIC, respectively. All GIC Collateral will be subject to security interests granted by the GIC Provider (the "**GIC Collateral Security**"). These security interests will be governed by New York law.

For further information about the GIC Custodian, see "The Parties – The GIC Custodian" at page 58. For further information about the GIC Custodial Agreements, the GIC Collateral and the GIC Collateral Security, see "The Accounts Structure and Cash-Flow Control – The Guaranteed Investment Contracts" at page 98.

The Security Trustee..... Morgan Stanley Mortgage Servicing Limited ("**MSMS**" and in such capacity, the "**Security Trustee**").

The activities of the Security Trustee include holding on trust and, where relevant, enforcing the various security interests granted in respect of loans made by the Originator, including the Related

Security. The Controlling Party will have the right to direct the Security Trustee in relation to enforcing the Related Security.

For further information about the Security Trustee, see "The Parties – Servicer, Security Trustee and Collection Agent" at page 58.

The Trustee HSBC Trustee (C.I.) Limited (the "**Trustee**").

The activities of the Trustee include acting as trustee for the holders of capital market debt instruments similar to the Notes and enforcing security interests granted in respect of capital market debt instruments similar to the Notes. The Trustee will act as trustee for the holders of the Notes pursuant to a trust deed (the "**Trust Deed**") between the Trustee, the Issuer and the Financial Guarantor and will also be entitled to enforce the Issuer Security in accordance with the Deed of Charge and Assignment. For as long as it is the Controlling Party, the Financial Guarantor will have the right to direct the Trustee in relation to enforcing the Issuer Security.

For further information about the Trustee and the Trust Deed, see "The Parties – Trustee" at page 59.

The Servicer MSMS will act as servicer (in such capacity, the "**Servicer**") in respect of the Loan and the Related Security pursuant to a servicing agreement (the "**Servicing Agreement**") between the Servicer, the Trustee, the Issuer and the Security Trustee. The Controlling Party will have the right to direct the Servicer in the exercise of any discretions under the Servicing Agreement.

For further information about the Servicer, see "The Parties – Servicer, Security Trustee and Collection Agent" at page 58.

The Special Servicer Under certain circumstances specified in the Servicing Agreement the Controlling Party may terminate the appointment of the Servicer and replace it with an alternative servicer of its choosing (the "**Special Servicer**").

For further information about the Special Servicer, see "Servicing – Appointment of Special Servicer" at page 109.

The Swap Guarantor..... Morgan Stanley (the "**Swap Guarantor**").

The Swap Guarantor will, pursuant to a guarantee in favour of the Issuer (the "**Swap Guarantee**"), guarantee all of the Swap Provider's obligations to the Issuer under the Swap Agreement and the Issuer Swap Transaction.

For further information about the Swap Guarantor, see "The Parties – Swap Guarantor" at page 58. For further information about the Swap Guarantee, see "Credit Structure – Swap Guarantee" at page 104.

The Swap Provider..... Morgan Stanley Capital Services Inc. is the Swap Provider.

The Swap Provider and the Issuer will enter into the Swap Agreement in the form of an International Swaps and Derivatives Association Inc. ("**ISDA**") 1992 Master Agreement (Multicurrency-Cross Border), the schedule thereto and a swap confirmation evidencing the terms of the Issuer Swap Transaction.

While the Financial Guarantor is the Controlling Party, in the event of the rating of the long-term unsecured, unsubordinated debt obligations of the Swap Guarantor falling to or below "A-" by Fitch, "A3" by Moody's or "A-" by S&P and after the Financial Guarantor ceases to be the Controlling Party or the Financial Guarantor's long-term unsecured debt obligations cease to be rated at least as high as "AA-" by S&P, "Aa3" by Moody's or "AA-" by Fitch, in the event of the rating of the short-term unsecured, unsubordinated debt obligations of the Swap Guarantor falling to or below "F2" by Fitch, or "A-2" by S&P, or the rating of the long-term unsecured, unsubordinated debt obligation of the Swap Guarantor falling below "A1" by Moody's, the Swap Provider may be required to make transfers to the Issuer of collateral in support of its obligations under the Swap Agreement, pursuant to the terms of the 1995 ISDA Credit Support Annex entered into between the Issuer and the Swap Provider (the "**Swap Agreement Credit Support Document**").

For further information about the Swap Provider, see "The Parties – Swap Provider" at page 58. For further information about the Swap Agreement, see "Credit Structure – The Swap Agreement" at page 103.

The Corporate Services Provider..... SFM Corporate Services Limited (in such capacity, the "**Corporate Services Provider**").

The Corporate Services Provider will, pursuant to a corporate services agreement between the Corporate Services Provider, the Issuer and the Trustee (the "**Corporate Services Agreement**"), provide certain administrative services to the Issuer.

For further information about the Corporate Services Provider, see "The Parties – Corporate Services Provider and Share Trustee" at page 59.

The Issuer Operating Bank HSBC Bank plc will act as operating bank for the Issuer (in such capacity, the "**Issuer Operating Bank**").

The Issuer will maintain its bank accounts, including the Issuer Transaction Account and the Issuer Expense Account, with the Issuer Operating Bank.

For further information about the Issuer Operating Bank, see "The Parties – Issuer Operating Bank" at page 58.

The Borrower Operating Bank..... HSBC Bank plc will act as operating bank for the Borrower (in such capacity, the "**Borrower Operating Bank**").

The Borrower will maintain its bank accounts, including the Borrower Rent Account, the Borrower Expense Account, the Borrower Development Account, the Borrower Restrictive Covenant Retention Account and the Borrower Interest Account with the Borrower Operating Bank. The Collection Account will also be maintained at the Borrower Operating Bank, in the joint names of the Borrower and the Co-Owner.

For further information about the Borrower Operating Bank, see "The Parties – Borrower Operating Bank" at page 59.

The Co-Owner Operating Bank HSBC Bank plc will act as operating bank for the Co-Owner (in such capacity, the "**Co-Owner Operating Bank**"). The Co-Owner will

maintain its bank accounts, including the Co-Owner Rent Account and the Co-Owner Development Account, at the Co-Owner Operating Bank. The LLP Account will also be maintained at the Co-Owner Operating Bank.

For further information about the Co-Owner Operating Bank, see "The Parties – Co-Owner Operating Bank" at page 59.

The Principal Paying Agent, the Cash Manager and the Agent Bank

HSBC Bank plc will act as principal paying agent and agent bank (in such capacities, the "**Principal Paying Agent**" and the "**Agent Bank**" respectively) pursuant to an agency agreement (the "**Agency Agreement**") between among others, the Issuer, the Trustee, the Agent Bank, the Principal Paying Agent and the Sub-Paying Agent, and as cash manager (in such capacity, the "**Cash Manager**") pursuant to a cash management agreement (the "**Cash Management Agreement**") between, among others, the Issuer, the Trustee and the Cash Manager.

For further information about the Principal Paying Agent and the Cash Manager, see "The Parties – Principal Paying Agent, Agent Bank and Cash Manager" at page 59.

The Share Trustee.....

SFM Corporate Services Limited (in such capacity, the "**Share Trustee**") will, pursuant to the charitable declaration of trust constituting the "European Loan Conduit No.16 Securitisation Trust" (the "**Declaration of Trust**"), provide certain services as trustee of that trust (the "**Share Trust**").

For further information about the Share Trustee, see "The Parties – Corporate Services Provider and Share Trustee" at page 59.

The Sub-Paying Agent

HSBC Global Investor Services (Ireland) Limited will act as Sub-Paying Agent (in such capacity, the "**Sub-Paying Agent**" and together with the Principal Paying Agent and any other paying agents that may be appointed pursuant to the Agency Agreement, the "**Paying Agents**").

For further information about the Sub-Paying Agent, see "The Parties – Sub-Paying Agent" at page 59.

The Collection Agent

Morgan Stanley Mortgage Servicing Limited will act as Collection Agent.

The Collection Agent will collect Rent Payments made from time to time into the Collection Account and following collection of such amounts will apportion such Rent Payments between Borrower Rent Distributions and Co-Owner Rent Distributions prior to transferring the relevant amounts to the Borrower Rent Account and Co-Owner Rent Account, as appropriate.

For further information about the Collection Agent, see "The Parties – Servicer, Security Trustee and Collection Agent" at page 58.

The Co-Ownership Structure

Background.....

The Co-Ownership Structure has been designed to maximise the Borrower's available cash-flow and hence its ability to pay interest on and repay the principal of the Loan. This is achieved by segregating the income of the Borrower into two elements. The first element of

income is received by the Borrower directly from the Tenant, in the form of the Borrower Rent Distributions or directly from the Borrower GIC. The second element of income is received directly by the Borrower from the Limited Liability Partnership, in the form of LLP Distributions.

For further information about the Co-Ownership Structure, see "The Co-Ownership Structure" at page 62.

The Co-Owner Morgan Stanley Gamma Investments is the Co-Owner.

The Co-Owner is a private company incorporated in England and Wales with unlimited liability.

The Co-Owner was incorporated for the purposes of acquiring an interest in the Headlease, subject to and with the benefit of the Underlease, and contributing to the funding of certain expenses incurred in connection with the Development Programme. In addition, the Co-Owner was incorporated for the purpose of undertaking various commercial and financial activities not connected with the transactions described in this Offering Circular.

The ordinary shares of the Co-Owner (the "**Co-Owner Ordinary Shares**") are held by MS Lion LLC directly and by the Preference Share Nominee as nominee for MS Lion LLC. The Co-Owner Class A Preference Shares and another class of preference shares (the "**Co-Owner Class B Preference Shares**") will be issued on the Closing Date by the Co-Owner to the Preference Share Nominee as nominee for the Limited Liability Partnership. The subscription of the Co-Owner Class B Preference Shares will be funded by the capital contribution made by Morgan Stanley Biscay LLC and Morgan Stanley Epsilon Investments Limited to the Limited Liability Partnership.

For further information about the Co-Owner, see "The Parties – The Co-Owner" at page 60.

The Preference Share Nominee Morgan Stanley Beta Investments Limited is the Preference Share Nominee.

The Preference Share Nominee is a private company incorporated in England and Wales, organised for the purpose of holding legal title to a Co-Owner Ordinary Share as nominee for MS Lion LLC and the Co-Owner Class A Preference Shares and Co-Owner Class B Preference Shares as nominee for the Limited Liability Partnership.

For further information about the Preference Share Nominee, see "The Parties – The Preference Share Nominee" at page 61.

The Limited Liability Partnership Morgan Stanley Alpha Investments LLP is the Limited Liability Partnership.

The Limited Liability Partnership was incorporated for the sole purpose of funding the subscription of the Co-Owner Class A Preference Shares and the Co-Owner Class B Preference Shares by the Preference Share Nominee. The existing members of the Limited Liability Partnership are Morgan Stanley Biscay LLC and Morgan Stanley Epsilon Investments Limited. The Borrower will become a member of the Limited Liability Partnership on the Closing Date.

For further information about the Limited Liability Partnership, see "The Parties – The Limited Liability Partnership" at page 61.

Co-Owner Distributions

and LLP Distributions During both the Intermediate Period and the Final Period, the Co-Owner will make Co-Owner Distributions using the proceeds of Co-Owner Rent Distributions and the Limited Liability Partnership will use the proceeds of such Co-Owner Distributions to make LLP Distributions to the Borrower.

For further information about the Co-Owner Distributions, see "The Co-Ownership Structure – Discharge of the Co-Owner Obligations" at page 63.

The Co-Owner and the Development

Programme..... The Co-Owner is obliged to fund the Co-Owner Development Contributions and will, pursuant to the Co-Owner GIC, receive certain amounts from time to time which it will use to do so.

The Co-Owner will make Co-Owner Development Contributions to the Borrower pursuant to a development agency agreement (the "**Development Agency Agreement**") between the Borrower, the Co-Owner and the Security Trustee. The Borrower will, on behalf of the Co-Owner, pay amounts no greater than the Co-Owner Development Contributions to the Developer in accordance with the terms of the Development Agreement and to satisfy obligations in relation to development related expenditure under other agreements. The Co-Owner's obligations under the Development Agency Agreement are limited to making Co-Owner Development Contributions out of funds received pursuant to the Co-Owner GIC.

As security for its obligation to make the Co-Owner Development Contributions under the Development Agency Agreement, the Co-Owner will enter into a security document (the "**Agency Charge**") pursuant to which it will grant a first ranking charge in favour of the Borrower over the Co-Owner Development Account, the Co-Owner GIC and the Co-Owner's interest, if any, in monies standing to the credit of the Borrower Development Account.

The first-ranking charges created under the Agency Charge will rank in priority to separate charges granted by the Co-Owner in favour of the Security Trustee as security for the Borrower's obligations in respect of the Loan.

As security for, among other things, its obligation to make the Co-Owner Development Contributions under the Development Agency Agreement, the Co-Owner will also enter into a security document (the "**Co-Owner GIC Guarantee Assignment Agreement**") pursuant to which it will grant to the Security Trustee a first ranking New York law security interest over the Co-Owner GIC Guarantee.

Other obligations secured by the Co-Owner under the Co-Owner GIC Guarantee Assignment Agreement include the Borrower's obligations in respect of the Loan; however, the proceeds of any realisation of the Co-Owner GIC Guarantee Assignment Agreement will be applied towards the obligations of the Co-Owner under the Development Agency Agreement in priority to the obligations of the Borrower's obligations in respect of the Loan.

For further information about the Co-Owner Development Contribution, see "The Co-Ownership Structure – Discharge of the Co-Owner Obligations" at page 63.

Co-Owner Trigger Events..... The following events are "**Co-Owner Trigger Events**" and each is a "**Co-Owner Trigger Event**":

- (a) the failure of the Limited Liability Partnership to make any anticipated LLP Distribution for any reason, which failure has not been cured within five London Business Days (a "**London Business Day**" being a day on which commercial banks are open for business in London);
- (b) the occurrence of a Loan Event of Default;
- (c) the Borrower (with the consent of the Security Trustee) and/or the Security Trustee exercising the Headlease Break Option; and
- (d) the BBC deciding to determine the Co-Ownership Structure.

In the cases of Co-Owner Trigger Events of the types contemplated in (a) or (c), the relevant Co-Owner Trigger Event will occur without any further notice or certification being necessary on the part of any entity. In the case of a Co-Owner Trigger Event of the type contemplated in (b), the Co-Owner Trigger Events will occur only upon the Security Trustee serving a certificate (a "**Security Trustee Trigger Event Certificate**") which the Security Trustee will do only if so instructed by the Controlling Party, on each of the Co-Owner, the Limited Liability Partnership, the BBC and the Borrower, notifying them of the occurrence of the relevant Co-Owner Trigger Event. In the case of (d), the Co-Owner Trigger Event will occur only upon the BBC serving a certificate (a "**BBC Trigger Event Certificate**") on each of the Co-Owner, the Limited Liability Partnership, the Borrower and the Security Trustee.

For further information about the Co-Owner Trigger Events, see "The Co-Ownership Structure – Determination of the Co-Owner Structure" at page 64.

Determination of Co-Ownership Structure..... After the occurrence of a Co-Owner Trigger Event:

- (a) the Co-Owner Headlease Interest; and
- (b) the Co-Owner's right to receive Co-Owner Rent Distributions,

will be automatically adjusted such that the quantum of any subsequent Co-Owner Rent Distributions will be a fixed amount of £50,000 per annum (exclusive of VAT).

In addition, the Co-Owner's rights under the Co-Owner Rent Account, the Co-Owner GIC, the Co-Owner GIC Guarantee, the Collection Account and the Co-Owner Development Account will, upon the occurrence of a Co-Owner Trigger Event of the type set out in (a) of the "Co-Owner Trigger Events", be automatically transferred to the Borrower such that the Co-Owner will cease to have any rights to those assets. For the avoidance of doubt, such automatic transfer will not follow the occurrence of a Co-Owner

Trigger Event of the types set out in (b), (c) or (d) of "Co-Owner Trigger Events". Rather, upon the occurrence of such Co-Owner Trigger Events, the Co-Owner's rights to the Co-Owner Rent Account, the Co-Owner GIC, the Co-Owner GIC Guarantee, the Collection Account and the Co-Owner Development Account will be distributed by the Co-Owner to the holder of the Co-Owner Class A Preference Shares and so, upon distribution by the Limited Liability Partnership, transferred to the Borrower.

Following the occurrence of a Co-Owner Trigger Event, the Borrower shall have certain rights, pursuant to a call option (the "**Co-Owner Residual Interest Call Option**") granted to the Borrower by the Co-Owner pursuant to an agreement between them dated on or around the Closing Date (the "**Call Option Agreement**") which should enable the Borrower, upon payment of a strike price, to acquire the residual interest of the Co-Owner in the Property such that the Co-Owner's interest in the Property is fully determined.

Thus, the occurrence of a Co-Owner Trigger Event causes the determination of the Co-Ownership Structure and the benefits it produces in maximising the Borrower's available cashflow.

For further information about the Determination of the Co-Ownership Structure, see "The Co-Ownership Structure – Determination of the Co-Ownership Structure" at page 64.

BBC Deed of Covenant Under a deed of covenant (the "**BBC Deed of Covenant**") the BBC will covenant with the Borrower to pay to it, on an after tax basis, amounts equal to certain liabilities in respect of tax incurred by the Borrower as a result of a change of law or otherwise.

For further information about BBC Deed of Covenant, see "The Credit Structure - The BBC Deed of Covenant" at page 106.

BBC Deed of Guarantee and Undertaking Under a deed of guarantee and undertaking between the BBC and the Borrower (the "**BBC Deed of Guarantee and Undertaking**"):

- (a) the BBC will guarantee to the Borrower the payment of any LLP Distribution anticipated to be made by the Limited Liability Partnership but not made in full for any reason and such guarantee shall not be restricted by the fact that an amount has been paid to the Borrower by way of an LLP Distribution to the extent that any such payment is subject to any claw-back by reason of the insolvency of the Co-Owner or the Limited Liability Partnership;
- (b) following the occurrence of a Co-Owner Trigger Event, the BBC shall contribute to the Borrower on demand the strike price of the Co-Owner Residual Interest Call Option enabling the option to be exercised by the Borrower; and
- (c) the BBC shall guarantee to the Borrower, the onward payment of all amounts paid into the Co-Owner Development Account pursuant to the Co-Owner GIC.

Where any payment has been made by, or on behalf of, the BBC to the Borrower under the BBC Deed of Guarantee and Undertaking and such sums are subsequently received by the Borrower, the sums

so received shall be applied first in reimbursing the BBC in respect of such payments.

For further information about the BBC Deed of Guarantee and Undertaking, see "The Credit Structure – The BBC Deed of Guarantee and Undertaking" at page 106.

The Loan and the Related Security

The Borrower Daunus Limited is the Borrower.

The Borrower is a private company incorporated in England and Wales with limited liability. The activities of the Borrower are restricted to entering into the Credit Agreement and granting various elements of the Related Security, acquiring an interest in the Headlease, subject to and with the benefit of the Underlease, becoming a member of the Limited Liability Partnership by making a capital contribution thereto, undertaking to fund certain expenses of the Development Programme and undertaking certain acts incidental to these activities.

The issued share capital of the Borrower is £100. The issued share capital of the Borrower is owned by BBC Property Development Limited, Morgan Stanley Delta LLC, Land Securities Trillium (BH) Limited and Structured Finance Management Limited, the last of which holds its shares as trustee for certain specified charities.

For further information about the Borrower, see "The Borrower" at page 56.

The Loan The Outstanding Loan Balance on the Closing Date will be £782,089,341, which is subject to Indexation.

Under the terms of the Credit Agreement, the Borrower is required to make payments of interest, and repayments of principal in accordance with the Loan Amortisation Schedule, on each Loan Payment Date such that on the Loan Maturity Date, the principal amount outstanding of the Loan will have been fully amortised.

Loan Payment Dates occur on the 15th day of January, April, July and October of each calendar year.

For further information about the Loan, see "The Loan and the Related Security" at page 66. For further information about the sources of funds available to the Borrower to make payments due in respect of the Loan, see "The Accounts Structure and Cashflow Control" at page 96.

Purpose of the Loan The purposes for which the Loan will be made are described at page 5 and page 66.

As a result of undertaking the Development Programme, the Property will be developed as offices, broadcasting studios and production facilities. The Property will be the headquarters of the BBC and will fulfil the operational needs of three of the BBC's most significant services – BBC News, BBC Radio and Music and BBC World Service.

For further information about the Development Programme, see "The Property and the Leases" at page 78.

Representations and Warranties The Loan Sale Agreement will contain certain representations and warranties given by MSDW PFI in respect of the Loan and the Related Security. If there is a material breach of any such representations and warranties by MSDW PFI which breach (if capable of remedy) has not been remedied within the time specified in the Loan Sale Agreement, the Issuer may, if required to do so by the Controlling Party, require MSDW PFI to repurchase the Loan together with its other rights under the Credit Agreement and the beneficial interest in the Security Trust. The consideration for such repurchase will be an amount sufficient to enable the Issuer to redeem the Notes in full in accordance with the terms and conditions of the Notes (the "**Conditions**"). Any such repurchase would result in redemption of the Notes, subject to the consent of the Controlling Party.

On the Closing Date, the Issuer's rights under the Loan Sale Agreement will be assigned to the Trustee by way of security for its obligations to, among others, the Noteholders.

For further information about the representations and warranties given in respect of the Loan and the Related Security, see "The Loan and the Related Security – Representations and Warranties" at page 70.

The Loan Security..... Security in respect of the Loan will be granted by both the Borrower and the Co-Owner. On the Closing Date, the Borrower will execute a debenture in favour of the Security Trustee (the "**Borrower Debenture**") creating various security interests as security for its obligations in respect of the Loan, in favour of the Security Trustee. The security interests created pursuant to the Borrower Debenture will include:

- (a) a first ranking charge over the Borrower Rent Account, the Borrower Interest Account, the Borrower Development Account, the Borrower Restrictive Covenant Retention Account and the Borrower Expense Account (the "**Borrower Account Charges**");
- (b) a first ranking charge over the Borrower's rights under the Borrower GIC (the "**Borrower GIC Charge**");
- (c) a first ranking charge over the Borrower's membership interest in the Limited Liability Partnership (the "**LLP Membership Charge**");
- (d) an assignment by way of security of the Borrower's rights under the Development Agreement (the "**Development Agreement Assignment**");
- (e) an assignment by way of security of the Borrower's rights under the Development Agency Agreement (the "**Development Agency Assignment**");
- (f) an assignment by way of security of the Borrower's rights under the Co-Owner Residual Interest Call Option (the "**Call Option Assignment**");
- (g) an assignment by way of security of the Borrower's rights under the BBC Deed of Guarantee and Undertaking (the "**BBC Guarantee Assignment**");

- (h) an assignment by way of security of the Borrower's rights under the BBC Deed of Covenant (the "**BBC Deed of Covenant Assignment**");
- (i) a sub-charge of the Agency Charge (the "**Agency Sub-Charge**"); and
- (j) a floating charge over all the other assets of the Borrower not effectively secured by way of fixed charge (the "**Borrower Floating Charge**").

In addition to the security interests created pursuant to the Borrower Debenture, the Borrower will, on the Closing Date, execute a first ranking New York law security interest in favour of the Security Trustee in respect of the Borrower's rights under the Borrower GIC Guarantee and, with effect from the time (if any) at which the Borrower acquires ownership of the Co-Owner GIC, in respect of the Borrower's rights in the Co-Owner GIC Guarantee (the "**Borrower GIC Guarantee Assignment Agreement**").

The Co-Owner will, on the Closing Date, execute a charge in favour of the Security Trustee (the "**Co-Owner Charge**") creating various security interests as security for the Borrower's obligations in respect of the Loan. The security interests created pursuant to the Co-Owner Charge include:

- (a) a first ranking charge over the Co-Owner Rent Account (the "**Co-Owner Account Charge**"); and
- (b) a second ranking charge over the Co-Owner Development Account, Co-Owner GIC and the Co-Owner's interest, if any, in funds standing to the credit of the Borrower Development Account.

The Borrower's obligations in respect of the Loan are also secured under the Co-Owner GIC Guarantee Assignment Agreement; however, the proceeds of any realisation of the Co-Owner GIC Guarantee Assignment Agreement will be applied towards the obligations of the Co-Owner under the Development Agency Agreement, in priority to the obligations of the Borrower's obligations in respect of the Loan.

The Borrower and the Co-Owner will, on the Closing Date, enter into a security agreement (the "**Security Agreement**") jointly creating various security interests as security for the obligations of the Borrower in respect of the Loan:

- (a) a first ranking legal mortgage over the Headlease (the "**Mortgage**");
- (b) a first ranking charge over the Collection Account (the "**Collection Account Charge**");
- (c) a first ranking charge over all benefits in respect of contracts and policies of insurance taken out by the Borrower and the Co-Owner or in which they have an interest, to the extent of such interest (the "**Insurances Charge**");
- (d) an assignment of their rights to Rent Payments (the "**Rent Payments Assignment**"); and

(e) an assignment of their rights under the Collateral Deed (the "**Collateral Deed Assignment**").

Security for the Loan is also provided by a number of direct agreements entered into by the building contractor (the "**Building Contractor**"), the Employer's Agent and principal members of the design team relating to the Development Programme, allowing the Borrower and the Security Trustee to exercise rights against such entities under certain circumstances ("**Direct Agreements**"). Further, should a managing agent be appointed in respect of the Property, such managing agent would be required to enter into a duty of care agreement with the Security Trustee (the "**Duty of Care Agreement**") which would also constitute security for the Loan. The security granted and the obligations entered into by the Co-Owner will be limited in recourse to the Co-Owner Assets and no action may be taken in respect of any other assets of the Co-Owner.

The shareholders of the Borrower, being BBC Property Development Limited, Morgan Stanley Delta LLC, Land Securities Trillium (BH) Limited and Structured Finance Management Limited, will execute a charge over their respective shareholdings in the Borrower (the "**Borrower Share Charge**") as security for the obligations of the Borrower in respect of the Loan, creating a first ranking charge over such shares.

The Limited Liability Partnership will grant a first-ranking charge over the LLP Account (the "**LLP Account Charge**") in favour of the Security Trustee to secure the obligations of the Borrower in respect of the Loan.

Prior to their sale pursuant to the Loan Sale Agreement, the security interests to be granted in respect of the Loan will be held by the Security Trustee on trust for the benefit of the Originator, and after their sale pursuant to the Loan Sale Agreement, will be held on trust for the benefit of the Issuer.

The various security interests to be granted in respect of the Loan which are held on trust by the Security Trustee are referred to in this Offering Circular as the "**Related Security**". For the avoidance of doubt, the Agency Charge is not included in the Related Security but is granted in favour of the Borrower as security for the obligations of the Co-Owner under the Development Agency Agreement. All of the security interests described above are governed by English law, save for the security interests granted in respect of the Borrower GIC Guarantee or the Co-Owner GIC Guarantee which are governed by New York law.

Insurance As required by the terms of the Underlease, the Property is covered by an insurance policy (the "**Buildings Insurance Policy**") maintained by the Tenant and provided by an approved insurer which has been assigned an equivalent long-term senior unsecured debt rating of "A" or higher by S&P, Fitch or Moody's, or which has otherwise been approved by the Controlling Party. The Tenant, Headlessees and the Security Trustee will be joint-insured under the Building Insurance Policy. Any interest of the Security Trustee in the Buildings Insurance Policy will, following the sale of the Loan to the Issuer on the Closing Date, be held on trust for the Issuer.

For a more detailed description of the insurance arrangements in respect of the Property and the risks in relation thereto, see "Risk

Factors – Factors relating to the Loan and the Property – Insurance" at page 36 and "The Property and the Leases - Insurance" at page 82.

The Property

The Property..... The Property, parts of which have been occupied by the BBC since 1932, originally consisted of several buildings situated in close proximity to each other in central London. The most significant of these buildings was known as Broadcasting House, which is located at 1 Portland Place, London W1A 1AA.

As part of the Development Programme, all buildings constituting the Property other than the outer walls and certain internal parts of Broadcasting House itself will be demolished to make way for a single new building which will house broadcasting and associated commercial and office space, with ancillary retail and restaurant uses at ground level. The new building will also be known as Broadcasting House.

For further information about the Property, see "The Property and the Leases" at page 78.

The Headlease..... On the Closing Date, the BBC, as the proprietor of the freehold of the Property will grant the Headlease to the Headlessees. The full term of the Headlease is 150 years.

Under the terms of the Headlease, the Headlessees will be required to pay an annual rent of one red rose (if demanded) and to abide by certain covenants. The Borrower will purchase the Borrower Headlease Interest using part of the proceeds of the Loan and the Co-Owner will purchase the Co-Owner Headlease Interest using part of the proceeds of the issuance of the Co-Owner Class A Preference Shares.

For further information about the Headlease and the division of the beneficial interests therein as between the Borrower and the Co-Owner, see "The Property and the Leases – The Headlease" at page 78.

The Underlease On the Closing Date, the Headlessees will grant to the BBC the Underlease, which is a full repairing and insuring lease, for an initial term of 30 years.

Under the terms of the Underlease, the Tenant will, during the Intermediate Period and Final Period, be under an unconditional obligation to pay to the Collection Agent on behalf and for the benefit of the Headlessees, the Rent Payments reserved under the Underlease, regardless of the status of the Development Programme or whether the Tenant is able to occupy and use the Property.

The notional annual Rent Payments under the terms of the Underlease during the Final Period will be £42,840,000 per annum (the "**Full Rent Payment**"). No Rent Payments will be payable during the Initial Period. During the Intermediate Period, the Rent Payments will vary from 29.60% of the Full Rent Payment, at the beginning of the Intermediate Period, to 88.62% of the Full Rent Payment by the end of the Intermediate Period. This variation reflects the increased occupation of the Property during the Intermediate Period.

All Rent Payments will be subject to Indexation although this will be notional during the Initial Period.

For further information about the Underlease and the allocation of the entitlement to Rent Payments as between the Borrower and the Co-Owner, see "The Property and the Leases – The Underlease" at page 82.

Development Programme Planning permission for the Development Programme was granted by Westminster City Council on 28 November, 2002 and amended on 15 May, 2003. The Development Programme has already commenced and is scheduled to end in September 2008. In relation to the Development Programme, the BBC, the Borrower and Developer have entered into the Development Agreement pursuant to which the BBC has agreed to undertake the Development Programme, the costs of which will be funded by the Borrower. The Co-Owner will contribute to the costs of the Development Programme by making Co-Owner Development Contributions, which will be limited to amounts received in the Co-Owner Development Account pursuant to the Co-Owner GIC.

The Borrower will fund its contribution to the costs of the Development Programme through withdrawals from the Borrower GIC and the Co-Owner will fund its contribution to the costs of the Development Programme through withdrawals from the Co-Owner GIC, the amounts so withdrawn being paid into the Borrower Development Account and the Co-Owner Development Account respectively, though, as described above, this will change in the event of a determination of the Co-Ownership Structure. Amounts credited to the Co-Owner Development Account will be immediately transferred to the Borrower Development Account in accordance with the Development Agency Agreement and such amounts as are necessary will be released from the Borrower Development Account to the Developer subject to the satisfactory completion of stages in the Development Programme and upon receipt of appropriate building contract certificates (the "**Building Certificates**"). Further sums comprising the Developer's fees and other development expenses will be released against delivery of appropriate invoices.

While the Borrower and the Co-Owner will meet the costs of the Development Programme as contemplated, in the event that there are any variations in the terms of the Development Programme, the BBC will meet the additional costs incurred in respect of any such variations.

For further information about the Development Programme, see "The Property and the Leases – The Development Programme" at page 85.

The BBC

Background of the BBC..... The BBC is a public corporation which exists pursuant to a Royal Charter (the "**BBC Charter**") and which is engaged in providing, as a public service, sound and television programmes of information, education and entertainment. The BBC is, therefore, a public broadcasting organisation and in some respects, different from a normal commercial broadcasting company, the principal difference being that the bulk of its revenue is obtained by way of a licence fee, which is payable by law, rather than by subscription payments from its customers or advertising revenue.

For further information about the BBC, see "The Background and Business of the BBC" at page 88 and "Risk Factors – Factors Relating to the BBC" at page 40.

Headlease Break Option..... The ability of the Issuer to make payments of interest on and repayments of principal of the Notes will be dependent, during the Intermediate Period and the Final Period, on the BBC making the required Rent Payments. In the event that among other things:

- (a) the BBC fails to make a Rent Payment within 15 London Business Days of the due date;
- (b) the BBC fails to pay in full any amount due and payable by it under the BBC Deed of Covenant or the BBC Deed of Guarantee and Undertaking within 15 London Business Days of the due date;
- (c) any actual or prospective change to or action under the BBC Charter or BBC Agreement occurs, which has an immediate or would have an eventual adverse effect on the financial condition of the BBC as a result of which the ratings that would be ascribed to the Notes absent the Note Financial Guarantee (the "**Adjusted Ratings**") are downgraded by Fitch or S&P to below BBB- or by Moody's to below Baa3 and the BBC does not satisfy the Rating Agencies that the Adjusted Rating should remain at BBB by Fitch and S&P and Baa2 by Moody's;
- (d) a compulsory acquisition of the whole or part (save for small parts) of the Property occurs;
- (e) the BBC ceases to be an entity operating within the public sector; or
- (f) the Property (or any material part thereof) is damaged or destroyed and not rebuilt or reinstated within 5 years (or 8 years if the destruction or damage occurs prior to practical completion of the whole of the Development Programme),

the Borrower will, under the terms of the Headlease, have the option (the "**Headlease Break Option**") to determine the Headlease in which case the BBC will pay to the Borrower compensation equal to the greater of:

- (a) an amount sufficient to make all payments of interest and repayments of principal in respect of the Loan, as well as any other fees (including Prepayment Fees) and amounts due under the Credit Agreement under such circumstances; and
- (b) the then market value of the Headlease.

The proceeds of exercising the Headlease Break Option will be used by the Borrower to prepay the Loan, as well as any other amounts due from the Borrower under the Credit Agreement and will, in turn, be applied to redeem the Notes in full, subject to the consent of the Controlling Party.

For further information about the Headlease Break Option, including details of the procedure to be followed by the Headlessees and the

Security Trustee, see "The Property and the Leases – The Headlease – Term and Break Clause" at page 79.

The BBC may, under the terms of a collateral deed (the "**Collateral Deed**"), if compulsory purchase proceedings are instituted in respect of an area of the Property comprising less than 10% of the initial gross area of the same, undertake to continue to pay an annual sum equivalent to any rent apportioned to any part of the Property compulsorily acquired in such way, in which case the Headlessee's right to determine the Headlease on such grounds lapses.

The Notes

Status and Form..... The Notes constitute direct, secured and unconditional obligations of the Issuer. The Notes will share the same security, created under the Deed of Charge and Assignment. The Notes will rank *pari passu* and rateably without preference or priority among themselves and will rank in priority to all unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Notes will initially be represented by a Temporary Global Note without coupons or talons attached which will represent the aggregate principal amount outstanding of the Notes. The Temporary Global Note will be deposited on behalf of the subscribers of the Notes with the Common Depositary for Clearstream Luxembourg and Euroclear, on the Closing Date. Interests in the Temporary Global Note will be exchangeable from and including the date which is 40 days after the Closing Date (the "**Exchange Date**") upon certification as to non-U.S. beneficial ownership by the Noteholders, for interests in the Permanent Global Note representing the Notes, in bearer form without interest coupons or talons attached, which will also be deposited with the Common Depositary. The Permanent Global Note will be exchangeable for Definitive Notes only in certain limited circumstances.

The Trust Deed contains provisions requiring the Trustee to have regard, in exercising any of its powers under the Trust Deed:

- (a) to the interests of the Financial Guarantor, for as long as it is the Controlling Party; and
- (b) otherwise equally to the interests of all of the Noteholders.

Limited Recourse The Notes are limited recourse obligations of the Issuer only and accordingly, any claims which Noteholders may have against the Issuer will be limited to the Issuer Security. The proceeds of realisation of the Issuer Security may, after paying or providing for all prior-ranking claims, be less than the sums due in respect of the Notes and other claims ranking *pari passu* therewith. Under such circumstances, any claims of Noteholders which remain unsatisfied after the proceeds of the Issuer Security have been realised and applied will cease to be payable and will be extinguished.

Financial Guarantees An unconditional and irrevocable financial guarantee as to scheduled payments of interest (but excluding default interest, any additional amounts relating to prepayment and accelerated amounts) on the Notes and scheduled repayments of principal of the Notes will be issued by the Financial Guarantor on the Closing Date (the "**Note**

Financial Guarantee"). The Trustee will be the beneficiary of the Note Financial Guarantee.

Payment of Default Interest (as defined in Condition 4 at page 123) and Default Interest on Interest (as defined in Condition 6 at page 129) is not guaranteed by the Financial Guarantor under the Note Financial Guarantee. To the extent that there is a Tax Shortfall (as defined in Condition 5) there is no obligation on the Financial Guarantor to pay any Tax Shortfall Amount (as defined in Condition 5).

An unconditional and irrevocable financial guarantee as to payments to be made by the Issuer under the Issuer Swap Transaction will be issued by the Financial Guarantor in favour of the Swap Provider on the Closing Date (the "**Swap Financial Guarantee**", and with the Note Financial Guarantee, the "**Financial Guarantees**").

The Financial Guarantees to be provided by the Financial Guarantor will constitute unsubordinated and unsecured obligations of the Financial Guarantor which will rank at least *pari passu* with all other unsubordinated and unsecured obligations of the Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Issuer will be obliged to reimburse the Financial Guarantor in respect of payments made by the Financial Guarantor under the Financial Guarantees in accordance with the Guarantee and Reimbursement Agreement. In addition, the Financial Guarantor will be subrogated to the rights of the Noteholders and the Trustee in respect and to the extent of any payments made by the Financial Guarantor under the Note Financial Guarantee and to the rights of the Swap Provider in respect and to the extent of any payments made by the Financial Guarantor under the Swap Financial Guarantee, and the Financial Guarantor will have the benefit of the security granted by the Issuer.

Interest..... The Notes will bear interest at a fixed rate of 5.0636 per cent. per annum on their Principal Amount Outstanding from, and including, the Closing Date and will not be subject to Indexation. Interest will be payable in respect of the Notes in pounds sterling quarterly in arrear on the 10th day in February, May, August and November in each year, provided that if, but for this proviso, any payment would be required to be made on a day other than a Note Business Day (as defined in Condition 4(b) at page 123), such payment will be due on the next succeeding Note Business Day and no further payments of additional amounts by way of interest, principal or otherwise will be due in relation thereto. The first Note Payment Date will be the Note Payment Date falling in November 2003.

Interest payments will be made subject to applicable withholding or deduction for or on account of tax (if any) and subject to a Tax Shortfall, without the Issuer being obliged to pay additional amounts in respect of any such withholding or deduction or any amounts of any Tax Shortfall. To the extent that the Issuer is obliged to make any such deduction or withholding, there is no obligation on the Financial Guarantor to pay any such amount so deducted or withheld. To the extent that there is a Tax Shortfall there is no obligation on the Financial Guarantor to pay any Tax Shortfall Amount.

Whenever it is necessary to compute an amount of interest in respect of any of the Notes for any period, such interest will be calculated using a day count fraction of 30/360.

Failure by the Issuer to pay interest on any of the Notes which is outstanding at any time when such interest is due and payable will result in the occurrence of an Event of Default (as defined in Condition 9 at page 130) which may in turn result in the Trustee enforcing the Issuer Security.

Principal Amount Outstanding The "**Principal Amount Outstanding**" of a Note on any date will be calculated as described in Condition 5(e) at page 127.

Principal Scheduled Redemption Subject to "Mandatory Redemption in Full" as described below, the Principal Amount Outstanding of the Notes will amortise, in accordance with the schedule to the Conditions set out at page 137.

Unless previously redeemed in full, the Notes will be redeemed at their Principal Amount Outstanding together with accrued interest on the Maturity Date.

Mandatory Redemption in Full Unless a Note Enforcement Notice has been served and subject to obtaining the consent of the Controlling Party, the Notes will be subject to mandatory redemption in full on any Note Payment Date following:

- (a) prepayment of the Loan in full made by the Borrower pursuant to the terms of the Credit Agreement;
- (b) the repurchase of the Loan by MSDW PFI pursuant to the Loan Sale Agreement; or
- (c) the purchase of the Loan by the Servicer pursuant to the Servicing Agreement,

in the manner described in Condition 5(b) at page 125.

Either party to the Swap Agreement may require that the obligations of itself and the other party in respect of the Issuer Swap Transaction terminate in the event that the Loan is prepaid in full. Upon such termination, either party to the Swap Agreement may, depending on the circumstances then prevailing, be required to make a termination payment to the other party.

The Notes will also be subject to mandatory redemption in full in the following circumstances:

- (a) if the Issuer satisfies the Controlling Party that (i) by virtue of a change in tax law from that in effect on the Closing Date the Issuer will be obliged to make any withholding or deduction from payments in respect of the Notes or the Issuer is subject to a Tax Shortfall and such obligation to make withholding or deduction or such Tax Shortfall cannot be avoided by the Issuer taking reasonable measures available to it, or (ii) by virtue of a change in law from that in effect on the Closing Date any amount payable by the Borrower in relation to the Loan is reduced or ceases to be receivable (whether or not actually received); or

- (b) if (i) a Tax Event occurs under the Swap Agreement (and the Issuer cannot avoid such Tax Event by taking reasonable measures available to it); (ii) the Swap Provider is unable to transfer its rights and obligations thereunder to another branch, office or affiliate to cure the Tax Event, and (iii) the Issuer is unable to find a replacement swap provider (the Issuer being obliged to use reasonable efforts to find a replacement swap provider),

subject to the consent of the Controlling Party and provided further that, in either case, the Issuer has certified to the Controlling Party that it will have sufficient funds available to it on the relevant Note Payment Date to discharge all of its liabilities in respect of the Notes in full and any amounts required under the Deed of Charge and Assignment to be paid in priority to, or *pari passu* with, the Notes on such Note Payment Date, all in accordance with "Available Funds and their Priority of Application — Payments out of the Issuer Transaction Account Prior to Enforcement of the Notes" below at page 30. See further "Terms and Conditions of the Notes", Conditions 5(c) and 5(d) at page 125 and page 126 respectively.

Such early redemption of the Principal Amount Outstanding of the Notes does not cause the Financial Guarantor's obligations under the Note Financial Guarantee to be payable at such earlier dates. The Financial Guarantor shall only be liable to make payments in respect of the Notes pursuant to the Note Financial Guarantee on the dates on which such payment would have been required to be made if such amounts had not become redeemable, unless the Financial Guarantor otherwise decides and shall not be liable to pay any amounts in respect of principal which the Issuer fails to pay because of a Tax Shortfall. To the extent that there is a Tax Shortfall, there is no obligation on the Issuer or the Financial Guarantor to pay any Tax Shortfall Amounts.

Ratings..... The Notes are, upon issue, expected to be rated AAA by Fitch, Aaa by Moody's and AAA by S&P.

The Adjusted Ratings are, upon the issue of the Notes, expected to be "AA" by Fitch, "Aa3" by Moody's and "AA-" by S&P

The rating assigned to the Notes reflects only the views of the Rating Agencies and will be based solely upon the financial strength rating of the Financial Guarantor.

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 one or more of the assigning rating agencies. The ratings from the Rating Agencies address the likelihood of timely receipt by any Noteholder of interest on and principal of the Notes. Furthermore, the ratings on the Notes only address the credit risks associated with the underlying transaction and do not address the non-credit risks which may have a significant effect on the receipt by Noteholders of interest and principal.

Sales Restrictions 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 law and unless so registered may not be offered or sold within the United States or to, or for the benefit of, U.S.

persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and the applicable state securities laws. Accordingly, the Notes are being offered and sold only to persons (other than U.S. persons) outside the United States pursuant to Regulation S under the Securities Act.

For further information regarding certain restrictions on resales or transfers of the Notes, see "Subscription and Sale" at page 162.

Further Issues / New Issues The Issuer will be entitled (but not obliged) at its option from time to time on any date, with the consent of the Controlling Party (and subject to the satisfaction of certain conditions including that the then Adjusted Ratings of the Notes are not adversely affected by the proposed issue), to raise further funds by the creation and issue of further Notes ("**further Notes**") which will carry the same terms and conditions in all respects (save as regards the first Interest Period, the first Interest Payment Date and the first Interest Amount) as, and so that the same will be consolidated and form a single series, and rank *pari passu* with, the Notes and/or with the consent of the Controlling Party, further notes of a new class which carry terms which differ from any existing class of Notes and which do not form a single series with any existing class of Notes ("**New Notes**").

Listing Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange.

Settlement Euroclear and Clearstream, Luxembourg.

Governing Law The Notes, the Trust Deed and the Note Financial Guarantee will be governed by English law.

Available Funds and their Priority of Application

The payment of interest and the repayment of principal by the Borrower in respect of the Loan will provide the primary source of funds for the Issuer to make payments of interest and repayments of principal in respect of the Notes. Such payments of interest and repayment of principal may be supplemented by payments by the Swap Provider in respect of the Issuer Swap Transaction.

Funds paid into the Issuer Transaction Account On each Loan Payment Date the Security Trustee, acting on the instructions of the Servicer, will transfer to the Issuer Transaction Account all amounts then due and payable in respect of the Loan under the terms of the Credit Agreement. During the Initial Period, such amounts will be transferred from the Borrower Interest Account into which the relevant amounts will have been transferred pursuant to the Borrower GIC. During the Intermediate Period, such amounts will be transferred from the Borrower Rent Account, into which the relevant Borrower Rent Distributions and the relevant LLP Distributions will have been paid, and the Borrower Interest Account, into which the relevant amounts will have been transferred pursuant to the Borrower GIC. During the Final Period, such amounts will be transferred from the Borrower Rent Account, into which the relevant Borrower Rent Distributions and the relevant LLP Distributions will have been paid.

For further information regarding deposits and transfers to and from the Borrower Accounts, see "The Accounts Structure and Cash Flow Control" at page 96.

Amounts standing to the credit of the Issuer Transaction Account from time to time will be referable to the following sources:

- (a) **"Borrower Receipts"** comprising all payments received from the Borrower, whether by way of:
 - (i) interest, fees (other than Prepayment Fees), expenses commission and other similar sums paid by the Borrower in respect of the Loan and the Related Security including recoveries in respect of such amounts in respect of the Loan and the Related Security on enforcement; and
 - (ii) principal, whether by way of repayment or prepayment, including recoveries in respect of such amounts in respect of the Loan and the Related Security on enforcement and all payments received by the Issuer from MSDW PFI or the Servicer following the repurchase or purchase, as the case may be, of the Loan and Related Security;
- (b) **"Prepayment Fees"** comprising all fees and costs received as a result of any prepayment in full of the Loan, including any such fees arising from a prepayment following the enforcement of the Loan or the Related Security other than that portion of any prepayment fees that represents the Deferred Consideration Prepayment Amount which shall be paid directly to the Originator by the Issuer immediately upon receipt thereof by the Issuer;
- (c) **"Swap Receipts"** comprising all payments received by the Issuer from the Swap Provider under the Swap Agreement; and
- (d) interest on the credit balance standing to the credit of the Issuer Transaction Account from time to time and proceeds of Eligible Investments.

Payments out of the Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account prior to Enforcement of the Notes

If either or both of the Issuer Swap Collateral Cash Account or the Issuer Swap Collateral Custody Account are opened, the Cash Manager will pay to the Swap Provider from time to time, amounts equal to any amounts of interest on the credit balance of the Issuer Swap Collateral Cash Account and/or amounts equivalent to distributions received on securities held in the Issuer Swap Collateral Custody Account, as the case may be, as well as any other payments required to be made by the Issuer in accordance with the terms of the Swap Agreement Credit Support Document in priority to any other payment obligations of the Issuer.

Payments out of the Issuer Transaction Account prior to Enforcement of the Notes

(a) **Priority Amounts** On any Note Business Day other than a Note Payment Date, the Cash Manager shall, subject as provided below, prior to the service of a Note Enforcement Notice, make the following payments out of the Issuer Transaction Account in priority to all other amounts required to be paid by the Issuer:

- (a) *first*, sums due to third parties incurred in the course of the Issuer's business, (other than the Servicer, the Swap Provider, MSDW PFI, the Cash Manager, the Corporate Services Provider, the Trustee, the Share Trustee, the Security Trustee, the Principal Paying Agent, the Paying Agents, the Agent Bank, the Financial Guarantor or the Issuer Operating Bank), including the Issuer's liability, if any, to corporation tax and/or value added tax, and including costs, expenses, fees and indemnity claims due and payable to any receiver appointed by or on behalf of the Security Trustee in respect of the Loan or the Related Security;
- (b) *second*, when due, any amount payable by the Issuer to MSDW PFI or to the Servicer, under the circumstances described in the paragraph below,

such amounts being collectively referred to as "**Priority Amounts**".

Priority Amounts payable to MSDW PFI will occur where there has been a material breach of warranty under the Loan Sale Agreement and MSDW PFI has repurchased the Loan in accordance with the terms of the Loan Sale Agreement. Priority Amounts payable to the Servicer will occur where the Servicer has purchased the Loan pursuant to the Servicing Agreement. Priority Amounts are therefore any moneys received by or on behalf of the Issuer following the repurchase or purchase of the Loan, as the case may be, which do not belong to the Issuer, and notwithstanding that the Security Trustee will hold the Related Security on trust for MSDW PFI following the repurchase of the Loan by MSDW PFI or the Servicer following the purchase of the Loan by the Servicer. The funds received by the Issuer on the repurchase of the Loan by MSDW PFI or the purchase of the Loan by the Servicer will be classified as Borrower Receipts and will be applied by the Issuer to redeem the Notes in accordance with Condition 5(b) at page 125. Consequent upon such a repurchase or purchase of the Loan, as the case may be, either of the Issuer or the Swap Provider may require that their respective obligations under the Swap Agreement terminate. Upon such termination either the Issuer or the Swap Provider may be required, subject to the circumstances then prevailing, to make a termination payment to the other.

Priority Amounts will be paid using funds standing to the credit of the Issuer Transaction Account (save with respect to certain periods of time) or to the extent necessary, funds standing to the credit of the Issuer Expense Account.

(b) **Available Receipts** On each Swap Payment Date, the Issuer will, to the extent it is a net payer in respect of the Issuer Swap Transaction, pay the amount due from it to the Swap Provider. Thereafter, on each Note Payment Date, the amount standing to the credit of the Issuer Transaction

Account (the "**Available Receipts**") will be applied in the following order of priority (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Deed of Charge and Assignment:

- (i) *first*, in or towards payment or discharge of any amounts due and payable by the Issuer on such Note Payment Date to (A) the Trustee, the Security Trustee and any receiver appointed by or on behalf of the Trustee or any receiver appointed by or on behalf of the Security Trustee in respect of the Loan or the Related Security, *pari passu* and *pro rata*; then (B) the Paying Agents and the Agent Bank under the Agency Agreement; then (C) *pari passu* and *pro rata*, any amounts, due to the Servicer or Special Servicer (as applicable), including in respect of the Servicing Fee, the Special Servicing Fee or any Liquidation Fee; then (D) the Cash Manager under the Cash Management Agreement; then (E) the Corporate Services Provider under the Corporate Services Agreement; then (F) the Share Trustee under the Declaration of Trust; then (G) the Issuer Operating Bank under the Cash Management Agreement; and then (H) the Financial Guarantor (for as long as it is the Controlling Party) in respect of guarantee fees, other fees and expenses pursuant to the Guarantee Fee Letter, the Guarantee and Reimbursement Agreement and the Indemnification Deed; and then (I) if the Financial Guarantor is not the Controlling Party, the Swap Provider under the Swap Agreement in respect of any payments due to be made by the Issuer following an early termination of the Swap Agreement (other than payments to be made by the Issuer referred to in (iv) below);
- (ii) *second, pro rata* and *pari passu* in or towards payment or discharge of sums due to third parties (other than payments made to any third party as described in item (a) of "Priority Amounts" above) under obligations incurred in the course of the Issuer's business, including provision for any such obligations expected to come due in the following Interest Period (as defined in Condition 4(b)) and the payment of the Issuer's liability (if any) to value added tax and to corporation tax;
- (iii) *third, pro rata* and *pari passu* in or towards payment or discharge of (A) interest due or overdue (and any interest due on such overdue interest) on the Notes (B) principal due and overdue on the Notes (C) any amounts due and payable to the Financial Guarantor other than amounts referred to in paragraph (i)(H) above under the Guarantee and Reimbursement Agreement and the Indemnification Deed and (D) if the Financial Guarantor is the Controlling Party, the Swap Provider under the Swap Agreement in respect of any payments due to be made by the Issuer following an early termination of the Swap Agreement (other than payments to be made by the Issuer referred to in (iv) below);
- (iv) *fourth*, in or towards payment or discharge of any amounts due and payable by the Issuer on such Note Payment Date to the Swap Provider under the Swap Agreement in respect of any payments due to be made by the Issuer following an early termination of the Swap Agreement as a result of an

event of default under the Swap Agreement in respect of which the Swap Provider is the Defaulting Party (as defined in the Swap Agreement);

- (v) *fifth*, in or towards payment or discharge of any Deferred Consideration payable to MSDW PFI or the person or persons otherwise entitled thereto; provided that any such payment shall only be made to the extent that after payment thereof, the balance standing to the credit of the Issuer Transaction Account is not less than £3,000,000; and
- (vi) *sixth*, any surplus to the Issuer.

The Issuer will not be required to accumulate surplus assets as security for any future payments of interest or principal on the Notes. Any temporary liquidity surpluses in the Issuer Accounts will be invested in (a) sterling denominated government securities or (b) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper); provided that in all cases such investments will mature at least one Note Business Day prior to the next Note Payment Date or Swap Payment Date (according to when the sums invested will be required to be applied by the Issuer) and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being a bank or licensed European Union credit institution) are rated at least "A-1+" by S&P and "P-1" by Moody's and "F1+" by Fitch are otherwise acceptable to each Rating Agency ("**Eligible Investments**").

***Security for the Notes and Payments
paid out of the Issuer Transaction Account
Post-Enforcement of the Notes***.....

The Issuer Security will become enforceable upon the Trustee giving a Note Enforcement Notice (upon the instructions of the Financial Guarantor, for as long as it is the Controlling Party). Following enforcement of the Issuer Security, the Trustee will be required to apply all funds received or recovered by it in accordance with the order of priority described under "Credit Structure — Post-Enforcement Priority of Payments" at page 101.

The obligations of the Issuer to the Noteholders and to each of the Trustee, the Security Trustee, the Financial Guarantor, the Corporate Services Provider, the Share Trustee, the Servicer, the Cash Manager, the Swap Provider, the Paying Agents, the Agent Bank, the Issuer Operating Bank and MSDW PFI (all of such persons or entities being, collectively, the "**Secured Parties**" and all of such obligations being, collectively, the "**Secured Obligations**") will be secured by and pursuant to the Deed of Charge and Assignment which is governed by English law to be entered into on the Closing Date.

The Issuer will create, among other things, the following security under the Deed of Charge and Assignment (the "**Issuer Security**"):

- (a) an assignment by way of security over the Loan and the Issuer's rights under the Credit Agreement;
- (b) an assignment by way of security over the Issuer's beneficial interests in the Security Trust created over the Related Security;

- (c) an assignment by way of security in respect of the Issuer's rights under, among other things, the Loan Sale Agreement, the Servicing Agreement, the Corporate Services Agreement, the Declaration of Trust, the Cash Management Agreement, the Agency Agreement, the Swap Agreement (including the Swap Agreement Credit Support Document) (subject to netting and set-off provisions contained therein), the Swap Guarantee, the Financial Guarantees, the Guarantee and Reimbursement Agreement, the Guarantee Fee Letter, the Trust Deed and the Master Definitions Agreement;
- (d) a first ranking charge over the Issuer Transaction Account, the Issuer Expense Account, the Issuer Swap Collateral Cash Account, the Issuer Swap Collateral Custody Account, and any other bank account in which the Issuer may place and hold its cash resources (the "**Issuer Accounts**"), and of the funds from time to time standing to the credit of such accounts and any other Eligible Investments from time to time held by or on behalf of the Issuer; and
- (e) a floating charge over the whole of the undertaking and assets of the Issuer (other than any property or assets of the Issuer subject to an effective fixed security set out in paragraphs (a) to (d) above).

Upon enforcement of the Issuer Security, the amounts payable to the Secured Parties (other than the Financial Guarantor and the Noteholders) will rank higher in priority to payments of interest or principal on the Notes, except for amounts owed to MSDW PFI under the Loan Sale Agreement and, in the case of the Swap Provider, any amounts due to it as described in item (d) of the "Credit Structure – Post Enforcement Priority of Payments" at page 101.

If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to make all payments due in respect of the Notes, all claims in respect of such shortfall, after such realisation of or enforcement with respect to all of the Issuer Security, will be extinguished and the Trustee, the Noteholders and the other Secured Parties will have no further claim against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, is deemed to accept and acknowledge that it is fully aware that, except as set out above, (a) in the event of an enforcement of the Issuer Security, its right to obtain payment of interest and repayment of principal on the Notes as against the Issuer is limited to recourse against the assets of the Issuer comprised in the Issuer Security, (b) the Issuer will have duly and entirely fulfilled its repayment obligation by making available to the Noteholder its relevant proportion of the proceeds of realisation of, or enforcement with respect to, the Issuer Security in accordance with the Deed of Charge and Assignment, and all claims in respect of such shortfall will be extinguished, and (c) if a shortfall in the amount owing in respect of principal of the Notes exists on the Maturity Date of the Notes, after payment on the Maturity Date of all other claims ranking higher in priority to the Notes and after the realisation by the Issuer of all assets the subject of or forming the Issuer Security and the Issuer Security has not become enforceable as at the Maturity Date, the liability of the Issuer to

make any payment in respect of such shortfall will cease and all claims as against the Issuer in respect of such shortfall will be extinguished.

RISK FACTORS

The following is a summary of certain issues of which prospective Noteholders should be aware, but it is not intended to be exhaustive and prospective Noteholders should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Factors Relating to the Loan and the Property

Concentration of Risk

The ability of the Issuer to meet its obligations to pay interest on and repay the principal of the Notes will be dependent primarily on the receipt by it of corresponding payments in respect of the Loan from the Borrower. No entity other than the Borrower is, or will at any time prior to the Loan Maturity Date be, obliged to make payments in respect of the Loan and there can be no assurance that the Borrower will have sufficient funds available to it to fund the required payments. The Borrower has limited assets which are available to be used by it to make payments in respect of the Loan, and the Borrower is not expected to acquire any further assets at any time while the Notes are outstanding.

The Property is wholly let to the BBC as the single Tenant under the Underlease which is not assignable. During the Initial Period, payments due in respect of the Loan will be made exclusively from sums withdrawn from the Borrower GIC. During the Intermediate Period, payments due in respect of the Loan will be made partly from sums withdrawn from the Borrower GIC, Borrower Rent Distributions and (unless the Co-Ownership Structure has been determined) LLP Distributions and during the Final Period, payments due in respect of the Loan will be made exclusively from Borrower Rent Distributions and LLP Distributions (unless the Co-Ownership Structure has been determined). Thus, during the Intermediate Period and the Final Period, failure by the Tenant to make Rent Payments in whole or in part will adversely affect the ability of the Borrower to make the necessary payments in respect of the Loan and consequently the Issuer to make the necessary payments in respect of the Notes. In addition, various other enhancements to the structure of the transaction described in this Offering Circular, such as the Headlease Break Option, the BBC Deed of Guarantee and Undertaking and the BBC Deed of Covenant are dependent on the ability of the BBC to make payments thereunder and failure by the BBC to make payments pursuant to these obligations may adversely affect the Borrower's ability to make payments due in respect of the Loan and consequently the Issuer's ability to make payments due in respect of the Notes. For further information regarding matters which could adversely affect the ability of the Tenant to make payments due under the Underlease and other potential consequences of events that may be adverse to the BBC, see "Risk Factors – Factors Relating to the BBC" at page 40.

The concentration of the Borrower's assets and the tenant concentration at the Property creates a greater risk that an adverse event with respect to the Property or the BBC will adversely affect the Borrower's ability to make payments due in respect of the Loan and consequently the Issuer's ability to make payments due in respect of the Notes than would be the case if the Loan were secured by mortgages of multiple properties, if there were multiple tenants of the Property or if the Issuer had an interest in multiple loans, although the various structural elements described in this Offering Circular have been formulated to ameliorate the risks stemming from such concentration.

Limitations on Ability of Property to Generate Income and Sale Proceeds

After the expiry of the Initial Period, a failure by the Tenant to pay rent in accordance with the Underlease will result in the Borrower being unable to meet its payment obligations in respect of the Loan and, ultimately, the Issuer being unable to meet its obligations to pay interest on and repay principal of the Notes.

To mitigate this risk, the Headlease Break Option, as further described in "Property and the Leases – The Headlease – The Term and Break Clause" at page 79, has been entered into as a term of the Headlease with the intention of ensuring that the Loan (including any Prepayment Fees) is fully repaid using compensation paid by the Tenant following determination of the Headlease. However, the occurrence of a significant and sudden adverse event in relation to the BBC may result in the BBC, in its capacity as the obligor under the Headlease Break Option, being unable to pay the full amount due to be paid in consideration for the determination of the Headlease or, in the event, there being no opportunity for the Borrower or the Security Trustee to exercise the Headlease Break Option prior to the winding up of the BBC.

In such circumstances, and assuming the Tenant defaulted in its obligations under the Underlease, the Headlessees would be entitled to forfeit the Underlease (subject to the Tenant's right to apply to the court for relief from forfeiture, which would be granted, or not, at the discretion of the court) and to require the Tenant to vacate the Property, whereupon the Headlessees would seek to find an alternative tenant or tenants to occupy the Property in order to attempt to generate a sufficient income to enable the Borrower to meet its obligations in respect of the Loan. If replacement tenants could not be secured and the Borrower were to default in its obligations in respect of the Loan, the Security Trustee would, subject to any limitations described under "Risk Factors - Factors Relating to the Notes - Insolvency Act 2002", be entitled to enforce the Related Security and in doing so may appoint a receiver of the Property. For further details regarding the Security Trustee's enforcement procedures, see "Risk Factors – Factors relating to the Loan and the Property – Receivers and Mortgagee in Possession Liability" at page 39 and "Servicing – Arrears and Default Procedures" at page 108.

The Headlessees' or, following the enforcement of the Loan and the Related Security, a receiver's ability to generate an alternative income from the Property after the forfeiture of the Underlease may be adversely affected by a large number of factors. These factors may also affect the ability of a receiver to generate sufficient proceeds from the sale of the Property to repay the Loan in full, particularly if the sale were to take place before a significant amount of the outstanding principal of the Loan had been repaid. If insufficient income or sale proceeds were generated in these circumstances, only limited other sources would be available to the Borrower or the receiver to make good any shortfalls in the amounts recovered and the Issuer would not be able to pay or repay the full amount due in respect of the Notes. For information regarding the valuation of the Property, see the Valuation Report at page 166.

Some of the factors which may adversely affect the ability to generate income from the Property and, ultimately, to achieve a satisfactory sale price relate specifically to the Property itself, such as (a) the bespoke technical specifications of the Property which, following the completion of the Development Programme, will result in a significant portion of the Property only being suitable for use as broadcasting studios and associated uses; (b) the use of the Property permitted under the Planning Consent, which state that the use of the Property is limited to broadcasting studios and associated activities and therefore limit the ability to redeploy the Property for alternative uses such as office or retail uses; (c) the lack of alternative tenants or willing purchasers of the Property whose business needs would make them suitable tenants or purchasers of premises such as the Property; (d) perceptions which alternate users of the Property may have regarding its safety, convenience and attractiveness; (e) the adequacy of the Property's management and maintenance; and (f) any capital expenditure needed to maintain the Property or make improvements to it or to convert its use.

Other factors which may affect the ability of the Property to generate an alternative income or to be sold are more general in nature, such as (a) national, regional or local economic conditions at the relevant time; (b) conditions in the national, regional or local commercial property market at the relevant time; (c) demographic factors; (d) consumer confidence; (e) consumer tastes and preferences; (f) retrospective changes in building codes or other regulatory changes; (g) changes in governmental regulations, fiscal policy, planning or tax laws; (h) potential environmental legislation or liabilities or other legal liabilities; (i) the availability of financing; and (j) changes in interest rate levels or yields required by investors in income-producing commercial properties.

Frustration

Under English law, a tenancy or other occupational arrangement in respect of land could, in exceptional circumstances, be frustrated. In this event, the parties to the relevant arrangement need not perform any obligation arising under it. Frustration may occur where superseding events radically alter the continuance of the relevant arrangement, so that it would be inequitable for it to continue.

In the event that the Underlease was frustrated, the Tenant would be discharged from its obligation to make Rent Payments. This would impact upon the Borrower's ability to make payments of interest and principal in respect of the Loan and the corresponding ability of the Issuer to make payments of interest and principal in respect of the Notes.

Insurance

Under the terms of the Credit Agreement, the Borrower is obliged to effect or procure that there are effected the insurances described in "The Loan and the Related Security – Terms of the Credit Agreement – Undertakings" at page 71. These obligations will in practice be fulfilled through the provisions of the Underlease which require the Tenant to assume full responsibility for the insurance of the Property against, among other things, the risks against which the Credit Agreement requires the Borrower to insure. The Borrower, the Tenant and the Security Trustee will be joint insured under the buildings insurance policy maintained by the Tenant.

Notwithstanding the occurrence of a loss in respect of the Property (whether insured or uninsured), the Tenant would continue to be obliged to make payments of rent under the Underlease. However, should an uninsured loss or a loss in excess of insured limits occur at the Property, there can be no assurance that the Tenant would have sufficient funds available to it to enable it to meet its continuing rent payment obligations and the Borrower could suffer disruption of income from the Property. In addition, the availability of insurance proceeds may depend on the continuing availability of insurance to cover the required risks or on the continuing availability of insurers having a satisfactory credit rating. No assurance can be given, in respect of any such risk.

For further information regarding the insurance of the property and the application of insurance proceeds, see "The Property and the Leases – The Underlease – Insurance" at page 82.

Compulsory Purchase

Any property in the United Kingdom may at any time be compulsorily acquired by, among others, a local or public authority or a government department, generally in connection with proposed redevelopment or an infrastructure project.

If a compulsory purchase order was made in respect of the Property, compensation would be payable on the basis of the market value of the Headlease at the time of the relevant purchase. Under such circumstances, the BBC's freehold estate, the Headlease and the Underlease would be acquired by the relevant local or public authority or a government department and the Tenant would cease to be obliged to make all or a portion of any further Rent Payments under the Underlease. However, as the market value of the Headlease at the time of drawdown of the Loan is expected to be less than the initial amount of the Loan, the amount received by the Borrower as compensation may not be sufficient for it to pay all amounts due from it in respect of the Loan and hence the amounts received by the Issuer from the Borrower may not be sufficient for it to pay all amounts due in respect of the Notes.

In order to mitigate this risk, in such circumstances the Headlessees are entitled by notice to the BBC, to determine the Headlease, in which case the BBC must pay compensation equal to the greater of (a) the amount required to repay the Loan in full and (b) the market value of the Property.

In practice, there is often a delay between the compulsory purchase of a property and the payment of compensation. The length of this delay will often depend upon the ability of the property owner and entity acquiring the property to agree on its market value. Should such a delay occur in the case of the Property, and the Headlease Break Option not be exercised, then, unless the Borrower has other funds available to it (such as those standing to the credit of the Borrower Interest Account), it may be unable to make payments of interest on and repayments of principal of the Loan when due.

In relation to the compulsory purchase of small areas of the Property the terms of the Collateral Deed apply. For further information regarding the Collateral Deed, see "The Property and the Leases – Collateral Deed" at page 81.

For further information regarding the valuation of the Property, see the Valuation Report at page 166. For further information regarding the Headlease Break Option, see "The Property and the Leases – The Headlease" at page 78.

Leasehold Interest

The Loan is secured by a first ranking legal mortgage over the Headlease (both the Borrower Headlease Interest and the Co-Owner Headlease Interest). The Headlease permits the BBC as landlord to forfeit the Headlease if the Headlessees breach any of their obligations under the Headlease and fail to remedy the same. The BBC's right to forfeit, however, will not be exercisable whilst all or part of the principal, interest and other sums due under the Credit Agreement remain outstanding. For further details of the obligations of the Borrower and Co-Owner as tenants under the Headlease, see "The Property and the Leases – The Headlease" at page 78.

Under English law there are provisions whereby, in pursuing the rights to forfeit, notice of intention to forfeit first needs to be served upon the tenant (save in relation to non-payment of rent when the landlord may peaceably re-enter a property) and there are in addition statutory rights for the tenant or other persons interested in the lease (which includes a mortgagee or undertenant) to apply to the court for relief. Whether such relief is granted is at the court's absolute discretion but it would normally be granted where the rent arrears were paid and/or steps were taken to rectify the relevant breach. A breach of any of the Headlease covenants would

constitute a Loan Event of Default and would entitle the Security Trustee to enforce the Loan and the Related Security.

Environmental Risks

Existing environmental legislation in the United Kingdom imposes liability for clean-up costs on the owner or occupier of land where the person who caused or knowingly permitted the pollution cannot be found or no longer exists. The term "owner" would include anyone with a proprietary interest in the relevant land. Even if more than one person may have been responsible for the contamination, each person covered by the relevant environmental laws may be held responsible for all the clean up costs incurred.

If any environmental liability were to exist in respect of the Property, the Security Trustee should incur no responsibility for such liability prior to enforcement of the Related Security unless it could be established that the Security Trustee (or the Servicer on behalf of the Security Trustee) had entered into possession of the Property or could be said to be in control of the Property. After enforcement of the Related Security, the Security Trustee, if deemed to be a mortgagee in possession, could become responsible for environmental liabilities in respect of the Property. The Security Trustee would, in priority to any payments due to Noteholders, be entitled to be indemnified in respect of any such liabilities by the Issuer as the beneficiary of the Security Trust the payment of which amounts could result in the Issuer having insufficient funds to make payments on the Notes. For further details of the circumstances in which the Security Trustee could be deemed to be a mortgagee in possession of the Property, see "Risk Factors – Factors relating to the Loan and the Property – Receivers and Mortgagee in Possession Liability" at page 39.

If an environmental liability arises in relation to the Property and is not remedied, or is not capable of being remedied, this may result in an inability to sell the Property or in a reduction in the price obtainable for the Property resulting in a sale at a loss. In addition, third parties may sue a current or previous owner, occupier or operator of the Property for damages and costs resulting from substances emanating from the Property, and the presence of substances on the Property could result in personal injury or similar claims by third parties.

Legal Title

The freehold of the Property is owned by the BBC and comprises registered land. The Headlease and the Underlease will be subject to compulsory registration at H.M. Land Registry although neither the Headlessees nor the BBC has yet been registered as legal proprietor of their respective leasehold interests. Consequently, the Security Trustee is not yet registered as legal proprietor of the Mortgages.

MSDW PFI has confirmed, following consultation with its external legal advisers, that it is not aware of any reason why the Headlessees should not in due course be registered as legal proprietors of the Headlease nor why the Security Trustee should not in due course be registered as legal proprietor of the Mortgage.

The Borrower will covenant that the Headlease and the Underlease will be completed and will be duly stamped and thereafter an appropriate application will be made to the H.M. Land Registry for registration of both leasehold titles and the mortgage over the Headlease. Arrangements have been made to ensure that all necessary stamp duty and H.M. Land Registry fees will be paid out of monies retained by MSDW PFI's solicitors for this purpose and it is expected that the registrations will be completed within six months of the Closing Date.

Due Diligence

The only due diligence that has been undertaken in relation to the Borrower, the BBC, the Loan and the Property is described below in "The Loan and the Related Security – Legal Due Diligence" at page 66. This due diligence was undertaken in the context of the origination of the Loan and has not, in any event, been undertaken on behalf of the Issuer, the Financial Guarantor or the Trustee in connection with the issuance of the Notes. Prior to the Closing Date, non-priority searches of H.M. Land Registry were undertaken in respect of the Property by external legal advisors to MSDW PFI in the context of the representations and warranties that are being given by it under the Loan Sale Agreement but, other than this, none of the due diligence previously undertaken will be verified prior to the sale of the Loan and the Related Security to the Issuer. Neither the Issuer, the Financial Guarantor nor the Trustee has undertaken or will undertake any independent investigations, searches or other diligence regarding the status of the Property, the Borrower, the BBC or the terms of the Loan and the Related Security and the Issuer and the Trustee each will instead rely for comfort in relation to such matters on (a) the warranties given by MSDW PFI in respect of such matters in the Loan Sale Agreement and the remedies provided for therein, the principal remedy in relation thereto being the right to require MSDW PFI to repurchase the Loan and the Related Security in the event of material breach and (b) warranties given by the

Borrower to MSDW PFI under the Credit Agreement and repeated by the Borrower to the Issuer on the assignment of the Loan by MSDW PFI to the Issuer. There can be no assurance that MSDW PFI will be able to perform its obligation to repurchase the Loan and the Related Security at any time in the future. For further details regarding the representations and warranties to be given by MSDW PFI in the Loan Sale Agreement and the remedies available to the Issuer for breach thereof, see "The Loan Sale Agreement – Representations and Warranties" at page 75.

Receivers and Mortgagee in Possession Liability

Pursuant to the Servicing Agreement, the Servicer is required to take all reasonable steps to recover amounts due from the Borrower under the Credit Agreement and, in its capacity as Security Trustee to comply with the procedures for enforcement of the Loan and the Related Security which are in place from time to time following the occurrence of a Loan Event of Default. Where the Servicer or the Security Trustee is required to exercise any discretion in relation thereto, it shall do so in accordance with instructions (if any) from the Controlling Party. The principal remedies available following a default under the Loan or the Related Security are the appointment of a receiver over the Headlease of the Property or over all of the assets the Borrower and/or entering into possession of the Property. Such a receiver may be appointed under the Law of Property Act 1925 and is known as an "LPA receiver". A receiver would usually require an indemnity to meet his costs and expenses (notwithstanding the statutory indemnity to which he is entitled under the Insolvency Act 1986) as a condition of his appointment or continued appointment. Such an indemnity would rank ahead of payments on the Notes. An LPA receiver's powers derive not only from the mortgage under which he has been appointed but also from the Law of Property Act 1925 and such receiver is deemed by law to be the agent of the entity providing security until the commencement of liquidation proceedings against such entity. For as long as the LPA receiver acts within his powers, he will only incur liability on behalf of the Borrower and the Co-Owner but if the Security Trustee or the Servicer on behalf of the Security Trustee, improperly directs or interferes with and influences the receiver's actions, a court may decide that he is the Security Trustee's agent rather than the agent of the Borrower and the Co-Owner, and that the Security Trustee or the Servicer, as the case may be, should, under such circumstances, be responsible for the receiver's acts.

The Security Trustee may also be deemed to be a mortgagee in possession if it physically enters into possession of the Property or performs an act of control or influence which may amount to possession. If determined to be a mortgagee in possession, the Security Trustee would be obliged to account to the Headlessees for any income obtained from the Property and would be liable to any tenants for the mismanagement of the Property. A mortgagee in possession may also incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), can incur the liabilities of a property owner. The Security Trustee would be entitled to be indemnified by the Issuer, in priority to payments due to the Noteholders, in respect of any liabilities incurred by it as a mortgagee in possession. For further details of the risks associated with environmental liabilities at the Property, see "Risk Factors – Factors relating to the Loan and the Property – Environmental Risks" at page 38.

Borrower Accounts

In order to ensure that Rent Payments are applied towards the payment of the amount due from the Borrower in respect of the Loan, MSDW PFI has structured the Loan so that Borrower Rent Distributions and LLP Distributions are made directly to the Borrower Rent Account which is charged to and controlled by the Security Trustee. The Borrower has agreed, under the terms of the Credit Agreement or related documentation, not to countermand or vary the instructions as to such payments. The Tenant has agreed to make Rent Payments directly to the Collection Account from which the Collection Agent will pay the Borrower Rent Distributions directly to the Borrower Rent Account. The Limited Liability Partnership has agreed to make LLP Distributions directly to the Borrower Rent Account. The Borrower Interest Account, the Borrower Development Account, the Borrower Restrictive Covenant Retention Account and the Borrower Expense Account are also charged to and controlled by the Security Trustee.

The charges over the Borrower Rent Account, the Borrower Interest Account, the Borrower Development Account, the Borrower Restrictive Covenant Retention Account and the Borrower Expense Account (together, the "**Borrower Accounts**") in favour of the Security Trustee are expressed to be fixed charges in order to ensure that funds standing to their credit may be applied by the Security Trustee towards repayment of the Loan on the enforcement of the Related Security. However, under English law, whether or not a charge over book debts, such as monies standing to the credit of these accounts, is fixed or floating will depend on the circumstances of the case, and it is possible that such charges will take effect only as floating charges. The Borrower Accounts have been structured with a view to ensuring that the Security Trustee will have sole control over their operation, thereby increasing the likelihood that the charge will take effect as a fixed charge. For further

information regarding the operation of the Borrower Accounts, see "The Accounts Structure and Cashflow Control" at page 96.

Servicing of the Loan and the Related Security

Under certain circumstances, the appointment of the Servicer under the Servicing Agreement may be terminated. For a termination of the appointment of the Servicer to be effective, however, a substitute servicer must have been appointed. There can be no assurance that a substitute servicer could be found who would be willing to service the Issuer's assets (including the Loan and the Related Security) for a commercially reasonable fee, or at all, on the terms of the Servicing Agreement (even though this agreement provides for the fees payable to a substitute servicer to be consistent with those payable generally at that time for the provision of commercial mortgage administration services). In any event, the ability of such substitute servicer to perform such services fully would depend on the information and records then available to it. The fees and expenses of a substitute servicer performing services in this way would be payable in priority to payment of interest under the Notes.

As described under "Servicing – Exercise of Discretion by the Servicer" at page 108, the Servicer may not exercise any discretion on behalf of the Issuer or the Security Trustee in relation to the Loan and the Related Security prior to the Specified Time without the consent of the Controlling Party. At or after the Specified Time, the Servicer, acting in accordance with the Servicing Standard, may exercise the relevant discretion provided it has not received any instructions to the contrary from the Controlling Party. Any decision as to when, whether and in what manner to direct the Servicer to exercise any discretion on behalf of the Issuer or the Security Trustee or to desist in exercising any such discretion will be made at the sole discretion of the Controlling Party. If the Trustee is the Controlling Party, it may request the Noteholders to sanction its exercise of such discretion in accordance with Condition 11(j) at page 134. No assurance can be given that the restrictions on the ability of the Servicer to act prior to the Specified Time and the requirement that the Servicer act in accordance with any directions given by the Controlling Party in relation to the exercise of any discretion will not be to the detriment of the Noteholders.

Conflicts of interest

Conflicts of interest may arise between the Issuer and MSMS because MSMS or one of its affiliates intends to continue actively to service, acquire, develop, finance and dispose of real estate-related assets in the ordinary course of their business. During the course of their business activities, MSMS or those affiliates may operate, service, acquire or sell properties, or finance loans secured by other commercial properties. In such cases, the interests of MSMS or those affiliates may differ from, and compete with, the interests of the Issuer, and decisions made with respect to those assets may adversely affect the value of the Property.

Factors Relating to the BBC

History and Nature of the BBC

The BBC was founded in 1922 as a private company called the British Broadcasting Company. It was founded by the six main manufacturers of radio equipment at that time – the British Thomson-Houston Company, the General Electric Company, the Marconi Company, Metropolitan-Vickers, the Radio Communication Company and the Western Electric Company. These manufacturers had a virtual monopoly in relation to the production and sale of radio receivers and their purpose in financing the establishment of the British Broadcasting Company was to provide persons who purchased radio receivers from them with regular transmissions of radio programmes. The British Broadcasting Company received a licence to operate from the Post Office, the government department then responsible for broadcasting.

In 1922, in addition to the capital subscribed by its members, the BBC received a share of a ten shillings Post Office licence fee and a royalty from the sale of all radio receivers produced and sold by its members. In critical distinction to a commercial broadcasting organisation the BBC was, and continues to be predominantly funded by the licence fee.

Potential investors in the Notes should take into account the fact that the BBC is not and, since the time it was founded has never been, a commercial broadcasting organisation and therefore is not subject to the same risks as would apply to a commercial broadcasting organisation. In addition, the BBC, being a public service broadcasting organisation is not as experienced as commercial broadcasting organisations in generating revenue through commercial means, and this may adversely affect its ability to make Rent Payments in the future.

The Constitutional Nature of the BBC

The British Broadcasting Company was established as a private company and remained so until 1926 when the initial licence granted to it by the Post Office expired. Prior to the expiry of this licence, the government considered the future management and control of the British Broadcasting Company and determined that the organisation should, in recognition of the public service nature of its operations, be run as a public corporation, acting as a trustee for the national interest, and ultimately subject to the control of Parliament.

The BBC has been a public corporation since 1926. The "public corporation" is an organisational form which is relatively common in the context of public administration in the United Kingdom and is used for a variety of purposes. Other examples of public corporations include the Commission for Racial Equality, the Countryside Commission, the Mental Health Review Tribunal and the Higher Education Funding Council. Like a private corporation, a public corporation has an independent legal personality and can thus exercise rights and undertake obligations in its own name. However, unlike a private corporation, the operations of a public corporation will be regulated by means other than the memorandum and articles of association.

The operations of the BBC are principally regulated through a royal charter (the "**BBC Charter**") granted pursuant to the prerogative powers of the Crown and an agreement (the "**BBC Agreement**") between the BBC and the government.

Potential investors in the Notes should take into account the fact that the provisions in the BBC Charter and the BBC Agreement expose the BBC to operational rigidities and the possibility of government intervention in relation to its funding which a commercial broadcasting organisation would not ordinarily be subject to. This may affect its operations in general and its ability freely to raise revenue in particular.

The BBC Charter

The current BBC Charter came into force on 1 May 1996 and is intended to continue in force until 31 December 2006. The previous BBC Charter had come into force on 7 July 1981.

The BBC Charter describes the principal purpose of the BBC which is to provide, as public services, sound and television broadcasting services, whether by analogue or digital means and to provide sound and television programmes of information, education and entertainment. Thus, the "public service" nature of the BBC's operations is reflected in the BBC Charter.

The BBC Charter also specifies the framework for the organisation, management, accountability and funding of the BBC, all of which are consistent with, in broad terms, its position as a public service broadcasting organisation.

Potential investors in the Notes should be aware that the BBC, in its current form, is a creature of the BBC Charter. The BBC Charter is subject to periodic renewal and there can be no assurance that the BBC Charter would be renewed in the future. Should the BBC Charter not be renewed, the BBC would be dissolved. Further, should the current or any subsequent government seek to alter the nature of the BBC's operations it may do so through amending the terms of the BBC Charter at the time of renewal. Amendments to the BBC Charter are periodically considered. Indeed, the current Secretary of State for Culture, Media and Sport has stated that the process of renewing the BBC Charter provides an opportunity to assess the role of the BBC in the provision of public broadcasting services. No assurance can be given that amendments to the BBC Charter will not be made in the future which would have an adverse effect on Noteholders, particularly if amendments relate to the means by which the BBC is funded. In order to mitigate the risk, however, the Borrower has entered into the Headlease Break Option which may be exercisable under such circumstances.

The BBC Agreement

The BBC Agreement provides certain detailed rules pursuant to which the BBC must operate in seeking to achieve the purposes specified in the BBC Charter. Thus, in connection with its purpose of providing, as public services, sound and television broadcasting services of information, education and entertainment, the BBC Agreement provides that the programmes which the BBC broadcasts must provide a properly balanced service covering a wide range of subject matters which serves the tastes and needs of different audiences. Thus, the BBC is required to stimulate, support and reflect, in the programmes it broadcasts, the diversity of cultural activity in the United Kingdom, to provide impartial coverage of news and current affairs both in the United Kingdom and throughout the world and provide wide-ranging coverage of sporting and leisure interests. Further, the BBC is precluded, under the terms of the BBC Agreement, from broadcasting any programmes

which expresses the opinion of the BBC on current affairs or matters of public policy, which offends against good taste or decency or which are likely to encourage or incite crime, lead to disorder or offend public feelings.

Potential investors in the Notes should be aware that the BBC Agreement provides a significant means for the current government or any subsequent government to take actions relating to the BBC, in particular in relation to its operations and funding arrangements. No assurance can be given that actions will not be taken by the government under the BBC Agreement which would have an adverse affect on the holders of the Notes. In order to mitigate this risk, the Borrower has entered into the Headlease Break Option which may be exercisable under such circumstances.

Funding of the BBC

The BBC has three principal sources of funding:

- (a) the revenue which is raised through the issuance of television licences (the "**Licence Revenue**");
- (b) the revenue which is raised through the various commercial operations of the BBC (the "**Commercial Revenue**"); and
- (c) the revenue which is made available to the BBC by Parliament and the Foreign and Commonwealth Office for the purposes of the BBC's overseas broadcasting services (the "**Grant-in-Aid**").

Out of these sources of revenue, the Licence Revenue constitutes the most significant source of funding for the BBC. According to the report and accounts of the BBC for 2002/2003, the Licence Revenue amounted to £2,658.5 million.

Potential investors in the Notes should take into account that the amount of funding available to the BBC may vary over time and from time to time and that there can be no assurance that the amount of funding currently available to the BBC will continue to be available. If the amount of funding available to the BBC is reduced, this may impact upon the BBC's ability to make payments of rent under the Underlease and so may impact upon the ability of the Borrower to make payments of interest on and repayment of principal in respect of the Loan and hence the ability of the Issuer to make payments of interest on and repayment of principal in respect of the Notes.

Licence Revenue – Entitlement

The Licence Revenue constitutes the principal source of funding available to the BBC. The BBC's entitlement to the Licence Revenue is recognised and provided for in both the BBC Charter and the BBC Agreement.

The BBC Charter authorises, empowers and requires the BBC to collect the Licence Revenue. The BBC collects the Licence Revenue from owners of television sets in the United Kingdom through an independent contractor, Capita Business Services Limited. The BBC pays the amounts collected into the Treasury's Consolidated Fund. Under the terms of the BBC Agreement, the government is required to provide to the BBC out of monies made available by Parliament an amount which is approximately equal to the Licence Revenue collected and by way of a deed of variation to the BBC Agreement, the Department for Work and Pensions is obliged to reimburse the BBC for revenue lost as a result of the free "Over 75 Licence" and the administration relating thereto. The government has announced that the licence fee will increase annually at the rate of 1.5 per cent. above the prevailing rate of inflation until the BBC Charter is due for renewal on 31 December 2006.

There are a number of ways in which the BBC's entitlement to the Licence Revenue could be compromised. The most striking of these is the possible non-renewal of the BBC Charter. There is no obligation on the part of the current or any subsequent government to renew the BBC Charter. If and insofar as the BBC Charter was not renewed or an alternative arrangement put in place, the BBC would be dissolved and would thus not receive any Licence Revenue. The terms of the BBC Charter could also be amended at the time of renewal in a way which impacts upon its entitlement to Licence Revenue. Further, prior to the BBC Charter having to be renewed, the BBC Charter provides that if it is made to appear or appears to the government that the provisions of the BBC Charter or the BBC Agreement have not been observed, performed, given effect to or complied with by the BBC, the government may revoke and make void the BBC Charter and everything contained in it, including the BBC's entitlement to the Licence Revenue.

In addition to actions which may be taken under or in connection with the BBC Charter under the BBC Agreement, the government may at any time during the currency of the BBC Agreement conduct a review of

the way the BBC is funded and may make changes in the way the BBC is funded, including, without limitation, its entitlement to Licence Revenue.

There is a periodic public debate about whether the BBC should continue to receive Licence Revenue or whether its funding should be dependant on Commercial Revenue which it generates itself.

Potential investors in the Notes should take into account the possibility that the BBC's entitlement to Licence Revenue may vary over time and from time to time and that there can be no assurance that the amount of the Licence Revenue currently available to the BBC will continue to be available. If the amount of the Licence Revenue available to the BBC is reduced, this may impact upon the BBC's ability to make payment of rent under the Underlease and so may impact upon the ability of the Borrower to make payments of interest on and repayments of principal in respect of the Loan and hence the ability of the Issuer to make payments of interest on and repayment of principal in respect of the Notes.

Licence Revenue – Collection

All households in the United Kingdom which have a television set are obliged, by law, to have a television licence. Only one television licence per household is required, irrespective of the number of television sets which a household has. The amount of the licence fee varies on the basis of the type of television set with colour television sets attracting a higher licence fee than monochrome television sets. There are also certain households entitled to concessions in terms of the licence fee payable.

Licence fee evasion is a significant concern for the BBC. Notwithstanding the fact that licence fee evasion is a criminal offence leading to the imposition of fines on the evader and that the BBC is conscious of the need to promote greater effectiveness in the collection of Licence Revenue, there can be no assurance that it will actually be successful in doing so.

Potential investors in the Notes should be aware of the costs of licence fee evasion to the BBC and the overall impact which this has on the funding of the BBC.

Commercial Revenue

The BBC has a number of commercial operations which generate revenue. These commercial activities are undertaken through a number of subsidiaries.

As part of its latest licence fee settlement with the government, the BBC was challenged to increase the amount which it raised from its commercial operations. In 2002/2003, Commercial Revenue contributed by the various commercial operations of the BBC to its overall funding amounted to £124 million. This is, however, not a significant contribution when compared with the amount of Licence Revenue received over the same period. Indeed, certain of the BBC's attempts at generating Commercial Revenue have not, thus far, been successful. Thus, in 2001/2002, BBC Resources Limited and BBC Technology Limited together made an overall trading loss of £5.4 million and in 2000/2001 BBC Resources Limited made an overall trading loss of £9 million. In 2002/2003 BBC Resources Limited, BBC Technology Limited and BBC Broadcast Limited together made a small profit of £14.5 million. However, there can be no assurance that this profit will grow.

There can be no assurance that the Commercial Revenue generated by the BBC will increase over time. Any failure to increase the amount of Commercial Revenue generated would have an effect on the overall funding position of the BBC if it is coupled with any diminution in its entitlement to the Licence Revenue.

Potential investors in the Notes should be aware of the limited amount of Commercial Revenue generated by the BBC and the overall impact which this has on the funding of the BBC.

For further information about the commercial operations of the BBC and the subsidiaries which underlease these operations, see "The Background and Business of the BBC" at page 88.

Limitations of ability to broadcast advertising

The BBC has been restricted in broadcasting advertising since the time it was established in 1922.

The broadcasting of advertising is a key source of revenue for commercial broadcasting organisations. Through the restrictions on broadcasting advertising, the BBC is precluded from generating this stream of revenue. There can be no assurance that the BBC will be entitled to broadcast advertising at any time in the

future and it seems unlikely that it will be permitted to do so while it remains a public service broadcasting organisation.

Potential investors in the Notes should be aware of the current inability of the BBC to raise Commercial Revenue through advertising and the overall impact which this has on the overall funding of the BBC.

Vulnerability to Competition

While the BBC undertakes various activities to generate Commercial Revenue it is required, in undertaking these activities, to respect certain principles. These principles provide, among other things, that any commercial activities must be consistent with and supportive of the BBC's core role as a public service broadcaster, that the BBC must trade fairly and that the BBC brand is not held to be diminished by its commercial activities. Commercial broadcasting organisations are not subject to the same considerations as those that apply to the BBC in the conduct of their operations and unless changed, the requirement that the BBC adhere to these principles may further inhibit its ability to generate Commercial Revenue by placing it at a competitive disadvantage in comparison with commercial broadcasting organisations.

Potential investors in the Notes should consider the competitive disadvantages of the BBC and the impact this has on the funding of the BBC.

Restrictions on Borrowing

Unlike commercial broadcasting organisations, the BBC is restricted in its ability to borrow funds. Thus, under the terms of the BBC Charter, the amount of money which the public broadcasting elements of BBC may borrow is restricted to £200 million. The transactions described in this Offering Circular are expected, on the basis of professional advice to be confirmed to the BBC, not to cause this borrowing limit to be breached. There is a further limit of £350 million available to the BBC's commercial subsidiaries.

These restrictions may prevent the BBC from raising alternative funds in order to make Rent Payments under the Underlease should it ever be in a position where it requires to do so.

Potential investors in the Notes should consider the financial disadvantages to the BBC in being restricted in its ability to borrow.

Restriction on applying Grant-in-Aid

The BBC's overseas service (known as the "**World Service**") is funded entirely by the Grant-in-Aid made available by Parliament and the Foreign and Commonwealth Office. No part of the Grant-in-Aid may be used for any purpose other than the World Service.

Potential investors in the Notes should not therefore regard the Grant-in-Aid as a means by which the BBC may fund Rent Payments.

Potential Intervention by the Government

The BBC is independent of the government in that the government does not directly control its broadcasting activities. However, through the provisions of the BBC Charter and the BBC Agreement, the government may exercise a significant degree of control on the nature and funding of the BBC.

Potential Investors in the Notes should take into account the possibility that the government, through the exercise of its powers, could have an adverse effect on the payment of interest on and repayment of principal of the Notes.

Other Assets and Liabilities

The BBC is a commercial entity and as such has assets and liabilities in addition to those specifically addressed in this Offering Circular. Noteholders should bear in mind that the liabilities of the BBC may affect its ability to make Rental Payments. For further information on the assets and liabilities of the BBC, see "Financial Statements of the BBC for the year ended 31 March, 2002" in Appendix 3 and "Financial Statements of the BBC for the year ended 31 March, 2003" in Appendix 4.

Factors Relating to Co-Ownership Structure

Co-Owner Trigger Events

The Co-Owner is an unlimited liability company, the ordinary share capital of which is owned by MS Lion LLC (an affiliate of Morgan Stanley) and the Preference Share Nominee (as nominee for MS Lion LLC) and the preference share capital of which is owned by the Preference Share Nominee as nominee for the Limited Liability Partnership. The Co-Owner will be engaged in various commercial transactions which are unconnected with the transactions described in this Offering Circular.

Potential investors in the Notes should take into account that, as a result of its various activities, the Co-Owner may become subject to liabilities unconnected with the transactions described in this Offering Circular which may result in the occurrence of a Co-Owner Trigger Event. Such an event would lead to the Co-Ownership Structure being terminated.

While the Co-Ownership Structure has been structured to ensure that the rights of the Co-Owner to receive Co-Owner Rent Distributions will be determined upon the occurrence of a Co-Owner Trigger Event, and while all the rights of the Co-Owner in respect of the Co-Owner Rent Account are secured by a first ranking charge in favour of the Security Trustee, all the rights of the Co-Owner in the Co-Owner GIC and the Co-Owner Development Account are secured by a second ranking charge in favour of the Security Trustee and all the rights of the Co-Owner in the Co-Owner GIC Guarantee are secured, among other things, in respect of the Borrower's obligations under the Credit Agreement, the potential investors should bear in mind the commercial activities of the Co-Owner which are unconnected with its activities described in the Offering Circular and the potential consequences of such activities on the Co-Owner's financial condition. Potential investors in the Notes should also bear in mind that while the Co-Owner may have other assets, the security granted and obligations entered into will be limited in recourse to the Co-Owner Assets and no action may be taken in respect of any other assets of the Co-Owner.

Co-Owner Liabilities

The Co-Owner is an unlimited liability company incorporated under the laws of England and Wales. Under the laws of England and Wales, the liabilities of the Co-Owner may be imposed upon the holders of its shares. The holder of the Co-Owner Ordinary Shares is MS Lion LLC (which is an affiliate of Morgan Stanley) and the Preference Share Nominee, as nominee for MS Lion LLC and the holder of the preference shares to be issued on the Closing Date by the Co-Owner will be the Preference Share Nominee as nominee for the Limited Liability Partnership.

The liabilities of the Co-Owner may therefore be imposed upon the holders of its ordinary shares or its preference shares though they should not, on the basis of the laws of England and Wales as at the date of this Offering Circular, be imposed upon the Limited Liability Partnership. In the event, however, that such liabilities are imposed on the Limited Liability Partnership as the beneficial owner of the Preference Shares, such liabilities may impact upon the ability of the Limited Liability Partnership to make LLP Distributions. In the event that it does not receive LLP Distributions as anticipated, the Borrower may, if it is unable to claim any shortfall under the BBC Deed of Guarantee and Undertaking the existence of which mitigates this risk, be unable to make payments of interest on and repayments of principal in respect of its Loan, which would, in turn, impact on the ability of the Issuer to make payments of interest on and repayments of principal of the Notes.

Limited Liability Partnership – Revocation of Distributions

The Limited Liability Partnership is a limited liability partnership incorporated under the laws of England and Wales. On the basis of the laws of England and Wales as at the date of this Offering Circular, any LLP Distribution made by the Limited Liability Partnership in the two years prior to the commencement of a winding up of the Limited Liability Partnership would be susceptible to revocation from the Borrower in the event that the Borrower, as a member of the Limited Liability Partnership, knew or ought to have concluded that, after the LLP Distribution or any other LLP Distributions contemplated at the time, there was no reasonable prospect that the Limited Liability Partnership would avoid an insolvent liquidation. However, the Limited Liability Partnership is required to issue a solvency certificate duly signed by a director, failing which an authorised signatory, on each date on which it makes a LLP Distribution.

The business activities of the Limited Liability Partnership will be restricted to acquiring a beneficial interest in the Co-Owner Class A Preference Shares, the Co-Owner Class B Preference Shares and granting security over certain of its assets and, on the basis of the law of England and Wales as at the date of this Offering Circular, it should not because of the structure adopted (in particular, because of the interposition of

the Preference Share Nominee which is intended to provide an additional liability shield to the Limited Liability Partnership) be subject to any of the liabilities which are incurred by the Co-Owner, and as such should be insolvency remote. This notwithstanding, the directors of the Co-Owner will be required to certify both to its shareholders and the Security Trustee, at the time any Co-Owner Distribution is made, that the Co-Owner is solvent, thus mitigating the risk that the Borrower, as a member of the Limited Liability Partnership, could be fixed with the relevant knowledge. The Limited Liability Partnership will also, as described above, be required to make solvency certifications.

Notwithstanding these various structural protections, potential investors in the Notes should be aware of the possibility that under certain circumstances, the LLP Distributions may be subject to revocation from the Borrower. This risk is addressed, however, by the BBC Deed of Guarantee and Undertaking, pursuant to which the BBC undertakes, among other things, to compensate the Borrower against any claw-back of any LLP Distribution received by the Borrower by reason of the insolvency of the Limited Liability Partnership.

Co-Owner Accounts

Co-Owner Rent Distributions are made directly to the Co-Owner Rent Account which is charged to and controlled by the Security Trustee. The Co-Owner has agreed, under the terms of the Accounts Agreement, not to countermand or vary the instructions as to such payments. The Tenant has agreed to make Rent Payments directly to the Collection Account from which the Collection Agent will pay the Co-Owner Rent Distributions directly to the Co-Owner Rent Account. The Co-Owner will make Co-Owner Distributions directly to the LLP Account. The LLP Account is also charged to and controlled by the Security Trustee, as is the Co-Owner Development Account.

The charges over the Co-Owner Rent Account and the Co-Owner Development Accounts (together, the "**Co-Owner Accounts**") in favour of the Security Trustee are expressed to be fixed charges. However, under English law, whether or not a charge over book debts, such as monies standing to the credit of these accounts, is fixed or floating will depend on the circumstances of the case, and it is possible that such charges will take effect only as floating charges. For further information regarding the operation of the Co-Owner Accounts, see "The Accounts Structure and Cashflow Control" at page 96.

Factors Relating to the Notes

Liability under the Notes

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer and, pursuant to the Note Financial Guarantee, the Financial Guarantor. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by MSDW PFI or any affiliate of MSDW PFI, or of or by the Managers, the Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Paying Agents, the Agent Bank, the Swap Provider, the BBC, the Swap Guarantor or the Issuer Operating Bank or any company in the same group of companies as the Managers, the Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Paying Agents, the Agent Bank, the Swap Provider, the Swap Guarantor, the BBC or the Issuer Operating Bank and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes. However, the Notes will have the benefit of the Note Financial Guarantee as to scheduled payments of interest and principal in accordance with the Conditions.

Limited Recourse

On enforcement of the security for the Notes, the Financial Guarantor, the Trustee and the Noteholders will only have recourse to the Issuer Security. In the event that the proceeds of such enforcement are insufficient (after payment of all other claims ranking higher in priority to or *pari passu* with amounts due under the Notes), then the Issuer's obligation to pay such amounts will cease and the Noteholders and the Financial Guarantor will have no further claim against the Issuer in respect of any unpaid amounts. Enforcement of the security created pursuant to the Deed of Charge and Assignment is the only remedy available for the purpose of recovering amounts owed in respect of the Notes.

The Issuer and the Trustee will have no recourse to MSDW PFI save as provided in the Loan Sale Agreement.

Absence of Liquidity Facility

The Issuer has not entered into a liquidity facility which would provide it with an alternative source of revenue in the event that it did not receive payments of interest on and repayments of principal of the Loan from the Borrower, as contemplated or at all. The risk of any liquidity problems is instead addressed by the availability of funds standing to the credit of the Issuer Expense Account, which may be applied in payment of expenses by the Issuer and under the Note Financial Guarantee, pursuant to which the Financial Guarantor guarantees timely payment of scheduled interest payments and scheduled principal repayments on the Notes, subject to certain exclusions.

Ratings of Notes and Confirmations of Ratings

The ratings assigned to the Notes are based solely on the financial strength rating of the Financial Guarantor. The ratings assigned to the Notes by the Rating Agencies reflect only the views of the Rating Agencies. The ratings address the likelihood of full and timely receipt by any of the Noteholders of interest on and principal of the Notes by the Maturity Date. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by any of the Rating Agencies as a result of changes in or unavailability of information or if, in the judgment of the Rating Agencies, circumstances so warrant. A qualification, downgrade or withdrawal of any of the ratings mentioned above may impact upon both the value of the Notes or their marketability in secondary market transactions.

Agencies other than the Rating Agencies could seek to rate the Notes and if such unsolicited ratings are lower than the comparable ratings assigned to the Notes by the Rating Agencies, those unsolicited ratings could have an adverse effect on the value and the marketability of the Notes. For the avoidance of doubt and unless the context otherwise requires, any references to "ratings" or "rating" in this Offering Circular are to ratings assigned by the specified Rating Agencies only.

The Financial Guarantees

Scheduled payments of interest and repayment of principal on the Notes will be guaranteed by the Financial Guarantor pursuant to the Note Financial Guarantee. Payments of the Issuer under the Issuer Swap Transaction are guaranteed by the Financial Guarantor pursuant to the Swap Financial Guarantee. The obligations of the Financial Guarantor to make such payments, in either case, are unconditional and irrevocable.

While the Note Financial Guarantee mitigates the credit risks which potential investors in the Notes would otherwise be exposed to, the involvement of the Financial Guarantor has certain consequences. For example, for so long as it is the Controlling Party, the Financial Guarantor shall have the right to direct the Trustee and the Security Trustee in the exercise of their respective discretions. In addition, in the event that the Financial Guarantor is required to make a payment under the Note Financial Guarantee and/or the Swap Financial Guarantee, the Issuer will be required to reimburse the Financial Guarantor in accordance with the Guarantee and Reimbursement Agreement and to pay various fees, costs and expenses to the Financial Guarantor.

The Note Financial Guarantee does not cover any amounts payable in respect of the Notes other than scheduled payments of interest and payments of principal. Thus, it does not cover any default interest or amounts payable on an early redemption of the Notes nor does it cover any Tax Shortfall Amounts. In addition, should any withholding or deduction for or on account of tax be required to be made from payments made by the Financial Guarantor under the Note Financial Guarantee, the Financial Guarantor shall have no obligation to gross up such payments. Potential investors in the Notes should bear in mind all the terms and conditions of the Note Financial Guarantee, which are set out in full in this Offering Circular and the implications thereof for the transaction as a whole.

Absence of Secondary Market; Limited Liquidity

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange. There can be no assurance that a secondary market in the Notes will develop or, if it does develop, that it will provide Noteholders with liquidity of investment, or that it will continue for the life of the Notes. In addition, the market value of certain of the Notes may fluctuate with changes in prevailing rates of interest and inflation. Consequently, any sale of Notes by Noteholders in any secondary market which may develop may be at a discount to the original purchase price of those Notes.

European Union Directive on the Taxation of Savings Income

On 3 June, 2003 the Council of the European Union adopted a directive on the taxation of savings income (the "Directive"), under which Member States will generally 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 or for an individual resident in that other Member State. Exceptionally (and for a transitional period only which will end after agreement on exchange of information is reached between the European Union and certain non-European Union states) Belgium, Luxembourg and Austria will instead be required to withhold tax from such payments unless the noteholder authorises the person making the payment to report the payment or presents a certificate from the relevant tax authority establishing exemption therefrom. The Directive will, subject to certain conditions being satisfied, apply from 1 January, 2005.

Withholding Tax under the Notes and Note Financial Guarantee

In the event that any withholding or deduction for or on account of tax is applicable to payments under the Notes, the Issuer will not be obliged to gross-up or otherwise compensate Noteholders for the lesser amounts which they will receive as a result of such withholding or deduction. Any such shortfall will not be covered by the Note Financial Guarantee.

In the event that any withholding or deduction for or on account of tax is applicable to payments made under the Note Financial Guarantee, the Financial Guarantor will not be obliged to gross up or otherwise compensate Noteholders for the lesser amounts which they will receive as a result of such withholding or deduction.

Tax Shortfalls and the Note Financial Guarantee

If the Issuer is subject to any tax, duty or governmental charge of whatever nature imposed by any government or taxing authority which leads to a shortfall in the funds available to the Issuer to pay interest on or repay the principal of the Notes, the Issuer's liability to make payments under the Notes will be correspondingly reduced. In such circumstances, the Financial Guarantor will not be liable to pay any Tax Shortfall Amounts.

Tax Opinion

Counsel to the Managers as to English law will provide a legal opinion addressed to, among others, Morgan Stanley & Co International Limited in its capacity as lead manager relating to certain matters of United Kingdom tax law. This legal opinion is expected to be in a form which has been provided in the context of similar transactions involving the issuance of similarly rated notes and to be subject to standard assumptions and qualifications relating to the matters opined on. A draft of this legal opinion has been disclosed, for informational purposes only, to the Rating Agencies.

While no legal opinion can, by its nature, provide complete certainty on all matters to which it relates, this legal opinion is expected to provide comfort to the lead manager to a standard that has been provided in the context of similar transactions involving the issuance of similarly rated notes that, on the basis of United Kingdom tax law in effect at the Closing Date, the Issuer can make payments under the Notes without any withholding or deduction for or on account of tax and will not suffer a Tax Shortfall.

Change of currency

If at any time there is a change of currency in the United Kingdom such that the Bank of England recognises a different currency or currency unit or more than one currency or currency unit as the lawful currency of the United Kingdom, then references in, and obligations arising under, the Notes outstanding at the time of such change and which are expressed in sterling will be translated into, and any amount payable will be paid in, the currency or currency unit of the United Kingdom, and in the manner designated by the Principal Paying Agent. Any such translation will be at the official rate of exchange recognised for that purpose by the Bank of England.

Where such a change in currency occurs, the Notes and the Conditions will be amended in the manner agreed between the Issuer and the Trustee so as to reflect that change and, so far as practicable, to place the Issuer, the Trustee and the Noteholders in the same position as if no change in currency had occurred. Such amendments are to include, without limitation, changes required to reflect any modification to business day or other conventions arising in connection with a change in currency. All such amendments will be binding on the Noteholders. Notification of the amendments will be made in accordance with Condition 14.

Change of Law

The structure of the issue of the Notes and the ratings which are to be assigned to them are based on English law and New York law and administrative practice in effect as at the date of this document. No assurance can be given as to the impact of any possible change to English law or New York law or administrative practice after the date of this document, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

Provisions of The Insolvency Act 2000

On 1 January, 2003 certain provisions of the Insolvency Act 2000 came into force which allow "small" companies incorporated in England and Wales (which are defined by reference to certain financial and other tests), as part of the company voluntary arrangement ("CVA") procedure, to obtain protection from their creditors by way of a "moratorium". On the Closing Date neither the Issuer nor the Borrower will meet the definition of a "small" company for these purposes but the Secretary of State may by regulations modify both the definition of a "small" company and the qualifications for eligibility of a company for a moratorium. Accordingly, at any given time the Issuer or the Borrower might fall within the definition of "small company" depending on their financial position and number of employees during the financial year immediately prior to the filing.

However, even if the Issuer or the Borrower were to meet the definition of a "small company" for these purposes, there are exceptions which may make a moratorium unavailable to the Issuer or the Borrower. These exceptions provide that a company which is, on the date of filing for a CVA, party to an agreement which forms part of a capital market arrangement, under which a party incurs a debt of at least £10 million and which involves the issue of a capital market investment, is excluded from being eligible for the moratorium. The definitions of "capital market arrangement" and "capital market investment" are such that, in general terms, any company which is a party to an agreement which forms part of an arrangement under which (a) security is granted to a trustee on behalf of a person that holds a rated, listed or traded debt instrument issued by a party to that arrangement, and (b) a party has incurred, or after the agreement was entered into, was expected to incur, a debt of at least £10 million, may be ineligible to seek the benefit of a small companies moratorium. The Issuer should fall within this exception but the Borrower will not.

If it were to be available, the initial duration of the moratorium would be up to 28 days. A meeting of creditors may resolve that the duration of the moratorium be extended for up to a further two months. The Secretary of State may by order increase or decrease either the initial moratorium period or any period by which the moratorium may be extended.

If a moratorium is obtained in relation to a company then during the period it is in force, amongst other things, (a) no administrative receiver of the company may be appointed, no petition may be presented (other than, in certain circumstances, by the Secretary of State) or resolution passed or order made for the winding up of the company and no petition for an administration order may be presented and (b) any security created by that company over its property cannot be enforced (except with the leave of the Court and subject to such terms as the Court may impose) and no proceedings and no execution or other legal process may be commenced or continued, or distress levied, against the company or its property (except with the leave of the Court and subject to such terms as the Court may impose). However, a company subject to a moratorium may continue to make payments in respect of its debts and liabilities in existence before the moratorium. It may do so if there are reasonable grounds for believing such payments will benefit that company and the payment is approved by either a moratorium committee of the creditors of that company or by a nominee of that company appointed under the provisions of the Insolvency Act 2000.

The Enterprise Act 2002

On 7 November, 2002, the Enterprise Act (the "**Act**") received royal assent. This legislation contains significant reforms of bankruptcy and insolvency law. These reforms, which are expected to be brought into force in 2003, will restrict the right of the holder of a floating charge to appoint an administrative receiver and instead to give primacy to collective insolvency procedures and in particular administration. The government's aim is that, rather than having primary regard to the interests of secured creditors, any insolvency official should have regard to the interests of all creditors, both secured and unsecured. Presently, the holder of a floating charge over the whole or substantially the whole of the assets of a company normally has the ability to block the appointment of an administrator by appointing an administrative receiver, who primarily acts in the interests of the floating charge holder, though there are residual duties to the company and others interested in the equity of redemption.

The Act states that the holder of a valid and enforceable floating charge over the whole or substantially the whole of a company's property will be able to appoint an administrator of his choice, and that (if no winding-up order had been made or provisional liquidator appointed) such appointment can be made without going to court. However, the administrator will be acting for the creditors generally and not just his appointor.

Directors of companies will also be able to use the out of court route to place the company in administration. There will be a notice period during which the holder of the floating charge can either agree to the proposed appointment by the directors or appoint an alternative administrator, although the moratorium will take effect immediately after notice was given. If the floating charge holder does not respond to the notice of intention to appoint, the company's appointee will automatically take office after the notice period has elapsed.

The Act states that the purpose of administration will be to rescue the company, or, where that is not reasonably practicable, to achieve a better result for the company's creditors as a whole than would be likely if the company were wound up, or, where neither of the above purposes are reasonably practicable, to realise property in order to make a distribution to one or more secured or preferential creditors. These purposes could conflict with the wishes or interests of Noteholders.

In a press notice issued by the Department of Trade and Industry on 9 November, 2001, the Secretary of State for Trade and Industry confirmed that the government's proposed abolition of administrative receivership would not apply to corporate lending agreements pre-dating the commencement of the relevant provisions, and that the current insolvency law provisions would continue to apply to such lending agreements supported by a floating charge. A "reassurance" was given that the Act would not apply retrospectively while the Act was at the committee stage in the House of Commons. Therefore, as the security granted by the Issuer and the Borrower is expected to be created before the relevant provisions of the Act come into force, the new provisions should not prevent administrative receivers being appointed under the floating charges granted by the Issuer and the Borrower.

The Act also provides that the abolition of administrative receivership will not extend to certain capital market arrangements. The current wording of the relevant exception provides that, in broad terms, to fall within this exception, the arrangement must involve a party incurring or expecting to incur a debt of at least £50 million and the issue of a debt instrument that is rated, listed or traded or designed to be rated, listed or traded. The current wording provides that an arrangement is a "capital market arrangement" if (a) it involves a grant of security to a person holding it as a trustee for a person who holds a capital market investment issued by a party to the arrangement; or (b) at least one party guarantees the performance of obligations of another party; or (c) at least one party provides security in respect of the performance of obligations of another party; or (d) the arrangement involves an investment of a kind described in articles 83 to 85 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (options, futures and contracts for differences). Although the security granted by the Issuer should fall within the exception in its current form, the Secretary of State for Trade and Industry is given the power to modify the exceptions by secondary legislation and the government has indicated that changes may be made to the capital markets exception before the Act comes into force. It is not clear that the Borrower would fall within this exception.

Proposed changes to the Basel Accord

The Basel Committee on Banking Supervision (the "**Basel Committee**") has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline. The consultation period on the initial proposals ended in March 2000 and the Basel Committee published its second consultation document, the "**New Basel Capital Accord**", on 16 January, 2001. The consultation period on the further proposals contained in the New Basel Capital Accord ended on 31 May, 2001. Although the Basel Committee had announced previously that it would release a revised proposal in early 2002, this has been delayed pending the completion of a review assessing the overall impact of the proposals on banks and the banking system. On 1 October, 2002, the Basel Committee launched a comprehensive field test for banks of its revised proposals known as the quantitative impact study, or Q153, which is focused on the minimum capital requirements under pillar one of the New Basel Capital Accord. The survey period ended on 20 December, 2002. The revised proposals were issued for public comment on 29 April, 2003. The Basel Committee intends to finalise the New Basel Capital Accord in the fourth quarter of 2003, allowing for implementation of the new framework in each country at year end 2006. If adopted in their current form, the proposals could affect risk weighting of the Notes in respect of certain investors if those investors are regulated in a manner which will be affected by the proposals. Consequently, recipients of this Offering Circular should consult their own advisers as to the consequences to and effect on them of the potential application of the New Basel Capital Accord proposals.

Hedging risks

The Issuer will enter into the Issuer Swap Transaction pursuant to the Swap Agreement in order to mitigate its exposure to Indexation Risk. However, there can be no assurance that the Issuer Swap Transaction will adequately address unforeseen hedging risks. Moreover, in certain circumstances, the Swap Agreement may be terminated by the Issuer and as a result the Issuer may be unhedged with respect to Indexation Risk if one or more appropriate replacement swap transactions cannot be entered into. In particular, Noteholders may suffer a loss if, as a result of a default by the Borrower under the Credit Agreement, the Swap Agreement is terminated and the Issuer is, as a result of such termination, required to pay amounts to the Swap Provider. Certain of such amounts payable on an early termination rank senior to any payments to be made to the Noteholders both before enforcement of the Issuer Security and after enforcement of the Issuer Security. See "Summary – Available Funds and their Priority of Application – Payments out of the Issuer Transaction Account prior to Enforcement of the Notes" and "Credit Structure – Post-Enforcement Priority of Payments" at page 30 and page 101 respectively.

For a more detailed description of the Swap Agreement see "Credit Structure - The Swap Agreement", below at page 103.

The Issuer believes that the risks described above are the principal risks inherent in the transaction for the Noteholders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the above statements regarding the risks of holding the Notes are exhaustive. Although the Issuer believes that the various structural elements described in this Offering Circular lessen some of these risks for Noteholders, there can be no assurance that these measures will be sufficient to ensure payment to Noteholders of interest, principal or any other amounts on or in connection with the Notes on a timely basis or at all.

THE ISSUER

The Issuer, Juturna (European Loan Conduit No. 16) plc, was incorporated in England and Wales on 19 May, 2003 (registered number 4770247), as a public company with limited liability under the Companies Act 1985. The registered office of the Issuer is at Blackwell House, Guildhall Yard, London EC2V 5AE. The Issuer has no subsidiaries.

Principal Activities

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association and are, among other things, to invest in mortgage loans secured on commercial or other properties in the British Isles or elsewhere, to manage and administer mortgage loan portfolios, to issue securities in payment or part payment for any real or personal property purchased, to borrow, raise and secure the payment of money by the creation and issue of bonds, debentures, notes or other securities and to charge or grant security over the Issuer's property or assets to secure its obligations.

The Issuer has not commenced operations and has not engaged, since its incorporation, in any activities other than those incidental to its incorporation and registration as a public limited company under the Companies Act 1985, the authorisation of the issue of the Notes and of the other documents and matters referred to or contemplated in this Offering Circular and matters which are incidental or ancillary to the foregoing.

Under the terms of the Trust Deed the Issuer will covenant to observe certain restrictions on its activities, which are detailed in Condition 3(A) of the Notes, the Deed of Charge and Assignment and the Trust Deed. In addition, the Issuer will covenant in the Trust Deed to provide written confirmation to the Trustee, on an annual basis, that no Event of Default or any event, condition or act, which, with the giving of notice and/or the lapse of time and/or the Trustee issuing any relevant notice, would constitute an Event of Default (or other matter which is required to be brought to the Trustee's attention) has occurred in respect of the Notes.

Directors and Secretary

The directors of the Issuer and their respective business addresses and other principal activities are:

Name	Business Address	Principal Activities
SFM Directors Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of directors to special purpose companies
SFM Directors (No.2) Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of directors to special purpose companies

The company secretary of the Issuer is SFM Corporate Services Limited, a company incorporated in England and Wales (registered number 3920255), whose business address is Blackwell House, Guildhall Yard, London EC2V 5AE. The directors of SFM Directors Limited (registered number 3920254), SFM Corporate Services Limited and SFM Directors (No. 2) Limited (registered number 4017430) are Jonathan Eden Keighley, James Garner Smith Macdonald and Robert William Berry (together with their alternate directors, Helena Paivi Whitaker, Ryan William O'Rourke and Annika Ida Louise Aman-Goodwille), whose business addresses are Blackwell House, Guildhall Yard, London EC2V 5AE, and who perform no other principal activities outside the Issuer and any group of which it is a member other than as set out in the table above which are significant with respect to the Issuer and any group of which it is a member.

Capitalisation and Indebtedness

The capitalisation and indebtedness of the Issuer as at the date of this Offering Circular, adjusted to take account of the issue of the Notes, is as follows:

Share Capital

Authorised Share Capital £	Issued Share Capital £	Value of each Share £	Shares Fully Paid Up	Shares Quarter Paid Up	Paid Up Share Capital £
50,000	50,000	1	2	49,998	12,501.50

49,999 of the issued shares (being 49,998 shares of £1 each, each of which is paid up as to 25 pence and one share of £1 which is fully paid) in the Issuer are held by SFM Corporate Services Limited (the "**Share Trustee**") as trustee of the European Loan Conduit No. 16 Securitisation Trust pursuant to a Declaration of Trust declared by the Share Trustee on 15 July, 2003. The Issuer will, in accordance with the Declaration of Trust and associated fee letter, pay the fees and expenses of the Share Trustee. The remaining one share in the Issuer (which is fully paid) is held by Structured Finance Management Limited (registered number 3853947) as nominee for SFM Corporate Services Limited in its capacity as trustee of the European Loan Conduit No. 16 Securitisation Trust.

Loan Capital

5.0636 % Commercial Mortgage Backed Fixed Rate Guaranteed Notes due 2033 £813,320,000

Except as set out above, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities and the Issuer has not created any mortgages or charges nor has it given any guarantees as at the date hereof.

Accountants' Report

The following is the text of a report, extracted without material adjustment, received by the directors of the Issuer from BDO Stoy Hayward, who have been appointed as auditors and reporting accountants to the Issuer. BDO Stoy Hayward are chartered accountants and registered auditors. The balance sheet contained in the report does not comprise the Issuer's statutory accounts. No statutory accounts have been prepared or delivered to the Registrar of Companies in England and Wales since the Issuer's incorporation. The Issuer's accounting reference date will be 30 June and the first statutory accounts will be drawn up to 30 June, 2004.



BDO Stoy Hayward

Juturna (European Loan Conduit No. 16) plc
Blackwell House
Guildhall Yard
London EC2V 5AE

Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA
(the "Lead Manager" and "Listing Agent")

HSBC Trustee (C.I.) Limited
1 Grenville Street
St. Helier
Jersey JE4 9PF
(the "Trustee")

MBIA Assurance S.A.
London Branch
1 Great St. Helen's
2nd Floor
London EC3A 6HX

Dear Sirs

Juturna (European Loan Conduit No. 16) plc (the "Company")

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular dated 16 July, 2003 of the Company (the "Offering Circular") relating to the issue of £813,320,000 5.0636% Commercial Mortgage Backed Fixed Rate Guaranteed Notes due 2033.

The Company was incorporated and registered as a public limited company in England and Wales on 19 May, 2003, under the name Juturna (European Loan Conduit No. 16) plc, registered number 4770247.

The Company has issued 50,000 ordinary shares for a total consideration of £12,501.50. The directors of the Company (the "Directors") have represented that no material contracts or transactions have been entered into save for those detailed in the Offering Circular. The Directors have represented that the Company has not yet traded and no dividends have been declared or paid.

We have been auditors of the Company since our appointment on 3 July, 2003.

Basis of preparation

The financial information set out in this report is based on audited non-statutory financial statements of the Company for the period from incorporation to 16 July, 2003, to which no adjustments were considered necessary.

No audited statutory financial statements have been prepared for submission to the members of the Company in respect of any period.

Responsibility

The financial statements are the responsibility of the directors of the Company and have been approved by them.

The Company is responsible for the contents of the Offering Circular in which this report is included.

It is our responsibility to compile the financial information set out in this 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 of the United Kingdom. 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 entity'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 set out below gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at 16 July, 2003.

JUTURNA (EUROPEAN LOAN CONDUIT NO. 16) PLC

BALANCE SHEET as at 16 July, 2003

	Note	£
Current assets:		
Cash in hand		<u>12,501.50</u>
Net Assets		<u>12,501.50</u>
Capital and reserves:		
Called-up share capital		<u>12,501.50</u>
Shareholders' funds – equity		<u>12,501.50</u>

NOTES TO THE FINANCIAL INFORMATION

1. Accounting Policies

The financial information set out in this report has been prepared under the historic cost convention and in accordance with applicable accounting standards generally accepted in the United Kingdom.

2. Called up share capital

On incorporation the authorised share capital of the Company was £50,000 divided into 50,000 ordinary shares of £1 each.

On 19 May, 2003, one share of £1 was issued fully paid to SFM Corporate Services Limited and one share of £1 was issued fully paid to Structured Finance Management Limited.

On 2 June, 2003, 49,998 ordinary shares of £1 each were issued to SFM Corporate Services Limited and partially called up for cash consideration of £12,499.50.

The shares are held in trust by SFM Corporate Services Limited and Structured Finance Management Limited for the European Loan Conduit No. 16 Securitisation Trust.

3. Profit and loss account

Since incorporation, the Company has not traded, nor has it received any income, incurred any expenses or paid any dividends. The Company has not entered into any material contracts save for those detailed in the Offering Circular. Consequently neither a profit and loss account nor a statement of total recognised gains and losses have been prepared.

Yours faithfully

BDO Stoy Hayward
Chartered Accountants

THE BORROWER

The Borrower, Daunus Limited, was incorporated in England and Wales on 3 June, 2003 (registered number 4785746), as a private company with limited liability under the Companies Act 1985. The registered office of the Borrower is at Blackwell House, Guildhall Yard, London EC2V 5AE. The Borrower has no subsidiaries.

Principal Activities

The principal objects of the Borrower are set out in clause 3 of its Memorandum of Association and allow the Borrower to acquire an interest in the Headlease, to acquire a right to Rent Payments under the Underlease, to enter into the Credit Agreement, to enter into the Development Agreement and the Development Agency Agreement and undertake matters incidental to these activities including acquiring the Membership Interest in, and making a capital contribution to, the Limited Liability Partnership.

From the date of its incorporation to the Closing Date, the Borrower has not engaged and will not from the Closing Date onwards engage in any activities apart from acquiring the Headlease, granting the Underlease, contributing to the capital of the Limited Liability Partnership, entering into the Credit Agreement, the Development Agency Agreement and the Development Agreement and other matters incidental to such activities, including entering into a shareholder agreement with its shareholders (the "**Borrower Shareholder Agreement**") and entering into a corporate services agreement with SFM Corporate Services Limited (the "**Borrower Corporate Services Agreement**").

The Borrower 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 Borrower is aware) which may have, or have had, since the date of its incorporation, a significant effect on the Borrower's financial position.

Directors and Secretary

The directors of the Borrower and their respective business addresses are:

Name	Business Address
Matthew Slingo	25 Cabot Square, Canary Wharf, London E14 4QA
SFM Directors Limited	Blackwell House, Guildhall Yard, London EC2V 5AE

The company secretary of the Borrower is SFM Corporate Services Limited whose business address is Blackwell House, Guildhall Yard, London EC2V 5AE. The directors of the Borrower and their business addresses are set out in the table above. Matthew Slingo is a Managing Director of Morgan Stanley and is a director of a number of Morgan Stanley Group subsidiaries. The principal activities of SFM Directors Limited are the provision of directors to special purpose companies and SFM Directors Limited performs no other principal activities outside the Borrower and any group of which it is a member which are significant with respect to the Borrower and any group of which it is a member.

Capitalisation and Indebtedness

The capitalisation and indebtedness of the Borrower as at the date of this Offering Circular, adjusted to take account of the issue of the Notes, is as follows:

Share Capital

Authorised Share Capital £	Issued Share Capital £	Class of Shares					Value of each Share				
			Class A Ordinary Shares	Class B Ordinary Shares	Class C Ordinary Shares	Class D Ordinary Shares		Class A Ordinary Share	Class B Ordinary Share	Class C Ordinary Share	Class D Ordinary Share
100	100		10	10	10	70		£1	£1	£1	£1

The Borrower has issued 10 Class A ordinary shares (the "**Borrower Class A Ordinary Shares**") to BBC Property Development Limited, 10 Class B ordinary shares (the "**Borrower Class B Ordinary Shares**") to Morgan Stanley Delta LLC, 10 Class C ordinary shares (the "**Borrower Class C Ordinary Shares**") to Land Securities Trillium (BH) Limited and 70 Class D ordinary shares ("**Borrower Class D Ordinary Shares**") to Structured Finance Management Limited, as trustee of European Loan Conduit No. 16 Borrower Trust (the "**Borrower Share Trustee**") (the holders of the Borrower Class A Ordinary Shares, the Borrower Class B Ordinary Shares, the Borrower Class C Ordinary Shares and the Borrower Class D Ordinary Shares being together the "**Borrower Shareholders**").

Holders of each class of ordinary shares have certain rights as contained in the Borrower's articles of association. These include the usual rights to attend and vote at general meetings as well as the right to participate in distributions. However, the distribution rights vary between the various classes of ordinary shares. Additionally, the holder of the Borrower Class A Ordinary Shares, the holder of the Borrower Class B Ordinary Shares and the holder of the Borrower Class D Ordinary Shares will each have the right to appoint, remove and replace a director of the Borrower. The holder of the Borrower Class D Ordinary Shares will have the exclusive right to appoint, remove and replace the company secretary and shall ensure the appointment of the same.

Loan Capital

The Loan£782,089,341

Except as set out above, the Borrower has no outstanding loan capital, borrowings, indebtedness or contingent liabilities and the Borrower has not created any mortgages or charges nor has it given any guarantees as at the date hereof save as described in this Offering Circular.

The Borrower Corporate Services Agreement

The Borrower has entered into the Borrower Corporate Services Agreement with SFM Corporate Services Limited.

Capital Allowances

The Borrower will be entitled to certain capital allowances. The Borrower may, in the future and subject to the consent of the Security Trustee, enter into a sale and lease back or other arrangement in relation to its entitlement to capital allowances.

THE PARTIES

Morgan Stanley Dean Witter Principal Funding Inc.

Morgan Stanley Dean Witter Principal Funding Inc. ("**MSDW PFI**") is a wholly owned unregulated subsidiary of Morgan Stanley. MSDW PFI is incorporated in the State of Delaware, United States of America and has its principal place of business at 1585 Broadway, New York, NY 10036.

Servicer, Security Trustee and Collection Agent

Morgan Stanley Mortgage Servicing Limited ("**MSMS**") is a specialist loan servicing company and a subsidiary of Morgan Stanley, operating in the United Kingdom and certain other European countries. MSMS is incorporated in England and Wales (registered number 3411668) and has its registered office at 25 Cabot Square, Canary Wharf, London E14 4QA.

Swap Provider

Morgan Stanley Capital Services Inc. ("**MSCS**"), a Delaware corporation, is a wholly owned unregulated subsidiary of Morgan Stanley which conducts forward payment business, including interest rate swaps, currency swaps and interest rate guarantees with institutional clients. The office of MSCS is located at 1585 Broadway, New York, New York 10036.

Swap Guarantor

Morgan Stanley is a global financial services firm that maintains three primary businesses: securities, asset management and credit services. Morgan Stanley combines global investment banking (including the origination of underwritten public offerings and mergers and acquisitions advice) with institutional sales and trading, and provides investment and global asset management products and services and, primarily through its Discover Card brand, consumer credit products. Morgan Stanley is incorporated in the State of Delaware and its office is located at 1585 Broadway, New York, New York 10036.

MSCS's obligations under the Swap Agreement benefit from an unconditional, irrevocable guarantee of Morgan Stanley under the Swap Guarantee. If MSCS ceases to be the Swap Provider, Morgan Stanley will cease to be the Swap Guarantor. The long term, unsecured, unsubordinated debt obligations of Morgan Stanley are rated "AA-" by Fitch, "Aa3" by Moody's and "A+" by S&P. The consolidated accounts of Morgan Stanley are available on request.

GIC Provider

MBIA Inc., a New York Stock Exchange listed company engaged in providing financial guarantee insurance, investment management and financial services will act as GIC Provider pursuant to the Borrower GIC and the Co-Owner GIC. MBIA Inc. is incorporated in Connecticut and has its registered office at 113 King Street, Armonk, New York 10504.

GIC Custodian

Wells Fargo Bank Minnesota, National Association ("**Wells Fargo**") will act as the GIC Custodian pursuant to each GIC Custodial Agreement. Wells Fargo is a federally chartered national bank and is acting as GIC Custodian through its offices at Mid-West Plaza, West Tower, Nicollet Mall, Suite 700, MAC N9310-060, Minneapolis, Minnesota 55479.

GIC Guarantor

MBIA Insurance Corporation, a New York stock insurance company, is a wholly-owned subsidiary of MBIA Inc. which provides financial guarantee insurance, primarily in respect of obligations which are sold in the new issue and secondary markets, or which are held in unit investment trusts by mutual funds. MBIA Insurance Corporation has its registered office at 113 King Street, Armonk, New York 10504.

Issuer Operating Bank

HSBC Bank plc in its capacity as the Issuer Operating Bank will act as the operating bank of the Issuer pursuant to the Cash Management Agreement in relation to the Issuer Transaction Account, the Issuer Expense

Account, the Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account through its office located at Mariner House, Pepys Street, London EC3N 4DA. The long term, unsecured, unsubordinated debt obligations of HSBC Bank plc are rated "Aa2" by Moody's, "AA-" by S&P and "AA" by Fitch. The Issuer Operating Bank is incorporated in England and Wales (registered number 14259) and has its registered office at 8 Canada Square, London E14 5HQ.

The Issuer Operating Bank is required to be an entity the short-term unsecured, unguaranteed and unsubordinated debt obligations of which are rated at least "A-1+" by S&P, "P-1" by Moody's and "F1+" by Fitch or, if at the relevant time there is no such entity, any entity approved in writing by the Controlling Party (an "**Authorised Entity**"). If at any time the Issuer Operating Bank ceases to be an Authorised Entity, subject to certain limited exceptions, a new bank, that is an Authorised Entity, must be appointed as a replacement. For further information about the termination of the appointment of the Issuer Operating Bank, see "Cash Management – Termination of the Appointment of the Issuer Operating Bank" at page 114.

Borrower Operating Bank

HSBC Bank plc in its capacity as Borrower Operating Bank will act as the operating bank of the Borrower in relation to the Borrower Accounts acting through its office located at Mariner House, Pepys Street, London EC3N 4DA. The long term, unsecured, unsubordinated debt obligations of HSBC Bank plc are rated "Aa2" by Moody's, "AA-" by S&P and "AA" by Fitch. The Borrower Operating Bank is incorporated in England and Wales (registered number 14259) and has its registered office at 8 Canada Square, London E14 5HQ.

The Borrower Operating Bank is required to be an Authorised Entity. If at any time the Borrower Operating Bank ceases to be an Authorised Entity, a new bank, that is an Authorised Entity, must be appointed as a replacement.

Co-Owner Operating Bank

HSBC Bank plc in its capacity as Co-Owner Operating Bank will act as the operating bank of the Co-Owner in relation to the Co-Owner Accounts acting through its office located at 8 Canada Square, London E14 5HQ. The long term, unsecured, unsubordinated debt obligations of HSBC Bank plc are rated "Aa2" by Moody's, "AA-" by S&P and "AA" by Fitch. The Co-Owner Operating Bank is incorporated in England and Wales (registered number 14259) and has its registered office at 8 Canada Square, London E14 5HQ.

The Co-Owner Operating Bank is required to be an Authorised Entity. If at any time the Co-Owner Operating Bank ceases to be an Authorised Entity, a new bank, that is an Authorised Entity, must be appointed as a replacement.

Principal Paying Agent, Agent Bank and Cash Manager

HSBC Bank plc will be appointed as Principal Paying Agent and Agent Bank under the Agency Agreement and as Cash Manager under the Cash Management Agreement. HSBC Bank plc is incorporated in England and Wales (registered number 14259) and has its registered office at 8 Canada Square, London E14 5HQ.

Sub-Paying Agent

HSBC Global Investor Services (Ireland) Limited whose principal office is at International House, 20-22 Lower Hatch Street, Dublin 2, Ireland will be appointed as Sub-Paying Agent under the Agency Agreement. The Sub-Paying Agent is incorporated in Ireland (registered number 239099) and has its registered office at International House, 20-22 Lower Hatch Street, Dublin 2, Ireland.

Corporate Services Provider and Share Trustee

SFM Corporate Services Limited is incorporated in England and Wales (registered number 3920255) and has its registered office at Blackwell House, Guildhall Yard, London EC2V 5AE.

Trustee

HSBC Trustee (C.I.) Limited is incorporated in Jersey and has its principal place of business at 1 Grenville Street, St. Helier, Jersey JE4 9PF. The Trustee will be appointed pursuant to the Trust Deed to represent the interests of the Noteholders. The Trustee will agree to hold the benefit of the covenants of the Issuer contained in the Trust Deed on trust for the Noteholders and the security created by, under or pursuant to the Deed of Charge and Assignment for the benefit of, among others, the Financial Guarantor and the Noteholders.

Among other things, the Trust Deed:

- (a) sets out when, and the terms upon which, the Trustee will be entitled or obligated, as the case may be, to take steps to enforce the Issuer's obligations under the Notes (or certain other relevant documents);
- (b) contains various covenants of the Issuer relating to repayment of principal and payment of interest in respect of the Notes, to the conduct of its affairs generally and to certain ongoing obligations connected with its issuance of the Notes;
- (c) provides for the remuneration of the Trustee, the payment of expenses incurred by it in the exercise of its powers and performance of its duties and provides for the indemnification of the Trustee against liabilities, losses and costs arising out of the Trustee's exercise of its powers and performance of its duties;
- (d) provides that the determinations of the Trustee will be conclusive and binding on the Noteholders;
- (e) sets out the extent of the Trustee's powers and discretions, including its rights to delegate the exercise of its powers or duties or agents, to seek and act upon the advice of certain experts and to rely upon certain documents without further investigation;
- (f) sets out the scope of the Trustee's liability for any breach of duty or breach of trust, negligence or default in connection with the exercise of its duties;
- (g) sets out the basis on which the Trustee will exercise its discretions in connection with the Notes, the Issuer, the Transaction Documents, the Issuer Security, the Loan or the Related Security. In particular, for as long as the Financial Guarantor is the Controlling Party, the Trustee, prior to exercising any discretion, will notify the Financial Guarantor of the manner in which it proposes to exercise the relevant discretion, and may only exercise such discretion in accordance with the instruction of the Financial Guarantor (subject to its being indemnified to its satisfaction);
- (h) sets out the terms upon which the Trustee may, without the consent of the Noteholders but subject to the Financial Guarantor's consent for so long as the Financial Guarantor is the Controlling Party, make or sanction any modification to the Conditions or to the terms of the Trust Deed or certain other relevant documents; and
- (i) sets out the requirements for and organisation of Noteholder meetings.

The Trust Deed also contains provisions governing the retirement or removal of the Trustee and the appointment of a successor Trustee. The Trustee may at any time and for any reason resign as Trustee upon giving not less than three months' prior written notice to the Issuer and the Financial Guarantor for so long as the Financial Guarantor is the Controlling Party. To the extent that the Financial Guarantor gives directions to the Trustee, the Trustee shall have no obligation to act in accordance with the same directions until the Trustee has been indemnified to its satisfaction in relation thereto. The holders of the Notes acting by Extraordinary Resolution of Noteholders, may together remove the Trustee from office if so approved by the Financial Guarantor, for so long as the Financial Guarantor is the Controlling Party. No retirement or removal of the Trustee (or any successor Trustee) will be effective until a trust corporation has been appointed to act as successor Trustee.

The appointment of a successor Trustee will be made by the Issuer or, where the Trustee has given notice of its resignation and the Issuer has failed to make any such appointment by the expiry of the applicable notice period, by the Trustee itself but subject to the Financial Guarantor's consent for so long as the Financial Guarantor is the Controlling Party. No person may be appointed to act as a successor Trustee unless that person has been previously approved by (a) for so long as the Financial Guarantor is the Controlling Party, the Financial Guarantor; and (b) otherwise, an Extraordinary Resolution of Noteholders.

The Co-Owner

Morgan Stanley Gamma Investments is a private company incorporated in England and Wales with unlimited liability (registered number 4798688) and has its registered offices at LNCS/5, 25 Cabot Square, Canary Wharf, London E14 4QA. The ordinary share capital of the Co-Owner is held by MS Lion LLC and the Preference Share Nominee as nominee for MS Lion LLC and the preference share capital of the Co-Owner will on the Closing Date be held by the Preference Share Nominee as nominee for the Limited Liability Partnership. The Co-Owner may engage in numerous commercial and financial activities which are unconnected with the transaction described in this Offering Circular.

The Limited Liability Partnership

Morgan Stanley Alpha Investments LLP is a limited liability partnership incorporated in England and Wales (registered number OC304882) and has its registered office at LNCS/5, 25 Cabot Square, Canary Wharf, London E14 4QA. The members of the Limited Liability Partnership are Morgan Stanley Epsilon Investments Limited and Morgan Stanley Biscay LLC. The Borrower will become a member of the Limited Liability Partnership on the Closing Date. The business activities of the Limited Liability Partnership are restricted to holding the beneficial interests in the Co-Owner Preference Shares, making the LLP Distributions and granting security over certain of its assets.

The Preference Share Nominee

Morgan Stanley Beta Investments Limited is a private company incorporated in England and Wales with limited liability (registered number 4797279) and has its registered offices at LNCS/5, 25 Cabot Square, Canary Wharf, London E14 4QA. The ordinary share capital of the Preference Share Nominee is held by MS Lion LLC. The Preference Share Nominee will be the registered holder of the Co-Owner Class A Preference Shares and the Co-Owner Class B Preference Shares which it will hold on trust for the Limited Liability Partnership and one Co-Owner Ordinary Share which it will hold on trust for MS Lion LLC.

THE CO-OWNERSHIP STRUCTURE

Overview of Co-Ownership Structure

The Co-Ownership Structure has been included in the overall structure of the transaction described in this Offering Circular to maximise the cash-flow available to the Borrower and hence maximise its ability to pay interest on and repay the principal of the Loan.

As a result of the Co-Ownership Structure, in addition to funds available to it pursuant to the Borrower Rent Distributions and the Borrower GIC, the Borrower will receive LLP Distributions which will be funded ultimately from Co-Owner Distributions.

It is contemplated that the contributions from these sources of funding will be sufficient to enable the Borrower to pay interest on and repay the principal of the Loan and hence enable the Issuer, together with receipts under the Swap Agreement, to pay interest on and repay the principal of the Notes.

Nature and Ownership of the Co-Owner

The Co-Owner is an unlimited company incorporated in England and Wales. Its share capital is divided into the Co-Owner Ordinary Shares, the Co-Owner Class A Preference Shares and the Co-Owner Class B Preference Shares. The registered holders of the Co-Owner Ordinary Shares are MS Lion LLC and the Preference Share Nominee as nominee for MS Lion LLC. The registered holder of the Co-Owner Class A Preference Shares and the Co-Owner Class B Preference Shares is the Preference Share Nominee as nominee for the Limited Liability Partnership.

The Assets of the Borrower

The Borrower will use the proceeds of the Loan, among other things, to:

- (a) acquire the Borrower Headlease Interest;
- (b) deposit funds with the GIC Provider in connection with the Borrower GIC; and
- (c) make a capital contribution to the Limited Liability Partnership and to make certain related payments.

The Limited Liability Partnership will, in turn, use the proceeds of the capital contribution made to it by the Borrower to acquire a beneficial interest in the Co-Owner Class A Preference Shares.

The Assets of the Co-Owner

The Co-Owner will use the proceeds of the issuance of the Co-Owner Class A Preference Shares to acquire the Co-Owner Headlease Interest, to make certain other payments to the BBC and to deposit funds with the GIC Provider in connection with the Co-Owner GIC. Thus, as a result of undertaking the transactions described in this Offering Circular, the Co-Owner will have a number of assets.

The principal assets of the Co-Owner which are derived from the transactions described in this Offering Circular are as follows:

- (a) the Co-Owner Headlease Interest;
- (b) the Co-Owner's right to receive Co-Owner Rent Distributions from the Tenant through the Collection Agent;
- (c) the Co-Owner's rights under the Co-Owner GIC and the Co-Owner GIC Guarantee; and
- (d) the Co-Owner Rent Account and the Co-Owner Development Account and the amounts from time to time standing to the credit thereof.

such assets being referred to hereinafter as the "**Co-Owner Assets**". It is anticipated that the Co-Owner will have other assets which are not derived from the transactions described in this Offering Circular. However, the security granted and the obligations entered into by the Co-Owner will be limited in recourse to the Co-Owner Assets and no action may be taken in respect of any other assets of the Co-Owner.

The Obligations of the Co-Owner

The principal obligations of the Co-Owner derived from the transactions described in this Offering Circular are as follows:

- (a) the obligation to make Co-Owner Distributions; and
- (b) the obligation to make Co-Owner Development Contributions,

such obligations being referred to hereinafter as the "**Co-Owner Obligations**".

The ability of the Co-Owner to make Co-Owner Distributions is contingent upon, among other things, it having received corresponding Co-Owner Rent Distributions. The obligation of the Co-Owner to make Co-Owner Development Contributions is contingent upon, among other things, there being funds available for this purpose pursuant to the Co-Owner GIC.

The Co-Owner will discharge its obligation to make Co-Owner Distributions by making payment of the relevant amounts into the LLP Account from time to time. The Co-Owner will discharge its obligation to make Co-Owner Development Contributions by making payment of the relevant amounts into the Borrower Development Account from time to time pursuant to the Development Agency Agreement under the terms of which the Borrower will pay such amounts to the Developer on behalf of the Co-Owner.

It is anticipated that the Co-Owner will have other obligations which are not derived from the transactions described in this Offering Circular.

Discharge of the Co-Owner Obligations

The Co-Owner has an obligation to make Co-Owner Distributions from time to time upon the receipt of Co-Owner Rent Distributions.

Prior to making a Co-Owner Distribution, a director or, if a director is not available, an authorised signatory of the Co-Owner is required to deliver to the Security Trustee, on behalf of both the Limited Liability Partnership and the Borrower, a certificate confirming the solvency of the Co-Owner at the time of making the relevant Co-Owner Distribution. However, the requisite certificate may be delivered after the making of a Co-Owner Distribution provided that it is delivered prior to the scheduled date for making the next following Co-Owner Distribution. If the Co-Owner fails to deliver the requisite certificate in respect of any single Co-Owner Distribution before the next following Co-Owner Distribution, the Co-Owner shall cease to make any further Co-Owner Distributions. The directors of the Co-Owner intend to resolve on an annual basis to make Co-Owner Distributions.

The Co-Owner will periodically receive amounts pursuant to the Co-Owner GIC for the purposes of contributing to the expenses incurred in connection with the Development Programme. Such amounts (the "**Co-Owner Development Funds**") will be paid into the Co-Owner Development Account and will be immediately transferred from the Co-Owner Development Account to the Borrower Development Account. The Security Trustee will maintain a record of the sources of the funds standing to the credit of the Borrower Development Account. Immediately upon an amount falling due for payment under the Development Agreement, the Security Trustee will determine, in accordance with the terms of the Development Agency Agreement, the proportion of such amount which the Borrower is itself required to fund using its own funds (the "**Borrower Development Funds**") and the proportion of such amount which the Borrower is required to fund using Co-Owner Development Funds. Having done so, the Security Trustee will transfer the relevant amount from the Borrower Development Account in order to make the relevant payment to the Developer. The Security Trustee will then update its records to reflect the portion of the amount paid to the Developer which was funded using Co-Owner Development Funds and Borrower Development Funds respectively. The Co-Owner's obligations under the Development Agency Agreement are limited to making Co-Owner Development Contributions out of funds received pursuant to the Co-Owner GIC.

The amounts payable by the Borrower to the Developer under the Development Agreement and hence the amounts paid by the Co-Owner to the Borrower under the Development Agency Agreement will include an element of value added tax ("**VAT**"). The Co-Owner will be entitled to recover the VAT element of the payments it makes from the relevant authorities and may recover such amounts on a periodic basis. Upon recovery, such refunds will be credited to the Co-Owner Development Account but shall be immediately transferred to the Borrower Development Account.

Nature of the Co-Owner

The Co-Owner may engage in activities which are unconnected with the transactions described in this Offering Circular. In order to ensure that these activities do not have an adverse effect on the Co-Owner Obligations:

- (a) various security interests have been granted in respect of the Co-Owner Assets; and
- (b) various mechanics have been structured to determine the interests of the Co-Owner in the Co-Owner Assets.

Security Interests created by the Co-Owner

Pursuant to the Co-Owner Charge, the Co-Owner will grant to the Security Trustee a first-ranking charge in respect of the Co-Owner Rent Account and second-ranking charge in respect of the Co-Owner Development Account, the Co-Owner GIC and its interests, if any, in monies standing to the credit of the Borrower Development Account, as security for the obligations of the Borrower under the Credit Agreement. Pursuant to the Agency Charge, the Co-Owner will grant to the Borrower first-ranking security interests in respect of the Co-Owner Development Account, the Co-Owner GIC and its interests, if any, in monies standing to the credit of the Borrower Development Account, as security for the obligations of the Co-Owner under the Development Agency Agreement and the Call Option Agreement, which security interests will become the subject of a sub-charge in favour of the Security Trustee pursuant to the Borrower Debenture.

The Co-Owner will also grant a first ranking New York law security interest over the Co-Owner GIC Guarantee pursuant to the Co-Owner GIC Guarantee Assignment Agreement.

The security interests granted by the Co-Owner as security for the obligations of the Borrower under the Credit Agreement will become enforceable upon the occurrence of a Loan Event of Default. The security interests granted by the Co-Owner under the Agency Charge and under the Co-Owner GIC Guarantee Assignment Agreement will become enforceable as a result of the failure by the Co-Owner to meet its payment obligations under the Development Agency Agreement. In addition, the Co-Owner GIC Guarantee Assignment Agreement will also become enforceable upon the occurrence of a Loan Event of Default. Upon enforcement of the security interests granted by the Co-Owner, the proceeds of such enforcement will be applied to pay the relevant secured obligations.

Determination of the Co-Ownership Structure

Determination of the Co-Ownership Structure can be triggered by:

- (a) the failure of the Limited Liability Partnership to make any anticipated LLP Distribution for any reason, which failure has not been cured within five London Business Days;
- (b) the occurrence of a Loan Event of Default;
- (c) the Borrower (with the consent of the Security Trustee) and/or the Security Trustee exercising the Headlease Break Option; and
- (d) the BBC deciding to determine the Co-Ownership Structure.

(each a "**Co-Owner Trigger Event**" and together the "**Co-Owner Trigger Events**"). The mechanics pursuant to which a Co-Owner Trigger Event will occur is set out in "Summary – The Co-Ownership Structure – Co-Owner Trigger Events" at page 15.

The rights of the Co-Owner to:

- (a) the Co-Owner Headlease Interest; and
- (b) the Co-Owner Rent Distributions,

shall be adjusted upon the occurrence of the relevant Co-Owner Trigger Event. In this event, the quantum of subsequent Co-Owner Rent Distributions shall be reduced to £50,000 per annum (exclusive of VAT) reflecting a proportionate diminution in the Co-Owner Headlease Interest.

The rights of the Co-Owner to the Co-Owner Headlease Interest and the Co-Owner Rent Distributions, following a Co-Owner Trigger Event, shall be referred to hereinafter as the "**Co-Owner Residual Property Interests**".

The rights of the Co-Owner to the Co-Owner Residual Property Interests shall, upon the exercise of the Co-Owner Residual Interest Call Option be consolidated with the rights of the Borrower to the Borrower Headlease Interest and the Borrower Rent Distributions, as further described below.

In addition, the Co-Owner's rights under the Co-Owner GIC, the Co-Owner GIC Guarantee, the Co-Owner Development Account, the Co-Owner Rent Account and the Collection Account will, upon the occurrence of a Co-Owner Trigger Event of the type set out in (a) of the definition of that term, be automatically transferred to the Borrower since the Co-Owner will cease to have any such rights to those assets. Upon the occurrence of a Co-Owner Trigger Event of the types set out in (b), (c) or (d) of the definition of that term, the Co-Owner's rights under the Co-Owner GIC, the Co-Owner GIC Guarantee, the Co-Owner Rent Account, the Collection Account and the Co-Owner Development Account will be distributed by the Co-Owner to the holders of the Co-Owner Class A Preference Shares and upon distribution by the Limited Liability Partnership, so transferred to the Borrower.

The Co-Owner Residual Interest Call Option

In the event that a Co-Owner Trigger Event occurs the Borrower should have the ability to obtain the Co-Owner Residual Property Interests pursuant to the exercise of a call option (the "**Co-Owner Residual Interest Call Option**"). As a result of exercising this option, the Co-Owner Residual Property Interest should be consolidated with the other interests of the Borrower in respect of the Property.

Determination of Membership Interest

Following the occurrence of a Co-Owner Trigger Event, the Borrower will cease to be a member of the Limited Liability Partnership.

THE LOAN AND THE RELATED SECURITY

For the purposes of this section, any reference to the "**Lender**" should be construed as a reference to MSDW PFI and, following the sale of the Loan to the Issuer pursuant to the Loan Sale Agreement, a reference to the Issuer.

Origination of the Loan

The Loan will be advanced by MSDW PFI to the Borrower on the Closing Date pursuant to a credit agreement dated 1 July, 2003 (to be amended on or prior to the Closing Date) between MSDW PFI, the Borrower and the Security Trustee (the "**Credit Agreement**"). The Loan will be made in accordance with MSDW PFI's loan underwriting practices, taking into account the various risks to which the Lender could be subject in respect of the Loan and seeking to mitigate such risks through appropriate forms of security and other structuring techniques.

Purpose of the Loan

The aggregate amount of the Loan advanced to the Borrower pursuant to the Credit Agreement will be £782,089,341, which will be applied by the Borrower for the following purposes:

- (a) to acquire an interest in the Headlease and to contribute towards the stamp duty and registration costs incurred in connection with such acquisition;
- (b) to acquire the Membership Interest in the Limited Liability Partnership by making a capital contribution to the Limited Liability Partnership and to make certain additional payments related to such acquisition;
- (c) to make a payment to the GIC Provider in connection with the Borrower GIC;
- (d) to fund the Borrower Expense Account from which withdrawals may be made to enable the Borrower to pay certain expenses from time to time;
- (e) to fund the Borrower Restrictive Covenant Retention Account from which withdrawals will be made for the purposes of making payments due to the owners of adjoining properties in connection with undertaking the Development Programme; and
- (f) to reimburse the BBC for certain expenditure related to the Development Programme incurred prior to the Closing Date and to pay certain arrangement fees.

In addition, part of the Loan proceeds will be used on the Closing Date to pay certain fees, costs and expenses in connection with arranging the Loan.

For further information regarding the Headlease and the Borrower's interests therein, see "The Property and the Leases – The Headlease" at page 78. For further information regarding the operation of the Borrower GIC, the Borrower Expense Account and the Borrower Restrictive Covenant Retention Account and the application of funds therefrom, see "The Accounts Structure and Cashflow Control – The Borrower Accounts" at page 96.

Legal Due Diligence

Following the approval in principle by MSDW PFI of the loan facility, certain legal due diligence procedures were followed. Details of these procedures are set out below.

General Information

MSDW PFI's external legal advisers in relation to the origination of the Loan initially obtained (and checked) general information relating to the facility offered under the Credit Agreement.

Property Title Investigation

An important part of the legal due diligence process undertaken by MSDW PFI's external legal advisers was to verify (by reference to the Certificate of Title referred to below) that each of the Headlessees had good

legal title to the Headlease of the Property, free from any encumbrances or other matters which would be considered to be of a material adverse nature.

The BBC's external English legal advisers prepared and issued a certificate of title in relation to the freehold title of the Property (the "**Certificate of Title**").

The Certificate of Title is in the form recommended by the City of London Law Society which prescribes that comprehensive information relating to the Property be set out. The Certificate of Title covers the following principal matters:

(a) confirmation as to the tenure of the Property, the quality of title, whether the Property is registered or unregistered and whether there are any material title defects;

(b) a list of rights benefiting the Property, together with any conditions applying to the exercise of such rights;

(c) a list of rights to which the Property is subject;

(d) details of any encumbrances affecting the Property, including mortgages or charges and any covenants which might bind the owner of the Property (and any mortgagee) from time to time;

(e) an analysis of the replies to preliminary enquiries and the results of searches made of local and other appropriate authorities relating to the Property (these will disclose matters such as disputes, outstanding statutory notices, proposals for the compulsory purchase of the Property, details of any proposals to construct new roads within the immediate vicinity of the Property and any material planning irregularities); and

(f) a report on the terms and conditions of the Headlease and the Underlease including repairing and insurance obligations, the machinery for payment and/or review of rent, the termination provisions, rights granted and reserved by the Headlease and Underlease and the provisions for payment of any other sums relating to the Property.

The external legal advisers to MSDW PFI reviewed the draft form of the Certificate of Title to ensure that it covered all matters that the external legal advisers would expect to be covered in a certificate of title. The external legal advisers raised requisitions in case of omissions, ambiguities or material disclosures in the draft Certificate of Title and satisfied themselves in relation to any issues that arose from the report.

On the basis of their review, the external legal advisers to MSDW PFI prepared a summary report for MSDW PFI (also addressed to the Security Trustee, for the benefit of the Borrower Secured Creditors) in relation to the Property confirming (if appropriate) approval of the form and content of the Certificate of Title and highlighting any matters contained therein which the external legal advisers considered should be drawn to the attention of MSDW PFI and its valuers, DTZ Debenham Tie Leung.

The external legal advisers to MSDW PFI checked that DTZ Debenham Tie Leung had a copy of the Certificate of Title and they cross-checked and verified basic details relating to the Property set out in the valuation of the Property.

Property Reports

MSDW PFI commissioned the preparation of a property valuation report by DTZ Debenham Tie Leung in respect of the Property.

Capacity of Parties

The external legal advisers to MSDW PFI have satisfied themselves that each of the Headlessees is validly incorporated, has sufficient power and capacity to enter into the transactions connected with the origination of the Loan and the grant of security in respect thereof, that they have not granted any existing mortgages or charges other than those granted as security for the Loan or their other obligations arising in connection with the Loan Transaction Documents, that neither Headlessee is the subject of any insolvency proceedings, and generally that any formalities required to enter into the relevant Loan Transaction Documents and the transactions contemplated thereby have been completed. For further information regarding restrictions on the future activities of the Borrower, see "Undertakings", below. For further information regarding the activities of the Co-Owner, see "The Co-Ownership Structure" at page 62.

As part of the legal due diligence undertaken in connection with originating the Loan, MSDW PFI will obtain certain legal opinions relating to the BBC. The first of these opinions, to be provided by the BBC's in-house general counsel will cover, among other things, the power, capacity and authority of the BBC to enter into those Loan Transaction Documents to which it is a party and the non-contravention of any laws applicable to the BBC. The external legal advisers to the BBC will provide a second legal opinion on, among other things, the enforceability of those documents against the BBC.

For the purposes of this Offering Circular, "**Loan Transaction Documents**" means:

(a) the "**Finance Documents**", being the Borrower Debenture, the Co-Owner Charge, the Security Agreement, the LLP Account Charge, the Share Charge, the Borrower GIC Guarantee, the Co-Owner GIC Guarantee, the Borrower GIC Guarantee Assignment Agreement, the Co-Owner GIC Guarantee Assignment Agreement and the Agency Charge (together the "**Security Documents**"), the Credit Agreement, and the Accounts Agreement;

(b) the "**Project Documents**", being the Building Contract, the Development Agreement and the Direct Agreements; and

(c) the "**Miscellaneous Documents**", being the Headlease, the Underlease, the Collateral Deed, the BBC Deed of Covenant, the BBC Deed of Guarantee and Undertaking, the Call Option Agreement and the Development Agency Agreement.

Reliance on Legal Due Diligence

The summary report prepared by the external legal advisers and referred to above will be addressed to MSDW PFI and the Security Trustee. It will not be addressed either to the Issuer or the Trustee and MSDW PFI's rights in respect of the summary report will not be assigned to the Issuer on the Closing Date. The Issuer will instead rely solely on the representations and warranties of MSDW PFI contained in the Loan Sale Agreement and will assign by way of security rights under that agreement to the Trustee. For further information regarding the representations and warranties to be made by MSDW PFI in the Loan Sale Agreement and the Issuer's remedies in respect of a breach thereof, see "The Loan Sale Agreement" at page 75.

Drawdown and Post-Completion Formalities

Confirmation will be required from MSDW PFI's external English legal advisers that all registrations at the Companies Registry and H.M. Land Registry and all other notifications which are necessary to protect the interest of the Security Trustee in the Related Security have been made or will be made within the appropriate period. For further information regarding the status of the registration of title to the Property, see "Risk Factors – Factors Relating to the Loan and the Property – Legal Title" at page 38.

Terms of the Credit Agreement

The Loan will be documented pursuant to the Credit Agreement which is governed by English law. MSDW PFI is the initial Lender and is entitled to assign to the Issuer all or any of its rights under the Credit Agreement without restriction. Any assignment by the Issuer (other than pursuant to the Deed of Charge and Assignment) or by MSDW PFI to anyone other than the Issuer of all or any part of its rights under the Credit Agreement would require the Borrower's prior consent (not to be unreasonably withheld or delayed).

A summary of the principal terms of the Credit Agreement is set out below.

Initial Amount of the Loan, Drawdown and Further Advances

The Loan will be fully drawn in an amount of £782,089,341 on the Closing Date and will be applied for the purposes set forth under "Purpose of the Loan" above.

The Credit Agreement places no obligation on the Lender, and therefore on the Issuer, to advance any further monies to the Borrower.

Conditions Precedent to Drawdown

The Lender's obligation to advance the Loan is contingent upon the representations and warranties (as described under "Representations and Warranties" below) being correct at the Closing Date, there being no

Loan Event of Default outstanding or reasonably to be expected to result from the making of the Loan and receipt by the Lender of, among other things, the following:

- (a) certified copies of the memorandum and articles of association and certificate of incorporation of the Borrower, the Co-Owner, the Preference Share Nominee and the shareholders of the Borrower together with appropriate resolutions of the relevant boards of directors in each case authorising the transactions to be entered into by the relevant company and various other certificates, as well as the equivalent documents for the Limited Liability Partnership;
- (b) a satisfactory valuation in respect of the Property;
- (c) evidence of insurance cover in respect of the Development Programme and the Building Contractor which satisfies the requirements of the Credit Agreement relating to insurance;
- (d) the Certificate of Title;
- (e) duly executed Project Documents and a report on the Development Programme prepared by the monitoring surveyors;
- (f) duly executed Finance Documents, the BBC Deed of Covenant, the BBC Deed of Guarantee and Undertaking, the Guarantee and Reimbursement Agreement and bank mandates in respect of the Borrower Accounts and Co-Owner Accounts;
- (g) duly executed documents relating to the Headlease;
- (h) evidence that the Headlessees have duly elected to waive exemption from VAT in relation to the Property;
- (i) relevant legal opinions (including opinions as to the capacity of the BBC to enter into the transaction documents to which it is a party);
- (j) a true copy of the BBC Charter and certain accounts of the BBC;
- (k) a credit rating or shadow credit rating by the Rating Agencies which is satisfactory to the Lender; and
- (l) notices in connection with the payment of rental income and charging of bank accounts.

Interest and Repayments

Interest is payable quarterly in arrear on each Loan Payment Date in respect of successive interest periods (each a "**Loan Interest Period**") commencing on 15 October 2003. During each Loan Interest Period, interest accrues daily on the principal outstanding amount of the Loan (the "**Outstanding Loan Balance**") at a fixed rate of 3.4492689 per cent. per annum, plus mandatory costs, if any, imposed by the Financial Services Authority in respect of sterling lending. The Outstanding Loan Balance is adjusted annually on the 15th day of July each year in accordance with the Index, subject to a minimum annual increase of nil and a maximum annual increase of 5 per cent..

Repayments of the Outstanding Loan Balance will be made on each Loan Payment Date in accordance with the Loan Amortisation Schedule using credit balances standing to the credit of the Borrower Rent Account and, up until 14 October, 2008, credit balances standing to the credit of the Borrower Interest Account. It is expected that by the Borrower making repayments in respect of the Loan on Loan Payment Dates in accordance with the Loan Amortisation Schedule, the Outstanding Loan Balance will have fully amortised on the Loan Maturity Date.

Prepayments

The Borrower may not prepay the Loan in part. The Borrower must prepay the Loan on the termination, sale or disposal of the Headlease, including, without limitation, as a result of the exercise of the Headlease Break Option.

Upon a prepayment of the Loan (for whatever reason) the Borrower must pay a fee (the "**Prepayment Fee**") plus all interest payable in respect of the whole of the Loan Interest Period during which the prepayment occurs (including such amount of interest as would have been payable during the period from the date on which

the Loan is prepaid to the next Loan Payment Date). The Prepayment Fee has six constituent elements, which are as follows:

- (a) the net present value of the amount of Deferred Consideration plus any make whole amount thereon that the Originator (or other person entitled thereto) would have received from the Issuer pursuant to the Loan Sale Agreement, had no such prepayment taken place (the "**Deferred Consideration Prepayment Amount**");
- (b) the difference (if any) between the aggregate Principal Amount Outstanding of the Notes and the Redemption Amount of the Notes (as such terms are defined in Condition 5(e));
- (c) the amount of fees, costs, expenses and any other amounts payable by the Issuer to the Financial Guarantor pursuant to the Guarantee Fee Letter and the Guarantee and Reimbursement Agreement;
- (d) any amounts payable by the Issuer to the Swap Provider as a result of the early termination of the Swap Agreement;
- (e) any other costs and expenses incurred or amounts payable by the Lender and the Security Trustee in connection with the prepayment or otherwise due to either of them pursuant to any of the Finance Documents together with any other amounts payable by the Borrower under the Finance Documents; and
- (f) any amount by which the Outstanding Loan Balance is less than the Principal Amount Outstanding of the Notes,

less (a) any amount by which the Principal Amount Outstanding of the Notes is less than the Outstanding Loan Balance; and (b) any payment the Swap Provider is required to make to the Issuer as a result of the early termination of the Swap Agreement.

Accounts

The Borrower is required to procure that the Borrower Accounts are established in its name and that the Collection Account is established in the joint names of the Borrower and the Co-Owner. The Borrower Accounts and the Collection Account will be operated in accordance with the Accounts Agreement and the Security Trustee will require the Borrower Operating Bank to have a rating of at least "A1+" by S&P, "P-1" by Moody's and "F1+" by Fitch. The Security Trustee is, and will at all times be, the sole signatory on the Borrower Accounts and the Collection Account.

For further information regarding the Borrower Accounts and the Collection Account and the application of funds from such accounts by the Security Trustee, see "The Accounts Structure and Cashflow Control – The Borrower Accounts" at page 96. For further information regarding the Accounts Agreement, see "The Accounts Structure and Cashflow Control – Accounts Agreement" at page 96.

Representations and Warranties

The Borrower makes a number of representations and warranties in the Credit Agreement, including as to its corporate status; its ability to enter into and perform its obligations under the Loan Transaction Documents to which it is a party; the ownership of and title to the Property; the ranking of the security granted by it and other parties pursuant to the Security Documents, and the accuracy of information provided to the Lender in connection with the Loan. The representations and warranties also require the Borrower to confirm that certain matters, such as Loan Events of Default, litigation or other adverse proceedings, breaches of the Headlease or the Underlease and other indebtedness (save for permitted indebtedness under the Credit Agreement) do not exist.

The representations and warranties set forth in the Credit Agreement were made by the Borrower on the date of the Credit Agreement, are deemed repeated on the Closing Date and (other than those applicable only to pre-drawdown matters) will be repeated on the date of each withdrawal from the Borrower Development Account and (with certain exceptions) on each Loan Payment Date with reference to the facts and circumstances then existing. A Loan Event of Default will occur if a warranty made by the Borrower is incorrect in any material respect when made or deemed repeated, unless the circumstances underlying the relevant breach are, if capable of remedy, remedied to the satisfaction of the Lender within 15 London Business Days of the date on which the warranty was made or deemed repeated.

For further information regarding the times at and basis on which withdrawals will be made from the Borrower Development Account, see "The Accounts Structure and Cashflow Control – The Borrower Accounts" at page 96.

Undertakings

The Borrower gives various undertakings in the Credit Agreement which take effect so long as any amount is outstanding thereunder. The undertakings relate, among other things, to the following matters:

- (a) the Borrower undertakes to provide certain information to the Security Trustee, including: (i) financial information regarding the Borrower and the BBC and changes in the financial condition of the BBC; (ii) information regarding the progress of the Development Programme; (iii) information regarding any amendments or waivers of the Development Programme that would reasonably be expected to have a Material Adverse Effect or adversely affect the open market value of the Property; (iv) details of any potential Loan Event of Default; (v) details of any breach of the Underlease by the Tenant; (vi) details of any material litigation and (vii) details of any proposed capital expenditure at the Property and of any occupational tenant at the Property (other than affiliates of the BBC). The Borrower must also provide to the Security Trustee a copy of each solvency certificate issued by the Co-Owner and the Limited Liability Partnership on the making of a Co-Owner Distribution or LLP Distribution, as the case may be, and all notices and reports delivered to the Borrower pursuant to the Borrower GIC. In addition, immediately upon becoming aware thereof, the Borrower must notify the Security Trustee of its right to terminate the Headlease, its option to acquire the interest of the Co-Owner becoming exercisable, any action being taken by the BBC to terminate the Development Agreement following a breach by the Developer, and any change in the Planning Consents and the use assigned to the Property.

To the extent that any information regarding the BBC is not publicly available, the Borrower will only be required to supply such information if the supply thereof would be required by the terms of a letter (the "**Information Letter**") given by the BBC to the Lender and the Security Trustee. The Information Letter requires the BBC to supply additional information, upon request and on a confidential basis, solely for the purposes of monitoring the BBC's credit rating.

For the purposes of the Credit Agreement, "**Material Adverse Effect**" means a material adverse effect on: (a) the ability of the Borrower to comply with (i) any of its payment obligations under any Loan Transaction Document or (ii) any of the Debt Service Cover Percentages; or (b) the business, operations, condition (financial or otherwise), prospects or assets of the Borrower; or (c) the validity or enforceability of the Finance Documents or the rights or remedies of the Lender or the Security Trustee under the Finance Documents;

- (b) the Borrower undertakes, among other things, to take all action necessary to maintain and exercise its rights in respect of the Underlease and not to permit the assignment or determination of the Underlease or to seek to forfeit the Underlease, and that it will not appoint or permit a change in the managing agent (if any) of the Property without the Security Trustee's consent. The Borrower also undertakes not (without the consent of the Security Trustee) to create any other security interests on its assets and to ensure that its obligations under all the Finance Documents rank at all times ahead of all its other present and future obligations, other than those mandatorily preferred by law. The Borrower must also (subject to certain limitations) grant the Security Trustee access to the Property. A number of covenants and undertakings are given by the Borrower in relation to the Development Programme and insurance in respect of the Property;
- (c) the Borrower undertakes not to carry on any business other than the ownership and management of the Property and the ownership of its Membership Interest; and the carrying out of its obligations under the Development Agreement, not to have any subsidiaries or employees; not to enter into any partnership or other arrangement other than as contemplated by the Loan Transaction Documents; not to incur any indebtedness other than in connection with the Finance Documents; not to amend or terminate any of the terms of any of the Loan Transaction Documents or its memorandum and articles of association or amend or cancel any provisions of the membership agreement of the Limited Liability Partnership without the Security Trustee's prior written consent; not to declare any dividend, issue further shares, repay any principal or pay interest on any other borrowings or repay or redeem any share capital without the Security Trustee's prior consent; not to assume any obligations other than in connection with the Loan Transaction Documents; not to acquire any assets other than the Property, the Borrower GIC and the partnership share in the Limited Liability Partnership and not to enter into any hedging agreements; and

(d) the Borrower must ensure that the Debt Service Cover Percentages exceed 100 per cent. at all times.

Loan Events of Default

The Credit Agreement contains events of default (each a "**Loan Event of Default**") entitling the Security Trustee to enforce the Related Security. Such events include: non-payment of amounts due under the Credit Agreement; breach of covenant; failure to determine the Headlease and/or acquire the Co-Owner's interest in the Headlease or terminate the Borrower GIC within two London Business Days of being required to do so by the Security Trustee; material breach of representation or warranty or of any statement made in a document delivered by or on behalf of the Borrower or the BBC in connection with a Loan Transaction Document; the occurrence of certain insolvency events in relation to the Borrower or the BBC; the unenforceability or unlawfulness of any of the documents creating the Related Security; the Borrower ceasing to be beneficially wholly-owned by the Borrower Shareholders without the Security Trustee's consent; forfeiture of the Headlease; any events or series of events which have or which would reasonably be expected to have a Material Adverse Effect; forfeiture or surrender of the Underlease or non-payment of rent or other amounts due from the Tenant for a period longer than 10 days; displacement of the management as a whole of the Borrower and effective control of the Borrower being transferred or its business curtailed to a material extent; the seizure, nationalisation, expropriation or compulsory purchase of all or a majority of the issued shares of the Borrower and the repudiation by any other party to a Loan Transaction Document of such document.

A grace period may apply to a Loan Event of Default, including a payment default where the failure to pay is due solely to administrative or technical delays in the transmission of funds which are not the fault of the Borrower and the relevant amount is paid within two London Business Days after its due date for payment.

Upon the occurrence of a Loan Event of Default (or, if applicable, on the expiry of the grace period applicable thereto), the Security Trustee may demand the immediate repayment of the Loan in full.

The Related Security

The obligations of the Borrower under the Credit Agreement are secured pursuant to the Security Documents which, together, constitute the "**Related Security**" for the Loan.

The security created by the Security Documents is granted in favour of MSMS as Security Trustee and is drafted on a security trust basis so that the Security Trustee holds the security created pursuant thereto on trust (the "**Security Trust**") for the Lender and itself.

The Borrower Debenture

The Borrower Debenture will be entered into on the Closing Date between the Borrower and the Security Trustee.

Pursuant to the Borrower Debenture, the Borrower will grant the Borrower Account Charges, the Borrower GIC Charge, the LLP Membership Charge, the Development Agreement Assignment, the Development Agency Assignment, the Call Option Assignment, the BBC Guarantee Assignment, the BBC Deed of Covenant Assignment, the Agency Sub-Charge and the Borrower Floating Charge.

Each of the security interests granted under the Borrower Debenture secure all present and future obligations and liabilities of the Borrower to the Lender and the Security Trustee under each Finance Document. The security interests granted under the Borrower Debenture become enforceable on the occurrence of a Loan Event of Default.

The Co-Owner Charge

The Co-Owner Charge will be entered into on the Closing Date between the Co-Owner and the Security Trustee.

Pursuant to the Co-Owner Charge, the Co-Owner will grant the Co-Owner Account Charge and will create second ranking interests over its interest in the Co-Owner GIC, the Co-Owner Development Account and over its interests, if any, in monies standing to the credit of the Borrower Development Account.

Each of the security interests granted under the Co-Owner Charge secure all present and future obligations and liabilities of the Borrower to the Lender and the Security Trustee under each Finance Document. The

security interests granted under the Co-Owner Charge become enforceable on the occurrence of a Loan Event of Default.

The Security Agreement

The Security Agreement will be entered into on the Closing Date between the Borrower, the Co-Owner and the Security Trustee.

Pursuant to the Security Agreement, the Borrower and the Co-Owner will each grant the Mortgage, the Collection Account Charge, the Insurances Charge, the Collateral Deed Assignment and the Rent Payments Assignment.

Each of the security interests granted under the Security Agreement secure all present and future obligations and liabilities of the Borrower to the Lender and the Security Trustee under each Finance Document. The security interests granted under the Security Agreement become enforceable on the occurrence of a Loan Event of Default. The Security Agreement contains various undertakings relating to the Property, which include:

- (a) to maintain the Property in good and substantial repair following practical completion of the Development Programme;
- (b) to comply with the terms of the Headlease;
- (c) to comply with all laws relating to the Property;
- (d) to deposit with the Security Trustee all deeds and documents any title relating to the Property;
- (e) to allow the Security Trustee and any person nominated by it to enter upon any part of the Property at all reasonable times to view the state;
- (f) to procure that insurance is maintained in respect of the Property;
- (g) to provide to the Security Trustee information about any proposed capital expenditure and certain other matters; and
- (h) to maintain the Collection Account in the joint names of the Headlessees and to ensure that all amounts payable by the BBC under the Underlease are paid into the Collection Account.

The Share Charge

The shareholders of the Borrower will execute the Borrower Share Charge in favour of the Security Trustee to secure the obligations of the Borrower in respect of the Loan. The Borrower Share Charge creates a first fixed charge of all shares in the Borrower held by each Borrower Shareholder and contains a covenant on the part of the Borrower Shareholders to pay or discharge the liabilities of the Borrower, provided that liability of the Borrower Shareholders is limited to the amount realised by the disposal of the charged shares and related rights.

The LLP Account Charge

The Limited Liability Partnership will execute the LLP Account Charge in favour of the Security Trustee to secure the obligations of the Borrower in respect of the Loan. The LLP Account Charge will create a first fixed charge in favour of the Security Trustee over the LLP Account and the Co-Owner Distributions and will authorise and instruct the Security Trustee to operate the LLP Account in accordance with the provisions of the Accounts Agreement. The Security Trustee will at all times have sole signing rights in respect of the LLP Account.

Co-Owner and Borrower GIC Guarantee Security

Pursuant to the Borrower GIC Guarantee Assignment Agreement, the Borrower will, on the Closing Date, grant a first ranking New York law security interest in favour of the Security Trustee over the Borrower's rights under the Borrower GIC Guarantee and, with effect from the time (if any) at which the Borrower acquires ownership of the Co-Owner GIC, in respect of the Borrower's rights in the Co-Owner GIC Guarantee.

Pursuant to the Co-Owner GIC Guarantee Assignment Agreement, the Co-Owner will create a first ranking New York law security interest over its rights under the Co-Owner GIC Guarantee as security for obligations including the Borrower's obligations in respect of the Loan; however, the proceeds of any realisation of the Co-Owner GIC Guarantee Assignment Agreement will be applied towards the obligations of the Co-Owner under the Development Agency Agreement, in priority to the obligations of the Borrower's obligations in respect of the Loan.

THE LOAN SALE AGREEMENT

Acquisition

Consideration

Pursuant to the Loan Sale Agreement, MSDW PFI will agree to sell and the Issuer will agree to purchase the Loan, and MSDW PFI will assign and transfer to the Issuer its beneficial interests in the Security Trust created over the Related Security on the Closing Date. The initial purchase consideration in respect of the Loan and the beneficial interests in the Security Trust will be approximately £798,723,239 which will be paid on the Closing Date.

On each Note Payment Date prior to enforcement of the Issuer Security, the Issuer will be obliged to pay to MSDW PFI (or to the person or persons then entitled thereto or any component thereof), to the extent that the Issuer has funds, an amount by way of deferred consideration for the purchase of the Loan and the Related Security (the "**Deferred Consideration**"), if any, which is calculated in respect of the Collection Period ended on the "**Calculation Date**" (being the second Note Business Day prior to the relevant Note Payment Date) immediately preceding such Note Payment Date and which is equal to (subject to a minimum of zero) the Available Receipts less an amount equal to the sum of the payments scheduled to be paid on such Note Payment Date pursuant to items (i) through (iv) set out in "Summary - Available Funds and their Priority of Application — Payments out of the Issuer Transaction Account prior to enforcement of the Notes — Available Receipts" at page 30, less the sum of (a) an amount equal to 0.01 per cent. of the interest component of the Borrower Receipts transferred by the Security Trustee, acting on the instructions of the Servicer, into the Issuer Transaction Account during that Collection Period and (b) £3,000,000. On the Note Payment Date following the prepayment of the Loan, the Deferred Consideration Prepayment Amount shall be payable to MSDW PFI, and if payable after a Note Enforcement Notice shall be paid in the order of priority set out in "Credit Structure – Post Enforcement Priority of Payments and Intercreditor Arrangements" at page 101. The right to receive the Deferred Consideration or any component of the Deferred Consideration is assignable, subject to the assignee agreeing to be bound by the terms of the Deed of Charge and Assignment.

Notification of Transfer and Legal Title

On the Closing Date, written notice will be given to the Borrower of the transfer of the Loan to the Issuer and written notice will be given to the Security Trustee of the assignment of MSDW PFI's beneficial interests in the Security Trust to the Issuer and the Issuer's assignment by way of security of such beneficial interest to the Trustee. The Borrower will acknowledge such assignment and repeat for the benefit of the Issuer the representation and warranties it gave to MSDW PFI under the Credit Agreement.

Representations and Warranties

Neither the Issuer nor the Trustee has made (or will make) any of the enquiries, searches or investigations which a prudent purchaser of the Loan and the Related Security would normally make in relation thereto. In addition, neither the Issuer nor the Trustee has made or will make any enquiry, search or investigation at any time in relation to compliance by MSDW PFI, the Servicer or any other person with respect to any lending criteria or procedures or their adequacy or in relation to the provisions of the Loan Sale Agreement, the Servicing Agreement or the Deed of Charge and Assignment or in relation to any applicable laws or the execution, legality, validity, perfection, adequacy or enforceability of the Loan or the Related Security purchased on the Closing Date.

In relation to all of the foregoing matters concerning the Loan and the Related Security and the circumstances in which advances were made to the Borrower prior to their purchase by the Issuer, both the Issuer and the Trustee will rely entirely on the representations and warranties to be given by (a) MSDW PFI to the Issuer and the Trustee which are contained in the Loan Sale Agreement and (b) the Borrower to the Issuer on the assignment of the Loan by MSDW PFI to the Issuer.

If there is a material breach of any representation and/or warranty in relation to the Loan or the Related Security (details of which are set out below) and such breach is not capable of remedy or, if capable of remedy, has not been remedied, MSDW PFI will be obliged, if required by the Issuer, as consented to or directed by the Controlling Party, to repurchase the Loan and to accept a reassignment of its beneficial interest in the Related Security from the Issuer for an aggregate amount equal to the outstanding principal amount under the Loan together with interest accrued (but not yet payable) and any other amounts payable to the Issuer in respect of the Notes up to, but excluding, the date of the repurchase. The Issuer will have no other remedy in respect of such a

breach unless MSDW PFI fails to repurchase the Loan and to accept a reassignment of its beneficial interest in the Loan and the Related Security in accordance with the Loan Sale Agreement.

The representations and warranties referred to will include, without limitation (but subject to disclosures in the Loan Sale Agreement and as disclosed in this Offering Circular) statements to the following effect:

- (a) the Property constitutes property let for or intended to be let for commercial use and is leasehold;
- (b) the Borrower and the Co-Owner had, as at the date of the Security Agreement, a good and marketable title to a term of years absolute in the Property and are the legal and beneficial owners of the Property;
- (c) all reasonable steps are being taken to perfect the legal title of the Borrower and Co-Owner to the Property and its registration at H.M. Land Registry with absolute leasehold title;
- (d) the Property was, as at the date of the Security Agreement, held by the Borrower and the Co-Owner free (save for the Security Agreement and any other applicable element of the Related Security) from any encumbrance which would materially adversely affect such title or the value for mortgage purposes set out in the valuation (including any encumbrance contained in the Headlease);
- (e) the Security Trustee is taking all reasonable steps to perfect its legal title to the mortgage and has an absolute right to be registered as proprietor of the mortgage as first mortgagee of the interest in the Property;
- (f) (A) the Loan constitutes a valid and binding obligation of, and is enforceable against, the Borrower; (B) subject only to the registration of the Security Agreement at the H.M. Land Registry, the Security Agreement creates a valid and binding first charge by way of legal mortgage over the Property; (C) subject as set out in (B) above the Security Trustee has a good title to the mortgage created by the Security Agreement at law and all things necessary to complete the Security Trustee's title to such mortgage will be done within any requisite time period; (D) the Security Trustee is the legal (subject to necessary registrations), and MSDW PFI is the beneficial, owner of such mortgage free and clear of all encumbrances, overriding interests (other than those to which the Property is subject), claims and equities and there were at the time of completion of the mortgage no adverse entries of encumbrances, or applications for adverse entries of encumbrances against title at H.M. Land Registry, for the Property which would rank higher in priority to the Security Trustee's or MSDW PFI's interests therein; and (E) MSDW PFI is the legal and beneficial owner of the Loan free and clear of all encumbrances, claims and equities;
- (g) prior to completion of the Loan and the Security Agreement, a report on title or certificate of title (addressed to MSDW PFI) in relation to the Property was obtained which initially or after further investigation disclosed nothing which would cause a reasonably prudent lender of money secured on commercial property to decline to proceed with the advance on its agreed terms;
- (h) prior to the date of the Loan and the Security Agreement, the nature of, and amount secured by, the Loan and mortgage and the circumstances of the Borrower satisfied in all material respects MSDW PFI's usual lending criteria so far as applicable subject to such variations or waivers as would, as at that date, have been acceptable to a reasonably prudent lender of money secured on commercial property;
- (i) MSDW PFI is not aware of any material default, material breach or material violation under the Loan or Related Security which has not been remedied, cured or waived (but only in a case where a reasonably prudent lender of money secured on commercial property would grant such a waiver) or of any outstanding material default, material breach or material violation by the Borrower under the Loan or the Related Security, as the case may be, or of any outstanding event which with the giving of notice or lapse of any grace period would constitute such a default, breach or violation;
- (j) pursuant to the terms of the Loan, the Borrower is not entitled to exercise any right of set-off or counterclaim against MSDW PFI in respect of any amount that is payable under the Loan;
- (k) MSDW PFI has not received written notice of any default under the Underlease or of the insolvency of the Tenant which would render the Property unacceptable as security for the Loan in the context of its usual lending criteria;
- (l) as at the Closing Date, to the best of MSDW PFI's knowledge the Property is covered by a buildings insurance policy in the joint names of MSDW PFI, the Tenant and the Security Trustee in an amount which is equal to or greater than the amount which a qualified surveyor or valuer engaged by MSDW PFI estimated to be equal to the Property's reinstatement value; and

(m) MSDW PFI has undertaken all due diligence that a prudent commercial lender would undertake to establish and confirm that the Borrower has not engaged since its formation or incorporation in any activity other than those incidental to its formation or incorporation entering into the Loan and related mortgages and other Related Security and has not had since its incorporation nor does it have as at the Closing Date any material liability or assets other than the Loan and the Property, its membership interest in the LLP, the Borrower GIC and the Borrower Accounts.

No warranties will be given in relation to any other Related Security given by the Borrower such as the fixed charges over the Borrower's Accounts. Therefore, except to the limited extent of the aforementioned warranty, there can be no assurance that there will be any Related Security for the Loan other than the Property or, if there is, that such Related Security will be of any value in connection with the enforcement of the Loan or will realise any moneys which can be applied in satisfaction of any amounts outstanding from the Borrower under the Loan.

The Loan Sale Agreement contains a warranty from MSDW PFI, to the Issuer and the Trustee to the effect that the information in this Offering Circular with regard to the administration of the Loan, the Loan Transaction Documents, the Related Security, the Security Trust, the Property and the Buildings Insurance Policy that is material in the context of the issue and the offering of the Notes, is true and accurate in all material respects and is not misleading in any material respect. Only the Issuer and the Trustee may rely upon this warranty from MSDW PFI.

THE PROPERTY AND THE LEASES

Overview of the Property

The Loan is secured primarily by first ranking charges by way of legal mortgage over the Borrower's and the Co-Owner's legal interests in the Headlease of the Property. The Property originally consisted of several buildings situated at either side of Langham Street in Langham Place, central London, approximately 300 metres north of Oxford Circus. The BBC has occupied the site of the Property since 1932. The most significant building included in the Property is known as Broadcasting House which is a 1930s Grade II listed building to which two extensions have been added. The other buildings at the Property were Egton House and 16 Langham Street which have already been demolished as part of the Development Programme. Broadcasting House is the part of the Property to the north of Langham Street and Egton House is the part of the Property to the south of Langham Street. Planning consent for the Development Programme (the "**Planning Consent**") was granted by Westminster City Council on 28 November, 2002 and amended on 15 May, 2003, and it permits, among other things, demolition and redevelopment of the extensions to Broadcasting House, Egton House and 16 Langham Street, alterations to the exterior of Broadcasting House and the construction of a link building across Langham Street. Upon completion of the Development Programme, the Property will comprise a single building which will provide 79,258 square metres of gross floor space, of which 46,569 square metres will be net usable floor space and will be one of the largest live broadcast centres in the world. The Planning Consent limits the use of the Property to broadcasting studios and associated commercial and office space, with ancillary retail and restaurant uses at ground level and application would have to be made to Westminster City Council should the need arise to change the use of the Property.

On the Closing Date, the BBC, as freeholder of the Property, will grant the Headlease to the Headlessees who, in turn, will grant the Underlease back to the BBC. The Headlessees hold the legal interest in the Headlease in the manner referred to below. Pursuant to the terms of the Development Agreement, the BBC will engage the Developer to carry out the Development Programme and the Borrower has agreed to pay the costs of the Development Programme from the funds allocated for that purpose from the proceeds of the Loan (and the contribution to such costs from the Co-Owner pursuant to the terms of the Development Agency Agreement). For further information regarding the Development Programme, see "The Property and the Leases – The Development Programme" at page 85.

Freehold Interest

The freehold of the Property is owned by the BBC whose title is registered at H.M. Land Registry with title absolute, the best class of title available.

Broadcasting House is subject to a number of restrictive covenants and other rights which, if not released, would prevent the carrying out of the Development Programme. The BBC entered into an agreement dated 14 February, 2003 with the principal beneficiary of these covenants (the "**Beneficiary**") whereby the Beneficiary has agreed to release the Property from the restrictive covenants and from certain rights of light and air in order that the BBC may carry out the Development Programme. The deed of release will be completed once the shell and core works in relation to the Development Programme have been finished or on 15 December, 2004, whichever is later, by either party giving 15 working days' notice to the other. There is a longstop date of ten years from the date of the agreement (i.e. 14 February, 2013) for completion of the deed of release. The BBC has agreed to pay an amount in compensation to the Beneficiary for the breaches of the restrictive covenants caused by the Development Programme (such compensation amount standing to the credit of the Borrower Restrictive Covenant Retention Account) and is also under an obligation to negotiate with the Beneficiary's tenants in respect of compensation payable to them (by the Beneficiary) for infringement of their rights of light.

It is anticipated that a number of other neighbouring owners/occupiers will be entitled to compensation for infringement of certain rights as a result of the Development Programme. A retention in the estimated aggregated amount of such claims will, on the Closing Date, be paid into the Borrower Restrictive Covenant Retention Account. For further information on the Borrower Restrictive Covenant Retention Account, see "The Accounts Structure and Cashflow Control" at page 96 below.

The Headlease

On the Closing Date the BBC will grant the Headlease to the Headlessees (referred to below as the Headlease Tenant) the consideration for which will be a premium of £92 million (together with the cost of the physical works carried out on or prior to the Closing Date relating to the Development Programme). The Headlessees will hold the legal title to the Headlease as tenants in common and the terms upon which the interests of the Borrower and the Co-Owner are to be held by the Headlessees are set out in the Headlease. For further information about the interests of the Co-Owner, see "Co-Ownership Interests" at page 81.

The main terms of the Headlease are as follows:

Term and Break clause

The term of the Headlease is 150 years from and including the Closing Date.

There is a tenant's break clause pursuant to which the Headlease Tenant is entitled to determine and surrender the Headlease on the occurrence of certain events ("**Headlease Break Trigger Events**") relating principally to the financial status of the BBC and its ability to make necessary rental payments under the Underlease. The Headlease Tenant may only exercise this break right for so long as principal, interest and other sums due under the Credit Agreement remain outstanding.

The Headlease Break Trigger Events that would entitle the Headlease Tenant to determine the Headlease are as follows:

- (a) the BBC fails to pay in full any rent or other sum due and payable pursuant to the Underlease and/or any sum due from the BBC pursuant to the BBC Deed of Covenant and/or the BBC Deed of Guarantee and Undertaking within 15 London Business Days of the due date;
 - (b) in relation to the BBC:
 - (i) (a) (other than as set out in paragraph (d) below) there is any change or action made public by H.M. Government that the Security Trustee (acting reasonably) determines certain to take place; or
 - (b) any actual change occurs or actual action is taken

(whether in combination with other events or as a stand-alone incident) to the BBC Charter or the BBC Agreement which the Security Trustee (acting reasonably) determines has an immediate or eventual adverse effect on the financial condition of the BBC (so that it is or becomes in a financial condition worse than that as stated in its financial statements for the year ending 31 March, 2003) and the Security Trustee (acting reasonably) determines that as a result of (i)(a) or (b) above:
 - (ii) (a) any downgrade of the Adjusted Rating to lower than BBB-/Baa3 (or its equivalent) by any Rating Agency will occur; and
 - (b) the BBC does not satisfy all Rating Agencies that the Adjusted Rating is or should remain at BBB/Baa2 (or equivalent) or above by any appropriate method within 30 days from the occurrence of an actual downgrade or 3 months from the date that the Security Trustee (acting reasonably) determines that such downgrade will occur (or other such time period as the Security Trustee may acting reasonably allow);
- (c) the whole or any part of the Property is acquired compulsorily (save for the compulsory purchase of small parts – with respect to which see "Collateral Deed" below);
- (d) the BBC Charter is not renewed or is terminated early and is not replaced by the Government with an equivalent or similar arrangement in which H.M. Government has control over the BBC's status as a public broadcaster, or the BBC is privatised resulting in a material part of the licence fee funded part of the BBC being transferred to the ownership of the private sector; and
- (e) the Property (or any material part) is damaged or destroyed and not rebuilt or reinstated within 5 years (or 8 years if the destruction or damage occurs prior to practical completion of the whole of the works pursuant to the Development Programme).

The Borrower (acting on its own behalf and as agent for the Co-Owner) may give four weeks' written notice (a "**Termination Notice**") to the BBC to determine the Headlease following a Headlease Break Trigger Event. Such notice will only be valid if given by the Borrower and the Security Trustee. The Security Trustee may also require the Headlessees to serve such notice and if they do not do so the Security Trustee has the power to serve such notice itself on their behalf. The consideration payable by the BBC for the determination of the Headlease (the "**Termination Sum**") shall be the greater of (a) an amount equivalent to the aggregate of all principal, interest and other monies due and payable pursuant to the Credit Agreement and the tenant's proper costs of determining the Headlease; and (b) the market value of the Headlease.

Assuming that the BBC is able to meet its obligation to pay to the Borrower the Termination Sum, Noteholders should, to the extent contemplated above, therefore be insulated from the adverse effects of the deterioration in the financial condition of the BBC.

For further information regarding the manner in which the Security Trustee has control over the exercise of the Headlease Tenant's ability in certain circumstances to determine the Headlease, see "The Loan and the Related Security – Terms of the Credit Agreement" at page 68 and for further information about factors which could have an adverse effect on the financial condition of the BBC, see "Risk Factors – Factors Relating to the BBC" at page 40.

Rent

The annual rent is one red rose (if demanded).

Tenant's covenants

The Headlease Tenant's covenants in the Headlease are more limited than those in the Underlease. The main tenant's covenants are referred to below. The Headlease Tenant will not, however, incur any liability to the landlord in respect of its covenants so long as such matters remain the responsibility of the BBC pursuant to the Underlease (or any other undertenant or occupier of the premises).

Insurance

There is no obligation upon the Headlease Tenant to insure the Property under the terms of the Headlease. The BBC will, however, be obliged to insure, under its obligations as tenant under the Underlease. For further information about the obligations of the BBC to obtain insurance under Underlease, see "The Underlease – Insurance" at page 82.

Alterations

The Headlease Tenant must give the landlord details upon request of any alterations or proposed alterations affecting the exterior or structure of the premises.

Alienation/Charging

There are no covenants relating to, and therefore no restrictions on, any form of alienation or charging so the Headlease Tenant may freely assign, sublet or charge its interest in the Property.

Use of the Property and Planning and statutory requirements

The Property may be used for any lawful use permitted by planning legislation and which does not cause or constitute a breach of any covenants or any matters affecting the title to the Property. The Headlease Tenant covenants (by way of indemnity only) not knowingly to breach the terms of any notices served by public, local or statutory bodies and European Union directives or regulations which affect the Property. The Headlease Tenant also covenants not to cause any breach of any provisions of any relevant planning legislation. In practice covenants to comply with such matters are given by the tenant under the Underlease (as described below).

Landlord's Covenant

The BBC gives the usual covenant for quiet enjoyment. It also covenants (whilst sums due under the Credit Agreement remain outstanding) to pay all costs properly incurred by the tenant in complying with the Headlease (except where such costs result from wilful breach or negligence on the part of the tenant) and it covenants not to transfer, lease or charge its reversionary interest in the Property. In relation to obtaining the deeds of release

relating to restrictive covenants and other rights (referred to above – see "Freehold Interest") the landlord covenants (to the extent such covenants would impede, prevent or delay the works under the Development Programme) to pay such sums as are necessary to obtain such releases (provided the sums in the Borrower Restrictive Covenant Retention Account are made available in accordance with the terms of the Credit Agreement).

Forfeiture

The landlord is entitled to re-enter and forfeit the Headlease if the Headlease Tenant breaches any of its obligations under the Headlease and the breach is not remedied within a reasonable period of receiving notice of the breach from the landlord.

The landlord's right to forfeit, however, will not be exercisable whilst all or part of the principal, interest and other sums due under the Credit Agreement remain outstanding. In addition, prior to exercising any right of forfeiture the landlord must give the Security Trustee notice of its intention to do so and provide details of the breach or breaches and give the Security Trustee a reasonable period (in any event not less than 20 London Business Days) to remedy the breach or breaches.

Limited Recourse and No-Petition

The landlord agrees that the Headlease Tenant (for so long as principal, interest and other sums due under the Credit Agreement remain outstanding) shall only be obliged to pay any sum due under the Headlease to the extent that it has funds available to do so, and the Headlease Tenant's liability shall be limited to the Headlease Tenant's estate and property in the Property comprised in the Headlease (including insurance proceeds, compulsory acquisition awards and any amounts received in consideration of the sale of the tenant's interest in the Headlease).

The landlord covenants not to take any action or proceedings against the tenant to recover amounts due and payable until the Headlease Tenant has sufficient assets to meet the claim (taking account of other liabilities ranking ahead of or equal to the landlord's claim). Further, the landlord agrees not to set-off any amount claimed against any amount which the landlord is obliged to pay to the Headlease Tenant. The landlord will not petition or commence proceedings for the administration, winding-up, or, bankruptcy of the Headlease Tenant.

Co-Ownership Interests

The Borrower and the Co-Owner hold the legal interest in the Headlease as tenants in common. For the period of 30 years from the commencement of the term of the Headlease the Co-Owner shall be entitled to receive £19,499,248 per annum (exclusive of VAT and net of any deduction or withholding on account of tax) of the principal rent subject to reduction in the circumstances referred to below), and the Borrower shall be entitled to the remainder of the principal rent and other sums payable by the BBC under the Underlease.

From the earliest of (a) the date of occurrence of a Co-Owner Trigger Event (in relation to which see "Co-Ownership Structure – Determination of the Co-Ownership Structure" at page 64), and (b) the day immediately following the last rent payment date under the Underlease and for the remainder of the term of the Headlease, the Co-Owner's entitlement to receive the sum stated above shall be reduced to £50,000 per annum (exclusive of VAT and net of any deduction or withholding on account of tax) and the Borrower shall be entitled to receive the remainder of the principal rent and other sums payable by the BBC.

The Co-Owner's share of the Headlease (and therefore the proceeds of sale and Termination Sum) shall be the same proportion as the net present value of its right to receive the rents referred to above bears to the market value of the Headlease, the Borrower's share being the remainder.

Following the determination of the Co-Ownership Structure the Borrower should in addition be entitled pursuant to the Co-Owner Residual Interest Call Option to acquire the Co-Owner's residual interest in the Property and the Borrower should then become the sole owner of the Headlease. The consideration payable by the Borrower for the exercise of such Call Option shall be the lesser of (a) the then market value of the Co-Owner's interest in the Headlease and (b) £1 million.

Collateral Deed

The BBC (as landlord) and the Headlessees have entered into a deed (the "**Collateral Deed**"), collateral to the Headlease, relating to the possible compulsory purchase of a part (not exceeding 10 per cent (in aggregate

taking account of any area previously compulsorily purchased) of the gross total area (a "**Relevant Part**") of the Property.

In accordance with the terms of the Collateral Deed, following the instigation of compulsory purchase proceedings in respect of a Relevant Part the BBC may at any time prior to, or within 10 London Business Days after service of a Termination Notice (as described above under "Term and Break Clause"), serve a notice on the Headlessees and Security Trustee undertaking to pay on each rent payment date a compensatory sum equivalent to the amount by which the Rent Payments are reduced as a result of the compulsory purchase. In such circumstances, if a Termination Notice has been served then it shall be suspended.

Valuation of Headlease

DTZ Debenham Tie Leung has provided a valuation report in respect of the Headlease interest in the Property (the "**Valuation Report**"), a copy of which is attached as appendix 1 to this Offering Circular.

The Underlease

On the Closing Date, the Headlessees will grant the Underlease to the BBC.

The main terms of the Underlease are detailed below:

Term and Break clause

The term of the Underlease is 30 years from and including the Closing Date. There are no break clauses.

Rent and rent review

The base rent reserved under the Underlease, (the "**Base Rent**") is equal to £42,840,000, however, this Base Rent will be reviewed in relation to the first accrued rent payment on 15 September, 2004 (and each anniversary thereafter) (each a "**Review Date**") by reference to the increase in the LPI since the commencement of the Underlease (such reviewed rent being the "**Principal Rent**").

Under the terms of the Underlease, the BBC will not be required to make any payments of Principal Rent during the Initial Period until 15 September, 2005. During the Intermediate Period, the amount of rent will vary from 29.60 per cent. of the Principal Rent to 88.62 per cent. of the Principal Rent reflecting the anticipated level of occupancy of the Property by the BBC. During the Final Period the rent payable will be equal to 100 per cent. of the Principal Rent. In certain circumstances, surplus amounts standing to the credit of certain of the Borrower Accounts will be swept into the Borrower Rent Account, whereupon the obligation of the BBC to make the next rent payment under the Underlease (and the Principal Rent due on that rent payment date) shall be reduced by such surplus amounts.

The terms of the Underlease are such that from the date when the rent becomes payable, the BBC is expressed to be under an absolute and unconditional obligation to pay the rent (and additional rent reserved). The Tenant covenants that payments under the Underlease shall be without deduction or withholding for tax save as required by law in which circumstances the Tenant's payment shall be grossed up to take account of any such withholding.

Tenant's covenants

The main tenant's covenants in the Underlease are as follows:

Repair/Decoration

The Tenant covenants to put, keep and maintain the Property in good substantial repair decoration and condition (free from defects in design or construction or any latent defects) and to make good any disrepair for which the Tenant is liable within a reasonable period after the date of written notice from the landlord. There is a specific acknowledgement that the landlord has no repairing obligation under the Underlease.

Insurance

The Tenant covenants to insure the Property, unless the insurance is invalidated in whole or part by any act or default of the landlord, in the full reinstatement cost, with an approved insurer against loss or damage by

specified insured risks and subject to such excesses as may be imposed by the insurers (provided such insurance requirements remain reasonably and economically available in the market).

The specified insured risks are the usual risks in a lease of this kind and include terrorism. The insurance is to be in the joint names of the landlord, Tenant and the Security Trustee. The Tenant covenants to apply any insurance monies received in reinstating the Property.

If the Tenant fails to comply with its insurance obligations the landlord shall insure the Property and the cost of doing so will be recoverable from the Tenant.

In addition the Tenant shall ensure that (unless otherwise agreed by the landlord and the Security Trustee) the insurance policy contains a standard mortgagee clause and that the policy will not be invalidated for non-payment of premium without the landlord being given not less than 14 days written notice.

The parties have agreed that in respect of insurance claims in excess of £1 million, such sums (to the extent paid out) will be held on trust in an interest-bearing account for the benefit of the Tenant and the landlord to be released on receipt of appropriate evidence of expenditure in relation to rebuilding or reinstatement. Following a Headlease Break Trigger Event, as described above, determination of the Headlease, and payment in full of the Termination Sum, the monies shall belong to the Tenant.

It should be noted that there is no rent suspension in the event of damage to the Property. For further information, see "Rent and Rent Review" above at page 82.

Alterations

The Tenant may not make any alterations or additions which would materially reduce the value, utility or remaining useful life of the structure of the Property or (save where they are replacing those systems) the mechanical or electrical systems in the Property. Details of any alterations or proposed alterations affecting the exterior or structure of the Property must be given to the landlord upon request.

Alienation

Assignment of the whole or part of the Property is prohibited. Underlettings or parting with possession of the whole or any part are permitted provided they do not contain terms inconsistent with the provisions of the Underlease and they are not for a duration or period expiring after the date of the expiry of the term of the Underlease. Underlettings for a period of 5 years or less shall be on arms length terms, and those underlettings (with landlord's consent) for a term exceeding 5 years must be able to be determined on not more than 12 months notice following expiry of the first 5 years of the term. All underleases must be excluded from the relevant security of tenure provisions of the Landlord and Tenant Act 1954. The Tenant covenants not to part with or share occupation of the Property on terms that create a relationship of landlord and tenant.

Use of the Property and Planning and statutory requirements

The permitted use under the Underlease is any lawful use permitted by the planning legislation and which does not cause or constitute a breach of any covenants or any matters affecting the title to the Property. The Tenant covenants to comply promptly with any notices served by public, local or statutory bodies and European union directives or regulations which affect the Property. The Tenant also covenants to comply with any relevant planning legislation and to obtain the landlord's prior written consent to planning applications for works that would require landlord's consent under the terms of the Underlease.

Yielding Up

The Tenant covenants to yield up the Property immediately before the end of the term (or sooner determination) in accordance with its covenants under the Underlease, as well as, among other things, to remove any alterations (but not those undertaken pursuant to the Development Agreement) and reinstate the Property.

Indemnity

The Tenant covenants not to do anything in relation to the Property that may subject the landlord to any liability and to exercise control of the Property so as to fully protect the landlord against any such liability. The Tenant covenants to indemnify the landlord against costs arising directly or indirectly from, among other things, any breach by the Tenant of the terms of the Underlease. If a claim is brought against the landlord, then the

Tenant will, at its cost and expense and in the landlord's name, defend such claim and the landlord shall not take any step to settle or compromise any such claim without the consent of the Tenant.

Headlease

The Tenant covenants to perform the Tenant's covenants under the Headlease in so far as they relate to the Property save for covenants in relation to rent and save to the extent such obligations are expressly assumed by the landlord under the Underlease.

Landlord's covenants

In addition to the usual covenant for quiet enjoyment the landlord under the Underlease covenants, among other things, (by way of indemnity only) to perform and observe its covenants under the Headlease save insofar as they are the responsibility of the Tenant under the Underlease and to use reasonable endeavours to enforce the covenants of the superior landlord under the Headlease.

Forfeiture

The Underlease can be forfeited in the event of:

- (a) non-payment of any rent (within 21 days of the due date);
- (b) breach of Tenant's obligations in the Underlease (not remedied within a reasonable period);
- (c) the occurrence of certain specified insolvency events of the Tenant; notice of intention to appoint an administrator of the Tenant; a petition or application for the administration or winding-up of the Tenant; an order for the administration or winding up of the Tenant or the appointment of an administrator, receiver, administrative receiver or manager, to the Tenant or any of its assets.

VAT

The Tenant is obliged to pay VAT on any payment made to the landlord.

Exclusion of Security for Tenure

The relevant provisions of the Landlord and Tenant Act 1954 are excluded from the tenancy and as a result the Tenant will not have a statutory entitlement to a new lease at the expiry of the term of the Underlease.

Limited Recourse and No-Petition

The Tenant agrees that the landlord (for so long as principal, interest and other sums due under the Credit Agreement remain outstanding) shall only be obliged to pay any sum due under the Underlease to the extent that it has funds available to do so, and the landlord's liability shall be limited to the landlord's estate and property comprised in the Headlease.

The Tenant covenants not to take any action or proceedings against the landlord to recover amounts due and payable until the landlord has sufficient assets to meet the claim (taking account of other liabilities ranking ahead of or equal to the Tenant's claim). Further, the Tenant agrees not to set-off any amount claimed against any amount which the Tenant is obliged to pay to the landlord. The Tenant will not petition or commence proceedings for the administration, winding-up, or bankruptcy of the landlord.

Option to purchase

On the expiry of the term, the Tenant has an option to acquire the Headlease. In order to exercise the option the Tenant must serve a notice on the landlord at any time on or following the date two days after the final rent payment date. The purchase price for the Headlease is to be the lesser of (a) the market value of the Property as at the date of the exercise of the option (the "**Market Value**") and (b) the current estimate of the market value of the premises at the expiry of the term being £220m as increased in line with the Index together, in either case, with VAT. In the event that the parties cannot agree the Market Value then this will be determined by an independent valuer. The option may only be exercised if the Tenant has paid and continues to pay the principal rent and additional rent up to the date of expiry of the term.

Option to renew

The Tenant alternatively has an option to require the renewal of the Underlease at the expiry of the term. The new lease will be for a further thirty year term (subject to any statutory security of tenure then available to business tenants), the first annual rent being the lesser of the then market rent (the "**Market Rent**") and the current estimate of the Market Rent at the expiry of the term of the Underlease, being £23.2 million per annum as increased in line with the Index, and subject to an initial rent free period commensurate with the Market Rent agreed. The lease will be on fully repairing and insuring terms, subject to upwards only 5 year rent reviews and otherwise on standard investment and arm's length terms and, subject to these specified and certain other provisions, on the same terms and conditions as the Underlease.

The option to renew the Underlease may be exercised by written notice served not more than twelve nor less than six months prior to the expiry of the term. It may only be exercised if the Tenant has paid and continues to pay the principal rent and additional rent up to the date of expiry of the term.

The Development Programme

The Development Programme consists of part demolition and redevelopment of the Property, including external alterations to Broadcasting House and the construction of a link building across Langham Street and a basement under Langham Street. It also includes the upgrading of the offices and production and broadcasting accommodation at the Property.

In addition to the works to be undertaken in connection with the Development Programme, the BBC is to undertake its own technical fit out in relation to the production and broadcasting facilities, costing in the order of £177 million.

Development Agreement and the Development Agency Agreement

In accordance with the terms of a Development Agreement, the BBC will appoint the Developer to carry out the Development Programme. The Developer is a wholly owned subsidiary of LST. As conditions precedent to the effectiveness of the Development Agreement, the Building Contract, the contract of appointment for the Employer's Agent, as well as related Direct Agreements will be required to be executed and completed. In addition, the Developer will procure the issue of a parent company guarantee in favour of the BBC, guaranteeing the Developer's obligations under the Development Agreement (which can be required to be assigned to the Borrower in certain circumstances of the Developer's default in its obligations under the Development Agreement). The Developer's obligations under the Development Agreement are subject to a general liability cap of £75 million and other specific caps for defined categories of liability. The Developer is to provide information to the BBC to enable it to monitor the progress of the Development Programme and the Development Agreement provides for certain procedures to be followed by the parties in relation to their obligations under the Development Agreement.

The Borrower does not have any rights under the Development Agreement but benefits indirectly (by way of a conditional enforcement and assignment arrangement) from the BBC's rights against the Developer under the Development Agreement. The enforcement and assignment arrangement will operate where there is a default by the Developer under the Development Agreement in respect of which the BBC does not pursue its rights on its own account. The only obligation of the Borrower under the Development Agreement is the assumption of payment obligations in respect of sums due under the Development Agreement, comprising payments made by the Developer under the Building Contract, plus fees owed to the Developer by way of a development fee, an interim fee and a bidding fee (the latter two fees being fixed single payments). Payments by the Borrower in respect of sums due under the Building Contract will only be made on receipt of appropriate invoices and in accordance with the certification procedures set out in the Development Agreement including, in particular, the approval and confirmation by Gleeds (the "**Employer's Agent**") and by Malcolm Hollis on behalf of the Borrower and the Issuer that such costs are properly payable in accordance with the Building Contract and that funds may be released from the Development Account in accordance with the Credit Agreement. For further details about the certification process see "Monitoring Surveyors" below. It should be noted, however, that the Borrower will not be required to pay amounts due under the Development Agreement to the extent that they exceed the anticipated cost of construction as provided for within the sum borrowed and available against an agreed cashflow under the Credit Agreement. Such excess costs (for example, relating to any variation or "loss and expense" claims) will be borne by the BBC.

The BBC may terminate the Development Agreement in the event of the Developer's insolvency or a "Developer's Default" which shall include, among other things, a breach of the agreement which materially and adversely affects the performance of the works or the progress of the Development Programme. The Developer

may terminate the Development Agreement when a "BBC/Funder Default" has occurred, meaning a failure of the Borrower to make payments under the agreement; a breach by the BBC of the obligations under the Development Agreement which makes it impossible for the Developer to continue to perform its obligations for a period of 3 months; or expiry of the BBC Charter where it is not renewed or renewed in such a way which does not assume that the BBC will continue in operation.

The funding of costs payable by the Borrower under the Development Agreement (which will include sums payable to the Developer in respect of payments due to be made under the Building Contract) will be met by withdrawals from the Borrower Development Account and, subject to the Development Agency Agreement, the Co-Owner Development Account to the extent of the Borrower and the Co-Owner respective contributions. The Borrower Development Account will have been funded by amounts transferred to it from the Borrower GIC and from the Co-Owner GIC pursuant to the Development Agency Agreement. (For further details of the funding of these accounts, see "The Accounts Structure and Cashflow Control – The Borrower Development Account and The Co-Owner Development Account" at page 97 and page 98 respectively). It should be noted that these arrangements are designed to continue after a Loan Event of Default (save where such is occasioned by a default on the part of the BBC).

In accordance with the terms of the Development Agency Agreement, the Co-Owner agrees to contribute towards the development costs and funds will therefore, as appropriate, be transferred from the Co-Owner Development Account to the Borrower Development Account for this purpose. To the extent that the Co-Owner's beneficial interest in the Headlease is diminished following a Co-Owner Trigger Event or acquired by the Borrower pursuant to the Co-Owner Residual Interest Call Option (prior to completion of the Development Programme and payment of all costs) then the Co-Owner's obligation to contribute to the development costs will be similarly reduced or cease. Under such circumstances monies standing to the credit of and future payments into or under the Co-Owner Development Account and the Co-Owner GIC will be distributed by the Co-Owner to the holders of the Co-Owner Class A Preference Shares and upon distribution by the Limited Liability Partnership, so transferred to the Borrower.

Pursuant to the Development Agency Agreement, the Borrower is obliged to apply monies received from the Co-Owner Development Account in payment of costs due under the Building Contract for which the Borrower is liable pursuant to the Development Agreement. The Co-Owner's obligations under the Development Agency Agreement are limited to making Co-Owner Development Contributions out of funds received pursuant to the Co-Owner GIC and from certain other accounts.

Security from Co-Owner

On the Closing Date, the Co-Owner will execute the Agency Charge in favour of the Borrower to secure the liabilities of the Co-Owner to the Borrower under the Development Agency Agreement and under the Call Option Agreement. The Agency Charge creates a security interest over the monies standing to the credit of the Co-Owner Development Account, the Co-Owner GIC and the Co-Owner's interest, if any, in the monies standing to the credit of the Borrower Development Account.

On the Closing Date the Co-Owner will also grant a first ranking New York law security interest over its interests in the Co-Owner GIC Guarantee in favour of the Borrower to secure, among other things, the liabilities of the Co-Owner to the Borrower under the Development Agency Agreement.

Building Contract

Land Securities Trillium (Media Services) BH Limited, a newly formed subsidiary of LST (the "**Developer**"), will enter into a building contract in the industry standard form contract JCT with Contractor's Design 1998 Edition (incorporating a schedule of amendments to this standard form) with Bovis Lend Lease Limited ("**Bovis**") (the "**Building Contract**"). Bovis will, save for any responsibility for the design of the rights to light and air profile and design in respect of electromagnetic interference, be responsible (pursuant to the Building Contract) for the design and the construction of the proposed works under the Building Contract but will appoint a number of other professionals whose appointments effectively take effect as subcontracts see ("**Direct Agreement**" below). These include, MacCormac Jamieson Prichard (architect), Whitbybird Limited (structural engineer), FaberMaunsell Limited (services engineer) and Bickerdike Allen & Partners (acoustic consultant). The obligations of Bovis under the building contract are subject to a general liability cap of £75 million and other specific caps for defined categories of liability.

Direct Agreements

A Direct Agreement will be entered into between, amongst others, the Contractor, the BBC, the Borrower and the Security Trustee whereby, amongst other things, the Contractor undertakes to the BBC, the Security Trustee and the Borrower that it has executed and will execute the works in accordance with the Building Contract provided that, amongst other things, the liability of the Contractor shall be no greater than if the beneficiaries of the Direct Agreement had been named as joint employer under the Building Contract.

If the Contractor wishes to determine the Building Contract then it must give prior notice to the BBC, the Security Trustee and the Borrower specifying the grounds for the proposed determination. During the period of the Contractor's notice, one of the BBC, the Security Trustee and the Borrower (as the case may be but not if it itself is the party in breach) (the "**Step-In-Party**") may give notice that it is assuming all the obligations of the Developer under the Building Contract (including in respect of all payments under the Building Contract) and in such circumstances the Contractor will accept instructions from the Step-In-Party and continue to perform its obligations under the Building Contract. The BBC shall be entitled to exercise its step-in right ahead of the Security Trustee which will be entitled to exercise its right ahead of the Borrower.

Similar Direct Agreements will be obtained from the Developer, the Employer's Agent, and the key design sub-consultants.

Quantity Surveyors, Employer's Agent and Monitoring surveyors

Currie & Brown will act as quantity surveyors to the Developer, Gleeds will act as Employer's Agent for the Developer and, Malcolm Hollis will perform the role of monitoring surveyor for the Borrower and the Security Trustee. The monitoring surveyors will advise as to matters in relation to the progress of the construction works in accordance with the Building Contract, and in particular will approve payments to the Developer under the Development Agreement on the basis of their review of payment applications issued from time to time during the Development Programme, such approval to be required for the release of funds from the Borrower Development Account by the Security Trustee to meet such payments.

THE BACKGROUND AND BUSINESS OF THE BBC

BBC's Corporate Structure

The British Broadcasting Corporation (the "**BBC**") is a public corporation established by Royal Charter (the "**Charter**"). The Charter, and an agreement between the BBC and the Secretary of State for National Heritage (now Culture, Media and Sport), provide for its funding and establish its independence from government while also setting out those activities which require the prior approval of the Secretary of State for Culture Media and Sport.

The BBC's core purpose is that of public service broadcasting. Its objects include the provision of television and radio services within the UK (the "**Home Services**") and abroad (the "**World Service**"), and certain ancillary services such as online services. Its licence fee revenue is spent only on the provision of Home Services and ancillary services but since the launch of the Radio Times in 1923, the BBC has also been engaged in commercial activities, with the explicit aim of supporting the BBC's core public purpose. Commercial activities include those where the BBC sells products, services or rights it owns, which are not used directly in its public services, to third parties. Such commercial activities will normally be carried out through subsidiaries ("**Commercial Subsidiaries**") specifically established for this purpose.

The principal Commercial Subsidiaries of the BBC are as follows:

(a) BBC Commercial Holdings Limited is the holding company for the BBC's principal commercial interests. It is the 100% shareholder of BBC Worldwide Limited, BBC World Limited and BBC Ventures Group Limited, and is in turn 100% owned by the BBC.

(b) BBC Worldwide Limited is the subsidiary which is the BBC's commercial consumer arm which exists to maximise the value of the BBC's programme intellectual property.

(c) BBC World Limited's business is a commercial 24-hour, English-language, international news channel. It provides news, business and weather 24 hours a day, plus news documentaries and lifestyle programming. The channel commissions all of its news output from the BBC's News division.

(d) BBC Ventures Group Limited was incorporated on 18 June 2002 to bring together the BBC's four business-to-business commercial companies under one holding company. BBC Ventures Group Limited's subsidiaries comprise BBC Broadcast Limited, BBC Technology Limited and BBC Vecta Limited and the intention is for BBC Resources Limited, which is currently a directly-owned subsidiary of the BBC, to become a subsidiary of BBC Ventures Group Limited later this year. The activities of each of the subsidiaries are as follows:

(i) BBC Resources Limited – provides services in outside broadcast studios, post-production, design and special effects sectors of media production;

(ii) BBC Technology Limited – provides design and build of solutions for the creation, management and distribution of content across multiple platforms, including digital media, telecoms broadcast and interactive television;

(iii) BBC Broadcast Limited – offers services required to launch, promote, play-out and manage television channels; and

(iv) BBC Vecta Limited – exploits the developments in research and development as carried out by the BBC's in-house research and development team.

History of the BBC

The British Broadcasting Company was formed on 18 October 1922 by a group of leading wireless manufacturers. The innovation of a Post Office licence fee (the "**Licence Fee**") of ten shillings (50 pence), of which half went to the BBC, ensured that the BBC was not financially dependent on the government of the day. On 1 January 1927 the British Broadcasting Company became a public corporation, the BBC, when it was granted its first Royal Charter.

By 1926 there were two and a quarter million licences. That figure increased to eight and a half million by 1938. By that time 98% of the country's population could listen in to the BBC's radio services.

Radio broadcasting in the 1930's covered areas ranging from news, talks and plays to music, sport and children's programmes. Other pre-war developments included the opening of the Empire service, the forerunner of the World Service, and in November 1936 the BBC opened the world's first regular television service from Alexandra Palace in North London. The television service was to be short-lived as the advent of war in September 1939 led to the closure of the television service for the duration of the war.

By 1950 there were twelve million radio only licences and 350,000 combined radio and TV licences.

In September 1955, the BBC's broadcasting monopoly came to an end when ITV was launched.

BBC Television Centre opened in West London in June 1960 and BBC2 was launched in 1964 with the remit of offering an alternative and more experimental style of broadcasting and CEEFAX teletext was introduced in 1972.

BBC Television and Radio faced the challenge of growing competition in the 1980's: Channel 4 went on air in 1982, more commercial radio stations opened and satellite television services began. In the late 1980s and 1990s the BBC experienced a number of changes, the more significant of which included:

(a) a range of new policies were introduced with the aim of increasing efficiency, to reducing staff and operating costs and making the BBC more competitive in the tougher broadcasting environment of the 1990's;

(b) the Broadcasting Act 1990 (the "**Broadcasting Act**") established the Independent Television Commission ("**ITC**") to regulate all terrestrial TV services in the UK, with the exception of the BBC. The Government confirmed the BBC as "the cornerstone of British broadcasting", but the Broadcasting Act heralded universal changes, including, for example, a requirement that a quarter of programmes in certain genres had to be produced by independent production companies and that programme schedules should no longer be exclusive to TV Times and Radio Times; and

(c) the arrival of digital technology and the internet in the 1990's.

1996 Charter Renewal

The BBC was granted a 10 year Royal Charter in 1981 which was extended until the end of 1996. By this stage the Peacock Report of 1986 (Home Office, 1986) had already examined whether advertising or subscription might be used to supplement or replace the licence fee as the BBC's source of funding. The Peacock Report recommended against advertising but supported the idea of subscription funding in the longer term. More immediately it recommended linking the licence fee to the retail price index or "RPI", a proposal which was implemented with effect from 1988.

The first step in the Charter debate, which began in 1992, was the virtually simultaneous release of the Government's Green Paper on the future of the BBC (Department of National Heritage, 1992) and the BBC's paper entitled "*Extending Choice*" (followed in 1996 by a companion piece, "*Extending Choice in the Digital Age*").

In July 1994 the Government published a White Paper (Department of National Heritage, 1994). Its recommendations included that the BBC should consider extending the number of its services, with a comprehensive public service mission, that it still be the only recipient of the Licence Fee, that it should continue to find internal efficiencies, that it should extend its commercial services while keeping them separate from Licence Fee-funded activities, and that the accountability and governance structures remain much the same.

The Royal Charter was renewed in 1996 for a further 10 years.

Historically, the duration of the BBC's Charters has varied (the shortest charter lasting only 4 years and the longest having been extended for 17 years), as the following table shows:

		Extension
First Charter	1 January 1927 – end 1936	
Second Charter	1937 – end 1946	
Third Charter	1947-1951	-> mid 1952
Fourth Charter	mid 1952 – mid 1961	-> mid 1964
Fifth Charter	mid 1964 – 1976	-> mid 1979
		-> mid 1981

2006 Charter Renewal

In January 2003, Tessa Jowell, the current Secretary of State for Culture, Media and Sport announced that the review of the BBC's Charter would involve a searching review of the scale, scope and purposes of the BBC:

"Charter Renewal gives us the opportunity to look at the heart of the public service broadcasting system.

It gives us the chance to ask whether the BBC can continue to be the driving force behind public service broadcasting. To ask what shape the BBC should be. To ask what range of programmes it should provide. To ask how it should be accountable to its audiences.

And it gives us a chance to place it within a wider context: to examine again the best use of public funding to guarantee the health and vitality of the range of public service broadcasting."

The BBC aims to publish a paper outlining its vision for public service broadcasting late in 2003 or early 2004.

Consequences of non-renewal of the Charter

If the Charter were not renewed, the BBC would be dissolved. Articles 22 and 23 of the Charter deal with the occurrence of voluntary or compulsory dissolution. Assets of the BBC would be disposed of "in satisfaction of the debts and liabilities of the Corporation" in accordance with the directions of the Secretary of State for Culture, Media and Sport.

The legal framework of the BBC

The BBC's core purpose is public service broadcasting. The current public service activities of the BBC are based on the Charter which came into force on 1 May 1996 and established a framework for the BBC's activities until 31 December 2006.

The BBC's public service remit is further set out in the BBC Agreement which recognises the BBC's editorial independence. In turn, the BBC ensures compliance with its public service remit by having internal commercial and editorial policies to ensure fair trading and compliance with its public service remit.

Under the Charter, the BBC is answerable to the BBC Board of Governors who are appointed to act as trustees for the public interest and to ensure that the organisation is properly accountable while maintaining its independence. The Board of Governors are mainly concerned with broad issues of policy, while the Director-General and senior staff are responsible for detailed fulfilment of that policy. The Governors, who are also members of the BBC, are appointed by the Queen in Council (the Privy Council) on the recommendation of the Prime Minister. All are part-time non-executive appointees.

The Board of Governors is responsible for ensuring that the BBC fulfils its public service obligations. It safeguards the BBC's independence, sets key objectives, approves strategy and policy, monitors performance and compliance and ensures public accountability. The Governors appoint the Director-General and, with him, other members of the Executive Committee, and determine their remuneration.

The Director-General is the BBC's chief executive and editor-in-chief. BBC operations are run by the directors of ten programming and broadcasting divisions and five professional services divisions, and by the chief executives of the BBC's commercial services. They report to the Director-General and, together, make up the Executive Committee.

The Executive Committee is responsible for running the BBC, proposing key objectives, developing strategy and policy in the light of set objectives, and operating all services within the strategic and policy framework approved by the Governors.

Changes to BBC Governance

In February 2002 the BBC published changes to the BBC's governance and accountability systems to promote greater clarity and understanding, as well as addressing concerns raised as UK broadcasting enters the "OFCOM age" including the establishment of a new Governance and Accountability department which provides the Governors with more independent sources of advice and support on audiences compliance, objective-setting and accountability.

The Communications Bill

The draft Communications Bill (the "**Bill**") was published on 7 May 2002 and is expected to receive royal assent in 2003. The Bill sets out the proposed regulatory regime of the broadcasting and telecommunications industries in the UK to be operated by the new, single, communications regulator - the Office of Communications, also known as OFCOM.

The Bill covers a range of issues affecting the broadcasting and telecommunications industries.

OFCOM

The basic structure of OFCOM has already been established in the Office of Communications Act 2002.

OFCOM will combine the Office of Telecommunications (OFTEL), the ITC, the Radio Authority, the Radiocommunications Agency, and the Broadcasting Standards Commission in one communications "super-regulator".

OFCOM will assume all the responsibilities for enforcement and licensing exercised by the current regulators and in addition will be concerned with content regulation and the promotion of "consumer interests" (via the establishment of a Consumer Panel and a Content Board).

OFCOM will also be given concurrent jurisdiction with the Office of Fair Trading to apply competition law (notably, the Competition Act 1998 and aspects of the Enterprise Act 2002) to businesses in the communications sector.

Regulation of Electronic Communications Network and Services

The Bill establishes a new framework for the regulation of electronic communications networks and services, which implements a package of EC Directives agreed earlier in 2002.

Spectrum

The Bill provides for a new category of "recognised spectrum access" and enables spectrum to be traded in accordance with regulations made by OFCOM.

Media Ownership

The Bill opens the possibility of widespread restructuring of broadcasters in the UK by reducing the restrictions relating to, non-European ownership of the key commercial television and radio broadcasting. It also reflects technological change to accommodate the switchover from analogue to digital broadcasting.

The Funding of the BBC

The BBC is funded primarily through the Licence Fee but it also carries out commercial activities which are separated from the public service remit. In order to ensure that public funds are not used in commercial activities and that there is clarity in their respective objectives, clear boundaries are drawn between the BBC's public services and commercial activities. Each Commercial Subsidiary maintains separate, audited accounts and a clear and separate management structure.

Collection and Enforcement

Each household or business premises in the UK that has any equipment which is used to receive television programmes must have a TV Licence whether that household watches terrestrial, satellite or cable television.

The television licence fee is collected by the BBC and is used to fund public service broadcasting by the BBC throughout the United Kingdom. In 2001/2002 the BBC issued 23.8 million licences, receiving £2,533

million in licence fee income and in 2002/2003 the BBC issued 24.1 million licences, receiving £2,658.5 million in licence fee income.

The government, through legislation and regulations, determines the types of apparatus that need to be licensed, the types of licence (for instance, colour and monochrome) and sets the level of the Licence Fee in accordance with an uprating formula.

The BBC is responsible for issuing licences, collecting the Licence Fee and enforcing the licensing system. The BBC has contracted out the bulk of the collection and enforcement activity to its TV Licensing agent, Capita Business Services Limited.

The BBC collects the Licence Fee in accordance with its powers as the Licensing Authority. The BBC pays the money collected directly into the Treasury's Consolidated Fund. The BBC then receives a monthly payment from the Department of Culture, Media and Sport based on that year's estimate of expected licence fee receipts. Parliament votes each year to give the Licence Fee to the BBC. Following this process, the BBC then sets its internal budgets.

Current level of Licence Fee

As at the date of this Offering Circular a colour licence costs £116 and a black and white licence costs £38.50.

Each year regulations are laid before Parliament setting the level of the Licence Fee as payable from April following. The rate of increase is set according to the formula announced by the government in February 2000, following a review of the "Future Funding of the BBC" by an independent review panel chaired by Gavyn Davies. Under this formula, licence fee increases for each year from 2000/2001 to 2006/2007 are set at the Retail Price Index level plus 1.5 per cent.

World Service Funding

The BBC World Service ("**World Service**") is a constituent part of the BBC. It is funded by Grant-in-Aid provided by the Foreign and Commonwealth Office ("**FCO**"). The relationship between the FCO and the World Service is defined in the Joint FCO/BBC World Service Broadcasting Agreement (the "**World Service Broadcasting Agreement**").

Aims, Objectives and Performance Assessments of the World Service

The aims and objectives of the World Service and provisions for performance assessment are set out in the Broadcasting Agreement. This provides the framework for the preparation of the World Service's strategic Three Year Plan.

The Secretary of State for Foreign and Commonwealth Affairs is responsible to Parliament for the government's relationship with the World Service.

The FCO ensures that Grant-in-Aid and additional income is used for the purposes for which it is intended, maintaining transparent financial separation from activities and assets funded from the Licence Fee and commercial income.

Commercial Subsidiaries

The Charter does not allow the BBC to use Licence Fee funds in relation to the activities of its subsidiaries nor can the BBC guarantee or indemnify the activities of its Commercial Subsidiaries. However, any profits made by the Commercial Subsidiaries are generally returned to the BBC.

Taxation

Following a decision of the courts a number of years ago, the BBC is not subject to UK tax on the excess of Licence Fee income over expenditure. Other income earned by the BBC that is received from third parties, including subsidiaries, is taxable in the UK under the general rules which apply to companies. The BBC may deduct (a) the direct costs of earning such income, and (b) overheads allocated thereto for the purposes of calculating its UK tax liability. Typical taxable receipts include interest on surplus funds, capital gains, royalties flowing from the exploitation of commercial rights owned by the BBC (rather than its subsidiaries) and rent. The BBC cannot claim relief from UK tax in respect of losses from its public sector broadcasting

activities, but losses incurred by subsidiaries of the BBC are relievable under normal rules which apply to companies. The BBC is treated as a "company" for group purposes, and may claim tax losses under normal rules which apply to companies or receive assets intra-group without crystallising UK corporation tax on capital gains.

BBC's Borrowing Powers

The BBC's public service division's borrowing is limited under Article 3(w)(ii) of the Charter to £200 million or such greater sum up to a maximum of £250 million as may be agreed by the Secretary of State for Culture, Media and Sport. There is a further limit of £350 million available to its Commercial Subsidiaries.

Existing Facilities

The BBC has a revolving credit facility of up to £100 million provided by Lloyds TSB Bank plc ("**Lloyds TSB**"). The facility provides for this credit limit to be used either as an overdraft or as a multi currency LIBOR facility, and there is a term out option which, if exercised extends final maturity by one year to May 2005. Lloyds TSB has renewed its facilities with the BBC on an annual basis. The facility currently expires in May 2004 and the amount drawn under the facility is nil.

The BBC owes sums in respect of prepaid savings stamps to the Licence Fee payers, and a creditor corresponding thereto is shown in the BBC's financial statements. This creditor is classified as debt in determining total borrowings to get the extent that cash is not held to offset the creditor.

Borrowing Facilities of the Commercial Subsidiaries

The Commercial Subsidiaries have a separate borrowing limit approved by the Secretary of State for Culture, Media and Sport. BBC Commercial Holdings Limited has a borrowing facility of £350 million with a group of six banks with a five year term and bullet repayment in March 2008. The borrowing facilities of the Commercial Subsidiaries are contingent upon the renewal of the Charter and if Charter renewal did not occur the Commercial Subsidiaries would be required to repay all amounts outstanding under these facilities.

Relationship with the Commercial Subsidiaries

The debts and liabilities of the Commercial Subsidiaries are separate from that of the BBC and the BBC's dealing with its subsidiaries is at arm's length. There are various reasons for this:

- (a) the Charter and fair trading commitments require it;
- (b) the Licence Fee is treated as public funds; and
- (c) the BBC is committed to meeting the rules of UK and EU competition law

The BBC aims to ensure fair trading between the BBC and its subsidiaries by doing regular benchmarking checks of the prices charged by its subsidiaries to the BBC. The purpose of this "fair trading" benchmarking is to provide the BBC with comfort that the public is not knowingly over-paying (through the Licence Fee) for the services the BBC receives from its Commercial Subsidiaries. If it were to knowingly over-pay, the BBC may be susceptible to charges that the Licence Fee was being used unfairly to cross-subsidise its Commercial Subsidiaries, which would constitute a potential breach of EU State Aid Regulations and, possibly UK and EU competition law.

Where Commercial Subsidiaries purchase goods (for example programme rights) or services from the BBC, the rates payable are determined by a combination of benchmarking, tendering and market knowledge.

BBC Commercial Agency

The BBC has a Commercial Agency division, whose remit is to work with BBC production teams to maximise the commercial value the BBC gets from the rights it holds in its programmes and its non-invested programme rights. The division aims to ensure the BBC receives fair value for rights exploited.

The criteria followed to arrive at the price for the programme takes into account the following guidelines:

- (a) where inputs are supplied by the publicly-funded parts of the BBC, the charges negotiated must be fair but should reflect a reasonable contribution to overheads and long-term replacement costs;

(b) the price should not be significantly out of line with the market context where there is a directly comparable external market; and

(c) for substantial supply contracts, evidence of external market prices.

Relationship with the BBC

The Commercial Agency division is responsible for negotiating deals with commercial investors, including BBC Worldwide Limited, to ensure the BBC gets the full value of these rights.

BBC Auditing

Internal Auditing

The BBC currently has an annual turnover of over £3 billion. It aims to run, control and report its financial affairs in a similar way to a UK FTSE 100 company and also aims to have in place financial audit arrangements of a similar standard as a large public limited company in the UK.

The BBC's financial and performance year runs from 1 April. Once broad strategy has been approved by the Board of Governors, plans are prepared by management. The annual budget is approved by the Governors in March. Financial performance is managed by the Executive Committee and reported to the Governors each month. The Director-General reviews the performance of each division regularly and the work of each part of the BBC is assessed formally by the Governors each year. At the conclusion of that process, the Governors agree annual objectives for the BBC with the Director-General.

The BBC Annual Report and Accounts are published in July each year.

The BBC has an established mechanism of risk management and control. Various assurance functions are in place to provide evidence of how the control systems work in practice and to suggest improvements where appropriate. These include the BBC's Audit Committee, Internal Audit function, External Audit and Fair Trading Audit.

The BBC's accounting systems have been consolidated across the group on to one platform, "SAP". This is intended to enable consistent management information to be produced and controls to be applied across the whole group. It has enabled internal trading balances to be monitored at group level on a monthly basis. The process for internal charging is also reviewed during both internal and external audit reviews throughout the year. All internal processes are audited by either KPMG or joint reviews with internal audit throughout the year and final reviews form part of their assurance for the year end audit. KPMG also do a financial interim audit around October in each year.

A detailed budget is set in advance of each financial year which sets out how the BBC expects to spend its income in delivering its strategic targets. In advance of the budget round, business areas are given funding and cash ceilings within which their budgets must be set. These ceilings are set at a level which ensures that the BBC's finances remain in line with long range funding projections.

The budget is prepared on a bottom-up basis. The individual business areas prepare their own detailed budget and plans aimed at delivering their financial and non-financial targets. These budgets are reviewed at divisional/company level and are then submitted to the central finance team where they are reviewed, critiqued and consolidated into a budget for the BBC group as a whole. At this stage the BBC's Director of Finance reviews the draft budget with each divisional/company Finance Director and Executive Committee member/Chief Executive. This ensures the budget is consistent with the BBC's overall strategy and its financial model and objectives.

On a monthly basis management reports are submitted to the central finance team to review progress against budget and latest forecast. These results are consolidated into a Group report to the Executive Committee and Board of Governors - providing explanations for any significant variances as required.

External Auditing

The Governors are required by the Charter and Agreement to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the BBC and of its income and expenditure for that period. In addition, the Governors have voluntarily decided to comply with the disclosure provisions of the Companies Act 1985 and, where applicable, of the Financial Services Authority Listing Rules.

The external auditors report to the Governors their opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. The external auditors also report if, in their opinion, certain financial information in the BBC Annual Report is not consistent with the financial statements, if the BBC has not kept appropriate accounting records, if they have not received all the information and explanations required for their audit, or if information specified by law regarding Governors' and Executive Committee remuneration and transactions with the BBC is not disclosed.

The external auditors' responsibilities as independent auditors are established by statute, by the Auditing Practices Board, by the profession's ethical guidance and, in accordance with the terms of their appointment, the Companies Act 1985.

In addition, the Governors commission reports referred to in the BBC Annual Report in respect of the BBC's Fair Trading Commitment and the BBC World Service Trading Protocols.

Property and Developments

Overall Strategy

The BBC undertook a significant review of its property portfolio from 1998/2000. The review was focused on the output that the BBC requires from its property estate to ensure that the property portfolio supported the business and was not a hindrance to the organisation's future strategy.

Realising the vision for the property portfolio is a challenging ambition and the BBC recognised that it needed the assistance of an established property partner to help it realise those ambitions. A public procurement process was launched in 2000 with the objective of finding a property partner that would take on the risks associated with strategy for development and take on responsibility for managing the day to day operation of the estate and provide expertise in financing the required changes.

The BBC is gradually implementing its property strategy across the UK. Projects that have recently been completed or are currently being undertaken include in the nations and regions:

- (a) new homes for BBC local Radio stations in Leicester, Sheffield and Stoke.
- (b) the development of a new site for Glasgow, Pacific Quay.

In London the property strategy focused on radical rationalisation with a view to reducing the 30 or so sites to 3 - Broadcasting House, White City and Television Centre:-

- (a) Television Centre (Wood Lane W12) would return to its original purpose as a television production house;
- (b) Broadcasting House (Langham Place W1) would become the home of radio, news and the BBC World Service - the BBC's live broadcasting centre; and
- (c) White City would become a mixed media campus providing a mixture of technology playout, new media, production suites and offices.

The BBC aims to ensure that the overall cost of accommodation should not rise as a consequence of the strategy.

THE ACCOUNTS STRUCTURE AND CASHFLOW CONTROL

Accounts Agreement

The Limited Liability Partnership, the Co-Owner, the Borrower and the Security Trustee will, on or around the Closing Date, enter into an accounts agreement (the "**Accounts Agreement**") to confirm the instructions to and authority of the Security Trustee to operate the Collection Account, the Borrower Accounts, the Co-Owner Accounts and the LLP Account.

The Collection Account

In accordance with the terms of the Credit Agreement, the Borrower shall maintain with the Co-Owner in their joint names the Collection Account. Under the terms of the Underlease, the Tenant will make Rent Payments to the Collection Account. Pursuant to the Accounts Agreement, upon receipt of such Rent Payments and provided that no Loan Event of Default has occurred and is continuing, the Collection Agent:

- (a) having calculated the Borrower's entitlement thereto, will immediately pay the Borrower Rent Distributions into the Borrower Rent Account; and
- (b) having calculated the Co-Owner's entitlement thereto, will immediately pay the Co-Owner Rent Distributions into the Co-Owner Rent Account.

Whilst any Loan Event of Default is continuing, the Security Trustee may (subject to any instructions it receives in relation thereto from the Controlling Party) instead retain Rent Payments in the Collection Account pending application of the same in or towards payment of obligations owed to the Lender and the Security Trustee (the "**Borrower Secured Creditors**") under the Finance Documents (the "**Borrower Secured Liabilities**").

The Collection Account will be held at the Borrower Operating Bank and will be transferred to another bank under the same circumstances as the Borrower Accounts.

The Borrower Accounts

In accordance with the terms of the Credit Agreement, the Borrower is required to establish or procure that there are established the following accounts:

(a) the "**Borrower Rent Account**". The Credit Agreement requires the Borrower to direct the Limited Liability Partnership to pay all LLP Distributions directly into the Borrower Rent Account. Under the terms of the Accounts Agreement and provided that no Loan Event of Default has occurred and is continuing, on each Loan Payment Date, sums standing to the credit of the Borrower Rent Account will be applied by the Security Trustee first, in payment of fees, costs and expenses of the Lender and/or the Security Trustee pursuant to the Finance Documents, second, in paying any accrued interest, fees and other amounts due but unpaid under the Finance Documents, with any sums remaining in the Borrower Rent Account to be applied towards the repayment of the Outstanding Loan Balance. On Loan Payment Dates falling prior to the Final Period, there will be insufficient sums standing to the credit of the Borrower Rent Account to pay interest and repayment instalments due under the Loan; in order to make good this shortfall (the "**Payment Shortfall**"), the Security Trustee will be required to make withdrawals from the Borrower Interest Account.

Whilst any Loan Event of Default is continuing, the Security Trustee may (subject to any instructions it receives in relation thereto from the Controlling Party) instead transfer all or part of the monies standing to the credit of the Borrower Rent Account in or towards payment of the Loan or may retain them in the Borrower Rent Account pending their application as described above or towards prepayment or repayment of the Loan.

(b) the "**Borrower Interest Account**". Prior to each Loan Payment Date during the Initial Period and the Intermediate Period, the GIC Provider shall, pursuant to the terms of Borrower GIC, transfer to the Borrower Interest Account an amount equal to the Payment Shortfall and provided that no Loan Event of Default has occurred and is continuing, the amounts so deposited will be transferred by the Security Trustee, acting on the instructions of the Servicer, to the Issuer Transaction Account. Whilst any Loan Event of Default is continuing, the Security Trustee may (subject to any instructions it receives in relation thereto from the Controlling Party) retain monies in the Borrower Interest Account, transfer them to the Borrower Rent Account or apply them in discharge of the Borrower Secured Liabilities. All sums remaining in the Borrower Interest Account following the end of the Intermediate Period shall immediately be transferred into the Borrower Rent Account;

(c) the "**Borrower Development Account**". Prior to each date on which a payment is due to be made by the Borrower to the Developer under the Development Agreement, pursuant to the terms of the Borrower GIC, the GIC Provider shall transfer amounts to the Borrower Development Account which shall (subject to the satisfaction of certain conditions) be applied to make such payment to the Developer when due. The Co-Owner shall also transfer amounts paid to the Co-Owner Development Account pursuant to the Co-Owner GIC to the Borrower Development Account immediately upon receipt thereof in order to fund the Co-Owner Development Contribution. For further information regarding the basis on which payments will be made to the Developer, see "The Property and the Leases – The Development Agreement" at page 85 and the "Co-Owner Development Account" below. Sums in the Borrower Development Account will also be used to satisfy obligations in relation to development related expenditure under other agreements. All sums remaining in the Borrower Development Account following the completion of the Development Programme will be paid to the BBC pursuant to a rebate of rent under the terms of the Underlease. For a description of the position after the occurrence of a Co-Owner Trigger Event, see "The Co-Ownership Structure – Determination of Co-Ownership Structure" at page 64 above.

(d) the "**Borrower Restrictive Covenant Retention Account**". In accordance with the Accounts Agreement, on the Closing Date £4,600,000 of the proceeds of the Loan will be paid into the Borrower Restrictive Covenant Retention Account. The Borrower may withdraw from the Borrower Restrictive Covenant Retention Account from time to time (a) such amounts as are due and payable to an identified adjoining landowner by way of compensation for the release of certain restrictive covenants and (b) any amounts payable or agreed to be paid (by the Borrower and/or the BBC, with the prior written consent of the Security Trustee) to any owners, tenants or occupiers of premises adjoining the Property in settlement of any claims for the infringement or disruption of any rights of lights which, if such amount was not so paid, would prevent the continuance or completion of the Development. Whilst any Loan Event of Default is continuing, any payment from the Borrower Restrictive Covenant Retention Account shall be at the discretion of the Security Trustee (subject to any instructions in relation thereto from the Controlling Party) and the Security Trustee may (subject to any instructions in relation thereto from the Controlling Party) withdraw funds from the Borrower Restrictive Covenant Retention Account for other purposes, including the payment of any Borrower Secured Obligations.

(e) the "**Borrower Expense Account**". The Borrower will incur certain expenses in connection with the normal operations of its business from time to time, the costs of which will be met by the holder of the Borrower Class C Ordinary Shares. However, other expenses ("**Extraordinary Expenses**") may be incurred by the Borrower from time to time in addition to those which will be met by the holder of the Borrower Class C Ordinary Shares. Any Extraordinary Expenses incurred by the Borrower will be paid by the Security Trustee when they fall due using funds standing to the credit of the Borrower Expense Account which was funded using part of the proceeds of the Loan.

The Borrower Expense Account will have an initial deposit of £1,000,000 of which £750,000 is designated an "Extraordinary Expense Reserve" available only (with the Security Trustee's prior consent) for extraordinary expenses and costs. The remainder comprising the "Available Balance" is availability for day to day expenses not met by shareholders of the Borrower. The BBC, under the BBC Deed of Guarantee and Undertaking has agreed to inject further funds into the Borrower if necessary when the "Available Balance" is exhausted.

Under the Borrower Debenture, each of the Borrower Accounts is expressed to be subject to a first fixed charge in favour of the Security Trustee, the benefit of which is held by the Security Trustee on trust for the benefit of itself and the Lender (being, prior to the sale of the Loan to the Issuer, MSDW PFI, and the Issuer thereafter).

MSMS, in its capacity as Security Trustee, as of the Closing Date will be, and, following the sale of the Loan to the Issuer will remain, the sole signatory on the Borrower Accounts. Under the Servicing Agreement, the Servicer will calculate the amount of all withdrawals which are to be made from the Borrower Accounts as described above and will instruct the Security Trustee to make the relevant withdrawals and transfers on the dates and in the amounts required.

All of the Borrower Accounts will be held with the Borrower Operating Bank. In the event that the Borrower Operating Bank ceases to be an Authorised Entity, the Security Trustee may require that the Borrower Accounts be transferred to a bank which is an Authorised Entity.

The Co-Owner Accounts

The Co-Owner is required to establish or procure that there are established the following accounts:

(a) the "**Co-Owner Rent Account**". Pursuant to the terms of the Accounts Agreement, for as long as the Co-Ownership Structure has not been determined immediately upon receipt of funds in the Co-Owner Rent Account, the Security Trustee will transfer such monies to the Limited Liability Partnership Account by way of Co-Owner Distribution.

Immediately upon receipt of a Co-Owner Trigger Event Certificate, the Security Trustee shall transfer any funds standing to the credit of (or subsequently paid into) the Co-Owner Rent Account to the Borrower Rent Account.

(b) the "**Co-Owner Development Account**". On the London Business Day on which a payment is made to the Co-Owner by the GIC Provider pursuant to the Co-Owner GIC, the amount of such payment shall, pursuant to the Development Agency Agreement be transferred to the Borrower Development Account to meet the Co-Owner Development Contribution provided that for as long as there is a Loan Event of Default continuing, the Security Trustee may (subject to any instructions it receives in relation thereto from the Controlling Party) retain such amounts in the Co-Owner Development Account.

Under the Co-Owner Charge, the Co-Owner Rent Account is expressed to be subject to a first-ranking fixed charge and the Co-Owner Development Account is expressed to be subject to a second-ranking fixed charge, in favour of the Security Trustee, the benefit of which is held by the Security Trustee on trust for the benefit of itself and the Lender (being, prior to the sale of the Loan to the Issuer, MSDW PFI, and the Issuer thereafter). Under the Agency Charge, the Co-Owner Development Account is expressed to be subject to a first-ranking fixed charge as security for the performance by the Co-Owner of its obligation under the Development Agency Agreement which is in turn sub-charged to the Security Trustee. MSMS, in its capacity as Security Trustee, as of the Closing Date will be, and, following the sale of the Loan to the Issuer will remain, the sole signatory on the Co-Owner Accounts. Under the Servicing Agreement, the Servicer will calculate the amount of all withdrawals which are to be made from the Co-Owner Accounts as described above and will instruct the Security Trustee to make the relevant withdrawals and transfers on the dates and in the amounts required.

All of the Co-Owner Accounts will be held with the Co-Owner Operating Bank. In the event that the Co-Owner Operating Bank ceases to be an Authorised Entity a replacement bank that is an Authorised Entity shall be appointed in its place.

The LLP Account

The Limited Liability Partnership will establish an account (the "**LLP Account**") into which all Co-Owner Distributions will be paid by the Security Trustee as described above. Under the terms of the Accounts Agreement, immediately upon receipt of funds into the LLP Account the Security Trustee will transfer such monies to the Borrower in respect of LLP Distributions. For as long as there is a Loan Event of Default continuing, or if the Security Trustee believes that the Limited Liability Partnership may be insolvent and/or not authorised to make any LLP Distribution, the Security Trustee may (subject to instructions in relation thereto from the Controlling Party) retain monies in the LLP Account and/or transfer such funds into the Borrower Rent Account and/or apply the same in settlement of the Borrower Secured Liabilities.

Under the LLP Account Charge, the LLP Account is expressed to be subject to a first fixed charge in favour of the Security Trustee, the benefit of which is held by the Security Trustee on trust for the benefit of itself and the Lender (being, prior to the sale of the Loan to the Issuer, MSDW PFI, and the Issuer thereafter). MSMS, in its capacity as Security Trustee, as of the Closing Date will be, and, following the sale of the Loan to the Issuer will remain, the sole signatory on the LLP Account. Under the Servicing Agreement, the Servicer will calculate the amount of all withdrawals which are to be made from the LLP Account as described above and will instruct the Security Trustee to make the relevant withdrawals and transfers on the dates and in the amounts required.

The LLP Account will be held at the Co-Owner Operating Bank and will be transferred under the same circumstances as the Co-Owner Accounts.

The Guaranteed Investment Contracts

On the Closing Date, £567,375,000 of the proceeds of the Loan shall be paid by the Borrower to the GIC Provider pursuant to an agreement (the "**Borrower GIC**") which provides that the GIC Provider will withdraw the amounts deposited together with yield thereon from the Borrower GIC according to a predetermined withdrawal schedule and deposit them into the Borrower Interest Account and the Borrower Development Account to enable the Borrower to make payments due from it under the Credit Agreement and the Development Agreement.

In addition, on the Closing Date, £152,437,237 of the proceeds of the issuance of the Co-Owner Class A Preference Shares shall be paid by the Co-Owner to the GIC Provider pursuant to an agreement (the "**Co-Owner GIC**" and together with the Borrower GIC, the "**GICs**") which provides that the GIC Provider will withdraw the amounts deposited together with earnings thereon from the Co-Owner GIC according to a predetermined withdrawal schedule and deposit them into the Co-Owner Development Account to enable the Co-Owner to pay amounts due from it to the Borrower under the Development Agency Agreement.

The Co-owner GIC and the portion of the Borrower GIC that relates to amounts to be paid into the Borrower Development Account will yield 3.6295% per annum on the amounts invested. The portion of the Borrower GIC that relates to amounts to be paid into the Borrower Interest Account will yield 3.5431% per annum on the amounts invested.

The obligations of the GIC Provider under the GICs will be guaranteed pursuant to separate financial guarantees (each, a "**GIC Guarantee**") issued on the Closing Date by the GIC Guarantor in favour of the Borrower and the Co-Owner respectively. The Borrower's rights under the GIC Guarantee issued in its favour will be secured in support of the Borrower's obligations under the Credit Agreement by way of a New York law first ranking security interest, and the Co-Owner's rights under the GIC Guarantee issued in its favour will be secured in support of the Co-Owner's obligations to the Borrower under the Development Agency Agreement by way of a New York law first ranking security interest, and will be further secured by way of a second-ranking security interest by the Co-Owner to the Security Trustee. If the GIC Provider fails to deposit funds into the Borrower Development Account or Co-Owner Development Account as required by the terms of the relevant GIC, the GIC Guarantor will be required to deposit an equivalent amount into the appropriate account.

To further secure the GIC Provider's obligations under the GICs, on the Closing Date, the GIC Provider will deliver the GIC Collateral to the GIC Custodian, the value of which must, at all times, meet the Collateral Requirement prescribed by the GIC Custodial Agreement. The "**Collateral Requirement**" means, in the case of GIC Collateral consisting of cash, 100% and, in the case of GIC Collateral consisting of securities, 105%, of the "**Available Amounts Invested**", being the initial principal invested pursuant to the GICs plus reinvested earnings on such principal and earnings which have accrued at the rate guaranteed by the relevant GIC but which have not yet been reinvested, less any withdrawals already made. The GIC Collateral will be held by the GIC Custodian in the GIC Collateral Account established in the name of the Security Trustee and will be subject to a New York law governed security interest in favour of the Security Trustee to secure the GIC Provider's obligations under the GICs. The value of the GIC Collateral will be periodically "marked to market" and, in the event that the market value of the GIC Collateral is less than the Collateral Requirement, the GIC Provider must deliver additional cash and/or securities in an amount such that the amount of GIC Collateral then held by the GIC Custodian has a market value which is equal to the Collateral Requirement. If the market value of the GIC Collateral is greater than the Collateral Requirement, then unless an event of default has occurred under the relevant GIC or the financial strength rating of the GIC Guarantor is reduced to below "AA-" by S&P, "Aa3" by Moody's or "AA-" by Fitch, the GIC Custodian shall deliver to the GIC Provider within one GIC Business Day ("**GIC Business Day**", being a day on which banks are open for business in London and New York) of receipt of a request GIC Collateral having a market value equal to the excess of the market value of the GIC Collateral then held by the Custodian over the Collateral Requirement. Furthermore, if the financial ratings of the GIC Guarantor are reduced to below such levels, the GIC Provider must pay to the Borrower and the Co-Owner the Available Amounts Invested pursuant to the relevant GIC, together with such an amount as is required to enable the Borrower and the Co-Owner to purchase sterling denominated UK Treasury Stocks or other "AAA" rated assets that have fixed returns and maturities to match the required withdrawal schedule.

The Issuer's Accounts

In accordance with the terms of the Credit Agreement, the Issuer is required to establish or prove that there are established the following accounts:

- (a) the "**Issuer Transaction Account**". Pursuant to the Cash Management Agreement, the Issuer Operating Bank will open and maintain the Issuer Transaction Account into which the Servicer will instruct the Security Trustee to transfer all amounts due from the Borrower under the Credit Agreement and the Swap Agreement. Other than costs and expenses of the Issuer which are referred to under "The Issuer Expense Account" below, the Cash Manager will make all payments required to be made on behalf of the Issuer from the Issuer Transaction Account. For further information regarding the application of funds by the Cash Manager, see "Cash Management" at page 112.
- (b) the "**Issuer Expense Account**". The Issuer will apply £1,500,000 of the proceeds of the issue of the Notes to fund an account with the Issuer Operating Bank from which costs and expenses incurred by the Issuer outside the ordinary course of its business (other than costs and expenses incurred to a

Secured Party) will be paid in the event that insufficient sums are standing to the credit of the Issuer Transaction Account to enable such sums to be paid. All such payments will be made by the Cash Manager, acting on the instructions of the Servicer.

- (c) the "**Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account**". Any cash amounts received by the Issuer pursuant to the Swap Agreement Credit Support Document will be paid into an interest bearing account opened at the relevant time in the name of the Issuer (the "**Issuer Swap Collateral Cash Account**") and securities received by the Issuer pursuant to the Swap Agreement Credit Support Document will be deposited into a custody account (the "**Issuer Swap Collateral Custody Account**") opened at the relevant time. Both the Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account shall be held with the Issuer Operating Bank. From time to time, subject to the conditions to be specified in the Swap Agreement Credit Support Document, the Swap Provider will make transfers of collateral to the Issuer in support of its obligations under the Swap Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Swap Agreement Credit Support Document.

The Issuer Transaction Account, the Issuer Expense Account, the Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account together referred to as the "**Issuer Accounts**".

CREDIT STRUCTURE

The Notes are expected on issue to be rated "AAA" by Fitch, "Aaa" by Moody's and "AAA" by S&P. 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 Adjusted Ratings are, upon the issue of the Notes, expected to be "AA" by Fitch, "Aa3" by Moody's and "AA-" by S&P.

The Notes will be unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to the Note Financial Guarantee and the ratings to be assigned to the Notes will be based solely upon the financial strength rating of the Financial Guarantor.

Disregarding the availability of the Note Financial Guarantee, the principal risks associated with the Notes and the manner in which they are addressed in the transaction structure are set out below. Attention is also drawn to the section of this Offering Circular entitled "Risk Factors" at page 35 for a description of the principal risks in respect of the Loan and Related Security.

Liquidity, Credit and Basis Risk

The Issuer is subject to:

- (a) the risk of insufficient provision having been made in the Issuer Transaction Account to enable the Issuer to meet its liabilities to third parties which fall due between Note Payment Dates. This risk is addressed through the provision of the Issuer Expense Account and the retention of funds in the Issuer Transaction Account;
- (b) the risk of default in payment by the Borrower under the Loan and the failure by the Security Trustee or the Servicer, on behalf of the Issuer, to realise or to recover sufficient funds under the enforcement procedures in respect of the Loan and Related Security in order to discharge all amounts due and owing by the Borrower under the Loan. This risk is addressed through the provision of the Note Financial Guarantee by the Financial Guarantor; and
- (c) the risk of amounts payable by the Borrower on the Loan, which are subject to Indexation, being less than that required by the Issuer in order to meet its commitments under the Notes, which are not subject to Indexation and its other obligations. This risk is addressed by the Issuer Swap Transaction.

Liabilities under the Notes

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer and, pursuant to and subject to the terms of the Note Financial Guarantee, the Financial Guarantor. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by MSDW PFI or any associated entity of MSDW PFI, or of or by the Managers, the BBC, the Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Paying Agents, the Agent Bank, the Swap Provider, the Swap Guarantor, or the Issuer Operating Bank or any company in the same group of companies as any of them and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes. The Notes will be unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to the Note Financial Guarantee by the Financial Guarantor. For further information about the Note Financial Guarantee, see "Note Financial Guarantee" at page 141.

Post-Enforcement Priority of Payments and Intercreditor Arrangements

The Issuer Security will become enforceable upon the Trustee giving a Note Enforcement Notice. Following enforcement of the Issuer Security, the Trustee will be required to apply all funds (other than amounts which are to be applied for a specific purpose under the terms of the Credit Agreement or the Loan Sale Agreement) received or recovered by it in accordance with the following order of priority (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Deed of Charge and Assignment:

- (a) in or towards satisfaction of any amounts due and payable by the Issuer to (i) *pari passu* and *pro rata*, the Trustee, the Security Trustee and any receiver appointed by or on behalf of the Trustee in respect of the Deed of Charge and Assignment and any amounts due and payable to any receiver appointed by or on behalf of the Security Trustee in respect of the Loan and/or the Related Security; then (ii) if the

Financial Guarantor is not the Controlling Party to the Swap Provider in respect of amounts due or overdue to it under the Swap Agreement (including the Swap Agreement Credit Support Document) including payments due to be made by the Issuer following an early termination of the Swap Agreement (other than payments to be made by the Issuer referred to in (d) below); then (iii) *pari passu* and *pro rata*, the Paying Agents and the Agent Bank in respect of amounts properly paid by such persons to the Noteholders and not paid by the Issuer under the Agency Agreement; then (iv) the Servicer in respect of the Servicing Fee and any Special Servicing Fee and any other amounts (including any amounts due in respect of any Liquidation Fee) due to the Servicer pursuant to the Servicing Agreement; then (v) the Cash Manager under the Cash Management Agreement; then (vi) the Corporate Services Provider under the Corporate Services Agreement; then (vii) the Share Trustee under the Declaration of Trust; and then (viii) the Issuer Operating Bank under the Cash Management Agreement;

- (b) in or towards payment of (i) interest due or overdue (and all interest due on such overdue interest) on the Notes; and after payments of all such sums; (ii) all amounts of principal due or overdue on the Notes and all other amounts due in respect of the Notes until the outstanding principal balance of the Notes is reduced to zero and (iii) if the Financial Guarantor is the Controlling Party to the Swap Provider in respect of amounts due or overdue to it under the Swap Agreement (including the Credit Agreements Credit Support Document) including payments due to be made by the Issuer following an early termination of the Swap Agreement (other than payments to be made by the Issuer referred in (d) below);
- (c) in the payment to the Financial Guarantor of all due and payable guarantee fees pursuant to the Guarantee Fee Letter and any other amounts due and payable (including any cash cover) to the Financial Guarantor under the Guarantee and Reimbursement Agreement and Indemnification Deed;
- (d) in or towards satisfaction of any amounts due and payable by the Issuer to the Swap Provider under the Swap Agreement in respect of any payments due by the Issuer following an early termination of the Swap Agreement as a result of an event of default under the Swap Agreement in respect of which the Swap Provider is the Defaulting Party (as defined in the Swap Agreement);
- (e) in or towards satisfaction of all amounts then owed or owing to MSDW PFI under the Loan Sale Agreement on any account whatsoever; and
- (f) any surplus to the Issuer or other persons entitled thereto,

provided that if at the time a payment is proposed to be made to a Secured Party (other than the Noteholders) following an enforcement of the Issuer Security that Secured Party is in default under any of its obligations under any of the transaction documents under the terms of which it is required to make any payments to the Issuer, the amount of the payment which may be made to the Secured Party shall be reduced by an amount equal to such defaulted payment.

Upon enforcement of the Issuer Security, the Trustee will have recourse only to the rights of the Issuer to the Loan and the Related Security and all other assets constituting the Issuer Security. Other than (a) as provided in the Loan Sale Agreement for material breach of warranty in relation to the Loan and, in certain limited circumstances, the Related Security (as to which, see "The Loan and the Related Security — Representations and Warranties" at page 70) and breach of other provisions specified therein, and (b) in relation to the Servicing Agreement and the Subscription Agreement in relation to the obligations of MSMS or MSDW PFI set out therein, the Issuer and/or the Trustee will have no recourse to MSMS or MSDW PFI.

The terms on which the Issuer Security will be held will provide that, upon enforcement, certain payments (including all amounts payable to any receiver and the Trustee, all amounts due to the Servicer or any other person in respect of the Servicing Fee and any Special Servicing Fee and Liquidation Fees, the Cash Manager, the Corporate Services Provider, the Share Trustee, the Issuer Operating Bank and all payments due to the Swap Provider under the Issuer Swap Transaction (other than in respect of amounts specified at items specified in (b) and (d) above)), will be made in priority to payments in respect of interest and principal on the Notes and payments to the Financial Guarantor.

If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to make all payments due in respect of the Secured Obligations, the other assets (if any) of the Issuer, other than any surplus arising on the realisation of or enforcement with respect to any remaining security, will not be available for payment of any shortfall arising therefrom (which will be borne in accordance with the terms of the Deed of Charge and Assignment). All claims in respect of such shortfall, after realisation of, or enforcement

with respect to, all of the Issuer Security, will be extinguished and the Trustee, the Noteholders, the Financial Guarantor and the other Secured Parties will have no further claim against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, is deemed to accept and acknowledge that it is fully aware that, save as aforesaid, (a) upon enforcement of the Issuer Security, its right to obtain repayment in full is limited to the Issuer Security, and (b) the Issuer has duly and entirely fulfilled its repayment obligation by making available to the Noteholder its relevant part of the proceeds of realisation or enforcement with respect to the Issuer Security in accordance with the Deed of Charge and Assignment and all claims in respect of such shortfall will be extinguished.

The Financial Guarantor will have control over various matters in relation to the Notes and the Issuer Security for as long as it is the Controlling Party.

Issuer Expense Account

The Issuer Expense Account will be established using £1,500,000 of the proceeds of issue of the Notes.

Amounts credited to the Issuer Expense Account will be available to pay expenses of the Issuer which become due and payable other than on a Note Payment Date, and in respect of which the Cash Manager has not otherwise retained adequate funds in the Issuer Transaction Account.

The Swap Agreement

On or before the Closing Date, the Issuer will enter into the Swap Agreement with the Swap Provider. The obligations of the Swap Provider under the Swap Agreement will be guaranteed by the Swap Guarantor. The obligations of the Issuer under the Swap Agreement will be guaranteed by the Financial Guarantor

Pursuant to the Swap Agreement, the Issuer will enter into Issuer Swap Transaction with the Swap Provider in order to protect itself against Indexation Risk arising in respect of the Loan.

Under the terms of the Issuer Swap Transaction, the Issuer will pay to the Swap Provider an initial amount on the Closing Date and thereafter on the 29th day of each January, April, July and October (each a "**Swap Payment Date**") (subject to adjustment where any such day is not a Note Business Day) an amount equal to the excess (if any) of an amount determined by reference to the index-linked notional amount (such amount being equivalent to the index-linked amount payable by the Borrower on the immediately preceding Loan Payment Date) ("**X**") over a fixed amount payable by the Swap Provider to the Issuer on such date as set out in a schedule of fixed payments ("**Y**"), and the Swap Provider will pay to the Issuer an amount equal to the excess (if any) of Y over X.

The Issuer Swap Transaction may be terminated in accordance with certain termination events and events of default, certain of which are more particularly described below.

The Issuer Swap Transaction may be terminated by the Swap Provider if either: (a) a Note Enforcement Notice is given by the Trustee to the Issuer pursuant to Condition 9 of the Notes, or (b) the Loan is prepaid, repaid or sold in full, or (c) either some or all of the Notes are redeemed or cancelled. In the event that only a portion of the Notes are redeemed or cancelled, only a corresponding proportion of the Issuer Swap Transaction may be terminated. In any of these circumstances, either the Issuer or the Swap Provider may be required to pay a termination payment to the other as a result of such a termination.

Subject to the following, the Swap Provider and the Swap Guarantor are only obliged to make payments under the Issuer Swap Transaction to the extent that the Issuer makes the corresponding payments thereunder. Furthermore, a failure by the Issuer to make timely payment of amounts due from it under the Issuer Swap Transaction will constitute a default thereunder and entitle the Swap Provider to terminate the Issuer Swap Transaction.

The Swap Provider will be obliged to make payments under the Swap Agreement without any withholding or deduction of taxes unless required by law. The Swap Provider shall not be under any obligation to pay any additional sum to the Issuer if it is required by law to withhold or deduct tax from payments to the Issuer.

If due to action taken by a relevant taxing authority, action brought in a court of competent jurisdiction or any change in tax law, the Swap Provider will or there is a substantial likelihood that it will, on the next Swap Payment Date, be required to withhold or deduct tax from any payment due to be made to the Issuer, or the Swap Provider will, or there is a substantial likelihood that it will, on the next Swap Payment Date, receive a payment from the Issuer from which an amount is required to be deducted or withheld for or on account of tax

(notwithstanding the fact that the Issuer will pay an additional amount to the Swap Provider so as to ensure that the net amount actually received by the Swap Provider will equal the full amount that the Swap Provider would have received had no such deduction or withholding been required) (a "**Tax Event**"), then the Swap Provider will use its reasonable efforts to transfer prior to the time on the date on which such payment is required to be made, all of its rights and obligations under the Issuer Swap Transaction to another of its offices or affiliates in order to cure the relevant Tax Event. If no such transfer is effected, then the Swap Provider will be obliged to transfer its rights and obligations under the Issuer Swap Transaction to another of its offices or affiliates in the United Kingdom prior to the time on the date of the payment in respect of which the relevant Tax Event will arise provided that the Swap Provider was aware of such requirement to transfer at least 5 Local Business Days (as defined in the Swap Agreement) prior to the relevant payment date or if it was not so aware, then as soon thereafter as reasonably practicable. The Issuer will reimburse the Swap Provider for the cost associated with any transfer.

Under the terms of the Credit Agreement, the Borrower shall pay to the Issuer an amount equal to any United Kingdom tax withheld on any payment to the Issuer under the Swap Agreement. Under the BBC Deed of Covenant, the BBC covenants to pay to the Borrower an amount equal to the amount the Borrower is obliged to pay to the Issuer in respect of amounts of United Kingdom tax withheld in respect of any payment to the Issuer under the Swap Agreement.

If any withholding or deduction on any payment to be made by the Issuer to the Swap Provider is required by law, the Issuer will be required to pay such additional amount as is necessary to ensure that the net amount actually received by the Swap Provider will equal the full amount the Swap Provider would have received had no such withholding or deduction been required. If such tax payable by the Issuer is a tax which will or would be or become the subject of any tax credit, allowance, set-off, repayment or refund (a "Tax Credit") to the Swap Provider, then the Swap Provider shall pay to the Issuer so much of the Tax Credit as will leave the Swap Provider in substantially the same position it would have been in if no such deduction or withholding had been required, provided that the Swap Provider has obtained, utilised or retained the Tax Credit and has received payment of the additional amount required to be paid by the Issuer.

Under the terms of the Credit Agreement, the Borrower shall pay to the Issuer an amount equal to any additional amount required to be paid by the Issuer to the Swap Provider if any tax is withheld in respect of any payment by the Issuer under the Swap Agreement. Under the BBC Deed of Covenant, the BBC covenants to pay to the Borrower an amount equal to the amount the Borrower is obliged to pay to the Issuer in respect of any additional amount required to be paid by the Issuer to the Swap Provider if any tax is withheld in respect of any payment by the Issuer under the Swap Agreement.

If a Tax Event occurs and the Issuer cannot avoid such Tax Event by taking reasonable measures available to it and the Swap Provider is unable to transfer its rights and obligations thereunder to another office or affiliate to cure the Tax Event, then the Swap Agreement and the Issuer Swap Transaction may be terminated by the Issuer, with a related termination payment due to be made or received by the Issuer, if either it is able to find a replacement swap provider in which case it shall be obliged on early termination of the Issuer Swap Transaction to enter into a replacement swap transaction with such replacement swap provider or is able to redeem all of the Notes in full. See "Terms and Conditions of the Notes — Condition 5(d)" at page 126.

The Swap Agreement will contain certain other limited termination events and events of default which will entitle either party to terminate the Swap Agreement. In the event that the Loan is repurchased by MSDW PFI pursuant to the Loan Sale Agreement or purchased by the Servicer pursuant to the Servicing Agreement, the Issuer Swap Transaction will not be terminated, but the rights and obligations of the Issuer under the Issuer Swap Transaction will, in accordance with the terms of the Swap Agreement, be novated to MSDW PFI or the Servicer, as the case may be.

Swap Guarantee

The Swap Provider's obligations under the Issuer Swap Transaction are guaranteed pursuant to, and subject to the terms of, the Swap Guarantee provided by the Swap Guarantor. In the event that MSCS ceases (other than by virtue of its own default) to be the Swap Provider or it is replaced by a suitably rated third party, Morgan Stanley will cease to be the Swap Guarantor.

Swap Financial Guarantee

The Issuer's obligations under the Issuer Swap Transaction are guaranteed pursuant to, and subject to the terms of, the Swap Financial Guarantee provided by the Financial Guarantor.

Swap Guarantor Downgrade Event

So long as the Financial Guarantor is the Controlling Party, (i) if the rating of the long-term unsecured, unsubordinated debt obligations of the Swap Guarantor falls to "A-" by Fitch or "A3" by Moody's or "A-" by S&P at any time, then the Swap Provider will be required to provide collateral in the form of cash or securities or both in support of its obligations under the Swap Agreement in an amount or value determined in accordance with the terms of the Swap Agreement Credit Support Document and (ii) if the rating of the long-term unsecured, unsubordinated debt obligations of the Swap Guarantor falls to "BBB+" by Fitch or "Baa1" by Moody's or "BBB+" by S&P at any time, then the Swap Provider shall transfer all its rights and obligations under the Swap Agreement to a replacement third party provided that such third party's (or that third party's credit support provider's) long-term unsecured, unsubordinated debt obligations are above "BBB+" by Fitch and above "Baa1" by Moody's and above "BBB+" by S&P.

If the Financial Guarantor ceases to be the Controlling Party or its long-term financial strength rating falls below "AA-" by Fitch, "Aa3" by Moody's or "AA-" by S&P and the rating of the short-term unsecured, unsubordinated debt obligations of the Swap Guarantor falls to or below "F2" by Fitch at any time, to or below "A-2" by S&P at any time or the rating of the long-term unsecured, unsubordinated debt obligation of the Swap Guarantor falls below "A1" by Moody's at any time, then the Swap Provider will be required to:

(a) obtain a guarantee of its obligations under the Swap Agreement from a third party whose short term unsecured, unsubordinated debt obligations are rated "F1" or above by Fitch and "A-1" or above by S&P and whose long term unsecured, unsubordinated debt obligations are rated "A1" or above by Moody's; or

(b) provide collateral in the form of cash or securities or both in support of its obligations under the Swap Agreement in an amount or value determined in accordance with the terms of the Swap Agreement Credit Support Document; or

(c) transfer all its rights and obligations under the Swap Agreement to a replacement third party provided that such third party's (or that third party's credit support provider's) short term unsecured, unsubordinated debt obligations are rated "F1" or above by Fitch and "A-1" or above by S&P and provided further that such third party (or that third party's credit support provider's) long term unsecured, unsubordinated debt obligations are rated "A1" or above by Moody's.

Swap Agreement Credit Support Document

If at any time the Swap Provider is required to provide collateral in respect of any of its obligations under the Swap Agreement it will also do so under the terms of the 1995 ISDA Credit Support Annex (Bilateral Form — Transfer) entered into on or around the Closing Date between the Issuer and the Swap Provider (the "**Swap Agreement Credit Support Document**"). The Swap Agreement Credit Support Document will supplement, form part of and be governed by the Swap Agreement. The Swap Agreement Credit Support Document will provide that, from time to time, subject to the conditions specified in the Swap Agreement Credit Support Document, the Swap Provider will make transfers of collateral to the Issuer in support of its obligations under the Swap Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Swap Agreement Credit Support Document.

Collateral amounts that may be required to be posted by the Swap Provider pursuant to the Swap Agreement Credit Support Document may be delivered in the form of cash or securities. Cash amounts will be paid into the Issuer Swap Collateral Cash Account and securities will be transferred to the Issuer's Issuer Swap Collateral Custody Account. References in this Offering Circular to the Issuer Swap Collateral Cash Account and to the Issuer Swap Collateral Custody Account and to payments from such accounts are deemed to be a reference to such accounts and to payments from such accounts as and when opened by the Issuer.

If the Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account are opened, amounts equal to any amounts of interest on the credit balance of the Issuer Swap Collateral Cash Account, or amounts equivalent to distributions received on securities held in the Issuer Swap Collateral Custody Account, are required to be paid to the Swap Provider in accordance with the terms of the Swap Agreement Credit Support Document and the Deed of Charge and Assignment in priority to any other payment obligations of the Issuer, other than to the Trustee and for a receiver following the enforcement of the Notes. The obligation of the Issuer in respect of any return of securities posted as collateral pursuant to the Swap Agreement Credit Support Document is to return collateral of the same type, nominal value, description and amount as the collateral posted to the Issuer by the Swap Provider.

The BBC Deed of Covenant

In order to further enhance the Borrower's ability to pay interest on and repay the principal of the Loan, the BBC will covenant with the Borrower that the BBC will pay to the Borrower, on an after tax basis, an amount equal to that of:

(a) any liability to tax incurred by or imposed on, or the amount of any withholding tax suffered by, the Borrower as a result of any change of law taking effect after closing and as a result of any event occurring, or by reference to any profits earned, before or at the time at which the last payment to be made under the Notes is made (other than any such liability to tax arising as a result of a disposal of the Property except to the extent that the discharge of such a liability would adversely affect the Borrower's ability to comply fully with its obligations under the Credit Agreement);

(b) any liability of the Borrower to make a payment under the Credit Agreement:

(i) by way of gross-up for withholding tax on any payment by the Borrower under the Credit Agreement;

(ii) in respect of a gross-up for withholding tax on any payment by the Issuer under the Issuer Swap Transaction; or

(iii) in respect of United Kingdom tax withheld on any payment to the Issuer under the Issuer Swap Transaction;

(c) any liability to United Kingdom corporation tax, United Kingdom capital gains tax or United Kingdom inheritance tax incurred by or imposed on the Borrower otherwise than as a result of any change of law taking effect after closing and as a result of any event occurring, or by reference to any profits earned, before or at the time at which the last payment to be made under the Notes is made (other than any such liability to United Kingdom corporation tax in respect of a chargeable gain arising to the Borrower as a result of the disposal of its interest in the Property except to the extent that the discharge of such a liability would adversely affect the Borrower's ability to comply fully with its obligations under the Credit Agreement and except in certain other circumstances); or

(d) any amount in respect of United Kingdom value added tax payable by the Borrower or the Co-Owner in respect of any expenditure incurred by the Borrower or the Co-Owner respectively in connection with the Development Programme to the extent that such amount is not (for whatever reason) recovered as input tax within one month after the end of the relevant value added tax accounting period, provided that the BBC's liability to pay any such amount to the Borrower will commence only on the first anniversary of the Closing Date (at which time an amount equal to the aggregate of any amounts of input tax of the kind described above in respect of relevant value added tax accounting periods ending one month or more before that date which have not been recovered by that time will be immediately payable).

BBC Deed of Guarantee and Undertaking

Under the terms of the BBC Deed of Guarantee and Undertaking, the BBC shall guarantee to the Borrower the payment of any LLP Distributions not received by the Borrower. Such guarantee shall not be restricted by the fact that an amount has been paid to the Borrower by way of an LLP Distribution to the extent that any such payment is subject to any clawback by reason of the insolvency of the Co-Owner or the Limited Liability Partnership.

In addition, under the terms of the BBC Deed of Guarantee and Undertaking, the BBC shall, in the event that the Co-Owner Residual Interest Call Option is exercised, contribute the exercise price to the Borrower and shall guarantee to the Borrower, the onward payment of all amounts paid into the Co-Owner Development Account pursuant to the Co-Owner GIC.

SERVICING

Introduction

Pursuant to the Servicing Agreement, each of the Issuer, the Security Trustee, the Financial Guarantor and the Trustee will appoint MSMS as the Servicer to act as its agent to provide certain services in relation to the Loan and the Related Security. In performing its obligations under the Servicing Agreement, the Servicer must act in accordance with the "**Servicing Standard**", which requires the Servicer to act in accordance with the standard it would be reasonable to expect a reasonably prudent lender of money secured on commercial property to apply in servicing mortgages over commercial property which is beneficially owned by it, with a view to the timely collection of all sums due in respect of the Loan and, on the occurrence of an event of default under the Loan, the maximisation of recoveries available to the Noteholders (taking into account the likelihood of recovery of amounts due from the Borrower, the timing of any such recovery and the costs of recovery). In so acting, the Servicer may not have any regard to any fees or other compensation to which the Servicer may be entitled, any relationship the Servicer may have with the Borrower or any other party to the transaction or the ownership of any Note by the Servicer or any affiliate thereof providing the services required of it. If, in the course of providing the Services required of it, a conflict arises between the interests of the Servicer or any of its affiliates on the one hand and the interests of the Financial Guarantor and/or the Noteholders (as such interests may be properly determined by the Trustee) on the other, the interests of the Financial Guarantor and/or the Noteholders shall prevail.

The Servicer may become the owner or otherwise hold an interest in the Notes with the same rights as it would have if it were not the Servicer. Any such interest of the Servicer in the Notes will not be taken into account by any person when evaluating whether actions of the Servicer were consistent with the Servicing Standard.

Account Management

Each of the Borrower, the Co-Owner and the Limited Liability Partnership have granted first or second-ranking fixed charges over certain bank accounts in favour of the Security Trustee as security for the Borrower's obligations under the Loan and the Co-Owner's obligations under the Development Agency Agreement. MSMS, in its capacity as Security Trustee, is and, following the sale of the Loan to the Issuer will remain, the sole signatory on all such accounts. Under the Servicing Agreement, the Servicer will calculate the amount of all withdrawals which are to be made from these accounts and will instruct the Security Trustee to make the relevant withdrawals and transfers on the dates and in the amounts required. For further information regarding the timing and amount of withdrawals and the application of the sums withdrawn, see "The Accounts Structure and Cashflow Control" at page 96. To the extent that the Security Trustee may be required to exercise any discretion in relation to the Borrower Accounts, the Co-Owner Accounts or the LLP Account, such discretion will be exercised as described under "Servicing – Exercise of Discretion by the Servicer" at page 108.

Payments from the Borrower

On each Calculation Date and otherwise as required by the Issuer and the Trustee from time to time, the Servicer will calculate, with respect to the Collection Period then ended:

- (a) Borrower Receipts; and
- (b) Prepayment Fees,

prior to the application of such amounts in accordance with the applicable priority of payments or otherwise.

Annual Review Procedure

The Servicer is required to undertake an annual review in respect of the Borrower and the Loan in accordance with its then current servicing procedures and the Servicing Standard. The Servicer is authorised to conduct this review process more frequently if the Servicer, acting in accordance with the Servicing Standard, has cause for concern as to the ability of the Borrower to meet its financial obligations under the Credit Agreement.

Quarterly Report

Within 10 Note Business Days after the end of each Interest Period, the Servicer will deliver a report (the "**Servicing Report**") to the Issuer, the Trustee, the Financial Guarantor, the Cash Manager and the Rating Agencies in which it will notify such parties of, among other things, payments made in respect of the Loan during the period ending on but excluding the immediately preceding Calculation Date and beginning on and including the Calculation Date immediately prior to that one (a "**Collection Period**") any breaches of the Loan Transaction Documents of which it is aware, any arrears in respect of the Loan and certain information regarding payments made under the Underlease.

Investor Reports, which may include certain information from the Servicing Report, will also be made available to Noteholders and certain other persons on a quarterly basis via Wells Fargo Securitisation Services Limited's internet website currently located at www.ctslink.com; however, such website does not form part of the information provided for the purposes of this Offering Circular nor does it form part of this Offering Circular approved by the Irish Stock Exchange. Registration may be required for access to this website and disclaimers may be posted with respect to the information posted thereon.

Arrears and Default Procedures

The Servicer will be responsible for the supervision and monitoring of payments falling due in respect of the Loan. In relation to such matters, and in performing any action to recover amounts due from the Borrower in the event of a payment default, the Servicer will exercise any discretions in accordance with its then current enforcement procedures and the instructions (if any) of the Controlling Party (as more fully described below).

If the Controlling Party instructs the Servicer to undertake additional or alternative enforcement procedures to such procedures of the Servicer which are current from time to time ("**Additional Enforcement Procedures**") the Servicer may either (a) undertake such Additional Enforcement Procedures (in which case it shall not be liable for any breach of the Servicing Standard caused thereby) or (b) (subject to the satisfaction of certain conditions, including conditions regarding the appointment of a replacement) terminate its appointment under the Servicing Agreement. If the Servicer issues such a notice of termination, then between the date on which such notice of termination is served and the date on which such notice expires, the Servicer shall not be in breach of its obligations under the Servicing Agreement if it fails to comply with all and of the Additional Enforcement Procedures required by the Controlling Party.

Pursuant to the Servicing Agreement, the Issuer and the Security Trustee have authorised the Servicer to give a receiver appointed in respect of the Related Security an indemnity on their behalf provided that the indemnity is required by the receiver as a condition of its appointment or continued appointment and reasonable endeavours to appoint a suitably qualified and experienced receiver without the provision of such an indemnity have been taken by the Security Trustee (or the entity giving instructions to the Security Trustee) and provided further that the terms of any indemnity would be acceptable to a reasonably prudent lender of money acting in accordance with the Servicing Standard.

If the Property is sold pursuant to the implementation of the Enforcement Procedures, the net proceeds of sale (after payment of the costs and expenses of the sale) will, together with any amount payable on any related insurance contracts, be applied against the sums owing from the Borrower to the extent necessary to repay the Loan.

Exercise of Discretion by the Servicer

Prior to exercising any discretion under the Servicing Agreement (a "**Relevant Discretion**") the Servicer must notify the Controlling Party in writing of the manner in which it proposes to exercise the Relevant Discretion and the time at which it proposes to do so (the "**Specified Time**"), which shall be no earlier than the fifteenth Note Business Day following the date of such notification, and provide the Controlling Party with such additional information within its control that may reasonably be necessary to enable the Controlling Party properly to evaluate the proposed manner of exercise of the discretion in question. However, the Servicer shall not be required to notify the Controlling Party prior to instructing the Security Trustee to make a withdrawal from the Borrower Expense Account unless (a) the Financial Guarantor is the Controlling Party; and (b) the amount of such withdrawal exceeds £5,000 or the aggregate amount of withdrawals made from the Borrower Expense Account during the year ending on the date of such withdrawal exceeds £20,000.

Following such notification, the Servicer may not exercise the Relevant Discretion prior to the Specified Time unless it is required to do so by the Controlling Party. At or after the Specified Time the Servicer, acting in accordance with the Servicing Standard, may exercise the Relevant Discretion in the manner proposed

provided it has not received any instructions to the contrary from the Controlling Party. The Servicer shall be deemed not to be in breach of the Servicing Standard if (a) it does not exercise a discretion prior to the Specified Time (unless instructed to do so by the Controlling Party), or (b) at any time it exercises a Relevant Discretion in accordance with instructions from the Controlling Party which are not in accordance with the Servicing Standard. For further information regarding the basis on which the Controlling Party may instruct the Servicer regarding the exercise of any of the Relevant Discretions and other matters pertaining to the servicing of the Loan and the Related Security, see "The Parties – Trustee" at page 59.

Appointment of Special Servicer

The Loan will become a "**Specially Serviced Loan**" if either of the following conditions is satisfied:

(a) the debt service cover percentages (being the proportion (expressed as a percentage) which the sum of the net rental income, the LLP Distributions and certain payments under the BBC Deed of Guarantee and Undertaking payable to or for the benefit of the Borrower over (i) the immediately preceding interest period, and (ii) the immediately following period of 12 months, bears to the amount of interest and principal payable pursuant to the Credit Agreement) for the corresponding periods (the "**Debt Service Cover Percentages**") are equal to or less than 100 per cent.; or

(b) any other event of default under the Credit Agreement entitling (i) the Issuer to accelerate the Loan and/or (ii) the Security Trustee to enforce the Related Security, has occurred.

Upon the Loan becoming a Specially Serviced Loan, the Controlling Party may (and if the Controlling Party is the Trustee and the Noteholders pass an Extraordinary Resolution requiring it to do so, shall) terminate the appointment of the person then acting as Servicer and appoint a successor thereto (a "**Special Servicer**") which is acceptable to the Controlling Party (and the Noteholders, if the Trustee is the Controlling Party).

If a Special Servicer is appointed to service the Specially Serviced Loan, the Special Servicer shall, on an ongoing basis, assume all the obligations of the Servicer in relation to the Loan and the Related Security and references thereafter to the "Servicer" shall be read and construed as references to the "Special Servicer". In addition, the outgoing Servicer must co-operate with the Special Servicer to ensure that the Loan can continue to be serviced in accordance with the Servicing Standard during the transition.

Insurance

The Servicer will, on behalf of the Trustee, the Security Trustee and the Issuer establish and maintain procedures to monitor compliance with the terms of the Credit Agreement regarding the insurance of the Property. In particular, and subject to the terms of the Underlease, if the Servicer becomes aware that there has been a failure to pay premiums due under any buildings insurance policy relating to the Property, the Servicer shall take such action as the Issuer and/or the Security Trustee and/or the Trustee shall reasonably direct and in the absence of such direction shall, on behalf of the Issuer, the Security Trustee and the Trustee, pay premiums due and payable under any buildings insurance policy in order that the cover provided by such buildings insurance policy will not lapse.

Upon receipt of notice that any policy of buildings insurance has lapsed or that the Property is otherwise not insured in accordance with the terms of the Credit Agreement, the Servicer is required, subject to the terms of the Underlease, at the cost of the Issuer, to arrange such insurance. Under the terms of the Credit Agreement, the Borrower will be required to reimburse the Issuer for such costs of insurance. For further information regarding the insurance of the Property see "The Loan and the Related Security – Terms of the Credit Agreement – Undertakings" at page 71, and "The Property and the Leases – The Underlease – Insurance" at page 82 and "Risk Factors — Factors relating to the Loan and the Property – Insurance" at page 36.

Delegation by the Servicer

The Servicer may, in certain circumstances, without the consent of the Issuer, the Security Trustee or the Controlling Party, sub-contract or delegate its obligations under the Servicing Agreement. Notwithstanding any sub-contracting or delegation of the performance of any of its obligations under the Servicing Agreement, the Servicer will not be released or discharged from any liability thereunder and will remain responsible for the performance of its obligations under the Servicing Agreement.

Servicing and Special Servicing Fee

Pursuant to the Servicing Agreement, the Issuer will pay to the Servicer (or the person then entitled to the Servicing Fee) on each Note Payment Date a fee (the "**Servicing Fee**") at the rate of 0.08 per cent. per annum (exclusive of VAT) of the aggregate outstanding principal balance of the Loan at the beginning of the Collection Period to which that Note Payment Date relates. The Servicing Fee, or any part of such Servicing Fee, is assignable by the Servicer, subject to the assignee agreeing to be bound by the terms of the Deed of Charge and Assignment. Following any termination of MSMS's appointment as Servicer, the Servicing Fee will be paid to any substitute servicer appointed; provided that the Servicing Fee may be payable to any substitute servicer with the prior written consent of the Controlling Party at a higher rate (but which rate does not, in any event, exceed the rate then commonly charged by providers of loan servicing services secured on commercial properties).

Both before enforcement of the Notes and thereafter (subject to certain exceptions), the Issuer will pay the Servicing Fee or, as the case may be, the Special Servicing Fee to the Servicer and will reimburse the Servicer for all costs and expenses incurred by the Servicer in the enforcement of the Loan and the Related Security. Prior to an enforcement of the Issuer Security, the Servicing Fee or Special Servicing Fee is payable in priority to payments on the Notes until the Note Payment Date on which the aggregate Principal Amount Outstanding of the Notes, after providing for all amounts to be applied in redemption of the Notes on such Note Payment Date, is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes on the date of issuance thereof. On each Note Payment Date following the Note Payment Date referred to in the previous sentence and prior to enforcement of the Issuer Security, the Servicing Fee or Special Servicing Fee will be subordinated to the amounts payable on the Notes. Following enforcement of the Issuer Security, the Servicing Fee or Special Servicing Fee will be payable in priority to payments on the Notes. This order of priority has been agreed with a view to procuring the continuing performance by the Servicer of its duties in relation to the Issuer, the Security Trustee, the Trustee, the Loan, the Related Security and the Notes. For further information regarding the priority of payments due to the Servicer, see "Credit Structure" at page 101.

For so long as the Loan is designated as a Specially Serviced Loan, the Issuer is required to pay to the Servicer a fee (a "**Special Servicing Fee**") equal to 0.15 per cent. per annum (exclusive of VAT) of the outstanding principal amount of the Loan, for a period from (and including) the date the Loan is designated as a Specially Serviced Loan to (but excluding) the earlier of (a) the completion of enforcement procedures in respect of the Loan, and (b) the date on which the Debt Service Cover Percentages in respect of the Loan have been maintained at or above 100 per cent. for a period of three consecutive months. The Special Servicing Fee will accrue on a daily basis over such period and will be payable on each Note Payment Date commencing with the Note Payment Date following the date on which such period begins and ending on the Note Payment Date following the end of such period. No Servicing Fee will be payable in respect of the Loan while the Special Servicing Fee is payable in respect thereof. In addition to the Special Servicing Fee, the Servicer will be entitled to a fee (a "**Liquidation Fee**") equal to up to 1 (one) per cent. (exclusive of VAT) of the proceeds (net of costs and expenses of sale), if any, arising on the sale of the Property (the "**Liquidation Proceeds**") on enforcement of the Related Security. The Liquidation Fee will be negotiated (subject to a maximum fee of 1 per cent. of net proceeds, as described above) and agreed by the Issuer and the Servicer and notified to the Trustee in writing, and will be payable on the Note Payment Date immediately following the receipt of such net proceeds, provided that no amount will be payable to the Servicer in respect of a Liquidation Fee in respect of Liquidation Proceeds relating to the purchase of the Loan by the Servicer, any Noteholder or any affiliate of any of the foregoing.

Ability to Purchase the Loan and Related Security

The Issuer has, pursuant to the Servicing Agreement, granted to the Servicer the option on any Note Payment Date to purchase the Loan and the Related Security; provided that on the Note Payment Date on which the Servicer intends to purchase the Loan and Related Security the then aggregate Principal Amount Outstanding of all the Notes would be less than 10 per cent. of their Principal Amount Outstanding as at the Closing Date. The Servicer must give the Issuer and Trustee not more than 60 nor less than 30 days' written notice of its intention to purchase the Loan and Related Security. The purchase price to be paid by the Servicer to the Issuer or as the Issuer or the Trustee shall direct will be an amount equal to the then principal amount outstanding of the Loan plus accrued but unpaid interest on the Loan plus the Prepayment Fee.

Termination of Appointment of Servicer

In addition to the circumstances described under "Exercise of Discretion by the Servicer" at page 108 and "Appointment of Special Servicer" at page 109, the appointment of the Servicer under the Servicing Agreement

may be terminated by the Trustee following a termination event, by voluntary termination or by automatic termination.

The Trustee may terminate the Servicer's appointment under the Servicing Agreement upon the occurrence of a termination event in respect of that entity under the terms of the Servicing Agreement, including, among other things, a default in the payment on the due date of any payment to be made by it under the Servicing Agreement and which default continues for a period of five Note Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice by the Trustee requiring the same to be remedied, or, in certain circumstances, a default in performance of any of its other material covenants or obligations under the Servicing Agreement, or in the event that an order is made or an effective resolution passed for its winding up, or if it becomes insolvent or upon the direction of the Controlling Party or, for as long as the Trustee is the Controlling Party, by an Extraordinary Resolution by the Noteholders which requires the Trustee to terminate the Servicer's appointment. On the termination of the appointment of the Servicer by the Trustee, the Trustee may, subject to certain conditions (including, but not limited to, if the Trustee is the Controlling Party, the receipt of confirmation from the Rating Agencies that the then current Adjusted Rating of the Notes will not be downgraded, withdrawn or qualified as a result thereof, unless otherwise agreed by an Extraordinary Resolution of the Noteholders), appoint a substitute servicer.

The Servicer may terminate its appointment upon not less than three months' prior written notice to each of the Issuer, the Security Trustee and the Trustee provided that a qualified substitute servicer shall have been appointed and agreed to be bound by the Servicing Agreement (including, but not limited to, those provisions as to the fees, costs and expenses) and the Deed of Charge and Assignment, such appointment to be effective not later than the date of termination of the Servicing Agreement, and provided further that the Rating Agencies have provided written confirmation that the then Adjusted Ratings of the Notes will not be qualified, downgraded or withdrawn as a result thereof unless otherwise agreed by an Extraordinary Resolution of the Noteholders.

On termination of its appointment, the Servicer will forthwith deliver to the Trustee or as the Trustee directs, all documents, information, computer stored data and moneys held by it in relation to its appointment as Servicer and will be required to take such further action as the Trustee may reasonably direct to enable the services of the Servicer to be performed by a substitute thereof.

The Servicing Agreement will terminate automatically at such time as neither the Issuer nor the Security Trustee nor the Trustee has any further interest in the Loan or the Related Security or, if later, upon discharge of all of the liabilities of the Issuer to the Secured Parties.

General

In addition to the duties described above, the Servicer is required under the Servicing Agreement to perform duties customary for a servicer of mortgage loans such as retaining or arranging for the retention of loan and property deeds and other documents in safe custody and software licensing and sub-licensing.

Notwithstanding the foregoing, the Servicer will not be liable for any obligation of the Borrower under the Credit Agreement or the Related Security, have any liability to any third party for the obligations of the Issuer, the Security Trustee or the Trustee under the Notes or any of the documents listed under paragraph 14 of "General Information" at page 164 (the "**Relevant Documents**") or have any liability to the Issuer, the Security Trustee, the Trustee, the Noteholders or any other person for any failure by the Issuer to make any payment due by it under the Notes or any of the Relevant Documents unless such failure by the Issuer results from a failure by the Servicer to perform its obligations under the Servicing Agreement.

CASH MANAGEMENT

Cash Manager

Pursuant to an agreement to be entered into on or prior to the Closing Date between the Issuer, the Servicer, the Trustee, the Cash Manager, the Issuer Operating Bank and MSDW PFI (the "**Cash Management Agreement**"), each of the Issuer and the Trustee will appoint HSBC Bank plc (in this capacity, the "**Cash Manager**") to be its agent to provide certain cash management services in relation to, among other things, the Issuer Transaction Account, as are more particularly described below. The Cash Manager will undertake with the Issuer and the Trustee in the Cash Management Agreement that in performing the services to be performed and in exercising its discretion thereunder, the Cash Manager will exercise the same level of skill, care and diligence as it would apply if it were the beneficial owner of the moneys to which the services relate and that it will comply with any directions, orders and instructions which the Issuer or the Trustee may from time to time give to it in accordance with the provisions of the Cash Management Agreement.

Issuer Operating Bank and Issuer's Accounts

Pursuant to the Cash Management Agreement, the Issuer Operating Bank will open and maintain the Issuer Transaction Account, the Issuer Expense Account and, if required, the Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account in the name of the Issuer. The Issuer Operating Bank has agreed to comply with any direction of the Cash Manager, the Issuer or the Trustee to effect payments from the Issuer Transaction Account, the Issuer Expense Account or the Issuer Swap Collateral Cash Account if such direction is made in writing and in accordance with the mandate governing the applicable account.

Calculation of Amounts and Payments

Under the Servicing Agreement, the Servicer is required to instruct the Security Trustee to transfer all Borrower Receipts and Prepayment Fees into the Issuer Transaction Account; all payments required to be made by the Issuer to the Swap Provider under the Swap Agreement will be deducted from the Issuer Transaction Account. In addition, all payments made by the Swap Provider and/or the Swap Guarantor, other than those contemplated by the Swap Agreement Credit Support Document will be paid into the Issuer Transaction Account. Once such funds have been credited to the Issuer Transaction Account, the Cash Manager shall invest such sums in Eligible Investments and is required to apply such funds in accordance with the Deed of Charge and Assignment and the Cash Management Agreement, as described below.

On each Swap Payment Date the Cash Manager will pay on behalf of the Issuer out of the Available Receipts determined by the Cash Manager to be available for such purpose, any payment required to be paid by the Issuer on such date under the Issuer Swap Transaction. On each "**Calculation Date**" (being the second Note Business Day prior to the relevant Note Payment Date), the Cash Manager is required to determine, on the basis of information provided by the Servicer, the various amounts required to pay interest and principal due on the Notes on the forthcoming Note Payment Date and all other amounts then payable by the Issuer, and the amounts available to make such payments. In addition, the Cash Manager will calculate the Principal Amount Outstanding (as defined in Condition 5(e)) for the Notes for the Interest Period commencing on such forthcoming Note Payment Date and the amount of each Note Principal Payment due on the next following Note Payment Date, in each case pursuant to Condition 5(e).

On each Calculation Date, the Cash Manager will determine, and on each Note Payment Date the Cash Manager will pay on behalf of the Issuer out of the Available Receipts determined by the Cash Manager to be available for such purposes as described above, each of the payments required to be paid pursuant to and in the priority set forth in the Deed of Charge and Assignment. In addition, the Cash Manager will, from time to time, pay on behalf of the Issuer all Priority Amounts required to be paid by the Issuer, as determined by the Servicer. Priority Amounts shall be paid by the Cash Manager at the direction of the Servicer from funds standing to the credit of the Issuer Transaction Account to the extent that there are sufficient funds standing to the credit thereof, except that Priority Amounts to be paid on or after the fifth Business Day prior to the next succeeding Note Payment Date or on or after the sixth Note Business Day prior to the next succeeding Swap Payment Date shall be paid:

- (a) from funds standing to the credit of the Issuer Transaction Account, to the extent that there are sufficient funds standing to the credit thereof to make such payments and to make in full all payments required to be made by the Issuer under the Issuer Swap Transaction on the next succeeding Swap Payment Date, or all payments of interest and principal due on the Notes on the next succeeding Note Payment Date, as applicable; and

- (b) otherwise, from funds standing to the credit of the Issuer Expense Account (to the extent that there are sufficient funds standing to the credit thereof to make such payment).

The Cash Manager will make all payments required to carry out a redemption of Notes pursuant to Condition 5(c), in each case according to the provisions of the relevant Condition. See further "Terms and Conditions of the Notes" at page 119.

Ledgers

The Cash Manager will, if required by the Issuer and the Trustee, maintain the following ledgers:

- (a) the Receipts Ledger; and
- (b) the Prepayment Fee Ledger.

In addition, the Cash Manager will maintain such other ledgers as the Issuer, the Trustee or the Servicer may from time to time request.

The Cash Manager will from time to time in accordance with the payments made:

- (a) credit the Receipts Ledger with all amounts transferred and credited to the Issuer Transaction Account (other than Prepayment Fees) and debit the Receipts Ledger with all payments made out of amounts standing to the credit of the Issuer Transaction Account; and
- (b) credit the Prepayment Fee Ledger with all Prepayment Fees transferred to the Issuer Transaction Account and debit the Prepayment Fee Ledger with all payments made out of Prepayment Fees.

Cash Manager Quarterly Report

Pursuant to the Cash Management Agreement, the Cash Manager has agreed to deliver to the Issuer, the Controlling Party, the Servicer and the Rating Agencies a report in respect of each Calculation Date in which it will notify the recipients of, among other things, all amounts received in the Issuer Transaction Account and payments made with respect thereto and all entries made in the relevant ledgers.

Delegation by the Cash Manager

The Cash Manager may, in certain circumstances, without the consent of the Issuer or the Trustee, subcontract or delegate its obligations under the Cash Management Agreement. Notwithstanding any subcontracting or delegation of the performance of any of its obligations under the Cash Management Agreement, the Cash Manager will not be released or discharged from any liability thereunder and will remain responsible for the performance of its obligations under the Cash Management Agreement.

Cash Management Fee

Pursuant to the Cash Management Agreement, the Issuer will pay to the Cash Manager on each Note Payment Date a cash management fee as agreed between the Cash Manager and the Issuer and will reimburse the Cash Manager and the Issuer Operating Bank for all out-of-pocket costs and expenses properly incurred by them in the performance of the services to be provided by them under the Cash Management Agreement as Cash Manager and Issuer Operating Bank, respectively. Any successor cash manager will receive remuneration on the same basis.

Both before enforcement of the Notes and thereafter (subject to certain exceptions), amounts payable by the Issuer to the Cash Manager and the Issuer Operating Bank will be payable in priority to payments due on the Notes. This order of priority has been agreed with a view to procuring the continuing performance by each of the Cash Manager and the Issuer Operating Bank of their duties in relation to the Issuer, the Trustee, the Loan, the Related Security and the Notes.

Termination of Appointment of the Cash Manager

The appointment of HSBC Bank plc as Cash Manager under the Cash Management Agreement may be terminated by virtue of its resignation or its removal by the Issuer or the Trustee. The Issuer or the Trustee may terminate the Cash Manager's appointment upon not less than three months' written notice or immediately upon the occurrence of a termination event, including, among other things, (a) a failure by the Cash Manager to make

when due a payment required to be made by the Cash Manager on behalf of the Issuer in accordance with the Cash Management Agreement, or (b) a default in the performance of any of its other duties under the Cash Management Agreement which continues unremedied for a period of 15 Note Business Days after the earlier of the Cash Manager becoming aware of such default or receipt by the Cash Manager of written notice from the Trustee requiring the same to be remedied, or (c) a petition is presented or an effective resolution passed for its winding up or the appointment of an administrator, examiner or similar official. On the termination of the Cash Manager by the Trustee, the Trustee may, subject to certain conditions, appoint a successor cash manager.

The Cash Manager may resign as Cash Manager upon not less than three months' written notice of resignation to each of the Issuer, the Servicer, MSDW PFI, the Issuer Operating Bank, the Trustee and the Controlling Party provided that a suitably qualified successor Cash Manager shall have been appointed.

Termination of Appointment of the Issuer Operating Bank

The Cash Management Agreement requires that the Issuer Operating Bank be, except in certain limited circumstances, a bank which is an Authorised Entity. If the Issuer Operating Bank ceases to be an Authorised Entity, the Issuer Operating Bank will give written notice of such event to the Issuer, the Servicer, the Cash Manager, the Trustee, the Controlling Party and the Issuer and will, within a reasonable time after having obtained the prior written consent of the Issuer, the Servicer and the Controlling Party and subject to establishing substantially similar arrangements to those contained in the Cash Management Agreement, procure the transfer of the Issuer Transaction Account and the Issuer Expense Account and each other account held by the Issuer with the Issuer Operating Bank to another bank which is an Authorised Entity. If at the time when a transfer of such account or accounts would otherwise have to be made, there is no other bank which is an Authorised Entity or if no Authorised Entity agrees to such a transfer, the accounts need not be transferred until such time as there is a bank which is an Authorised Entity or an Authorised Entity which so agrees, as the case may be.

If, other than in the circumstances specified above, the Cash Manager wishes the bank or branch at which any account of the Issuer is maintained to be changed, the Cash Manager is required to obtain the prior written consent of the Issuer and the Controlling Party, such consent not to be unreasonably withheld, and the transfer of such account will be subject to the same directions and arrangements as are provided for above.

ESTIMATED AVERAGE LIVES OF THE NOTES AND ASSUMPTIONS

The average lives of the Notes cannot be predicted as the actual rate at which the Loan will be repaid or prepaid and a number of other relevant factors are unknown.

Calculations of possible average lives of the Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Loan does not default or prepay, is not enforced and no loss arises;
- (b) the Swap Agreement will not be terminated; and
- (c) the Closing Date is 17 July, 2003,

then the approximate percentage of the initial principal amount outstanding of the Notes on each payment date of the Notes and the approximate average lives of the Notes would be as follows:

Payment Date of Notes	Notes (per cent.)
Closing Date	100
10 August, 2004	99.9
10 August, 2005	99.9
10 August, 2006	99.8
10 August, 2007	99.8
10 August, 2008	99.7
10 August, 2009	99.2
10 August, 2010	98.5
10 August, 2011	97.6
10 August, 2012	96.5
10 August, 2013	95.3
10 August, 2014	93.8
10 August, 2015	92.1
10 August, 2016	90.1
10 August, 2017	87.9
10 August, 2018	85.4
10 August, 2019	82.6
10 August, 2020	79.5
10 August, 2021	76.0
10 August, 2022	72.2
10 August, 2023	68.0
10 August, 2024	63.4
10 August, 2025	58.4
10 August, 2026	52.8
10 August, 2027	46.8
10 August, 2028	40.3
10 August, 2029	33.2
10 August, 2030	25.5
10 August, 2031	17.1
10 August, 2032	8.1
10 August, 2033	0
Average Life (years)	22.3
First Principal Payment Date	10 November, 2003
Last Principal Payment Date	10 August, 2033

Assumptions (a) and (b) relate to circumstances which are not predictable.

The average lives of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that any of the estimates above will in fact be realised and they must therefore be viewed with considerable caution.

The day count fraction used for the above was "30/360".

For a more detailed description of the amortisation of the Notes, see the schedule to the Conditions at page 137.

DESCRIPTION OF THE NOTES

General

The Notes will initially be represented by the Temporary Global Note. The Temporary Global Note will be deposited on behalf of the subscribers to the Notes with the Common Depositary for the account of Euroclear and Clearstream, Luxembourg on or about the Closing Date. Upon the deposit of the Temporary Global Note, Euroclear or Clearstream, Luxembourg, as the case may be, will credit, by means of book entries, each subscriber of the Notes with the principal amount of the Notes for which it has subscribed and paid.

Interests in the Temporary Global Note will be exchangeable not earlier than 40 days after the Closing Date (provided customary certification of non-U.S. beneficial ownership by the Noteholders has been received) for an interest in the Permanent Global Note in bearer form without coupons or talons attached in a principal amount equal to the Principal Amount Outstanding of the Temporary Global Note.

On the exchange of the Temporary Global Note for the Permanent Global Note, the Permanent Global Note will remain deposited with the Common Depositary.

Title to the Global Notes will be transferable by delivery. Definitive Notes will not be available except in the limited circumstances described below and not in any event before the Exchange Date. While any Global Note is outstanding, payments on the Notes represented by such Global Note will be made to, or to the order of, the Common Depositary as the holder thereof. In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note (each, an "**Accountholder**") will be entitled to receive any payment made in respect of that Note, provided, however, that if any payment of principal and/or interest in respect of any of the Notes falls due whilst such Notes are represented by the Temporary Global Note, payment of principal and/or interest in respect of such Notes will be made only to the extent that customary certification of non-U.S. beneficial ownership has been received by the Common Depositary for Euroclear or Clearstream, Luxembourg.

Each Accountholder must, for as long as the Notes remain represented by a Global Note, look solely to Euroclear or, as the case may be, Clearstream, Luxembourg for its share of each payment made by the Issuer to the bearer of such Global Note, subject to and in accordance with the rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate.

Whilst the Notes are represented by a Global Note, the relevant Accountholders shall have no claim directly against the Issuer in respect of payments due on the relevant Notes and the Issuer will be discharged by payment to the bearer of such Global Note in respect of each amount so paid.

To the extent permitted by applicable law, the Issuer, the Trustee, the Principal Paying Agent and any other Paying Agents may treat the holder of a Note represented by a Global Note as the absolute owner thereof (notwithstanding any notice of ownership or writing thereon or of trust or other interest therein, including that of the Noteholders) for the purpose of making payments on the Notes represented thereby, and the expression "**Noteholders**" shall be construed accordingly.

For so long as the Notes are represented by Global Notes, the Notes will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

Payments on Global Note

Payment of principal of and interest on the Permanent Global Note will be made to the Common Depositary as the holder thereof. All such amounts will, subject as provided below, be payable by a paying agent, in pounds sterling.

Information Regarding Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg have informed the Issuer as follows:

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and

borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Redemption

For any redemptions of the Global Notes in part, selection of the Notes to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, on a *pro rata* basis (or on such other basis as Euroclear or Clearstream, Luxembourg deems fair and appropriate) provided that only Notes in the original principal amount of £25,000 and integral multiples of £1,000 in excess thereof or integral multiples of such original principal amount will be redeemed. Upon any redemption in part, the relevant Paying Agent will mark down or to cause to be marked down the schedule to the Global Notes by the principal amount so redeemed.

Transfer and Transfer Restrictions

All transfers of interests in any Global Note will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its participants. For further information, see "General" above.

Issuance of Definitive Notes

Holders of interests in the Permanent Global Note will be entitled to receive Definitive Notes representing Notes in bearer form in exchange for their respective holdings of interests in the Permanent Global Note only if after the Exchange Date:

- (a) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is in existence; or
- (b) the Issuer would suffer a material disadvantage in respect of the Notes as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof or of any authority therein or thereof having power to tax) or in the interpretation or administration by a revenue authority or a court or in the 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 a deduction or withholding from any payment in or in respect of the Notes which would not be required were the Notes in definitive form,

in which case the Issuer will, at its sole cost and expense, issue Notes in definitive form.

If any such event referred to above occurs while any Notes are represented by the Temporary Global Note, then Definitive Notes will not be issued until the Temporary Global Note has been exchanged for the Permanent Global Note, which exchange shall not, in any event, occur before the Exchange Date. Definitive Notes, if issued, will be available at the offices of any Paying Agent.

If the Issuer fails to meet its obligations to issue Notes in definitive form in exchange for the Permanent Global Note, then the Permanent Global Note shall remain in full force and effect.

Reports

All notices regarding the Global Notes will be sent to Euroclear and Clearstream, Luxembourg. In addition (so long as the Notes are admitted to trading on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require), notices regarding the Notes will be published in a leading newspaper having a general circulation in Ireland, which is expected to be The Irish Times and (for so long as the Notes are admitted to the Official List and the rules of the Irish Stock Exchange require) notices regarding the Notes will be notified to the Company Announcement Office.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes in the form (subject to amendment) in which they will be set out in the Trust Deed.

The £813,320,000 5.0636% Commercial Mortgage Backed Fixed Rate Guaranteed Notes due 2033 (the "**Notes**") (as more fully defined below) of Juturna (European Loan Conduit No. 16) plc (the "**Issuer**") are constituted by a trust deed dated on or about the Closing Date (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) and made between the Issuer, the Financial Guarantor and HSBC Trustee (C.I.) Limited (the "**Trustee**", which expression includes its successors or any further or other trustee under the Trust Deed) as trustee for the holders for the time being of the Notes (the "**Noteholders**").

The Notes are unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest in respect of the Notes, pursuant to a financial guarantee dated the Closing Date issued by the Financial Guarantor (the "**Note Financial Guarantee**").

The security for, among other things, the Notes (the "**Issuer Security**") is created pursuant to, and on terms set out in, a deed of charge and assignment dated on or about the Closing Date (the "**Deed of Charge and Assignment**", which expression includes such deed of charge and assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) and made between, among others, the Issuer and the Trustee. By an Agency Agreement dated on or about the Closing Date (the "**Agency Agreement**", which expression includes such Agency Agreement as from time to time modified in accordance with the provisions therein contained and any agreement, deed or other document expressed to be supplemental thereto as from time to time so modified) and made between, among others, the Issuer, the Trustee, HSBC Bank plc, in its separate capacities under the same agreement as principal paying agent (the "**Principal Paying Agent**", which expression shall include any other principal paying agent appointed in respect of the Notes), agent bank (the "**Agent Bank**", which expression shall include any other agent bank appointed in respect of the Notes), and HSBC Global Investor Services (Ireland) Limited as paying agent in Ireland (the "**Sub-Paying Agent**", which expression shall include any other paying agent appointed in Ireland in respect of the Notes) (the Principal Paying Agent being, together with the Sub-Paying Agent and any further or other paying agents for the time being appointed in respect of the Notes, the "**Paying Agents**" and, together with the Agent Bank the "**Agents**"), provision is made for, among other things, the payment of principal and interest in respect of the Notes.

The statements in these Terms and Conditions (the "**Conditions**" and any reference to a "**Condition**" shall be construed accordingly) include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement, the Deed of Charge and Assignment and the Master Definitions Agreement (each as defined herein). Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and Assignment, the Master Definitions Agreement (each as defined herein) and the Note Financial Guarantee are available for inspection by the Noteholders at the principal office for the time being of the Trustee, being at the date hereof at 1 Grenville Street, St Helier, Jersey JE4 9PF and at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of and definitions contained in the Trust Deed, the Agency Agreement, the Deed of Charge and Assignment, the Note Financial Guarantee and a Master Definitions Agreement dated on or about the Closing Date made between, among others, the Issuer and the Trustee (the "**Master Definitions Agreement**", which expression includes such Master Definitions Agreement as from time to time modified in accordance with the provisions therein contained and any agreement, deed or other document expressed to be supplemental thereto as from time to time so modified). The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of and definitions contained in the Note Financial Guarantee.

The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on or about 16 July, 2003.

1. Form, Denomination and Title

- (a) The Notes, which are serially numbered, are issued in bearer form in denominations of £25,000 and integral multiples of £1,000. The Global Notes are issued without coupons or talons. Any Definitive Notes will be issued with coupons and talons attached. Title to the Notes shall pass by delivery.

- (b) The holder of any Note may (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.

2. Status, Note Financial Guarantee, Security and Priority

(A) Status and relationship between the Notes

- (a) The Notes constitute direct, secured and unconditional obligations of the Issuer. The Notes rank *pari passu* and rateably without preference or priority among themselves and will rank in priority to all unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (b) The Trust Deed and the Deed of Charge and Assignment each contain provisions requiring the Trustee to have regard to the interests of all the Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Trustee.
- (c) Except where expressly provided otherwise, so long as any of the Notes remain outstanding, the Trustee is not required to have regard to the interests of any other persons entitled to the benefit of the Issuer Security.

(B) Note Financial Guarantee

The Notes have the benefit of the Note Financial Guarantee which has been issued pursuant to a guarantee and indemnity agreement dated on or before the Closing Date between, among others, the Issuer and the Financial Guarantor (the "**Guarantee and Reimbursement Agreement**"). Pursuant to the Note Financial Guarantee, MBIA has unconditionally and irrevocably agreed to pay to the Trustee all sums due and payable but unpaid by the Issuer in respect of scheduled principal and interest (but always excluding Default Interest (as defined in Condition 4 (*Default Interest*)) on the Notes, as more particularly described in the Note Financial Guarantee.

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

(C) Status of Note Financial Guarantee

The Note Financial Guarantee provided by the Financial Guarantor in respect of the Notes constitutes an unsubordinated and unsecured obligation of the Financial Guarantor which will rank at least *pari passu* with all other unsubordinated and unsecured obligations of the Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(D) Subrogation of the Financial Guarantor

The Trust Deed and the Note Financial Guarantee provide that the Financial Guarantor shall be subrogated to any rights of the Trustee and the Noteholders against the Issuer in respect of amounts due in respect of the Notes which have been paid by the Financial Guarantor under the Note Financial Guarantee.

(E) Security and Priority of Payments

The security in respect of the Notes is set out in the Deed of Charge and Assignment. In accordance with the Trust Deed, the "**Controlling Party**" will be the Financial Guarantor unless and until such time as the Trustee has determined that an MBIA Event of Default (as defined in the Guarantee and Reimbursement Agreement) has occurred that has not been cured to the satisfaction of the Trustee or waived by the Trustee, in which case the Trustee will be the Controlling Party. The Deed of Charge and Assignment also contains

provisions regulating the priority of application of the Available Receipts (as defined in the Master Definitions Agreement) among the persons entitled thereto prior to the service of a Note Enforcement Notice (as defined in Condition 9(a)), and of the Available Receipts and the proceeds of enforcement or realisation of the Issuer Security by the Trustee after the service (upon instructions of the Controlling Party) of a Note Enforcement Notice.

The Issuer Security may be enforced by the Trustee (upon instructions of the Controlling Party) following the service of a Note Enforcement Notice in accordance with Condition 9(a).

If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to make all payments due in respect of the Notes, the other assets (if any) of the Issuer, other than any surplus arising on the realisation of or enforcement with respect to any remaining security, will not be available for payment of any shortfall arising therefrom, and any such shortfall will be borne in accordance with the provisions of the Deed of Charge and Assignment. All claims in respect of such shortfall, after realisation of or enforcement with respect to all of the Issuer Security, will be extinguished and the Trustee, the Noteholders, the Financial Guarantor and the other Secured Parties will have no further claim against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, is deemed to accept and acknowledge that it is fully aware that (i) in the event of an enforcement of the Issuer Security, its right to obtain payment of interest and repayment of principal on the Notes in full from the Issuer is limited to recourse against the assets of the Issuer comprised in the Issuer Security, (ii) the Issuer will have duly and entirely fulfilled its payment obligations by making available to such Noteholder its proportion of the proceeds of realisation or enforcement of the Issuer Security in accordance with the Deed of Charge and Assignment, and all claims in respect of any shortfall shall be extinguished, and (iii) in the event that a shortfall in the amount available to pay principal of the Notes exists on the Note Payment Date falling in August, 2033 (the "**Final Note Payment Date**") or on any earlier redemption in full of the Notes, after payment on the Final Note Payment Date or such date of earlier redemption of all other claims ranking higher in priority to or *pari passu* with the Notes and after the realisation by the Issuer of all assets the subject of or forming the Issuer Security, and the Issuer Security has not become enforceable as at such date, the liability of the Issuer to make any payment in respect of such shortfall shall cease and all claims in respect of such shortfall shall be extinguished.

3. Covenants

(A) Restrictions

As more particularly provided in the Trust Deed and subject as provided below, unless the Trustee gives its prior written consent or unless otherwise provided in or envisaged by these Conditions or the Relevant Documents (as defined in the Master Definitions Agreement), the Issuer shall not, so long as any Note remains outstanding:

(a) Negative Pledge

create or permit to subsist any mortgage, standard security, sub-mortgage, sub-standard security, assignment, assignation, charge, sub-charge, pledge, lien (unless arising by operation of law), hypothecation, assignation or other security interest whatsoever over any of its assets, present or future (including any uncalled capital);

(b) Restrictions on Activities

- (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities which the Relevant Documents provide or envisage that the Issuer will engage in;
- (ii) have any subsidiaries or any employees or own, rent, lease or be in possession of any buildings or equipment; or
- (iii) amend, supplement or otherwise modify its Memorandum or Articles of Association or other constitutive documents;

(c) Disposal of Assets

transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertaking or any interest, estate, right, title or benefit therein;

(d) Dividends or Distributions

pay any dividend or make any other distribution to its shareholders or issue any further shares, other than in accordance with the Deed of Charge and Assignment;

(e) Borrowings

incur or permit to subsist any indebtedness in respect of borrowed money whatsoever, except in respect of the Notes or the Issuer Swap Transaction (as defined in the Master Definitions Agreement) or give any guarantee or indemnity in respect of any indebtedness or of any obligation of any person;

(f) Merger

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

(g) Variation

permit the validity or effectiveness of any of the Relevant Documents, or the priority of the security interests created thereby, to be amended, terminated, postponed or discharged, or consent to any variation of, or exercise any powers of consent or waiver pursuant to the terms of, the Trust Deed, these Conditions, the Deed of Charge and Assignment or any of the other Relevant Documents, or permit any party to any of the Relevant Documents or the Issuer Security or any other person whose obligations form part of the Issuer Security to be released from such obligations or dispose of all or any part of the Issuer Security;

(h) Bank Accounts

have an interest in any bank account other than the Issuer's Accounts (as defined in the Master Definitions Agreement), unless such account or interest therein is charged to the Trustee on terms acceptable to it;

(i) Assets

own assets other than those representing its share capital, the funds arising from the issue of the Notes, the property, rights and assets secured by the Issuer Security and associated and ancillary rights and interests thereto, the benefit of the Relevant Documents and any investments and other rights or interests created or acquired thereunder, as all of the same may vary from time to time; and

(j) VAT

apply to become part of any group for the purposes of section 43 of the Value Added Tax Act 1994 with any other company or group of companies, or any such act, regulation, order, statutory instrument or directive which may from time to time re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994.

The Trustee may not give its consent to any of the foregoing without being instructed to do so by the Financial Guarantor, if the Financial Guarantor is the Controlling Party. If the Trustee is the Controlling Party, such consent shall only be given upon the resolution of the holders of at least 50.1 per cent of the Principal Amount Outstanding of the Notes.

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Relevant Documents or may impose such other conditions or requirements as the Controlling Party may deem expedient (in its absolute discretion) provided that if the Trustee is the Controlling Party each of the Rating Agencies (as defined in Condition 14) has provided written confirmation to the Trustee that the then applicable Adjusted Ratings (as defined in the Master Definitions Agreement) of the Notes then rated thereby will not be qualified, downgraded or withdrawn as a result of such modifications or additions.

(B) Cash Manager and Servicer

So long as any of the Notes remains outstanding, the Issuer will procure that there will at all times be a cash manager in respect of the monies from time to time standing to the credit of the Issuer Transaction Account and

the Issuer Expense Account (each as defined in the Master Definitions Agreement) and any other account of the Issuer from time to time and a servicer. Neither the Cash Manager nor the Servicer (each as defined in the Master Definitions Agreement) will be permitted to terminate its appointment unless a replacement cash manager or servicer, as the case may be, acceptable to the Issuer and the Controlling Party has been appointed. The appointment of the Cash Manager and the Servicer may be terminated by the Trustee if, among other things, the Cash Manager or the Servicer, as applicable, defaults in any material respect (in the case of the Servicing Agreement (as defined in the Master Definitions Agreement)) or in any respect (in the case of the Cash Management Agreement (as defined in the Master Definitions Agreement)) in the observance and performance of any obligation imposed on it under the Servicing Agreement or the Cash Management Agreement, as applicable, which default is not remedied (i) in the case of the Cash Management Agreement, within 15 Note Business Days after the earlier of the Cash Manager becoming aware of such default and written notice of such default being served on the Cash Manager by the Trustee (except in respect of a failure by the Cash Manager to make when due a payment required to be made by the Cash Manager on behalf of the Issuer, in which case the appointment of the Cash Manager may be terminated immediately), or (ii) in the case of the Servicing Agreement, within 30 Note Business Days after written notice of such default shall have been served on the Servicer by the Issuer or by the Trustee provided that if MBIA is Controlling Party, the Trustee shall not seek to terminate the appointment of the Servicer or the Cash Manager without the Financial Guarantor's prior approval.

(C) Appointment of Special Servicer

If the Loan becomes a Specially Serviced Loan as described in the Servicing Agreement, the Financial Guarantor, for so long as it is the Controlling Party and thereafter the Noteholders will be entitled, by passing an Extraordinary Resolution, to require the Trustee to terminate the appointment of the person then acting as Servicer and to appoint a successor thereto (a "**Special Servicer**") in accordance with the Servicing Agreement.

4. Interest

(a) Period of Accrual

Each Note will bear interest on its Principal Amount Outstanding from (and including) the date on which it was issued (the "**Closing Date**") at the Rate of Interest. Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal or any part thereof is improperly withheld or refused. In such event, interest will continue to accrue thereon (both before and after any judgment) ("**Default Interest**") at the Rate of Interest applicable to such Note up to (but excluding) the date on which, on presentation of such Note, payment in full of the relevant amount of principal, together with the interest accrued thereon, is made or (if earlier) the seventh day after notice is duly given to the holder thereof (either in accordance with Condition 14 or individually) that, upon presentation thereof being duly made, such payment will be made, provided that upon presentation thereof being duly made, payment is in fact made.

Payment of Default Interest is not guaranteed by the Financial Guarantor under the Note Financial Guarantee.

To the extent there is a Tax Shortfall there is no obligation on the part of the Issuer or the Financial Guarantor to pay any Interest Tax Shortfall Amount.

(b) Note Payment Dates and Interest Periods

Interest on the Notes is payable quarterly in arrear on the 10th day of February, May, August and November in each year (each a "**Note Payment Date**") in respect of the Interest Period ending immediately prior thereto. The first Note Payment Date in respect of the Notes will be the Note Payment Date falling in November 2003.

In these Conditions, "**Interest Period**" means the period from (and including) a Note Payment Date (or, in respect of the payment of the first Interest Amount (as defined in Condition 4(d) below), the Closing Date) to (but excluding) the next following Note Payment Date (or, in respect of the payment of the first Interest Amount, the Note Payment Date falling in November 2003) and "**Note Business Day**", in these Conditions means a day (other than a Saturday or a Sunday) which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Dublin, Paris or Jersey.

(c) Rate of Interest

The rate of interest payable from time to time in respect of the Notes (the "**Rate of Interest**") will be 5.0636 per cent. per annum.

(d) Calculation of Interest Amounts for Notes

The Agent Bank shall, on or as soon as practicable after each Calculation Date, determine and notify the Issuer, the Financial Guarantor, the Trustee, the Cash Manager and the Paying Agents in writing of the sterling amount of interest (the "**Interest Amount**") payable in respect of such Interest Period in respect of the Notes. Each Interest Amount in respect of the Notes shall be determined on the basis of months of 30 days and a year of 360 days, rounding the resultant figure downward to the nearest penny. If interest is required to be calculated for a period which is not a Interest Period, the amount of interest shall be determined on the basis of actual number of days elapsed and a year of 360 days.

The Interest Amount payable in respect of each Note Payment Date will be reduced by the Interest Tax Shortfall in respect of that Note Payment Date. The amount of such reduction being an "**Interest Tax Shortfall Amount**".

(e) Publication of Interest Amounts and other Notices

As soon as practicable after receiving notification thereof, the Issuer shall cause the Interest Amount applicable to the Notes for each Interest Period and the Note Payment Date in respect thereof to be notified in writing to Irish Stock Exchange Limited (the "**Irish Stock Exchange**") (for so long as the Notes are listed on the Irish Stock Exchange) and shall cause notice thereof to be given to the Noteholders in accordance with Condition 14. The Interest Amounts and Note Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the Interest Period for the Notes.

(f) Determination or Calculation by the Trustee

If the Agent Bank does not at any time for any reason determine the Interest Amount for the Notes in accordance with the foregoing Conditions, the Trustee shall calculate the Interest Amount for the Notes in the manner specified in Condition 4(d) above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank. For so long as the Financial Guarantor is the Controlling Party, the Trustee shall make such calculations in accordance with the instructions of the Financial Guarantor.

(g) Notifications to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition, whether by the Agent Bank or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Servicer, the Cash Manager, the Paying Agents, the Financial Guarantor and all Noteholders and (in such absence as aforesaid) no liability to the Noteholders or the Financial Guarantor shall attach to the Issuer, the Agent Bank or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

(h) Agent Bank

The Issuer shall ensure that, so long as any of the Notes remains outstanding, there is, at all times, an Agent Bank. Any purported resignation by the Agent Bank shall not take effect until a successor so approved by the Controlling Party has been appointed.

5. Redemption and Cancellation

(a) Scheduled Redemption

Principal repayments in respect of the Notes shall be due and payable on the Note Payment Dates and in the amounts set out in the table in the schedule to these Conditions (the "**Scheduled Principal Repayments**").

Unless previously redeemed in full and cancelled as provided in this Condition 5, the Issuer shall redeem the Notes at their Principal Amount Outstanding together with accrued interest on the Note Payment Date falling in August, 2033.

The Issuer may not redeem Notes in whole or in part prior to that date except as provided in this Condition but without prejudice to Condition 9.

The Scheduled Principal Repayment in respect of each Note Payment Date will be reduced by the Principal Tax Shortfall in respect of that Note Payment Date, the amount of such reduction being a "**Principal Tax Shortfall Amount**".

To the extent there is a Tax Shortfall, there is no obligation on the Issuer or the Financial Guarantor to pay any Principal Tax Shortfall Amount.

(b) Mandatory Redemption in Whole

Subject as provided in Conditions 5(c) and 5(d), prior to the service of a Note Enforcement Notice and subject as provided below, and subject to the prior approval of the Controlling Party, each Note shall be subject to mandatory redemption in whole at the Redemption Amount plus accrued and unpaid interest on any Note Payment Date following prepayment of the Loan in full made by the Borrower pursuant to the terms of the Credit Agreement, and at the Principal Amount Outstanding plus accrued and unpaid interest following the repurchase of the Loan by MSDW PFI pursuant to the Loan Sale Agreement, or the purchase of the Loan by the Servicer pursuant to the Servicing Agreement.

The Principal Amount Outstanding (and, therefore, the Redemption Amount) in respect of the Note Payment Date on which the Notes are redeemed in accordance with Condition 5(b) will be reduced by the Principal Tax Shortfall in respect of that Note Payment Date, the amount of such reduction being a "**Condition 5(b) Tax Shortfall Amount**".

Such early redemption of the Notes does not cause the Financial Guarantor's obligations under the Note Financial Guarantee to be payable at such earlier dates. The Financial Guarantor shall only be liable to make payments in respect of the Notes pursuant to the Note Financial Guarantee on the dates on which such payment would have been required to be made if such amounts had not become redeemable, unless the Financial Guarantor otherwise decides. To the extent that the Redemption Amount exceeds the Principal Amount Outstanding, such excess is not guaranteed by the Financial Guarantor under the Note Financial Guarantee. To the extent there is a Tax Shortfall at the time of such early redemption there is no obligation on the Issuer or the Financial Guarantor to pay any Tax Shortfall Amount.

(c) Mandatory Redemption for Tax or Other Reasons

If the Issuer at any time satisfies the Controlling Party immediately prior to giving the notice referred to below that either (i) by virtue of a change in the tax law of the United Kingdom or any other jurisdiction (or the application or official interpretation thereof) from that in effect on the Closing Date, on the next Note Payment Date the Issuer or any Paying Agent on its behalf would be required to deduct or withhold from any payment of principal or interest in respect of any Note (other than (x) where the relevant holder or beneficial owner has some connection with the relevant jurisdiction other than the holding of Notes, or (y) in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the relevant jurisdiction (or any political sub-division thereof or authority thereof or therein having power to tax) and such requirement cannot be avoided by the Issuer taking reasonable measures available to it, or the Issuer is subject to a Tax Shortfall (ii) by virtue of a change in law from that in effect on the Closing Date, any amount payable by the Borrower in relation to the Loan is reduced or ceases to be receivable (whether or not actually received) by the Issuer during the Interest Period preceding the next Note Payment Date and, in either case, the Issuer has, prior to giving the notice referred to below, certified to the satisfaction of the Controlling Party that it will have the necessary funds on such Note Payment Date to redeem all the Notes each in an amount equal to the Principal Amount Outstanding and accrued and unpaid and discharge all of its other liabilities in respect of the Notes to be redeemed under this Condition 5(c) and any amounts required under the Deed of Charge and Assignment to be paid in priority to, or *pari passu* with, the Notes to be so redeemed, which certificate shall be conclusive and binding, and provided that, on the Note Payment Date on which such notice expires, no Note Enforcement Notice has been served, then the Issuer shall with the prior approval of the Financial Guarantor, for as long as it is the Controlling Party, on such

Note Payment Date, provided that the relevant event described above is continuing, having given not more than 60 nor less than 30 days' written notice ending on such Note Payment Date to the Trustee, the Controlling Party, the Paying Agents and to the Noteholders in accordance with Condition 14, redeem all the Notes each in an amount equal to the Principal Amount Outstanding and accrued and unpaid plus interest accrued and unpaid on the Notes.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any Note other than by way of redemption pursuant to this Condition 5(c). Once redeemed to the full extent provided in this Condition 5(c), the Notes shall cease to bear interest.

The Principal Amount Outstanding in respect of the Note Payment Date on which the Notes are redeemed in accordance with Condition 5(c) will be reduced by the Principal Tax Shortfall in respect of that Note Payment Date, the amount of such reduction being a "**Condition 5(c) Tax Shortfall Amount**".

Such early redemption of the Notes does not cause the Financial Guarantor's obligations under the Note Financial Guarantee to be payable at such earlier dates. The Financial Guarantor shall only be liable to make payments in respect of the Notes pursuant to the Note Financial Guarantee on the dates on which such payment would have been required to be made if such amounts had not become redeemable, unless the Financial Guarantor otherwise decides. To the extent that the Redemption Amount exceeds the Principal Amount Outstanding, such excess is not guaranteed by the Financial Guarantor under the Note Financial Guarantee. To the extent there is a Tax Shortfall at the time of such early redemption, there is no obligation on the Issuer or the Financial Guarantor to pay any Tax Shortfall Amount.

(d) Mandatory Redemption in Full — Issuer Swap Transaction

If, a Tax Event (as defined below) occurs under the Swap Agreement (as defined in the Master Definitions Agreement) and (i) the Issuer cannot avoid such Tax Event by taking reasonable measures available to it, and (ii) the Swap Provider is unable to transfer its rights and obligations thereunder to another branch, office or affiliate to cure the Tax Event the Issuer Swap Transaction may be terminated in accordance with its terms.

If the Issuer is unable to find a replacement swap provider (the Issuer being obliged to use its reasonable efforts to find a replacement swap provider) then, on giving not more than 60 nor less than 30 days' written notice to the Controlling Party, the Trustee and the Noteholders in accordance with Condition 14 and provided that, on the Note Payment Date on which such notice expires, no Note Enforcement Event in relation to the Notes has been served and further provided that the Issuer has, prior to giving such notice, certified to the satisfaction of the Controlling Party and the Trustee that it will have the necessary funds to redeem all the Notes each in an amount equal to the Principal Amount Outstanding plus interest accrued and unpaid on the Notes and discharge on such Note Payment Date all of its other liabilities in respect of the Notes to be redeemed under this Condition 5(d) and any amounts required under the Deed of Charge and Assignment to be paid on such Note Payment Date which rank higher in priority to, or *pari passu* with, the Notes, which certificate will be conclusive and binding, the Issuer shall, with the prior approval of the Financial Guarantor, for as long as it is the Controlling Party, redeem on such Note Payment Date all the Notes each in an amount equal to the Principal Amount Outstanding plus interest accrued and unpaid on the Notes.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any Note other than by way of redemption pursuant to this Condition 5(d). Once redeemed to the full extent provided in this sub-paragraph, the Notes shall cease to bear interest.

For these purposes, a "**Tax Event**" means:

- (i) any action taken by a taxing authority, or brought in a court of competent jurisdiction (regardless of whether such action is taken or brought with respect to a party to the Swap Agreement); or
- (ii) the enactment, promulgation, execution or ratification of, or change in or amendment to, any law (or in the application or interpretation of any law),

as a result of which, on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by any government or taxing authority, the Issuer will, or there is a substantial likelihood that it will, (a) be required to pay additional amounts or make an advance in respect of tax under the Swap Agreement, or (b) receive a payment under the Swap Agreement from which an amount is required to be deducted or withheld for or on account of tax and no additional amount or advance is able to be paid to the Issuer.

The Principal Amount Outstanding in respect of the Note Payment Date on which the Notes are redeemed in accordance with Condition 5(d) will be reduced by the Principal Tax Shortfall in respect of that Note Payment Date, the amount of such reduction being a "**Condition 5(d) Tax Shortfall Amount**".

Such early redemption of the Notes does not cause the Financial Guarantor's obligations under the Note Financial Guarantee to be payable at such earlier dates. The Financial Guarantor shall only be liable to make payments in respect of the Notes pursuant to the Note Financial Guarantee on the dates on which such payment would have been required to be made if such amounts had not become redeemable, unless the Financial Guarantor otherwise decides. To the extent there is a Tax Shortfall at the time of such early redemption there is no obligation on the Issuer or Financial Guarantor to pay any Tax Shortfall Amount

(e) Note Principal Payments and Principal Amount Outstanding

On each Calculation Date, the Cash Manager shall determine (i) the amount of any Scheduled Principal Repayment (if any) due on the next following Note Payment Date, the Tax Shortfall Amount and (ii) the Principal Amount Outstanding of each Note on the next following Note Payment Date (after deducting any Scheduled Principal Repayment to be paid on that Note Payment Date). Each determination by the Cash Manager of any Scheduled Principal Repayment and the Principal Amount Outstanding of a Note shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The "**Principal Amount Outstanding**" of a Note on any date shall be the nominal amount thereof on the date of issuance thereof less (i) the aggregate amount of principal in respect of the Note that has been paid since the Closing Date and on or prior to the date of Calculation and (ii) the aggregate amounts of any Principal Tax Shortfalls arising or prior to the date of Calculation.

"**Redemption Amount**" means, in respect of each Note, the higher of (a) the Principal Amount Outstanding of such Note and (b) the product of the Principal Amount Outstanding and the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded downwards), at which the Gross Redemption Yield on such Note on the Reference Date is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 a.m. on the Reference Date of the Reference Gilt.

"**Reference Date**" means the date which is two Note Business Days prior to the Note Payment Date on which the relevant Note is to be redeemed, or such other date as the Redemption Amount may be due and payable.

"**Reference Gilt**" means the 6.0 per cent. Treasury Stock due 2028 for so long as such stock is in issue, and thereafter such sterling obligation of the UK Government listed on the Official List maintained by the Financial Services Authority in its capacity as the UK Listing Authority and traded on the London Stock Exchange's market for listed securities whose remaining term to maturity most closely matches that of the then average life of the Notes as calculated by the Agent Bank on the date which is two Note Business Days prior to the Reference Date as the Agent Bank shall determine.

"**Gross Redemption Yield**" means, with respect to a security, the gross redemption yield on such security as calculated by the Agent Bank on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" on page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8 June, 1998) on a semi-annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places).

"**Interest Tax Shortfall**" (a) in respect of any Note Payment Date means the proportion of the Tax Shortfall which the Interest Amount payable on that Note Payment Date bears to the aggregate of the Scheduled Principal Repayment and the Interest Amount payable on that Note Payment Date or (b) in

respect of such date on which the Notes are paid in accordance with Condition 9, means the proportion of the Tax Shortfall which the accrued interest payable on such date bears to the aggregate of the Principal Amount Outstanding and the accrued interest payable on such date.

"Principal Tax Shortfall" (a) in respect of any Note Payment Date means the proportion of the Tax Shortfall which the Scheduled Principal Repayment payable on that Note Payment Date bears to the aggregate of the Scheduled Principal Repayment and the Interest Amount payable on that Note Payment Date (b) in the case of a mandatory redemption under Conditions 5(b) to (d), in respect of the Note Payment Date on which the Notes are redeemed in accordance with such Conditions means the proportion of the Tax Shortfall which the Principal Amount Outstanding payable on that Note Payment Date bears to the aggregate of the Principal Amount Outstanding and the Interest Amount payable on that Note Payment Date or (c) in respect of such date on which the Notes are paid in accordance with Condition 9, means the proportion of the Tax Shortfall which the Principal Amount Outstanding payable on such date bears to the aggregate of the Principal Amount Outstanding and the accrued interest payable on such date.

"Tax Shortfall" means, in respect of any Note Payment Date or the date on which the Notes are paid in accordance with Condition 9, the amount by which the funds available to the Issuer are reduced as a result of:

- (i) the Issuer being liable for, or
- (ii) any payment due to the Issuer save for a payment due under the Credit Agreement being subject to,

any tax, duty, assessment or governmental charge of whatever nature (including any related interest and penalties) imposed, levied, collected, withheld or assessed by any jurisdiction (or any political subdivision thereof or therein having power to tax), except to the extent that the amount by which the funds available to the Issuer are reduced is equal to the amount of any payment(s) which the Issuer is entitled to receive from the Borrower under Clause 13.6(a) or (b) of the Credit Agreement.

"Tax Shortfall Amounts" means any or each of an Interest Tax Shortfall Amount, a Principal Tax Shortfall Amount, a Condition 5(b) Tax Shortfall Amount, a Condition 5(c) Tax Shortfall Amount, a Condition 5(d) Tax Shortfall Amounts, a Condition 9 Tax Shortfall Amount and a Condition 9 Interest Tax Shortfall Amount.

The Issuer (or the Cash Manager on its behalf) will cause each determination of a Note Principal Payment and Principal Amount Outstanding to be notified in writing forthwith to the Trustee, the Financial Guarantor, the Paying Agents, the Rating Agencies, the Agent Bank and (for so long as the Notes are admitted to trading on the Irish Stock Exchange) the Irish Stock Exchange and will cause notice of each determination of a Note Principal Payment and Principal Amount Outstanding to be given to the Noteholders in accordance with Condition 14 as soon as reasonably practicable.

If the Issuer or the Cash Manager on behalf of the Issuer does not at any time for any reason determine a Note Principal Payment or the Principal Amount Outstanding in accordance with the preceding provisions of this Condition 5(e), such Note Principal Payment and Principal Amount Outstanding may be determined by the Trustee, in accordance with this Condition 5(e), and each such determination or calculation will be binding and will be deemed to have been made by the Issuer or the Cash Manager, as the case may be.

(f) Notice of Redemption

Any such notice as is referred to in Condition 5(c) or 5(d) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes in the amounts specified in these Conditions.

(g) Cancellation

All Notes redeemed in full pursuant to the foregoing provisions shall be cancelled forthwith and may not be resold or re-issued.

6. Payments

(a) *Principal and Interest*

Payments of principal and interest in respect of any Note will be made only against presentation (and, in the case of final redemption of a Note or in circumstances where the unpaid principal amount of the relevant Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Note), surrender) of such Note at the specified office of any Paying Agent. A record of each payment so made, distinguishing between payments of principal and payments of interest and, in the case of partial payments, of the amount of each partial payment, will be endorsed on the schedule to the relevant Note by or on behalf of the relevant Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made.

Payments in respect of the Global Notes will be paid in sterling to the Common Depositary.

(b) *Laws and Regulations*

Payments of principal, interest and premium (if any) in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.

(c) *Overdue Principal Payments*

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note or part thereof in accordance with Condition 4(a) will be paid against presentation of such Note at the specified office of any Paying Agent and in accordance with Condition 6(a).

(d) *Change of Agents*

The Principal Paying Agent is HSBC Bank plc at its offices at Mariner House, Pepys Street, London EC3N 4DA. The Issuer reserves the right, subject to the prior written approval of the Controlling Party, at any time to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent and the Agent Bank and to appoint additional or other Agents. The Issuer will at all times maintain a Paying Agent with a specified office in Dublin, for so long as the Notes are listed on the Irish Stock Exchange. The Issuer shall cause at least 30 days' notice of any change in or addition to the Paying Agents or their specified offices to be given to the Noteholders in accordance with Condition 14.

(e) *Presentation on Non-Business Days*

If any Note is presented (if required) for payment on a day which is not a Note Business Day payment will be made on the next succeeding day that is a Note Business Day and no further payments of additional amounts by way of interest, principal or otherwise will be due in respect of such Note; provided that if a Note were to be presented (if required) for payment on a day which is not a Note Business Day and the next succeeding Note Business Day is in the next calendar month, payment will instead be made on the immediately preceding Note Business Day against presentation of the Note (if required).

(f) *Accrual of Interest on Late Payments*

If interest is not paid in respect of a Note on the date when due and payable (other than by reason of non-compliance with Condition 6(a)), then such unpaid interest shall itself bear interest at the applicable Rate of Interest ("**Default Interest on Interest**") until such interest and interest thereon is available for payment and notice thereof has been duly given to the Noteholders in accordance with Condition 14, provided that such interest and interest thereon are, in fact, paid.

Payment of Default Interest on Interest is not guaranteed by the Financial Guarantor under the Note Financial Guarantee.

(g) *Change of currency*

(i) If at any time there is a change in the currency of the United Kingdom such that the Bank of England recognises a different currency or currency unit or more than one currency or currency

unit as the lawful currency of the United Kingdom, then references in, and obligations arising under, the Notes outstanding at the time of any such change and which are expressed in sterling will be converted into, and/or any amount becoming payable under the Notes thereafter as specified in these Conditions will be paid in, the currency or currency unit of the United Kingdom, and in the manner designated by the Principal Paying Agent.

Any such conversion will be made at the official rate of exchange recognised for that purpose by the Bank of England.

- (ii) Where such a change in currency occurs, the Global Notes in respect of the Notes then outstanding and these Conditions will be amended in the manner agreed by the Issuer and the Controlling Party so as to reflect that change and, so far as practicable, to place the Issuer, the Trustee, the Financial Guarantor and the Noteholders in the same position each would have been in had no change in currency occurred (such amendments to include, without limitation, changes required to reflect any modification to business day or other conventions arising in connection with such change in currency). All amendments made pursuant to this Condition 6(g) will be binding upon holders of such Notes.
- (iii) Notification of the amendments made to Notes pursuant to this Condition 6(g) will be made to the Noteholders in accordance with Condition 14 which will state, among other things, the date on which such amendments are to take or took effect, as the case may be.

The obligations of the Financial Guarantor under the Note Financial Guarantee will not be affected by any redenomination pursuant to this Condition, save that, following such redenomination, payments thereunder shall be made in euro.

7. Taxation

All payments in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent is required by applicable law in any jurisdiction to make any payment in respect of the Notes subject to any such withholding or deduction. In that event, the Issuer or such Paying Agent (as the case may be) will make such payment after such withholding or deduction has been made and will account to the relevant authorities for the amount so required to be withheld or deducted. **Neither the Issuer nor any Paying Agent will be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction.**

To the extent that the Issuer is obliged to make any deduction or withholding, there is no obligation on the Financial Guarantor to pay any such amount so deducted or withheld.

8. Prescription

Claims for principal in respect of the Global Notes will become void unless the relevant Global Note is presented for payment within ten years of the appropriate relevant date. Claims for interest in respect of the Global Notes will become void unless the relevant Global Note is presented for payment within five years of the appropriate relevant date.

Claims for principal and interest in respect of Definitive Notes will become void unless made within ten years, in the case of principal, and five years, in the case of interest, of the appropriate relevant date.

In this Condition 8, the "**relevant date**" means the date on which a payment in respect thereof first becomes due, but if the full amount of the moneys payable has not been received by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which the full amount of such moneys shall have been so received, and notice to that effect shall have been duly given to the Noteholders in accordance with Condition 14.

9. Events of Default

(a) Eligible Noteholders

If any of the events mentioned in sub-paragraphs (i) to (v) inclusive below occurs and is continuing (each such event being an "**Event of Default**") or an event of default under the Guarantee and Reimbursement Agreement occurs then:

- (1) if and for so long as the Financial Guarantor is the Controlling Party, the Trustee shall, upon being (i) so directed by the Financial Guarantor in accordance with the Trust Deed and (ii) indemnified or furnished with security to its satisfaction, declare by written notice (a "**Note Enforcement Notice**") to the Issuer that each Note is immediately due and payable and/or the Issuer Security enforceable; and
- (2) if and for so long as the Financial Guarantor is not the Controlling Party, the Trustee may, and if so requested in writing by the "**Eligible Noteholders**", being the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes then outstanding, or if so directed by or pursuant to an Extraordinary Resolution (as defined in Condition 11) of the Noteholders shall, and in any case aforesaid, subject to the Trustee being indemnified and/or secured to its satisfaction, declare by written notice (a "**Note Enforcement Notice**") to the Issuer that each Note is immediately due and payable and/or the Issuer Security enforceable;
 - (i) default is made in the payment of the principal of, or in the payment of interest on, any Note, in each case when and as the same becomes due and payable in accordance with these Conditions; or
 - (ii) default is made by the Issuer in the performance or observance of any other obligation binding upon it under any of the Notes, the Trust Deed, the Deed of Charge and Assignment or the other Relevant Documents to which it is party and, in any such case (except where the Controlling Party certifies that, in its opinion, such default is incapable of remedy, when no notice will be required), such default continues for a period of 14 days following the service by the Controlling Party on the Issuer of notice requiring the same to be remedied; or
 - (iii) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in Condition 9(a)(iv) below, ceases or, consequent upon a resolution of the board of directors of the Issuer, threatens to cease to carry on business or a substantial part of its business or the Issuer is or is deemed unable to pay its debts within the meaning of Section 123(1) and (2) of the Insolvency Act 1986 (as that section may be amended from time to time); or
 - (iv) an order is made or an effective resolution is passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Financial Guarantor or, if and for so long as the Financial Guarantor is not the Controlling Party, by the Trustee in writing or by an Extraordinary Resolution of the Noteholders; or
 - (v) proceedings are 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 administration order) and such proceedings are not, in the opinion of the Controlling Party, being disputed in good faith with a reasonable prospect of success, or an administration order is granted or an administrative receiver or other receiver, liquidator or other similar official is appointed in relation to the Issuer or any part of its undertaking, property or assets, or an encumbrancer takes possession of all or any part of the undertaking, property or assets of the Issuer, or a distress, execution, diligence or other process is levied or enforced upon or sued against all or any part of the undertaking, property or assets of the Issuer and such possession or process is not discharged or does not otherwise cease to apply within 15 days, or the Issuer initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally,

provided that, in the case of each of the events described in Condition 9(a)(ii), the Trustee, if it is the Controlling Party, shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders.

(b) Effect of Declaration by Trustee

Upon any declaration being made in accordance with Condition 9(a)(1) or 9(a)(2) above, all the Notes then outstanding shall immediately become due and repayable each at its Redemption Amount together with accrued interest and the Issuer Security shall become enforceable, all in accordance with the Trust Deed and the Deed of Charge and Assignment.

The Principal Amount Outstanding (and, therefore, the Redemption Amount) in respect of the date on which the Notes are paid in accordance with Condition 9 will be reduced by the Principal Tax Shortfall

in respect of such date. The amount of such reduction being a "**Condition 9 Tax Shortfall Amount**". The accrued interest payable on the date on which the Notes are paid in accordance with Condition 9 will be reduced by the Interest Tax Shortfall in respect of such date. The amount of such reduction being a "**Condition 9 Interest Tax Shortfall Amount**".

Such an acceleration of sums due on the Notes does not accelerate the Financial Guarantor's payment obligations under the Note Financial Guarantee. The Financial Guarantor shall only be liable to make payments in respect of the Notes pursuant to the Note Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable, unless the Financial Guarantor otherwise decides.

To the extent that the Redemption Amount exceeds the Principal Amount Outstanding, such excess is not guaranteed by the Financial Guarantor under the Note Financial Guarantee.

To the extent there is a Tax Shortfall at the time of such early redemption, there is no obligation on the Issuer or the Financial Guarantor to pay any Tax Shortfall Amount.

10. Enforcement

As more particularly provided in the Trust Deed, the Trustee will, in certain circumstances, be obliged to take action to exercise or enforce its rights under the Trust Deed or the Deed of Charge and Assignment or in respect of the Notes (provided that the Trustee has been indemnified or furnished with security to its satisfaction). For so long as the Financial Guarantor is the Controlling Party, the Trustee will generally be required to act in accordance with the directions of the Financial Guarantor, as provided for in the Trust Deed.

Subject as aforesaid, the Trustee may, without notice, take such proceedings against the Issuer or any other person as are appropriate to enforce the provisions of the Notes and the Relevant Documents and may, at any time after the Issuer Security has become enforceable, without notice, take possession of the Issuer Security or any part thereof and may in its discretion sell, call in, collect and convert into money the Issuer Security or any part thereof in such manner and upon such terms as the Trustee may think fit to enforce the Issuer Security, but it will not be bound as against the Noteholders to take any such proceedings or steps unless:

- (a) subject to the proviso below, it is directed to do so by an Extraordinary Resolution of the Noteholders, or by a notice in writing signed by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes; and
- (b) it shall be indemnified and/or secured to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all liabilities, losses, costs, charges, damages and expenses (including any VAT thereon) which it may incur by so doing.

Enforcement of the Issuer Security will be the only remedy available to the Secured Parties for the repayment of the Secured Obligations. No Noteholder shall be entitled to proceed directly against the Issuer or any other party to the Relevant Documents or to enforce the Issuer Security unless the Trustee, having become bound to do so, fails to do so within 90 days from the date it becomes so bound and such failure shall be continuing. The Trustee cannot, while any of the Notes are outstanding, be required to enforce the Issuer Security at the request of any other Secured Party that is not the Controlling Party under the Deed of Charge and Assignment. No Noteholder will be entitled to directly take proceedings for the winding up or administration of the Issuer.

If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to make all payments due in respect of the Secured Obligations (if any), the other assets (if any) of the Issuer, other than any surplus arising on the realisation of or enforcement with respect to any remaining security, will not be available for payment of any shortfall arising therefrom (which shall be borne in accordance with the provisions of the Deed of Charge and Assignment). All claims in respect of such shortfall, after realisation of or enforcement with respect to all of the Issuer Security, shall be extinguished and the Trustee, the Noteholders, the Financial Guarantor and the other Secured Parties shall have no further claim against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, is deemed to accept and acknowledge that it is fully aware that, in the event of an enforcement of the Issuer Security, (i) its right to obtain repayment in full from the Issuer is limited to recourse against the assets of the Issuer comprised in the Issuer Security, and (ii) the Issuer will have duly and entirely fulfilled its payment obligations by making available to such Noteholder its proportion of the proceeds of realisation or enforcement of the Issuer Security in accordance with the Deed of Charge and Assignment, and all claims in respect of any shortfall shall be extinguished.

11. Meetings of Noteholders, Modification and Waiver

- (a) The Trust Deed contains provisions for convening meetings of the Noteholders to consider, in certain circumstances, any matter affecting their interests including the sanctioning by Extraordinary Resolution of, among other things, the removal of the Trustee, a modification of the Notes (including these Conditions) or the provisions of any of the Relevant Documents.
- (b) The term "**Extraordinary Resolution**" means a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than 75 per cent. of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-fourths of the votes given on such poll.
- (c) Subject as provided below, the quorum at any meeting of the Noteholders for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. in Principal Amount Outstanding of the Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the Principal Amount Outstanding of the Notes so held or represented. For so long as all the Notes (whether being Definitive Notes or represented by Global Notes) are held by one person, such person will constitute two persons for the purposes of forming a quorum for meetings. Furthermore, a proxy for the holder of a Global Note will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders.
- (d) The quorum at any meeting of the Noteholders for passing an Extraordinary Resolution in respect of a Basic Terms Modification (as defined in the Trust Deed) will be two or more persons holding or representing not less than 75 per cent. or, at any adjourned such meeting, 33 1/3 per cent. in Principal Amount Outstanding of the Notes for the time being outstanding.
- (e) The majority required for an Extraordinary Resolution shall be not less than 75 per cent. of the votes cast on the resolution. An Extraordinary Resolution passed at any meeting of Noteholders shall be binding on all Noteholders whether or not they are present at such meeting.
- (f) The Trustee may agree without the consent of the Noteholders but for as long as the Financial Guarantor is the Controlling Party subject to directions from the Financial Guarantor, (i) to any modification (except a Basic Terms Modification which is subject to prior approval by the Financial Guarantor and by an Extraordinary Resolution) of, or to any waiver or authorisation of any breach or proposed breach of, the Notes (including these Conditions) or any of the Relevant Documents which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders, or (ii) to any modification of the Notes (including these Conditions) or any of the Relevant Documents which, in the opinion of the Trustee, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Noteholders, but for as long as the Financial Guarantor is the Controlling Party subject to directions from the Financial Guarantor, determine that an Event of Default will not, subject to specified conditions, be treated as such, provided always that for as long as the Financial Guarantor is not the Controlling Party the Trustee will not exercise such powers of waiver, authorisation or determination in contravention of any express direction given by the Eligible Noteholders or by an Extraordinary Resolution of the Noteholders (provided that no such direction shall affect any authorisation, waiver or determination previously made or given). Any such modification, waiver, authorisation or determination will be binding on the Noteholders and shall be notified in writing to the Irish Stock Exchange and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.
- (g) Where the Trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions, to have regard to the interests of the Noteholders, it shall have regard to the interests of the Noteholders as a class and, in particular, but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise 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 and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.
- (h) The Trustee shall be entitled to assume without further enquiry, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Relevant Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders if

the Rating Agencies have provided written confirmation that the then current ratings of the Notes will not be qualified, downgraded or withdrawn as a result of such exercise.

- (i) If the Trustee is called upon to exercise any discretions in relation to the Loan, the Related Security, the Issuer Security, the Notes or any of the Relevant Documents while the Financial Guarantor is the Controlling Party, it will notify the Financial Guarantor that it has been called upon to do so and may only exercise the relevant discretion in accordance with the Financial Guarantor's instructions.
- (j) If the Trustee is called upon to exercise any discretions in relation to the Loan, the Related Security, the Issuer Security, the Notes or any of the Relevant Documents while the Trustee is the Controlling Party, in accordance with the provisions of the Trust Deed the Trustee may convene a meeting of the Noteholders in order to seek the sanctioning by Extraordinary Resolution of the exercise of such discretion in a particular way by the Trustee.

12. Indemnification and Exoneration of the Trustee

The Trust Deed and certain of the Relevant Documents contain provisions governing the responsibility (and relief from responsibility) of the Trustee and for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings unless indemnified to its satisfaction. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of other parties to the Relevant Documents, clearing organisations or their operators or by intermediaries such as banks, brokers, depositories, warehousemen or other similar persons whether or not on behalf of the Trustee.

The Trust Deed contains provisions pursuant to which the Trustee or any of its related companies is entitled, among other things, (i) to enter into business transactions with the Issuer and/or any other person who is a party to the Relevant Documents or whose obligations are comprised in the Issuer Security and/or any of their subsidiary or associated companies and to act as trustee for the holders of any other securities issued by or relating to the Issuer and/or any other person who is a party to the Relevant Documents or whose obligations are comprised in the Issuer Security and/or any of their subsidiary or associated companies, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties, under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trust Deed also relieves the Trustee of liability for, among other things, not having made or not having caused to be made on its behalf the searches, investigations and enquiries which a prudent chargee would normally have been likely to make in entering into the Deed of Charge and Assignment. The Trustee has no responsibility in relation to the validity, sufficiency and enforceability of the Issuer Security. The Trustee will not be obliged to take any action which might result in its incurring personal liabilities unless indemnified to its satisfaction or to supervise the performance by the Servicer, the Issuer, the Cash Manager, the Swap Provider, the Swap Guarantor or any other person of their obligations under the Relevant Documents and the Trustee will assume, until it has actual knowledge to the contrary, that all such persons are properly performing their duties, notwithstanding that the Issuer Security (or any part thereof) may, as a consequence, be treated as floating rather than fixed security.

13. Replacement of the Global Notes and Definitive Notes

If any Global Note or Definitive Note is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer or the Trustee may reasonably require. Mutilated or defaced Global Notes or Definitive Notes must be surrendered before replacements will be issued.

14. Notice to Noteholders

- (a) All notices, other than notices given in accordance with the following paragraphs of this Condition 14, to Noteholders shall be deemed to have been validly given if published in a leading daily newspaper printed in the English language with general circulation in Dublin (which is expected to be *The Irish Times*) or, if that is not practicable, in such English language newspaper or newspapers as the Trustee approves having a general circulation in Ireland and the rest of Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on

different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required. For so long as the Notes are represented by a Global Note, notices to Noteholders will be validly given if published as described above or, for so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so allow, at the option of the Issuer, if delivered to the Common Depositary for communication by it to Euroclear and/or Clearstream, Luxembourg for communication by them to their Accountholders and for communication by such Accountholders to entitled participants. 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 Depositary.

- (b) Any notice specifying a Note Payment Date, an Interest Amount or a Principal Amount Outstanding shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen or such other medium for the electronic display of data as may be previously approved in writing by the Trustee and notified to the Financial Guarantor and the Noteholders pursuant to Condition 14(a). Any such notice shall be deemed to have been given on the first date on which such information appeared on the relevant screen. If it is impossible or impractical to give notice in accordance with this paragraph then notice of the matters referred to in this paragraph shall be given in accordance with Condition 14(a).
- (c) A copy of each notice given in accordance with this Condition 14 shall be provided to (for so long as the Notes are listed on the Irish Stock Exchange) the Company Announcements Office of the Irish Stock Exchange and at all times to Fitch Ratings Limited ("**Fitch**"), Moody's Investor Service Inc. ("**Moody's**") and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("**S&P**" and together with Fitch and Moody's, the "**Rating Agencies**"), which reference in these Conditions 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). 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.
- (d) The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders and the Financial Guarantor in such manner as the Trustee shall require.

15. Insufficient Proceeds of Enforcement

In the event that the Issuer Security is enforced and the proceeds of such enforcement are insufficient, after payment of all other claims ranking higher in priority thereto or *pari passu* therewith under the Deed of Charge and Assignment, to pay in full all principal and interest and other amounts whatsoever due in respect of the Notes, then the holders of the Notes shall have no further claim against the Issuer in respect of any such unpaid amounts, as described in Condition 10. In the event that a shortfall in the amount available to pay principal of the Notes exists on the Final Note Payment Date, after payment of all other claims ranking higher in priority to or *pari passu* with the Notes and after the realisation by the Issuer of all assets the subject of or forming the Issuer Security, the liability of the Issuer to make any payment in respect of such shortfall shall cease and all claims in respect of such shortfall shall be extinguished.

16. Substitution

As more fully set out in the Trust Deed, the Controlling Party may, without the consent of the Noteholders, agree or instruct the substitution of the Issuer (or of any previous substitute) by another single purpose entity (the "**New Issuer**") as principal debtor under the Trust Deed and the Notes, provided that certain conditions set forth in the Trust Deed are fulfilled.

Upon fulfilment of those condition, the New Issuer shall in every respect substitute the Issuer and the Issuer shall be released from all its obligations to the Noteholders as issuer of the Notes. However, the Issuer will unconditionally and irrevocably guarantee the obligations of the New Issuer in respect of the Trust Deed and the Notes; provided that recourse against the Issuer in respect of such guarantee shall be limited to the assets of the Issuer comprised in the Issuer Security.

No Noteholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder.

The New Issuer shall give notice of any substitution to the Noteholders (with a copy to the Controlling Party, the Trustee and the rating agencies granting a rating on the Notes) in accordance with Condition 14.

17. Privity of Contract

No person shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of a third party which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

18. Further Issues and New Issues

(a) Further Issues

The Issuer shall be at liberty, without the consent of Noteholders, but subject always to the provisions of these Conditions and the Trust Deed, and provided that the Trustee shall not have given a Note Enforcement Notice, to raise further funds, from time to time, on any date, by the creation and issue of further Notes (the "**further Notes**") carrying the same terms and conditions in all respects (except in relation to the first Interest Period, the first Note Payment Date and the first Interest Amount) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Notes provided that (i) the aggregate principal amount of all further Notes to be issued on such date is not less than £1,000,000, (ii) the then current ratings of the Notes are not adversely affected by such issue, (iii) the further Notes are assigned the same ratings as are then applicable to the Notes, (iv) the Financial Guarantor consents to such issue, (v) the further Notes have the benefit of the Note Financial Guarantee and (vi) the further Notes are listed on the Irish Stock Exchange. Except in relation to the first Interest Period, the first Note Payment Date and the first Interest Amount, all references in these Conditions to the "Notes", shall include any further Notes in issue from time to time.

(b) New Issues

The Issuer shall be at liberty, without the consent of the Noteholders (but subject always to the provisions of the Trust Deed), to raise further funds from time to time and on any date by the creation and issue of new notes (the "**New Notes**") carrying terms which differ from the Notes and which do not form a single series with the Notes provided that the conditions to the issue of further Notes as set out in Conditions 18(a)(ii) and 18(a)(iv) are met in respect of the issue of such New Notes.

(c) Supplemental Trust Deeds and Security

Any further Notes or New Notes will be constituted by a further deed or deeds supplemental to the Trust Deed and have the benefit of security pursuant to a further deed or deeds supplemental to the Deed of Charge and Assignment.

19. Governing Law

The Trust Deed, the Deed of Charge and Assignment, Agency Agreement, the other Relevant Documents and the Notes are governed by, and shall be construed in accordance with, English law.

SCHEDULE TO THE CONDITIONS

Note Amortisation Schedule

Period	Payment Date	Note Balance BOP	Principal
1	10/11/2003	813,320,000	131,007
2	10/02/2004	813,188,993	106,099
3	10/05/2004	813,082,894	107,522
4	10/08/2004	812,975,372	108,964
5	10/11/2004	812,866,408	110,425
6	10/02/2005	812,755,983	111,907
7	10/05/2005	812,644,076	113,408
8	10/08/2005	812,530,668	114,929
9	10/11/2005	812,415,739	116,470
10	10/02/2006	812,299,269	118,032
11	10/05/2006	812,181,237	119,615
12	10/08/2006	812,061,622	121,220
13	10/11/2006	811,940,402	122,846
14	10/02/2007	811,817,556	127,260
15	10/05/2007	811,690,296	123,396
16	10/08/2007	811,566,900	127,855
17	10/11/2007	811,439,045	132,449
18	10/02/2008	811,306,596	129,887
19	10/05/2008	811,176,709	136,046
20	10/08/2008	811,040,663	131,915
21	10/11/2008	810,908,748	1,188,395
22	10/02/2009	809,720,353	1,083,554
23	10/05/2009	808,636,799	977,647
24	10/08/2009	807,659,152	1,231,701
25	10/11/2009	806,427,451	1,393,685
26	10/02/2010	805,033,766	1,412,450
27	10/05/2010	803,621,316	1,431,466
28	10/08/2010	802,189,850	1,450,739
29	10/11/2010	800,739,111	1,741,947
30	10/02/2011	798,997,164	1,765,388
31	10/05/2011	797,231,776	1,789,143
32	10/08/2011	795,442,633	1,813,217
33	10/11/2011	793,629,416	2,115,343
34	10/02/2012	791,514,073	2,143,796
35	10/05/2012	789,370,277	2,172,630
36	10/08/2012	787,197,647	2,201,853
37	10/11/2012	784,995,794	2,281,410
38	10/02/2013	782,714,384	2,662,714
39	10/05/2013	780,051,670	2,698,117
40	10/08/2013	777,353,553	2,386,448
41	10/11/2013	774,967,105	2,940,477
42	10/02/2014	772,026,628	3,210,113
43	10/05/2014	768,816,515	2,794,003
44	10/08/2014	766,022,512	3,174,878
45	10/11/2014	762,847,634	3,513,786
46	10/02/2015	759,333,848	3,447,325
47	10/05/2015	755,886,523	3,381,010
48	10/08/2015	752,505,513	3,651,247
49	10/11/2015	748,854,266	3,891,490
50	10/02/2016	744,962,776	3,943,785
51	10/05/2016	741,018,991	3,996,782
52	10/08/2016	737,022,209	4,050,492
53	10/11/2016	732,971,717	4,414,997
54	10/02/2017	728,556,720	4,474,320

Period	Payment Date	Note Balance BOP	Principal
55	10/05/2017	724,082,400	4,534,439
56	10/08/2017	719,547,961	4,595,366
57	10/11/2017	714,952,595	4,974,094
58	10/02/2018	709,978,501	4,829,309
59	10/05/2018	705,149,192	5,210,896
60	10/08/2018	699,938,296	5,280,125
61	10/11/2018	694,658,171	5,363,749
62	10/02/2019	689,294,422	5,745,581
63	10/05/2019	683,548,841	5,821,907
64	10/08/2019	677,726,934	5,596,247
65	10/11/2019	672,130,687	6,204,697
66	10/02/2020	665,925,990	6,486,527
67	10/05/2020	659,439,463	6,276,896
68	10/08/2020	653,162,567	6,556,829
69	10/11/2020	646,605,738	6,886,211
70	10/02/2021	639,719,527	6,978,705
71	10/05/2021	632,740,822	7,072,442
72	10/08/2021	625,668,380	7,167,437
73	10/11/2021	618,500,943	7,609,904
74	10/02/2022	610,891,039	7,712,113
75	10/05/2022	603,178,926	7,815,695
76	10/08/2022	595,363,231	7,920,666
77	10/11/2022	587,442,565	8,380,959
78	10/02/2023	579,061,606	8,493,519
79	10/05/2023	570,568,087	8,607,589
80	10/08/2023	561,960,498	8,723,191
81	10/11/2023	553,237,307	9,202,144
82	10/02/2024	544,035,163	9,163,572
83	10/05/2024	534,871,591	9,608,213
84	10/08/2024	525,263,378	9,421,265
85	10/11/2024	515,842,113	10,074,212
86	10/02/2025	505,767,901	10,360,247
87	10/05/2025	495,407,654	10,200,967
88	10/08/2025	485,206,687	10,557,926
89	10/11/2025	474,648,761	11,076,241
90	10/02/2026	463,572,520	11,154,243
91	10/05/2026	452,418,277	11,236,605
92	10/08/2026	441,181,672	11,520,668
93	10/11/2026	429,661,004	11,996,159
94	10/02/2027	417,664,845	12,157,246
95	10/05/2027	405,507,599	12,320,493
96	10/08/2027	393,187,106	12,485,933
97	10/11/2027	380,701,173	13,048,747
98	10/02/2028	367,652,426	13,223,962
99	10/05/2028	354,428,464	13,401,529
100	10/08/2028	341,026,935	13,581,479
101	10/11/2028	327,445,456	14,167,808
102	10/02/2029	313,277,648	14,264,670
103	10/05/2029	299,012,978	14,594,143
104	10/08/2029	284,418,835	14,787,925
105	10/11/2029	269,630,910	15,276,703
106	10/02/2030	254,354,207	15,600,097
107	10/05/2030	238,754,110	15,807,232
108	10/08/2030	222,946,878	15,917,441
109	10/11/2030	207,029,437	16,619,792
110	10/02/2031	190,409,645	16,899,692
111	10/05/2031	173,509,953	17,018,128
112	10/08/2031	156,491,825	17,321,662

Period	Payment Date	Note Balance BOP	Principal
113	10/11/2031	139,170,163	17,983,243
114	10/02/2032	121,186,920	18,203,952
115	10/05/2032	102,982,968	18,448,363
116	10/08/2032	84,534,605	18,696,055
117	10/11/2032	65,838,550	19,388,291
118	10/02/2033	46,450,259	19,648,600
119	10/05/2033	26,801,659	19,912,402
120	10/08/2033	6,889,257	6,889,257

USE OF NET PROCEEDS

The net proceeds from the issuance of the Notes will be approximately £813,320,000 and this sum will be applied by the Issuer towards:

(a) payment to MSDW PFI of the purchase consideration in respect of the Loan and interest accrued thereon, and MSDW PFI's beneficial interests in the Security Trust comprising the Related Security to be purchased on the Closing Date pursuant to the Loan Sale Agreement;

(b) payment to the Swap Provider of the initial exchange amount due payment to the Issuer Swap Transaction;

(c) funding the Issuer Expense Account; and

(d) payment of certain fees and expenses of the Financial Guarantor.

Fees, commissions and expenses incurred by the Issuer in connection with the issue of the Notes will be met by Morgan Stanley & Co. International Limited.

NOTE FINANCIAL GUARANTEE¹

The following is the text, subject to completion and amendment, of the Note Financial Guarantee, referred to herein as "**this Financial Guarantee**":

Financial Guarantee Number: UK03129

Guaranteed Obligations: The payment obligations of the Issuer in respect of each amount of Principal and Interest owing by the Issuer and outstanding under the Notes, as further defined below.

Guarantor: MBIA Assurance S.A. ("**MBIA**") a *société anonyme* incorporated under the laws of the French Republic (registered with the Paris Register of Trade and Companies under No. B377883293 (98 B 05130) and acting through its registered branch office in England and Wales (registration number BR003789)).

Beneficiary: The Trustee

Date of Issue: [17] July, 2003

1. DEFINITIONS, INTERPRETATION AND CONSTRUCTION

1.1 Definitions

For the purposes of this Financial Guarantee, the following terms will have the meanings given to them below:

"**Accelerated Payment**" means, following an Acceleration, any payment in full or in part by MBIA of the Guaranteed Obligations in advance of the relevant Note Payment Date.

"**Acceleration**" means in relation to the Notes the declaration by written notice from the Trustee to the Issuer that the Notes are immediately due and payable pursuant to Condition 9, and "**Accelerated**" will be construed accordingly.

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

"**Agency Agreement**" has the meaning given to it in the Conditions.

"**Avoided Payment**" means any payment made by the Issuer in respect of the Guaranteed Obligations which has been avoided under any applicable bankruptcy, insolvency or similar law.

"**Business Day**" has the meaning given to the term "Note Business Day" in Condition 4(b).

"**Cash Manager**" has the meaning given to it in the Master Definitions Agreement.

"**Conditions**" means the terms and condition of the Notes, as set out in the Trust Deed.

"**Deed of Charge and Assignment**" has the meaning given to it in the Conditions.

"**Due for Payment**" means due for payment on a Note Payment Date or, with respect to Recovered Amounts, the date of the relevant Order. For the avoidance of doubt "Due for Payment" does not include any date which may arise earlier than a Note Payment Date by reasons of prepayment, acceleration, mandatory or optional redemption or otherwise unless MBIA has given its consent to such earlier date. For the further avoidance of doubt, or with respect to Recovered Amounts, the date of the relevant Order "Due for Payment" shall be

¹ For the avoidance of doubt, potential investors should note that the defined terms used in the form of this Financial Guarantee do not apply to the remainder of this Offering Circular.

construed without reference to the fact that the Notes are limited recourse obligations of the Issuer only and that claims of Holders will be limited to the Issuer Security.

"euro" or "€" means the single currency of the Participating Member States.

"**Guaranteed Amounts**" means, with respect to any Note Payment Date, the sum of Interest and Principal (if any) due on the Guaranteed Obligations on such Note Payment Date and, for the avoidance of doubt, includes Recovered Amounts. For the avoidance of doubt, "Guaranteed Amounts" does not include and no guarantee is given by MBIA under this Financial Guarantee in respect of any deduction or withholding which the Issuer may or would have been required to make for or on account of Taxes in respect of the Guaranteed Obligations, any gross-up or make whole payment payable by the Issuer in respect of any such deduction or withholding or any other amount payable by the Issuer in respect of Taxes due in connection with the payment of such amount of Principal and/or Interest.

"**Guarantee and Reimbursement Agreement**" means the agreement between, among others, the Issuer and MBIA pursuant to which, *inter alia*, MBIA has agreed to issue the Financial Guarantee and the Issuer has agreed, *inter alia*, to indemnify and reimburse MBIA for, and to MBIA being subrogated to the rights of the Holders in respect of, any payments made by MBIA under the Financial Guarantee.

"**Guaranteed Obligations**" means the payment obligations of the Issuer in respect of each amount of Principal and Interest owing by the Issuer and outstanding under the Notes but excluding any Notes which have been purchased by the Issuer for so long as they are held by the Issuer.

"**Holder**" has the meaning given to it in the Trust Deed.

"**Interest**" means any amount in respect of regularly scheduled interest owing by the Issuer under the Notes, as reduced by an Interest Tax Shortfall excluding any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, default interest, premium or similar types of payment.

"**Interest Tax Shortfall**" has the meaning given to it in Condition 5(e).

"**Issuer**" means Juturna (European Loan Conduit No. 16) plc.

"**Issuer Security**" has the meaning given to it in the Conditions.

"**Master Definitions Agreement**" has the meaning given to it in the Conditions.

"**MBIA Event of Default**" has the meaning given to that term in the Guarantee and Reimbursement Agreement.

"**Nonpayment**" means, on any Note Payment Date, the failure by the Issuer to pay all or any part of the Guaranteed Amounts which are due for payment on such Note Payment Date.

"**Note Financial Guarantee Fee**" has the meaning given to it in the Guarantee and Reimbursement Agreement.

"**Notes**" means the £813,320,000 5.0636 per cent. Commercial Mortgage Backed Fixed Rate Guaranteed Notes issued by the Issuer due 2033.

"**Note Payment Date**" has the meaning given to it in Condition 4 or such later date on which payments may be made by the Issuer in accordance with Condition 6(e).

"**Notice of Demand**" means the notice of demand substantially in the form set out in the Schedule to this Financial Guarantee.

"**Order**" means a final, non-appealable order from a court of competent jurisdiction.

"**Participating Member States**" means the member states of the European Union which have adopted or adopt the euro as their lawful currency in accordance with the legislation of the European Community relating to the Economic and Monetary Union.

"**Principal**" means each amount of regularly scheduled principal outstanding under the Notes, as reduced by any Principal Tax Shortfall and as further reduced by each amount of principal repaid or prepaid by the Issuer pursuant to the Conditions, excluding any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, premium, "spens" or similar types of payments.

"**Principal Paying Agent**" has the meaning given to it in the Conditions.

"**Principal Tax Shortfall**" has the meaning given to it in Condition 5(e).

"**Rating Agencies**" has the meaning given to it in the Guarantee and Reimbursement Agreement.

"**Receipt**" means (i) actual delivery to MBIA (or the Fiscal Agent, as applicable) at the address set out in the Notice of Demand (or such other office as MBIA has notified to the Trustee by at least seven (7) Business Days' notice) (or, in the case of the Fiscal Agent, to such address as MBIA has notified to the Trustee by at least seven (7) Business Days' notice) prior to 12.00 noon, London time, on a Business Day or (ii) if such actual delivery takes place either on a day that is not a Business Day or after 12.00 noon, London time, "**Receipt**" will be deemed to have occurred on the next succeeding Business Day.

"**Recovered Amounts**" means any payment of Principal or Interest made by or on behalf of the Issuer to the Trustee or a Holder which is adjudicated an Avoided Payment by an Order and recovered from the Trustee or, as the case may be, the Holder.

"**Taxes**" includes all present and future income, turnover and other taxes, levies, imposts, deductions, charges and withholdings whatsoever imposed, charged or levied by any jurisdiction (including without limitation, insurance, stamp, registration, issue or documentary taxes or duties) together with interest thereon and penalties with respect thereto (if any) and any payments made on or in respect thereof and "**Tax**" and "**Taxation**" will be construed accordingly.

"**Termination Date**" has the meaning set out in Clause 14.1.

"**Transaction Documents**" has the meaning given to it in the Master Definitions Agreement.

"**Trustee**" means HSBC Trustee (C.I.) Limited or any additional or successor trustee appointed pursuant to the Trust Deed.

"**Trust Deed**" means the Trust Deed dated [17] July, 2003 between the Issuer, MBIA and the Trustee constituting the Notes, as modified or supplemented from time to time.

1.2 **Clauses and Schedules**

Any reference in this Financial Guarantee to a Clause or a Schedule is, unless otherwise stated, to a clause or schedule in this Financial Guarantee.

1.3 **Legislation**

Any reference in this Financial Guarantee to any legislation (whether primary legislation or regulations or other secondary legislation made pursuant to primary legislation) will be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

1.4 **Headings**

Headings and sub-headings are for ease of reference only and will not affect the construction of this Financial Guarantee.

2. **GUARANTEE**

2.1 In consideration of the promise of payment of the Note Financial Guarantee Fee by or on behalf of the Issuer and subject to the terms of this Financial Guarantee, MBIA unconditionally and irrevocably guarantees to the Trustee for the benefit of the Holders of the Guaranteed Obligations:

2.1.1 an amount equal to the Guaranteed Amounts which have become Due for Payment but are unpaid by reason of Nonpayment; and

2.1.2 an amount equal to the Guaranteed Amounts which are Recovered Amounts.

2.2 This Financial Guarantee does not guarantee any prepayment or other acceleration payment which at any time may become due in respect of any Guaranteed Obligation, other than at the sole option of MBIA as specified in Clause 7 (*Acceleration*), nor against any risk other than Nonpayment, including

failure of the Trustee or any Paying Agent to make any payment due to Holders of Guaranteed Amounts nor any amount in respect of any deduction or withholding which the Issuer would have been required to make for or on account of Taxes in respect of the Guaranteed Obligations, any gross-up or make whole payment payable by the Issuer in respect of any such deduction or withholding or any other amount payable by the Issuer in respect of Taxes.

3. PAYMENTS

3.1 MBIA will make payments to the Trustee from its own funds by 11.00 a.m. on the later of:

3.1.1 the day which is four (4) Business Days following Receipt of a Notice of Demand in accordance with Clause 8 (*Notice of Demand*); or

3.1.2 the day on which the Guaranteed Amounts are Due for Payment.

3.2 Payments due under this Financial Guarantee will be satisfied by payment to the person specified in the relevant Notice of Demand in pounds Sterling by credit to a pounds Sterling account at a bank in London, England, as specified in the Notice of Demand and payment to such person will discharge the obligations of MBIA under this Financial Guarantee to the extent of such payment, whether or not funds are properly applied by such person.

3.3 Once payment of any Guaranteed Amounts have been made to the person specified in any Notice of Demand, MBIA will have no further obligation in respect of such Guaranteed Amounts.

3.4 Nothing in this Financial Guarantee will oblige MBIA to make payments in respect of the Guaranteed Obligations:

3.4.1 earlier than any date on which such payments are Due for Payment; or

3.4.2 which would be greater than the Interest element of such Guaranteed Obligations and the Principal element of such Guaranteed Obligations.

4. SUBROGATION

MBIA will be subrogated to the Holders' and the Trustee's rights in respect of the Guaranteed Obligations to the extent of any payments made by or on behalf of MBIA under this Financial Guarantee.

5. WAIVER OF DEFENCES

5.1 The obligations of MBIA under this Financial Guarantee will continue and will not be terminable other than in accordance with Clause 14 (*Termination*) notwithstanding failure to receive payment of the Note Financial Guarantee Fee or any other fee due in respect of this Financial Guarantee. The Note Financial Guarantee Fee is not refundable for any reason.

5.2 Notwithstanding that the Financial Guarantee is a guarantee and not a contract of insurance neither the obligation of MBIA contained in this Financial Guarantee nor the rights, powers and remedies conferred in respect of MBIA upon the Trustee and/or any Holder by this Financial Guarantee or by law shall be discharged, impaired or otherwise affected by:

5.2.1 the winding-up, dissolution, administration or reorganisation of the Issuer or any other person under any applicable law or any change in the status, function, control or ownership of the Issuer or any other person;

5.2.2 any of the Guaranteed Obligations being or becoming illegal, invalid, unenforceable or ineffective in any respect;

5.2.3 any time or other indulgence being granted or agreed to be granted to the Issuer in respect of any of the Guaranteed Obligations;

5.2.4 any amendment to, or any variation, waiver or release of the Guaranteed Obligations;

- 5.2.5 any failure to realise or fully to realise the value of, or any release, discharge, exchange or substitution of, any security taken in respect of the Guaranteed Obligations;
- 5.2.6 any defence of fraud (but excluding fraud by the Trustee) or any defence based on misrepresentation, breach of warranty or non-disclosure of information by any person) whether acquired directly, by assignment, by subrogation, or otherwise, to the extent such rights and defences may be available to MBIA to avoid payment of its obligations under this Financial Guarantee; or
- 5.2.7 any other act, event or omission (other than the failure to deliver a Notice of Demand) which, but for this Clause 5.3, might operate to discharge, impair or otherwise affect any of the obligations of MBIA contained in this Financial Guarantee or any of the rights, powers or remedies conferred upon the Trustee and the Holders by the Conditions, the Trust Deed, this Financial Guarantee or by law.
- 5.3 No warranties are given and nothing in this Financial Guarantee is intended to constitute a warranty or a condition precedent to payment under the Financial Guarantee other than Receipt of a Notice of Demand in accordance with Clause 8 (*Notice of Demand*) below.
- 5.4 The waivers set out in Clause 5.1 to 5.3 above will prevent MBIA from refusing payment of any claim under this Financial Guarantee but will not, and nothing in this Financial Guarantee will be construed in any way to limit or otherwise affect MBIA's right to pursue recovery or claims (based on contractual or other rights, including such rights resulting from the Trustee's or such other person's fraud, negligence or breach of any agreement to which it is a party) for reimbursement against any persons for any liabilities, losses, damages, costs and expenses incurred by MBIA after MBIA has made payment in full on the relevant Note Payment Date of the Guaranteed Amounts.

6. WITHHOLDING AND DEDUCTIONS

- 6.1 Payments of Guaranteed Amounts by MBIA will be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of such Taxes is required by law or regulation or administrative practice of any jurisdiction. If any such withholding or deduction is required, MBIA will pay the Guaranteed Amounts net of such withholding or deduction and will account to the appropriate tax authority for the amount required to be withheld or deducted.
- 6.2 For the avoidance of doubt, all payments of Guaranteed Amounts by MBIA will be made subject to any other withholding or deduction required by law, regulation or administrative practice in any jurisdiction to which MBIA is subject or in or through which any payment is made by MBIA.

7. ACCELERATION

- 7.1 At any time following Acceleration, MBIA may decide, in its absolute discretion, to make a full or partial Accelerated Payment under this Financial Guarantee.
- 7.2 Any Accelerated Payment will be communicated in writing by MBIA to the Trustee without the need for Receipt of a Notice of Demand, and it will be made to the account specified by the Trustee or the Principal Paying Agent.

8. NOTICE OF DEMAND

- 8.2 Payments of Guaranteed Amounts will only be made after presentation of a validly completed Notice of Demand signed by the Trustee.
- 8.3 Notices of Demand must be given by the Trustee and delivered by registered mail, or personally to the address set out in the Notice of Demand, or such other address as MBIA may notify in writing to the Trustee.
- 8.4 If any Notice of Demand is not in the proper form or is not properly completed, executed or delivered, it will be deemed not to have been received by MBIA.
- 8.5 MBIA will promptly advise the Trustee if a Notice of Demand has not been properly completed, executed or delivered and the Trustee may submit an amended Notice of Demand to MBIA.

9. APPOINTMENT OF FISCAL AGENT

9.1 At any time during the term of this Financial Guarantee MBIA may appoint a fiscal agent (the "**Fiscal Agent**") by written notice to the Trustee at the notice address specified in the Trust Deed specifying the name and notice address of the Fiscal Agent, which Fiscal Agent may be situated in New York City and/or London. From and after the date of receipt of such notice by the Trustee:

9.1.1 copies of all notices including the Notice of Demand and other documents required to be delivered to MBIA pursuant to this Financial Guarantee must be simultaneously delivered to the Fiscal Agent and to MBIA and will not be deemed to be received until both the Fiscal Agent and MBIA are in Receipt thereof; and

9.2.2 all payments required to be made by MBIA under this Financial Guarantee will be made directly by MBIA or by the Fiscal Agent on behalf of MBIA, provided, however, that payment by MBIA to the Fiscal Agent will not discharge MBIA's obligations in respect of the Guaranteed Amounts. The Fiscal Agent is the agent of MBIA only and the Fiscal Agent will not be liable to the Trustee or any Holder for any acts by MBIA or any failure by MBIA to deposit, or cause to be deposited, sufficient funds to make payments under this Financial Guarantee.

10. TRANSFER

10.1 The rights and obligations of MBIA under this Financial Guarantee may be transferred to any Affiliate of MBIA without the consent of the Beneficiary or the Holders provided that:

10.1.1 that the location of the transferee does not result in any withholding or deduction for Tax or does not otherwise prevent payment being made or result in any deduction being made in respect of any Guaranteed Amount;

10.1.2 that a legal opinion, in form and substance satisfactory to the Trustee is produced by an appropriately qualified and experienced counsel as a condition precedent;

10.1.3 at the time of transfer MBIA or such transferee delivers to the Trustee written confirmation from the Rating Agencies that, at the time of such transfer, the financial strength of such transferee is rated at least equal to the financial strength of MBIA at that time and the rating of the Notes is at least equal to such financial strength rating; and

10.1.4 MBIA or such transferee delivers to the Trustee written notice of any such transfer and such transferee assumes the obligations of MBIA under the Financial Guarantee and accedes to the relevant Finance Documents whereupon, without further action, MBIA will be released from its obligations under this Financial Guarantee other than any obligation to make payment in respect of any Guaranteed Amounts payable hereunder following the Receipt by MBIA of a Notice of Demand prior to the date on which the transfer is effective.

10.2 If MBIA receives a Notice of Demand in accordance with Clause 8 (*Notice of Demand*) and payment of the Guaranteed Amounts specified therein would, in the reasonable opinion of MBIA, be subject to withholding or deduction in accordance with Clause 6 (*Withholding and Deductions*) then:

10.2.1 MBIA shall use its reasonable endeavours to transfer its rights and obligations under this Financial Guarantee to any branch or office through which it will exercise its rights and performs its obligations under this Financial Guarantee (the "**New Branch**") or to any Affiliate, which transfer in either case would result in such payments of the Guaranteed Amounts not being subject to any withholding or deduction required by law, regulation or administrative practice in any jurisdiction;

10.2.2 in the case of a transfer to an Affiliate in the circumstances described in 10.2.1 above, the provisions listed in 10.1.1 to 10.1.4 will apply, except that 10.1.4 will be deemed to be amended for the purposes of 10.2 to provide that MBIA will be released from all its obligations under this Financial Guarantee without limitation; and

10.2.3 in the case of a transfer to an Affiliate or to the New Branch in the circumstances described in 10.2.1, the transferee will make payment to the Trustee on the day which is four (4) Business Days following the date the transfer is effective.

11. **REDENOMINATION**

The obligations of MBIA under this Financial Guarantee will not be affected by any redenomination of the Guaranteed Obligations into euro pursuant to Condition 6 (*Payment - Redenomination in Euro*) of the Notes save that, following such redenomination, payments of Guaranteed Amounts hereunder shall be made in euro.

12. **THIRD PARTY RIGHTS**

Any rights which any person (other than MBIA as issuer of this Financial Guarantee and the Trustee as beneficiary of this Financial Guarantee) may otherwise have to enforce any term or condition of this Financial Guarantee pursuant to the Contracts (Rights of Third Parties) Act 1999 are hereby expressly excluded.

13. **ENTIRE AGREEMENT**

This Financial Guarantee (including the Schedule hereto) constitutes the entire agreement between MBIA and the Trustee in relation to MBIA's obligation to make payments to the Trustee in respect of Guaranteed Amounts and supersedes and replaces any previous agreement or understanding that may have existed between MBIA and the Trustee in relation to such payments.

14. **TERMINATION**

14.1 Subject to Clause 14.2, this Financial Guarantee will terminate on the date falling two years and one day after the earlier of:

14.1.1 the last Note Payment Date; and

14.1.2 payment in full of the Guaranteed Obligations

(such date being the "**Termination Date**").

14.2 In the event that:

14.2.1 the liability of MBIA in respect of any claim made hereunder shall have arisen prior to the Termination Date and remain outstanding at the Termination Date; and

14.2.2 (a) a petition is presented prior to the Termination Date pursuant to which an administration order is made in relation to the Issuer; or (b) the winding-up of the Issuer is commenced (such administration order and such winding-up, the "**Insolvency Proceedings**")

this Financial Guarantee shall terminate on the later of:

(i) the date of the conclusion or dismissal of such Insolvency Proceedings without continuing jurisdiction by the court in such Insolvency Proceedings; and

(ii) the date on which MBIA has made all payments required to be made under the terms of this Financial Guarantee in respect of any Avoided Payments.

14.3 After the Termination Date, MBIA will cease to be liable in respect of any further demand made in respect of the Guaranteed Obligations.

15. **GOVERNING LAW AND JURISDICTION**

This Financial Guarantee will be governed by and construed in accordance with the laws of England and Wales and the English courts will have exclusive jurisdiction to settle any dispute arising from or connected with this Financial Guarantee (including a dispute regarding the existence, validity or termination of this Financial Guarantee) or the consequences of its nullity.

IN WITNESS WHEREOF this Financial Guarantee has been executed and made effective as a deed by MBIA on the day and year first set out above.

EXECUTION PAGE

Executed as a Deed on behalf of

MBIA ASSURANCE S.A.

By:

Schedule

Form of Notice of Demand

MBIA Assurance S.A.
London Branch
1 Great St Helen's
2nd Floor
London EC3A 6HX

Telephone: 00 44 20 7920 6363
Fax: 00 44 20 7588 3393

Attention: The Director

The undersigned, a duly authorised officer of HSBC Trustee (C.I.) Limited (the "**Trustee**"), hereby certifies to MBIA Assurance S.A. ("**MBIA**"), with reference to Financial Guarantee No. UK 03129 dated [17] July, 2003 (the "**Financial Guarantee**") issued by MBIA in respect of the payment obligations of the Issuer in respect of each amount of Principal and Interest owing by the Issuer and outstanding pursuant to the Juturna (European Loan Conduit No. 16) plc (the "**Issuer**") £813,320,000 5.0636 per cent. Commercial Mortgage Backed Fixed Rate Guaranteed Notes due 2033, that:

1. The Trustee is the trustee under the Trust Deed for the Holders.
2. The Trustee has been notified by the Cash Manager that the deficiency in respect of Guaranteed Amounts which are Due for Payment on [*insert Note Payment Date*] will be £[*insert applicable amount*] (the "**Shortfall**").
3. The Trustee is making a claim under the Financial Guarantee for the Shortfall to be applied in or towards the payment of Guaranteed Amounts which are Due for Payment.
4. The Trustee agrees that, following payment of funds by or on behalf of MBIA to the Trustee (if applicable), it will procure that:
 - 4.1 it holds such amounts on trust in favour of the Holders and will apply such amounts directly to the payment of Guaranteed Amounts which are Due for Payment;
 - 4.2 such funds are not applied for any other purpose;
 - 4.3 such funds are not co-mingled with other funds held by the Trustee; and
 - 4.4 a record of payments with respect to each Guaranteed Obligation and the corresponding claim on the Financial Guarantee and the proceeds thereof is maintained by the Principal Paying Agent in accordance with the terms of the Agency Agreement.
5. Payment will be made in [*pounds Sterling*] by credit to the designated [*pounds Sterling*] account of the [*insert payee*] at [*insert account details*] with [*insert bank details*].

Unless the context otherwise requires, capitalised terms used in this Notice of Demand and not defined herein will have the meanings set out in the Financial Guarantee.

This Notice of Demand will be revoked in whole or in part (as appropriate) by written notice by the Trustee to MBIA at any time prior to 10.00 a.m. (London time) on the second Business Day prior to the date specified above on which Guaranteed Amounts are Due for Payment if and only to the extent that moneys are actually received in respect of all or part of the Guaranteed Obligations prior to such time from a source other than MBIA.

This Notice of Demand will be governed by and construed in accordance with English law.

IN WITNESS WHEREOF the Trustee has executed and delivered this Notice of Demand on the [*insert date*]
day of [*insert date*].

[insert name of Trustee]

By: _____

By: _____

Title: _____

Title: _____

MBIA

MBIA ASSURANCE S.A.

General

MBIA Assurance S.A. ("**MBIA**") is a *société anonyme* that was created and incorporated in France under French law on 3 May 1990. MBIA's corporate charter expires on 3 May 2089. MBIA's principal activity is the guarantee of financial obligations. MBIA has been set up in the form of a joint stock corporation and is subject to the provisions of the French Code of Commerce ("**Code de Commerce**") as the law of 24 July 1966 has been replaced by the Code of Commerce.

Furthermore, MBIA is licensed in the French Republic, under the terms of Article L 321-1 of the French Insurance Code ("**Code des Assurances**"), to carry out operations of the type corresponding to Branch 15 Guarantee listed in Article R 321-1 of the aforementioned Code ("*Journal Officiel*" dated 28 March 1991). MBIA is under the supervision of the Commission de Contrôle des Assurances. Its registration number is the Commercial Register (Paris Register of Trade and Companies) No. B377883293 (98 B 05130). MBIA has its head office in Paris at 112, Avenue Kléber, 75116 Paris, France.

MBIA has used the provisions of the Third Non-life Insurance Directive No. 92/49/EEC to operate in the United Kingdom both on a services and a branch basis. It was established as an overseas company under number FC020116 and as a branch under number BR003789 in England and Wales under Schedule 21A to the Companies Act 1985 on 10th February 1997. MBIA's business in the United Kingdom is to a limited extent subject to supervision by the Financial Services Authority. Its branch office is located at 1 Great St Helen's, 2nd Floor, London, EC3A 6HX, United Kingdom.

Business and Financial Structure

MBIA is licensed to do business in, and is subject to regulation under the laws of the French Republic. MBIA is a 99.99% owned subsidiary of MBIA Insurance Corp. MBIA Insurance Corp. is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obliged to pay the debts of, or claims against, MBIA Insurance Corp. or MBIA.

MBIA is engaged primarily in carrying out insurance and reinsurance transactions of any kind authorised by the Commission de Contrôle des Assurances, excepting insurance transactions involving commitments, the performance of which depends on human life, but including particularly guarantee transactions, and notably, insuring the repayment of financial or other contractual obligations entered into by local governments, other public entities, companies, trusts and other commercial entities as well as any ancillary activities. MBIA may, to this purpose, make any investment and acquire any stake, in France and/or abroad, through the acquisition of a participating interest or securities, contributions in cash or in kind, subscription to any issue of shares or bonds, loans or credits; and may, to this end, borrow and make use of any means of financing it may choose and pledge such investments or interests as it sees fit. MBIA may carry out in France and/or abroad any industrial, commercial, financial or real estate operations that may be linked, directly or indirectly, to the above activities or are likely to facilitate the development thereof within the scope of the legislation specific to insurance companies.

Financial Strength Ratings

Moody's Investor Service, Inc. ("**Moody's**") rates the financial strength of MBIA Insurance Corp. and MBIA "**Aaa**".

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("**S&P**") rates the financial strength of MBIA Insurance Corp. and MBIA "**AAA**".

Fitch, Inc. ("**Fitch**") rates the financial strength of MBIA Insurance Corp. and MBIA "**AAA**".

Each rating of MBIA Insurance Corp. and MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the financial strength of MBIA Insurance Corp. and MBIA and their ability to pay claims on their policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the obligations, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the obligations. MBIA Insurance Corp. and MBIA do not guarantee the market price of the obligations nor do they guarantee that the ratings on the obligations will not be revised or withdrawn.

Summary of Financial Information

For the periods ended 31 December 2000, 2001 and 2002, MBIA had net income (loss) of (155,712) Euros, (1,389,753) Euros and 7,006,119 Euros, respectively. During the year 2000, MBIA established a branch in the United Kingdom. As a start-up entity, the UK branch operated at a net loss for the periods ended 31 December 2000 and 2001. Its accounts are included in the financial statements of MBIA for the periods ended 31 December 2000, 2001 and 2002. For the years ended 31 December 2000, 2001 and 2002, MBIA had net assets of 32,357,277 Euros, 31,002,236 Euros and 38,068,355 Euros, respectively.

Capitalisation and Indebtedness Table

As at 31 December 2002 and 31 December 2001, the capitalisation and indebtedness of MBIA was as follows:

MBIA Assurance S.A. – Capitalisation and Indebtedness Table¹
(thousands of euros)

	31 December 2002 (audited)	31 December 2001 (audited)
Indebtedness		
– Funds Held ⁽²⁾	0	499
Shareholders' Equity		
– Common stock, par value 15 euros per share: 1,750,000 authorised and issued shares (fully paid)	26,250	26,250
– Retained Earnings, Other Reserves, Net Loss	11,818	4,752
Total Shareholders Equity	<u>38,068</u>	<u>31,002</u>
Total Capitalisation and Indebtedness ⁽³⁾	38,068	31,501

1. This Capitalisation and Indebtedness Table has been prepared in accordance with generally accepted accounting principles in France. Save as set out in the Table, MBIA Assurance S.A. did not at the relevant dates have any loan capital outstanding or created but unissued, term loans or any other borrowings in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, mortgages, charges, finance lease commitments, hire purchase obligations or guarantees, or contingent liabilities.
2. Represents a security deposit held by MBIA Assurance S.A. in respect of an insured transaction relating to a past securitisation. There is a corresponding asset of equal value on the MBIA Assurance S.A. balance sheet. These funds constitute a short-term security deposit and were entirely released on 12 April 2002. There is no medium or long-term indebtedness.
3. There has been no material change in the authorised and issued share capital, in the capitalisation, indebtedness, contingent liabilities or guarantees of MBIA Assurance S.A. since 31 December 2002.

Risk Diversification

MBIA Insurance Corp. and MBIA seek to maintain a diversified insured portfolio designed to spread risk based on a variety of criteria, including revenue source, issue size, type of bond and geographic area. As at 31 December 2002, MBIA Insurance Corp. had 32,588 policies outstanding. These policies are diversified among 10,590 "credits", which MBIA Insurance Corp. defines as any group of issues supported by the same revenue source. MBIA seeks similar diversification. The breakdown of risks insured by MBIA (before reinsurance) and in force as at 31 December 2002 is presented in the following table (*source: MBIA's books and records*):

Table of Risks
(thousand of euros)

	2002	2001	2000
Sovereign and Sub-Sovereign	1,505,487	1,202,950	1,320,690
Public Utilities	6,206,452	3,406,744	1,121,994
Structured Finance	2,216,384	903,246	1,178,424
Financial Institutions ⁽⁴⁾	148,301	173,591	251,185
Investor Owned Utilities	<u>254,283</u>	<u>268,731</u>	<u>255,546</u>
Total	10,330,907	5,955,262	4,127,839

4 Consists in large part of risks involving smaller banks and insurance companies

Relationship between MBIA and MBIA Insurance Corp.

MBIA Insurance Corp. and MBIA have entered into (i) a reinsurance agreement dated 1 January 1993 (as amended and restated on 1 January 2002) providing for MBIA Insurance Corp.'s reinsurance of the risks of MBIA (the "**Reinsurance Agreement**") and (ii) an agreement dated 1 November 1991 (as amended and restated on 1 April 2002) whereby MBIA Insurance Corp. agrees to maintain the net worth of MBIA, to remain its sole shareholder⁵ and not to pledge its shares of MBIA (as amended, the "**Net Worth Maintenance Agreement**"). Under the Reinsurance Agreement, MBIA Insurance Corp. agrees to reimburse MBIA, on an excess of loss basis, for losses incurred in each calendar year for net retained insurance liability. MBIA Insurance Corp. shall reimburse MBIA for the amount of MBIA's losses paid in each calendar year which amount is in the aggregate in excess of an amount equal to the greater of: (1) US\$500,000 or (2) 40% of MBIA's net earned premium income for that same calendar year. The liability of MBIA Insurance Corp. shall not exceed, in any one calendar year, MBIA's net retention with respect to the principal outstanding plus interest insured under MBIA's largest policy in effect as of 11:59 p.m. on 31 December of the prior year.

Under the Net Worth Maintenance Agreement, MBIA Insurance Corp. agrees to cause MBIA to maintain a minimum capital and surplus position of 4,573,471 euros, or such greater amount as shall be required now or in the future by French law or French regulatory authorities; provided however, (i) any contributions to MBIA for such purpose shall not exceed 35% of MBIA Insurance Corp.'s policyholders' surplus on an accumulated basis as determined by the laws of the State of New York and (ii) any contribution shall be made in compliance with Section 1505 of the New York State Insurance Law.

MBIA has no subsidiaries.

Noteholders should note that the Net Worth Maintenance Agreement between MBIA and MBIA Insurance Corp. and the Reinsurance Agreement (together, the "MBIA Assurance Agreements") are entered into for the benefit of MBIA and are not, and should not be regarded as guarantees by MBIA Insurance Corp. of the payment of any indebtedness, liability or obligations of the Issuer, the Notes or any Financial Guarantee.

Information in this Offering Circular concerning MBIA Insurance Corp. is provided for background purposes only in view of the importance to MBIA of the MBIA Assurance Agreements. It does not imply that the MBIA Assurance Agreements are guarantees for the benefit of Noteholders. Payments of principal and of interest on the obligations will be guaranteed by MBIA pursuant to the Note Financial Guarantee and will not be additionally guaranteed by MBIA Insurance Corp.

The MBIA Assurance Agreements are agreements solely between MBIA and MBIA Insurance Corp. and do not confer rights on third parties; however, these arrangements, together with the ownership of MBIA by MBIA Insurance Corp. and the underwriting support supplied to MBIA by MBIA Insurance Corp., may make information about MBIA Insurance Corp. of interest to holders of policies and guarantees issued by MBIA. Additionally, the MBIA Assurance Agreements were relevant to the rating agencies in justification of the triple-A ratings granted to MBIA. Any modifications to the Net Worth Maintenance Agreement may not occur without confirmation from each of S&P and Moody's that such modifications will not result in the reduction or withdrawal of the claims-paying ratings then assigned to MBIA.

Pursuant to procedures initially developed by MBIA Insurance Corp., MBIA is selective in the risks it chooses to underwrite. Logistic and underwriting support are supplied to MBIA from MBIA Insurance Corp. A logistic review of a credit and the proposed structure is undertaken by an analyst. Both the credit and the structure are then presented to a separate underwriting committee composed of persons not involved in the analysis. Only following approval of both the credit and the structure may a policy or guarantee be issued by MBIA.

⁵ MBIA Insurance Corp. owns all shares of MBIA Assurance SA with the exception of 10 shares, each of which is attributed to each director of MBIA Assurance SA during the term of his/her office for French corporate law purpose.

Management

At 30 June 2003, the members of the Board of Directors of MBIA, their ages and positions within MBIA and their other principal activities are as follows:

Name	Age	Title	Other Activities
John B. Caouette	58	Member of the Board of Directors	Vice Chairman of MBIA Insurance Corp.
Karen E. Decter	36	Member of the Board of Directors	Senior Analyst of MBIA Insurance Corp.
David H. Dubin	41	Member of the Board of Directors	Managing Director of MBIA Insurance Corp.
Gary C. Dunton	48	Member of the Board of Directors	President and Chief Operating Officer of MBIA Insurance Corp.
Kathleen M. Reagan	42	Member of the Board of Directors	Director of MBIA Insurance Corp.
Philip C. Sullivan	47	Member of the Board of Directors	Managing Director of MBIA Insurance Corp.
Juliet S. Telford	38	Member of the Board of Directors	Vice President of MBIA Insurance Corp.
Richard L. Weill	60	Member of the Board of Directors	Vice Chairman of MBIA Insurance Corp.
Ram D. Wertheim	49	Member of the Board of Directors	General Counsel and Assistant Secretary of MBIA Inc.
Deborah M. Zurkow	46	President of the Board of Directors and Managing Director	Managing Director of MBIA Insurance Corp.

The board members do not perform any activities which are significant in the context of the issue of the obligations save as indicated above.

The business address of Ms. Decter and Ms. Zurkow is 112, Avenue Kléber, 75116 Paris, France. The business address of Ms. Telford and Messrs. Caouette, Dubin and Sullivan is 1 Great St. Helen's, London EC3A 6HX, United Kingdom. The business address of Ms. Reagan and Messrs. Dunton, Weill and Wertheim is 113 King Street, Armonk, New York 10504, United States.

MBIA INSURANCE CORPORATION

General

MBIA Inc. ("**MBIA Inc.**") is engaged in providing financial guarantee insurance and investment management and financial services to public finance clients and financial institutions on a global basis. Financial guarantees for municipal bonds, asset-backed and mortgage-backed securities, investor-owned utility bonds, and collateralised obligations of sovereigns, corporations and financial institutions, both in the new issue and secondary markets, are provided through MBIA Inc.'s wholly-owned subsidiary, MBIA Insurance Corporation. ("**MBIA Insurance Corp.**"). MBIA Insurance Corp. is the successor to the business of the Municipal Bond Insurance Association (the "**Association**") which began writing financial guarantees for municipal bonds in 1974. MBIA Insurance Corp. is the parent of MBIA Insurance Corp. of Illinois ("**MBIA Illinois**") and Capital Markets Assurance Corporation ("**CapMAC**"), both financial guarantee companies. In 1990, MBIA Inc. formed a French insurance company, MBIA Assurance S.A. ("**MBIA Assurance**"), to write financial guarantee insurance in the countries of the European community. MBIA Assurance, which is also a 99.99% subsidiary of MBIA Insurance Corp., writes policies insuring sovereign risk, public infrastructure financings, asset-backed transactions and certain collateralised obligations of corporations and financial institutions. MBIA has used the provisions of the Third Non-life Insurance Directive No. 92-49-EEC to operate in the United Kingdom both on a services and a branch basis. Generally, throughout the text, references to MBIA Insurance Corp. include the activities of its subsidiaries, MBIA Illinois, MBIA Assurance and CapMAC.

Business and Financial Structure

Financial guarantee insurance provides an unconditional and irrevocable guarantee of the payment of the principal and interest or other amounts owing, on insured obligations when due. MBIA Insurance Corp. primarily insures obligations which are sold in the new issue and secondary markets, or which are held in unit investment trusts ("**UIT**") and by mutual funds. It also provides surety bonds for debt service reserve funds. The principal economic value of financial guarantee insurance to the entity offering the obligations is the savings in interest costs resulting from the difference in the market yield between an insured obligation and the same obligation on an uninsured basis. In addition, for complex financings and for obligations of issuers that are not well-known by investors, insured obligations receive greater market acceptance than uninsured obligations. The municipal obligations that MBIA Insurance Corp. insures include tax-exempt and taxable indebtedness of states, counties, cities, utility districts and other political subdivisions, as well as airports, higher education and health care facilities and similar authorities. The asset-backed or structured finance obligations insured by MBIA Insurance Corp. typically consist of securities that are payable from or which are tied to the performance of a specified pool of assets that have a defined cash flow. These include residential and commercial mortgages, a variety of consumer loans, corporate loans and bonds and equipment and real property leases.

MBIA Inc. also provides investment management products and financial services through a group of subsidiary companies. These services include cash management, municipal investment agreements, discretionary asset management, purchase and administrative services, and municipal revenue enhancement services. MBIA Municipal Investors Service Corporation ("**MBIA-MISC**") provides cash management services and investment placement services to local governments and school districts, and provides those clients with investment fund administration services. MBIA Investment Management Corp. ("**IMC**") offers guaranteed investment agreements primarily for bond proceeds to states and municipalities. MBIA Capital Management Corp. ("**CMC**") performs investment management services for the Company, MBIA-MISC, IMC and selected external clients. In 1998, the company acquired 1838 Investment Advisors, Inc. ("**1838**"), an investment advisor to equity mutual funds and to third party clients. In 1999, MBIA Inc. formed a holding company, MBIA Asset Management Corporation, to consolidate the resources and capabilities of these four entities. MBIA Global Funding, LLC ("**GFL**"), which was formed in 2002, raises funds through the issuance of medium term notes, with the proceeds invested in high quality eligible investments.

Financial Strength Ratings

MBIA Insurance Corp. has a Triple-A financial strength rating from Standard and Poor's Rating Services ("**S&P**"), which it received in 1974; from Moody's Investors Service, Inc. ("**Moody's**"), which it received in 1984; from Fitch Inc. ("**Fitch**"), which it received in 1995; and from Japan Rating and Investment Information, Inc. ("**JRII**"), which it received in 1998. Obligations which are guaranteed by MBIA Insurance Corp. are rated Triple-A primarily based on the financial strength of MBIA Insurance Corp. Both S&P and Moody's have also continued the Triple-A rating on MBIA Illinois and CapMAC guaranteed bond issues. The Triple-A ratings are important to the operation of MBIA Inc.'s business and any reduction in these ratings could have a material

adverse effect on MBIA Insurance Corp.'s ability to compete and could have a material adverse effect on the business, operations and financial results of MBIA Inc.

Capitalisation and Indebtedness Table

The following table sets forth the capitalisation and indebtedness of MBIA Insurance Corp. as at 31 December 2002 and 31 December 2001 (*source: audited accounts of MBIA Insurance Corp. for financial years ended 31 December 2002 and 2001*):

	31 December 2002 (unaudited)	31 December 2001 (audited)
	(US\$ in thousands)	
Long-term Debt	Nil	Nil
Investors' Equity:		
Common stock, par value \$150 per share; authorised, issued and outstanding - 100,000 shares	15,000	15,000
Additional paid-in capital ⁽⁶⁾	1,610,574	1,567,478
Retained earnings	3,943,341	3,572,397
Accumulated other comprehensive income	339,710	71,014
Total Investors' Equity	US\$5,908,625	US\$5,225,889
Total Capitalisation and Indebtedness⁷	US\$5,908,625	US\$5,225,889

6 Represents the additional contribution from MBIA Inc. above the par value of the common stock.

7 There has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of MBIA Insurance Corp. since 31 December 2002.

Risk Diversification

At 31 December 2002, the net par amount outstanding on MBIA Insurance Corp.'s insured obligations (including insured obligations of MBIA Illinois, MBIA and CapMAC, but excluding the guarantee of US\$8.0 billion of investment management transactions for IMC and GFL) was US\$497.3 billion. Net insurance in force was US\$781.6 billion.

Because generally, MBIA Insurance Corp. guarantees to the holder of the underlying obligation the timely payment of amounts due on such obligation in accordance with its original payment schedule, in the case of a default on an insured obligation, payments under the insurance policy cannot be accelerated unless MBIA Insurance Corp. consents to the acceleration. Otherwise, MBIA Insurance Corp. is required to pay principal, interest or other amounts only as originally scheduled payments come due.

MBIA Insurance Corp. underwrites financial guarantee insurance on the assumption that the insurance will remain in force until maturity of the insured obligations. MBIA Insurance Corp. estimates that the average life (as opposed to the stated maturity) of its insurance policies in force at 31 December 2002 was 10.5 years. The average life was determined by applying a weighted average calculation, using the remaining years to maturity of each insured obligation, and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings of insured issues. Average annual debt service on the portfolio at 31 December 2002 was US\$61.8 billion.

Reinsurance

State insurance laws and regulations, as well as Moody's and S&P, impose minimum capital requirements on financial guarantee companies, limiting the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. MBIA Insurance Corp. increases its capacity to write new business by using treaty and facultative reinsurance to reduce its gross liabilities on an aggregate and single risk basis.

As a primary insurer, MBIA Insurance Corp. is required to honour its obligations to its policyholders whether or not its reinsurers perform their obligations to MBIA Insurance Corp. The financial position of all reinsurers is monitored by MBIA Insurance Corp. on a regular basis.

Regulation

MBIA Insurance Corp. is licensed to do insurance business in, and is subject to insurance regulation and supervision by, the State of New York (its state of incorporation), the 49 other US states, the District of Columbia, the Territory of Guam, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the

United States, the Commonwealth of Puerto Rico, the Kingdom of Spain, the Republic of France and the Republic of Singapore. MBIA Assurance is licensed to do insurance business in France and is subject to regulations under the corporation and insurance laws of the French Republic. MBIA has used the provisions of the Third Non-life Insurance Directive to operate in the United Kingdom both on a services and a branch basis and is to a limited extent subject to supervision by the Financial Services Authority. The extent of state insurance regulation and supervision varies by jurisdiction, but New York, Illinois and most other jurisdictions have laws and regulations prescribing minimum standards of solvency, including minimum capital requirements and business conduct which must be maintained by insurance companies. These laws prescribe permitted classes and concentrations of investments. In addition, some state laws and regulations require the approval or filing of policy forms and rates. MBIA Insurance Corp. is required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed. The operations and accounts of MBIA Insurance Corp. are subject to examination by these regulatory agencies at regular intervals. MBIA Inc. is subject to the direct and indirect effects of governmental regulation, including changes in tax laws affecting the municipal and asset-backed debt markets. No assurance can be given that future legislative or regulatory changes might not adversely affect the results of operations and financial conditions of MBIA Inc.

MBIA Insurance Corp. is licensed to provide financial guarantee insurance under Article 69 of the New York Insurance Law. Article 69 defines financial guarantee insurance to include any guarantee under which loss is payable upon proof of occurrence of financial loss to an insured as a result of certain events. These events include the failure of any obligor on or any issuer of any debt instrument or other monetary obligation to pay principal, interest, premium, dividend or purchase price of or on such instrument or obligation, when due. Under Article 69, MBIA Insurance Corp. is licensed to transact financial guarantee insurance, surety insurance and credit insurance and such other kinds of business to the extent necessarily or properly incidental to the kinds of insurance which MBIA Insurance Corp. is authorised to transact. In addition, MBIA Insurance Corp. is empowered to assume or reinsure the kinds of insurance described above.

As a financial guarantee insurer, MBIA Insurance Corp. is required by the laws of New York, California, Connecticut, Florida, Illinois, Iowa, New Jersey and Wisconsin to maintain contingency reserves on its municipal bonds, asset-backed securities and other financial guarantee liabilities. Under New Jersey, Illinois and Wisconsin regulations, contributions by such an insurer to its contingency reserves are required to equal 50% of earned premiums on its municipal bond business. Under New York law, such an insurer is required to contribute to contingency reserves 50% of premiums as they are earned on policies written prior to 1 July 1989 (net of reinsurance) and, with respect to policies written on and after 1 July 1989, must make contributions over a period of 15 or 20 years (based on issue type), or until the contingency reserve for such insured issues equals the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.55% to 2.5%, depending upon the type of obligation guaranteed (net of reinsurance, refunding, refinancing and certain insured securities). California, Connecticut, Iowa and Florida law impose a generally similar requirement. In each of these states, MBIA Insurance Corp. may apply for release of portions of the contingency reserves in certain circumstances.

The laws and regulations of these states also limit both the aggregate and individual municipal bond risks that MBIA Insurance Corp. may insure on a net basis. California, Connecticut, Florida, Illinois and New York, among other things, limit insured average annual debt service on insured municipal bonds with respect to a single entity and backed by a single revenue source (net of qualifying collateral and reinsurance) to 10% of policyholders' surplus and contingency reserves. In New Jersey, Virginia and Wisconsin, the average annual debt service on any single issue of municipal bonds (net of reinsurance) is limited to 10% of policyholders' surplus. Other states that do not explicitly regulate financial guarantee or municipal bond insurance do impose single risk limits which are similar in effect to the foregoing. California, Connecticut, Florida, Illinois and New York also limit the net insured unpaid principal on a municipal bond issued by a single entity and backed by a single revenue source to 75% of policyholders' surplus and contingency reserves.

Under New York, California, Connecticut, Florida, Illinois, New Jersey and Wisconsin law, aggregate insured unpaid principal and interest under policies insuring municipal bonds (in the case of New York, California, Connecticut, Florida and Illinois, net of reinsurance) are limited to certain multiples of policyholders' surplus and contingency reserves. New York, California, Connecticut, Florida, Illinois and other states impose a 300:1 limit for insured municipal bonds, although more restrictive limits on bonds of other types do exist. For example, New York, California, Connecticut and Florida impose a 100:1 limit for certain types of non-municipal bonds.

MBIA Inc., MBIA Insurance Corp., MBIA Illinois and CapMAC are subject to regulation under the insurance holding company statutes of New York, Illinois and other jurisdictions in which MBIA Insurance Corp., MBIA Illinois and CapMAC are licensed to write insurance. The requirements of holding company statutes vary from

jurisdiction to jurisdiction but generally require insurance holding companies, such as MBIA Inc., and their insurance subsidiaries, to register and file certain reports describing, among other information, their capital structure, ownership and financial condition. The holding company statutes also generally require prior approval of changes in control, of certain dividends and other inter-corporate transfers of assets, and of transactions between insurance companies, their parents and affiliates. The holding company statutes impose standards on certain transactions with related companies, which include, among other requirements, that all transactions be fair and reasonable and that those exceeding specified limits receive prior regulatory approval.

Prior approval by the New York Insurance Department is required for any entity seeking to acquire "control" of MBIA Inc., MBIA Insurance Corp., or CapMAC. Prior approval by the Illinois Department of Insurance is required for any entity seeking to acquire "control" of MBIA Inc., MBIA Insurance Corp. or MBIA Illinois. In many states, including New York and Illinois, "control" is presumed to exist if 10% or more of the voting securities of the insurer are owned or controlled by an entity, although the supervisory agency may find that "control" in fact does or does not exist when an entity owns or controls either a lesser or greater amount of securities.

The laws of New York regulate the payment of dividends by MBIA Insurance Corp. and provide that a New York domestic stock property/casualty insurance company (such as MBIA Insurance Corp.) may not declare or distribute dividends except out of statutory earned surplus. New York law provides that the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders' surplus, as shown by the most recent statutory financial statement on file with the New York Insurance Department, and (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the New York Superintendent of Insurance approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations and writings. The foregoing dividend limitations are determined in accordance with Statutory Accounting Practices ("**SAP**"), which generally produce statutory earnings in amounts less than earnings computed in accordance with Generally Accepted Accounting Principles ("**GAAP**"). Similarly, policyholders' surplus, computed on a SAP basis, will normally be less than net worth computed on a GAAP basis.

MBIA Insurance Corp., MBIA Illinois and CapMAC are exempt from assessments by the insurance guarantee funds in the majority of the states in which they do business. Guarantee fund laws in most states require insurers transacting business in the state to participate in guarantee associations, which pay claims of policyholders and third-party claimants against impaired or insolvent insurance companies doing business in the state. In most cases, insurers licensed to write only municipal bond insurance, financial guarantee insurance and other forms of surety insurance are exempt from assessment by these funds and their policyholders are prohibited from making claims on these funds.

Management

At 30 June 2003, the executive officers and their present ages and positions within MBIA Insurance Corp. are set forth below:

Name	Age	Position
Joseph W. Brown	54	Chairman and Chief Executive Officer
Gary C. Dunton	48	President and Chief Operating Officer
Richard L. Weill	60	Vice Chairman and Secretary
John B. Caouette	58	Vice Chairman
Neil G. Budnick	49	Vice Chairman and Chief Financial Officer
Ram D. Wertheim	49	General Counsel and Assistant Secretary

*Recent Development*⁸

For the three months ended 31 March 2003, MBIA Insurance Corp. had net income of US\$219.7 million as compared to US\$161.0 million for the three months ended 31 March 2002. At 31 March 2003, MBIA Insurance Corp.'s investor's equity was US\$6.1 billion.

MBIA Insurance Corp. guaranteed US\$20.2 billion of net par value during the first three months of 2003, an increase of 15 per cent over the US\$17.5 billion of net par insured in the same 2002 period. During the first three months of 2003, MBIA Insurance Corp. insured US\$14.2 billion of net par value of municipal bonds, a 75 per cent increase from US\$8.1 billion insured in the same 2002 period. In the domestic structured finance market, which includes mortgage-backed and asset-backed transactions, MBIA Insurance Corp. insured US\$2.9 billion of net par value, a decrease of 59 per cent from the US\$7.0 billion insured in the same period last year. In addition, MBIA Insurance Corp. insured US\$3.1 billion of net securities internationally compared with US\$2.3 billion net in 2002.

Gross premiums written during the first three months of 2003 increased to US\$288.1 million from US\$186.8 million a year ago. Net premiums earned during the first three months of 2003 were US\$161.2 million, up from US\$139.0 million in the comparable 2002 period. Net investment income, excluding net realised capital gains, remained flat at US\$106.1 million. Revenues of MBIA Insurance Corp. for the three months ended 31 March 2003 increased to US\$359.9 million compared with US\$263.4 million for the three months ended 31 March 2002. Total expenses for the three months ended 31 March 2003 were US\$53.0 million compared to US\$45.3 million for the three months ended 31 March 2002.

Computed on a statutory basis, as of 31 March 2003, MBIA Insurance Corp.'s unearned premium reserve was US\$2.8 billion, and its capital base, consisting of capital and surplus and contingency reserve, was US\$5.6 billion. Total claims-paying resources at 31 March 2003, rose to US\$11.4 billion, compared with US\$11.0 billion at 31 December 2002.

⁸ The source of the financial information appearing in the section entitled "Recent Developments" is MBIA Insurance Corp.'s books and records.

UNITED KINGDOM TAXATION

The following, which applies only to persons who are the beneficial owners of the Notes, is a summary of the Issuer's understanding of current United Kingdom tax law and Inland Revenue practice as at the date of this Offering Circular relating to certain aspects of the United Kingdom taxation of the Notes. It is not a comprehensive analysis of the tax consequences arising in respect of Notes. Some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Noteholders who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

Interest on the Notes

1. Withholding tax on payments of interest on the Notes

For so long as the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the Irish Stock Exchange is such a "recognised stock exchange" for this purpose) interest payments on each of the Notes will be treated as a "payment of interest on a quoted Eurobond" within the meaning of section 349 of the Income and Corporation Taxes Act 1988. In these circumstances, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax irrespective of whether the Notes are in global form or in definitive form.

If the Notes cease to be listed on a "recognised stock exchange", an amount must be withheld on account of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of an applicable double taxation treaty or in circumstances where the exemption for payments between certain companies contained in section 349A of the Income and Corporation Taxes Act 1988 applies.

2. Payments by MBIA under the Note Financial Guarantee

If MBIA makes any payments in respect of interest on the Notes (or other amounts due under such Notes other than the repayment of amounts subscribed for the Notes) such payments may be subject to United Kingdom withholding tax at the basic rate (currently 22 per cent.) from interest paid thereon, subject to such relief as may be available under the provisions of any applicable double taxation treaty. Such payments by MBIA may not be eligible for the exemptions from withholding tax described above.

3. Further United Kingdom income tax issues for non-United Kingdom resident Noteholders

Interest on the Notes constitutes United Kingdom source income and, as such, may be subject to income tax by direct assessment even where paid without withholding, subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of an applicable double taxation treaty.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which the interest is received or to which the Notes are attributable (legislative proposals in the Finance Bill 2003 broadly replace references in the Tax Acts (as defined in section 831 of the Income and Corporation Taxes Act 1988) to "branch or agency" in respect of companies with references to "permanent establishment" for accounting periods beginning on or after 1 January 2003; in the event that the legislative proposals are enacted as drafted, the reference to "branch or agency" in the preceding sentence should be read as a reference to "permanent establishment"). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision under an applicable double taxation treaty.

United Kingdom corporation tax payers

In general, Noteholders which are within the charge to United Kingdom corporation tax in respect of Notes will be charged to tax and obtain relief as income on all returns on and fluctuations in value of the Notes broadly in accordance with their statutory accounting treatment.

Other United Kingdom tax payers

1. Taxation of chargeable gains

It is expected that the Notes will not be regarded by the Inland Revenue as constituting "qualifying corporate bonds" within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal of the Notes may give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains. There are provisions to prevent any particular gain (or loss) from being charged (or relieved) at the same time under these provisions and also under the provisions of the "accrued income scheme" described in 2 below.

2. Accrued income scheme

On a disposal of Notes by a Noteholder, any interest which has accrued since the last Note Payment Date may be chargeable to tax as income under the rules of the "accrued income scheme" if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

Stamp Duty and SDRT

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Note or of a Definitive Note.

European Union Directive on the Taxation of Savings Income

On 3 June 2003 the Council of the European Union adopted a directive on the taxation of savings income (the "Directive") under which Member States will generally 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 or for an individual resident in that other Member State. Exceptionally (and for a transitional period only which will end after agreement on exchange of information is reached between the European Union and certain non-European Union states) Belgium, Luxembourg and Austria will instead be required to withhold tax from such payments unless the noteholder authorises the person making the payment to report the payment or presents a certificate from the relevant tax authority establishing exemption therefrom. The Directive will, subject to certain conditions being satisfied, apply from 1 January 2005.

SUBSCRIPTION AND SALE

Morgan Stanley & Co. International Limited, The Royal Bank of Scotland plc, Barclays Bank plc and HSBC Bank plc (together, the "**Managers**"), pursuant to a subscription agreement dated 16 July, 2003 (the "**Subscription Agreement**"), between the Managers, the Issuer, MSMS and MSDW PFI, agreed, jointly and severally, subject to certain conditions, to subscribe and pay for the Notes at 100 per cent. of the principal amount of such Notes.

The Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

United States of America

Each of the Managers has represented and agreed with the Issuer that the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 41 days after the later of the commencement of the offering of the Notes and the Closing Date (for the purposes only of this section "Subscription and Sale", the "**Distribution Compliance Period**") within the United States or to, or for the account or benefit of, U.S. Persons and that it will have sent to each distributor, dealer or other person to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act.

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

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

The Notes are not designed for, and may not be purchased or held by, any benefit plan (as defined in section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") (a "**Benefit Plan**") which is subject thereto, or any plan (as defined in section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**")) (a "**Plan**"), or by any person any of the assets of which are, or are deemed for the purposes of ERISA or section 4975 of the code to be, assets of such Benefit Plan or Plan, and each purchaser of a Note pursuant to Regulation S will be deemed to have represented, warranted and agreed that it is not, and for so long as it holds a note issued pursuant to Regulation S will not be, such a Benefit Plan or Plan.

United Kingdom

Each of the Managers has further represented and agreed 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;
- (b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 ("**FSMA**"), 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 communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

General

Except for listing the Notes on the Official List of the Irish Stock Exchange and delivery of this document to the Registrar of Companies in Ireland, no action is being taken in any jurisdiction that would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisement in connection with the Notes may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each of the Managers has undertaken not to offer or sell any of the Notes, or to distribute this document or any other material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with applicable law and regulations.

Attention is drawn to the information set out under "Important Notice" at page 2.

GENERAL INFORMATION

1. The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 16 July, 2003.
2. The issue of the Note Financial Guarantee by MBIA has been duly authorised.
3. It is expected that listing of the Notes on the Official List of the Irish Stock Exchange will be granted on or about 17 July, 2003, subject only to the issue of the Global Notes. The listing of the Notes will be cancelled if the Global Notes are not issued. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction.
4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg as follows:

Common Code	ISIN
017282778	XS0172827783

5. No statutory or non-statutory accounts in respect of any financial year of the Issuer have been prepared. So long as the Notes are listed on the Official List of the Irish Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time will be available at the specified offices of the Paying Agent in Dublin. The Issuer does not publish interim accounts.
6. 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 its incorporation, a significant effect on the Issuer's financial position.
7. MBIA is not, and has not been, involved in any legal or arbitration proceedings, including any which are pending or threatened of which MBIA is aware, which may have, or have had during the 12 months prior to date of this Offering Circular a significant effect on the financial position of MBIA.
8. Since the date of its incorporation, the Issuer has entered into the Subscription Agreement being a contract entered into other than in its ordinary course of business.
9. BDO Stoy Hayward, auditors of the Issuer, has given and not withdrawn its written consent to the issue of this Offering Circular with the inclusion of its report and references to its name in the form and context in which they are included and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).
10. DTZ Debenham Tie Leung, external valuers, has given and not withdrawn its written consent to the issue of this Offering Circular with the inclusion of its valuation report and references to its name in the form and context in which they are included and has authorised the content of that part of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).
11. The auditors of MBIA are PricewaterhouseCoopers, statutory auditors, of 32 rue Guersant, 75833 Paris, Cedex 17, France. Unqualified audited accounts have been prepared in relation to MBIA for the three financial years immediately preceding the date of this Offering Circular. PricewaterhouseCoopers has given, and has not withdrawn, its consent to the inclusion of their report in this Offering Circular in the form and context in which it is included and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).
12. Save as disclosed herein, since 19 May, 2003 (being the date of incorporation of the Issuer), there has been (i) no material adverse change in the financial position or prospects of the Issuer and (ii) no significant change in the trading or financial position of the Issuer.
13. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of MBIA since 31 December 2002, and there has been no material adverse change in the financial position or prospects of MBIA since 31 December 2002, the date to which MBIA's most recent audited accounts have been prepared.
14. 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 Issuer at Blackwell House,

Guildhall Yard, London EC2V 5AE and at the specified offices of the Sub-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 constitutive documents of MBIA (in French, accompanied by an English language translation thereof);
- (iii) the balance sheet of the Issuer as at 16 July, 2003 and the auditors report thereon;
- (iv) audited accounts of MBIA (in French, accompanied by an English translation thereof) for the financial years ending on 31 December 2002 and on 31 December 2001;
- (v) accountants' report of PricewaterhouseCoopers in relation to MBIA dated 13 June, 2003;
- (vi) the Subscription Agreement; and
- (vii) drafts (subject to modification) of the following documents:
 - (a) the Trust Deed;
 - (b) the Note Financial Guarantee;
 - (c) the Swap Financial Guarantee;
 - (d) the Loan Sale Agreement;
 - (e) the Deed of Charge and Assignment;
 - (f) the Declaration of Trust;
 - (g) the Servicing Agreement;
 - (h) the Cash Management Agreement;
 - (i) the Swap Agreement (including the Swap Agreement Credit Support Document) and the Swap Guarantee;
 - (j) the Corporate Services Agreement;
 - (k) the Agency Agreement; and
 - (l) the Master Definitions Agreement.

APPENDIX 1
VALUATION REPORT

**REPORT AND VALUATION FOR
MORGAN STANLEY MORTGAGE
SERVICING LIMITED AND MBIA**

**THE BRITISH BROADCASTING
CORPORATION**

**BROADCASTING HOUSE,
PORTLAND PLACE, LONDON W1**

11 JULY 2003

REPORT AND VALUATION

FOR

**MORGAN STANLEY MORTGAGE SERVICING LIMITED
AS SECURITY TRUSTEES AND ITS NOMINEES**

20 CABOT SQUARE

CANARY WHARF

LONDON

E14 4QW

AND

MBIA

1 GREAT ST HELENS

LONDON

EC3 A6HX

BROADCASTING HOUSE

PORTLAND PLACE

LONDON W1

PREPARED BY:

DTZ DEBENHAM TIE LEUNG

ONE CURZON STREET

LONDON

W1A 5PZ

11 JULY, 2003

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Morgan Stanley Mortgage Servicing Limited
As Security Trustee and its nominees
20 Cabot Square
Canary Wharf
London E14 4QW

MBIA
1 Great St Helens
London EC3 A6HX

Our Ref: ao.jn.0116.0703.rep

For the attention of Ms N Howard

11 July 2003

Dear Sirs

PROPERTY: BROADCASTING HOUSE, PORTLAND PLACE, LONDON W1

SECTION ONE - TERMS OF INSTRUCTION, CONFIDENTIALITY AND DISCLOSURE

1.1 LOAN PROPOSITION

We understand that Daunus Limited (“the Applicant”) intend to finance the redevelopment of the above property. We understand that our Report and valuation is required to assist you in considering the suitability of the property as security for a commercial mortgage advance in the sum of approximately £782,089,341, secured by way of a fixed first legal charge over the interest valued in this Report. We have not been made familiar with the details of the loan proposal, but understand that it will be for a period of 30 years with 100% amortisation over the term of the loan. We further understand that this Report will be included in an Offering Circular related to the securitisation transaction that will be filed with the Irish Stock Exchange and distributed to investors. A full detailed report dated 11 July 2003 has also been provided.

1.2 OUR APPOINTMENT

In accordance with your letter of instruction, dated 24 April 2003, we have valued the long leasehold interest in the above property, as at 11 July, 2003, in connection with the proposed loan facility. The property is described in Property Summary attached at Section Two of this Report, which forms an integral part hereof.

1.3 INSPECTIONS

The existing property was inspected internally and externally by Alistair Oates MRICS and Britt Atkin AAPI on numerous occasions over the past year in connection with advice then being provided to the BBC in respect of this property. We were able to inspect all of the property.

1.4 COMPLIANCE WITH APPRAISAL AND VALUATION STANDARDS

We confirm that the valuations have been prepared in accordance with the appropriate sections of the Practice Statements (“PS”) and United Kingdom Practice Statements (“UKPS”) contained within the RICS Appraisal and Valuation Standards, 5th Edition (the “Red Book”). In addition we have complied with The Listing Rules issued by the Financial Services Authority

1.5 STATUS OF VALUER AND CONFLICTS OF INTEREST

We confirm that we have undertaken the valuations acting as an External Valuer, qualified for the purpose of the valuations.

As you are aware DTZ Debenham Tie Leung are retained by the BBC to provide strategic advice in respect of their property portfolio, including the subject property. We confirm that we do have other fee earning relationships with the BBC in respect of this and other properties. We do not however have any fee agreements with the BBC which are dependent on the financial structuring which Morgan Stanley are providing. We do not therefore consider that any conflict of interest arises in respect of this instruction. For clarity we have detailed below all previous and on-going fee earning relationships we have or have had with the BBC over the past three years in respect of the subject property:-

- a) Development Consultancy for the BBC until planning permission had been achieved in respect of the proposed development. This instruction is now completed.
- b) In the summer of 2002 we advised the BBC in respect of the terminal value of the subject property in connection with their negotiations with Land Securities Trillium. This instruction has been completed.
- c) Between November 2002 and February 2003 we advised the BBC in respect of negotiations it was having with the Howard de Walden Estate to release a restrictive covenant which would have prevented the development of the subject property. This instruction has been completed.

In addition we have advised the BBC in respect of the following other properties over the past three years:-

- a) We have provided development contingency advice in respect of a development they are undertaking at White City.
- b) Commercial agents at the scheme at White City.
- c) Contract negotiations for the White City Partnership between BBC and Land Securities.
- d) We have provided valuation advice to the BBC and Land Securities Trillium in respect of properties they are developing in partnership at White City.
- e) We are providing development consultancy and valuation advice in respect of Pacific Quay in Glasgow.
- f) DTZ Debenham Tie Leung advised the BBC/Land Securities Trillium Partnership in respect of the acquisition of Forest House in Wood Green.

We confirm that we discussed our previous involvement with the borrower with you and you confirmed that you were happy for us to act on your behalf in this regard. We confirm that we do not consider that any conflict of interest arises in providing the advice you have requested. We also confirm that total fees earned from the BBC over the last year did not exceed 5% of Group turnover.

1.6 BASES OF VALUATION

In accordance with your instructions, and the requirements of the Financial Services Authority we have undertaken our valuations on the following bases:-

- a) Market Value assuming a cleared vacant site
- b) Market Value assuming the proposed development has been completed and let

In preparing our valuations on these bases it is necessary for us to prepare valuations on "Special Assumptions". A Special Assumption is referred to in the Glossary in the Red Book as an "Assumption that either:

- requires the valuation to be based on facts that differ materially from those that exist at the date of valuation; or
- is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances."

In the circumstances of this instruction, we consider the Special Assumptions upon which we have been asked to value may be regarded as realistic, relevant and valid.

We have set out the definitions of the above bases of valuation in Appendix A.

Our valuations are subject to our standard Valuation Terms, Conditions and Assumptions which are included in Appendix B. In the event that any of our assumptions prove to be incorrect then our valuations should be reviewed.

1.7 CONFIDENTIALITY AND DISCLOSURE

The contents of this Report and Appendices are confidential to the parties to whom they are addressed for the specific purpose to which they refer and are for their use only. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of their contents. Before this Report, or any part thereof, is reproduced or referred to, in any document, circular or statement, and before its contents, or any part thereof, are disclosed orally or otherwise to a third party, the valuer's written approval as to the form and context of such publication or disclosure must first be obtained. For the avoidance of doubt such approval is required whether or not DTZ Debenham Tie Leung Limited are referred to by name and whether or not the contents of our Report are combined with others.

In relation to each of the Lenders, as that term is defined in the senior facility agreement, no reliance may be placed on this Valuation Report until such time as the identities of all such parties are notified to us in writing. In addition we will require further confirmation in writing that all such parties have seen the entirety of this Valuation Report and the letter of instruction.

Yours faithfully

ALISTAIR OATES MRICS
DIRECTOR
FOR AND ON BEHALF OF
DTZ DEBENHAM TIE LEUNG LIMITED

SECTION TWO - PROPERTY SUMMARY

AS AT 11 JULY, 2003

Broadcasting House, Portland Place, London W1

Location and situation

The subject property is located within the heart of London's West End in the London Borough of Westminster. The site is situated on the eastern side of Portland Place/Langham Place approximately 300 metres north of Oxford Circus.

Description

The property currently comprises two 1960s office blocks known as Egton House and 16 Langham Street, and the original Broadcasting House which is a Grade II listed building. A comprehensive redevelopment of the site will take place, whilst retaining the frontage of the original Broadcasting House. The completed scheme will mainly comprise a pre-cast white concrete structure with intermediate columns in stainless steel, and infill of Portland stone and glass.

Accommodation

Upon completion Broadcasting House will be the largest live broadcasting centre in the world. The building will provide studios, offices and ancillary facilities constructed on a site of 0.626 ha (1.547 acres).

Planning

The buildings which comprise the existing Broadcasting House, along with those that have already been demolished, have the benefit of a Class B1 (Office Use) in their entirety. This accommodation extends to an existing area of 62,518 sq m (672,938 sq ft).

Planning permission was granted on 27 June 2002 for the proposed development to provide a broadcasting centre with ancillary uses (sui generis use), extending to a gross internal area of 79,258 sq m (853,118 sq ft). The planning consent requires the BBC to be the first occupier of the building. In addition it is granted subject to the provisions of a Section 106 agreement.

Timetable for Development

Demolition of the existing buildings has commenced and with Phase I due to be completed by 1 October 2005 and Phase II by 1 July 2008.

Tenure

Long leasehold.

The property is to be held on full repairing and insuring terms for 150 years from financial close at a fixed rent of one peppercorn.

Tenancy

The property will be let in its entirety to the BBC for a term of 30 years from financial close. The lease is on full repairing and insuring terms and is subject to annual rental uplifts in line with the Retail Price Index, subject to maximum and minimum uplifts of 5% and 0% per annum, respectively.

Initial Income on Completion of the Proposed Development

£42,840,000 per annum exclusive
(Forty Two Million Eight Hundred and Forty Thousand pounds)
per annum exclusive

This is the rent payable for the completed building on financial close. This figure will be increased in line with the Retail Price Index, subject to maximum and minimum uplifts of 5% and 0% per annum, respectively.

Market Value Assuming A Cleared Site

This valuation has been prepared on the following Special Assumptions:-

- i) The entire property which is the subject of the head leasehold interest has been cleared of all existing buildings.
- ii) The property is available with full vacant possession.

We are of the opinion that the Market Value of the long leasehold interest in the above property, subject to the Special Assumptions detailed above and the general assumptions and comments in this Report and appendices, as at 11 July 2003, is: -

£ 82,000,000
(Eighty Two Million pounds)

Market Value on Completion of Development Works

This valuation has been prepared on the following Special Assumptions:-

- i) The entire property has been constructed in accordance with the plans and specification provided to us and in compliance with all statutory requirements.
- ii) The property has been let in accordance with the details set out in this Report.
- iii) The rent passing is £42,840,000 per annum which is the current value of the rent on completion of all parts of the building.

We are of the opinion that the Market Value of the long leasehold interest in the above property, subject to the Special Assumptions detailed above and the general assumptions and comments in this Report and appendices, as at 11 July 2003, is: -

£ 650,000,000
(Six Hundred and Fifty Million pounds)

Estimated Cost of Completion of Works
£545,000,000

APPENDIX A

DEFINITIONS OF THE BASES OF VALUATION

TAXATION AND COSTS

1. DEFINITIONS

The property has been valued in accordance with the relevant parts of the current RICS Appraisal and Valuation Manual. In particular, the bases of valuation are as follows:

1.1. MARKET VALUE

We have assessed Market Value in accordance with Practice Statement 4.1. Under these provisions, the term “Market Value” means “The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

In undertaking our valuation on the basis of Market Value we have applied the interpretative commentary which has been settled by the International Valuation Standards Committee (IVSC). The commentary is included in PS 4.1.2 – PS 4.1.12. The commentary is reproduced below:-

“PS 4.1.2

The term 'asset' is used because of the focus of these Standards. However, the term 'property' may be substituted for general application of the definition. Each element of the definition has its own conceptual framework.

PS 4.1.3

'The estimated amount ...' refers to a price expressed in terms of money (normally in the local currency) payable for the asset in an arm's-length market transaction. *Market Value* is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the *Market Value* definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of *Special Value* (defined in IVSC Standard 2 in the following terms:

Special Value. A term relating to an extraordinary element of value over and

above *Market Value*. Special value could arise, for example, by the physical, functional, or economic association of a property with some other property such as the adjoining property. It is an increment of value which could be applicable to a particular owner or user, or prospective owner or user, of the property rather than to the market at large; that is, to a purchaser with a special interest. *Special Value* could be associated with elements of *Going Concern Value*. The Valuer must ensure that such criteria are distinguished from *Market Value*, making clear any special assumptions made.)

PS 4.1.4

'... *an asset should exchange ...*' refers to the fact that the value of an asset is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the *Market Value* definition should be completed on the date of valuation.

PS 4.1.5

'... *on the date of valuation ...*' requires that the estimated *Market Value* is time-specific as of a given date. As markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made in a *Market Value* transaction.

PS 4.1.6

'... *between a willing buyer ...*' refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present asset owner is included among those who constitute 'the market'. A Valuer must not make unrealistic assumptions about market conditions or assume a level of *Market Value* above that which is reasonably obtainable. In some countries an explicit reference to a willing buyer is omitted from the definition of *Market Value* to emphasise this responsibility.

PS 4.1.7

'... *a willing seller ...*' is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the asset at market terms for the best price attainable in the open market after proper marketing, whatever that price may be. The factual circumstances of the actual asset owner

are not a part of this consideration because the 'willing seller' is a hypothetical owner.

PS 4.1.8

'... *in an arm's-length transaction* ...' is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of special value. The *Market Value* transaction is presumed to be between unrelated parties each acting independently.

PS 4.1.9

'... *after proper marketing* ...' means that the asset would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the *Market Value* definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the asset to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

PS 4.1.10

'... *wherein the parties had each acted knowledgeably and prudently* ...' presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the asset, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

PS 4.1.11

'... *and without compulsion*' establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

PS 4.1.12

Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase and without offset of any associated taxes.”

The RICS considers that the application of the Market Value definition, results in the same valuation figure as the application of Open Market Value.

2. TAXATION AND COSTS

In no case have we made any adjustment to reflect any liability to taxation that may arise on disposal, nor for any costs associated with disposal incurred by the owner.

No allowance has been made to reflect any liability to repay any government or other grants, taxation allowance or lottery funding that may arise on disposal.

We have made deductions to reflect purchaser's normal acquisition costs where appropriate.

APPENDIX B

VALUATION TERMS, CONDITIONS AND ASSUMPTIONS

These are the general terms, conditions and assumptions upon which our valuations and reports are normally prepared. They apply to the valuations contained in this Report unless we have specifically mentioned otherwise elsewhere in this Report. In the event that any of these assumptions prove to be incorrect then our valuations should be reviewed.

1. Title

We have not had access to the title deeds of the property. Where a Certificate of Title has been made available, we have reflected its contents in our valuation. Save as disclosed either in any such Certificate of Title or as referred to in our Report, we have assumed that there is good and marketable title and that the property is free from rights of way or easements, restrictive covenants, disputes or onerous or unusual outgoing. We have also assumed that the property is free from mortgages, charges or other encumbrances.

2. Condition of structure and services, deleterious materials, plant and machinery and goodwill

Due regard has been paid to the apparent state of repair and condition of the property, but a condition survey has not been undertaken, nor have woodwork or other parts of the structure which are covered, unexposed or inaccessible, been inspected. Therefore, we are unable to report that the property is structurally sound or is free from any defects. We have assumed the property is free from any rot, infestation, adverse toxic chemical treatments, and structural or design defects other than such as may have been mentioned in the body of our Report and the appendices.

We have not arranged for investigations to be made to determine whether high alumina cement concrete, calcium chloride additive or any other deleterious material have been used in the construction or any alterations, and therefore we cannot confirm that the property is free from risk in this regard. For the purposes of this valuation, it has been assumed that any such investigation would not reveal the presence of such materials in any adverse condition.

No mining, geological or other investigations have been undertaken to certify that the site is free from any defect as to foundations. Where relevant, we have assumed that the load bearing qualities of the site of the property are sufficient to support the buildings constructed, or to be constructed thereon. We have also assumed that there are no abnormal ground conditions, nor archaeological remains present, which might adversely affect the present or future occupation, development or value of the property.

No tests have been carried out as to electrical, electronic, heating, or any other services nor have the drains been tested. However, we have assumed all services to be functioning satisfactorily.

No allowance has been made in this valuation for any items of plant or machinery not forming part of the service installations of the building. We have specifically excluded all items of plant, machinery and equipment installed wholly or primarily in connection with any of the occupants' businesses. We have also excluded furniture and furnishings, fixtures, fittings, vehicles, stock and loose tools. Further, no account has been taken in our valuation of any goodwill that may arise from the present occupation of the property.

It is a condition of DTZ Debenham Tie Leung Limited or any related company, or any qualified employee, providing advice and opinions as to value, that the client and/or third parties (whether notified to us or not) accept that the valuation report in no way relates to, or gives warranties as to, the condition of the structure, foundations, soil and services.

3. Environmental matters

We have made enquiries of the local authority and considered the advice provided by Whitby Bird & Partners in this regard.

4. Statutory requirements and planning

Verbal or written enquiries have been made of the relevant planning authority in whose area the property lies as to the possibility of highway proposals, comprehensive development schemes and other ancillary planning matters that could affect property values. The results of our enquiries have been included within our Report where relevant.

It has been assumed that the building has been constructed in full compliance with valid town planning and building regulations approvals, that where necessary it has the benefit of a current Fire Certificate, and that the property is not subject to any outstanding statutory notices as to its construction, use or occupation. Unless our enquiries have revealed the contrary, it has been further assumed that the existing use of the property is duly authorised or established and that no adverse planning condition or restriction applies.

No allowance has been made for rights, obligations or liabilities arising under the Defective Premises Act 1972 and we have assumed that the property complies with all relevant statutory requirements.

We would draw your attention to the fact that employees of town planning departments now always give information on the basis that it should not be relied upon and that formal searches should be made if more certain information is required. We assume that, if you should need to rely upon the information given about town planning matters, your solicitors would be instructed to institute such formal searches.

5. Leasing

We have read all the leases and related documents provided to us. We have assumed that copies of all relevant documents have been sent to us and that they are complete and up to date.

We have not undertaken investigations into the financial strength of the tenant(s). Unless we have become aware by general knowledge, or we have been specifically advised to the contrary, we have assumed that the tenant(s) is/are financially in a position to meet its/their obligations. Unless otherwise advised, we have also assumed that there are no material arrears of rent or service charges or breaches of covenants, current or anticipated tenant disputes.

However, our valuation reflects the type of tenant(s) actually in occupation or responsible for meeting lease commitments, or likely to be in occupation, and the market's general perception of their creditworthiness.

We have also assumed that wherever rent reviews or lease renewals are pending or impending, with anticipated reversionary increases, all notices have been served validly within the appropriate time limits.

6. Legal Issues

Legal issues, and in particular the interpretation of matters relating to title and leases, may have a significant bearing on the value of an interest in property. Where we have expressed an opinion upon legal issues affecting the valuation, then such opinion should be subject to verification by the client with a suitable qualified lawyer. In these circumstances, we accept no responsibility or liability for the true interpretation of the legal position of the client or other parties in respect of the valuation of the property.

APPENDIX 2

**FINANCIAL STATEMENTS OF MBIA ASSURANCE S.A.
FOR THE YEAR ENDED 31 DECEMBER 2002**

MBIA ASSURANCE S.A

**STATUTORY AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

This version of the report is a translation from the original, which was prepared in French. In all matters of interpretation of information, views or opinions expressed therein, the original language version of the report takes precedence over this translation.

STATUTORY AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

(Translated from French into English)

To the shareholders of
MBIA Assurance S.A.
112, avenue Kléber
75116 Paris

Dear Sirs,

In compliance with the assignment entrusted to us at the Annual Shareholder's Meeting, we hereby report to you, for the year ended December 31, 2002 on:

- the audit of the accompanying financial statements of MBIA Assurance, expressed in euros,
- the specific verifications and information required by the law.

These financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

1. OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applied in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the company's financial position and its assets and liabilities as of December 31, 2002, and of the results of its operations for the year then ended in accordance with French accounting principles and regulations.

Without qualifying the above opinion, we draw the shareholder's attention to note II c) which describes the change made in the determination of the reserves for unearned installment premiums and the corresponding impact to the financial statements for the year ended December 31, 2002.

2. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by the law, in accordance with the professional standards applied in France.

We have no comments as to the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Paris, June 13, 2003

Statutory Auditors

Coopers & Lybrand Audit
Member of PricewaterhouseCoopers

Catherine Thuret

MBIA ASSURANCE S.A.
FINANCIAL STATEMENTS: BALANCE SHEET / ASSETS (in Euros)

ASSETS	At Dec. 31, 2002	At Dec. 31, 2001
Subscribed capital uncalled	0	0
Intangible assets	0	0
Investments		
Land and buildings	0	0
Investments in related parties	0	0
Other investments	130,277,108	73,540,362
Cash deposits with guarantors	0	0
	130,277,108	73,540,362
Investment related to unit-linked contracts	0	0
Reinsurers' share in technical reserves		
Unearned premiums and premium deficiency reserves		
Related parties	469,586	608,959
Third party reinsurers	49,529,055	30,985,587
Claims reserve	0	0
Provision for profit sharing	0	0
Equalization reserve	0	0
Other technical provisions	0	0
Technical reserve for unit-linked contracts	0	0
	49,998,641	31,594,546
Debtors		
Amounts receivable from parent company	4,300,515	5,032,519
Insurance debtors		
Other	355,723	65,601
Reinsurance debtors		
Other	301,684	180,824
Other Debtors		
Prepaid and recoverable taxes	2,697,119	0
Sundry debtors		
Related parties	977,350	790,228
Other	448	479
Titrimmo guarantee deposit	0	498,707
	8,632,839	6,568,358
Other assets		
Tangible assets	380,739	281,210
Other deposits and guarantees	82,936	67,769
Cash and cash equivalents	2,541,152	779,736
	3,004,827	1,128,715
Prepayments and accrued income		
Other	377,741	226,785
Deferred acquisition costs	4,272,931	1,311,965
Accrued interest and rental income	516,637	654,841
	5,167,309	2,193,591
Unrealised exchange differences	2,467,938	2,104,611
TOTAL ASSETS	199,548,662	117,130,183

MBIA ASSURANCE S.A.

FINANCIAL STATEMENTS: BALANCE SHEET / LIABILITIES (in Euros)

LIABILITIES	At Dec. 31, 2002	At Dec. 31, 2001
Shareholders' equity		
Share capital	26,250,000	26,250,000
Other reserves	457,731	457,731
Retained earnings/(deficit)	4,294,505	5,684,258
Net income/(loss) for the year	7,066,119	(1,389,753)
	38,068,355	31,002,236
Subordinated liabilities	0	0
Gross technical reserves		
Unearned premiums and premium deficiency reserves	127,963,776	64,237,422
Claims reserve	0	0
Other technical reserves	0	0
	127,963,776	64,237,422
Technical reserve for unit-linked contracts	0	0
Provisions for liabilities and charges		
Provision for exchange losses	3,038,661	2,117,575
Provision for charges	0	0
	3,038,661	2,117,575
Cash deposits received from reinsurers	2,195,266	2,195,266
Other liabilities		
Amounts due to parent company	14,894,133	8,957,206
Insurance creditors		
Related parties	0	0
Third party reinsurers	244	0
Reinsurance creditors		
Related parties	3,073,176	2,150,333
Third party reinsurers	1,656,592	81,784
Bond issue	0	0
Amounts due to credit institutions (loans)	6,100	11,690
Other liabilities		
Other cash deposits received		
Related parties	0	0
Other	1,168,647	1,150,350
Accrued personnel costs	472,746	194,711
Accrued taxes and social security charges	1,230,650	1,677,548
Sundry creditors		
Related parties	0	0
Other	486,574	602,627
Titrimmo guarantee deposit	0	498,707
	22,988,862	15,324,956
Accruals and deferred income		
Other accruals	5,293,742	2,252,728
	5,293,742	2,252,728
Unrealised exchange differences	0	0
TOTAL LIABILITIES	199,548,662	117,130,183

MBIA ASSURANCE S.A.
FINANCIAL STATEMENTS: PROFIT AND LOSS ACCOUNT (in Euros)

NON LIFE INSURANCE TECHNICAL ACCOUNT	2002 Gross	Ceded business	2002 Net	2001 Net
Earned premiums				
Premiums	69,035,496	(21,342,278)	47,693,218	10,057,786
Change in unearned premiums reserve	(68,037,984)	20,375,658	(47,662,326)	(4,382,901)
Allocated investment income	275,800		275,800	1,420,561
Other technical income	11,445,725		11,445,725	99,545
Claim charges	0		0	0
Charges from other technical reserves	0		0	0
Acquisition and administration costs				
Acquisition costs	(1,860,315)		(1,860,315)	(2,914,670)
Administration costs	(6,267,436)		(6,267,436)	(4,966,585)
Reinsurance commissions received		3,464,082	3,464,082	682,130
Other Technical charges	0		0	0
	4,591,286	2,497,462	7,088,748	(4,134)
Non-life underwriting result			7,088,748	(4,134)
NON-LIFE INSURANCE NON-TECHNICAL ACCOUNT				
Investment income				
Investment revenues			2,659,816	2,004,540
Other investment income			2,145,033	3,757,391
Gains on sale of investments			275,774	981,192
Allocated investment income			0	0
Investment expense				
Interest and portfolio expenses			(44,396)	(39,684)
Other investment expenses			(278,023)	(164,328)
Losses on sale of investments			(4,347,738)	(3,795,836)
Investment income transferred to the technical accounts			(275,800)	(1,420,561)
Other non-technical income			296	61,635
Other non-technical expense			(149)	0
Non-recurring income/expense				
Non-recurring income			0	656
Non-recurring expense			(288)	0
Employee profit sharing			0	0
Income tax			(157,154)	(2,770,624)
Non-technical result on non-life insurance			(22,629)	(1,385,619)
INCOME FOR THE YEAR			7,066,119	(1,389,753)

NOTES TO THE FINANCIAL STATEMENTS

I – BUSINESS OF THE COMPANY

MBIA Assurance S.A. “MBIA Assurance” or “the Company” is a *Société Anonyme* with a share capital of 26,250,000 euros. MBIA Assurance is a 99.99% owned subsidiary of MBIA Insurance Corporation.

MBIA Assurance carries out operations of the type corresponding to Branch 15 Guarantee listed in Article R 321-1 of the French Insurance Code.

MBIA Assurance’s principal activity is the guarantee of financial obligations, and notably with respect to securitisations, structured finance, and project finance transactions.

Financial guarantee insurance policies issued by MBIA Assurance provide an unconditional and irrevocable guarantee of the payment of the principal and interest, or other amounts owed, on insured obligations when due.

II – ACCOUNTING POLICIES AND METHODS

The annual financial statements are prepared and presented in accordance with the provisions of the French Insurance Code (decree dated June 8, 1994 and the regulation dated June 20, 1994) so as to incorporate the EEC directive n°91-674 dated December 19, 1991 regarding the financial statements of insurance companies. Since there is no specific provision related to these texts, the applied principles are those defined by the “Plan comptable général”, the French accounting convention. The accounting year has a 12-month duration.

The Company does not produce consolidated accounts since it has no subsidiaries. However, during the year 2000, the Company established a branch in the United Kingdom whose accounts are included in the Company’s financial statements. The accounting principles and methods used at year-end and summarized below remain unchanged from the previous year-end accounts.

a) Investments

Bonds and other fixed-income securities are stated at cost, excluding interest accrued at the date of acquisition. Premiums and discounts on bonds and other fixed-income securities (difference between the purchase price and the redemption price) are written off to the profit and loss account over the residual lives of the securities in accordance with article R 332-19 of the French Insurance Code. The differences between the redemption prices to be received and the depreciation of these differences are recorded under "accrued income" or "deferred income".

At year-end, the realisable value corresponds to the quoted value on the last trading day of the year or to the market value for the securities that are not listed. In application of Article R 332-19, no provision is made for unrealised losses corresponding to the difference between the amortised cost of securities and their fair market value. However, a provision for counterparty risks is recorded if the Company has reason to believe that the issuer will be unable to fulfil its obligations in terms of the payment of principal or interest.

Equities and other variable income securities are stated at cost, excluding accrued interest at the acquisition date. Values are determined using the First In-First Out method "FIFO".

A provision is recorded separately for each line of securities when a decrease in book value is considered permanent in accordance with the Avis N°2002-F of the French Accounting Standard Council dated December 18, 2002 which redefines the evaluation methodology of the provision for this depreciation. Securities which are deemed to have suffered a permanent diminution in value are analysed according to their redemption value, taking into consideration the company's capacity to hold on to the securities for the anticipated term. A provision is made against these securities, which is equal to the difference between the purchase price of the security and its redemption value. As of December 31, 2002 the Company did not have to record any such provision.

In addition, when the realisable value (excluding fixed-rate securities) is globally less than the book value, adjusted by the above-mentioned provision, a liquidity risk reserve is set up for the shortfall. The liquidity risk reserve is shown on the balance sheet in the "technical reserves" section of the liabilities. As of December 31, 2002, the Company did not have to record such liquidity risk reserve.

Investment income and expenses:

Investment income includes accrued interest and rental income for the year, reversal of provisions, income from redemption price differences, investment revenues as well as investment gains (gains on the sale of investments, reversal of the capitalisation reserve) and, if appropriate, net realised exchange gains as well as reversals of provisions for exchange losses.

Investment expenses include portfolio expenses, interest expenses, increases in provisions against investment, amortization of redemption price differences as well as investment losses (losses on sale of investments, increases in the capitalization reserve) and, if appropriate, realised exchange losses as well as increases in the exchange losses provision.

Gains and losses on the sale of investments are calculated using the First In-First Out method.

The sale of certain redeemable transferable securities (bonds, negotiable debt securities) leads to contributions or withdrawals on the capitalisation reserve depending on the results of the sale. This regulatory reserve is recorded on a specific line under shareholders' equity.

Investment income and expenses are recorded into the non-technical account. A percentage of net investment income is transferred from the non-technical account to the technical account on the basis of the following formula: Net technical provision (+ capitalisation reserve) divided by the sum of shareholders' equity, excluding the capitalisation reserve, and net technical provision (+ capitalisation reserve).

b) Premiums

Premiums represent written premiums (excluding taxes and net of cancellations) and variations of the provision for premiums to be written. MBIA Assurance does not register future premiums that are linked to a contract setting up the payment of the premiums by instalments and which would necessitate an equal and opposite provision for deferred premiums if they were registered.

c) Technical reserves

– Unearned premium reserve (“UPR”):

The reserve for unearned premiums is calculated on a contract by contract basis, taking into account the risk cycle, in order to comply better with Article R 333-1 of the French Insurance Code and Article 57-2 of the European Directive n°91/674/CEE of December 19, 1991 applicable to statutory and consolidated accounts. This states that: "In classes of insurance where the assumption of a temporal correlation between risk experience and premium is not appropriate, calculation methods shall be applied that take into account the differing pattern of risk over time".

Since December 31, 2000, at the request of the *Commission de Contrôle des Assurances*, UPR, previously calculated on a pro rata basis through December 31, 1999, is now calculated based upon the risk cycle. When a guarantee is issued upon a loan, the UPR takes into account the repayment schedule of the loan.

In 2002, we reviewed the way we record our instalment premiums to comply better with the recommendations of the *Commission de Contrôle des Assurances*. Taking into account the risk cycle in a more precise manner, the way we calculate the provision for unearned premiums was revised at December 31, 2002. Had the provisions for net unearned premiums been calculated using the previous method they would have been lower by € 675,070.

- Claim paying reserves:

Since its formation, MBIA Assurance has never recorded any claims.

d) Expense allocation

Effective from January 1, 1995, a distinction is made between acquisition and administration costs. These costs mainly correspond to personnel expenses which are allocated based on the position occupied by each employee.

Deferred acquisition costs (“DAC”) linked to UPR are recorded in the balance sheet under the caption DAC, in accordance with article R 332-33 of the French Insurance Code. The amount is calculated separately for each unearned premium and is limited to the amount posted for unearned premium reserves for each of the policies in accordance with the Commission’s recommendation. DAC is amortised on a straight-line basis over the period between the balance sheet date and the end of the contract, limited to five years.

The portion of commissions received from reinsurers that is not related to the accounting year is also recorded in the balance sheet. The amount deferred is calculated and then taken to the profit and loss account in the same manner as that employed for the calculation of DAC for the same contracts.

e) Reinsurance cessions

Reinsurance cessions are calculated in accordance with treaties signed between MBIA Assurance and various reinsurers. Pledged investments received from reinsurers are booked off-balance sheet and evaluated at year-end at market value. Cash deposits received from reinsurers are booked under liabilities in the balance sheet.

f) Debtors

Debtors are posted at face value and include:

- Technical debtors
- Amounts receivable from parent company
- Recoverable taxes and amounts receivable from staff
- Sundry debtors
- Accrued income

Provisions for bad debt are made to the extent that a collection risk is identified.

Exchange gains and losses

Foreign currency transactions are converted into euros at year-end exchange rates.

The elements in the balance sheet that relate to the UK branch and which are in foreign currencies are converted into British pounds at year-end exchange rates. This exchange gain or loss that is calculated and posted in British pounds is then recorded in the euro accounts at year-end exchange rates.

Unrealised exchange gains and losses for all currencies combined are netted and included in the balance sheet in either assets or liabilities. A related provision is recorded in the case of a net unrealised exchange loss. This provision is calculated for the French operations and the UK operations separately.

g) Tangible fixed assets used in the business

Tangible fixed assets are stated at cost. Maintenance charges are charged to the profit and loss account when incurred, except where they serve to increase productivity or extend the useful life of the asset concerned.

Depreciation is calculated using the straight-line method over the estimated useful life of the assets, in accordance with French tax rules. The main estimated useful lives are as follows:

Leasehold improvements, fixtures and fittings	8 years
Vehicles	5 years
Office and computer equipment	4 years
Furniture	5 to 8 years

h) Taxes

Taxes are recorded in the profit and loss account and correspond to the tax payable for the period. Tax is related to both transactions concluded by the French office of MBIA Assurance and by its UK branch.

III – NOTES TO THE BALANCE SHEET

a) Investment portfolio

Investments recorded in the balance sheet at December 31, 2002 in accordance with Articles R 332-19 and R 332-20 of the French Insurance Code are as follows:

Description of securities	Units	At cost	Unit market price	Market value	Unrealised gains/(losses)
Long-term investments					
OAT	3,887,448	4,177,735	1.1430	4,443,765	266,030
BTAN	8,500,000	8,466,850	1.0085	8,572,250	105,400
Govt. bonds in USD		12,357,171	1.1954	12,551,732	194,561
Govt. bonds in GBP		21,067,579	3.9123	21,126,469	58,890
Total within the OECD		46,069,335		46,694,216	624,881
Total outside the OECD		0		0	0
Total long-term investment		46,069,335		46,694,216	624,881
Short-term investments					
Credis EUR	874	300,456	384	335,599	35,143
Credis USD	483	1,127,193	2,501	1,208,145	80,952
Credis CAD	317	284,403	1,117	354,019	69,616
FCP Berri Monetaire	110	2,784,925	25,548	2,810,283	25,358
FCP Primerus Monetaire	869	2,000,733	2,562	2,226,030	225,297
FCP Fructifonds	393	10,815,918	29,609	11,636,345	820,427
Fixed deposit HKD		281,239		281,239	
Fixed deposit GBP		47,381,041		47,381,041	
Fixed deposit USD		2,525,132		2,525,132	
Fixed deposit EUR		5,662,093		5,662,093	
Sicav GBP	1,993	11,044,640	5,701	11,362,459	317,819
Total within the OECD		84,207,773		85,782,385	1,574,612
Total outside the OECD		0		0	0
Total short-term investment		84,207,773		85,782,385	1,574,612
Total investment within the OECD		130,277,108		132,476,601	2,199,493
Total investment outside the OECD		0		0	0
TOTAL investments in euros		130,277,108		132,476,601	2,199,493

All the above investments have been valued in accordance with Articles R 332-19 and R 332-20 of the French Insurance Code. The realisable value of the securities corresponds to their market value at December 31, 2002.

b) Debtors and creditors

At December 31, 2002, the maturity of all amounts due from debtors and to creditors was less than one year, except for the deposit received from CapMAC, for the amount of € 1,168,647.

c) *Related party debtors and creditors (in euros)*

Debtors	Reinsurers' share of technical reserves	Insurance receivables	Inter-company account
MBIA Insurance Corporation and branches	469,586	0	4,300,515

Creditors	Reinsurance debts	Guarantee deposit	Inter-company account
MBIA Insurance Corporation	2,404,676	2,195,266	14,894,133
MBIA Inc.	668,500		
Total	3,073,176	2,195,266	14,894,133

d) *Share capital and changes in shareholders' equity*

At December 31, 2002, the Company's issued share capital was made up of 1,750,000 ordinary shares with a par value of 15 euros each. MBIA Insurance Corporation held 99.99% of the capital at that date.

Changes in shareholders' equity during 2002 were as follows:

(in thousands of euros)	January 1, 2002	Allocation of 2001 earnings	Reduction of capital	Other changes	December 31, 2002
Share capital	26,250				26,250
Legal reserve	4				4
Capitalisation reserve	25				25
Unavailable reserves	429				429
(Deficit)/retained earnings	5,674	(1,390)			4,284
Branch exchange rate difference	10				10
Result 2001	(1,390)	1,390			0
Result 2002	0			7,066	7,066
Total	31,002	0	0	7,066	38,068

e) *Currency balances*

12/31/02	Assets		Liabilities	
	Value In base currency	Converted in euros	Value In base currency	Converted in euros
USD	21,773,741	20,823,750	26,863,029	25,616,129
GBP	77,664,482	119,097,026	70,947,428	109,065,993
CAD	836,707	505,563	682,277	412,252
NZD	111,063	55,601	-	-
HKD	2,813,433	344,020	367,740	44,966
JPY	89,849,878	722,324	313,331,824	2,518,947
Total		141,548,284		137,658,287

At December 31, 2002, the unrealised exchange differences amounted to € 2,467,938 and were recorded as assets.

f) Accrued and deferred income (in euros)

	2002	2001
Other accruals		
- Amortisation of capital gains	1,857	120,790
- Prepayments	375,884	105,995
Deferred acquisition costs	4,272,931	1,311,965
Accrued interest and rental income	516,637	654,841
Total Assets	5,167,309	2,193,591

	2002	2001
Other accruals		
- Amortisation capital losses	409,429	303,914
- Deferred commissions	4,884,313	1,948,814
Total Liabilities	5,293,742	2,252,728

g) Fixed assets and depreciation

Fixed assets (in euros)	Balance at 01/01/02	Additions	Disposals	Balance at 12/31/02
Installations, office layout	342,575	182,057	-	524,632
Office supplies	46,351	8,410	456	54,305
Computer supplies	83,619	21,406	8,520	96,505
Computer system	47,417	-	47,417	-
Office furniture	144,319	160,149	3,367	301,101
Total fixed assets	664,281	372,022	59,760	976,543

Depreciation (in euros)	Balance at 01/01/02	Depreciation charge	Disposals	Balance at 12/31/02
Installations, office layout	211,467	197,336	7,793	401,010
Office supplies	16,051	15,917	4,501	27,467
Computer supplies	47,301	21,840	6,663	62,478
Computer system	47,417	-	47,417	-
Office furniture	60,835	48,920	4,906	104,849
Total depreciation	383,071	284,013	71,280	595,804

IV – NOTES TO THE PROFIT AND LOSS ACCOUNTS

a) Investment income and expenses

Investment income and expenses mainly include investment revenues (interest, rental income, cash dividends), income and charges linked to the realization of investments as well as results from exchange rate operations.

Investment income (in thousands of euros)

	2002	2001
Revenues from investments in subsidiaries and affiliates	-	-
Revenues from property holdings	-	-
Other investment revenues	2,660	2,005
Total	2,660	2,005

Breakdown of other investment income (in thousands of euros)

	2002	2001
Exchange gain on investments	(22)	1,110
Amortisation of capital gains	50	178
Reversal of provision for exchange loss on investments	2,117	2,469
Total	2,145	3,757

Breakdown of investment expenses (in thousands of euros)

	2002	2001
Interest and bank fees	44	40
Amortisation of capital losses	278	164
Charge to provision for exchange loss on investments	3,039	2,118
Exchange losses on investments	1,168	1,589
Loss on sale of investments	141	64
Capitalisation reserve	0	25
Total	4,670	4,000

b) Additional notes to the profit and loss accounts

Personnel costs

Personnel costs for the period 2000 through 2002 are as follows:

<i>(in euros)</i>	2002	2001	2000
Wages and salaries	1,221,414	357,991	350,069
Social security taxes	291,805	161,549	126,964
Other	673,207	482,391	231,169
Total	2,186,426	1,001,931	708,202
<i>of which related to UK branch</i>	<i>668,882</i>	<i>515,632</i>	<i>179,913</i>

Breakdown of gross premiums written

Gross premiums written in the period 2000 through 2002 are as follows:

<i>(By product type in euros)</i>	2002	2001	2000
Local government	12,896,287	(22,425)	236,273
Structured finance	1,243,887	1,269,941	2,236,684
Concessions and corporates	54,895,322	19,832,859	17,346,323
Total	69,035,496	21,080,375	19,819,280

<i>(By geographic region in euros)</i>	2002	2001	2000
Europe	68,685,371	20,997,027	19,725,553
<i>of which France</i>	<i>193,931</i>	<i>298,647</i>	<i>620,954</i>
The Americas	305,318	0	0
Asia	44,807	83,348	93,727
Total	69,035,496	21,080,375	19,819,280

Other technical income corresponds to studies, services and surveillance work provided by MBIA Assurance during the year.

V – OTHER INFORMATION

a) Consolidating entity

MBIA Assurance is a 99.99% owned subsidiary of MBIA Insurance Corporation whose head office is located at 113 King Street, Armonk, New York, 10504, USA.

Relationship between MBIA Assurance and MBIA Insurance Corporation

The relationship between MBIA Assurance and MBIA Insurance Corporation is based upon the maintenance of the net worth of the French subsidiary (under the conditions of the “Net Worth Maintenance Agreement” described below) and on the reinsurance of MBIA Assurance risk by MBIA Insurance Corporation.

This relationship is the basis upon which the rating agencies have granted a Triple-A rating to MBIA Assurance.

Agreements between MBIA Assurance and MBIA Insurance Corporation

Net Worth Maintenance Agreement

MBIA Assurance signed a “Net Worth Maintenance Agreement” with MBIA Insurance Corporation on January 1, 1991 which was amended and restated on April 1, 2002.

Under the “Net Worth Maintenance Agreement”, MBIA Insurance Corporation agrees to remain the sole shareholder of MBIA Assurance and not to pledge its shares. It also agrees to maintain for its French subsidiary a minimum capital and surplus position of 4,573,470.52 euros, or such greater amount as shall be required now or in the future by French law or French regulatory authorities provided that:

(i) any contributions to MBIA Assurance for such purpose shall not exceed 35% of MBIA Insurance Corporation's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York; the total amount of surplus was US\$ 2,857,439 at December 31, 2001 and US\$ 3,158,009 at December 31, 2002;

(ii) any contribution shall be made in compliance with Section 1505 of the New York State Insurance law; provided that MBIA Insurance Corporation hereby confirms that it may make single contributions to MBIA Assurance that do not exceed a total of US\$200 million without taking any additional actions under Section 1505 of the New York State Insurance Law with respect to any such single contribution.

Any modifications to the “Net Worth Maintenance Agreement” may not occur without confirmation from each Standard & Poor's Rating Services and Moody's Investors Service, that such modifications will not result in the reduction or the withdrawal of the claims-paying ratings then assigned to MBIA Insurance Corporation.

Reinsurance Agreement

MBIA Assurance has signed a "Reinsurance Agreement" with MBIA Insurance Corporation on January 1, 1993 which was amended and restated on January 1, 2002.

Under the "Reinsurance Agreement", MBIA Insurance Corporation shall reimburse MBIA Assurance for the amount of MBIA Assurance's losses paid in each calendar year which amount is in the aggregate in excess of an amount equal to the greater of:

- (i) US\$ 500,000 or
- (ii) 40% of MBIA Assurance's net earned premium income for that same calendar year.

However, the liability of MBIA Insurance Corporation shall not exceed, in any one calendar year, MBIA Assurance's net retention with respect to the principal outstanding plus interest insured under its largest policy in effect as of December 31 of the prior year.

b) Average number of employees

The average number of employees for the years 2002 and 2001 was four and two people, respectively, for MBIA Assurance, and thirteen and nine, respectively, for the UK branch.

In addition, MBIA Insurance Corporation provided employees who have been seconded to the UK branch of MBIA Assurance.

c) Off-balance sheet commitments

Commitments received

At December 31, 2002, the shares and cash pledged by AMBAC Assurance Corporation in relation to reinsurance transactions amounted to € 10,814,524 and is broken down as follows:

- Fixed-term deposit of GBP 2,755,015 (€ 4,235,226 including € 21,021.89 in interest)
- Cash deposit of GBP 103,700 (€ 159,416)
- Cash deposit of € 294,912
- French government bonds of € 6,124,969 including € 135,888 of interest

At December 31, 2002, the securities and cash amounts received as pledge from Riverstone (formerly known as CTR), in regard to reinsurance operations, amounted to € 18,202 and were composed of 22 shares of FCP CTR Réserve, with a unit value of € 821.23 each, and held by DWS.

At December 31, 2002, the Company had no other off-balance sheet commitments and had not carried out any off-balance sheet financial instrument transactions.

Commitment paid

On July 17, 2002, MBIA Assurance provided a guarantee to one of its employees, for their lessor, in regard to the payment of their rent (which might be revised) and any other fees up to € 65,280. This will stay in effect until the end of the lease, i.e. for nine years until July 31, 2011.

d) Guarantees issued

The following chart represents the amounts guaranteed by MBIA Assurance at December 31, 2002. Amounts are stated in par and gross of reinsurance.

<i>(in thousands of euros)</i>	2002	2001	2000
Sovereign and Sub-sovereign	1,505,487	1,202,950	1,320,690
Public Utilities	6,460,735	3,675,475	1,377,540
Structured Finance	2,216,384	903,246	1,178,424
Financial Institutions (1)	148,301	173,591	251,185
Total	10,330,907	5,955,262	4,127,839

(1) mainly banks and insurance companies.

e) Payments to Management

The total amount paid to the members of the Board of Directors was € 2,088,881 including salaries and benefits in kind.

VI – POST BALANCE SHEET EVENTS

No such events have taken place.

APPENDIX 3

**FINANCIAL STATEMENTS OF THE BBC
FOR THE YEAR ENDED 31 MARCH 2002**

Consolidated statement of income and expenditure

for the year ended 31 March

	Note	2002 £m	2001 as restated £m
Income	1	3,382.9	3,164.5
Operating expenditure	2	(3,556.3)	(3,294.3)
Group operating deficit*		(173.4)	(129.8)
Share of operating surplus of associates and joint ventures		1.4	0.9
Operating deficit	3	(172.0)	(128.9)
Profits and losses on sale and termination of operations	5	7.7	18.2
Profit on disposal of fixed assets	6	11.7	–
Deficit before interest and taxation		(152.6)	(110.7)
Net interest receivable	7	21.6	25.8
Other finance income (from defined benefit pension scheme)	8	133.9	169.5
Surplus before taxation		2.9	84.6
Taxation	9	(17.7)	(9.6)
Minority interest		(1.1)	0.5
(Deficit)/surplus for the financial year	19	(15.9)	75.5

The income and expenditure account for 2001 has been restated for the adoption of FRS 17 (see Note 26a).

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of their cumulative operating losses (see Note 14d).

The above results are derived from continuing operations in both the current and previous financial periods.

The BBC does not aim to make a profit. Surpluses or deficits represent timing differences between income and expenditure in each accounting period.

* After charging £179.5million (2001 £156.8million) in respect of pension costs under FRS 17 (see Notes 4 and 8).

Balance sheets

at 31 March

	Note	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
Fixed assets					
Intangible fixed assets	10	15.4	0.5	–	–
Tangible fixed assets	12	760.8	817.0	520.8	466.4
Investment in programmes for future sale	13	111.8	117.2	–	–
Other investments	14	16.8	1.8	299.2	339.5
		904.8	936.5	820.0	805.9
Current assets					
Stocks	15	449.4	397.6	425.3	378.0
Current debtors	16	663.6	648.2	542.8	544.7
Long-term debtors	16	137.2	47.8	113.8	44.8
Total debtors		800.8	696.0	656.6	589.5
Short-term investments	21	356.8	253.4	356.8	253.4
Cash at bank and in hand	21	0.3	117.9	–	80.3
		1,607.3	1,464.9	1,438.7	1,301.2
Creditors – amounts falling due within one year					
	17	(871.2)	(844.6)	(767.9)	(657.7)
Net current assets		736.1	620.3	670.8	643.5
Total assets less current liabilities					
		1,640.9	1,556.8	1,490.8	1,449.4
Creditors – amounts falling due after more than one year					
	17	(102.5)	(51.3)	(46.1)	(21.7)
Provisions for liabilities and charges					
	18	(82.6)	(53.2)	(74.6)	(48.3)
Net assets excluding pension asset and liability		1,455.8	1,452.3	1,370.1	1,379.4
Pension asset	8	965.0	1,708.0	–	–
Pension liability	8	(3.9)	(3.7)	–	–
Net assets		2,416.9	3,156.6	1,370.1	1,379.4
Represented by					
Operating reserve excluding pension asset and liability	19	646.2	654.5	561.1	581.1
Pension reserve	19	961.1	1,704.3	–	–
Operating reserve		1,607.3	2,358.8	561.1	581.1
Capital reserve	19	802.6	791.1	802.6	791.1
Revaluation reserve	19	6.4	7.2	6.4	7.2
		2,416.3	3,157.1	1,370.1	1,379.4
Minority interest		0.6	(0.5)	–	–
		2,416.9	3,156.6	1,370.1	1,379.4

The balance sheets have been restated for the adoption of FRS 17 (see Note 26a).

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of the net liabilities which at 31 March 2002 amounted to £82.5million (2001: £88.2million). These liabilities have not been included in the financial statements (see Note 14d).

The financial statements were approved by the Governors and Executive Committee on 20 June 2002 and signed on their behalf by:

Gavyn Davies Chairman

Greg Dyke Director-General

John Smith Director of Finance, Property & Business Affairs

Statement of total recognised gains and losses

for the year ended 31 March

	Note	2002 £m	2001 as restated £m
Group (deficit)/surplus for the financial year		(15.9)	75.5
Exchange differences on retranslation of overseas subsidiaries		0.5	2.4
Actuarial loss on defined benefit pension schemes	8b	(725.4)	(708.2)
Total recognised gains and losses relating to the year		(740.8)	(630.3)
Prior year adjustment for the adoption of FRS 17	26a	1,751.5	
Total recognised gains and losses since the previous financial year		1,010.7	

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

Reconciliation of movement in reserves

for the year ended 31 March

	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
(Deficit)/surplus for the financial year	(15.9)	75.5	(9.3)	32.5
Other recognised gains and losses relating to the year (net)	(724.9)	(705.8)	–	–
(Decrease)/increase in reserves during the year	(740.8)	(630.3)	(9.3)	32.5
Opening reserves as previously stated	1,405.6	1,395.6	1,344.6	1,335.6
Prior year adjustment for the adoption of FRS 17	1,751.5	2,391.8	34.8	11.3
Opening reserves as restated	3,157.1	3,787.4	1,379.4	1,346.9
Closing reserves	2,416.3	3,157.1	1,370.1	1,379.4

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

Consolidated cash flow statement

for the year ended 31 March

	Note	2002 £m	2001 £m
Net cash inflow from operating activities	20	217.5	129.0
Dividends received from joint ventures and associates		1.1	–
Return on investments and servicing of finance			
Interest received		24.9	26.3
Interest paid		(2.8)	(2.1)
Net cash inflow from return on investments and servicing of finance		22.1	24.2
Taxation			
Taxation paid		(13.9)	(14.8)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(194.2)	(140.8)
Investment in programmes for future sale		(83.2)	(76.3)
Investment in intangible fixed assets		(8.7)	–
Proceeds from the sale of investments		0.6	–
Proceeds from sale of investment in programmes		5.9	–
Proceeds from the sale of tangible fixed assets		46.8	2.3
Net cash outflow from capital expenditure		(232.8)	(214.8)
Acquisitions and disposals			
Purchase of a subsidiary net of overdrafts acquired	11	(9.1)	(0.6)
Investments in joint ventures		(11.4)	–
Proceeds from sale of operations	5	9.0	18.7
Net cash (outflow)/inflow from acquisitions and disposals		(11.5)	18.1
Net cash outflow before use of liquid resources and financing		(17.5)	(58.3)
Management of liquid resources			
Net cash withdrawn from deposit	21	15.0	2.5
(Purchase)/sale of other liquid resources	21	(103.4)	4.2
Net cash (outflow)/inflow from management of liquid resources		(88.4)	6.7
Financing			
Increase in loans	21	10.3	–
Repayment of loans	21	–	–
Net cash inflow from financing		10.3	–
Decrease in cash	21, 22	(95.6)	(51.6)

The decrease in cash shown here is due to the BBC policy of investing surplus cash in short-term liquid investments. Taking cash and short-term investments together, the BBC's funds at 31 March 2002 remain at a similar level to 31 March 2001 (see Note 21).

Statement of accounting policies

This section explains the BBC's main accounting policies, which have been applied consistently, throughout the year, and with the preceding year except where stated. A footnote in italics follows some policies below to explain the technical aspects of the accounting treatment in plain English.

The financial statements have been prepared in accordance with the provisions of the BBC's Charter and Agreement. Although not mandatory, the BBC has chosen to follow the accounting and disclosure provisions of the Companies Act 1985, applicable UK accounting standards and the rules of the UK Listing Authority to ensure that its financial statements are prepared on a basis which is consistent with that of UK public limited companies.

Basis of accounting

The financial statements are presented under the historical cost accounting convention as modified by the revaluation of certain plant, machinery, furniture and fittings.

The Group has also fully adopted FRS 17, *Retirement benefits*, early. FRS 17 requires a different accounting policy for the recognition of pension costs in the financial statements compared with its predecessor, SSAP 24. Accordingly the 2001 financial statements have been restated onto a comparable basis. Note 26a provides more details of the effect of this change in accounting policy.

The BBC chooses to adopt all accounting standards early.

Basis of consolidation

The BBC Group comprises the Home Services and those subsidiaries incorporated to act solely on behalf of, and for the benefit of, the Home Services (notably Centre House Productions Limited and BBC Property Limited), BBC World Service, and the BBC's commercial subsidiary companies, BBC Worldwide Limited (BBC Worldwide), BBC Resources Limited (BBC Resources) and BBC Technology Holdings Limited (BBC Technology). The acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term interest, usually between 20% and 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of profits less losses of associates and joint ventures is included in the consolidated statement of income and expenditure and its interest in their net assets is included in the consolidated balance sheet.

A separate statement of income and expenditure reflecting the results of the Home Services has not been presented, as permitted by Section 230 of the Companies Act 1985.

These accounts of the BBC Group include the results of the Home Services, BBC World Service and all businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses where we influence their policies (associates) and those which we jointly control (joint ventures).

Investments

Investments are recorded on the balance sheet of the Home Services at cost less provision for any impairment in value. The funding of the Home Services and BBC World Service is legally separate and cross-subsidisation is not permissible. Accordingly, for the purposes of preparing the Home Services' balance sheet, the Home Services are considered to have an investment in BBC World Service equal to the net assets of BBC World Service.

Intangible fixed assets

Goodwill

Purchased goodwill (representing the excess of the fair value of the purchase consideration plus any related costs of acquisition over the fair value attributable to the separable net assets acquired) arising on acquisition of a subsidiary or business, is capitalised and amortised over its useful economic life. On the subsequent disposal or termination of a business, the surplus or deficit is calculated after charging the unamortised amount of any related goodwill. As is permitted by FRS 10, *Goodwill and intangible assets*, goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve. On disposal, goodwill previously written off against reserves is transferred to the statement of income and expenditure for the year.

Intellectual property rights

Purchased intellectual property rights are capitalised and amortised on a straight line basis over the expected useful life of the assets.

Income

Income derived from television licences, receivable from the Department of Culture, Media and Sport, represents the value of licences issued in the year. The amount which can be paid in cash to the BBC for any year cannot exceed the total amount voted by Parliament for that year. Any difference between the value of licences issued and the amount voted is adjusted in the amount of cash received in the following year. Any amounts which have not been paid to the BBC are included within debtors.

BBC Worldwide Limited income is shown net of value added tax and trade discounts and predominantly represents: licence fees from the distribution of joint productions; agency income and commission from the distribution of programmes on behalf of the BBC and other producers; income from joint venture TV channels; and income from the sale of magazines, books, videos, compact discs, tapes, DVDs and character merchandise.

BBC Resources Limited and BBC Technology Holdings Limited income is shown net of value added tax and trade discounts and predominantly represents income from the provision of equipment, facilities and services to the BBC and external customers.

BBC World Service income, primarily derived from a Grant-in-Aid from the Foreign and Commonwealth Office, is intended to meet estimated expenditure in the year but unexpended receipts for the year, within predetermined limits, are not liable to surrender.

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial and public service activities or Home and World Service activities. More information on these BBC fair trading requirements and policies can be found on pages 60 to 62 of this Report.

Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 31 March or at forward rates where related hedging contracts are in place.

Surpluses and deficits arising from the translation of assets and liabilities at these rates of exchange, together with exchange differences arising from trading, are included in the statement of income and expenditure.

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates for the year. Exchange differences arising on consolidation from the retranslation of the opening net assets of overseas subsidiaries and any related long-term foreign currency borrowings are taken directly to the operating reserve, together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end. Other exchange differences are taken to the statement of income and expenditure.

As these financial statements are prepared in sterling, the BBC's foreign currency transactions and balances must be translated, at appropriate exchange rates, into sterling. This policy states how those retranslations are included in the financial statements and is consistent with the methods used by many companies.

Pension costs

The BBC operates both defined benefit and defined contribution pension schemes for the benefit of employees.

The amounts charged as expenditure for the defined contribution scheme represent the contributions payable by the BBC for the accounting periods in respect of this scheme.

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final pensionable pay. Amounts are charged to expenditure so as to spread the cost of pensions over employees' working lives with the BBC. The assets of the BBC's main scheme are held separately from those of the Group.

As noted above, the BBC has adopted FRS 17, *Retirement benefits*, early and now recognises the position of the scheme at the balance sheet date. The impact on the results and the financial position of the Group is disclosed in Note 26a. The main difference between the figures provided under FRS 17 and SSAP 24 is that the valuation of assets in the scheme is based on market valuation rather than longer-term actuarial valuation. This means that there will be greater volatility in the pension scheme surplus as the valuation must reflect market conditions at a particular point in time. For the BBC this is 31 March each year.

The Home Services have taken advantage of the provisions included within FRS 17 and account for the scheme as if it were a defined contribution scheme. This is because it is unable to identify its share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge under FRS 17 for the Home Services therefore represents the contributions payable in the year.

On retirement, members of the BBC's main pension scheme are paid their pensions from a fund which is kept separate from the BBC Group. The BBC makes cash contributions to that fund in advance of members' retirement.

Research and development

Research and development expenditure is written off as incurred.

Tangible fixed assets

Expenditure on fixed assets is capitalised together with incremental and internal direct labour costs incurred on capital projects.

Depreciation is calculated so as to write off the cost or valuation, less estimated residual value, of fixed assets on a straight line basis over their expected useful lives. Depreciation commences from the date an asset is brought into service.

The BBC's useful lives for depreciation purposes for the principal categories of assets are:

Land and buildings

Freehold land	– not depreciated
Freehold and long-leasehold buildings	– fifty years
Short-leasehold land and buildings	– unexpired lease term

Plant and machinery

Computer equipment	– three to five years
Electrical and mechanical infrastructure	– ten to twenty-five years
Other	– three to ten years

Furniture and fittings

– three to ten years

Home Services' plant and machinery is stated at the estimated current replacement cost of the assets, adjusted for remaining service potential, as at 31 March 1993, or cost if acquired later, less accumulated depreciation.

BBC World Service's plant and machinery and furniture and fittings are stated at the estimated current replacement cost of the assets, as adjusted for remaining service potential, as at 1 April 1996, or cost if acquired later, less accumulated depreciation.

The BBC has revalued its assets once, when the internal market was introduced, but has chosen not to revalue its tangible assets on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. Assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

Investment in programmes for future sale

Investment in programmes for future sale is stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation of investment in programmes for future sale is charged to the income and expenditure account over the estimated average marketable life of the programme genre which is generally between five and ten years. The cost and accumulated amortisation of investment in programmes for future sale are reduced by programmes which are fully written off.

The cost of programmes for sale is charged to the income and expenditure account to match the expected timing of income from future sales.

Originated programme stocks and work in progress

Originated programme stocks and work in progress, including those commissioned from independent producers, are stated at the lower of cost and net realisable value. With the exception of the costs of

Statement of accounting policies

prepaid repeats of independent programmes, the full stock value is written off on first transmission.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads.

Net realisable value is based upon arm's length contract prices negotiated between the channel controllers and programme makers.

Acquired programmes and film stocks

The costs of acquired programmes and film stocks are written off on first transmission except to the extent that further showings are likely in the foreseeable future, when they are written off according to their expected transmission profile.

Assets and liabilities relating to acquired programmes are recognised at the point of payment or commencement of the licence period; whichever is earlier. Agreements for the future purchase of programmes whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

Other stocks

Raw materials and other physical stocks are stated at the lower of cost and net realisable value.

Operating leases

Operating lease rentals are written off on a straight line basis over the term of the lease.

An operating lease is a lease in which the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee – the BBC – has not acquired an asset but is hiring it, so the hire charge is included in the BBC's costs.

Finance leases

Assets acquired under finance leases are included within fixed assets at the total of the lease payments due over the life of the lease discounted at the rate of interest inherent in the lease. The same amount is included in creditors. Rental payments are apportioned between the finance element, which is charged against the income and expenditure account, and the capital element, which reduces the lease creditor.

A finance lease is a lease that transfers substantially all the risks and rewards of owning and operating an asset to the lessee. Effectively the lessee owns the asset and has financed it by borrowing, so the asset and borrowing are included separately in the balance sheet.

Deferred tax

Deferred tax is computed under the liability method. Full provision, without discounting, is made in respect of timing differences between certain items in the financial statements and their treatment for taxation purposes at the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is corporation tax which is not payable at a specific time but which is expected to become payable in the future.

Reserves

The value of the capital reserve is equal to the combined net book value of fixed assets of the Home Services and BBC World Service at historic cost.

The revaluation reserve reflects the difference between the net book value of fixed assets of the Home Services and BBC World Service at historic cost compared with their revalued amount.

The operating reserve is the accumulated surplus of the income and expenditure account to date.

The BBC is careful not to mix Home Services and BBC World Service reserves. Hence BBC World Service reserves are shown separately in the notes to the financial statements.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise bank deposits not repayable on demand and other short-term investments which include gilts, certificates of deposit and commercial paper.

Financial instruments

The Group does not enter into speculative derivative contracts. Some hedging contracts are undertaken in order to limit the Group's exposure to foreign exchange fluctuations. (The accounting treatment for these contracts is explained in the foreign currency translation accounting policy).

Disclosure of the Group's loans and other financial assets and liabilities is provided within the notes to the financial statements covering debtors, creditors and cash and debt balances.

Notes to the financial statements

for the year ended 31 March

Note 1 provides analysis of the different business areas within the BBC.

The Home Services Group comprises the UK public service broadcasting operation, the Home Services and those subsidiary companies incorporated to act solely on behalf of the Home Services.

BBC Worldwide Limited (BBC Worldwide) generates income from the BBC's programme assets through the distribution of television programmes, the operation of commercial channels and the publishing of magazines, books, videos and other licensed products.

BBC Resources Limited (BBC Resources) and BBC Technology Holdings Limited (BBC Technology) and their subsidiaries provide equipment, facilities and services to the BBC and external customers.

I Analysis of income, (deficit)/surplus and net assets

Ia Analysis of income, (deficit)/surplus and net assets by activity

		Public services		Commercial businesses		Total
	Note	Home Services Group £m	BBC World Service £m	BBC Worldwide £m	BBC Technology and BBC Resources £m	£m
2002						
Total income		2,698.2	211.1	659.8	357.4	3,926.5
Less:						
Intra Group income		(130.3)	(0.4)	–	(331.3)	(462.0)
Less:						
Share of joint ventures		–	–	(81.6)	–	(81.6)
Group external income	<i>lbf</i>	2,567.9	210.7	578.2	26.1	3,382.9
(Deficit)/surplus before interest and taxation	<i>ld</i>	(30.8)	9.4	25.7	(5.4)	(1.1)
Defined benefit pension scheme						
– additional operating costs*†						(151.5)
– other finance income*						133.9
Net interest receivable*						21.6
Surplus before taxation and minority interest						2.9
Net assets (excluding pension asset and liability)		1,083.7	134.3	113.0	124.8	1,455.8
Pension asset (net)*†						961.1
Net assets						2,416.9
2001 as restated						
Total income		2,734.7	204.5	587.2	324.7	3,851.1
Less: Intra Group income		(328.4)	–	–	(290.6)	(619.0)
Less: Share of joint ventures		–	–	(67.6)	–	(67.6)
Group external income	<i>lbf</i>	2,406.3	204.5	519.6	34.1	3,164.5
(Deficit)/surplus before interest and taxation	<i>ld</i>	(4.2)	11.2	24.7	(9.3)	22.4
Defined benefit pension scheme						
– additional operating costs*†						(133.1)
– other finance income*						169.5
Net interest receivable*						25.8
Surplus before taxation and minority interest						84.6
Net assets (excluding pension asset and liability)		1,162.9	124.5	95.4	69.5	1,452.3
Pension asset (net)*						1,704.3
Net assets						3,156.6

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

* As permitted by FRS 17 these items are not split between business classes because they are managed centrally across the whole Group and it is not possible to allocate them on a reasonable and consistent basis.

† The actual employer cash contribution to the defined benefit pension scheme is included in the (deficit)/surplus before interest and tax of each entity. The additional operating cost is the cost to the Group over and above these cash contributions.

Ib Analysis of public services' income

	Note	Home Services Group £m	BBCWorld Service £m	Total public services £m
2002				
Licence fee	1c	2,533.0	–	2,533.0
Grant-in-Aid		–	187.9	187.9
Open University		7.7	–	7.7
Subscriptions		–	15.6	15.6
Other income		27.2	7.2	34.4
Total external income		2,567.9	210.7	2,778.6
2001				
Licence fee		2,370.8	–	2,370.8
Grant-in-Aid		–	181.8	181.8
Open University		9.1	–	9.1
Subscriptions		–	15.3	15.3
Other income		26.4	7.4	33.8
Total external income		2,406.3	204.5	2,610.8

Other income includes the provision of content and services to overseas broadcasters, concert ticket sales and exploitation of our programme archive.

Ic Licence fee

	2002 £m	2001 £m
Licence fee income		
Colour	2,164.3	2,052.3
Monochrome	3.4	4.2
Concessionary	0.8	2.3
Over 75s	350.0	307.7
Quarterly payment scheme premium	16.3	16.5
Other licence fee income and adjustments	(1.8)	(12.2)
	2,533.0	2,370.8

Other licence fee income and adjustments include the year-on-year impact of licences issued in the year but not in force at 31 March either through late or early renewals or through refunds.

During the year 3.3 million (2001 3.3 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2001 £5).

Licences in force are those which are still valid as at 31 March each year.

	2002 Number m	2001 Number m
Licences in force		
Colour	19.9	19.7
Monochrome	0.1	0.1
Over 75s	3.6	3.1
Concessionary	0.2	0.5
	23.8	23.4

Households in which one or more persons over the age of 75 reside, as their primary residence, are entitled to a free licence. The BBC is reimbursed for these free licences by the Department of Work and Pensions.

Licence fees are set by the Department of Culture, Media and Sport.

	2002 £	2001 £
Licence fees		
Colour	109.00	104.00
Monochrome	36.50	34.50
Concessionary	5.00	5.00

From 1 April 2002 the colour and monochrome licence fees were increased to £112 and £37.50 respectively. The concessionary licence remained at £5.

Id Analysis of public services' surplus/(deficit) before interest and taxation by activity

The Home Services have one principal activity which is the provision of public service broadcasting in the UK.

BBC World Service's surplus before interest and taxation is analysed as follows:

	2002 £m	2001 as restated £m
Broadcasting	8.6	10.1
BBC Monitoring	0.8	1.1
Total surplus before interest and taxation	9.4	11.2

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

Ie Geographical analysis of activity of public services

The public services income and surplus or deficit arises in the UK. The net assets used by the public services are located in the UK with the exception of BBC World Service net assets of £84.1million (2001 £77.6million) located overseas.

If Analysis of commercial businesses' income by activity

	2002	2001
Publishing and new media	331.7	300.2
Programme distribution	172.3	150.0
Channels	46.3	41.7
BBC World	25.5	25.6
beeb Ventures Limited	2.4	2.1
Provision of programme making facilities and services	148.9	324.7
Provision of technology services	208.5	–
Less intra-Group income	(331.3)	(290.6)
Total external income	604.3	553.7
Share of joint ventures	81.6	67.6
	685.9	621.3

The reduction in commercial income from the provision of programme making facilities and services is due to the re-integration of a significant part of BBC Resources into the Home Services in April 2001.

Technology services were provided by a division of the Home Services in 2001. These services are now provided by BBC Technology.

This table shows where the customers of our commercial businesses are based. All commercial income arises in the UK as this is where BBC Worldwide acquires the rights it exploits and where the skills and services of BBC Technology and BBC Resources are developed.

Ig Geographical analysis of activity of commercial businesses

	United Kingdom £m	Americas £m	Rest of the world £m	Total £m
2002				
Income by destination	348.6	110.5	145.2	604.3
Surplus before interest and taxation	6.9	0.7	12.7	20.3
Net assets	195.4	42.4	–	237.8
2001 as restated				
Income by destination	330.3	85.7	137.7	553.7
Surplus before interest and taxation	6.9	5.1	3.4	15.4
Net assets	126.9	38.0	–	164.9

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

2 Operating expenditure

2a Analysis of operating expenditure by activity

	Note	Total 2002 £m	Total 2001 as restated £m
Home Services Group	2b	2,602.1	2,410.5
BBC World Service	2c	204.6	193.3
BBC Worldwide	2d	568.9	514.0
BBC Technology and BBC Resources	2d	29.2	43.4
Additional defined benefit pension scheme operating costs		151.5	133.1
		3,556.3	3,294.3

The 2001 figures have been restated to reflect the adoption of FRS 17 (see Note 26a).

As permitted by FRS 17 the non-cash operating costs are not split between the business activities as it is not possible to do this on a reasonable and consistent basis.

BBC World Service expenditure of £204.6million excludes £0.4million of expenditure on intra-Group activities.

2b Home Services Group expenditure

	2002 £m	2001 as restated £m
Analogue services		
BBC One	961.7	919.7
BBC Two	410.5	397.9
National and Regional Television	252.3	199.7
National, Regional and Local Radio	164.3	160.0
BBC Radio 1	38.1	41.1
BBC Radio 2	42.7	39.2
BBC Radio 3	52.6	53.3
BBC Radio 4	89.6	84.4
BBC Radio Five Live	77.0	68.9
Asian Network	1.5	1.2
	2,090.3	1,965.4
Digital services		
CBBC, CBeebies	19.7	2.2
BBC Choice	52.6	43.3
BBC News 24	50.3	47.6
BBC Parliament	3.9	3.3
BBC Four (previously BBC Knowledge)	32.4	18.6
Digital text and interactive television	11.2	10.2
Digital Radio	7.8	4.4
BBCi on the internet	100.4	54.2
	278.3	183.8
Licence fee collection costs	95.4	131.9
Transmission costs	127.2	118.3
Home Services – broadcasting expenditure	2,591.2	2,399.4
– non-broadcasting expenditure	10.9	11.1
Total	2,602.1	2,410.5

The figures for 2001 have been restated to reflect the adoption of FRS 17 (see Note 26a).

£0.7million (2001 £2.2million) relating to the block of children's programmes previously shown on BBC Choice have been removed from the costs of BBC Choice and restated against the new children's channels launched in February 2002.

2b Home Services Group expenditure *continued*

In addition £2.4million (2001 £10.1million) of BBC One and BBC Two Digital costs previously reported within Digital Services have been included with the analogue service costs for 2001 and 2002. This represents the cost of playout and special equipment which has become standard for all services.

There was increased investment in national and regional television to deliver a richer mix of drama, entertainment and popular factual output.

The expenditure on Radio 1 in 2000/2001 includes the cost of a significant marketing campaign which was not repeated in 2001/2002. Investment in programme output is consistent across the two years.

BBC Choice output has included a higher level of original drama and entertainment in 2002.

BBC Four was launched in March 2002. Costs are significantly higher than those of BBC Knowledge due to high levels of original programming as well as one-off launch costs.

Investment increased in BBCi on the internet (formerly BBC Online) to improve websites which support and enhance other programme output and to develop the BBC digital curriculum.

Licence fee collection costs have been significantly reduced in 2002 by a rebate from Consignia for non-performance of contractual obligations. The BBC expects to spend this amount in 2003 on a new database. Savings have also been made in the costs associated with the change in the licence fee collection contractor which we anticipated and set aside in 2001. Further savings have been achieved through more focused marketing activity.

Of the transmission costs, £52.5million relate to digital services and £74.7million to analogue services.

The principal elements of the non-broadcasting expenditure are Open University Production Centre, BBC Property Limited and Centre House Productions Limited costs.

2c BBC World Service expenditure

	2002 £m	2001 as restated £m
Radio	142.1	136.7
Monitoring	22.6	21.3
Transmission costs	30.6	30.2
Internet activity	9.3	5.1
Total	204.6	193.3

The figures for 2001 have been restated to reflect the adoption of FRS 17 (see Note 26a).

The expenditure shown for commercial businesses relates only to commercial income and excludes expenditure relating to sales within the BBC.

2d Commercial businesses' expenditure

	Note	BBC Worldwide		BBC Technology and BBC Resources	
		2002 £m	2001 as restated £m	2002 £m	2001 as restated £m
Cost of sales		299.4	270.6	24.0	27.9
Distribution costs		147.0	135.7	—	—
Administrative and other costs		36.1	32.9	5.2	15.5
Amortisation of programme investment	13	86.4	74.8	—	—
		568.9	514.0	29.2	43.4

The figures for 2001 have been restated to reflect the adoption of FRS 17 (see Note 26a).

3 Operating deficit

The operating deficit is stated after charging the following items:

	2002 £m	2001 £m
Payments under operating leases:		
– land and buildings	26.4	22.9
– plant and machinery	9.6	8.7
– other	18.4	22.8
Research and development	15.2	14.6
Programme development	23.7	21.4
Depreciation		
– owned assets	121.8	114.8
– leased assets	10.9	–
Loss on disposal of tangible fixed assets	1.4	6.5
Amortisation of investment in programmes for future sale	86.4	74.8
Amortisation of intangible fixed assets	1.4	–
Auditors' remuneration:		
– financial audit – Home Services	0.4	0.4
– other	0.5	0.5
– consultancy and advisory	0.7	0.5
Fair trading auditors' remuneration	0.3	0.3

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2002	2001
	Number	Number
Home Services Group	18,606	16,808
BBC World Service	1,797	1,696
BBC Worldwide	2,170	1,958
BBC Technology and BBC Resources	2,995	3,667
Group total	25,568	24,129

Within the averages above, 2,166 (2001 2,015) part-time employees have been included at their full-time equivalent of 1,238 (2001 1,176).

In addition to the above, the Group employed an average full-time equivalent of 1,043 (2001 1,113) persons on a casual basis and the BBC Orchestra and Singers, employed on programme contracts, numbered 382 (2001 374) full-time equivalent.

On 31 March 2001 the equivalent of 387 full-time employees transferred to BBC Technology from the Home Services. This transfer is not reflected in the average for 2001.

A further 1,035 employees (1,012 full-time equivalent) transferred from BBC Resources to the Home Services on 1 April 2001. This transfer is reflected in the average for 2002.

4b Staff costs

	Note	2002 £m	2001 as restated £m
Salaries and wages		895.1	823.4
Social security costs		77.9	73.2
Pension costs			
– main scheme (defined benefit)	8	177.2	154.0
– other schemes	8	2.3	2.8
Redundancy costs		29.6	34.6
		1,182.1	1,088.0
Comprising:			
Home Services Group		758.3	672.5
BBC World Service		65.4	61.5
BBC Worldwide		92.1	83.3
BBC Technology and BBC Resources		114.8	137.6
Main pension scheme additional operational cost (defined benefit)		151.5	133.1
		1,182.1	1,088.0

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

The actual employer cash contributions to the defined benefit pension scheme are borne by each business. The additional operating cost is the cost to the Group over and above these contributions. It is not possible to allocate this to each business on a reasonable and consistent basis.

4c Remuneration of the Board of Governors and Executive Committee

The emoluments of the Governors and of the Executive Committee members are disclosed on pages 66 to 69 in the Governors' remuneration report.

5 Profit and losses on sale and termination of operations

	2002 £m	2001 £m
beeb Ventures Limited		
– partial disposal	9.0	17.1
– termination cost	(1.3)	–
BBC for Business	–	1.1
	7.7	18.2

During 2002 the Group made a further partial disposal of shares in beeb Ventures Limited, the subsidiary owning its internet retail site beeb.com and the internet service provider beeb.net. The transaction gave rise to income totalling £9.0million in the year (2001 £20.2million) against which a cost of £nil was incurred (2001 £3.1million).

Profits on these partial disposals of beeb Ventures Limited were part of a linked arrangement with a third party, under which profits on a partial disposal were structured to offset start-up operating losses of this company.

Subsequently, on 22 April 2002 BBC Worldwide announced its intention to terminate the beeb.com business and exit the internet shopping sector. Certain beeb.com websites will be integrated into BBC Worldwide's core operations, operating as marketing rather than transactional websites. Following this decision, termination costs of £1.3million have been provided for in the income and expenditure account in the year ended 31 March 2002.

6 Profit on disposal of fixed assets

6a Profit on disposal of intangible fixed assets

During 2002 the Group disposed of its remaining rights in the *Noddy* and *Wallace and Gromit* brands, together with trademarks associated with *The Clothes Show*. These intangible fixed asset disposals gave rise to net profits totalling £7.3million.

6b Profit/loss on disposal of tangible fixed assets

During 2002 BBC World Service sold a property in Singapore which had been fully depreciated. This transaction realised a profit of £3.3million. The sales proceeds were reinvested in the new transmitter site in Oman, with the agreement of the Foreign and Commonwealth Office.

BBC Technology disposed of various fixed assets resulting in a loss of £2.3million during the year.

6c Profit on disposal of investments

During 2002 the Eurosport Consortium, in which the BBC holds an interest, disposed of its 50% shareholding in SETS (which owns the Eurosport trademark) to TF1, a French broadcasting company, resulting in a net profit to the Group of £3.4million.

7 Net interest receivable

	2002 £m	2001 £m
Interest receivable	24.6	27.9
Interest payable on bank and other loans	(2.8)	(2.1)
Finance charges payable in respect of finance leases	(0.2)	–
Net interest receivable	21.6	25.8

8 Pensions

8a Pension charge

The Group operates several pension schemes. The BBC Pension Scheme and a small unfunded pension scheme, which is closed to new members, are contributory defined benefit schemes. Additionally a Group personal pension scheme and other small schemes provide staff with a defined contribution scheme. The total pension charge included within operating costs for the year under all schemes is £179.5million (2001 £156.8million).

8b Principal scheme

The BBC Pension Scheme is the main pension scheme of the BBC Group and covers the majority of employees. This scheme provides salary-related pension benefits on a defined benefit basis from assets held in separate, trustee-administered, funds.

The scheme is subject to independent valuation by a professionally qualified actuary at least every three years, on the basis of which the actuary certifies the rate of employer's contributions. These, together with the specified contributions payable by employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme. The most recent full actuarial valuation of the scheme was prepared as at 1 April 1999 by Watson Wyatt, consulting actuaries, using the projected unit method. An interim valuation has been produced by Watson Wyatt as at 31 March each year. The major assumptions used by the actuary at each valuation were:

	2002	2001	2000
Rate of increase in salaries	4.7%	4.5%	5.0%
Rate of increase in pension payments	2.7%	2.5%	3.0%
Inflation assumption	2.7%	2.5%	3.0%
Discount rate	6.0%	6.0%	6.2%

Under this scheme the employees receive a pension based on their final salary. The BBC must ensure that the pension fund is adequately funded to meet future pension payments.

An estimate of future inflation and salary increases is used to forecast the cost of funding future pensions of pension scheme members.

This table shows the value of the assets owned by the pension scheme and the rate of growth the trustees expect in the following year.

8b Pensions *continued*

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31 March 2002	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2001	Value at 31 March 2001 £m	Long-term rate of return expected at 31 March 2000	Value at 31 March 2000 £m
Equities	7.5%	4,421	7.0%	4,655	7.0%	5,291
Bonds and gilts	5.2%	908	4.7%	939	5.0%	969
Property	6.3%	606	6.0%	606	6.0%	548
Cash	4.7%	284	4.5%	279	5.0%	299
Total market value of assets		6,219		6,479		7,107
Present value of scheme liabilities		(5,254)		(4,771)		(4,730)
Surplus in the scheme		965		1,708		2,377
Related deferred tax liability		–		–		–
Net pension asset		965		1,708		2,377

A deferred tax asset will not arise for the Group, mainly due to the fact that most of the Group's public service activity is not subject to taxation.

The current service cost is the cost to the BBC of pension rights earned by employees in the year.

The amounts here are estimates based on predictions of future performance and economic conditions.

The actuarial gains and losses are those resulting from actual performance being different from that predicted – for example from changes in economic conditions or the demographic profile of BBC employees.

	2002 £m	2001 £m
Analysis of amount charged to operating expenditure		
Current service cost	132.3	138.3
Past service cost	44.9	15.7
Total operating charge	177.2	154.0
Analysis of amount credited to other finance income		
Expected return on pension scheme assets	416.4	457.9
Interest on pension scheme liabilities	(282.5)	(288.4)
Net return	133.9	169.5
Analysis of amount recognised in statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	(532.0)	(950.9)
Experience gains and losses arising on the scheme's liabilities	26.6	35.7
Changes in assumptions underlying the present value of the scheme liabilities	(220.0)	207.0
Actuarial loss recognised in the statement of total recognised gains and losses	(725.4)	(708.2)
Movement in surplus during the year		
Surplus in scheme at beginning of year	1,708.0	2,377.0
Movement in year:		
– current service cost	(132.3)	(138.3)
– contributions	25.7	23.7
– past service costs	(44.9)	(15.7)
– other finance income	133.9	169.5
– actuarial loss	(725.4)	(708.2)
Surplus in scheme at end of year	965.0	1,708.0

The full actuarial valuation at 31 March 1999 showed the market value of the assets of the scheme to be £6,294million, sufficient to cover 114% of the benefits due to members. There have been no significant changes to members' benefits since that time. Contributions have remained steady at 4.5% of pensionable pay. It has been agreed with the trustees that contributions will remain at that level for the next year.

This note is designed to show trends over several years. Only two years are currently available since the adoption of FRS 17.

8b Pensions *continued*

History of experience gains and losses	2002	2001
Difference between the expected and actual return on scheme assets:		
Amount (£million)	532.0	950.9
Percentage of scheme assets	8.6%	14.7%
Experience gains and losses on scheme liabilities:		
Amount (£million)	(26.6)	(35.7)
Percentage of the present value of the scheme liabilities	0.5%	0.7%
Total amount recognised in the statement of total recognised gains and losses:		
Amount (£million)	725.4	708.2
Percentage of the present value of the scheme liabilities	13.8%	14.8%

Home Services

The Home Services have taken advantage of the provisions within FRS 17 and account for the scheme as if it were a defined contribution scheme. This is because it is not possible to identify their share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge for Home Services therefore represents the contributions payable in the year. These contributions benefit from the surplus in the scheme and are lower than the regular cost.

8c Other schemes

The small unfunded pension scheme is valued using assumptions which are the same as those for the main scheme. At 31 March 2002 the obligation was £3.9million (2001 £3.7million) which is fully provided for in the accounts. The current cost for the year for this scheme was £0.2million (2001 £0.8million).

The total charge for the Group personal pension scheme and other defined contribution schemes totalled £2.1million (2001 £2.0million).

9 Taxation

9a Analysis of charges for the period

The charge for the year, based on a rate of corporation tax of 30% (2001 30%), comprised:

	Note	2002 £m	2001 £m
Current tax			
UK corporation tax		9.8	9.2
Adjustments in respect of previous years		–	(5.9)
		9.8	3.3
Foreign tax		7.6	6.3
Share of associates tax		0.3	0.3
Total current tax	9b	17.7	9.9
Deferred tax			
Origination and reversal of timing differences		2.8	1.8
Adjustments in respect of previous years		(2.8)	(2.1)
Total deferred tax	9d	–	(0.3)
Charge for the year		17.7	9.6

9b Factors affecting the tax charge

The Group is only liable to taxation on those activities carried out with a view to making a profit and on rent, royalties and interest receivable. The BBC does not therefore receive relief for all its expenditure, and the tax assessed for the year consequently differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Note	2002 £m	2002 £m	2001 £m	2001 as restated £m
Surplus before tax			2.9		84.6
Surplus before tax multiplied by standard rate of corporation tax in the UK of 30% (2001 30%)			0.9		25.4
Effects of					
Public services taxable external income			6.5		7.5
FRS 17 net Group pension charge/(credit)			5.2		(10.9)
Prior year adjustment for adoption of FRS 17	26a		–		(9.5)
<i>Commercial activities</i>					
Non-taxable income		(3.9)		(4.5)	
Disallowed expenditure		1.6		1.6	
Depreciation in excess of capital allowances		1.8		1.5	
Non-taxable profit on sale of shares		–		(1.5)	
Tax losses not Group relieved		1.4		3.4	
Tax differential re overseas earnings		4.4		2.1	
Other		(0.2)		0.7	
Adjustments in respect of previous periods		–		(5.9)	
			5.1		(2.6)
Current tax charge for the year	9a		17.7		9.9

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

9c Factors that may affect future tax charges

The Group anticipates that the future tax charge will not alter materially since all licence fee income is free of tax.

9d Deferred tax analysis

In accordance with FRS 19, *Deferred tax*, the Group provides for all deferred tax liabilities in full but does not recognise deferred tax assets.

	Note	2002 £m	2001 £m
Deferred tax provision			
Provision at start of year		–	0.5
Exchange adjustment		–	(0.2)
Deferred tax (credit)/charge	9a	–	(0.3)
Provision at end of year		–	–
Deferred tax asset/(liability) not provided			
Accelerated capital allowances		1.5	0.2
Pension accruals		–	(1.0)
Other timing differences		0.8	–
US timing differences		1.8	0.8
		4.1	–

Goodwill is the difference between the value paid for a business and the fair value of its net assets. It represents the amount the purchaser is prepared to pay for the name and reputation of the business and its expected future profit streams.

10 Intangible fixed assets

	Intellectual property rights £m	Goodwill £m	Total £m
Cost			
At 1 April 2001	–	0.5	0.5
Additions	8.7	7.6	16.3
At 31 March 2002	8.7	8.1	16.8
Amortisation			
At 1 April 2001	–	–	–
Charge for the year	1.1	0.3	1.4
At 31 March 2002	1.1	0.3	1.4
Net book value			
At 31 March 2002	7.6	7.8	15.4
At 31 March 2001	–	0.5	0.5

Goodwill of £6.8million has arisen on the acquisition of Chivers Communications Limited (see Note 11).

An adjustment has been made to goodwill on Cover to Cover Cassettes Limited to reflect increased loan note obligations of £0.8million. The adjustment is included within additions for the year.

Goodwill is amortised on a straight line basis over 20 years reflecting the useful economic life, subject to reviews for impairment.

BBC Technology acquired the intellectual property rights to use software licences for £8.7million during the year. These are amortised on a straight line basis over three years reflecting the life of the licence.

11 Acquisitions

On 2 July 2001 the Group acquired 100% of the share capital of Chivers Communications Limited for £9.1million. In addition, further deferred consideration of £0.8million has been provided in respect of the acquisition of Cover to Cover Cassettes Limited, acquired on 1 December 2000.

	Fair value £m
Tangible fixed assets	0.6
Current assets	1.7
	2.3
Goodwill	7.6
Fair value of net assets acquired	9.9
Satisfied by:	
Cash consideration	9.1
Deferred consideration	0.8
Total consideration	9.9
The net outflow of cash in respect of the purchase of subsidiary undertakings is as follows:	
Cash consideration	9.1
Overdrafts of subsidiary undertakings purchased	0.9
	10.0

Chivers Communications contributed turnover of £10.3million and operating profit of £1.1million to the results for the year ended 31 March 2002. The company made an operating profit of £0.3million from the beginning of the financial year, 1 February 2001, to the date of acquisition. In its previous financial year the operating profit was £0.4million. There is no difference between the book value, as recorded in the records of Chivers Communications prior to the acquisition, and the fair value of the assets acquired.

12 Tangible fixed assets

12a The Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2001	533.1	790.5	119.9	91.1	1,534.6
Reclassification	–	0.7	(0.7)	–	–
Acquisitions	0.4	0.1	0.1	–	0.6
Additions	4.3	74.9	9.6	96.0	184.8
Brought into service	10.0	49.4	3.7	(63.1)	–
Disposals	(89.9)	(39.3)	(10.2)	(17.6)	(157.0)
At 31 March 2002	457.9	876.3	122.4	106.4	1,563.0
Depreciation					
At 1 April 2001	192.8	465.9	58.9	–	717.6
Reclassification	–	0.5	(0.5)	–	–
Charge for the year	14.3	104.3	14.1	–	132.7
Elimination in respect of disposals	(8.1)	(30.6)	(9.4)	–	(48.1)
At 31 March 2002	199.0	540.1	63.1	–	802.2
Net book value					
At 31 March 2002	258.9	336.2	59.3	106.4	760.8
At 31 March 2001	340.3	324.6	61.0	91.1	817.0

Home Services' plant and machinery was revalued at 31 March 1993, prior to the introduction of the internal market. The valuation was based on the estimated current replacement cost of the assets, adjusted for service potential.

BBC World Service's plant and machinery and furniture and fittings were revalued at 1 April 1996 on the same basis.

Following the introduction of FRS 15, *Tangible fixed assets*, the assets were retained at their valuation as adjusted for depreciation. The Group does not plan to revalue assets on an ongoing basis. There is no material difference between the net book value of tangible fixed assets included in the previous table and their value as determined on a historical cost basis.

Included within plant and machinery are £19.6million (2001 £nil) of assets held under finance leases.

Included within fixed assets is £24million at cost relating to a relay station in Thailand used by BBC World Service. These assets are transferable to the Royal Thai Government in return for the payment of a nominal sum. BBC World Service will retain the right to repurchase the assets, should the operation cease, for a similar nominal sum. The use of these assets is not affected by this transaction and therefore they will continue to be carried at cost less attributable depreciation in the balance sheet.

12b Home Services

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2001	386.8	313.8	68.8	44.5	813.9
Additions	3.0	16.6	7.3	57.3	84.2
Brought into service	7.0	22.9	3.1	(33.0)	–
Transfers from subsidiaries	7.0	94.2	17.9	1.7	120.8
Disposals	(3.8)	(18.1)	(3.8)	(15.4)	(41.1)
At 31 March 2002	400.0	429.4	93.3	55.1	977.8
Depreciation					
At 1 April 2001	155.4	174.0	18.1	–	347.5
Charge for the year	10.8	43.9	10.0	–	64.7
Transfers from subsidiaries	2.8	45.3	16.2	–	64.3
Elimination in respect of disposals	(0.8)	(15.7)	(3.0)	–	(19.5)
At 31 March 2002	168.2	247.5	41.3	–	457.0
Net book value					
At 31 March 2002	231.8	181.9	52.0	55.1	520.8
At 31 March 2001	231.4	139.8	50.7	44.5	466.4

Transfers from subsidiaries represents assets transferred from BBC Resources on the re-integration of a significant part of BBC Resources into the Home Services in April 2001.

Included within plant and machinery are £19.8million (2001 £nil) of assets held under finance leases with another Group company.

12c Land and buildings at net book value comprise:

	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
Freeholds	226.0	307.9	210.1	211.8
Long leaseholds	9.9	10.2	9.9	10.2
Short leaseholds	23.0	22.2	11.8	9.4
	258.9	340.3	231.8	231.4

During the year a review of all long and short leasehold buildings was carried out which resulted in some reclassifications. The prior year comparatives have been restated in accordance with this review.

There has been no impairment in the carrying values of freehold properties at the balance sheet date.

Land and buildings in the Group include freehold land at a cost of £34.8million (2001 £64.7million) and in the Home Services £30.6million (2001 £30.4million), none of which is depreciated.

13 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2001	289.2
Exchange adjustment	1.3
Additions	83.2
Disposals	(3.1)
Financing benefit	(0.6)
Elimination of programmes fully amortised	(46.2)
At 31 March 2002	323.8
Amortisation	
At 1 April 2001	172.0
Exchange adjustment	1.0
Charge for the year	86.4
Disposals	(1.2)
Elimination of programmes fully amortised	(46.2)
At 31 March 2002	212.0
Net book value	
At 31 March 2002	111.8
At 31 March 2001	117.2

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £80.5million direct investment in BBC programmes.

Included in the net book value is £4.2million relating to investments held under a licence agreement (2001 £3.7million). The financing benefit relates to monies received for tax credits on investments in sale and leaseback programmes.

14 Other investments (including BBC World Service net assets)

14a Movements in the year for the Group

	Interests in joint ventures Note 14d £m	Interests in associates Note 14e £m	Other investments £m	Total Group £m
At 1 April 2001	0.4	1.0	0.4	1.8
Additions	2.2	3.6	–	5.8
Goodwill	9.2	–	–	9.2
Share of retained profits/(losses)	4.7	(28.2)	–	(23.5)
Dividend received	(0.5)	(0.6)	–	(1.1)
Adjustment to reflect effective obligations	(4.5)	29.1	–	24.6
At 31 March 2002	11.5	4.9	0.4	16.8

In October 2001, the BBC formed a joint venture with Land Securities Trillium (LST), the Insight Property Partnership, which will provide a range of property and development services to the BBC. The BBC contributed partnership capital of £100 to the Insight Property Partnership, giving rise to goodwill of £9.2million. In addition, the BBC entered into a related partnership with LST which will develop part of the White City site, the White City Development Partnership. The cost of the BBC's investment in this associate was £3.6million and no goodwill arose.

In March 2002, the BBC and LST acquired an additional property in the White City area through a separate joint venture. The BBC contributed £2.2million cash to the joint venture to purchase the property. No goodwill arose on the creation of this joint venture.

14b Movements in the year for Home Services

	Interest in BBC World Service net assets as restated £m	Shares in subsidiaries £m	Interests in joint ventures £m	Other investments £m	Total £m
At 1 April 2001	124.5	92.3	–	122.7	339.5
Accumulated surplus	9.8	–	–	–	9.8
Additions	–	63.0	9.2	–	72.2
Disposals	–	–	–	(122.3)	(122.3)
At 31 March 2002	134.3	155.3	9.2	0.4	299.2

The new figure has been restated for the adoption of FRS 17 (see Note 26a).

Additions to shares in subsidiaries represent 63,000,000 ordinary shares issued at £1 each on 29 June 2001 to enable BBC Technology to finance the acquisition of the business from the BBC.

Disposals in other investments comprised £122.3million in loans paid back by the subsidiary undertakings following the transfer of fixed assets from Home Services in 2001.

Subsidiary undertakings are businesses we control.

14c Subsidiary undertakings

The Home Services own 100% of the issued ordinary share capital of the following companies which are incorporated in Great Britain:

Cost	2002 £m	2001 £m
BBC Worldwide Limited	0.3	0.3
BBC Subscription Television Limited (dormant)	–	–
BBC Investments Limited (dormant)	–	–
BBC News Limited	–	–
BBC Property Limited	1.0	1.0
BBC Property Investments Limited	–	–
BBC Property Development Limited (dormant)	–	–
BBC Resources Limited	91.0	91.0
BBC Technology Holdings Limited	63.0	–
Centre House Productions Limited	–	–
BBC Digital Programming Services Limited	–	–
BBC Broadcast Limited	–	–
	155.3	92.3

Others

The Group also holds the controlling interest in the following principal subsidiary undertakings which, except where otherwise stated, are incorporated in Great Britain:

	Holding of issued ordinary shares %
Held by BBC World Service:	
BBC East Asia Relay Company Limited (incorporated in Hong Kong)	100
BBC Radiocom (Bulgaria) EOOD (incorporated in Bulgaria)	100
BBC Radiocom (Hungary) KFT (incorporated in Hungary)	100
BBC Radiocom (Praha) s.r.o. (incorporated in the Czech Republic)	100
BBC Radiocom (Slovakia) s.r.o. (incorporated in the Slovak Republic)	100
BBC Romania SRL (incorporated in Romania)	100
BBC Polska Sp. z.o.o. (incorporated in Poland)	100
BBC do Brazil Limitada (incorporated in Brazil)	100
BBC Radiocom Deutschland GmbH (incorporated in Germany)	100
BBC Croatia d.o.o. (incorporated in Croatia)	100
BBC World Service Trust*	

*The BBC World Service Trust is a charitable company limited by guarantee, of which the BBC is the sole member.

14c Subsidiary undertakings *continued*

	Holding of issued ordinary shares %
Held by BBC Technology Holdings Limited:	
BBC Technology Limited	100
BBC Technology Services Limited	100
BBC Technology Supply Limited	100
Kingswood Warren Ventures Limited	100
BBC Technology Holdings LLC (incorporated in the USA)	100
BBC Technology Consultancy LLC (incorporated in the USA)	100
Held by BBC Worldwide Limited:	
<i>Publishing</i>	
BBC Magazines Inc. (incorporated in the USA)	100
Galleon Limited	100
Broadcasting Dataservices Limited	75
Cover to Cover Cassettes Limited	100
Chivers Communications Limited	100
<i>Programme distribution</i>	
BBC Worldwide Americas Inc. (incorporated in the USA)	100
BBC Worldwide Music Limited	100
UK Programme Distribution Limited	95
BBC Worldwide Japan KK Limited (incorporated in Japan)	100
BBC Worldwide (France) SARL (incorporated in France)	100
BBC Worldwide (Germany) GMBH (incorporated in Germany)	100
BBC Worldwide (India) Private Limited (incorporated in India)	100
BBC Worldwide (Singapore) Private Limited (incorporated in Singapore)	100
BBC Worldwide Canada Limited (incorporated in Canada)	100
<i>Channels</i>	
New Video Channel America LLC (incorporated in the USA)	100
European Channel Broadcasting Limited	100
European Channel Management Limited	100
<i>Investment companies</i>	
Worldwide Americas Investments Inc. (incorporated in the USA)	100
BBC Worldwide Investments Limited	100
BBC World Service Television Limited	100
Worldwide Channel Investments Limited	100
Worldwide Channel Investments (Europe) Limited	100
Worldwide Channel Investments (Australia) Pty Limited (incorporated in Australia)	100
Worldwide Channel Investments (Ontario) Limited (incorporated in Canada)	100
<i>Internet</i>	
beeb Ventures Limited	86.9

Joint ventures are businesses we jointly control with other parties.

14d Interests in joint ventures

The Group, through its subsidiary BBC Worldwide, has major partnership deals with Flextech, the content division of Telewest Communications plc, for the production and marketing of subscription channels in the UK, and with Discovery Communications Inc. (Discovery) for incorporating new channels around the world and providing new co-production funding for programmes. These alliances operate joint ventures, listed below:

Name of entity	Nature of entity	Partner	Date entered
UK Channel Management Limited	Joint venture	Flextech	April 1997
UK Gold Holdings Limited	Joint venture	Flextech	April 1997
UKTV New Ventures Limited	Joint venture	Flextech	October 2001
JV Programmes LLC	Joint venture	Discovery	March 1998

In addition to the arrangements with Flextech and Discovery, BBC Haymarket Exhibitions Limited is included in the joint venture total and is accounted for separately from the Flextech and Discovery joint ventures, as are the LST joint ventures (see Note 14a).

The Group share of turnover for Haymarket was £6.4million (2001 £6.4million) and operating surplus was £0.3million (2001 £0.6million).

The following disclosures are based on results for the year ended 31 December 2001 for the Flextech, Discovery and Haymarket joint ventures and 31 March 2002 for the LST joint ventures. The amounts disclosed represent the Group's equity shares of the assets and liabilities of the entities.

BBC Group share of:	UK Gold Holdings Limited* £m	UK Channel Management Limited* £m	Other joint ventures £m	Total joint ventures £m
2002				
Turnover	34.8	28.4	18.4	81.6
Profit/(loss) before tax	13.2	(3.0)	(1.9)	8.3
Taxation	(3.4)	–	(0.2)	(3.6)
Profit/(loss) after tax	9.8	(3.0)	(2.1)	4.7
Fixed assets	–	0.1	2.2	2.3
Goodwill	–	–	9.2	9.2
Current assets	14.2	14.0	19.6	47.8
Liabilities less than one year	(9.4)	(7.1)	(11.6)	(28.1)
Liabilities more than one year	(46.0)	(44.6)	(11.6)	(102.2)
Adjustment to reflect effective obligations	41.2	37.6	3.7	82.5
Net book value	–	–	11.5	11.5
2001				
Turnover	31.7	20.6	15.3	67.6
Profit/(loss) before tax	7.2	(8.8)	0.6	(1.0)
Taxation	(2.4)	–	(0.2)	(2.6)
Profit/(loss) after tax	4.8	(8.8)	0.4	(3.6)
Fixed assets	–	0.1	–	0.1
Current assets	27.7	13.2	15.7	56.6
Liabilities less than one year	(9.5)	(7.7)	(5.2)	(22.4)
Liabilities more than one year	(71.5)	(40.1)	(10.5)	(122.1)
Adjustment to reflect effective obligations	53.3	34.5	0.4	88.2
Net book value	–	–	0.4	0.4

*The figures for 2002 are based on unaudited financial statements (2001 unaudited).

Under the terms of the agreements with Flextech and Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2002 (2001 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation.

Associates are businesses over which we exert significant influence but do not have overall control.

14e Interests in associates

The Group holds significant interests in the following principal associates which, except where otherwise stated, are incorporated in Great Britain:

	Holding of issued ordinary shares %
Held by Home Services:	
Parliamentary Broadcasting Unit Limited	33
Broadcasters Audience Research Board Limited	*
The Commonwealth Broadcasting Association	*
Radio Joint Audience Research Limited (RAJAR)	50
Delta Ventures Limited	20
Held by BBC World Service:	
Caribbean Relay Company Limited (incorporated in Antigua)	45
Multimedia Ventures Limited	50
WRG-FM SA (incorporated in Switzerland)	40
Held by BBC Worldwide Limited:	
Publishing	
Frontline Limited	23
Programme distribution	
The Sales Consortium Limited	25
Tele Alliance Limited	25
Channels	
UK TV Pty Limited (incorporated in Australia)	20
Animal Planet (Latin America) LLC (incorporated in the USA)†	50
People and Arts (Latin America) LLC (incorporated in the USA)†	50
Animal Planet LLC (incorporated in the USA)†	20
JV Network LLC (incorporated in the USA)†	50
Animal Planet (Asia) LLC (incorporated in the USA)†	50
Animal Planet Europe Partnership†	50
Animal Planet Japan KK (incorporated in Japan)†	33
Animal Planet Japan LLP (incorporated in the USA)†	50
Jasper Broadcasting Limited (incorporated in Canada)	20
Jasper Junior Broadcasting Inc (incorporated in Canada)	20
Animal Planet Canada Company ULC (incorporated in Canada)†	23
Held by BBC Resources Limited:	
3sixtymedia Limited	10
Held by BBC Property Limited:	
White City Development Partnership	**

* Broadcasters Audience Research Board Limited and The Commonwealth Broadcasting Association are companies limited by guarantee, of which the BBC is a joint member with other broadcasters.

† Discovery associates.

** 50% partnership share.

14e Interests in associates *continued*

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2001 and the remaining associates' disclosures are based on the results at the date of their individual financial statements. These additional disclosures represent the Group's equity share of assets and liabilities of those entities.

BBC Group interests in associates	2002 £m	2001 £m
Share of turnover	39.1	32.5
Share of fixed assets	61.4	45.6
Share of current assets	23.9	28.6
Share of liabilities due within one year	(22.3)	(19.5)
Share of liabilities due after more than one year	(104.9)	(85.7)
Adjustment to reflect effective obligation	46.8	32.0
Net interests in associates	4.9	1.0

The results include the Group share of the operating profit of UK TV Pty Limited of £0.1million (2001 £0.1million) and Frontline Limited of £1.0million (2001 £0.2million). Both are accounted for separately from the Discovery associates.

Under the terms of the agreements with Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2002 (2001 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation, with the exception of JV Network LLC. JV Network LLC was formed for the purpose of providing debt funding from Discovery to the other Discovery joint ventures and BBC Worldwide is not entitled to any profits arising within this entity.

15 Stocks

	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
Raw materials	2.4	3.0	–	–
Work in progress:				
– originated programmes	254.5	235.6	254.5	235.5
– other	6.6	5.6	0.1	–
Finished programmes:				
– acquired programmes and films	89.0	92.5	89.0	92.5
– originated programmes	80.7	49.1	80.7	49.1
Other	16.2	11.8	1.0	0.9
Total	449.4	397.6	425.3	378.0

The 2001 figures have been restated to reclassify programme loss provisions of £8.5million, previously reported within other provisions, against originated programme work in progress (see Note 26b).

The increased levels of originated programme work in progress and finished programme stock reflect the launch of new television channels.

16 Debtors

	Group 2002 £m	Group 2001 £m	Home Services 2002 £m	Home Services 2001 £m
Receivable within one year				
Trade debtors	146.4	163.7	27.5	22.3
Department of Culture, Media and Sport – licence fee debtors	255.5	272.9	255.5	272.9
Amounts owed by subsidiaries	–	–	58.1	98.5
Amounts owed by associates and joint ventures	9.2	5.8	–	–
VAT recoverable	39.6	28.1	30.7	26.3
Other debtors	36.4	31.8	14.2	21.3
Corporation tax	0.6	3.6	0.7	1.2
Prepayments	175.9	142.3	156.1	102.2
	663.6	648.2	542.8	544.7
Receivable after more than one year				
Trade debtors	0.2	–	0.2	–
Amounts owed by subsidiaries	–	–	–	17.6
Prepayments	137.0	47.8	113.6	27.2
	137.2	47.8	113.8	44.8
Total	800.8	696.0	656.6	589.5

The increase in prepayments reflects a build-up in rights to broadcast major sporting events and key acquired programmes (see also Note 23). In addition, the sale of the White City building to Land Securities Trillium in the year ended 31 March 2002 was settled in part by future reductions in the cost to the BBC of occupying the building. The net present value of this reduction is held as a prepayment to be released over the term of the lease.

BBC Resources has an unsecured loan facility of £30million with the BBC that is repayable on 30 March 2004. Interest on this facility is charged at 0.8% over bank base rates and appropriate covenants exist to protect the Home Services from financial risk. At 31 March 2002 none of the facility was drawn down.

BBC Worldwide has an unsecured loan facility of £125million with the BBC that is repayable on 1 April 2003. Interest on this facility is charged at 0.6% over bank base rates and appropriate covenants exist to protect the Home Services from financial risk. At 31 March 2002, £0.6million of the loan was drawn down.

BBC Technology Services (the principal trading company of the BBC Technology Group) has a loan facility of £25million with the BBC secured by a floating charge over all assets and undertakings that is repayable on 30 March 2004. Interest on this facility is charged at 1% over bank base rates and appropriate covenants exist to protect the Home Services from financial risk. At 31 March 2002 none of the facility was drawn down.

17 Creditors

17a Prompt payment policy

It is the BBC's policy to comply with the CBI prompt payment code in relation to the payment of suppliers, provided that the supplier is complying with the relevant terms and conditions of their contracts. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The BBC Group's number of creditor days outstanding in respect of other trade creditors at 31 March 2002 was 52 days (2001 52 days).

17b Amounts falling due within one year

	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 £m
Bank overdrafts	–	7.0	60.9	–
Unsecured loan notes	1.9	–	–	–
	1.9	7.0	60.9	–
Payments received on account	2.2	–	–	–
Trade creditors				
Programme creditors	75.9	91.1	75.5	90.9
Programme acquisitions	44.0	39.7	44.0	39.7
Salaries and wages	29.0	28.0	18.2	17.6
Residual copyright payments	56.5	53.3	–	–
Licence fee collection creditors	4.6	5.4	4.6	5.4
Other trade creditors	174.3	167.2	117.1	104.2
	384.3	384.7	259.4	257.8
Other creditors				
Other taxation and social security	41.0	33.9	24.6	23.8
Amounts owed to subsidiaries	–	–	57.9	34.2
Amounts owed to associates and joint ventures	1.7	2.0	–	0.1
Obligations under finance leases	7.2	–	–	–
Amounts owed to subsidiaries in respect of finance leases	–	–	10.1	–
	49.9	35.9	92.6	58.1
Accruals and deferred income				
Accruals and deferred income	302.4	276.9	224.5	201.7
Licence saving stamps deposits and direct debit instalments	130.5	140.1	130.5	140.1
	432.9	417.0	355.0	341.8
Total	871.2	844.6	767.9	657.7

The prior year balance for the salaries and wages creditor has been restated to include balances that were previously included within other trade creditors (see Note 26b).

The Home Services' overdraft facility bears interest at bank base rates plus 1%.

17c Amounts falling due after more than one year

Note	Group 2002 £m	Group 2001 £m	Home Services 2002 £m	Home Services 2001 £m
Bank and other loans	29.4	19.1	–	–
Trade creditors				
Programme acquisitions	36.4	21.0	36.4	21.0
Other trade creditors	2.9	0.7	–	0.7
	39.3	21.7	36.4	21.7
Other creditors				
Obligations under finance leases	33.8	10.5	–	–
Amounts owed to subsidiaries in respect of finance leases	–	–	9.7	–
	33.8	10.5	9.7	–
Total	102.5	51.3	46.1	21.7

Creditors falling due after more than one year are all repayable within five years with the exception of the finance lease obligations (see Note 17d).

Bank and other loans include a US\$5million loan from Discovery which is repayable in the following stages: \$3million due 31 March 2004; \$2million due 31 March 2005. The remainder of the loans consist of multi-currency revolving facilities repayable in full in three years. Interest is payable at LIBOR plus 1.0% for the US\$5million loan and LIBOR plus 0.3% for the multi-currency facilities.

A finance lease transfers substantially all the risks and rewards of owning an asset to the lessee (the BBC). So we recognise the assets within our fixed assets with the corresponding borrowings in creditors.

17d Obligations under finance leases

The maturity of obligations under finance leases is as follows:

	Group 2002 £m	Group 2001 £m	Home Services 2002 £m	Home Services 2001 £m
Within one year	26.2	9.7	10.1	–
In the second to fifth years	94.3	43.9	9.7	–
Over five years	237.3	125.4	–	–
	357.8	179.0	19.8	–
Less: future finance charges	(89.4)	(52.9)	–	–
	268.4	126.1	19.8	–
Less: defeasance deposits	(227.4)	(115.6)	–	–
	41.0	10.5	19.8	–

Defeasance deposits are cash deposits that are linked to a matching creditor. We can only use these deposits to settle the linked liability.

The finance leases have been entered into by BBC Technology and Centre House Productions Limited.

BBC Technology has entered into finance leases to finance the acquisition of IT equipment which is subsequently leased to other parts of the BBC on an arm's length basis.

Centre House Productions Limited has entered into finance leases as a means of financing drama productions which result in a reduction in the production costs to the BBC. The level of obligations has increased significantly in 2002. These finance leases are matched by the defeasance deposits such that the principle on deposit and the interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. These deposits may only be used to settle the finance lease liabilities and therefore these do not represent separate assets and liabilities. Consequently they have been netted off with the finance lease creditor to show the net unmatched liability at the year end.

18 Provisions for liabilities and charges

Group	At 1 April 2001 as restated £m	Reclassification £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2002 £m
Licence fee	11.9	20.9	(37.1)	(8.6)	37.8	24.9
Restructuring	4.5	1.1	(3.7)	(1.1)	13.3	14.1
Litigation and insurance	14.3	—	(18.8)	(2.1)	21.2	14.6
Property	11.9	(1.1)	—	(0.5)	0.2	10.5
Pension	0.7	(0.7)	—	—	—	—
Other	9.9	6.5	(7.4)	(12.3)	21.8	18.5
Total	53.2	26.7	(67.0)	(24.6)	94.3	82.6

The 2001 figures have been restated for the adoption of FRS 17 and to reclassify programme loss provisions of £8.5million against originated programmes work in progress. £26.7million disclosed in other creditors in Home Services last year has been reviewed and reclassified into provisions in 2002 (see Note 26).

Property provisions include BBC World Service's liability of £3.6million (2001 £3.6million) to restore Bush House to its original condition, together with amounts relating to other dilapidations and relocations.

Other provisions consist of a number of balances arising across the BBC in the normal course of business.

Home Services	At 1 April 2001 as restated £m	Reclassification £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2002 £m
Licence fee	11.9	20.9	(37.1)	(8.6)	37.8	24.9
Restructuring	3.9	1.1	(3.2)	(1.0)	11.1	11.9
Litigation and insurance	14.3	—	(18.8)	(2.1)	21.2	14.6
Property	8.3	(1.1)	—	(0.5)	0.2	6.9
Other	9.9	6.5	(7.4)	(12.3)	19.6	16.3
Total	48.3	27.4	(66.5)	(24.5)	89.9	74.6

The 2001 figures have been restated for the adoption of FRS 17 and to reclassify programme loss provisions of £8.5million against originated programmes work in progress (see Note 26).

The Home Services and BBC World Service are funded from different sources. As such, the reserves relating to the BBC World Service are maintained separately from the rest of the Group and are restricted for use solely on BBC World Service activities.

19 Reserves

Note	Operating reserve excluding pension reserve as restated £m	Pension reserve as restated £m	Total operating reserve as restated £m	Capital reserve £m	Revaluation reserve £m	Total £m	
Group							
At 1 April 2001							
	as previously stated	607.3	–	607.3	791.1	7.2	1,405.6
	Prior year adjustment	26a 47.2	1,704.3	1,751.5	–	–	1,751.5
At 1 April 2001 as restated							
	Exchange adjustments	654.5	1,704.3	2,358.8	791.1	7.2	3,157.1
	Deficit for the financial year	0.5	–	0.5	–	–	0.5
	Actuarial loss on defined benefit pension schemes	(15.9)	–	(15.9)	–	–	(15.9)
	Revaluation reserve transfer	–	(725.4)	(725.4)	–	–	(725.4)
	Pension reserve transfer	0.8	–	0.8	–	(0.8)	–
	Capital reserve transfer	17.8	(17.8)	–	–	–	–
		(11.5)	–	(11.5)	11.5	–	–
At 31 March 2002							
		646.2	961.1	1,607.3	802.6	6.4	2,416.3
Represented by:							
	General Group reserves	635.2	961.1	1,596.3	685.7	–	2,282.0
	BBC World Service reserves	11.0	–	11.0	116.9	6.4	134.3
At 31 March 2002							
		646.2	961.1	1,607.3	802.6	6.4	2,416.3

Under the accounting standard FRS 10, *Goodwill and intangible assets*, any newly arising goodwill must be capitalised and amortised over its useful life. As is permitted by the standard, goodwill arising in periods prior to 1999 of £6.8million (2001 £6.8million) remains offset against the operating reserve.

Note	Operating reserve as restated £m	Capital reserve £m	Revaluation reserve £m	Total £m	
Home Services					
At 1 April 2001 as previously stated					
	546.3	791.1	7.2	1,344.6	
	26a 34.8	–	–	34.8	
At 1 April 2001 as restated					
	581.1	791.1	7.2	1,379.4	
	(9.3)	–	–	(9.3)	
	0.8	–	(0.8)	–	
	(11.5)	11.5	–	–	
At 31 March 2002					
	561.1	802.6	6.4	1,370.1	
Represented by:					
	Home Services reserves	550.1	685.7	–	1,235.8
	BBC World Service reserves	11.0	116.9	6.4	134.3
At 31 March 2002					
	561.1	802.6	6.4	1,370.1	

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

20 Reconciliation of Group operating deficit to net cash inflow from operating activities

	2002 £m	2001 as restated £m
Group operating deficit	(173.4)	(129.8)
Depreciation and amortisation	220.5	189.6
Pension schemes operating costs (non-cash)	151.5	133.1
Loss on disposal of tangible fixed assets	1.4	6.5
(Increase)/decrease in stocks	(51.8)	(60.7)
(Increase)/decrease in debtors	(43.3)	(117.1)
Increase/(decrease) in creditors	83.2	84.3
Increase/(decrease) in provisions	29.4	23.1
Net cash inflow from operating activities	217.5	129.0

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

21 Analysis of changes in net funds

Bank overdrafts represent temporary timing differences on cash at bank.

The Group cash at bank and in hand shown on the balance sheet is made up of deposits not repayable on demand and cash at bank and in hand.

	At 1 April 2001 £m	Cash flows £m	Non-cash movements £m	At 31 March 2002 £m
Net cash				
Bank overdrafts	(7.0)	7.0	–	–
Cash at bank and in hand	102.9	(102.6)	–	0.3
	95.9	(95.6)	–	0.3
Liquid resources				
Deposits not repayable on demand	15.0	(15.0)	–	–
Short-term investments	253.4	103.4	–	356.8
Gross funds*	364.3	(7.2)	–	357.1
Loans from third parties	(19.1)	(10.3)	–	(29.4)
Unsecured loan notes	–	–	(1.9)	(1.9)
Finance leases	(10.5)	–	(30.5)	(41.0)
Net funds	334.7	(17.5)	(32.4)	284.8

The repayments on finance leases held by Centre House Productions Limited are offset directly by income earned on matching deposits, such that there is no cash flow effect (see Note 17d). The increase in finance lease liabilities represents the amount by which the interest accrued on the leases exceeds that earned on the deposits together with new defeasance deposits for new finance leases entered into during the year. Over the course of the lease the interest earned on deposit together with the principal is designed to meet the finance lease obligations.

	2002 £m	2001 £m
*Analysis of gross funds		
BBC funds	226.6	224.2
TV licence savings stamp deposits and direct debit instalments	130.5	140.1
Gross funds	357.1	364.3

22 Reconciliation of net cash flow to movement in net funds

	2002 £m	2001 £m
Decrease in cash in the year	(95.6)	(51.6)
Net cash outflow/(inflow) from management of liquid resources	88.4	(6.7)
Net cash (inflow) from financing activities	(10.3)	–
Change in net funds resulting from cash flows	(17.5)	(58.3)
Issue of loan notes	(1.9)	–
Finance leases	(30.5)	(6.1)
Exchange adjustments	–	(0.2)
Change in net funds	(49.9)	(64.6)
Net funds at the beginning of the year	334.7	399.3
Net funds at the end of the year	284.8	334.7

23 Commitments

23a Contracts placed for future expenditure

	Group 2002 £m	Group 2001 £m	Home Services 2002 £m	Home Services 2001 £m
Fixed asset additions	45.9	37.8	13.4	19.6
Programme acquisitions and sports rights	754.4	658.3	715.2	591.5
Independent programmes	69.4	24.8	69.4	24.8
	869.7	720.9	798.0	635.9

The increase in contractual commitments is due to the renegotiation of favourable long-term contracts for key programmes and the rights to broadcast major sporting events.

An operating lease is a lease where the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee (the BBC) is hiring rather than buying an asset.

23b Operating leases

Operating lease commitments payable in the following year, analysed according to the period in which the lease expires:

	Land and buildings 2002 £m	Land and buildings 2001 £m	Other 2002 £m	Other as restated 2001 £m
Group				
Within one year	2.7	2.3	5.3	12.3
In two to five years	12.1	11.6	9.3	16.1
After five years	13.0	8.8	2.5	3.2
	27.8	22.7	17.1	31.6
Home Services				
Within one year	1.3	2.1	1.0	8.0
In two to five years	4.4	3.5	10.8	10.2
After five years	11.8	7.6	–	–
	17.5	13.2	11.8	18.2

The prior year figures for land and buildings have been restated following a review of all the BBC's leases.

23c Other financial commitments

In the ordinary course of business the BBC enters into a large number of contracts with artists and writers and with providers of other services including licence fee collection and channel distribution.

24 Contingent liabilities

At 31 March 2002 the Group had unprovided contingent liabilities estimated to be £2.3million (2001 £2.8million) in respect of guarantees and indemnities.

Within BBC World Service, BBC Monitoring's operating reserve of £7.2million (2001 £7.0million) includes amounts arising as a result of charging a return on capital employed to its customers, together with other accumulated excesses of income over expenditure. There are limitations placed upon these funds and agreement has yet to be reached over their use.

BBC Resources Limited has a contract with 3sixtymedia Limited for the use of studios. In the event that turnover earned by 3sixtymedia Limited from the BBC falls below specified levels, BBC Resources Limited is liable to pay a proportion of any redundancy costs which arise as a consequence, up to a maximum of 100%. It is not practicable to quantify the possible amount of any such liability, as it is dependent upon both the level of redundancy costs and the level of turnover generated by the BBC. In the event that this liability crystallises, there will be a dilution in BBC Resources Limited's shareholding in 3sixtymedia Limited.

The Group also has a number of contingent liabilities arising from litigation. The BBC makes specific provision (see Note 18) against an estimate of any damages and costs which may be awarded.

25 Related party transactions

The related party transactions of the Group have been presented in accordance with FRS 8, *Related party disclosures*.

25a Transactions with joint ventures and associated undertakings

Included in the income and expenditure account is income from UKTV and the Discovery joint ventures of £30.3million and £24.2million respectively from sales of programmes. The BBC received £7.7million of income from various other associates from sales of programmes. In addition, Frontline Limited charged £6.3million for the distribution of BBC Worldwide Limited's magazines.

In October 2001 the BBC formed the Insight Property Partnership and the White City Development Partnership with Land Securities Trillium (LST) as explained in Note 14a. The BBC contributed its interest in the White City site to these partnerships. The consideration received was a combination of cash of £20million, partnership capital of £3.6million and reductions in service payments for property services. The latter is held as a prepayment on the BBC's balance sheet. In addition, development work in progress was transferred to the White City Development Partnership for cash of £17million. The BBC recorded neither a profit nor a loss on these transfers. The partnerships charged the BBC £25million for property services during the year.

Amounts owed by/to joint ventures and associated undertakings at the year end are disclosed within Notes 16 and 17. In all transactions the terms of trade were negotiated on an arm's length basis.

25b Other transactions

Sir Richard Eyre, Governor, is also Chairman and Managing Director of Chestermead Limited. During the year Sir Richard Eyre received, either directly or through Chestermead, payments totalling £9,500 for interviews and contributions to BBC programmes. No amounts were outstanding at the year end. He was also writer and director of *Iris*, a film produced by Fox Iris Productions Limited. BBC Films contributed towards the financing of this film. Sir Richard Eyre's wife, Sue Birtwistle, works on a freelance basis for the BBC. During 2001/2002 she received £31,000 for her contribution to *Armadillo*.

Baroness Hogg, Governor, is also Chairman of Frontier Economics. During the year the BBC paid £45,000 to Frontier Economics for two projects relating to new service launches and the incorporation of BBC Broadcast Limited. No amounts were outstanding at the year end.

Rt Hon The Lord Ryder, Governor, is also a non-executive director and shareholder of Ipswich Town Football Club. During the year the BBC paid £1,195,000 to the club in respect of the UEFA Cup and FA Cup televised fixtures.

Ranjit Sondhi, Governor, is married to Anita Bhalla, who has been employed by the BBC since 1987 in various production and broadcasting roles. Her current role is Head of Political and Community Affairs for the English Regions. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Related parties include Governors, the Executive Committee and other senior managers, their immediate families and external entities controlled by them.

This is a technical explanation of how the adoption of the new policy has changed the figures in last year's financial statements.

Sir Christopher Bland, Chairman of the BBC until 30 September 2001, was also Chairman of British Telecommunications plc from May 2001. During this time the BBC traded with British Telecommunications plc in the normal course of business. Sir Christopher Bland was not a party to the approval process for any of this trading.

In the normal course of business, there are a number of transactions between the BBC and other parties which are related by virtue of the fact that senior employees of the BBC are married to or have family relations with individuals who own or are employed at other media, production and broadcasting companies.

The BBC has set procedures for dealing with situations to avoid any conflict of interest. Where transactions have arisen between connected parties, the BBC Governor or employee is not a party to the approval process.

26 Restatement of comparative figures

26a Adoption of FRS 17, *Retirement benefits*

The adoption of FRS 17, *Retirement benefits*, has required changes in the method of accounting for pension costs. As a result, the comparative figures for 2001 have been restated as follows:

In the Group income and expenditure account the defined benefit pension operating cost, included within operating expenditure, increased by £101.1million to £154.0million. A new income line, other finance income, represents the net expected return to the BBC on pension scheme assets after deducting the interest on the pension scheme liabilities. This offsets the pension scheme cost by £169.5million in 2001 resulting in a net credit of £15.5million to the income and expenditure account for this pension scheme.

In the Group balance sheet the pension provision was reduced by £47.2million, of which £31.5million related to amounts added during 2001 under the previous accounting policy SSAP 24. The pension scheme surplus increased net assets by £1,704.3million.

In total, the effect of FRS 17 has been to increase net assets by £1,751.5million.

The impact of adopting FRS 17 on the operating costs for 2002 is similar to that for 2001. However, volatility in the other finance costs results in a net pension charge of £43.3million in the income and expenditure account in 2002 compared with the credit of £15.5million in 2001.

The Home Services have taken advantage of provisions in the scheme and now account for the scheme as if it were a defined contribution scheme. This resulted in a decrease in pension costs of £24.0million in 2001. The pension provision of £34.5million was eliminated and the interest in BBC World Service net assets increased by £0.3million to £124.5million. The impact of adopting FRS 17 had a similar effect on Home Services' results in 2002.

26b Other restatements

The adoption of a new chart of accounts with our new financial system has led to a number of balance sheet reclassifications this year. The impact is explained under the relevant note to the financial statements.

APPENDIX 4

**FINANCIAL STATEMENTS OF THE BBC
FOR THE YEAR ENDED 31 MARCH 2003**

Consolidated statement of income and expenditure

for the year ended 31 March

The BBC does not aim to make a surplus. Surpluses and deficits represent short-term timing differences between income and expenditure which will reverse in subsequent years.

	Note	2003 £m	2002 £m
Group income	1	3,532.0	3,382.9
Operating expenditure	2	(3,938.6)	(3,556.3)
Group operating deficit		(406.6)	(173.4)
Share of operating surplus of associates and joint ventures		2.9	1.4
Operating deficit	3	(403.7)	(172.0)
(Loss)/profit on sale and termination of operations	5	(0.4)	7.7
(Loss)/profit on disposal of fixed assets	6	(14.3)	11.7
Deficit before interest and taxation		(418.4)	(152.6)
Net interest receivable and other similar items	7	5.1	21.6
Other finance income (from defined benefit pension scheme)	8a	114.3	133.9
(Deficit)/surplus before taxation and minority interest		(299.0)	2.9
Taxation	9	(15.7)	(17.7)
Minority interest		0.1	(1.1)
Deficit for the financial year	18	(314.6)	(15.9)

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of their cumulative operating losses (see Note 13d).

The above results are derived from continuing operations in both the current and previous financial periods.

There is no material difference between the results as disclosed above and the results on a historical cost basis.

Balance sheets

at 31 March

	Note	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Fixed assets					
Intangible fixed assets	10	15.7	15.4	–	–
Tangible fixed assets	11	802.9	760.8	554.2	520.8
Investment in programmes for future sale	12	108.3	111.8	–	–
Other investments	13	17.8	16.8	318.3	299.2
		944.7	904.8	872.5	820.0
Current assets					
Stocks	14	468.9	449.4	437.7	425.3
Long-term debtors	15	158.6	137.2	131.8	113.8
Current debtors	15	605.5	663.6	487.3	542.8
Total debtors		764.1	800.8	619.1	656.6
Short-term investments	20	64.9	356.8	32.9	356.8
Cash at bank and in hand	20	69.5	0.3	7.9	–
		1,367.4	1,607.3	1,097.6	1,438.7
Creditors – amounts falling due within one year	16	(920.5)	(871.2)	(782.9)	(767.9)
Net current assets		446.9	736.1	314.7	670.8
Total assets less current liabilities		1,391.6	1,640.9	1,187.2	1,490.8
Creditors – amounts falling due after more than one year	16	(159.4)	(102.5)	(56.2)	(46.1)
Provisions for liabilities and charges	17	(72.0)	(82.6)	(64.3)	(74.6)
Net assets excluding pension asset and liability		1,160.2	1,455.8	1,066.7	1,370.1
Pension asset	8	–	965.0	–	–
Pension liability	8	(1,074.5)	(3.9)	–	–
Net assets		85.7	2,416.9	1,066.7	1,370.1
Represented by					
Operating reserve excluding pension asset and liability	18	296.0	646.2	203.0	561.1
Pension reserve	18	(1,074.5)	961.1	–	–
Operating reserve		(778.5)	1,607.3	203.0	561.1
Capital reserve	18	858.1	802.6	858.1	802.6
Revaluation reserve	18	5.6	6.4	5.6	6.4
		85.2	2,416.3	1,066.7	1,370.1
Minority interest		0.5	0.6	–	–
		85.7	2,416.9	1,066.7	1,370.1

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of the net liabilities which at 31 March 2003 amounted to £62.9million (2002 £82.5million). These liabilities have not been included in the financial statements (see Note 13d).

The financial statements were approved by the Governors and Executive Committee on 19 June 2003 and signed on their behalf by:

Gavyn Davies *Chairman*

Greg Dyke *Director-General*

John Smith *Director of Finance, Property & Business Affairs*

Consolidated cash flow statement

for the year ended 31 March

	Note	2003 £m	2002 £m
Net cash (outflow)/inflow from operating activities	19	(68.3)	217.5
Dividends received from joint ventures and associates		1.3	1.1
Return on investments and servicing of finance			
Interest received		11.5	24.9
Interest paid		(2.0)	(2.8)
Interest paid on finance leases		(0.2)	–
Net cash inflow from return on investments and servicing of finance		9.3	22.1
Taxation			
Taxation paid		(12.9)	(13.9)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(179.9)	(194.2)
Investment in programmes for future sale		(85.5)	(83.2)
Investment in intangible fixed assets		(2.7)	(8.7)
Proceeds from the sale of investments		–	0.6
Proceeds from the sale of investment in programmes		0.4	5.9
Proceeds from the sale of tangible fixed assets		5.4	46.8
Net cash outflow from capital expenditure and financial investments		(262.3)	(232.8)
Acquisitions and disposals			
Purchase of a subsidiary net of overdrafts acquired		–	(9.1)
Investments in joint ventures		(1.2)	(11.4)
Proceeds from sale and termination of operations		3.2	9.0
Proceeds from disposal of interests in joint ventures and associates		0.1	–
Net cash inflow/(outflow) from acquisitions and disposals		2.1	(11.5)
Net cash outflow before use of liquid resources and financing		(330.8)	(17.5)
Management of liquid resources			
Net cash withdrawn from deposit		–	15.0
Sale/(purchase) of other liquid resources	20	291.9	(103.4)
Net cash inflow/(outflow) from management of liquid resources		291.9	(88.4)
Financing			
New loans	20	85.0	10.3
Repayment of loans	20	(25.9)	–
Repayment of finance leases		(21.2)	–
Repayment of loan notes	20	(0.5)	–
Net cash inflow from financing		37.4	10.3
Decrease in cash in the year	20,21	(1.5)	(95.6)

Consolidated statement of total recognised gains and losses

for the year ended 31 March

	Note	2003 £m	2002 £m
Group deficit for the financial year		(314.6)	(15.9)
Exchange differences on retranslation of overseas subsidiaries		(3.1)	0.5
Actuarial loss on defined benefit pension schemes	8	(2,013.4)	(725.4)
Total recognised gains and losses relating to the year		(2,331.1)	(740.8)

Reconciliations of movement in reserves

for the year ended 31 March

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Deficit for the financial year	(314.6)	(15.9)	(303.4)	(9.3)
Other recognised gains and losses relating to the year (net)	(2,016.5)	(724.9)	–	–
Decrease in reserves during the year	(2,331.1)	(740.8)	(303.4)	(9.3)
Opening reserves	2,416.3	3,157.1	1,370.1	1,379.4
Closing reserves	85.2	2,416.3	1,066.7	1,370.1

Statement of accounting policies

This section explains the BBC's main accounting policies, which have been applied consistently throughout the year and in the preceding year except where stated. A footnote in italics follows some policies below to explain technical aspects of the accounting treatment in plain English.

The financial statements have been prepared in accordance with the provisions of the BBC's Charter and Agreement. Although not mandatory, the BBC has chosen to follow the accounting and disclosure provisions of the Companies Act 1985, applicable UK accounting standards and the rules of the UK Listing Authority to ensure that its financial statements are prepared on a basis which is consistent with that of UK public limited companies. In line with other companies, the BBC files with Companies House audited financial statements for all its subsidiary companies.

Basis of accounting

The financial statements are presented under the historical cost accounting convention as modified by the revaluation of certain plant, machinery, furniture and fittings.

Basis of consolidation

The BBC Group comprises:

- UK Public Service Broadcasting and those subsidiaries incorporated to act solely on its behalf (notably Centre House Productions Limited, BBC Property Limited and BBC Property Investments Limited)
- BBC World Service (and its subsidiaries)
- Commercial subsidiary companies comprising BBC Resources Limited and BBC Commercial Holdings Limited and its various subsidiaries (notably BBC Worldwide Group, BBC World Group and BBC Ventures Group)

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term interest, usually between 20% and 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of profits less losses of associates and joint ventures is included in the consolidated statement of income and expenditure and its interest in their net assets is included in the consolidated balance sheet.

A separate statement of income and expenditure reflecting the results of UK Public Service Broadcasting has not been presented, as permitted by Section 230 of the Companies Act 1985.

These accounts of the BBC Group include the results of UK Public Service Broadcasting, BBC World Service and all businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses over which the BBC has influence but not control (associates) and those which the BBC jointly controls (joint ventures).

Investments

Investments are recorded on the balance sheet of UK Public Service Broadcasting at cost less provision for any impairment in value. The funding of UK Public Service Broadcasting and BBC World Service is legally separate and cross-subsidisation is not

permissible. Accordingly, for the purposes of preparing UK Public Service Broadcasting's balance sheet, UK Public Service Broadcasting is considered to have an investment in BBC World Service equal to the net assets of BBC World Service.

Income

Income, which excludes value added tax, trade discounts and sales between Group companies, is comprised of the following key classes of revenue, which are recognised as follows:

- **Television licences**
Income derived from television licences, receivable from the Department for Culture, Media and Sport, represents the value of licences issued in the year. The amount which can be paid in cash to the BBC for any year cannot exceed the total amount voted by Parliament for that year. Any difference between the value of licences issued and the amount voted is adjusted in the amount of cash received in the following year. Any amounts which have not been paid to the BBC are included within debtors.
- **Grant-in-Aid from the Foreign and Commonwealth Office**
BBC World Service income, primarily derived from a Grant-in-Aid from the Foreign and Commonwealth Office, is intended to meet estimated expenditure in the year but unexpended receipts for the year, within predetermined limits, are not liable to surrender.
- **Provision of equipment, facilities and services**
With the exception of long-term contracts, income is recognised when the equipment, facilities and services are provided to customers.

For long-term contracts, the amount of profit attributable to the stage of completion is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in prior years. Provision is made for any losses as soon as they are foreseen.
- **Provision of programme making facilities and services** – recognised on provision of service
- **Licence fees from distribution of joint productions** – recognised on the later of delivery of rights and the start of the licence period
- **Programme distribution and channel income** – recognised on provision of service
- **Sale of promotional merchandise** – recognised on delivery

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial, UK Public Service or BBC World Service activities. More information on these BBC fair trading requirements and policies can be found on pages 68 to 71 of this report.

Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 31 March or at forward rates where related hedging contracts are in place. Surpluses and deficits arising from the translation of assets and

Statement of accounting policies

liabilities at these rates of exchange, together with exchange differences arising from trading, are included in the statement of income and expenditure.

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates for the year. Exchange differences arising on consolidation from the retranslation of the opening net assets of overseas subsidiaries and any related long-term foreign currency borrowings are taken directly to the operating reserve, together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end. Other exchange differences are taken to the statement of income and expenditure.

As these financial statements are prepared in sterling, the BBC's foreign currency transactions and balances must be translated, at appropriate exchange rates, into sterling. This policy states how those re-translations are included in the financial statements and is consistent with the methods used by many companies.

Pension costs

The BBC operates both defined benefit and defined contribution schemes for the benefit of employees.

The amounts charged as expenditure for the defined contribution scheme represent the contributions payable by the BBC for the accounting periods in respect of this scheme.

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final pensionable pay. Amounts are charged to expenditure so as to spread the cost of pensions over employees' working lives with the BBC. The assets of the BBC's main scheme are held separately from those of the Group.

UK Public Service Broadcasting and its subsidiary undertakings have taken advantage of the provisions included within FRS 17, *Retirement benefits*, and account for the scheme as if it were a defined contribution scheme. This is because the pension scheme is managed centrally across the whole Group and it is not possible to allocate the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge under FRS 17 for UK Public Service Broadcasting and its subsidiary undertakings therefore represents the contributions payable in the year.

On retirement, members of the BBC's main pension scheme are paid their pensions from a fund which is kept separate from the BBC Group. The BBC makes cash contributions to that fund in advance of members' retirement.

Research and development

Research and development expenditure is written off as incurred.

Intangible fixed assets

Goodwill

Purchased goodwill (representing the excess of the fair value of the purchase consideration plus any related costs of acquisition over the fair value attributable to the separable net assets acquired), arising on acquisition of a subsidiary or business, is capitalised and amortised over its useful economic life. On the subsequent disposal or termination of a business, the surplus or deficit is calculated after charging the unamortised amount of any related goodwill. As is permitted by FRS 10, *Goodwill and intangible assets*, goodwill arising in periods up to 1 April 1998 remains offset against the operating

reserve. On disposal, goodwill previously written off against reserves is transferred to the statement of income and expenditure for the year.

Intellectual property rights

Purchased intellectual property rights are capitalised and amortised on a straight line basis over the expected useful life of the assets.

Tangible fixed assets

Expenditure on fixed assets is capitalised together with incremental and internal direct labour costs incurred on capital projects.

Depreciation is calculated so as to write off the cost or valuation, less estimated residual value, of fixed assets on a straight line basis over their expected useful lives. Depreciation commences from the date an asset is brought into service.

The BBC's useful lives for depreciation purposes for the principal categories of assets are:

Land and buildings

Freehold land	– not depreciated
Freehold and long-leasehold buildings	– fifty years
Short-leasehold land and buildings	– unexpired lease term

Plant and machinery

Computer equipment	– three to five years
Electrical and mechanical infrastructure	– ten to twenty-five years
Other	– three to ten years
Furniture and fittings	– three to ten years

UK Public Service Broadcasting's plant and machinery is stated at the estimated current replacement cost of the assets, as at 31 March 1993, adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

BBC World Service's plant and machinery and furniture and fittings are stated at the estimated current replacement cost of the assets, as at 1 April 1996, as adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

There is no material difference between the net book value of these tangible fixed assets and their value as determined on a historical cost basis.

The BBC has revalued its assets once, when the internal market was introduced, but has chosen not to revalue its tangible assets on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. Assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

Investment in programmes for future sale

Investment in programmes for future sale is stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation of investment in programmes for future sale is charged to the income and expenditure account over the estimated average marketable life of the programme genre which is generally between two and ten years. The cost and accumulated amortisation of investment in programmes for future sale are reduced by programmes which are fully written off.

The cost of programmes for sale is charged to the income and expenditure account to match the expected timing of income from future sales.

Originated programme stocks and work in progress

Originated programme stocks and work in progress, including those commissioned from independent producers, are stated at the lower of cost and net realisable value. With the exception of the costs of prepaid repeats of independent programmes, the full stock value is written off on first transmission.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads.

Net realisable value is based on arm's length contract prices negotiated between the channel controllers and programme makers.

Acquired programmes and film stocks

The costs of acquired programmes and film stocks are written off on first transmission except to the extent that further showings are likely in the foreseeable future, when they are written off according to their expected transmission profile.

Assets and liabilities relating to acquired programmes are recognised at the point of payment or commencement of the licence period, whichever is earlier. Agreements for the future purchase of programmes whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

Other stocks

Raw materials and other physical stocks are stated at the lower of cost and net realisable value.

Deferred tax

Deferred tax is computed under the liability method. Full provision, without discounting, is made in respect of timing differences between certain items in the financial statements and their treatment for taxation purposes at the balance sheet date except as otherwise required by FRS 19, *Deferred tax*. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is corporation tax which is not payable at a specific time but which is expected to become payable in the future.

Operating leases

Operating lease rentals are written off on a straight line basis over the term of the lease.

An operating lease is a lease in which the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee – the BBC – has not acquired an asset but is hiring it, so the hire charge is included in the BBC's costs.

Finance leases

Assets acquired under finance leases are included within fixed assets at the total of the lease payments due over the life of the lease discounted at the rate of interest inherent in the lease. The same amount is included in creditors. Rental payments are apportioned between the finance element, which is charged against the income and expenditure account, and the capital element which reduces the lease creditor.

A finance lease is a lease that transfers substantially all the risks and rewards of owning and operating an asset to the lessee. Effectively the lessee owns the asset and has financed it by borrowing, so the asset and borrowing are included separately in the balance sheet.

Reserves

The value of the capital reserve is equal to the combined net book value of fixed assets of UK Public Service Broadcasting and BBC World Service at historic cost.

The revaluation reserve reflects the difference between the net book value of fixed assets of UK Public Service Broadcasting and BBC World Service at historic cost compared with their revalued amount.

The operating reserve is the accumulated surplus of the income and expenditure account to date.

The BBC is careful not to mix UK Public Service Broadcasting and BBC World Service reserves. Hence BBC World Service reserves are shown separately in the notes to the financial statements.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise bank deposits not repayable on demand and other short-term investments which include gilts, certificates of deposit and commercial paper.

Financial instruments

The Group does not enter into speculative derivative contracts. Some hedging contracts are undertaken in order to limit the Group's exposure to foreign exchange fluctuations (the accounting treatment for these contracts is explained in the foreign currency translation accounting policy).

Disclosure of the Group's loans and other financial assets and liabilities is provided within Note 23 to the financial statements.

Notes to the financial statements

Note 1 provides analysis of the different business areas within the BBC.

UK Public Service Broadcasting Group (referred to as 'Home Services' within the BBC Charter) comprises the UK public service broadcasting operations and those subsidiary companies incorporated to act solely on behalf of those public service operations.

BBC World Service comprises the Government-funded BBC World Service and media monitoring activities.

Commercial Businesses comprise businesses which generate external income from exploitation of the BBC's programmes, other assets and skill base.

I Analysis of income, (deficit)/surplus and net assets

Ia Analysis of income, (deficit)/surplus and net assets by activity

	Note	UK Public Service Broadcasting Group £m	BBC World Service £m	Commercial Businesses £m	Total £m
2003					
Total income		2,797.3	224.2	1,144.0	4,165.5
Less: Intra-Group income		(116.1)	(0.5)	(437.4)	(554.0)
Less: Share of joint ventures		–	–	(79.5)	(79.5)
Group external income	<i>1b,d,g</i>	2,681.2	223.7	627.1	3,532.0
(Deficit)/surplus before interest and taxation	<i>1e</i>	(331.1)	7.9	41.3	(281.9)
Defined benefit pension scheme					
– additional operating costs*†					(136.5)
– other finance income*					114.3
Net interest receivable					5.1
Deficit before taxation and minority interest					(299.0)
Net assets (excluding pension liability)		771.6	142.8	245.8	1,160.2
Pension liability*					(1,074.5)
Net assets					85.7
2002					
Total income		2,698.2	211.1	1,017.2	3,926.5
Less: Intra-Group income		(130.3)	(0.4)	(331.3)	(462.0)
Less: Share of joint ventures		–	–	(81.6)	(81.6)
Group external income	<i>1b,d,g</i>	2,567.9	210.7	604.3	3,382.9
(Deficit)/surplus before interest and taxation	<i>1e</i>	(30.8)	9.4	20.3	(1.1)
Defined benefit pension scheme					
– additional operating costs*†					(151.5)
– other finance income*					133.9
Net interest receivable*					21.6
Surplus before taxation and minority interest					2.9
Net assets (excluding pension asset and liability)		1,083.7	134.3	237.8	1,455.8
Pension asset (net)*					961.1
Net assets					2,416.9

* As permitted by FRS 17 these items are not split between business classes because they are managed centrally across the whole Group and it is not possible to allocate them on a reasonable and consistent basis

† The actual employer cash contribution to the defined benefit pension scheme is included in the (deficit)/surplus before interest and taxation of each entity. The additional operating cost is the cost to the Group over and above these cash contributions

Ib UK Public Service Broadcasting Group income

The income from licences represents the value of all licences issued in the year.

Other licence fee income and adjustments include the year on year impact of licences issued in the year but not in force at 31 March either through late or early renewals or through refunds.

Other income includes the provision of content and services to overseas broadcasters, concert ticket sales and exploitation of the programme archive.

Licences in force are those which are still valid as at 31 March each year.

Licence fees are set by the Department for Culture, Media and Sport.

	2003 £m	2002 £m
Licence fee income		
Colour	2,271.3	2,164.3
Monochrome	2.8	3.4
Concessionary	0.9	0.8
Over 75s	370.9	350.0
Quarterly payment scheme premium	15.9	16.3
Other licence fee income and adjustments	(3.3)	(1.8)
Total licence fee income	2,658.5	2,533.0
Open University	0.1	7.7
Other income	22.6	27.2
Total external income	2,681.2	2,567.9

During the year 3.2 million (2002 3.3 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2002 £5).

	2003 Number m	2002 Number m
Licences in force		
Colour	20.1	19.9
Monochrome	0.1	0.1
Over 75s	3.7	3.6
Concessionary	0.2	0.2
	24.1	23.8

Households in which one or more persons over the age of 75 reside, as their primary residence, are entitled to a free licence. The BBC is reimbursed for these free licences by the Department for Work and Pensions.

	2003 £	2002 £
Licence fees		
Colour	112.00	109.00
Monochrome	37.50	36.50
Concessionary	5.00	5.00

From 1 April 2003 the colour and monochrome licence fees were increased to £116 and £38.50 respectively. The concessionary licence remained at £5.

Ic Geographical analysis of UK Public Service Broadcasting Group

UK Public Service Broadcasting Group income and deficit arises in the UK. The net assets used by these operations are located in the UK.

Id BBC World Service income

Other income is generated from the sale of programmes, co-production deals, publishing activities and the provision of media monitoring services.

	2003 £m	2002 £m
Grant-in-Aid	201.0	187.9
Subscriptions	16.1	15.6
Other income	6.6	7.2
Total external income	223.7	210.7

Ie BBC World Service surplus before interest and taxation by activity

	2003 £m	2002 £m
Broadcasting	6.5	8.6
BBC Monitoring	1.4	0.8
Total surplus before interest and taxation	7.9	9.4

Notes to the financial statements

If Geographical analysis of BBC World Service

BBC World Service income and surplus arises in the UK.

Location of BBC World Service net assets:	2003 £m	2002 £m
UK	56.1	50.2
Overseas	86.7	84.1
Net assets	142.8	134.3

Ig Analysis of Commercial Businesses' income by activity

	2003 £m	2002 £m
Publishing and new media	338.0	331.7
Programme distribution	168.8	172.3
Channels	79.0	71.8
Provision of play out and channel management services	98.3	–
Provision of programme making facilities and services	157.7	148.9
Provision of technology services	222.1	208.5
beeb Ventures Limited	0.6	2.4
Less intra-Group income	(437.4)	(331.3)
Total external income	627.1	604.3

Play out and channel management services were provided by an internal division of UK Public Service Broadcasting in 2002. On 2 April 2002 provision of these services transferred to BBC Broadcast Limited.

Ih Geographical analysis of Commercial Businesses

	United Kingdom £m	Americas £m	Rest of the world £m	Total £m
2003				
Income by destination	370.0	112.0	145.1	627.1
Surplus/(deficit)before interest and taxation	31.6	(2.5)	12.2	41.3
Net assets	208.1	37.4	0.3	245.8
2002				
Income by destination	348.6	110.5	145.2	604.3
Surplus before interest and taxation	6.9	0.7	12.7	20.3
Net assets	195.4	42.4	–	237.8

All commercial income arises in the UK as this is where rights for exploitation and the skills and services of the Commercial Businesses are developed.

2 Operating expenditure

2a Analysis of operating expenditure by activity

	Note	Total 2003 £m	Total 2002 £m
UK Public Service Broadcasting Group	2b	2,999.4	2,602.1
BBC World Service*	2c	215.8	204.6
Commercial Businesses	2d	586.9	598.1
Non-cash pension scheme operating costs**		136.5	151.5
		3,938.6	3,556.3

* BBC World Service expenditure of £215.8million (2002 £204.6million) excludes £0.5million (2002 £0.4million) of expenditure on the provision of services to other BBC Group companies

** As permitted by FRS 17 the non-cash operating costs are not split between the business activities as it is not possible to do this on a reasonable and consistent basis

This table shows where the customers of BBC Commercial Businesses are based.

This year this note has been expanded to give further detail on programme related spend. The 2002 figures have been re-analysed accordingly.

2b UK Public Service Broadcasting Group expenditure

	Note	2003 £m	2002 £m
Analogue services			
BBC One		858.9	731.0
BBC Two		367.4	311.6
National and regional television		211.1	188.6
National, regional and local radio		130.8	116.1
BBC Radio 1		17.2	16.8
BBC Radio 2		21.6	21.8
BBC Radio 3		30.2	31.0
BBC Radio 4		64.8	62.5
BBC Radio Five Live		53.8	50.3
		1,755.8	1,529.7
Digital services			
CBBC, CBeebies	i	39.9	11.0
BBC Three (previously BBC Choice)	ii	75.5	44.2
BBC News 24		23.8	25.7
BBC Parliament		2.7	2.5
BBC Four	i	41.2	24.5
Digital text and interactive television		9.5	7.3
IXtra	iii	4.0	–
BBC Five Live Sports Extra	iii	1.7	0.7
6 Music	iii	4.0	0.2
BBC 7	iii	2.2	–
BBC Asian Network		3.1	1.8
BBCi on the internet		72.3	66.5
		279.9	184.4
Transmitted programme spend	iv	2,035.7	1,714.1
Programme related spend			
Newsgathering		94.2	94.8
Marketing, press, publicity and events	v	63.5	48.3
On-air trails and navigation		25.5	22.0
Market research		12.7	11.7
Collecting societies		52.0	50.4
Orchestras and performing groups		15.5	14.6
Helplines, one-off events and other programme related spend		79.2	76.1
		342.6	317.9
Total programme spend		2,378.3	2,032.0
Overheads	vi	346.0	347.5
Total output spend		2,724.3	2,379.5
Percentage of output spend on programmes		87%	85%
Licence fee collection costs	vii	146.4	95.4
Transmission costs	viii	141.7	127.2
		288.1	222.6
Total broadcasting expenditure*		3,012.4	2,602.1

* Total broadcasting expenditure includes an exceptional loss on disposal of fixed assets within overheads of £13.0million (see Note 6).

i) Children's channels and BBC Four show an increase in costs reflecting their first full year of transmission. BBC Four costs are greater than those of its predecessor BBC Knowledge due to higher levels of originated programming.

ii) BBC Three was launched in February 2003 to replace BBC Choice. Increased costs were incurred by BBC Three due to launch costs for the new channel and additional commissions prior to launch.

Notes to the financial statements

2b UK Public Service Broadcasting expenditure *continued*

iii) BBC Five Live Sports Extra and 6 Music were both launched at the end of the 2002 financial year, so have incurred their first full year of costs in 2003. 1Xtra was launched in August 2002 and BBC 7 was launched in December 2002.

iv) Total spend on transmissions has risen in line with the BBC's stated objective to increase spend on programming.

v) There has been additional marketing spend in the year to support the launch of BBC Three and the digital radio networks, and to promote digital television services, including Freeview.

vi) Overheads include the central costs of accommodation, technology, finance and human resources.

vii) Licence fee collection costs were unusually low in 2002 due to a number of one-off events such as the rebate from Consignia for non-performance of contractual obligations. Under the new contractor, charges in 2003 have returned to their normal levels (collection costs in 2001 were £131.9million).

viii) Of the transmission costs, £73.2million relate to analogue services and £68.5million to digital services.

BBC World Service expenditure excludes expenditure spent on intra-Group activities.

2c BBC World Service expenditure

	2003 £m	2002 £m
Radio	149.8	142.1
Monitoring	22.4	22.6
Transmission costs	33.2	30.6
Internet activity	10.4	9.3
	215.8	204.6

The expenditure shown for Commercial Businesses relates only to external income and excludes expenditure relating to sales within the BBC.

2d Commercial Businesses' expenditure

	2003 £m	2002 £m
Cost of sales	314.8	323.4
Distribution costs	133.4	147.0
Administrative and other costs	50.3	41.3
Amortisation of programme investment	88.4	86.4
	586.9	598.1

3 Operating deficit

The operating deficit is stated after charging the following items:	2003 £m	2002 £m
Payments under operating leases		
– land and buildings	28.8	26.4
– plant and machinery	6.5	9.6
– other	14.0	18.4
Research and development	17.0	15.2
Programme development	30.6	23.7
Depreciation		
– owned assets	126.5	121.8
– leased assets	10.8	10.9
Loss on disposal of tangible fixed assets	4.5	1.4
Amortisation of investment in programmes for future sale	88.4	86.4
Amortisation of intangible fixed assets	4.5	1.4

3 Operating deficit *continued*

	2003 £m	2002 £m
Auditors' remuneration (KPMG LLP)		
– financial audit – UK Public Service Broadcasting	0.6	0.4
– other	0.5	0.5
– further assurance services	0.6	0.3
– tax advisory services	0.2	0.2
– other non-audit services	0.3	0.2
Fair trading auditors' remuneration (PricewaterhouseCoopers LLP)	0.3	0.3

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2003 Number	2002 Number
UK Public Service Broadcasting	19,206	18,606
BBC World Service	2,057	1,797
Commercial Businesses	5,885	5,165
Group total	27,148	25,568

Within the averages above 2,628 (2002 2,166) part-time employees have been included at their full-time equivalent of 1,324 (2002 1,238).

In addition to the above, the Group employed an average full-time equivalent of 1,117 (2002 1,043) persons on a casual basis and the BBC Orchestra and Singers, employed on programme contracts, numbered 385 (2002 382) full-time equivalents.

On 2 April 2002 the equivalent of 762 full-time employees transferred to BBC Broadcast Limited from UK Public Service Broadcasting. This transfer is not reflected in the average for 2002.

4b Staff costs

	Note	2003 £m	2002 £m
Salaries and wages		988.4	895.1
Social security costs		83.0	77.9
Pension costs			
– main scheme (defined benefit)	8a	169.7	177.2
– other schemes	8c	2.0	2.3
Redundancy costs		22.6	29.6
		1,265.7	1,182.1
Comprising:			
UK Public Service Broadcasting		804.2	758.3
BBC World Service		73.2	65.4
Commercial Businesses		251.8	206.9
Main pension scheme additional operating cost (defined benefit)*		136.5	151.5
		1,265.7	1,182.1

*The actual employer cash contributions to the defined benefit pension scheme are borne by each business. The additional operating cost is the cost to the Group over and above these contributions. It is not possible to allocate this to each business on a reasonable and consistent basis

4c Remuneration of the Board of Governors and Executive Committee

The emoluments of the Governors and of the Executive Committee members are disclosed on pages 76 to 79 in the Governors' remuneration report.

5 (Loss)/profit on sale and termination of operations

	2003 £m	2002 £m
beeb Ventures Limited		
– partial disposal	–	9.0
– termination cost	(1.5)	(1.3)
Wood Norton Hall and Conference Centre	1.1	–
	(0.4)	7.7

On 22 April 2002, BBC Worldwide announced its intention to terminate the beeb.com business and exit the internet shopping sector. Certain beeb.com websites together with beeb.net have been integrated into BBC Worldwide's core operations. Following this decision a review of the carrying value of beeb Ventures Limited's fixed assets at 31 March 2002 took place and gave rise to a write-down of £1.3million being charged to the income and expenditure account in 2002. During the year ended 31 March 2003 redundancy and other closure costs totalling £1.5million have been charged to the income and expenditure account.

On 31 May 2002, the Group sold its Wood Norton Hall and Conference Centre business to a third party for a consideration of £5.1million. The profit on sale was £1.1million after deducting the costs of the disposal.

6 (Loss)/profit on disposal of fixed assets

	2003 £m	2002 £m
(Loss)/profit on disposal of tangible fixed assets	(14.3)	1.0
Profit on disposal of investments	–	3.4
Profit on disposal of intangible assets	–	7.3
	(14.3)	11.7

During 2003 the Group started redevelopment of its Broadcasting House site, which included the demolition of two properties adjacent to Broadcasting House. The net book value of assets taken out of use, totalling £13.0million, has been charged to the income and expenditure account.

BBC Technology disposed of various fixed assets resulting in a loss of £1.3million during the year.

During 2002, the Eurosport Consortium, in which the BBC holds an interest, disposed of its 50% shareholding in SETS (which owns the Eurosport trademark) to TFI, a French broadcasting company, resulting in a net profit on disposal of investments of £3.4million. The Group also disposed of its remaining rights and trademarks to certain non-core brands which gave rise to a net profit of £7.3million.

7 Net interest receivable and other similar items

	2003 £m	2002 £m
Interest receivable	7.5	24.6
Interest payable on bank and other loans	(2.0)	(2.8)
Finance charges payable in respect of finance leases	(0.4)	(0.2)
Net interest receivable	5.1	21.6

8 Pensions

8a Pension charge

The Group operates several pension schemes. The BBC Pension Scheme and a small unfunded pension scheme, which is closed to new members, are contributory defined benefit schemes. Additionally the Group Personal Pension Scheme and other small schemes are defined contribution schemes. The total pension charges for the year were:

	Operating cost 2003 £m	Net finance income 2003 £m	Net cost 2003 £m	Operating cost 2002 £m	Net finance income 2002 £m	Net cost 2002 £m
BBC Pension Scheme (Note 8b) Unfunded defined benefit schemes (Note 8c)	169.7	(114.6)	55.1	177.2	(133.9)	43.3
Defined contribution schemes (Note 8c)	1.8	-	1.8	2.1	-	2.1
Total cost /(credit)	171.7	(114.3)	57.4	179.5	(133.9)	45.6

Under this scheme the employees receive a pension based on their final salary.

The actuarial valuation takes into account future investment returns and provides a longer-term view of the state of the scheme than the 'snap-shot' FRS 17 valuation.

The market valuation provides a 'snap-shot' at the balance sheet date. It is very volatile and can fluctuate widely from day to day.

An estimate of future inflation and salary increases is used to forecast the cost of funding future pensions of pension scheme members.

8b Principal scheme

The BBC Pension Scheme is the main pension scheme of the BBC Group and covers the majority of employees. This scheme provides salary-related pension benefits on a defined benefit basis from assets held in separate, trustee-administered, funds.

Actuarial valuation

The scheme is subject to independent valuation by a professionally qualified actuary at least every three years, on the basis of which the actuary certifies the rate of employer's contributions. These, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The most recent full actuarial valuation of the scheme was prepared at 1 April 2002 by Watson Wyatt, consulting actuaries, using the projected unit method. The actuarial valuation showed a surplus of £441 million (down from £611 million in 1999) and the actuarial value of the assets was sufficient to cover 109% of the benefits due to members after allowing for expected future increases in earnings.

The income to the pension scheme exceeds its cash outgoings each year and long-term performance measures show the scheme to be adequately funded and so employer contributions have remained steady for a number of years. However, in view of the recent short-term volatility of the stock market, it has been agreed with the trustees that employer contributions will rise by 0.5% a year for three years from the current 4.5% of pensionable pay, with the first 0.5% increase taking effect from 1 April 2003. In addition, the employee contributions will rise 0.5% per year from 4.5% to 6% over the three-year period commencing 1 April 2004.

Market valuations

Watson Wyatt produces an interim valuation each year based on market values of the scheme assets and liabilities, as required by FRS 17.

Financial assumptions in scheme valuation

The major assumptions used by the actuary at each valuation were:

	2003	2002	2001
Rate of increase in salaries	4.5%	4.7%	4.5%
Rate of increase in pension payments	2.5%	2.7%	2.5%
Inflation assumption	2.5%	2.7%	2.5%
Discount rate	5.4%	6.0%	6.0%

Notes to the financial statements

This table shows the value of the assets owned by the pension scheme and the rate of growth that the trustees expect over time.

8 Pensions *continued*

The assets in the scheme and the expected rates of return from those assets were:

	Long-term rate of return expected at 31 March 2003	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2002	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2001	Value at 31 March 2001 £m
Equities	8.3%	3,032	7.5%	4,421	7.0%	4,655
Bonds and gilts	4.5%	1,021	5.2%	908	4.7%	939
Property	6.4%	620	6.3%	606	6.0%	606
Cash	4.0%	230	4.7%	284	4.5%	279
Total market value of assets		4,903		6,219		6,479
Present value of scheme liabilities		(5,973)		(5,254)		(4,771)
(Deficit)/surplus in the scheme		(1,070)		965		1,708
Related deferred tax asset/(liability)		-		-		-
Net pension (liability)/asset		(1,070)		965		1,708

A deferred tax asset or liability will not arise for the Group because most of the Group's public service activity is not subject to taxation.

Movement in surplus during the year

	2003 £m	2002 £m
Surplus in scheme at beginning of year	965.0	1,708.0
Movement in year		
– contributions	33.4	25.7
– current service cost	(155.7)	(132.3)
– past service costs	(14.0)	(44.9)
– other finance income	114.6	133.9
– actuarial loss	(2,013.4)	(725.4)
(Deficit)/surplus in scheme at end of year	(1,070.1)	965.0

Analysis of amount charged to operating expenditure

	2003 £m	2002 £m
Current service cost	155.7	132.3
Past service cost	14.0	44.9
Total operating charge	169.7	177.2

The current service cost is the cost to the BBC of pension rights earned by employees in the year.

The amounts here are estimates based on predictions of future performance and economic conditions.

Analysis of amount credited to other finance income

	2003 £m	2002 £m
Expected return on pension scheme assets	424.0	416.4
Interest on pension scheme liabilities	(309.4)	(282.5)
Net return	114.6	133.9

8 Pensions *continued*

The actuarial gains and losses are those resulting from actual performance being different from that predicted – for example from changes in economic conditions or the demographic profile of BBC employees.

This note is designed to show trends over several years. Only three years are currently available since the adoption of FRS 17.

Analysis of amount recognised in statement of total recognised gains and losses

	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	(1,607.9)	(532.0)
Experience gains and (losses) arising on the scheme's liabilities	(12.4)	26.6
Changes in assumptions underlying the present value of the scheme liabilities	(393.1)	(220.0)
Actuarial loss recognised in statement of total recognised gains and losses	(2,013.4)	(725.4)

History of experience gains and losses

	2003	2002	2001
Difference between the expected and actual return on scheme assets:			
Amount (£million)	1,607.9	532.0	950.9
Percentage of scheme assets	32.8%	8.6%	14.7%
Experience gains and (losses) on scheme liabilities:			
Amount (£million)	12.4	(26.6)	(35.7)
Percentage of the present value of the scheme liabilities	0.2%	0.5%	0.7%
Total amount recognised in the statement of total recognised gains and (losses):			
Amount (£million)	(2,013.4)	(725.4)	(708.2)
Percentage of the present value of the scheme liabilities	33.7%	13.8%	14.8%

8c Other schemes

The small unfunded pension scheme is valued using assumptions which are the same as those for the main scheme. At 31 March 2003 the obligation was £4.4million (2002 £3.9million) which is fully provided for in the accounts. The current cost for the year for this scheme was £0.5million (2002 £0.2million) of which £0.2million (2002 £0.2million) was charged to operating costs and £0.3million (2002 £nil) as interest on pension liabilities.

The total charge for the Group personal pension scheme and other defined contribution schemes totalled £1.8million (2002 £2.1million).

8d UK Public Service Broadcasting

UK Public Service Broadcasting has taken advantage of the provisions within FRS 17 and accounts for the scheme as if it were a defined contribution scheme. This is because it is not possible to identify its share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge for UK Public Service Broadcasting therefore represents the contributions payable in the year. These contributions are set based on the funding needs identified from the actuarial valuation and benefit from the actuarial surplus. They are therefore lower than the regular cost.

Notes to the financial statements

9 Taxation

9a Analysis of charges for the period

The charge for the year, based on the rate of corporation tax of 30% (2002 30%) comprised:

	Note	2003 £m	2002 £m
Current tax			
UK corporation tax		17.7	12.7
Deduct: double tax relief		(3.5)	(2.9)
		14.2	9.8
Adjustments in respect of prior years			
		(3.0)	–
		11.2	9.8
Foreign tax		5.4	7.6
Share of associates tax		1.1	0.3
Total current tax	9b	17.7	17.7
Deferred tax			
Origination and reversal of timing differences		–	2.8
Adjustments in respect of previous years		(2.0)	(2.8)
Total deferred tax	9d	(2.0)	–
Total charge for the year		15.7	17.7

9b Factors affecting the tax charge

The Group is only liable to taxation on those activities carried out with a view to making a profit and on rent, royalties and interest receivable. The BBC does not therefore receive relief for all its expenditure, and the tax assessed for the year consequently differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Note	2003 £m	2002 £m
(Deficit)/surplus before tax		(299.0)	2.9
(Deficit)/surplus before tax multiplied by standard rate of corporation tax in the UK of 30% (2002 30%)		(89.7)	0.9
Effects of			
UK Public Service Broadcasting taxable external income		5.7	6.5
Non-taxable loss in UK Public Service Broadcasting		95.4	–
FRS 17 net Group pension charge		6.7	5.2
Commercial activities			
Non-taxable income		(0.4)	(3.9)
Disallowed expenditure		1.6	1.6
Depreciation in excess of capital allowances		–	1.8
Tax losses not Group relieved		–	1.4
Tax differential re overseas earnings		1.8	4.4
Other		(0.4)	(0.2)
Adjustments in respect of previous periods		(3.0)	–
Current tax charge for the year	9a	17.7	17.7

9c Factors that may affect future tax charges

The Group anticipates that the future tax charge will not alter materially since all licence fee income is free of tax.

9d Deferred tax analysis

Movement on deferred tax provision/(asset) in the year	Note	2003 £m	2002 £m
Provision at start of year		–	–
Exchange adjustment		0.5	–
Deferred tax credit	9a	(2.0)	–
Deferred tax asset at end of year		(1.5)	–
Analysis of deferred tax asset /(liability) at end of year*			
Accelerated capital allowances		(4.1)	1.5
Other timing differences		–	0.8
US timing differences		5.6	1.8
		1.5	4.1

* In 2002 the deferred tax asset of £4.1 million was not recognised

10 Intangible fixed assets

Goodwill is the difference between the value paid for a business and the fair value of its net assets. It represents the amount the purchaser is prepared to pay for the name and reputation of the business and its expected future profit schemes.

	Intellectual property rights £m	Goodwill £m	Total £m
Cost			
At 1 April 2002	8.7	8.1	16.8
Additions	4.7	0.1	4.8
At 31 March 2003	13.4	8.2	21.6
Amortisation			
At 1 April 2002	1.1	0.3	1.4
Charge for the year	4.0	0.5	4.5
At 31 March 2003	5.1	0.8	5.9
Net book value			
At 31 March 2003	8.3	7.4	15.7
At 31 March 2002	7.6	7.8	15.4

Goodwill is amortised on a straight line basis over 20 years reflecting the useful economic life, subject to reviews for impairment.

The £4.7million additions within intellectual property rights relate to the acquisition of software licences by BBC Technology. These are amortised on a straight line basis over the life of the licence.

On 28 February 2003 BBC Worldwide acquired 100% of the share capital of Parentwise Limited for a nominal amount. The company had net liabilities of £0.1million and goodwill of £0.1million has arisen on the transaction.

There was no difference between the book value, as recorded in the records of Parentwise Limited prior to the acquisition, and the fair value of the assets acquired.

Notes to the financial statements

11 Tangible fixed assets

11a The Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2002	457.9	876.3	122.4	106.4	1,563.0
Additions	3.8	80.5	8.0	114.8	207.1
Brought into service	9.3	60.9	3.6	(73.8)	–
Disposals	(16.4)	(37.0)	(7.9)	(2.3)	(63.6)
At 31 March 2003	454.6	980.7	126.1	145.1	1,706.5
Depreciation					
At 1 April 2002	199.0	540.1	63.1	–	802.2
Charge for the year	15.5	109.8	12.0	–	137.3
Elimination in respect of disposals	(6.0)	(25.2)	(4.7)	–	(35.9)
At 31 March 2003	208.5	624.7	70.4	–	903.6
Net book value					
At 31 March 2003	246.1	356.0	55.7	145.1	802.9
At 31 March 2002	258.9	336.2	59.3	106.4	760.8

Included within plant and machinery are £16.4million (2002 £19.6million) of assets held under finance leases.

One of the BBC's joint venture partners, Crown Castle UK Limited, has a charge of £3.0million over the assets of BBC Technology Group.

Included within fixed assets is £24million at cost relating to a relay station in Thailand used by BBC World Service. These assets are transferable to the Royal Thai Government in return for the payment of a nominal sum. BBC World Service will retain the rights to repurchase the assets, should the operation cease, for a similar nominal sum. The use of these assets is not affected by this transaction and therefore they will continue to be carried at cost less attributable depreciation in the balance sheet.

11b UK Public Service Broadcasting

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2002	400.0	429.4	93.3	55.1	977.8
Additions	2.6	39.2	6.9	83.9	132.6
Brought into service	3.9	25.2	3.0	(32.1)	–
Transfers (to)/from subsidiaries	–	(30.4)	–	0.6	(29.8)
Disposals	(16.2)	(14.8)	(6.2)	(1.6)	(38.8)
At 31 March 2003	390.3	448.6	97.0	105.9	1,041.8
Depreciation					
At 1 April 2002	168.2	247.5	41.3	–	457.0
Charge for the year	12.7	43.2	9.4	–	65.3
Transfers to subsidiaries	(0.2)	(16.2)	–	–	(16.4)
Elimination in respect of disposals	(6.0)	(9.1)	(3.2)	–	(18.3)
At 31 March 2003	174.7	265.4	47.5	–	487.6
Net book value					
At 31 March 2003	215.6	183.2	49.5	105.9	554.2
At 31 March 2002	231.8	181.9	52.0	55.1	520.8

11b UK Public Service Broadcasting *continued*

Included within plant and machinery are £6.7million (2002 £19.8million) of assets held under finance leases with another Group company.

The increase in assets under construction relates to the property investment programme currently under way (see Financial review pages 82 to 84).

11c Land and buildings at net book value comprise:

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Freeholds	208.9	226.0	193.4	210.1
Long leaseholds	9.9	9.9	9.9	9.9
Short leaseholds	27.3	23.0	12.3	11.8
	246.1	258.9	215.6	231.8

There has been no impairment in the carrying values of freehold properties at the balance sheet date.

Land and buildings in the Group include freehold land at a cost of £35.0million (2002 £34.8million) and in the UK Public Service Broadcasting operations of £30.8million (2002 £30.6million), none of which is depreciated.

12 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2002	323.8
Exchange adjustment	(12.7)
Additions	86.7
Financing benefit	(0.4)
Elimination of programmes fully amortised	(76.0)
At 31 March 2003	321.4
Amortisation	
At 1 April 2002	212.0
Exchange adjustment	(11.3)
Charge for the year	88.4
Elimination of programmes fully amortised	(76.0)
At 31 March 2003	213.1
Net book value	
At 31 March 2003	108.3
At 31 March 2002	111.8

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £82.7million direct investment in BBC programmes (2002 £80.5million).

Included in the net book value is £4.5million (2002 £4.2million) relating to investments held under a licence agreement. The financing benefit relates to monies received for tax credits on investments in sale and leaseback programmes.

13 Other investments (including BBC World Service net assets)

13a Movements in the year for the Group

	Interests in joint ventures (Note 13d) £m	Interests in associates (Note 13e) £m	Other investments £m	Total Group £m
At 1 April 2002	11.5	4.9	0.4	16.8
Additions	1.2	–	–	1.2
Disposals	–	(0.2)	–	(0.2)
Exchange adjustment	–	0.2	–	0.2
Provision against investments	–	(0.4)	(0.4)	(0.8)
Share of retained profits/(losses)	5.2	(24.8)	–	(19.6)
Dividend received	–	(1.3)	–	(1.3)
Adjustment to reflect effective obligations	(4.8)	26.3	–	21.5
At 31 March 2003	13.1	4.7	–	17.8

13b Movements in the year for UK Public Service Broadcasting

	Interest in BBC World Service net assets £m	Shares in subsidiaries £m	Interests in joint ventures £m	Other investments £m	Total £m
At 1 April 2002	134.3	155.3	9.2	0.4	299.2
Accumulated surplus	8.5	–	–	–	8.5
Additions	–	83.3	1.0	–	84.3
Disposals	–	(73.3)	–	(0.4)	(73.7)
At 31 March 2003	142.8	165.3	10.2	–	318.3

Additions to shares in subsidiaries include 10,000,000 ordinary shares issued at £1 each on 2 April 2002 to enable BBC Broadcast to finance the acquisition of the business from the BBC.

Disposals in shares in subsidiaries relates to the transfer of investments in BBC Technology of £63.0million, BBC Broadcast of £10.0million, and BBC Worldwide of £0.3million to the BBC Commercial Holdings Group. In consideration BBC Commercial Holdings issued 73,250,000 ordinary shares at £1 each which were fully subscribed for by UK Public Service Broadcasting.

Subsidiary undertakings are businesses the BBC controls.

13c Subsidiary undertakings

UK Public Service Broadcasting operation owns 100% of the issued share capital of the following companies which are incorporated in Great Britain:

BBC Commercial Holdings Limited
BBC Resources Limited
BBC Free To View Limited
BBC News Limited
BBC Property Limited
BBC Property Investments Limited
BBC Property Development Limited (dormant)
Centre House Productions Limited
BBC Digital Programme Services Limited
BBC Subscription Television Limited (dormant)
BBC Investments Limited (dormant)

13c Subsidiary undertakings *continued*

The Group also holds the controlling interest in the following principal subsidiary undertakings which are held by BBC World Service which owns 100% of the issued share capital:

Held by BBC World Service:

BBC East Asia Relay Company Limited (incorporated in Hong Kong)
BBC Radiocom (Bulgaria) EOOD (incorporated in Bulgaria)
BBC Radiocom (Hungary) KFT (incorporated in Hungary)
BBC Radiocom (Praha) s.r.o. (incorporated in the Czech Republic)
BBC Radiocom (Slovakia) s.r.o. (incorporated in the Slovak Republic)
BBC Romania SRL (incorporated in Romania)
BBC Polska Sp. z.o.o. (incorporated in Poland)
BBC do Brazil Limitada (incorporated in Brazil)
BBC Radiocom Deutschland GmbH (incorporated in Germany)
BBC Croatia d.o.o. (incorporated in Croatia)
BBC World Service Trust*

*The BBC World Service Trust is a charitable company limited by guarantee, of which the BBC is the sole member

The Group also holds the controlling interest in the following subsidiaries, which unless otherwise stated are incorporated in Great Britain:

	Holding of ordinary shares %
<hr/>	
Held by BBC Commercial Holdings Limited:	
BBC Worldwide Limited	100
BBC World Limited	100
BBC Ventures Group Limited	100
Held by BBC Ventures Group Limited:	
BBC Technology Holdings Limited	100
BBC Broadcast Limited	100
Held by BBC Technology Holdings Limited:	
BBC Technology Limited	100
BBC Technology Services Limited	100
BBC Technology Supply Limited	100
Kingswood Warren Ventures Limited (renamed BBC Vecta Limited in May 2003)	100
BBC Technology Holdings LLC (incorporated in the USA)	100
BBC Technology Consultancy LLC (incorporated in the USA)	100
Held by BBC Worldwide Limited:	
Publishing	
BBC Magazines Inc. (incorporated in the USA)	100
Galleon Limited	100
Broadcasting Dataservices Limited	75
Cover to Cover Cassettes Limited	100
BBC Audiobooks Limited (formerly Chivers Press Limited)	100
Programme distribution	
BBC Worldwide Americas Inc. (incorporated in the USA)	100
BBC Worldwide Music Limited	100
UK Programme Distribution Limited	95
BBC Worldwide Japan KK Limited (incorporated in Japan)	100
BBC Worldwide France SARL (incorporated in France)	100
BBC Worldwide Germany GmbH (incorporated in Germany)	100
BBC Worldwide Canada Limited (incorporated in Canada)	100
Channels	
New Video Channel America LLC (incorporated in the USA)	100
European Channel Broadcasting Limited	100
European Channel Management Limited	100

Notes to the financial statements

13c Subsidiary undertakings *continued*

	Holding of ordinary shares %
Investment companies	
Worldwide Americas Investments Inc. (incorporated in the USA)	100
BBC Worldwide Investments Limited	100
BBC World Service Television Limited	100
Worldwide Channel Investments Limited	100
Worldwide Channel Investments (Europe) Limited	100
Worldwide Channel Investments (Ontario) Limited (incorporated in Canada)	100
Internet	
beeb Ventures Limited	86.9
Held by BBC World Limited:	
BBC World Distribution Limited	100
Satellite News Corporation Limited (incorporated in Japan and renamed BBC World Distribution Japan Limited in April 2003)	100
BBC World (Singapore) Private Limited (incorporated in Singapore)	100
BBC World (Australia) Pty Limited (incorporated in Australia)	100
BBC Worldwide (India) Private Limited (incorporated in India)*	75

* BBC Worldwide Limited holds the remaining 25% interest in the ordinary shares of this company

Joint ventures are businesses the BBC jointly controls with other parties.

13d Interests in joint ventures

The Group has a 50% equity interest in the following joint ventures which are all incorporated in the UK, unless otherwise stated:

Name of entity	Activity	Partner	Accounting date
UK Channel Management Limited	Channels	Flextech	31 December 2002
UK Gold Holdings Limited	Channels	Flextech	31 December 2002
UKTV New Ventures Limited	Channels	Flextech	31 December 2002
UKTV Interactive Limited	Channels	Flextech	31 December 2002
JV Programmes LLC†	Channels	Discovery Communications Inc.	31 December 2002
BBC Haymarket Exhibitions Limited	Publishing	Haymarket Exhibitions Limited	31 December 2002
Insight Property Partnership	Property	Land Securities Trillium Limited	31 March 2003
DTV Services Limited*	Marketing	Crown Castle UK Limited, British Sky Broadcasting Limited	Six months to 31 March 2003

† Incorporated in the USA

* 33% equity interest

During the year the BBC entered into a new joint venture, DTV Services Limited, to provide marketing services for digital channels on a terrestrial platform in the UK. The BBC set up a subsidiary, BBC Free to View Limited (see Note 13c), to hold the BBC's digital terrestrial multiplex licence and its equity interest in the joint venture to ensure the costs of this joint venture are managed separately from licence fee funded activities.

For a number of years the BBC, through its subsidiary BBC Worldwide, has had major partnership deals with Flextech, the content division of Telewest Communications plc, for the production and marketing of subscription channels in the UK and with Discovery Communications Inc. for incorporating new channels around the world and providing new co-production funding for programmes. These alliances operate the joint ventures listed above.

The Group share of turnover for the Haymarket joint venture was £4.2million (2002 £6.4million) and its operating surplus share was £0.7million (2002 £0.3 million).

The joint venture with Land Securities Trillium Limited provides a range of property and development services to the BBC. Related joint ventures and associate companies have been set up to develop particular BBC properties.

The following disclosures represent the Group's equity shares of the assets and liabilities of its joint ventures based on the results for the latest accounting periods as shown above.

13d Interests in joint ventures *continued*

BBC Group share of:	UK Gold Holdings Limited* £m	UK Channel Management Limited* £m	Other joint ventures* £m	Total joint ventures £m
2003				
Turnover	31.7	28.6	19.7	80.0
Profit/(loss) before tax	9.5	0.3	(1.0)	8.8
Taxation	(2.7)	–	(0.9)	(3.6)
Profit/(loss) after tax	6.8	0.3	(1.9)	5.2
Fixed assets	–	–	2.3	2.3
Goodwill	–	–	10.2	10.2
Current assets	14.3	27.6	19.4	61.3
Liabilities less than one year	(10.3)	(3.5)	(13.0)	(26.8)
Liabilities more than one year	(38.5)	(46.8)	(11.5)	(96.8)
Adjustment to reflect effective obligations	34.5	22.7	5.7	62.9
Net book value	–	–	13.1	13.1
2002				
Turnover	34.8	28.4	18.4	81.6
Profit/(loss) before tax	13.2	(3.0)	(1.9)	8.3
Taxation	(3.4)	–	(0.2)	(3.6)
Profit/(loss) after tax	9.8	(3.0)	(2.1)	4.7
Fixed assets	–	0.1	2.2	2.3
Goodwill	–	–	9.2	9.2
Current assets	14.2	14.0	19.6	47.8
Liabilities less than one year	(9.4)	(7.1)	(11.6)	(28.1)
Liabilities more than one year	(46.0)	(44.6)	(11.6)	(102.2)
Adjustment to reflect effective obligations	41.2	37.6	3.7	82.5
Net book value	–	–	11.5	11.5

*The figures for 2003 are based on unaudited financial statements (2002 unaudited)

Under the terms of the agreement with Flextech and Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2003 (2002 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation.

Notes to the financial statements

Associates are businesses over which the BBC exerts significant influence but does not have overall control.

13e Interests in associates

The Group holds significant interests in the following principal associates which, except where otherwise stated, are incorporated in Great Britain:

	Holding of issued ordinary shares %
Held by UK Public Service Broadcasting:	
Parliamentary Broadcasting Unit Limited	33
Broadcasters Audience Research Board Limited	*
The Commonwealth Broadcasting Association	*
Radio Joint Audience Research Limited (RAJAR)	50
Held by BBC World Service:	
Caribbean Relay Company Limited (incorporated in Antigua)	45
Multimedia Ventures Limited	50
WRG-FM SA (incorporated in Switzerland)	40
Held by BBC Worldwide Limited:	
Publishing	
Frontline Limited	23
Channels	
UKTV Pty Limited (incorporated in Australia)	20
Animal Planet (Latin America) LLC (incorporated in the USA)†	50
People and Arts (Latin America) LLC (incorporated in the USA)†	50
Animal Planet LLC (incorporated in the USA)†	20
JV Network LLC (incorporated in the USA)†	50
Animal Planet (Asia) LLC (incorporated in the USA)†	50
The Animal Planet Europe Partnership†	50
Animal Planet Japan KK (incorporated in Japan)†	33
Animal Planet Japan LLP (incorporated in the USA)†	50
Jasper Broadcasting Inc. (incorporated in Canada)	20
Jasper Junior Broadcasting Inc. (incorporated in Canada)	20
Animal Planet Canada Company ULC (incorporated in Canada)†	23
Held by BBC Resources Limited:	
3sixtymedia Limited	10
Held by BBC Property Limited:	
White City Development Partnership	**

* Broadcasters Audience Research Board Limited and The Commonwealth Broadcasting Association are companies limited by guarantee, of which the BBC is a joint member with other broadcasters

† Discovery associate

** 50% partnership share

13e Interests in associates *continued*

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2002 and the remaining associates' disclosures are based on the results at the date of their individual financial statements. These additional disclosures represent the Group's equity share of assets and liabilities of those entities.

BBC Group interests in associates	2003 £m	2002 £m
Share of turnover	37.5	39.1
Share of fixed assets	51.0	61.4
Share of current assets	14.7	23.9
Share of liabilities due within one year	(16.4)	(22.3)
Share of liabilities due after more than one year	(114.5)	(104.9)
Adjustment to reflect effective obligation	69.9	46.8
Net interests in associates	4.7	4.9

The results include the Group share of the operating profit of UKTV Pty Limited of £0.2million (2002 £0.1million) and Frontline Limited of £2.0million (2002 £1.0million). Both are accounted for separately from the Discovery associates. The Group's share of the remaining associates, including Jasper Broadcasting Inc. and Jasper Junior Broadcasting Inc., operated in partnership with Alliance Atlantis, was £nil (2002 £nil).

Under the terms of the agreements with Discovery and Alliance Atlantis, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2003 (2002 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation, with the exception of JV Network LLC. JV Network LLC was formed for the purpose of providing debt funding from Discovery to the other Discovery joint ventures and BBC Worldwide is not entitled to any profits arising within this entity.

14 Stocks

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Raw materials	4.2	2.4	–	–
Work in progress				
– originated programmes	245.2	254.5	245.1	254.5
– other	7.3	6.6	–	0.1
Finished programmes				
– acquired programmes and films	97.2	89.0	97.2	89.0
– originated programmes	94.9	80.7	94.9	80.7
Other	20.1	16.2	0.5	1.0
Total	468.9	449.4	437.7	425.3

Notes to the financial statements

15 Debtors

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Receivable within one year				
Trade debtors	142.6	146.4	21.9	27.5
Department for Culture, Media and Sport – licence fee debtors	254.3	255.5	254.3	255.5
Amounts owed by subsidiaries	–	–	56.0	58.1
Amounts owed by associates and joint ventures	4.9	9.2	–	–
VAT recoverable	38.0	39.6	34.1	30.7
Other debtors	22.7	36.4	5.6	14.2
Corporation tax	–	0.6	–	0.7
Prepayments	143.0	175.9	115.4	156.1
	605.5	663.6	487.3	542.8
Receivable after more than one year				
Trade debtors	–	0.2	–	0.2
Other debtors	6.9	–	–	–
Prepayments	151.7	137.0	131.8	113.6
	158.6	137.2	131.8	113.8
Total	764.1	800.8	619.1	656.6

The prepayments receivable after more than one year include an amount in respect of the White City building which is leased from the partnership between the BBC and Land Securities Trillium. This is being released over the term of the lease.

16 Creditors

16a Prompt payment policy

It is the BBC's policy to comply with the CBI prompt payment code in relation to the payment of suppliers, provided that the supplier is complying with the relevant terms and conditions of their contracts. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The BBC Group's number of creditor days outstanding in respect of other trade creditors at 31 March 2003 was 44 days (2002 52 days).

16b Amounts falling due within one year

	Note	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Bank overdrafts and other loans	23				
Bank overdrafts		70.7	–	70.7	60.9
Bank and other loans		0.9	–	–	–
Unsecured loan notes		1.7	1.9	–	–
		73.3	1.9	70.7	60.9
Payments received on account		–	2.2	–	–
Trade creditors					
Programme creditors		76.2	75.9	72.6	75.5
Programme acquisitions		35.4	44.0	35.0	44.0
Salaries and wages		48.6	29.0	27.2	18.2
Residual copyright payments		41.8	56.5	–	–
Other trade creditors		164.5	178.9	104.5	121.7
		366.5	384.3	239.3	259.4
Other creditors					
Corporation tax		3.1	–	1.3	–
Other taxation and social security		32.6	41.0	25.8	24.6
Amounts owed to subsidiaries		–	–	69.2	57.9
Amounts owed to associates and joint ventures		0.7	1.7	–	–
Obligations under finance leases		8.8	7.2	–	–
Amounts owed to subsidiaries in respect of finance leases		–	–	1.9	10.1
		45.2	49.9	98.2	92.6
Accruals and deferred income					
Accruals and deferred income		327.4	302.4	266.6	224.5
Licence savings stamps deposits and direct debit instalments		108.1	130.5	108.1	130.5
		435.5	432.9	374.7	355.0
Total		920.5	871.2	782.9	767.9

16c Amounts falling due after more than one year

	Note	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Bank and other loans	23	87.2	29.4	–	–
Trade creditors					
Programme acquisitions		33.1	36.4	33.1	36.4
Other trade creditors		–	2.9	–	–
		33.1	39.3	33.1	36.4
Other creditors					
Obligations under finance leases	23	39.1	33.8	–	–
Amounts owed to subsidiaries		–	–	18.3	–
Amounts owed to subsidiaries in respect of finance leases	23	–	–	4.8	9.7
		39.1	33.8	23.1	9.7
Total		159.4	102.5	56.2	46.1

Notes to the financial statements

17 Provisions for liabilities and charges

Group	At 1 April 2002 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2003 £m
Licence fee	24.9	(20.9)	(1.5)	19.8	22.3
Restructuring	14.1	(8.3)	(3.9)	5.2	7.1
Litigation and insurance	14.6	(2.9)	(2.5)	5.6	14.8
Property	10.5	–	–	2.4	12.9
Other	18.5	(9.6)	(16.4)	22.4	14.9
Total	82.6	(41.7)	(24.3)	55.4	72.0

Property provisions include BBC World Service's liability of £3.6million (2002 £3.6million) to restore Bush House to its original condition, together with amounts relating to other dilapidations and relocations.

Other provisions consist of a number of balances arising across the BBC in the normal course of business.

UK Public Service Broadcasting	At 1 April 2002 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2003 £m
Licence fee	24.9	(20.9)	(1.5)	19.8	22.3
Restructuring	11.9	(7.3)	(2.7)	4.0	5.9
Litigation and insurance	14.6	(2.9)	(2.5)	5.6	14.8
Property	6.9	–	–	2.4	9.3
Other	16.3	(9.6)	(12.5)	17.8	12.0
Total	74.6	(40.7)	(19.2)	49.6	64.3

18 Reserves

Group	Operating reserve excluding pension reserve £m	Pension reserve £m	Total operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2002	646.2	961.1	1,607.3	802.6	6.4	2,416.3
Exchange adjustments	(3.1)	–	(3.1)	–	–	(3.1)
Deficit for financial year	(314.6)	–	(314.6)	–	–	(314.6)
Actuarial loss on defined benefit pension schemes	–	(2,013.4)	(2,013.4)	–	–	(2,013.4)
Revaluation reserve transfer	0.8	–	0.8	–	(0.8)	–
Pension reserve transfer	22.2	(22.2)	–	–	–	–
Capital reserve transfer	(55.5)	–	(55.5)	55.5	–	–
At 31 March 2003	296.0	(1,074.5)	(778.5)	858.1	5.6	85.2
Represented by:						
General Group reserves	287.2	(1,074.5)	(787.3)	729.7	–	(57.6)
BBC World Service reserves	8.8	–	8.8	128.4	5.6	142.8
	296.0	(1,074.5)	(778.5)	858.1	5.6	85.2

The UK Public Service Broadcasting operations and BBC World Service are funded from different sources.

As such, the reserves relating to BBC World Service are maintained separately from the rest of the Group and are restricted for use solely on BBC World Service activities.

Under the accounting standard FRS 10, *Goodwill and intangible assets*, any newly arising goodwill must be capitalised and amortised over its useful life. As is permitted by the standard, goodwill arising in periods prior to 1999 of £6.8million (2002 £6.8million) remains offset against the operating reserve.

18 Reserves *continued*

	Operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
UK Public Service Broadcasting				
At 1 April 2002	561.1	802.6	6.4	1,370.1
Deficit for financial year	(303.4)	–	–	(303.4)
Revaluation reserve transfer	0.8	–	(0.8)	–
Capital reserve transfer	(55.5)	55.5	–	–
At 31 March 2003	203.0	858.1	5.6	1,066.7
Represented by:				
UK Public Service Broadcasting reserves	194.2	729.7	–	923.9
BBC World Service reserves	8.8	128.4	5.6	142.8
	203.0	858.1	5.6	1,066.7

19 Reconciliation of Group operating deficit to net cash (outflow)/inflow from operating activities

	2003 £m	2002 £m
Group operating deficit	(406.6)	(173.4)
Depreciation and amortisation	230.2	220.5
Pension schemes operating costs (non-cash)	136.5	151.5
Loss on disposal of tangible fixed assets	4.5	1.4
Increase in stocks	(19.5)	(51.8)
Decrease/(increase) in debtors	37.3	(43.3)
(Decrease)/increase in creditors	(36.0)	83.2
(Decrease)/increase in provisions	(14.7)	29.4
Net cash (outflow)/inflow from operating activities	(68.3)	217.5

20 Analysis of changes in net funds/(debt)

	At 1 April 2002 £m	Cash flows £m	Non-cash movements £m	At 31 March 2003 £m
Net cash				
Bank overdrafts	–	(70.7)	–	(70.7)
Cash at bank and in hand	0.3	69.2	–	69.5
	0.3	(1.5)	–	(1.2)
Liquid resources				
Short-term investments	356.8	(291.9)	–	64.9
Gross funds	357.1	(293.4)	–	63.7
Debt:				
Loans from third parties	(29.4)	(59.1)	0.4	(88.1)
Unsecured loan notes	(1.9)	0.5	(0.3)	(1.7)
Finance leases	(41.0)	21.4	(28.3)	(47.9)
Net funds/(debt)	284.8	(330.6)	(28.2)	(74.0)

The repayments on finance leases held by Centre House Productions Limited are offset directly by income earned on matching deposits, such that there is no cash flow effect.

Notes to the financial statements

21 Reconciliation of net cash flow to movement in net funds

	2003 £m	2002 £m
Decrease in cash in year	(1.5)	(95.6)
Net cash (inflow)/outflow from management of liquid resources	(291.9)	88.4
Net cash inflow from increase in loans and finance leases	(37.2)	(10.3)
Change in net funds resulting from cash flows	(330.6)	(17.5)
Non-cash movement on loans	0.1	(1.9)
Increase in finance leases	(28.3)	(30.5)
Change in net funds	(358.8)	(49.9)
Net funds at the beginning of the year	284.8	334.7
Net (debt)/funds at the end of the year	(74.0)	284.8

22 Borrowing limits

When the Department for Culture, Media and Sport granted a new £350million borrowing limit for BBC Commercial Holdings Limited in July 2002, three financial covenants were defined which are required to be met as at 31 March each year. As at 31 March 2003 BBC Commercial Holdings Group was in compliance with each of these covenants.

Of the £350million commercial limit, only £210million is currently available to the commercial operations until BBC Resources Limited is transferred into the group headed by BBC Commercial Holdings Limited. This is required to take place before 30 September 2003.

The Public Services borrowing limit is set within the BBC Charter:

	2003 £m	2002 £m
Public Services		
Gross borrowing limit	200.0	200.0
Borrowings		
Bank overdrafts	70.7	60.9
Finance leases*	6.7	19.8
	77.4	80.7
Licence savings stamps deposits and direct debit instalments to extent not covered by cash and liquid resources**		
Licence savings stamps deposits and direct debit instalments	108.1	130.5
Less: short-term investments	(32.9)	(356.8)
Less: cash at bank and in hand	(20.4)	(11.4)
Amount not covered by cash and liquid resources	54.8	–
Gross borrowing	132.2	80.7

* Includes finance leases with commercial subsidiaries but excludes Centre House Productions finance leases

** The BBC must be able to repay these on demand and so to the extent that it does not hold cash reserves that match the liability, the balance is set against the borrowing limit

The Commercial Businesses' borrowing limit was set during 2003 by the Department for Culture, Media and Sport.

	2003 £m	2002 £m
Commercial Businesses		
Net borrowing limit	350.0	n/a
Loans from third parties	88.1	
Unsecured loan notes	1.7	
Finance leases	15.9	
Gross borrowing	105.7	
Less: Gross funds	(74.3)	
Net borrowing	31.4	

23 Financial instruments

23a Treasury management and financial instruments

The Group's treasury operations are managed by a group treasury function within parameters defined formally within the policies and procedures manual agreed by the Executive Committee. Group Treasury's activity is routinely reported to the Executive Committee and Board of Governors and is subject to review by internal and external auditors.

Group Treasury uses financial instruments to raise finance and to manage financial risk arising from its operations in accordance with its objectives which are:

- to ensure the business of the BBC, both Public Services and Commercial, is fully funded in the most efficient manner and remains compliant with borrowing limits
- to maximise the return on surplus funds, whilst ensuring sufficient cash is retained to meet foreseeable liquidity requirements
- to protect the value of the BBC's assets, liabilities and cash flows from the effects of adverse interest rates and foreign exchange fluctuations

The Group's financial instruments, other than those used for treasury risk management purposes, comprise cash and liquid resources, borrowings and various items such as trade debtors and creditors that arise directly from its operations. The Group finances its operations from these financial instruments. The main risks to be managed in this are ensuring that the Group has sufficient liquid funds to meet its obligations as they fall due and that it is compliant with its borrowing limits imposed by the Charter, by the Department for Culture, Media and Sport and by external loan covenants.

The Group also enters into limited foreign exchange and interest rate hedging transactions to manage its currency risk and interest rate risk. The Group is principally a domestic organisation with the majority of transactions and assets being in the UK and sterling based. However, the Group undertakes some transactions in currencies other than sterling and enters into forward currency contracts to manage this currency risk. Since March 2003 the Group has also entered into interest rate swaps to manage the interest rate risk now that it has a more significant level of loans.

The Group does not undertake speculative treasury transactions.

23b Cash and borrowing facilities

The Group invests short-term surplus cash in fixed rate investment products. Funds are invested only in organisations which have a minimum long-term rating of AA.

As at 31 March 2003 UK Public Service Broadcasting had available overdraft facilities of £13.2million and access to uncommitted bilateral money market lines totalling £45million. Interest is payable on the overdraft facility at a margin of 1% and on the money market facilities at between 0.125% and 0.5%.

BBC Commercial Holdings' loans comprise a £350million multicurrency revolving credit facility agreement repayable in full in March 2008. At 31 March 2003 £85million was drawn down. Interest is payable at LIBOR plus 0.375%, rising to LIBOR plus 0.45% once the facility is more than 50% utilised. Of the total amount £100million is available in the form of letters of credit to be issued in favour of the European Investment Bank to support its lending under the facilities detailed immediately below.

The European Investment Bank has made two loan facilities available to BBC Commercial Holdings. The first, for an amount of £66million, is available for drawing until March 2005 and must either be repaid in full as a single repayment by March 2013 or on an amortising basis by March 2015. The second, for £25million, is available for drawing until November 2003 and is repayable in one single instalment by November 2007. The interest rate applicable on both facilities is determined with reference to the European Investment Bank's own funding cost and carries no margin above this funding rate. At 31 March 2003 nothing was drawn down under either of these facilities.

Other loans include a US\$5million loan from Discovery (2002 US\$5million) which is repayable in the following stages: US\$1.5million due 31 March 2004; US\$3.5million due 31 March 2005. Interest is payable at LIBOR plus 1%.

In June 2003 a new £100million loan facility was put in place for UK Public Service Broadcasting which is available as either a revolving LIBOR-based loan or overdraft to May 2004 plus an option to extend the facility to May 2005. The facility bears interest at a margin of 0.2% and the overdraft facility bears interest at bank base rates plus 1%.

Notes to the financial statements

23b Cash and borrowing facilities *continued*

After the year end BBC Resources entered into a £50million revolving credit facility agreement which is repayable in full in September 2004. Interest is payable at LIBOR plus 0.375%.

23c Maturity of financial liabilities

The Group arranges its borrowings to meet forecast cash flows such that UK Public Service Broadcasting has access to sufficient funds to meet its commitments. Short-term flexibility is achieved by overdraft facilities.

The maturity profile of the Group's financial liabilities, other than short-term creditors, at 31 March was:

	Overdraft £m	Bank loans £m	Unsecured loan notes £m	Finance leases £m	Trade creditors £m	Total 2003 £m
2003						
Within one year	70.7	0.9	1.7	8.8	–	82.1
Between one and two years	–	2.2	–	5.0	18.2	25.4
Between two and five years	–	85.0	–	2.0	14.9	101.9
Greater than five years	–	–	–	32.1	–	32.1
	70.7	88.1	1.7	47.9	33.1	241.5
2002						
Within one year	–	–	1.9	7.2	–	9.1
Between one and two years	–	1.9	–	10.7	39.3	51.9
Between two and five years	–	27.5	–	2.3	–	29.8
Greater than five years	–	–	–	20.8	–	20.8
	–	29.4	1.9	41.0	39.3	111.6

Obligations under finance leases are in respect of computer hardware £15.9million (2002 £19.6million) and leases entered into by Centre House Productions Limited £32.0million (2002 £21.4million).

Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. Consequently they are netted off the finance lease creditor to show the net unmatched liability at the year end. These defeasance deposits, £275.3million at 31 March 2003 (2002 £227.4million), are structured such that the principal on deposit and the interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. Accordingly it is not included as borrowing for the purposes of compliance with the BBC's borrowing limits.

The maturity profile of UK Public Service Broadcasting's financial liabilities, other than short-term creditors, at 31 March was:

	Overdraft £m	Finance leases £m	Trade creditors £m	Intercompany creditors £m	Total 2003 £m
2003					
Within one year	70.7	1.9	–	–	72.6
Between one and two years	–	–	33.1	1.6	34.7
Between two and five years	–	4.8	–	6.8	11.6
Greater than five years	–	–	–	9.9	9.9
	70.7	6.7	33.1	18.3	128.8
2002					
Within one year	60.9	10.1	–	–	71.0
Between one and two years	–	9.7	36.4	–	46.1
	60.9	19.8	36.4	–	117.1

Obligations under finance leases are in respect of computer hardware.

23d Interest rates

The Group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the Group has borrowed at both fixed and floating rates of interest and then it has used interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

The Group's financial assets, excluding short-term debtors, amount to £140.4million at 31 March 2003 of which £134.4million are subject to floating rate interest and the remaining £6.0million of other debtors attract no interest.

After taking account of the various interest rate swaps and forward foreign currency contracts entered into by the Group, the interest rate profile of the Group's financial liabilities at 31 March 2003 was:

	Total £m	Financial liabilities on which no interest is paid £m	Floating rate financial liabilities £m	Fixed rate liabilities		
				Amount £m	Weighted average interest rate %	Weighted average period until maturity Years
2003						
Sterling	238.4	65.2	87.4	85.8	3.8%	4.5 years
US dollar	3.1	—	—	3.1	4.1%	1.4 years
Total	241.5	65.2	87.4	88.9		

Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions. In addition to the £70million of swaps included in the fixed rate liabilities of £85.8million shown above, which were effective at the year end, an additional £116million of forward starting swaps had been transacted to cover projected borrowings. These additional swaps were transacted at an average rate of 4.63% maturing in March 2008.

23e Currency exposure

The majority of the Group's operations are UK-based. The Group has one significant overseas operation, BBC Worldwide America, which operates in the USA and whose revenues and expenses are denoted exclusively in US dollars. The Group mitigates part of its exposure on its Group balance sheet to movements in the US dollar and sterling exchange rate for this overseas operation through borrowings denominated in dollars.

The Group has a number of transactions involving overseas parties and priced in the currencies of those parties. The Group's policy is to eliminate currency exposure at the time of the transaction through the use of forward contracts.

As at 31 March 2003, after taking into account the effects of forward foreign exchange contracts, the Group had no significant currency exposures.

23f Gains and losses on hedging contracts

The Group undertakes some transactions in international markets. Due to movements in exchange rates over time, the amount the Group expects to pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction. The Group manages its exposure to movements in exchange rates by entering into forward exchange hedging contracts. These allow the Group to settle transactions at known exchange rates, thereby eliminating much of this uncertainty.

At 31 March 2003 the Group had entered into a net commitment to purchase foreign currencies amounting to £84.5million that mature in the period through to 2007 in order to fix the sterling cost of commitments through this period.

Unrealised gains and losses on forward exchange hedging contracts amounted to an unrealised gain of £0.6million at the balance sheet date.

From March 2003 the Group started using interest rate swaps to manage its interest rate profile. There were no significant unrealised gains or losses on these contracts at 31 March 2003.

Notes to the financial statements

23g Fair values of financial assets and liabilities

There is no significant difference in value between the book value of the Group's financial instruments and their fair value.

24 Commitments

24a Contracts placed for future expenditure

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Fixed asset additions	95.6	45.9	76.7	13.4
Programme acquisitions and sports rights	670.1	754.4	670.0	715.2
Independent programmes	68.5	69.4	68.5	69.4
	834.2	869.7	815.2	798.0

An operating lease is a lease where the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee (the BBC) is hiring rather than buying an asset.

24b Operating leases

Operating lease commitments payable in the following year, analysed according to the period in which the lease expires:

	Land and buildings 2003 £m	Land and buildings 2002 £m	Other 2003 £m	Other 2002 £m
Group				
Within one year	2.6	2.7	2.3	5.3
In two to five years	11.0	12.1	8.8	9.3
After five years	17.6	13.0	1.9	2.5
	31.2	27.8	13.0	17.1
UK Public Service Broadcasting				
Within one year	1.7	1.3	1.2	1.0
In two to five years	3.1	4.4	3.2	10.8
After five years	15.1	11.8	0.1	—
	19.9	17.5	4.5	11.8

24c Other financial commitments

In the ordinary course of business the BBC enters into a large number of contracts with artists and writers and with providers of other services including licence fee collection and channel distribution.

25 Contingent liabilities

At 31 March 2003 the Group had unprovided contingent liabilities estimated to be £1.6million (2002 £2.3million) in respect of guarantees and indemnities.

The Group also has a number of contingent liabilities arising from litigation. The BBC makes specific provision (see Note 17) against an estimate of any damages and costs which may be awarded.

Related parties include Governors, the Executive Committee and other senior managers, their immediate families and external entities controlled by them.

26 Related party transactions

The related party transactions of the Group have been presented in accordance with FRS 8, *Related party disclosures*. Under the provisions of FRS 8 the BBC has not disclosed transactions between Group entities where more than 90% of those entities' voting rights are controlled within the Group. UK Public Service Broadcasting does not underwrite any of the activities or liabilities of the subsidiaries.

26a Transactions with joint ventures and associated undertakings

Included in the income and expenditure account is income from UKTV of £33.1million relating to the sale of programmes and JV Programmes LLC of £27.1million relating to the sale of programmes. There is also £6.0million of income made up of various other associates relating to the sale of programmes. Included in the income and expenditure is income of £0.3million from BBC Haymarket Exhibitions Limited relating to dividends and management fees. In addition, Frontline Limited charged £2.7million for the distribution of BBC Worldwide Limited's magazines. In all transactions, the terms of trade were negotiated on an arm's length basis.

The BBC and Land Securities Trillium Limited are partners in the Insight Property Partnership and the White City Development Partnership. On their formation in 2001 the BBC contributed its interest in the White City site in return for consideration which included reductions in service payments for future property services which are held as prepayments in the BBC's balance sheet. The partnership charged the BBC £111million for property services during the year (2002 £25million).

Amounts owed by/to joint ventures and associated undertakings at the year end are disclosed within Notes 15 and 16. In all transactions the terms of trade were negotiated on an arm's length basis.

26b Other transactions

Ranjit Sondhi, Governor, is married to Anita Bhalla, who has been employed by the BBC since 1987 in various production and broadcasting roles. Her current role is Head of Political & Community Affairs for the English Regions. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Dame Ruth Deech, Governor, has a daughter who is a journalist in BBC News. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Sir Robert Smith, Governor, has a son-in-law who worked for BBC Wales during the year and now works for BBC News on a freelance basis. His remuneration and freelance fees are based on the BBC's standard terms and conditions applicable to other staff employed in a similar capacity.

Sir Richard Eyre, Governor, is also Chairman and Managing Director of Chestermead Limited. During the year Sir Richard received either directly, or through Chestermead, payments totalling £3,754 for interviews and contributions to BBC programmes. No amounts were outstanding at the year end. Sir Richard Eyre's wife, Sue Birtwhistle, works on a freelance basis for the BBC. During 2002/2003 she received £19,080 from the BBC.

Rt Hon The Lord Ryder, Governor, is also a non-executive director and shareholder of Ipswich Town Football Club. During the year the BBC paid £94,814 to the club in respect of television and radio coverage.

Baroness Hogg, Governor, is also non-executive Chairman of Frontier Economics. During the year the BBC paid £5,925 to Frontier Economics for a project relating to the incorporation of BBC Broadcast Limited. No amounts were outstanding at the year end.

In the normal course of business there are a number of transactions between the BBC and other parties which are related by virtue of the fact that senior employees of the BBC are married to or have family relations with individuals who own or are employed at other media, production and broadcasting companies.

The BBC has set procedures for dealing with situations to avoid any conflict of interest. Where transactions have arisen between connected parties, the BBC Governor or employee is not party to the approval process.

APPENDIX 5
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