

# FCC Copy First Compartment 2003-1

The first compartment of FCC Copy First, a French umbrella mutual debt fund (*fonds commun de créances à compartiments*) regulated by

Articles L. 214-5, L. 214-43 to L. 214-49 and L. 231-7 of the French Monetary and Financial Code (*Code monétaire et financier*) established jointly by

**FRANCE TITRISATION**  
Management Company

**BRED BANQUE POPULAIRE**  
Custodian

## € 398,000,000 Floating Rate Units due 31 March 2010

Application has been made to Euronext Paris S.A. for the listing, on the section "Units reserved for qualified investors and resident outside France investors" ("*Parts réservées aux investisseurs qualifiés et aux investisseurs non-résidents*") (the "**Reserved Section**") of the primary market (*premier marché*) of the Paris stock exchange (the "**Paris Stock Exchange**"), of the € 398,000,000 Class A floating rate units due 31 March 2010 (the "**Class A Units**") issued on 17 July 2003 (the "**Issue Date**") by the first compartment FCC Copy First Compartment 2003-1 (the "**Compartment**") of the French umbrella mutual debt fund (*fonds commun de créances à compartiments*) named FCC Copy First (the "**FCC**"). The FCC with respect to the Compartment simultaneously issues on the Issue Date one non listed and non rated fully subordinated residual unit (the "**Class R Unit**" and together with the Class A Units, the "**Units**").

Interest on the Class A Units will be payable in Euro quarterly in arrear on the eighth Business Day following the last Business Day of each calendar quarter (each a "**Payment Date**"). The first Payment Date in respect of the Class A Units will be 10 October 2003. The interest rate applicable to the Class A Units (the "**Rate of Interest**") for each interest period (each, an "**Interest Period**") will be determined by reference to the European Interbank Offered Rate ("**EURIBOR**") for three-month plus a margin (the "**Unit Margin**") as set out under "Unit Margin over EURIBOR" in the table below. The Class R Unit shall not bear interest.

The Units are issued on the Issue Date. Prior to redemption on the Final Maturity Date, the Units will be subject to mandatory or optional redemption in certain circumstances. In particular, the Class A Units are subject to mandatory redemption in part having regard to payments received under the Loan Receivable and the Related Security (see "Terms and Conditions of the Units – Redemption"). If any withholding or deduction for or on account of tax is applicable to payments of interest or principal on the Units, such payments will be made subject to such withholding or deduction without the Compartment or any other entity being obliged to pay any additional amounts as a consequence.

On the Issue Date, Merrill Lynch Capital Markets Bank Limited (the "**Originator**") transfers to the Compartment (i) any and all receivables arising from a secured term loan (the "**Loan**") made available by the Originator, as the lender, to Xerox Financial Services ("**XFS**"), as the borrower, pursuant to a French law governed term loan agreement (the "**Loan Agreement**") dated 15 July 2003, (ii) the benefit of the related security granted by XFS on certain of its assets to secure repayment of the Loan (the "**Related Security**"), and (iii) with the express consent of MBIA Assurance S.A. (the "**Financial Guarantor**"), the benefit of, and any and all receivables arising from a financial guarantee dated the Issue Date (the "**Financial Guarantee**") (such receivables arising from the Financial Guarantee, together with any and all receivables arising from the Loan, the "**Loan Receivable**").

Pursuant to the English law governed Financial Guarantee, the Loan will be irrevocably and unconditionally guaranteed by the Financial Guarantor as to (i) the amount of regularly scheduled interest payable in respect of the Loan and (ii) the aggregate principal amount payable in respect of the Loan on its scheduled final repayment date (the "**Loan Final Repayment Date**") (excluding, in each instance, any additional amounts relating to prepayment, early redemption, broken-funding indemnities, penalties, premiums, default interest or interest on interest).



Capital Strength. Triple-A Performance.

The Class A Units are on issue assigned the ratings set out in the table below by Fitch France S. A. ("**Fitch**"), Moody's Investor Services Limited ("**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**"). A 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 only address the likelihood of timely receipt by any holder of the Class A Units (the "**Class A Unitholders**") of interest on the Class A Units and the likelihood of receipt by any Class A Unitholder of principal of the Class A Units by 31 March 2010 (the "**Final Maturity Date**") and do not address the likelihood of receipt by any Class A Unitholder of principal prior to the Final Maturity Date.

Expected ratings of Class A Units			Initial Principal Amount	Unit Margin over EURIBOR	Final Maturity Date	Issue Price
<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>				
AAA	Aaa	AAA	EUR 398,000,000	0.40%	31 March 2010	100%

The Class A Units are underwritten and privately placed by Merrill Lynch International (the "**Arranger**" and "**Lead Manager**"), and the other Managers named herein with (i) qualified investors (*investisseurs qualifiés*) within the meaning of Article L. 411-2 of the French Monetary Financial Code (*Code monétaire et financier*) (the "**Code**") and decree no. 98-880 of 1 October 1998 acting for their own account and (ii) investors resident outside France (*investisseurs non résidents*). The Class R Unit is privately placed by the Management Company with Xerox Limited (the "**Class R Unitholder**"). It is the responsibility of each investment services provider to ensure that any prospective investor, on whose behalf it purchases any Unit, is allowed to purchase such Unit under the applicable laws and regulations. The Units are offered at their outstanding principal amount of € 398,000,000 and in book-entry form (*forme dématérialisée*) in accordance with the provisions of Article L. 211-4 of the Code. The Class A Units are expected to settle in book-entry form through Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), Euroclear France, *société anonyme* ("**Euroclear France**") and Euroclear Bank S.A./N.V. in its capacity as operator of the Euroclear System ("**Euroclear**" and, together with Clearstream, Luxembourg and Euroclear France, the "**Relevant Clearing Systems**").

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

*This transaction has been arranged and lead managed by*



The date of this offering circular (the "**Offering Circular**") is 17 July 2003.

## REGISTRATION WITH THE FRENCH STOCK EXCHANGE COMMISSION

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In order to list the Class A Units on the Reserved Section of the Paris Stock Exchange and in accordance with Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 of the Code, the General Regulations and the Offering Circular are in the process of being registered with the French Stock Exchange Commission (the “**French Stock Exchange Commission**”) (the *Commission des Opérations de Bourse / Autorité des Marchés Financiers*).

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### INFORMATION NOTICE

This Offering Circular describes the placement procedure for units issued by a *fonds commun de créances* resulting from regulation no. 94-01 of the French Stock Exchange Commission (as amended) and the relevant instruction of May 2003 (*instruction de mai 2003 prise en application du règlement no. 94-01 modifié relatif aux fonds communs de créances*) implemented in accordance with this regulation.

The Compartment is regulated by general regulations (the “**General Regulations**”) and compartment regulations (the “**Compartment Regulations**”) both entered into on or prior to the Issue Date by and between the Management Company and the Custodian, in their capacity as founders of the FCC in accordance with the Code.

BY SUBSCRIBING OR PURCHASING THE CLASS A UNITS, EACH CLASS A UNITHOLDER SHALL AUTOMATICALLY BE DEEMED TO HAVE AGREED TO BE BOUND BY THE GENERAL REGULATIONS AND THE COMPARTMENT REGULATIONS.

This Offering Circular contains the main provisions of the Compartment Regulations. Any person wishing to obtain a copy of the General Regulations and/or the Compartment Regulations may request it from the Management Company.

The Information Memorandum comprises the General Regulations relating to the FCC (and applicable to any compartment), and the Offering Circular which relates to the issue of the Class A Units. These documents are in the process of being registered with the French Stock Exchange Commission together with the Compartment Regulations, the documents relating to the rating of the Class A Units by the Rating Agencies as well as any other relevant document.

This Offering Circular may therefore only be used together with the General Regulations which complements it and together constitutes the Information Memorandum required by the French Stock Exchange Commission.

The General Regulations and the Offering Circular shall be made available at the registered office of both the Custodian and the Management Company.

**A list of principal terms defined used in this Offering Circular can be found in the “Index of Principal Defined Terms” attached as Appendix 1 hereto.**

## IMPORTANT NOTICE

This Offering Circular has been prepared by the Management Company and the Custodian solely for use in connection with the offering of the Class A Units (the “**Offering**”) and their listing on the Reserved Section of the Paris Stock Exchange. The Offering does not constitute a public offering (*opération par appel public à l'épargne*) under Article L. 411-2 of the Code due to the private placement of the Class A Units. However, the request for listing of the Class A Units on the Reserved Section of the Paris Stock Exchange constitutes a public offering (*opération par appel public à l'épargne*) within the meaning of Article L.411-1 of the Code (see “*Terms and Conditions of the Units*”). Pursuant to Article L. 411-1 of the Code, the Offering results from the admission of the Class A Units to trading on the Reserved Section of the Paris Stock Exchange. In connection with the issue of the Class A Units and the Offering, no person has been authorised to give any information or to make any representations other than those contained in this Offering Circular.

This Offering Circular does not constitute an offer or an invitation to subscribe for or purchase any of the Class A Units by anyone in any jurisdiction in which such offer or solicitation is not authorised or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. The distribution of this Offering Circular may be subject to restrictions in certain jurisdictions. Persons into whose possession this Offering Circular comes are required to inform themselves about, and observe, any such restrictions. In accordance with Article L. 214-44 paragraph 2 of the Code, the Units may not be offered or sold by way of unsolicited offering (*démarchage*).

This Offering Circular should not be construed as a recommendation, invitation or offer by any of the Managers, the Management Company, the Custodian, the Loan Servicer, the Operating Bank, the Paying Agent, the Financial Guarantor, XFS, the other Xerox entities named herein or any of their respective affiliates for any recipient of this Offering Circular, or of any other information supplied in connection with the Offering of the Class A Units to purchase any such Class A Units. Each investor contemplating the purchase of any Class A Unit should exercise its own judgement of the financial condition, and appraisal of the creditworthiness, of the Compartment, the risks associated with the Class A Units and of the tax, legal, accounting consequences and capital adequacy requirements of an investment in the Class A Units and should consult its own legal, tax and accounting advisers to this effect.

The Units are obligations of the Compartment only and will not be the obligations of, or guaranteed by, any other entity. In particular, the Units will not be the obligations of, or guaranteed by any of the Managers, the Management Company, the Custodian, the Loan Servicer, the Operating Bank, the Paying Agent, the Financial Guarantor, XFS, the other Xerox entities named herein or any of their respective affiliates and none of such persons accepts any liability whatsoever in respect of any failure by the Compartment to make payment of any amount due on the Units. Only the Management Company may enforce the rights of the Unitholders against third parties.

Except for the private placement of the Class A Units with (i) qualified investors as defined by Article L. 411-2 of the Code and decree no. 98-880 of 1 October 1998 acting for their own account and (ii) investors resident outside France, and except for the application for listing of the Class A Units on the Reserved Section of the Paris Stock Exchange, no action has been or will be taken by any of the Managers, the Management Company, the Custodian, the Loan Servicer, the Operating Bank, the Paying Agent, the Financial Guarantor, XFS, the other Xerox entities named herein or any of their respective affiliates, that would, or would be intended to permit a public offering of the Class A Units in any country or any jurisdiction where listing is subject to prior application.

The Units have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) under applicable US securities laws or under the laws of any jurisdiction. The Units cannot be offered for subscription or sale in the United States of America or for the benefit of nationals of the United States of America (“**US persons**”) as defined in Regulation S of the Securities Act), save under certain circumstances where the contemplated transactions do not require any registration under the Securities Act (see “*Subscription and Offering of the Class A Units – United States of America*”).

No guarantee can be given with respect to the offer or private placement of the Class A Units, to any potential investors, subscribers or Class A Unitholders as to the creation or development of a secondary market for the Class A Units by way of their listing on the Reserved Section of the Paris Stock Exchange.

Each of the Management Company and the Custodian, in their capacity as founders of the FCC and the Compartment, assumes responsibility for the information contained in this Offering Circular, with exception of the following information:

- XFS accepts responsibility for the information contained in “*Xerox Financial Services*”;
- the Xerox entities (as described herein) accept responsibility for the information contained in “*Xerox Corporation and other Xerox Group Entities*”;
- the Financial Guarantor accepts responsibility for the information contained in “*The Financial Guarantor*” and “*Description of the Financial Guarantee and Related Documents*”;
- EDS as Back-up Servicer and Back-up Maintenance Provider accepts responsibility for the business description of the EDS Group contained in “*Description of the Back-up Servicing and and Back-up Maintenance of the Lease Portfolio and the Equipment*”; and
- each other entity referred to in this Offering Circular accepts responsibility for the information related to each of them respectively contained in “*The Other Parties*”.

Neither the Managers, the Financial Guarantor nor any of their respective affiliates has separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information supplied in connection with the Offering.

Neither the Managers, the Financial Guarantor nor any of their respective affiliates has undertaken or will undertake any investigation or other action to verify the details of the Loan Receivable, the Related Security or the underlying assets as further described herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the information provided in connection with the same.

The Financial Guarantor accepts responsibility for the information contained in the sections entitled “*The Financial Guarantor*” and “*Description of the Financial Guarantee and Related Documents*”, (together, the “**MBIA Information**”). To the best of the knowledge and belief of the Financial Guarantor (having 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 importance of such information. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Financial Guarantor 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 Units or their distribution. Other than in respect of the MBIA Information, the Financial Guarantor has not separately verified the information contained herein and no representation, warranty or undertaking, express or implied, is made and no liability is accepted by the Financial Guarantor as to the accuracy or completeness of such information. Each person receiving this Offering Circular acknowledges that such person has not relied on the Financial Guarantor or any of its affiliates in connection with its investigation of the information contained herein (other than the MBIA Information).

Neither the delivery of this Offering Circular, nor any sale or allotment made in connection with the Offering shall, under any circumstances, imply that there has been no change in the affairs of any entity referred to in this Offering Circular or the information contained herein since the date hereof or that the information contained herein is correct as at any time subsequent to the date hereof. The information set forth herein, to the extent that it comprises a description of certain provisions of certain agreements or contractual arrangements entered into between entities referred to in this Offering Circular, is a summary and is not presented as a full statement of the provisions of such agreements and contractual arrangements.

In the event of any withholding tax or deduction in respect of the Class A Units, payments of principal or interest in respect of the Class A Units will be made net of such withholding or deduction. Neither the Compartment nor any other entity will be liable to pay any additional amounts (see “*Terms and Conditions of the Units*”).

In this Offering Circular, unless otherwise specified or required by the context, references to “**Euro**” or “**€**” are to the lawful currency from time to time of the Republic of France since the beginning on 1 January 1999 of the third stage of the Economic and Monetary Union in accordance with the treaty establishing the European Economic Community, as amended by the Treaty of the European Union. According to the provisions of Article L. 111-1 of the Code, the Euro is the lawful currency of the Republic of France.

FROM (AND INCLUDING) THE ISSUE DATE TO (BUT EXCLUDING) THE LISTING DATE, THE LEAD MANAGER, AT ITS DISCRETION, BUT TO THE EXTENT PERMITTED BY, AND IN ACCORDANCE WITH ANY APPLICABLE LAW AND/OR REGULATION, MAY OVER-ALLOT OR OTHERWISE EFFECT ANY TRANSACTION IN THE OPEN MARKET IN RELATION TO THE CLASS A UNITS IN ORDER, AS THE CASE MAY BE, TO STABILISE OR MAINTAIN THE MARKET PRICES OF THE CLASS A UNITS AT LEVELS WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET AND SUCH STABILISATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND WILL BE EFFECTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

AS FROM (AND INCLUDING) THE LISTING DATE, THE LEAD MANAGER MAY, AT ITS DISCRETION, BUT TO THE EXTENT PERMITTED BY, AND IN ACCORDANCE WITH ANY APPLICABLE LAW AND/OR REGULATION, ENGAGE IN TRANSACTIONS TO STABILISE OR MAINTAIN THE MARKET PRICE OF CLASS A UNITS AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILISATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND WILL BE EFFECTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

## STATEMENTS

### Persons taking responsibility for the information contained in this Offering Circular:

To our knowledge, the information and data contained in this Offering Circular is correct and accurate. It contains all the required information for investors to make their judgement on the rules relating to the Compartment, its financial situation, the financial terms and conditions of the transaction and the rights attached to the Class A Units; there is no omission which would materially affect the completeness of the information and data contained in this Offering Circular.

A notre connaissance, les informations et données contenues dans le présent prospectus (*Offering Circular*) sont exactes et conformes à la réalité: elles comprennent toutes les informations nécessaires aux investisseurs pour fonder leur jugement sur les règles régissant le fonds communs de créances FCC Copy First et son premier Compartiment FCC Copy First 2003-1, sa situation financière ainsi que les conditions financières de l'opération et les droits attachés aux parts offertes (*Class A Units*); elles ne comportent pas d'omission de nature à altérer significativement l'exhaustivité des informations et données contenues dans le présent prospectus (*Offering Circular*).

Paris, 17 July 2003.

  
FRANCE TITRISATION

Management Company

  
BRED BANQUE POPULAIRE

Custodian

### Persons taking responsibility for the accounting principles and for the audit of the accounts of the Compartment:

The accounting principles used in this Offering Circular comply with those recommended by the *Conseil National de la Comptabilité* in respect of French mutual debt funds (*fonds communs de créances*).

Les principes comptables figurant dans le présent prospectus (*Offering Circular*) sont conformes à ceux recommandés par le Conseil National de la Comptabilité pour les fonds communs de créances.

Paris, 17 July 2003.

**MAZARS & GUERARD**

Statutory Auditor of the Compartment

Appointment date: 19 May 2003

Duration: 6 years.





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## TRANSACTION OVERVIEW

*The following is an overview of the transaction. This overview 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.*

*A list of principal terms defined and used in this Offering Circular is found in the “Index of Principal Defined Terms” attached as Appendix 1 hereto.*

### ***Xerox Financial Services***

Xerox Financial Services S.A.S. (“**XFS**”) is a simplified joint stock company (*société par actions simplifiée*) incorporated on 26 February 2002 and governed by the laws of France and registered with the Nanterre Trade and Companies Registry under number 441 339 389. Its registered office is at 120 avenue Charles de Gaulle, 92200 Neuilly-sur-Seine, France.

XFS is part of the Xerox group. Its shares are owned by Xerobail S.A.S. (“**XB**”) (87.5%) and Xerox – The Document Company S.A.S. (“**XF**”) (12.5%), except for the bare ownership of one share which is held by Copytrust Limited (“**Copytrust**”). Copytrust is 100% owned by a charitable trust.

XFS was established for the purpose of financing Xerox lease contracts. In this context, XFS has acquired the Lease Portfolio (as defined below), via several contribution agreements dated 14 November 2002, 5 December 2002, 13 March 2003 and 4 April 2003 completed on 16 December 2002 and 15 April 2003 (the “**Contribution Agreements**”). XFS may enter into, further lease contracts and, as the case may be, maintenance and services agreements of Xerox equipment and software (see “*Summary*” and “*Xerox Financial Services*”).

### ***Contribution to XFS of the Lease Portfolio***

A portfolio of lease contracts (the “**Lease Contracts**”) and the related Equipment (as defined below) together constitute the lease portfolio (the “**Lease Portfolio**”) which was acquired by XFS on 16 December 2002 and 15 April 2003. The Lease Contracts were either originated by XF or XB. The Lease Contracts which were originated by XF consisted of leases of Xerox equipment which included servicing and maintenance, with XF as the servicer and maintenance provider (the “**Bundled Contracts**”). The Lease Contracts originated by XB were leases of Xerox equipment with no maintenance included (the “**Unbundled Contracts**”). The Related Equipment consisted of a portfolio of document processing equipment underlying the Lease Contracts (the “**Equipment**”) which was originally owned by Xerox XF Holdings (Ireland) Limited.

The Lease Contracts and the Equipment were transferred to XFS through the Contribution Agreements. Only the Lease Contracts which met the specific eligibility criteria outlined in the Contribution Agreements were deemed transferred to XFS (see “*Summary*” and “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment*”).

As a result of the transfer of the Lease Contracts, XFS is entitled to receive interest and principal payments arising thereunder. The portion of each payment received by XFS relating to the performance of the maintenance element under the Bundled Contracts (the “**Maintenance Component**”) is repaid to XF as compensation for its maintenance services performed on behalf of XFS as maintenance provider and is not available (except to a very limited extent) to make payments under the Loan (as defined below). The remainder of the financial revenue deriving from the Bundled Contracts and all revenues deriving from the Unbundled Contracts are attributable to the Financial Components (as defined below) and are available to make payments under the Loan (see “*Summary*” and “*The Loan and Related Security*”).



***Administration and Maintenance of the Lease Portfolio***

Since (i) the Bundled Contracts include servicing and maintenance and (ii) the Unbundled Contracts include servicing only, XF is appointed as the Primary Servicer and the Primary Maintenance Provider pursuant to an Administration Services Agreement and a Maintenance Services Agreement (each as defined below).

***Warehouse Financing***

On 16 December 2002, a secured limited recourse revolving credit facility in the amount of €438,000,000 (the “**First Warehouse Facility**”) was made available to XFS by Merrill Lynch Capital Markets Bank Limited (“**MLCMB**”) and Merrill Lynch International Bank Limited (“**MLIBL**”) to enable XFS to make intragroup loans (see “*Summary*” and “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment – The First Warehouse Facility*”).

***Refinancing of the First Warehouse Facility through the Loan***

On the Issue Date, any amount owing by XFS under the First Warehouse Facility is refinanced by the Loan made available to XFS pursuant to the Loan Agreement.

The Loan Agreement provides that MLCMB as lender shall only have recourse to (i) the Financial Components (as defined below) and (ii) other security granted to MLCMB to secure XFS’s obligations under the Loan Agreement. MLCMB shall have no recourse against any other assets of XFS and shall not take any action or any other steps for the winding up or for the appointment of a receiver or similar officer over any or all of XFS’ revenues and assets.

The Loan will benefit from the Financial Guarantee issued by the Financial Guarantor (each as defined below).

The Loan Receivable (which includes the benefit of the Financial Guarantee) and the Related Security will be transferred to the FCC and allocated to the Compartment on the Issue Date (see “*Description of the Financial Guarantee and Related Documents*”).

***Back-up Administration and Maintenance of the Lease Portfolio***

In the event of termination of the Primary Servicer’s or the Primary Maintenance Provider’s appointment under the Administration Services Agreement and the Maintenance Services Agreement, EDS has agreed to be appointed as Back-up Servicer and Back-up Maintenance Provider pursuant to a Back-up Administration Services Agreement and a Back-up Maintenance Services Agreement (each as defined below) (see “*Summary*” and “*Description of the Back-up Servicing and Back-up Maintenance of the Lease Portfolio and the Equipment*”).

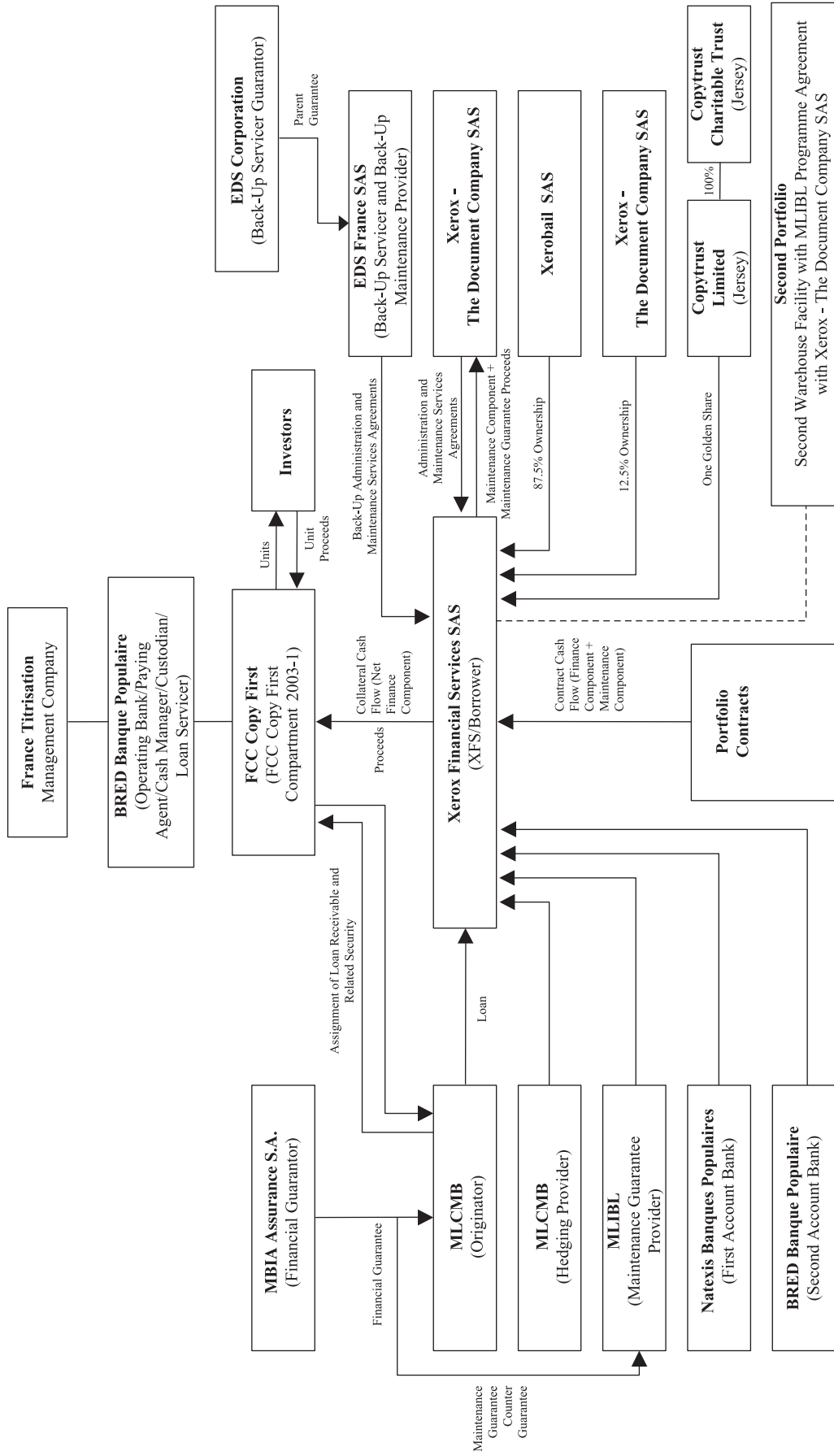
***Origination and financing of subsequent lease portfolios***

XFS is also able to enter into new lease contracts directly with lessees on terms similar to the Lease Contracts. The aggregation of a second portfolio of lease contracts (the “**Second Lease Portfolio**”) will be financed by a secured limited recourse revolving credit facility dated 15 April 2003 as amended and restated on 15 July in the amount of €350,000,000 granted by MLIBL to XFS (the “**Second Warehouse Facility**”) and which may be securitised through one or more issues by the FCC, acting through one or more compartments subject to prior confirmation by the Rating Agencies that such securitisation will not adversely affect one of the then current ratings of the Class A Units. XFS has granted various security interests to MLIBL to secure its obligations under the Second Warehouse Facility (“the **MLIBL Related Security**”) (see “*The Second Warehouse Facility and the MLIBL Related Security*”).

Further portfolios of lease contracts may be securitised after the securitisation of the Second Warehouse Facility subject to prior confirmation by the Rating Agencies that such securitisation will not adversely affect one of the then current ratings of the Class A Units (see “*The Intercreditor Agreement*” and “*The Second Warehouse Facility and the MLIBL Related Security*”).

## STRUCTURE DIAGRAMS

### Diagrammatic Overview of Parties and Transaction





## SUMMARY

The following information is a summary of the principal features of the transaction and the issue of the Units. 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.

A list of principal terms defined and used in this Offering Circular is found in the "Index of Principal Defined Terms" attached as Appendix 1 hereto.

## THE PARTIES

### In relation to the Units, the FCC and the Compartment:

***The FCC  
(FCC Copy First  
and FCC Copy  
First Compartment  
2003-1)***

The FCC will be governed by the provisions of Articles L. 214-5, L. 214-43 to L. 214-49 and L. 231-7 of the Code, by decree no. 89-158 dated 9 March 1989 (as amended) (the "Decree") and the General Regulations. The FCC is jointly established by the Custodian and the Management Company on the Issue Date pursuant to the General Regulations (see "The Compartment").

The Compartment is governed by the provisions of Articles L. 214-5, L. 214-43 to L. 214-49 and L. 231-7 of the Code, the Decree, the General Regulations and the Compartment Regulations. The Compartment is jointly established by the Custodian and the Management Company on the Issue Date pursuant to the the Compartment Regulations (see "The Compartment").

The FCC is a French umbrella mutual debt fund (*fonds commun de créances à compartiments*), the sole purpose of which is to acquire loan receivables and (if any) any security related thereto arising from loans made by any credit institution belonging to the Merrill Lynch group entitled to carry out operations in France under the freedom to provide services within the meaning of the European Union directive no. 2000/12/CE to any French entity of the Xerox group, to allocate such receivables to a given compartment and to issue units representing interests in the assets of such compartment. The sole purpose of the Compartment is to acquire the Loan Receivable and the Related Security and to issue the Units which will represent interests in the Loan Receivable and the Related Security.

The FCC is not a separate legal entity. Umbrella mutual debt funds and compartments are characterised under French law as a co-ownership (*copropriété*).

Neither the FCC nor the Compartment will be subject to the provisions of the French Commercial Code (*Code de commerce*) relating to bankruptcy and insolvency proceedings, nor to the provisions of the Code relating to credit institutions (*établissements de crédit*), investment companies (*entreprises d'investissement*) or French undertakings for collective investment in transferable securities (*organismes de placement collectif en valeurs mobilières* or *OPCVMs*).

***Custodian/Operating Bank/  
Paying Agent***

BRED Banque Populaire (in such capacities, the "Custodian", the "Operating Bank" and the "Paying Agent"), a *société anonyme coopérative de banque populaire* (limited company) incorporated under and governed by the laws of France, registered with the Trade and Companies Registry of Paris under number 552 091 795 and whose registered office is at 18 quai de la Rapée, 75012 Paris, France, licensed

as a credit institution (*établissement de crédit*) under the Code (see “*The Other Parties*”). BRED Banque Populaire is assigned a rating of A-1 by S&P, P-1 by Moody’s and F1+ by Fitch.

**Management Company**

France Titrisation (in such capacity, the “**Management Company**”), a *société anonyme* (limited liability company) incorporated under and governed by the laws of France, registered with the Trade and Companies Registry of Paris under number 353 053 531 and whose registered office is located at 41, avenue de l’Opéra, 75002 Paris, France, licensed by, and subject to the supervision and regulation of, the French Stock Exchange Commission (see “*The Other Parties*”).

**Loan Servicer**

BRED Banque Populaire (in such capacity, the “**Loan Servicer**”).

The Loan Servicer is appointed and acts in such capacity pursuant to, and in accordance with, a transfer and servicing agreement entered into on the Issue Date between XFS, the Loan Servicer, the Originator, the Management Company, the Financial Guarantor and the Custodian (the “**Transfer and Servicing Agreement**”). The Loan Servicer will act as agent (*mandataire*) of the Compartment and, so long as there has been no Financial Guarantor Event of Default (as defined in “*The Loan, the Related Security and the Hedging Arrangement*”) (and except for the enforcement of the Compartment’s rights under the Financial Guarantee), as agent (*mandataire*) for the Financial Guarantor, for the servicing of the Loan Receivable and the Related Security. The services to be provided by the Loan Servicer include, without limitation, (i) the collection of payments of principal and interest due on the Loan Receivable, (ii) the transfer of such payments to the Compartment Distribution Account, (iii) the calculation and notification to the Management Company and the Financial Guarantor of the amount of interest and principal payable by XFS on each Loan Interest Payment Date, (iv) the enforcement of rights and remedies available in respect of the Related Security, and (v) more generally, the enforcement against XFS of the rights and remedies of the Originator under the Loan Agreement, and the enforcement against the Financial Guarantor of the rights and remedies of the Originator under the Financial Guarantee and the related documents as transferred to the Compartment pursuant to the Transfer and Servicing Agreement.

**Lead Manager and Managers**

Merrill Lynch International (in such capacity, the “**Lead Manager**”), an unlimited liability company incorporated under and governed by the laws of England & Wales under number 2312079 and whose registered office is located at Merrill Lynch Financial Centre, 2 King Edward Street, London EC1 1HQ, United Kingdom (see “*The Other Parties*”).

The Lead Manager, together with Bayerische Hypo- und Vereinsbank (“**HVB**”) and The Royal Bank of Scotland plc (“**RBS**”) (each a “**Manager**”), will underwrite the Class A Units on the Issue Date in accordance with a subscription agreement entered into on the Issue Date between the Compartment, as represented by the Management Company, the Managers and the Custodian (the “**Class A Units Subscription Agreement**”) and privately place them with (i) qualified investors (*investisseurs qualifiés*) within the meaning of Article L. 411-2 of the Code and decree no. 98-880 of 1 October 1998 acting for their own account and (ii) investors resident outside France (*investisseurs non-résidents*).

**Originator**

Merrill Lynch Capital Markets Bank Limited (in such capacity, the “**Originator**”), a company incorporated under and governed by the laws of Ireland, with registered number 229165 and whose registered office is

located at Treasury Building, Canal Street, Dublin 2, Ireland (see “*the Other Parties*”).

The Originator transfers the Loan Receivable and the Related Security to the Compartment on the Issue Date subject to, and in accordance with, the terms and conditions set out in the Transfer and Servicing Agreement (see “*Transfer of the Loan Receivable and Loan Servicing*”).

**In relation to the Loan:**

***Borrower***

XFS (in such capacity, the “**Borrower**”).

On the Issue Date, XFS, in its capacity as the Borrower, draws down the Loan subject to, and in accordance with the terms and conditions set out in the Loan Agreement.

***Lender***

Merrill Lynch Capital Markets Bank Limited (in such capacity, the “**Lender**”), a company incorporated under and governed by the laws of Ireland, with registered number 229165 and whose registered office is located at Treasury Building, Canal Street, Dublin 2, Ireland.

On the Issue Date, the Lender makes the Loan available to XFS, as the Borrower, subject to, and in accordance with, the terms and conditions of the Loan Agreement (see “*The Loan, the Related Security and the Hedging Arrangement*”).

***Financial Guarantor***

MBIA Assurance S.A. (in such capacity, the “**Financial Guarantor**”), a *société anonyme* (limited company) incorporated under and governed by the laws of France, registered with the Paris Trade and Companies Registry under number 377 883 293 and whose registered office is at 112, avenue Kléber, 75116 Paris, France.

On the Issue Date, the Financial Guarantor issues the Financial Guarantee in favour of the Lender to guarantee (i) the amount of regularly scheduled interest payable in respect of the Loan and (ii) the aggregate principal amounts payable in respect of the Loan on the Loan Final Repayment Date (excluding, in each instance, any additional amounts relating to prepayment, early redemption, broken-funding indemnities, penalties, premiums, default interest or interest on interest) (see “*The Financial Guarantor*” and “*The Financial Guarantee and related documents*”).

Under the Loan Agreement and in respect of the Related Security, the Financial Guarantor shall act in its capacity as controlling party (in such capacity, the “**Controlling Party**”), unless (a) a Financial Guarantor Event of Default (as defined in “*The Loan, the Related Security and the Hedging Arrangement*”) shall have occurred and be continuing or (b) the Financial Guarantor has no further obligations, actual or contingent under the Financial Guarantee and no amount is owing or capable of becoming owed to the Financial Guarantor under the Reimbursement Agreement and the Maintenance Guarantee Letter of Request (each, as defined below) or (c) the Financial Guarantor shall have resigned as Controlling Party in accordance with the Loan Agreement.

***Hedging Provider***

MLCMB (in such capacity, the “**Hedging Provider**”), a company incorporated under and governed by the laws of Ireland, with registered number 229165 and whose registered office is located at Treasury Building, Canal Street, Dublin 2, Ireland.

On the Issue Date the Hedging Provider enters into the following agreements with XFS in order to enable XFS to hedge its potential interest rate exposure under the Loan: (i) a master ISDA agreement; (ii)



an ISDA schedule, and (iii) an ISDA confirmation, with a cap rate of 3.38% and a floor rate of 2.13% (together with the hedging guarantee mentioned in the paragraph below, the “**Hedging Agreement**”) (see “*The Loan, the Related Security and the Hedging Arrangement – The Hedging Agreement*”).

#### **Hedging Guarantor**

Merrill Lynch & Co., Inc., (in such capacity, the “**Hedging Guarantor**”), a company incorporated under and governed by the laws of the State of Delaware and whose registered office is located at Corporation Trust Center, 1209 Orange Sweet, Wilmington, Delaware 19801 USA.

The Hedging Guarantor unconditionally guarantees to XFS, the due and punctual payment of any and all amounts payable by MLCMB as Hedging Provider pursuant to the hedging guarantee issued in favour of XFS on the Issue Date (the “**Hedging Guarantee**”).

Upon downgrading of the short-term senior, unsecured and unguaranteed debt obligations of the Hedging Guarantor, the Hedging Guarantor shall within 30 calendar days transfer all its rights and obligations with respect to the Hedging Guarantee to a guarantor with the required rating or cash collateralise its obligations or take such other action that may be agreed with XFS and the Rating Agencies as will result in the rating of the Class A Units then outstanding following the taking of such action being rated no lower than the rating of the Class A Units immediately prior to the downgrading of the Hedging Guarantor.

#### **In relation to the management of XFS and the Lease Portfolio:**

##### **Shareholders**

XFS is part of the Xerox Group. Its shares are owned by XB (87.5 %) and XF (12.5 %), except for the bare ownership (*nue propriété*) of one share which is owned by Copytrust, a limited liability company incorporated under and governed by the laws of Jersey, with registered number 84520 and whose registered office is at Whiteley Chambers, Don Street, St Helier, Jersey JE4 9WG.

Copytrust is fully owned by the Copytrust Charitable Trust established by a declaration of trust dated 12 December 2002 and made by Ogier Corporate Trustees Limited.

Copytrust shall, in certain circumstances, vote at the shareholders meetings of XFS after consultation with the Financial Guarantor, the Compartment or, as the case may be, MLIBL as lender under the Second Warehouse Facility (as appropriate) (see “*Xerox Financial Services – Copytrust Manager*”).

XB is a simplified joint stock company (*société par actions simplifiée*), incorporated under and governed by the laws of France, registered with the Nanterre Trade and Companies Registry under number 338 987 613 and whose registered office is at 80, avenue Charles de Gaulle, 92200 Neuilly sur Seine, France.

XB is a wholly owned subsidiary of XF.

XF is a simplified joint stock company (*société par actions simplifiée*), incorporated under and governed by the laws of France, registered with the Bobigny Trade and Companies Registry under number 602 055 311 and whose registered office is at 4, rue Nicolas Robert, 93607 Aulnay sous Bois, France.

XF is part of the Xerox Group. Its shares are owned by Xerox Limited, a company incorporated under and governed by the laws of England & Wales, with registered number 575914 and whose registered office is located at Bridge House, Oxford Road, Uxbridge UB8 1HS, UK (“**XL**”) and Xerox XF Holdings (Ireland) Limited, a company incorporated under and governed by under the laws of Ireland, with registered number 288296 and whose registered office if located at Ballycoolin, Business Park, Blandcharstown, Dublin 15, Ireland (“**XXFH**”).

XF and XB are indirect subsidiaries of Xerox Corporation (see “*Xerox Corporation and other Xerox Group Entities*”).

**Chairman**

Structured Finance Management Limited (in such capacity, the “**Chairman**”), a limited liability company incorporated under and governed by the laws of England, with registered number 3853947 and whose principal office is located at Blackwell House, Guildhall Yard, London EC2V 5AE England.

The Chairman has been appointed as chairman (*président*) of XFS by the Shareholders pursuant to an unanimous resolution passed on 15 July 2003. The Chairman will bear the responsibility of the corporate management of XFS and will monitor the relationship of XFS with its Shareholders, the Compartment, the Financial Guarantor, the Rating Agencies, its agents, service and maintenance providers and the other entities to which XFS is contractually bound (see “*Xerox Financial Services*”).

**Primary Servicer/Primary Maintenance Provider/Primary Corporate Servicer**

XF (in such capacities, the “**Primary Servicer**”, the “**Primary Maintenance Provider**”, the “**Primary Corporate Servicer**”).

XF will perform certain lease administration services and equipment maintenance, repair and other services relating to the Lease Portfolio and the Equipment as well as day to day corporate services subject to and in accordance with the terms and conditions of the Administration Services Agreement, the Maintenance Services Agreement and the Corporate Services Agreement (see “*Xerox Corporation and other Xerox Group Entities*” and “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment*”).

**Maintenance Guarantee Provider**

Any sum owed by XFS to the Primary Maintenance Provider pursuant to the Maintenance Services Agreement shall be guaranteed by MLIBL (the “**Maintenance Guarantee Provider**”) under a maintenance guarantee (the “**Maintenance Guarantee**”) pursuant to the maintenance guarantee letter of request entered into on the Issue Date between XFS, MLIBL and the Financial Guarantor (the “**Maintenance Guarantee Letter of Request**”). The Maintenance Guarantee Provider agreed also to issue a maintenance guarantee similar to the Maintenance Guarantee in favour of EDS France upon activation of EDS France as Back-up Maintenance Provider (see “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment — Maintenance Guarantee Letter of Request*”).

**Maintenance Counter Guarantee**

In accordance with the Maintenance Guarantee Letter of Request, XFS has instructed the Financial Guarantor to issue, in favour of MLIBL as provider of the Maintenance Guarantee, a maintenance counter guarantee (the “**Maintenance Counter Guarantee**”) in order to counter guarantee payment by MLIBL of a proportion of the amount which may become payable by MLIBL under the Maintenance Guarantee (see “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease*”).

*Contracts and the Equipment — Maintenance Guarantee Letter of Request*”).

***Back-up Servicer/Back-up Maintenance Provider***

EDS (Electronic Data Systems) France S.A.S, (“**EDS France**” and in such capacities, the “**Back-up Servicer**” and the “**Back-up Maintenance Provider**”), a simplified joint stock company (*société par actions simplifiée*), incorporated under and governed by the laws of France, registered with the Nanterre Trade and Companies Registry under number 332 868 108 and whose registered office is at 4 avenue Pablo Picasso, 92024 Nanterre, France.

Subject to and in accordance with the terms and conditions of the Back-up Administrative Services Agreement and the Back-up Maintenance Services Agreement, EDS France undertakes to serve as Back-up Servicer and Back-up Maintenance Provider in accordance with the terms of the relevant agreements, upon the occurrence of certain events (see “*Description of the Back-up Servicing and Back-up Maintenance of the Lease Portfolio and the Equipment*” and “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment — Back-up Administrative Services Agreement — Back-up Maintenance Services Agreement*”).

***Back-up Servicer Guarantor***

Electronic Data Systems Corporation (“**EDS Corp**” and in such capacity, the “**Back-up Servicer Guarantor**”), a company incorporated and governed by the laws of Texas, United States, whose registered office is at 5400 Legacy Drive, Plano, Texas 75024, USA.

The Back-up Servicer Guarantor, which is the U.S. parent company of EDS, irrevocably and unconditionally guarantees the performance by EDS of its obligations under the Back-up Administrative Services Agreement and the Back-up Maintenance Services Agreement. As of the date hereof, the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Back-up Servicer Guarantor are rated A- (negative outlook) by S&P, Baa2 (stable outlook) by Moody’s and BBB+ (stable outlook) by Fitch.

***Account Banks***

Natexis Banques Populaires (in such capacity, the “**First Account Bank**”), a *société anonyme* (limited company) incorporated under and governed by the laws of France, registered with the Paris Trade and Companies Registry under number 542 044 524 and whose registered office is located at 45, rue Saint Dominique, 75007 Paris, France, licensed as a credit institution (*établissement de crédit*) under the Code (see “*The Other Parties*”).

The First Account Bank is XFS’s account bank in relation to the general collection account opened in the name of XFS (the “**General Collection Account**”) to which all payments owed by customers to XFS in respect of the Lease Contracts are and will be directed (see “*Structure and Description of the Transaction Accounts and Funds Flow Management*”).

As of the date hereof, the debt obligations of the First Account Bank are rated P-1 by Moody’s, A-1 by S&P and AA- (negative outlook)/F1<sup>+</sup> by Fitch.

BRED Banque Populaire (in such capacity, the “**Second Account Bank**”).

The Second Account Bank is XFS’s account bank in relation to all other bank accounts opened or to be opened in the name of XFS.

Allocation of flows and revenues of XFS into and from its several bank accounts are further described in “*Structure and Description of the Transaction Accounts and Funds Flow Management*”.

As of the date hereof, the debt obligations of the Second Account Bank are rated P-1 by Moody’s, A-1 by S&P and AA- (negative outlook)/F1<sup>+</sup> by Fitch.

In the event that, at any time, the short term unsecured and unsubordinated debt obligations of the First Account Bank or the Second Account Bank are assigned a rating below A-1 by S&P, or the First Account Bank or the Second Account Bank is in breach of any of its obligations, either legal or contractual, XFS shall terminate the First Account Bank’s or Second Account Bank’s appointment and shall, appoint a new account bank having ratings equal to or above the ratings referred to above, within a period of 30 calendar days after the occurrence of such an event.

## THE LOAN AND THE RELATED SECURITY

<b><i>The Loan</i></b>	<p>The Loan is a secured limited recourse obligation of XFS (see “<i>The Loan, the Related Security and the Hedging Arrangement</i>”). The Loan is made available by the Lender pursuant to the Loan Agreement dated 15 July 2003 by and between MLCMB as the Lender, XFS as the Borrower and the Financial Guarantor. The Loan Agreement, the Loan and the Related Security are further described below in “<i>The Loan, the Related Security and the Hedging Arrangement</i>”.</p>
<b><i>Purpose of the Loan</i></b>	<p>The Loan is used solely to refinance any amount outstanding under the First Warehouse Facility.</p>
<b><i>Drawdown</i></b>	<p>The Loan is fully drawn down by XFS on the Issue Date for its full principal amount.</p>
<b><i>Principal amount outstanding as at the Issue Date</i></b>	<p>As at the Issue Date, the principal amount outstanding of the Loan will not be greater than € 398,000,000.</p>
<b><i>Interest on the Loan</i></b>	<p>The Loan will bear interest at a rate equal to three month EURIBOR plus the Margin. Interest under the Loan will be payable quarterly in arrear in Euro on the 30th day of September, December, March and June of each year, subject to adjustment for non-business days as described therein (each, a “<b>Loan Interest Payment Date</b>”).</p>
<b><i>Margin</i></b>	<p>The aggregate of (i) 0.40 % <i>per annum</i> and (ii) € 181,300 net of any taxes <i>per annum</i> from and including the Issue Date to, but excluding, the Loan Final Repayment Date (as defined below).</p>
<b><i>Repayment and Prepayment</i></b>	<p>The Loan will be scheduled to be repaid in full on the Loan Final Repayment Date, being 19 March 2010 (the “<b>Loan Final Repayment Date</b>”).</p> <p>The Loan will be subject to mandatory and optional prepayment in certain circumstances. In particular, the Loan is subject to mandatory prepayment in part having regard to the payments received by XFS out of the Financial Components (as defined in the Loan Agreement – see “<i>The Loan, the Related Security and the Hedging Arrangement</i>”) deriving from the Lease Portfolio (see “<i>The Lease Portfolio</i>”). In particular, if at any time the aggregate amount standing to the credit of the Loan General Reserve Account (as defined below) is above the outstanding principal amount of the Loan, such amount standing to the credit of the Loan General Reserve Account shall be applied in prepayment of the Loan on the next Loan Interest Payment Date.</p>
<b><i>No further Advances</i></b>	<p>The Loan contains no obligation on the Lender and, therefore, the Compartment, to make any further advance to XFS after the Issue Date.</p>
<b><i>Limited Recourse and Non Petition</i></b>	<p>The Loan Agreement provides that MLCMB, as lender, and the Financial Guarantor shall only have recourse to (i) the Financial Components of the Lease Contracts, and (ii) other security granted to MLCMB to secure XFS’ obligations under the Loan Agreement. MLCMB and the Financial Guarantor shall have no recourse under the Loan Agreement against any other assets of XFS and shall not take any action or any other steps for the winding up or for the appointment of a receiver or similar officer over any or all of XFS’ revenues and assets (see “<i>The Loan, the Related Security and the Hedging Arrangement – No Recourse and Non-Petition</i>”).</p>
<b><i>Governing Law</i></b>	<p>The Loan Agreement is governed by, and construed in accordance with, French law.</p>

### ***The Related Security***

Security is granted by XFS to MLCMB on the Issue Date in connection with the Loan Agreement.

On the Issue Date, the security granted to MLCMB to secure XFS's obligations thereunder to MLCMB (the "**Related Security**") is assigned to the Compartment together with the benefit of the Loan Receivable.

The Related Security shall include the following security interests (as defined and further described in "*The Loan and Related Security – The Related Security*"):

- (i) the Assignment of the Lease Receivables;
- (ii) the Assignment of the Lease Warranties;
- (iii) the Assignment of the XL Guarantee Agreement; and
- (iv) the Assignment of Hedging Receivables.

In addition, XFS has agreed under the Loan Agreement to set up a third party beneficiary bank accounts arrangement (*comptes à affectation spéciale*) between (i) XFS, (ii) the Compartment as beneficiary, (iii) the Financial Guarantor (as Controlling Party) and (iv) the Second Account Bank over the Loan Financial Flow Account, the Loan Distribution Account and the Loan General Reserve Account (the "**Trust Accounts Agreement**") (see "*The Loan, the Related Security and the Hedging Arrangement – The Trust Accounts Agreement*").

For the avoidance of doubt, the Related Security will not be a security for the redemption of the Units but will be granted by the relevant parties to MLCMB as security for the repayment of the Loan. The Related Security will be transferred to the Compartment together with the Loan Receivable pursuant to the Transfer and Servicing Agreement. The Financial Guarantor, as Controlling Party, is entitled to direct the enforcement of the Related Security.

Certain security interests forming part of the Related Security will also secure payments, if any, to be made by XFS to the Financial Guarantor under the Financial Guarantor Documents (as defined below). The Intercreditor Agreement will provide, among other provisions, for the sharing of the enforcement rights and related proceeds in relation to such security interests (see "*The Intercreditor Agreement*").



## THE FINANCIAL GUARANTEE AND RELATED DOCUMENTS

### **Financial Guarantee:**

#### ***Financial Guarantee***

On the Issue Date, the Financial Guarantor issues a financial guarantee in favour of MLCMB as the Lender (the “**Financial Guarantee**”). The beneficiary of the Financial Guarantee (the “**Beneficiary**”) is MLCMB as the Lender under the Loan Agreement and, after the Issue Date, the Compartment upon transfer of the Loan Receivable and the Related Security to the Compartment pursuant to the Transfer and Servicing Agreement. The Financial Guarantee is the unconditional and irrevocable undertaking of the Financial Guarantor to pay to the Beneficiary that portion of the Guaranteed Amounts (as defined below) which shall have become due for payment but shall have remained unpaid by XFS.

The Financial Guarantee is non-cancellable by the Financial Guarantor for any reason, including failure by the Financial Guarantor to receive payment of any guarantee fee due in respect thereof.

The Financial Guarantee is further described below in “*Description of the Financial Guarantee and Related Documents*”.

#### ***Guaranteed Amounts***

Amounts to be guaranteed by the Financial Guarantor under the Financial Guarantee (the “**Guaranteed Amounts**”) will be (i) the amount of regularly scheduled interest which will be payable in respect of the Loan and (ii) the aggregate principal amount which will be payable in respect of the Loan on the Loan Final Repayment Date (excluding, in each instance, any additional amounts relating to prepayment, early redemption, broken-funding indemnities, penalties, premiums, default interest or interest on interest).

#### ***Payment of Guaranteed Amounts***

Payment of Guaranteed Amounts will be made without withholding or deduction for, or on account of, any present or future tax, duties, assessment or other governmental charges of whatever nature, unless the withholding or deduction of such tax, duties, assessment or other governmental charges is required by law or regulation or administrative practice of France.

If any such withholding or deduction is required by law, regulation, or administrative practice in France (but no other jurisdiction), the Financial Guarantor shall, to the extent permitted by law and subject to certain exceptions pay such additional amounts as may be necessary to ensure that the net amounts receivable by the Beneficiary after such withholding or deduction shall equal the amount which would have been received by the Beneficiary in the absence of such withholding or deduction.

#### ***Waiver of rights and defences***

To the fullest extent permitted by applicable law, the Financial Guarantor expressly waives for the benefit of the Beneficiary and agrees not to assert any and all rights (whether by counterclaim, set-off, avoidance or otherwise and whether as Financial Guarantor or in any other capacity) and defence to the extent such rights or defences may be available to the Financial Guarantor to avoid payment of its obligations under the Financial Guarantee in accordance with the express provisions thereof.

#### ***Transfer of the benefit of the Financial Guarantee***

The Financial Guarantor expressly agrees under the Transfer and Servicing Agreement that (i) the benefit of the Financial Guarantee and any and all receivables arising from the Financial Guarantee is transferred to the Compartment on the Issue Date, and (ii) after the Issue Date, the Guaranteed Amounts will be paid directly to the Compartment.

#### ***Enforcement of the Financial Guarantee***

The Financial Guarantee may only be enforced by the Loan Servicer serving a notice of claim on the Financial Guarantor subject to, and in

accordance with the terms of the Financial Guarantee. The Class A Unitholders have no separate collective or individual rights of enforcement against the Financial Guarantor.

***English governing law***

The Financial Guarantee is governed by, and construed in accordance with, English law.

**Documents related to the Financial Guarantee:**

***Reimbursement Agreement***

Upon payment of the Guaranteed Amounts by the Financial Guarantor, the Financial Guarantor will have the right to reimbursement of such amounts against XFS pursuant to a reimbursement agreement entered into on the Issue Date by and between XFS and the Financial Guarantor (the “**Reimbursement Agreement**”).

The Reimbursement Agreement is further described in “*Description of the Financial Guarantee and Related Documents*”.

***Security granted to the Financial Guarantor***

The following security interests are granted to the Financial Guarantor as security for sums due by XFS to the Financial Guarantor under the Reimbursement Agreement, the Maintenance Guarantee Letter of Request and the guarantee fee letter (the “**Guarantee Fee Letter**”) dated the Issue Date and executed between XFS and the Financial Guarantor (together, the “**Financial Guarantor Documents**”):

- (i) the Assignment of the XL Guarantee Agreement;
- (ii) the Pledge of the General Collection Account;
- (iii) the XF Shares Account Pledge Agreement;
- (iv) the XB Shares Account Pledge Agreement; and
- (v) the Loss Payee Arrangement,

together, the “**Financial Guarantor Related Security**” (see “*The Financial Guarantee and Related Documents*”).

***Limitations to recourse***

The Reimbursement Agreement provides that the Financial Guarantor shall have no recourse against any assets of XFS other than recourse assets defined therein and assets encumbered as Related Security and shall not take any action or any other steps for the winding up or for the appointment of a receiver or similar officer over any or all of XFS’s revenues and assets.

***English governing law***

The Reimbursement Agreement is governed by, and construed in accordance with, English law.

## INTERCREDITOR AGREEMENT

### *Intercreditor Agreement*

An intercreditor agreement is entered into amongst certain creditors of XFS (being the Financial Guarantor as guarantor under the Financial Guarantee, MLIBL as lender under the Second Warehouse Facility, MLCMB as lender under the Loan Agreement, and BRED Banque Populaire as loan servicer, and in the presence of the Compartment as represented by the Management Company) on the Issue Date (the “**Intercreditor Agreement**”) in order to:

- (a) ensure the limited recourse mechanism between creditors of XFS and the segregation between indebtedness incurred under the Loan Agreement, the Related Security and the Financial Guarantor Security and indebtedness incurred under the Second Warehouse Facility and the MLIBL Related Security;
- (b) organise the sharing of any enforcement action that may be undertaken by (i) MLCMB as the Lender under the Loan Agreement, (or as the case may be, the Compartment upon transfer of the Loan Receivable and the Related Security), (ii) the Financial Guarantor as guarantor under the Financial Guarantee, and under the Maintenance Counter Guarantee (as defined below) and (iii) MLIBL as lender under the Second Warehouse Facility and as Guarantor under the Maintenance Guarantee; and
- (c) organise the enforcement rights and related proceeds under the Related Security and the common security (the “**Common Security**”), being the XF shares account pledge, the XB shares account pledge, the pledge of the General Collection Account and the Loss Payee Arrangement, which are granted both to MLIBL as lender under the Second Warehouse Facility and issuer of the Maintenance Guarantee and the Financial Guarantor and issuer of the Maintenance Counter Guarantee (*see “The Intercreditor Agreement”*).

## THE LEASE PORTFOLIO

### *The Lease Portfolio*

The Lease Portfolio will consist of the aggregate of the equipment leases contracts contributed to XFS by XB with effect on 1 December 2002 and by XB and XF with effect on 28 March 2003 and of equipment lease contracts reloaded by XFS between 1 December 2002 and 31 May 2003 and originated by XF for the account of XFS and all other rights, title, benefit and interest in relation thereto but excluding any of the same which may have been redeemed at such time.

The statistical elements and other data relating to the Lease Portfolio are further described below in “*Statistical Analysis of the Lease Portfolio*”. The contribution and origination of the Lease Portfolio is further described below in “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment*” and in “*Origination and Management of the Lease Portfolio*”. The various standard forms of Lease Contracts are further described below in “*Legal Description of the Lease Contracts*”.

### *Eligibility Criteria upon contribution*

XF and XB represented and warranted to XFS that the Lease Contracts would conform to certain eligibility criteria (the “**Lease Eligibility Criteria**”) (see “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment*”).

The representations and warranties and the indemnities granted to XFS in this respect are further described below in “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment – The 2002 Contribution Agreement and the 2002 Indemnity Agreement – The 2003 Contribution Agreement and the 2003 Indemnity Agreement*”.

### *Eligibility Criteria as adjusted on the Issue Date*

On the Issue Date, the Lease Contracts meet the positive and negative criteria described in “*Statistical Analysis of the Lease Portfolio*”. The content of the standard form contracts are more particularly described in “*Legal Description of the Lease Contracts*”.

### *Valuation*

On 31 May 2003 (the “**Cut-Off Date**”), the valuation of the Lease Portfolio amounted to € 434,948,119 (being € 423,160,716 of outstanding principal value and € 11,787,403 of current receivable value).

### *Administration of the Lease Contracts*

The administration and servicing of the Lease Contracts will be undertaken by XF pursuant to and, in accordance with the terms of an administration services agreement entered into with *inter alia* XF and dated 16 December 2002, as amended (the “**Administration Services Agreement**”) (see “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment*”) or, upon its replacement in certain limited circumstances, by EDS, pursuant to a back-up administration services agreement to be entered into with *inter alia* EDS on the Issue Date (the “**Back-up Administration Services Agreement**”) (see “*Description of the Back-up Servicing and Back-up Maintenance of the Lease Portfolio and the Equipment*”).

### *Maintenance of Equipment under the Lease Contracts*

The maintenance of the Equipment leased under the Lease Contracts will be undertaken by XF pursuant to and in accordance with the terms of a maintenance services agreement entered into with *inter alia* XF and dated 16 December 2002, as amended (the “**Maintenance Services Agreement**”) (see “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment*”) or, upon its replacement in certain limited circumstances, by EDS pursuant to a back-up maintenance services agreement entered into with *inter alia* EDS on the Issue Date (the “**Back-up Maintenance Services Agreement**”) (see “*Description of the Back-up Servicing and Back-up Maintenance of the Lease Portfolio and the Equipment*”).

## THE CLASS A UNITS AND THE CLASS R UNIT

### The Class A Units:

#### *Form and Status*

The € 398,000,000 Class A Units are issued on the Issue Date pursuant to the General Regulations, the Compartment Regulations and the Class A Units Subscription Agreement (see “*Terms and Conditions of the Units*”). The Class A Units are backed by the Loan Receivable and the Related Security. The Class A Units will rank *pari passu* and rateably without any preference or priority among themselves. As between the classes of Units, the Class A Units will rank in priority to the Class R Unit.

#### *Issue Price and Issue Date*

The Class A Units are issued on the Issue Date, being 17 July 2003, at par value.

#### *Interest Amount*

Each Class A Unit will bear interest on its outstanding principal amount (the “**Outstanding Principal Amount**”) from, and including, the Issue Date to (but excluding) the earlier of (i) the date on which the Outstanding Principal Amount of each Class A Unit is reduced to zero and (ii) the Final Maturity Date. Interest accrued in respect of each Class A Unit (the “**Interest Amount**”) will be payable quarterly in arrear on the eighth Business Day following the last Business Day of each calendar quarter (each a “**Payment Date**”). The first Payment Date in respect of the Class A Units is 10 October 2003.

The Rate of Interest applicable to the Class A Units for each Interest Period will be three month EURIBOR plus the Unit Margin. The Unit Margin in respect of the Class A Units will be 0.40 % *per annum* (the “**Unit Margin**”).

Whenever it is necessary to compute an amount of interest in respect of any of the Class A Units for any period, such interest will be calculated on the basis of actual days elapsed and a 360-day year.

The Class A Unitholders will only receive interest payments after payment by the Compartment of certain priority amounts (see “*Terms and Conditions of the Units – Priority Orders of Payments*”).

#### *Principal Amount*

No principal amount in respect of a Class A Unit (“**Principal Amount**”) will be due on any date prior to the Final Maturity Date unless the Compartment, as at any Payment Date, has available funds after payment in full of all payments scheduled to be payable on any such Payment Date (including the Interest Amount).

The Class A Units shall then be redeemed to the extent of such available funds. Therefore it is possible that the Class A Units will be redeemed in full prior to the Final Maturity Date (see “*Statistical Analysis of the Lease Portfolio – Weighted Average Life of the Class A Units and Assumptions*”).

#### *Final Maturity Date*

Unless the Units have been previously redeemed in full, the Outstanding Principal Amount of all Class A Units will be due and payable on the Final Maturity Date, being 31 March 2010.

#### *Payments*

All payments of Interest Amount and/or Principal Amount will be made subject to applicable withholding or deduction for or on account of tax (if any), without the Compartment or any Paying Agent being obliged to pay any additional amounts in respect of any such withholding or deduction.

**Limited Recourse and Non Petition** The holders of Units relating to the Compartment shall have no claim against, nor any right to obtain any payment deriving from, the assets of any other compartment of the FCC. Therefore, the holders of Units relating to the Compartment may not be entirely and timely paid under the Compartment Regulations whereas the holders of units of any other compartment may be paid entirely and timely under such other compartment regulations.

As a consequence of the above, upon subscribing or acquiring any Class A Unit representing the Loan Receivable allocated to the Compartment, the relevant subscriber or acquirer of such Class A Unit shall be deemed to waive automatically:

- (a) any claim it may have against the assets of any other compartment of the FCC;
- (b) any contractual claim it may have against the FCC and the Compartment; and
- (c) any claim it may have against the FCC and the Compartment for an amount greater than the Compartment Available Funds (as defined below) and in proportion to its respective interests therein, in accordance with the allocation of payments determined in the Compartment Regulations.

The Class A Units are governed by, and construed in accordance with, French law.

**Ratings** The Class A Units are, upon issue, expected to be rated by the Rating Agencies as follows: *Moody's Aaa*, *S&P AAA* and *Fitch AAA*.

A 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 only address the likelihood of timely receipt by any Class A Unitholder of interest on the relevant Class A Unit and the likelihood of receipt by any Unitholder of principal of the relevant Class A Unit by the Final Maturity Date and do not address the likelihood of receipt by any Unitholder of principal prior to the Final Maturity Date. Furthermore, the ratings on the Units 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 the Class A Unitholders of interest and principal.

The ratings of the Class A Units are dependent upon, *inter alia*, the rating of the short-term and the long term unsecured, unsubordinated debt obligations of the Financial Guarantor. Consequently, a qualification, downgrade or withdrawal of any such rating by a Rating Agency may have an adverse effect on the ratings of the Class A Units (see also "*Risk Factors*").

**Selling and Transfer Restrictions** The Class A Units are privately placed with (i) qualified investors (*investisseurs qualifiés*) as defined in Article L. 411-2 of the Code and decree no 98-880 of 1 October 1998 acting for their own account and (ii) non-French resident investors (see "*Subscription and Offering of the Class A Units – Selling and Transfer Restrictions*").

**Listing** Application has been made to the Reserved Section of the Paris Stock Exchange for the listing of the Class A Units. The Class A Units shall be admitted to the sub-section "*Parts réservées aux investisseurs qualifiés et aux investisseurs non résidents*" of section "*Fonds Communs de Créances*" of the Reserved Section of the Paris Stock Exchange. It is



expected that the listing will take place on or after 28 July 2003 (the “**Listing Date**”).

***Settlement***

The Class A Units will be admitted to the clearing systems of Euroclear France, Euroclear and Clearstream, Luxembourg (the “**Relevant Clearing Systems**”) and ownership of the same will be determined according to all laws and regulations applicable to such Relevant Clearing Systems. On the Issue Date, the Class A Units are registered in the books of the Relevant Clearing Systems, which shall credit the accounts of any authorised financial intermediary institution entitled to hold accounts on behalf of its customers (an “**Account Holder**”) and affiliated with Euroclear France, Euroclear and Clearstream, Luxembourg. Principal Amount and Interest Amount on the Class A Units will be paid to the person whose name is recorded in the ledger of the above-mentioned Account Holder at the relevant Payment Date.

***Clearing Codes***

017269313

***ISIN Numbers***

FR0000504953

**The Class R Unit:**

***Class R Unit***

The Class R Unit is issued on the Issue Date at par value pursuant to the General Regulations, the Compartment Regulations and the Class R Unit Subscription Agreement (see “*Terms and Conditions of the Units*”). The Class R Unit will not bear interest and may not be redeemed until all Class A Units are redeemed in full, at which time, the holder of the Class R Unit will be entitled to the “*boni de liquidation*”, if any (see “*Terms and Conditions of the Units*”).

## COMPARTMENT AVAILABLE FUNDS AND PRIORITY OF APPLICATION

### *Compartment Available Funds*

On each Payment Date, the available funds of the Compartment (the “**Compartment Available Funds**”) will be constituted by (i) funds paid into the Compartment Distribution Account by XFS and/or the Financial Guarantor, as described above and (ii) if any, proceeds arising from the enforcement of the Related Security.

### *Redemption of the Units*

On each Payment Date, any payments, as they become due and payable on each such date, shall be paid out of the Compartment Available Funds pursuant to the priority orders set out below (the “**Priority Orders of Payments**”).

### *Priority Orders of Payments*

On each Calculation Date provided that no Loan Amortisation Event has occurred and the Related Security has not been enforced in accordance with its terms and the relevant terms of the Intercreditor Agreement, the Management Company shall give instructions to the Custodian which shall give instructions to the Operating Bank to make, up to the Compartment Available Funds on the relevant Payment Date, the following payments out of the Compartment Distribution Account in accordance with the following Priority Order of Payments:

- (i) *first*, sums then due and payable to the Loan Servicer, the Custodian, the Management Company, the Paying Agent, the Operating Bank, the Rating Agencies, the Compartment’s Statutory Auditor *pro rata temporis* and, if any, to any other third party (the “**Third Party Expenses**”), rateably without any preference or priority among themselves;
- (ii) *second*, each Interest Amount then due and payable on each Class A Unit, rateably without any preference or priority among the Class A Units;
- (iii) *third*, each Principal Amount then due and payable up to the remaining Compartment Available Funds after payment in full of amounts referred to in (i) to (ii) (inclusive) above (the “**Compartment Available Surplus**”); and
- (iv) *fourth*, after redemption in full of all the sums due under the Class A Units, in payment of any amount due under the Class R Unit.

On each Calculation Date following the occurrence of a Loan Amortisation Event and the enforcement of the Related Security in accordance with its terms and the relevant terms of the Intercreditor Agreement, the Management Company shall give instructions to the Custodian which shall give instructions to the Operating Bank to make, up to the Compartment Available Funds on the relevant Payment Date, the following payments out of the Compartment Distribution Account in accordance with the following Priority Order of Payments:

- (i) *first*, (in repayment to XFS of) any sums sufficient for XFS to comply with its liability in respect of taxes until the next Payment Date (as determined by the Controlling Party in accordance with the information made available to it by XFS upon the Controlling Party’s request);
- (ii) *second*, (in repayment to XFS of) any sums sufficient for XFS to pay any sums due and payable to the Hedging Provider or the Hedging Guarantor under the Hedging Agreement (not including termination costs, if any) (as determined by the Controlling Party

in accordance with the information made available to it by XFS upon the Controlling Party's request);

- (iii) *third*, (in repayment to XFS of) any sums sufficient for XFS to pay its operating expenses then due and payable or which are to become due and payable until the next Payment Date (as determined by the Controlling Party in accordance with the information made available to it by XFS upon the Controlling Party's request);
- (iv) *fourth*, sums then due and payable to the Loan Servicer, the Custodian, the Management Company, the Paying Agent, the Operating Bank, the Rating Agencies, the Compartment's Statutory Auditor *pro rata temporis* and, if any, any other Third Party Expenses, rateably without any preference or priority among themselves;
- (v) *fifth*, the fees then due and payable to the Financial Guarantor pursuant to the Financial Guarantor Documents;
- (vi) *sixth*, each Interest Amount then due and payable on each Class A Unit, rateably without any preference or priority among the Class A Units;
- (vii) *seventh*, in payment, on a *pari passu* and *pro rata* basis, of each Principal Amount then due and payable on each Class A Unit, such as determined in accordance with Clause 18.2 of the Compartment Regulations;
- (viii) *eighth*, after redemption in full of all the sums due under the Class A Units, and payment of all other sums due under items (i) to (vii) (inclusive) above, in payment of each remaining amount then due and payable to the Financial Guarantor pursuant to the Financial Guarantor Documents; and
- (ix) *ninth*, after redemption in full of (a) all the sums due under the Class A Units and payment of all other sums due under items (i) to (viii) (inclusive) above and (b) (subject to the Loan having been repaid in full and all amounts due by XFS to the Financial Guarantor under the Reimbursement Agreement having been repaid in full) all termination costs (if any) under the Hedging Agreement, in payment of any amount due under the Class R Unit.

## THE COMPARTMENT

*Information set out below on the general principles and features of the Compartment provides for a summary of the General Regulations and the Compartment Regulations. Prospective investors, subscribers and Class A Unitholders should take into account all the information provided in this Offering Circular before taking any investment decision concerning the Class A Units which are the subject of this Offering.*

### Legal Framework

The Compartment, which is the FCC acting through the Compartment, will be established on the Issue Date.

The Compartment is governed by Articles L. 214-5, L. 214-43 to L. 214-49 and L.231-7 of the Code, the Decree, the General Regulations and the Compartment Regulations.

### The FCC and the General Regulations

The FCC is an umbrella mutual debt fund (*fonds commun de créances à compartiments*) governed by Articles L.214-5, L.214-43 to L.214-49 and L.231-7 of the Code, the Decree, the General Regulations and, in relation to any compartment, the relevant compartment regulations. The FCC is a co-ownership (*copropriété*) with the exclusive purpose of acquiring receivables arising from loans made by any entity of the Merrill Lynch group entitled to carry out operations in France under the freedom to provide services within the meaning of the European Union directive no. 2000/12/CE, to any French entity of the Xerox group, and any related guarantees and/or security related thereto, and issuing debt securities in the form of units (*parts*) representing the said receivables.

The FCC is not a separate legal entity. The provisions of the French Civil Code (*Code civil*) concerning co-ownership (*indivision*) do not apply to the FCC. The same is true with respect to Articles 1871 and 1873 of the French Civil Code (*Code civil*).

As an umbrella mutual debt fund (*fonds commun de créances à compartiments*), the FCC may therefore consist of several compartments, each of which will issue units representing the receivables specifically allocated to it.

On or prior to the Issue Date, the Custodian and the Management Company will enter into the General Regulations which set out, *inter alia*, (i) the general operating rules of the FCC, (ii) the general rules concerning the creation, the operation and the liquidation of the FCC's compartments and (iii) the respective duties, obligations, rights and responsibilities of the Management Company and of the Custodian.

For the purpose of interpreting the General Regulations and the relevant compartment regulations applicable to any compartment:

- in the event that the provisions of such compartment regulations contradict the provisions of the General Regulations, the General Regulations shall prevail. However, such compartment regulations may expressly provide otherwise provided that their provisions do not, in any way, affect the strict segregation of assets and liabilities between the different compartments; and,
- in the event that the provisions of such compartment regulations contradict the provisions of the compartment regulations relating to another compartment, the compartment regulations which were first entered into shall prevail.

In accordance with the provisions of the General Regulations, each compartment of the FCC shall be governed by its own specific compartment regulations which set out, *inter alia*, (i) the relevant receivables and security (if any) that are acquired by the FCC and allocated to the compartment; (ii) the units issued by the compartment; (iii) the credit enhancement relating to the said units; and (iv) how the compartment may borrow money, as the case may be; it is also further provided that these compartment regulations shall also set out, as the case may be, the conditions under which (i) additional receivables and security may be acquired by the FCC and allocated to the compartment and (ii) additional units related to such receivables are issued.

Pursuant to the General Regulations the exact nature and characteristics of the receivables acquired by the FCC and allocated to any compartment will be determined in the relevant compartment regulations. Subject to the provisions of the relevant compartment regulations, such receivables may not be already pledged (*immobilisées*), doubtful (*douteuses*) or subject to recovery procedures (*litigieuses*) at the time they are acquired by the FCC and allocated to such compartment unless the holders of units issued by that compartment are the relevant

originator(s) of such receivables, qualified investors or non-French resident investors, in accordance with Article 6 of the Decree.

### **Establishment and operation of the compartments of the FCC**

Pursuant to the second indent of Article L. 214-43 of the Code, the FCC may comprise several compartments each of them being jointly established by the Custodian and the Management Company. In accordance with French law and subject to the provisions of the General Regulations, each compartment gives rise to the issuance of units, in relation to the receivables allocated to such compartment. The proceeds received from the issuance of the units with respect to a given compartment are allocated by the Management Company to the purchase of the receivables arising from loans made by any entity of the Merrill Lynch group entitled to carry out operations in France under the freedom to provide services within the meaning of the European Union directive no. 2000/12/CE to any French entity of the Xerox group and of any related guarantees and/or security during the establishment or operation of the said compartment, the said receivables being exclusively allocated by the Management Company to such compartment. Consequently, the cash received with respect to the receivables allocated to a given compartment shall be exclusively allocated to the payment of the principal, interest, commissions and expenses due in relation to that compartment. Likewise, defaults on the receivables allocated to a given compartment shall be borne by that compartment and not by the other compartments, provided that the General Regulations provide that the unitholders of that compartment shall be liable for the debts of the FCC only to the extent of the assets allocated to that compartment and on a *pro rata* basis of their respective share in that compartment.

Pursuant to the General Regulations, the establishment of any new compartment must not:

- (i) result in any modification whatsoever in the assets of the then existing compartment(s);
- (ii) result in any modification whatsoever in the financial characteristics of the units issued in relation to the assets of the then existing compartment(s);
- (iii) result in a deterioration or withdrawal of any current rating of the units; or
- (iv) violate any applicable law or regulation.

Additionally, and prior to the establishment of any new compartment, the Custodian and the Management Company shall give notice in writing of such establishment to the Rating Agencies.

### **Liquidation of compartments**

The FCC will be established on the establishment date of its first compartment. Each compartment shall remain independent and distinct from any other compartment. Consequently, the Management Company may liquidate a given compartment, in compliance with the provisions of Article L. 214-43 of the Code and of Article 6 of the Decree, without having to liquidate another compartment of the FCC or the FCC generally, except where no other compartment remains in existence at the liquidation date of that compartment.

As from the Issue Date, and in compliance with Articles L.214-5, L. 214-43 to L. 214-49 and L. 231-7 of the Code, the FCC and the various compartments shall be exclusively managed by one and only one management company. Equally, there is only one custodian of the assets of the FCC for the whole duration of the FCC and for all the compartments. The same is true for the auditors of the FCC who are designated by the Management Company.

### **Accounting Principles of the Compartments**

Pursuant to Article L. 214-48 V of the Code, each compartment of the FCC holds and publishes separate accounts within the accounts of the FCC.

### **Limitation and Waiver of Recourse**

Without prejudice to the obligations and recourse of the FCC, represented by the Management Company, each holder of units acknowledges that it shall have no direct recourse, whatever the circumstances may be, against the obligors of the receivables purchased by the FCC and whatever the compartment to which such receivables have been exclusively allocated may be.

Each holder of units relating to a compartment shall not have any claim against, or any right to obtain any payment deriving from, the assets of any other compartment of the FCC. Therefore, the unitholders relating to a

compartment may not be paid fully and in a timely manner under the compartment regulations applicable to the said compartment whereas the unitholders of any other compartment may be paid fully and in a timely manner under such other compartment regulations.

As a consequence of the above, upon subscribing or acquiring any unit representing receivables allocated to a compartment, the relevant subscriber or acquirer of such unit shall be deemed to waive automatically:

- (a) any claim it may have against the assets of any other compartment of the FCC; and
- (b) any claim it may have against such compartment for an amount greater than the available funds of such compartment and in proportion to its respective interests therein, in accordance with the allocation of payments determined in the relevant compartment regulations.

Finally, the Management Company expressly and irrevocably undertakes, upon the conclusion of any agreement, in the name and on behalf of any compartment of the FCC, with any third party, to arrange for such third party to:

- (i) expressly and irrevocably waive any claim it may have against the assets of any other compartment;
- (ii) expressly and irrevocably waive any contractual claim it may have against the FCC and the said compartment; and
- (iii) expressly and irrevocably waive, subject to the allocation of payments provisions determined in the relevant compartment regulations, any claim it may have against the said compartment for an amount greater than the available funds of such compartment.

#### **The Compartment and the Compartment Regulations**

The Compartment will be jointly established by the Custodian and the Management Company.

With respect to the Compartment, the Management Company and the Custodian will execute the Compartment Regulations on or prior to the Issue Date.

The proceeds arising from the issuance of the Class A Units and the Class R Unit will be allocated by the Management Company, acting in the name and on behalf of the FCC with respect to the Compartment, to the purchase of the Loan Receivable and the Related Security on the Issue Date.

Pursuant to the Compartment Regulations and in accordance with the General Regulations, the Loan Receivable may not be already pledged (*immobilisée*), doubtful (*douteuse*) or subject to recovery procedures (*litigieuse*) at the time it is acquired by the Compartment.

Pursuant to the Compartment Regulations, the Compartment shall not purchase additional receivables and shall not issue any further units after the Issue Date.

Pursuant to the Compartment Regulations, the Compartment may not have recourse to borrowings.

Pursuant to the Compartment Regulations and in accordance with any law and regulation applicable on the Issue Date, the Compartment may neither pledge the Loan Receivable it has purchased nor may it transfer it, except (i) upon the liquidation of the Compartment pursuant to the provisions of the Compartment Regulations and then only under the conditions set forth therein or (ii) in the event that the Loan Receivable becomes a matured debt (*dette échue ou déchue de son terme*).

The Compartment is not allowed to acquire additional receivable(s) after the Issue Date.



## THE FINANCIAL GUARANTOR

*The information appearing in this section has been prepared based on the information delivered by the Financial Guarantor, and has not been independently verified by the Compartment, the Management Company, the Custodian, the Lead Manager or any of their affiliates. Accordingly, notwithstanding anything to the contrary herein, none of the above mentioned entities, assumes any responsibility for the accuracy, completeness or applicability of such information.*

### MBIA ASSURANCE S.A.

#### General

MBIA Assurance S.A. (“**MBIA**”) is a *société anonyme* that was created and incorporated 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 Commercial Code (*Code de 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 rates the financial strength of MBIA Insurance Corp. and MBIA “**Aaa**”.

S&P rates the financial strength of MBIA Insurance Corp. and MBIA “**AAA**”.

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), (€ 1,389,753) and € 7,066,119, 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 ending 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 € 32,357,277, € 31,002,236 and € 38,068,355, 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 Table<sup>1</sup>**  
(thousands of euros)

	<b>31 December 2002</b>	<b>31 December 2001</b>
	<b>(audited)</b>	<b>(audited)</b>
<b>Indebtedness</b>		
– Funds Held <sup>2</sup>	0	499
<b>Shareholders' Equity</b>		
– Common stock, par value € 15 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
<b>Total Shareholders Equity</b>	<b>€ 38,068</b>	<b>€ 31,002</b>
<b>Total Capitalisation and Indebtedness<sup>3</sup></b>	<b>€ 30,068</b>	<b>€ 31,501</b>

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 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 in respect of an insured transaction relating to a past securitisation. There is a corresponding asset of equal value on the MBIA balance sheet. These funds constitute a short-term security deposit and were entirely released on 12th April 2002. There is no medium or long-term indebtedness.

3 There has been no material change in the authorised and issued share capital, and in the capitalisation and indebtedness or the contingent liabilities or guarantees of MBIA 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**  
(thousands 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 <sup>4</sup>	148,301	173,591	251,185
Investor Owned Utilities	254,283	268,731	255,546
<b>Total</b>	<b>10,330,907</b>	<b>5,955,262</b>	<b>4,127,839</b>

4 Consists in large part of risks involving smaller banks and insurance companies.

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.

**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 shareholder<sup>5</sup> and not to pledge its shares in 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, 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.

**Class A Unitholders 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 FCC, the Compartment, the Class A Units, the Loan or the Financial Guarantee.**

**Information in this Offering Circular concerning MBIA Insurance Corp. is provided for background purposes only in view of the importance to MBIA and the MBIA Assurance Agreements. It does not imply that the MBIA Assurance Agreements are guarantees for the benefit of Class A Unitholders. Payments of principal and of interest on the Loan will be guaranteed by MBIA pursuant to the 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.

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:

<b>Name</b>	<b>Age</b>	<b>Title</b>	<b>Other Activities</b>
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 business address of Ms. Decter and Ms. Zurkow is 112, Avenue Kléber, 75116 Paris, France. The business address of Messrs. Caouette, Dubin and Sullivan is 1 Great St. Helen's, London EC3A 6HX, United Kingdom. The business address of Messrs. Dunton, Weill and Wertheim is 113 King Street, Armonk, New York 10504, United States.

MBIA audited accounts as of 31 December 2002 are set out in Appendix 3 of this Offering Circular.

## MBIA INSURANCE CORPORATION

### General

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 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 MBIA to write financial guarantee insurance in the countries of the European community. Generally, throughout the text, references to MBIA Insurance Corp. include the activities of its subsidiaries, MBIA Illinois, MBIA 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 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. performs investment management services for the Company, MBIA-MISC, IMC and selected external clients. In 1998, the company acquired 1838 Investment Advisors, Inc., 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 Services, 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., 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*):

	<u>31 December 2002</u>	<u>31 December 2001</u>
	<b>(audited)</b>	
	<b>(US\$ in thousands)</b>	
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 <sup>1</sup>	1,610,574	1,567,478
Retained earnings	3,943,341	3,572,397
Accumulated other comprehensive income	339,710	71,014
<b>Total Investors' Equity</b>	<b>US\$ 5,908,625</b>	<b>US\$ 5,225,889</b>
<b>Total Capitalisation and Indebtedness<sup>7</sup></b>	<b>US\$ 5,908,625</b>	<b>US\$ 5,225,889</b>

6 Represents the additional contribution from MBIA Inc. above the par value of the common stock.

## 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.

As MBIA Insurance Corp. generally 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, Fitch 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 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:

<b>Name</b>	<b>Age</b>	<b>Position</b>
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 Developments<sup>8</sup>**

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 \$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.

## XEROX FINANCIAL SERVICES

### General

Xerox Financial Services S.A.S. is a simplified joint stock company (*société par actions simplifiée*) incorporated under French law on 26 February 2002 and which is registered with the Nanterre Trade and Companies Registry under number 441 339 389. Its registered office is located at 120 avenue Charles de Gaulle, 92200 Neuilly-sur-Seine, France.

XFS is part of the Xerox group. Its shares are owned by XB (87.5%) and XF (12.5%), except for the bare ownership of one share (*nue propriété*) which is held by Copytrust. Copytrust is 100% owned by a charitable trust. XFS has no subsidiaries and no employees.

XFS was established for the purpose of financing Xerox lease contracts. In this context, XFS has acquired (via the Contribution Agreements) and may enter into further lease contracts and, as the case may be, maintenance and services agreements of Xerox equipment and software (see “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment*” and “*The Second Warehouse Facility and the MLIBL Related Security*”).

XFS will not undertake any business other than as set out in its by-laws (see below).

XFS has not engaged, since its incorporation, in any material activities other than those described herein or incidental to the ongoing corporate maintenance of XFS.

The by-laws of XFS may be inspected at its registered office and at the offices of the Management Company and the Paying Agent.

### Management

Structured Finance Management Limited (“**SFM**”) has been appointed as Chairman of XFS on or prior to Issue Date. It is a limited liability company incorporated and governed by the laws of England, with registered number 385394, whose principal office is located at Blackwell House, Guildhall Yard, London EC2V 5AE England.

The Chairman has been appointed as chairman (*président*) of XFS by the Shareholders pursuant to a unanimous resolution. The Chairman will bear the responsibility of the corporate management of XFS in such capacity and will monitor the relationships of XFS with, *inter alia*, its Shareholders, the Compartment, the Financial Guarantor, the Rating Agencies, the Corporate Service Provider, the Primary Servicer and the Primary Maintenance Providers and the other entities to which XFS is contractually bound.

In accordance with Article L. 227-6 of the French Commercial Code (*Code de commerce*), as regards third parties, the chairman has the most extensive powers to bind a *société par actions simplifiée*, even if the chairman’s acts exceed the company’s purpose, unless such *société par actions simplifiée* proves that the third-parties knew that such acts exceeded the company’s purpose or, due to circumstances, could not be unaware of their existence, it being understood that the mere publication of the articles of association of a *société par actions simplifiée* is not a sufficient proof. Pursuant to paragraph 3 of Article L. 227-6 of the French Commercial Code (*Code de commerce*), all the provisions of the company’s articles of association which limit the chairman’s powers may not be raised as a defence against third-parties.

### Financial Statements

The financial year of XFS begins on 1 January and ends on 31 December of each year.

The Statutory Auditor for XFS are Deloitte Touche Tohmatsu.

The audited and certified financial statements of XFS as of 31 December 2002 are attached hereto as Appendix 2 and the proforma financial statements of XFS as of 30 April 2003 are attached hereto as Appendix 3.

### XFS By-Laws

XFS is governed by French applicable laws and regulations and in particular the provisions of Articles 227-1 to 227-20 of the French Commercial Code (*Code de commerce*) and by its by-laws (*statuts*).

The objects of XFS in the context of the financing of the Xerox group, in France, are:

- (A)
  - (i) the signature, performance and management of financial leasing agreements and, as the case may be, of maintenance and services agreements of Xerox equipment and software (the “Leasing Agreements”);
  - (ii) the purchase, holding, management and maintenance of the Xerox equipment and office systems which were the subject of the Leasing Agreements, including the purchase and sale of spare parts and the sale of the said equipment on termination of the Leasing Agreements;
  - (iii) the involvement in financing transactions, in its capacity as lender or borrower, provided that such transactions have been expressly authorised by the shareholders voting unanimously;
  - (iv) and more generally, XFS’s involvement in transactions which enable, directly or indirectly, XFS to fulfil its corporate objects described above (including the execution by XFS of all agreements of an administrative nature), provided that such transactions have been expressly authorised by the shareholders voting unanimously.
- (B) The signature of all Leasing Agreement and any agreements relating to the purchase of Xerox equipment and office systems which are the subject matter of the agreements shall only be carried out to the extent permitted by the agreements expressly authorised by a unanimous vote of the shareholders.
- (C) The financing transactions to which XFS shall be party either as lender or borrower shall only take place under financing agreements whereby the lenders shall have waived (i) all recourses against the assets of XFS other than the assets financed by such lenders, (ii) all rights to seek the contractual liability of XFS and (iii) all rights to start any action or take any step with a view to opening bankruptcy proceedings against XFS.

With the exception of the financing agreements described above and the Leasing Agreements, all the agreements to which XFS is a party should contain a waiver by all the other parties to those agreements of (i) all rights to seek the contractual liability of XFS and (ii) all rights to start any action or take any step with a view to opening bankruptcy proceedings against XFS

- (D) Unless expressly authorised by the shareholders voting unanimously, XFS may not have any other activity.

XFS will have a duration of 99 years from 26 February 2002, unless it is wound up early or its term is extended.

The financial year begins on 1 January and ends on 31 December of each year.

The share capital is fixed at €488,022,710, divided into 48,802,271 shares of a nominal value of €10 each, entirely paid up on incorporation comprising 48,802,270 class A shares and 1 (one) class B share (whose bare-ownership is held by Copytrust).

Except for a transfer due to the forced exercise of a pledge on the shares:

- (a) all the shares held by XB may not be transferred, by any means whatsoever, until 31 December 2005;
- (b) only 2,401,087 shares among the shares held by XB may not be transferred, by any means whatsoever, from 1 January 2006 until 16 April 2006;
- (c) all the shares held by XF may not be transferred, by any means whatsoever, until 16 April 2006.

These prohibitions on transfer result from undertakings made by XF and XB in the Contribution Agreements.

Any transfer of one or more shares in XFS will be subject to prior approval granted by the unanimous collective resolution of the shareholders. The transferor must comply with the procedure of consent described in the by-laws. Any transfer made in breach of this procedure will be null and void.

The Chairman of XFS is appointed and renewal of his term is voted by a collective unanimous resolution of the shareholders.

The Chairman represents XFS with regard to third parties. He is vested with the widest powers to act in all circumstances in the name of XFS, within the scope of the corporate objects and subject to the competences

exercised collectively by the shareholders. The Chairman does not have the authority to conclude agreements which are not within the scope of the corporate objects.

As an internal measure and without this limitation of powers being enforceable against third parties, the Chairman may not make any decision, take any step or make any omission that would amend or breach the agreements authorised expressly by the collectivity of shareholders, without obtaining the prior unanimous approval of the shareholders.

Similarly, as an internal measure and without this limitation of powers being enforceable against third parties, the Chairman may not do any of the following without obtaining the prior unanimous approval of the class B shareholder (and in the event that the class B share is divided, only the bare owner (nu-propriétaire) has the right to take part in such shareholder decisions (the usufructuary having no such right):

- (i) make any decision relating to the termination of XF as Primary Corporate Servicer, Primary Maintenance Provider or Primary Service Provider under the Corporate Services Agreement, the Maintenance Services Agreement or the Administration Services Agreement respectively, both in relation to the Lease Portfolio and the Second Lease Portfolio;
- (ii) make any decision relating to the termination of EDS as Back-up Maintenance Provider or Back-up Service Provider under the Back-up Maintenance Services Agreement or the Back-up Administration Services Agreement respectively, both in relation to the Lease Portfolio and the Second Lease Portfolio.

The Chairman may, under his own responsibility, delegate his powers to any authorised representative of his choice.

The following decisions must be taken by an unanimous vote of the shareholders:

- (i) any decision relating to the approval of a new shareholder;
- (ii) any decision that would lead to the amendment of XFS by-laws, and in particular any increase or reduction in capital (subject to the exception provided in paragraph (2) (v) below);
- (iii) any decision required to be taken on a unanimous vote of the shareholders pursuant to the French Commercial Code (*Code de commerce*);
- (iv) the following decisions:
  - (a) to wind up XFS early, or more generally to take any decision with a view to the voluntarily liquidation of XFS;
  - (b) to merge with any other entity;
  - (c) appointment, removal or renewal of the Chairman and the determination of its remuneration;
  - (d) authorisation to be granted to the Chairman, as described above.

Copytrust holds a veto right on the above decisions.

All other decisions that the law or these by-laws reserve to the shareholders shall be taken on the majority of the shareholders.

### **Copytrust**

Copytrust is a limited liability company incorporated under and governed by the laws of Jersey, with a share capital of EUR 10,000 and whose registered office is at Whiteley Chambers, Don Street, St Helier, Jersey JE4 9WG.

Copytrust is wholly owned by Ogier Corporate Trustee Limited, as trustee of the Copytrust Charitable Trust which is established under the laws of Jersey.

### **Copytrust Regulations**

The Copytrust Regulations refer to the French governed law regulations dated the Issue Date and made between (i) Copytrust, (ii) Ogier Corporate Trustees Limited, acting as trustee of the Copytrust Charitable Trust, (iii) Merrill Lynch International (“MLI”), and (iv) the Financial Guarantor (the “**Copytrust Regulations**”).



Pursuant to the Copytrust Regulations, the representative of Copytrust shall consult with the Financial Guarantor and MLI, as parties to the Joint Creditors Regulations as defined below, 7 business days prior to any XFS shareholders' decision (each, a "**Proposed Decision**") where the unanimous agreement of the shareholders of XFS or the exclusive authorisation of Copytrust is required in order for the Financial Guarantor and MLI to give their respective recommendations to Copytrust in respect of the Proposed Decision.

In the event that a Financial Guarantor Trigger Event (as defined below) has occurred (such as Copytrust may be aware of or may be notified of by the Financial Guarantor in accordance with the Joint Creditors Regulations (as defined below)), whether within the 7 business day period referred to above or before the beginning of such period, and until the Class A Unitholders have been repaid in full, Copytrust shall, 10 business days prior to any Proposed Decision, (a) cease to take the recommendations of the Financial Guarantor and MLI and (b) consult with the Management Company in accordance with the Compartment Regulations. Upon consultation by Copytrust, the Management Company shall be under no obligation to provide the above-mentioned recommendation in the event that the said Management Company has not been provided with any and all necessary information which it has requested in order to enable the latter to consult with the Rating Agencies and obtain confirmation from each Rating Agency that the anticipated decision of Copytrust for the relevant Proposed Decision (a) will not trigger the downgrading, credit watch or withdrawal of at least one of the then current ratings of the Class A Units, (b) will prevent such downgrading, credit watch or withdrawal or (c) if a downgrading is to occur in any event, will not prevent a worse downgrading.

The Copytrust Regulations provide that the Management Company and its directors shall not be liable vis-à-vis Copytrust or the Compartment or any Unitholder if the Management Company's confirmation (if any) to Copytrust complies with the confirmation it has received from the Rating Agencies (and the French Stock Exchange Commission or any successor thereto, where prior consultation with the latter is required under law) in accordance with the regulations.

### **Joint Creditors Regulations**

The Joint Creditors Regulations refers to the French law governed regulations dated the Issue Date and made between (i) the Financial Guarantor and (ii) MLI (the "**Joint Creditors Regulations**").

Pursuant to the Joint Creditors Regulations, when consulted by Copytrust, the Financial Guarantor and MLI shall consult each other as soon as practicable and, in any event, no later than two business days before the day on which the decision of Copytrust is required in relation to each Proposed Decision. After this consultation, each of the Financial Guarantor and MLI shall provide Copytrust with its respective recommendations in relation to the relevant Proposed Decision no later than two business days before the day on which the decision of Copytrust is required in respect of the relevant Proposed Decision.

Following the occurrence of a Financial Guarantor Trigger Event and the full repayment of the Class A Unitholders, the Financial Guarantor shall no longer give any recommendations to Copytrust in respect of any Proposed Decision and MLI shall be the sole person entitled to give recommendations to Copytrust in respect of any Proposed Decision in accordance with the terms of the Joint Creditors Regulations..

### **The Corporate Services Agreement**

#### ***Corporate Services Agreement***

The Corporate Services Agreement refers to the French law governed agreement dated the Issue Date and made between (i) XFS and (ii) XF in the presence of SFM in its capacity as Chairman (*Président*) of XFS.

#### ***Duties of the Primary Corporate Servicer***

Pursuant to the Corporate Services Agreement, XFS has appointed XF, and XF has expressly accepted to act as Primary Corporate Servicer to carry out its management and corporate administration services (including responsibility for tax and accounting matters, legal and administrative matters and operational management) in addition to management of the transaction documents to which XFS is a party. The relationship between XFS and XF is that of service provider and client and shall not, except as otherwise provided under the Corporate Services Agreement as indicated below, be governed by the provisions of Article 1984 et seq. of the French Civil Code (*Code civil*) relating to agency (*mandat*). XF agrees to act at all times in the best and exclusive interest of XFS in the performance of its duties.

### ***Termination***

Upon the occurrence of any of the termination events or conflict of interest events set out in the Corporate Services Agreement, and if XFS so elects, the Corporate Services Agreement shall be automatically terminated and the appointment of XF as a result cease automatically upon written notice by XFS.

Each party may terminate the Corporate Services Agreement for a material default or breach by the other party of its obligations under the agreement upon notice in writing if (i) the default is capable of remedy and the defaulting party has failed to remedy the default within a period of fifteen (15) calendar days following written notice to that party or (ii) the default is not capable of remedy, upon receipt of such notice, including *inter alia* confirmation in writing by the Chairman of XFS to XF, that XFS has been able to appoint another service provider.

### ***Limited Recourse***

To the extent permitted by applicable law, and unless otherwise permitted in accordance with the Corporate Services Agreement, XF agrees that it shall not render or cause XFS or its Chairman (*Président*) to be held liable for any breach of its obligations under the Corporate Services Agreement nor shall take any action or other steps for the winding up, dissolution or bankruptcy of XFS (or its Chairman) or any of XFS' revenues and assets (or that of its Chairman).

### ***Indemnity***

XF agrees to indemnify XFS and its Chairman in respect of any cost and expenses (if reasonably documented), and any claim, loss or prejudice arising from the occurrence of a default by XF in the performance of its obligations under the Corporate Services Agreement.

## XEROX CORPORATION AND OTHER XEROX GROUP ENTITIES

*The information appearing in this section has been prepared based on the information delivered by the relevant Xerox group entities and has not been independently verified by the Compartment, the Management Company, the Custodian, the Lead Manager or any of their affiliates. Accordingly, notwithstanding anything to the contrary herein, none of the above mentioned entity, assume any responsibility for the accuracy, completeness or applicability of such information.*

### **Xerox Corporation**

Xerox Corporation (“**Xerox**”) is a New York corporation with principal executive offices located at 800 Long Ridge Road, Stamford, Connecticut 06904.

Xerox is The Document Company and a leader in the global document market, selling equipment and providing document solutions including hardware, services and software that enhance productivity and knowledge sharing. Xerox’s document processing activities encompass developing, manufacturing, marketing, servicing and financing a complete range of document processing products, solutions and services designed to make organisations around the world more productive.

### **Xerox Europe**

Xerox Ltd is the managing entity for Xerox’s European businesses. Based in Uxbridge, UK, the European Solutions Group (“**ESG**”) oversees sales and service of all Xerox products and services across Europe. Mirroring Xerox’s overall strategy, the ESG has three primary elements: Office, Production and Services businesses.

The Office business manages all the products Xerox offers for the office environment that are sold directly to customers and through a combination of channels, including resellers and concessionaires. The Production group directly sells Xerox’s high end products for heavy print production markets and sells solutions for the graphic arts market through direct and indirect channels. ESG also sells and provides on-site support through Xerox Global Services, and provides document outsourcing services for customers in both the public and private sectors.

Xerox Ltd was incorporated in 1956 as Rank-Xerox, as a joint venture between Xerox Corporation and The Rank Organisation plc. Xerox bought out Rank’s interest entirely in 1997. The European operation employs about 15,000 people.

Manufacturing, development and engineering facilities are in Dundalk, Ireland, Mitcheldean, England, Venray, the Netherlands and Coslada, Spain. Other operations include a research lab in France, a customer service centre in Ireland that handles billing and other administrative and financial matters, and TeleWeb Centres across Europe.

### **Xerox France**

Xerox – The Document Company SAS, a simplified joint stock company (*société par actions simplifiée*) (“**SAS**”) registered in France under number RCS Bobigny 602 055 311, whose registered office is at 4, rue Nicolas Robert, 93607 Aulnay sous Bois, France (the “**Maintenance Provider**”, “**Administrator**” and, taken together, “**Equipment Servicer**”) performs certain equipment maintenance, repair and other services relating to certain Equipment pursuant to Maintenance and Administrative Services Agreements dated 16 December 2002 as amended on 15 April 2003 and 3 June 2003.

Xerox France is the second largest business of Xerox in Europe. The company also has its own leasing and maintenance business and acts as sole agent (*commissionnaire*) of Xerox Ltd for the sale of the equipment, and acts as sole agent (*commissionnaire*) of Xerox Europe Limited for the maintenance of equipment.

The company’s headquarters are in Aulnay-sous-Bois, France and serves the document processing market in France through a direct sale force of 275 people and a network of 105 concessionaires. The total employees is around 2000 at the end of december 2002.

Xerox France's results at fiscal year end are provided below:

<b>Operating results</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
Revenues	748	798	806	771	729
Operating income <sup>(1)</sup>	31	25	25	37	20

(1) Excluding restructuring charges and financials income and costs

Source: Non-consolidated audited accounts French GAAP in EUR millions

### **Xerobail**

XB is a company established under the laws of France and incorporated as a simplified joint stock company (*société par actions simplifiée*) with registered number R.C.S. Nanterre 338 987 613. XB is an entity, 100% of the share capital of which is owned by Xerox France, created in 1987 for the purpose of providing lease finance for clients of Xerox France. On 1 July 1999, XB contributed its lease portfolio assets to XXFH which is the owner of the leased equipment and the beneficiary of all of its economic rights. Since this contribution of assets to XXFH, XB has acted as undisclosed agent (*commissionnaire*) of XXFH for Unbundled Contracts under a Commissionaire Agreement. With the establishment of XFS in December 2002, the role of XB in providing lease finance has been greatly diminished as XFS will become the principal financing vehicle for clients of Xerox France.

Xerobail's results at fiscal year end are provided below:

<b>Operating results</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
Rental revenue	299	318	304	319	313
Operating income <sup>(1)</sup>	2,9	2,2	1,2	28,4	57,1
Lease receivables managed	715	749	747	706	683

(1) Commissionnaires status from mid 1999

Source: Non-consolidated audited accounts French GAAP in EUR millions

## THE OTHER PARTIES

### **The Lender and the Originator**

MLCMB is the Lender under the Loan Agreement. The registered office of MLCMB is located at Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland and it is a company registered under number 229165. Pursuant to the provisions of the Transfer and Servicing Agreement, MLCMB, as Originator, will assign the Loan Receivable and the Related Security, on the Issue Date, to the Compartment. MLCMB is licensed as a credit institution.

### **The Management Company**

The Management Company is France Titrisation, a French limited company (*société anonyme*) whose registered office is located at 41, avenue de l'Opéra, 75002 Paris, France and registered with the Trade and Companies Registry of Paris under number 353 053 531 and whose sole purpose is to manage French mutual debt funds (*fonds commun de créances*). The Management Company is duly authorised as a management company (*société de gestion*) by the French Stock Exchange Commission under the number 353 053 531 and is established for the sole purpose of the management of mutual debt funds (*fonds commun de créances*).

As of the date of this Offering Circular, the principal shareholders in the Management Company are Caisse Centrale du Crédit Mutuel, BNP – Paribas Securities Services and HSBC-CCF. Unitholders may obtain copies of the Management Company's annual accounts from the Clerk of the Commercial Court of Paris (*Greffé du Tribunal de Commerce de Paris*).

Pursuant to the General Regulations and the Compartment Regulations, the Management Company will participate jointly with the Custodian in the establishment of the FCC and the Compartment and will participate in the establishment of any subsequent compartment relating thereto. The Management Company will be responsible for the management of the FCC, the Compartment and each subsequent compartment, and will represent the FCC, the Compartment and any subsequent compartment towards any third parties as well as in the course of any legal proceedings, either as plaintiff or as defendant. Under the Custodian's supervision, the Management Company shall take all steps which it deems necessary or desirable to protect the Unitholders' rights arising under the Loan Receivable and the Related Security. The Management Company will be obliged to act at all times in the best interest of the Unitholders.

### ***Duties of the Management Company***

Pursuant to the General Regulations and the Compartment Regulations, the Management Company shall be responsible, *inter alia*, for the following:

- (i) entering into and/or amending, jointly with the Custodian, any agreements which are necessary for the operation of the FCC or any compartment and ensuring the proper performance of the said agreements and of the General Regulations and any compartment regulations, as well as compliance by all parties to the General Regulations and the relevant compartment regulations;
- (ii) renewing or terminating, as appropriate, the said agreements, in compliance with the provisions of the General Regulations, the relevant compartment regulations and the said agreements;
- (iii) not entering into, not renewing or not terminating any act and/or agreement if such entering into, renewal or termination will result in a deterioration or withdrawal of any current rating of the units, except if such entering into, renewal or termination will mitigate such deterioration or prevent such withdrawal;
- (iv) ensuring that any party to any agreement entered into by the Management Company on behalf of the FCC and any compartment:
  - (a) waives any claim such a party may have against the assets of any other compartment;
  - (b) waives any contractual claim such a party may have against the FCC and the said compartment; and
  - (c) waives, subject to the allocation of payments provisions determined in the relevant compartment regulations, any claim such a party may have against the said compartment for an amount greater than the available funds of such a compartment;

- (v) appointing the Statutory Auditor with the consent of the French Stock Exchange Commission and ensuring, as the case may be and subject to the same consent, the renewal of the said appointment or replacement of the Statutory Auditor;
- (vi) calculating in a timely manner the amounts due to the Unitholders and third parties as well as determining the amount of fees and expenses allocated to and to be paid by any compartment;
- (vii) giving all instructions to the Custodian, which shall then give all instructions to the credit institution in the books of which the Custodian has opened an account (which indicates the relevant compartment as beneficiary thereof) on behalf of the FCC so that all the debts of the said compartment are immediately paid when due within the limit of the available funds which are allocated to the said compartment;
- (viii) managing the cash relating to any compartment or appoint a cash manager in accordance with the provisions of the relevant compartment regulations applicable to the said compartment;
- (ix) ensuring that, in relation to each compartment, the securities accounts of registered units (*parts nominatives*) are duly kept by the Custodian, or, as the case may be, by one or several appointed agent(s), and that transactions relating to the said securities accounts are properly performed, it being provided that the Custodian or, as the case may be, any appointed agent, shall act as registrar (*teneur de compte*);
- (x) ensuring that the establishment of any new compartment, the acquisition of additional receivables and the security related thereto by any compartment and/or the issue of additional units representing such receivables complies with the then applicable laws and regulations, the provisions of the General Regulations and the relevant compartment regulations, and that such an establishment, acquisition or issue will not result, as the case may be, in a deterioration or withdrawal of any then current rating of the units;
- (xi) preparing, in accordance with any applicable laws and regulations and the relevant compartment regulations, all documents required for the information of, *inter alia*, the Unitholders, the French Stock Exchange Commission and the rating agencies; in particular, the Management Company shall prepare the reports and financial statements referred to in the General Regulations and in the relevant compartment regulations;
- (xii) taking, in the event of serious misconduct (*faute grave*) by the Custodian or in the event that the Custodian is unable to carry out its duties, all necessary or appropriate measures, and, as the case may be, replacing the Custodian; in particular, and subject to comply with any applicable laws and regulations, the Management Company may replace the Custodian if the latter is in breach of its legal or contractual obligations towards the FCC; and
- (xiii) dissolving any compartment and conducting the liquidation thereof when the conditions for such a dissolution as referred to in any applicable laws and regulations and/or the provisions of the relevant compartment regulations are met; the Management Company shall dissolve the FCC when the conditions for such dissolution are met and shall conduct the liquidation of the FCC accordingly.

#### ***Delegation of Duties and Substitution of the Management Company***

Subject to any applicable laws and regulations, the Management Company may delegate to any third party all or part of the duties assigned to the Management Company by law, any agreement, the General Regulations or by any compartment regulations or appoint any third party to perform all or part of such duties, provided however that the Management Company shall remain solely responsible to the unitholders for the performance of its duties regardless of any such delegation and shall be liable for any failure to perform the said duties in accordance with the General Regulations and the relevant compartment regulations. However, any third-party chosen for any delegation or appointed as referred to above shall not be an entity which has sold or may sell receivables to the relevant compartment or an entity having with the first entity, either directly or indirectly, links of capital which confer on one of these entities effective control over the others (more than half of the voting rights).

Based upon a proposal from the Management Company itself or, only on effective and substantive grounds (*cause réelle et sérieuse*), from the Custodian, the Management Company may terminate its duties at any time, provided that the duties of the Management Company shall not terminate prior to the date on which a new duly authorised institution which is capable of performing these duties has been appointed as the new Management Company.



In the event that the license of the Management Company issued by the French Stock Exchange Commission is withdrawn for any reason whatsoever, all necessary authority is hereby granted to the Custodian to appoint a new Management Company which is duly licensed by the said French Stock Exchange Commission.

### **Custodian**

BRED Banque Populaire shall act as the Custodian of the FCC in accordance with the Code, the Decree, the General Regulations and the Compartment Regulations. It will participate, together with the Management Company, in the establishment of the FCC and each compartment.

BRED Banque Populaire is duly incorporated as a *société anonyme coopérative de banque populaire* under the laws of France. BRED Banque Populaire is duly licensed by the French Credit Institutions and Investment Companies Committee (*Comité des Etablissements de Crédit et des Entreprises d'Investissement*) and subject to the regulations of the French Banking and Financial Regulatory Committee (*Comité de la Réglementation Bancaire et Financière*). The head office of the Custodian is located at 18 quai de la Rapée, 75012 Paris, France. It is registered with the Trade and Companies Registry of Paris under number 552 091 795.

### **Duties of the Custodian**

The Custodian is responsible (i) for the custody of the FCC's assets and for the safekeeping of any transfer deed (*bordereau de cession*) required by Article L.214-43 of the Code in relation to any transfer or assignment of receivables to any compartment, (ii) for the monitoring of the compliance of the Management Company's decision with any applicable laws and regulations as well as with the General Regulations and any compartment regulation, and (iii) to ensure compliance by the Management Company with the applicable procedures of the Management Company's decision-making. The Custodian shall take all necessary and appropriate steps in the event of failure by incapacity of, or serious misconduct (*faute grave*) of the Management Company to perform its duties. At the end of each financial year, the Custodian shall certify the inventory (*inventaire*) of the assets of the FCC. The Custodian shall act as registrar (*teneur de compte*) and keep the securities accounts of registered Units (*parts nominatives*), it being provided that such securities accounts may be kept, as the case may be, by one or several appointed agent(s).

Unless provided otherwise in the relevant compartment regulations and in accordance with the relevant transfer and servicing agreement, the relevant servicer shall remain responsible for the custody of any agreement, deed or document which makes up the supporting electronic material (including, as the case may be, electronic form) of any receivable and security acquired by the FCC and allocated to the relevant compartment. The Custodian shall remain solely responsible to the unitholders for such a custody.

However, upon first request of the Management Company and/or the Custodian founded on the protection of the unitholders' interest, any agreement, deed and/or document which is referred to above shall be kept separately by the relevant servicer or delivered by the latter to the Custodian or to any person indicated by the Custodian within a reasonable time.

Unless provided otherwise in the relevant compartment regulations, the Custodian shall be the sole person entitled to operate any account opened in the name of the FCC or for the benefit of any compartment and shall consequently receive any operating instructions related thereto from the Management Company. The Custodian shall verify that no account or sub-account opened in the name of the FCC or for the benefit of any compartment has or may have a debit balance and shall inform the Management Company of any account operations held on behalf of any compartment.

Any account opened in the name of the FCC shall indicate the relevant compartment as beneficiary thereof. Any credit balance on such an account shall form an integral part of the assets of the relevant compartment.

### **Delegation of Duties and Substitution of the Custodian**

The Custodian may delegate to any third party all or part of the duties assigned to the Custodian by law, any agreement, the General Regulations or any compartment regulations, provided however that the Custodian shall remain solely responsible to the unitholders for the performance of its duties regardless of any such delegation and will be liable for any failure to perform such duties in accordance with the General Regulations and the relevant compartment regulations.

Pursuant to the Compartment Regulations, in the event that, at any time, the short term unsecured and unsubordinated debt obligation of the Custodian is assigned a rating below A-1+ by S&P (or A-1 by S&P in the event that the credit balance of the Compartment Accounts (as defined below) represents less than 20% of the

outstanding principal balance of the Class A Units then outstanding), P1 by Moody's or F1+ by Fitch, the Custodian shall be obliged to be substituted by another bank having ratings equal to or above the ratings referred to above and which, within a period of 30 calendar days after the occurrence of such an event, and acceding to the Compartment Regulations as substitute Custodian.

### **Loan Servicer**

Pursuant to the Transfer and Servicing Agreement and in accordance with Article L. 214-46 of the Code, BRED Banque Populaire is the Loan Servicer of the Loan Receivable and the Related Security.

Pursuant to the Transfer and Servicing Agreement, the Loan Servicer shall, for the benefit of the Compartment, be responsible for the management of, and recovery of amounts due under, the Loan Receivable and shall take or ensure that the necessary steps are taken to preserve and exercise the rights arising under the Related Security, with the standard of care of a prudent and skilled manager.

Pursuant to the Transfer and Servicing Agreement, the Loan Servicer has agreed that the Loan Agreement, the Financial Guarantee, any agreements, instruments or any relevant documents related to the Loan Receivable and the Related Security shall be kept by the Loan Servicer under its responsibility. Consequently, the Loan Servicer has undertaken, in accordance with the provisions of the Transfer and Servicing Agreement, to take all reasonable care in safeguarding such documents and to make all appropriate and necessary arrangements for this purpose. Furthermore, the Loan Servicer has agreed, in accordance with the provisions of the Transfer and Servicing Agreement that, as long as it is in charge of their safekeeping, it shall remain liable for the breach of its contractual obligations under the Transfer and Servicing Agreement as safekeeper of such documents and its negligence in the performance of its safekeeping duties thereunder.

Subject to obtaining, upon its request, any appropriate specific mandate (*mandat spécial*), where necessary and as the case may be, the Loan Servicer will be authorised to take such judicial or extrajudicial procedures, or to effect such settlements, as may be necessary for the management and recovery of amounts under the Loan Receivable after having been instructed to do so or if it deems it necessary or appropriate within the context of its authority. The Loan Servicer shall also initiate all such proceedings as are necessary to ensure compliance by XFS and the Financial Guarantor with their obligations and to preserve and enforce the Related Security (see "*Transfer of the Loan Receivable and Loan Servicing*").

Subject always to the provisions of the Transfer and Servicing Agreement, the Loan Servicer may sub-contract or delegate its obligations under the Transfer and Servicing Agreement.

The Financial Guarantor and the Management Company (before the occurrence of a Financial Guarantor Event of Default) or (upon the occurrence of a Financial Guarantor Event of Default) the Management Company solely (or any person appointed by it) shall be entitled to substitute another entity, in relation to the Loan Servicer's rights and obligations under the Transfer and Servicing Agreement, such appointment to be effective on the date of termination of the Loan Servicer's mission, provided that:

- (i) the substitute loan servicer accepts in substance the rights and obligations of the Loan Servicer in respect of the management and of the servicing of the Loan Receivable and the Related Security, and access as Loan Servicer to this Agreement;
- (ii) the substitute loan servicer irrevocably waives all rights of contractual recourse (*responsabilité contractuelle*), which it may have against the FCC, the Compartment and any other compartment of the FCC (if any);
- (iii) in accordance with Article L. 214-46 of the Code, the Management Company has given prior notice of such substitution to XFS, as the Borrower under the Loan Agreement by ordinary letter (*lettre simple*); and
- (iv) such substitution shall comply with all applicable laws and regulations.

### **Operating Bank**

Pursuant to the compartment accounts agreement entered into on or prior to the Issue Date, between the Management Company, the Custodian and BRED Banque Populaire as the Operating Bank (the "**Compartment Accounts Agreement**"), the Custodian will, acting at the request of the Management Company and in accordance with the Compartment Regulations, open the Compartment Distribution Account and the securities

account (*compte titres*) related thereto (the “**Compartment Accounts**”) in the name of the Compartment in the books of the Operating Bank, each of which indicates the Compartment as beneficiary of such accounts.

The Compartment Accounts will only be operated upon instructions of the Custodian, acting upon instruction of the Management Company, and in accordance with the relevant provisions of the Compartment Accounts Agreement. The Operating Bank will act under the responsibility of the Custodian, and agrees to be bound by the Priority Orders of Payments set out in the Compartment Regulations.

A securities account will be opened in relation to the Compartment Distribution Account in the books of the Operating Bank. The Compartment Accounts and the related securities accounts may only be debited within the limit of their respective credit balance.

Between a Payment Date and the Calculation Date relating to the next Payment Date, any temporarily available cash standing from time to time to the credit of the Compartment Distribution Account may be invested by the Operating Bank, upon instructions of the Management Company and under control of the Custodian, in accordance with the Compartment Regulations and the Compartment Accounts Agreement and subject to the provisions of Clause L. 214-43 of the Code and the Decree, in the following permitted investments (the “**Permitted Investments**”):

- (i) French government treasury bonds (*bons du Trésor*);
- (ii) debt securities referred to in Article L. 211-1 2° of the Code and denominated in Euro, provided that they are traded on a regulated market located in a country that is a member of the European Economic Area, with the exception of securities giving access directly or indirectly to the share capital of a company, having a maturity at least one (1) Business Day prior to the said Calculation Date and having a rating of no lower than A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch or having a rating otherwise acceptable to the Rating Agencies;
- (iii) negotiable debt instruments (*titres de créances négociables*), having a maturity at least one (1) Business Day prior to the said Calculation Date and having a rating of no lower than A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch or having a rating otherwise acceptable to the Rating Agencies;
- (iv) units issued by a SICAV (*société d’investissement à capital variable*) or a mutual fund (*fonds commun de placement*) denominated in Euro, provided that the SICAV or FCP is invested primarily in the securities described in clauses 1, 2 and 3 of Article 4 of the Decree, but excluding investments in funds described in Articles L. 214-36 and L. 214-42 of the Code, having a maturity at least one (1) Business Day prior to the said Calculation Date and having a rating of no lower than A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch or having a rating otherwise acceptable to the Rating Agencies; or
- (v) units issued by a French mutual debt fund (*fonds commun de créances*), with the exception of Units issued by the Fund denominated in Euro and having a rating of no lower than A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch or having a rating otherwise acceptable to the Rating Agencies,

provided that the Management Company shall ensure that the Operating Bank complies with the investment rules described in the Compartment Regulations.

The Compartment’s temporarily available cash may also be deposited with a credit institution (*établissement de crédit*) or the *Caisse des dépôts et consignations* in the form of a short-term deposit of no less than one month, provided that the short-term obligations of such credit institution or of the *Caisse des dépôts et consignations* are rated no lower than A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch.

The Compartment’s temporarily available cash may also be invested in other instruments as authorised by any applicable regulations and subject to the prior confirmation by the Rating Agencies that the relevant investment shall not adversely affect one of the then current ratings of the Class A Units.

Pursuant to the Compartment Regulations, in the event that, at any time, the short term unsecured and unsubordinated debt obligation of the Operating Bank is assigned a rating below A-1+ by S&P (or A-1 by S&P in the event that the credit balance of the Compartment Accounts (as defined below) represents less than 20 % of the outstanding principal balance of the Class A Units then outstanding during two consecutive Business Days), P-1 by Moody’s or F1 by Fitch, or the Operating Bank is in breach of any of its obligations, either legal or contractual, in relation to the operating of the Compartment, the Management Company shall terminate the Operating Bank’s appointment and shall, jointly with the Custodian appoint a new operating bank having ratings

equal to or above the ratings referred to above and which, within a period of 30 calendar days after the occurrence of such an event, is able to open in its books all the Compartment Accounts. It being understood that such replacement shall be immediate upon a downgrade of the short term unsecured and unsubordinated debt obligation of the Operating Bank to F3 by Fitch.

### **Paying Agent**

Pursuant to the paying agency agreement entered into on or prior to the Issue Date between the Management Company the Custodian, the Operating Bank and Paying Agent (the “**Paying Agency Agreement**”), BRED Banque Populaire shall act as Paying Agent in relation to the payment of principal and interest in respect of the Units, in accordance with the Code, the Decree, the General Regulations and the Compartment Regulations.

On each Payment Date, the Paying Agent shall, on the basis of the instructions provided by the Custodian, acting itself upon instructions of the Management Company, pay to the Unitholders any amount of interest (except in respect of the Class R Unit) and, as the case may be, any amount of principal due and payable on such date (a) within the limit of the cash amount standing to the credit balance of the relevant Compartment Distribution Account, (b) pursuant to the Compartment Regulations and (c) in accordance with the Priority Orders of Payments set out in the Compartment Regulations.

In the event that, at any time, (i) the short term unsecured and unsubordinated debt obligation of the Paying Agent is assigned a rating below A-1+ by S&P (or A-1 by S&P in the event that the credit balance of the Compartment Accounts represents less than 20 % of the outstanding principal balance of the Class A Units then outstanding during two consecutive Business Days), P-1 by Moody’s or F1 by Fitch, or (ii) the Paying Agent is in breach of any of its obligations, either legal or contractual, the Management Company shall terminate the Paying Agent’s appointment and shall, jointly with the Custodian, at no cost for the Compartment, appoint a new paying agent having ratings equal to or above the ratings referred to above.

### **Managers**

MLI is the Lead Manager which will underwrite the Class A Units on the Issue Date in accordance with the Class A Units Subscription Agreement to be entered into on or prior to the Issue Date, between the Management Company, the Custodian and the Lead Manager and, together with the other Managers, will privately place the Class A Units with (i) qualified investors (*investisseurs qualifiés*) within the meaning of Article L. 411-2 of the Code and the Decree acting for their own account and (ii) investors resident outside France (*investisseurs non résidents*).

MLI has syndicated its commitment as Lead Manager to HVB and RBS, each a Manager.

### **Hedging Provider**

MLCMB is the Hedging Provider which will enter into the following agreements with XFS on or prior to the Issue Date in order to enable XFS to hedge its potential interest rate exposure under the Loan: (i) an ISDA Master Agreement; (ii) an ISDA schedule and (iii) an ISDA confirmation, with a cap rate of 3.38% and a floor rate of 2.13%.

### **Hedging Guarantor**

Pursuant to the Hedging Guarantee, Merrill Lynch & Co. Inc., as the Hedging Guarantor, will unconditionally guarantee to XFS the due and punctual payment of any and all amounts payable by MLCMB as Hedging Provider.

### **Statutory Auditor to the Compartment**

Pursuant to Article L. 214-48-VI of the Code, Mazars & Guérard has been appointed as the statutory auditor (*commissaire aux comptes*) (the “**Statutory Auditor**”) to the FCC, and consequently to any compartment thereof, by the board of directors of the Management Company, and following approval of the French Stock Exchange Commission, for a term of six years. Its appointment may be renewed upon the same conditions.

The Statutory Auditor shall comply with the duties referred to in Article L. 214-48-VI of the Code and shall, in particular: (i) certify, when required, the sincerity and the regularity of the accounts prepared by the Management Company within 60 days of the receipt thereof and verify the sincerity of information contained in the management report; (ii) prepare an annual report for the Class A Unitholders on the accounts as well as on the report prepared by the Management Company and shall publish such annual report no later than one hundred and 120 days following the end of each financial period of the FCC; (iii) inform the Management Company, the

Custodian and the French Stock Exchange Commission of any irregularities or inaccuracies which the Statutory Auditor discovers in fulfilling its duties; and (iv) verify the annual and semi-annual information provided to the Class A Unitholders by the Management Company.

#### **Legal Advisers**

To MLI  
Gide Loyrette Nouel  
26, Cours Albert Ier  
75008 Paris  
France

To XFS, XF and XB  
Lovells  
9, rue de Presbourg  
75116 Paris  
France

To MBIA  
Linklaters  
25, rue de Marignan  
75008 Paris  
France

#### **Rating Agencies**

Standard & Poor's  
21-25, rue Balzac  
75406 Paris Cedex 08  
France

Moody's  
Minster Court, Mincing Lane  
London EC3R 7XB  
England

Fitch  
25, rue Murillo  
75008 Paris  
France

S&P, Moody's and Fitch are rating agencies authorised to evaluate mutual debt funds (*fonds communs de créances*) pursuant to Article L. 214-44 of the Code. Their role is to assign ratings to the Class A Units issued by the Compartiment.



## RISK FACTORS

*An investment in the Class A Units involves a certain degree of risk, since, in particular, the Class A Units do not have a regular, predictable schedule of redemption. Prospective investors in the Class A Units should ensure that they understand the nature of such Class A Units and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting and financial evaluation of the merits and risks of investment in such Class A Units and that they consider the suitability of such Class A Units as an investment in the light of their own circumstances and financial condition.*

*The following is a summary of certain aspects of the issue of the Class A Units and the related transactions which prospective investors should consider before deciding to invest in the Class A Units.*

*The Custodian and the Management Company believe that the risks described below are the principal risks inherent in the transaction for the Class A Unitholders, but the inability of the Compartment to pay interest, principal or other amounts on or in connection with the Class A Units may occur for other reasons and the Custodian and the Management Company do not represent that the following statements regarding the risk of holding the Class A Units are exhaustive. This summary should be read together with “Selected French Legal and Tax Issues”.*

### **1. Relating to the Class A Units**

#### ***1.1 Liability under the Class A Units***

The Class A Units are obligations of the Compartment only and will not be the obligations of, or guaranteed by, any other entity. In particular, the Class A Units will not be the obligations of, or guaranteed by the Lead Manager, any Manager, the Management Company, the Custodian, the Loan Servicer, the Operating Bank, the Paying Agent, the Financial Guarantor, XFS, the other Xerox entities named herein or any of their respective affiliates and none of such persons accepts any liability whatsoever in respect of any failure by the Compartment to make payment of any amount due on the Class A Units. Only the Management Company may enforce the rights of the Unitholders against third parties.

#### ***1.2 Ratings of the Class A Units***

The Rating Agencies' ratings of the Class A Units take into consideration the structural and legal aspects associated with the Class A Units, the Loan and the Financial Guarantee, including, without limitation, the extent to which the customers' payments under the Lease Contracts are adequate to make the payments required under the Loan Agreement and, hence, the Class A Units, and the credit quality of the Financial Guarantor.

Each Rating Agency's rating reflects only the view of that Rating Agency. Each rating in respect of the Class A Units addresses the likelihood of full and timely payment to the Class A Unitholders of all payments of interest on the Class A Units on each Payment Date and the ultimate payment of principal on the Final Maturity Date. The ratings of the Class A Units will to a large extent depend on the credit ratings assigned to the Financial Guarantor. Therefore any downgrading, withdrawing or qualification of the credit ratings of the Financial Guarantor may impact upon the ratings of the Class A Units.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the relevant Rating Agency. The ratings assigned to the Class A Units should be evaluated independently from similar ratings on other types of securities. There is no assurance that any of the ratings mentioned above will continue for any period of time or that they will not be lowered, reviewed, revised, suspended or withdrawn by the Rating Agencies. In the event that the ratings initially assigned to the Class A Units by the Rating Agencies are subsequently withdrawn or lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to them.

#### ***1.3 Limited recourse obligations under the Class A Units***

The Class A Unitholders will only have limited recourse against the Compartment. Upon the default of XFS to pay regularly scheduled interest due under the Loan or to pay principal on the Loan Final Repayment Date, the Management Company through the Loan Servicer and on behalf of the Compartment may enforce the Compartment's rights under the Financial Guarantee. Upon the occurrence of a Loan Amortisation Event under the Loan Agreement, the Related Security is the only remedy available for the purpose of recovering amounts payable in respect of the Loan. No Class A Unitholder is however entitled to directly take action against XFS or the Financial Guarantor. Only the Management Company through the Loan Servicer is entitled to enforce the rights of the Compartment under the Financial Guarantee, on its behalf. Until the occurrence of a Financial



Guarantor Event of Default (as defined in “*The Loan, the Related Security and the Hedging Agreement*”), and upon the occurrence of a Loan Amortisation Event under the Loan Agreement, only the Financial Guarantor through the Loan Servicer is entitled to enforce the Related Security, subject to the relevant provisions of the Intercreditor Agreement. If, following enforcement of all rights of the Compartment under the Loan Agreement, the Financial Guarantee and the Related Security, the proceeds of such enforcement are insufficient, after payment of all claims ranking in priority to amounts due under the Class A Units, to pay in full all principal and interest and other amounts whatsoever due in respect of the Class A Units, the Class A Unitholders will have no further claim against the Compartment in respect of any such amounts, and no recourse to any other person for the loss sustained.

#### **1.4 Limited resources of the Compartment**

The ability of the Compartment to meet its obligations under the Class A Units will be dependent on, *inter alia*,

- (i) the receipt from XFS of interest and principal due under the Loan Agreement; and
- (ii) the receipt from the Financial Guarantor of Guaranteed Amounts to the extent that XFS fails to pay scheduled interest and/or ultimate principal under the Loan Agreement; and
- (iii) (subject to the Intercreditor Agreement) the proceeds of the enforcement of the Related Security (if any).

Other than the foregoing, the Compartment will have no other funds available to meet its obligations under the Class A Units.

#### **1.5 Average life and prepayment considerations**

Principal payments under the Loan, and, then, under the Class A Units, are unscheduled payments. Principal payments under the Class A Units are only due and payable up to the Available Surplus (if any) and on the Final Maturity Date. Prior to the Final Maturity Date, amounts of principal distributed on the Class A Units and the time when the Class A Unitholders receive payments thereof depend on the rate of repayment and prepayment of the Loan, which in turn depends on the rate of scheduled payments, prepayments and losses under the Lease Contracts. XFS also has the right to prepay the Loan in certain circumstances. As all such payments cannot be predicted with certainty, this will affect the average life of the Loan, and, therefore, the Class A Units. Any change in the average life of the Class A Units will affect the yield realised by the Class A Unitholders.

#### **1.6 No withholding and no gross-up**

Payments in respect of the Class A Units shall be made net of any withholding tax (if any) applicable to the Class A Units in the relevant state or jurisdiction.

In the event withholding taxes are imposed in respect of payments to Class A Unitholders of amounts due pursuant to the Class A Units, neither the Compartment, the Paying Agent, nor any other entity will be obliged to gross-up or otherwise compensate Class A Unitholders for the lesser amounts the Class A Unitholders will receive as a result of the imposition of withholding taxes.

#### **1.7 Umbrella mutual debt fund**

Article L. 214-43 of the Code which provides for allocation of assets to compartment and the issue of units representing such assets may be subject to different interpretations. In the event that certain provisions of Article L. 214-43 of the Code are interpreted in a manner that does not result in the allocation of assets and liabilities to each specific compartment independently from each other, each document to which the Compartment is a party contain limited recourse provisions and provide for the allocation of the expenses and liabilities of the Compartment and each other compartment of the FCC in such manner that the Compartment and any other compartment of the FCC are independent from each other.

The constitution of *fonds commun de créances* with compartments is innovative and, in the absence at today’s date of court decisions, official decisions or statements from any competent regulatory authority, certain provisions of the documents to which the Compartment is a party might be subject to different interpretations which should not, however, affect the validity of the constitution of the FCC and the Compartment.

#### **1.8 Absence of Secondary Market – Limited Liquidity – Transfer Restrictions**

Although application has been made to list the Class A Units on the Reserved Section of the Paris Stock Exchange, there is currently no secondary market for the Class A Units. There can be no assurance that a

secondary market in the Class A Units will develop or, if it does develop, that it will provide Class A Unitholders with liquidity of investment, or that it will continue for the life of the Class A Units. In addition, the market value of the Class A Units may fluctuate with changes in prevailing rates of interest. Consequently, any sale of Class A Units by Class A Unitholders in any secondary market which may develop may be at a discount to the original purchase price of such Class A Units.

Furthermore, the Class A Units are subject to certain transfer restrictions, which may further limit their liquidity (see “*Subscription and Offering of the Class A Units*”).

## **2. Relating to the Financial Guarantee and the Financial Guarantor**

### **2.1 Ability of the Financial Guarantor to meet its obligations under the Financial Guarantee**

The Financial Guarantor will issue the Financial Guarantee in respect of the Guaranteed Amounts. Although the Financial Guarantor on the Issue Date has the financial strength rating of Moody’s, S&P and Fitch of “Aaa”, “AAA” and “AAA” respectively, there can be no assurance that the Financial Guarantor will in fact have the ability to make payments in respect of any or all of the Guaranteed Amounts when due in accordance with the terms of the Financial Guarantee.

### **2.2 Limitations on enforcement of the Financial Guarantee**

The Financial Guarantee will be limited so that the Financial Guarantor will only guarantee (i) the amount of regularly scheduled interest payable in respect of the Loan and (ii) the aggregate principal amount payable in respect of the Loan on the Loan Final Repayment Date (excluding, in each instance, any additional amounts relating to prepayment, early redemption, broken-funding indemnities, penalties, premiums, default interest or interest on interest). Accordingly, any payment of all other amounts due under the Loan Agreement will not be paid by the Financial Guarantor when due. To the extent that XFS fails to make payments of scheduled interest and ultimate principal under the Loan, the ability of the Compartment to pay the amounts due under the Class A Units will depend on the payment in due time by the Financial Guarantor of the Guaranteed Amounts under the Financial Guarantee when such Guaranteed Amounts are to be paid by the Financial Guarantor pursuant to the Financial Guarantee. The Financial Guarantor will only be obliged to gross up payments under the Financial Guarantee to the extent permitted by applicable French law.

### **2.3 The Financial Guarantor as Controlling Secured Party**

If a Loan Amortisation Event shall occur and be continuing unremedied and unwaived, the Loan Servicer shall, upon the written direction of the Financial Guarantor (for so long as it is the Controlling Party, as such term is defined under the Loan Agreement), declare that XFS, as the Borrower, shall apply all Financial Components deriving from the Lease Contracts and received from the customers to prepay and amortise the principal amount of the Loan until the Loan is reduced to zero and then enforce the Related Security subject to the relevant provisions of the Intercreditor Agreement. The Financial Guarantor (for so long as it is the Controlling Party) will have the right to cause the initiation of and direct the time, method and place of conducting any proceeding for any remedy available to enforce the Related Security during the continuance of a Loan Amortisation Event as described herein and subject only to the relevant provisions of the Intercreditor Agreement. The Financial Guarantor will be the Controlling Party so long as (i) a Financial Guarantor Event of Default (as defined in “*The Loan, the Related Security and the Hedging Agreement*”) shall not have occurred and be continuing, and (ii) any Class A Units remains outstanding, or accrued liabilities are owed to the Financial Guarantor in accordance with the Financial Guarantor Documents. The Financial Guarantor also benefits from its Financial Guarantor Related Security (see also “*Risk factors – 4.1 Certain conflicts of interest*”).

## **3. Relating to the Loan and the underlying Lease Contracts**

The risk factors described below are the principal risks inherent in the transaction for the Class A Unitholders in the event that the Financial Guarantor ceases to be the Controlling Party upon the occurrence of a Financial Guarantor Event of Default.

### **3.1 Limited recourse obligations under the Loan**

The Lender, and then the Compartment upon transfer of the Loan Receivable and the Related Security pursuant to the Transfer and Servicing Agreement, will only have limited recourse against those certain assets of XFS granted as security interest to secure repayment of the Loan (the “*recourse assets*” as defined in the Loan Agreement).

If the proceeds of such recourse assets are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Loan, the Lender, and, then, the Compartment, will have no further claim against XFS in respect of any such amounts and no recourse to any other person for the loss sustained.

### **3.2 Limitations on enforcement of Related Security**

The security interests granted under the Related Security and securing the Loan may be insufficient or ineffective to secure the repayment of all sums due under the Loan, particularly in the event of any insolvency or liquidation of XFS. Any risk of loss arising from any insufficiency or ineffectiveness of such security for the Loan must be borne by the Compartment, and then, by the Class A Unitholders, without recourse to the Compartment or any other party.

### **3.3 No security interest in the Equipment**

There will be no grant of any security interest in any Equipment owned by XFS, including any residual interest in the Equipment at the end of any related Lease Contract. Therefore, proceeds from the sale, re-lease or other disposition of any Equipment will not be available for payments under the Loan.

### **3.4 Interest rate risk**

The Loan bears interest at a floating rate while the rental payable under the Lease Contracts is fixed rate. In order to address interest rate risk, XFS (as the Borrower under the Loan Agreement) will enter into the Hedging Agreement. However, there can be no assurance that the transaction contemplated under the Hedging Agreement will adequately address unforeseen hedging risks. Moreover, in certain circumstances the Hedging Agreement may be terminated. XFS may, as a result of such termination, be required to pay to the Hedging Provider breakage costs due as a result of that early termination.

The Hedging Agreement is more particularly described in “*The Loan, the Related Security and the Hedging Arrangement*”.

### **3.5 Risks relating to Lease Contracts**

The collection of amounts due under the Lease Contracts are subject to the general risks in respect of the collection of receivables, including the inability of the customers to pay amounts due under the Lease Contracts, delay in payments, the customers invoking defences such as set-off with counterclaims, *force majeure* and other defences afforded to debtors in general, and other factors beyond the control of the Compartment and the other parties named herein (or any of their respective affiliates).

Adverse economic conditions or other factors affecting France or any region having a high concentration of lessees could adversely affect the performance of the related Leases. If adverse events or economic conditions such as unemployment, interest rates, the rate of inflation and corporate perceptions of the economy and certain types of equipment were particularly severe or in the event a lessee or group of lessees experienced financial difficulties, the lessees may be unable to pay or may not make timely payments. If these events or conditions occur, Class A Unitholders may experience delays in receiving payments on the Class A Units and suffer loss of investment. Neither XFS, XF, XB or the Originator is able to determine and has no basis to predict whether any events like these have occurred or may occur, or to what extent any events like these may affect the leases or the repayment of amounts due under the Class A Units.

### **3.6 Risk relating to contribution**

The Contribution Agreements are subject to the French division regime (*apport soumis au régime des scissions*). The automatic transfer (*transmission universelle du patrimoine*) of the Lease Contracts and the related Equipment under this regime may only apply as to the Lease Portfolio and the Equipment if the same qualifies as an universality of elements (*universalité de biens*). Such qualification is a matter of fact and may be asserted or not by a French court at its sole discretion.

### **3.7 Insolvency of XFS**

XFS has been set up to comply with the standard criteria applicable to bankruptcy remote entities in France. However, following a bankruptcy or insolvency of XF or XB, a French court may extend the bankruptcy of XF or XB to XFS if it concludes that the assets of XFS should be substantively consolidated with the assets of XF or XB (*confusion de patrimoine*) or if XFS is held by it as a fictitious entity (*société fictive*). Each of such qualification is a matter of fact and may be asserted or not by a French court at its sole discretion.

Following a bankruptcy or insolvency of XF or XB, a court could also conclude that XF or XB, instead of XFS, owns the contributed Lease Portfolio. This conclusion could be made by French court based on Article L.621-108 of the French Commercial Code (*Code de commerce*) if it is proven that XFS had knowledge of the insolvency (*cessation des paiements*) at the time of the contribution.

As a general rule, Article L.621-40 of the French Commercial Code (*Code de commerce*) provides that notwithstanding any contractual provisions to the contrary, no indivisibility, termination or retroactive termination (*resolution*) of a contract may occur on the sole ground that bankruptcy or insolvency proceedings have been initiated against an insolvent company which is a party to such contract. However, the receiver in bankruptcy (*administrateur judiciaire*) has full discretion as to whether or not he continues or rejects on-going contracts pursuant to Article L.621-28 of the French Commercial Code (*Code de commerce*).

In addition, Article L.621-40 of the French Commercial Code (*Code de commerce*) provides that enforcement rights of the creditors of an insolvent company (including secured creditors) may be limited upon the opening of bankruptcy or insolvency proceedings against such insolvent company.

### **3.8 Performance of obligations and operational risks**

The ability of XFS to make payments under the Loan and, then, the ability of the Compartment to make payments in respect of the Class A Units, may depend upon the due performance by the other parties to the transaction of their obligations and the absence of operational risks.

In particular, decline of the quality of service provided by the Primary Maintenance Provider and Primary Servicer or, as appropriate, the Back-up Maintenance Provider or Back-up Servicer, could result in customers withholding payments under the Lease Contracts, remitting amounts less than the amounts billed or delaying payments made under the Lease Contracts.

In addition, the number of parties involved in the transaction may create certain operational risks which could result in delaying payments to be made in respect of the Class A Units or result in loss of investment for the Class A Unitholders.

### **3.9 Transfer of the Maintenance or Administrative Services Obligations**

In the event of poor performance, bankruptcy or other default as mentioned in the relevant agreements (see “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment*”), XF’s appointment as Primary Maintenance Provider or Primary Servicer may be terminated upon occurrence of a termination event for either the maintenance or administrative services, the Back-up Maintenance Provider or the Back-up Servicer would be obligated to assume the maintenance or administrative services obligations under the Back-up Maintenance Services Agreement or Back-up Administrative Services Agreement. Any transfer of maintenance obligations may result in delays in maintenance services or administrative services during the transition period. Any reduction or delay in payments made under the Lease Contracts could cause delay in the payments due to the Class A Unitholders or limit the amount available to pay interest and principal due to the Class A Unitholders and Class A Unitholders could incur loss on their investments.

In the event that the Back-up Maintenance Services Agreement is terminated in any of such cases, XFS could seek the appointment of one or several replacement maintenance providers. Notwithstanding the fact that there are a number of firms engaged in providing maintenance services similar to those provided by XF as Primary Maintenance Provider or the fact that the business solution provided by EDS as Back-up Maintenance Provider, could be potentially provided by other firms, it could prove very difficult to find third parties willing to assume the maintenance obligations.

## **4. Certain other risk factors**

### **4.1 Certain conflicts of interest**

With respect to the Class A Units, conflicts of interest may arise as a result of various factors involving in particular the Compartment, MLIBL as the lender under the Second Warehouse Facility, the Financial Guarantor, their affiliates and other parties named herein. The following briefly summarises some of these conflicts, but is not intended to be an exhaustive list of all such potential conflicts.

For example, such potential conflicts may arise because of the following:

1. Both the Compartment and the Financial Guarantor will share enforcement rights and proceeds in respect of the Related Security. The Financial Guarantor also benefits from the Financial Guarantor Related

Security. The Financial Guarantor may have interest different from that of the Compartment and, then, the Class A Unitholders in exercising its rights as Controlling Party to enforce the Related Security or enforcing the Financial Guarantor Related Security in accordance with the Intercreditor Agreement.

2. Both the Financial Guarantor and MLIBL, as lender under the Second Warehouse Facility, will share enforcement rights and proceeds in respect of certain security interests over XFS assets which will not be granted to the Compartment. MLIBL, as lender under the Second Warehouse Facility, and the Financial Guarantor may have interest different from that of the Compartment, and then, the Class A Unitholders.
3. Until the occurrence of a Financial Guarantor Event of Default, the Loan Servicer will service the loan and exercise the rights of the Compartment on its behalf under the Loan Agreement and the Related Security upon the direction of the Financial Guarantor, in accordance with the Loan Agreement, the Transfer and Servicing Agreement and the Intercreditor Agreement. The Financial Guarantor may have interest different from that of the Compartment and, then, the Class A Unitholders in exercising any such rights.
4. Until the occurrence of a Financial Guarantor Event of Default, Copytrust shall vote at the shareholders meetings of XFS, upon the recommendation of the Financial Guarantor in accordance with the internal regulations to be followed by the directors of Copytrust. The Financial Guarantor may have interest different from that of the Compartment and, then, the Class A Unitholders in exercising any such rights.
5. Unless otherwise stated herein, there will be no restriction on the ability of the Lead Manager, any Manager, the Financial Guarantor, their affiliates, other parties named herein or their employees or their affiliates to purchase Units (either upon initial issuance or through secondary transfers) and to exercise any voting rights to which such Units so that the interests of such Unitholders may differ from those of other Unitholders.
6. BRED Banque Populaire is acting in the capacity of Custodian, Operating Bank, Paying Agent, Loan Servicer and Second Account Bank. Even if its obligations under the Compartment Transaction Documents contractually are not conflicting and are independent from one another, in performing such obligations in these different capacities under the Compartment Transaction Documents, BRED Banque Populaire may be in a situation of conflict of interest.
7. Any party named herein and its affiliates may also have ongoing relationships with, render services to or engage in other transactions with another party or affiliates of another party named herein.

#### **4.2 Change of law**

The structure of the Loan, the security arrangements and the issue of the Class A Units as well as the listing procedures of the Class A Units and the ratings which are to be assigned to them are based on French law and administrative practices in effect as at the date of this Offering Circular and having due regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to French law, tax or administrative practice after the date of this Offering Circular, nor can any assurance be given as to whether any such change could adversely affect the ability of the Compartment to make payments under the Class A Units.

#### **4.3 Historical and other information**

The historical and other information set out in the section “*Origination and Management of the Lease Portfolio*” represent the historical experience and present procedures of XFS and XF, respectively. There can be no assurance that future data relating to XFS and XF will be similar to those shown in this Offering Circular.

#### **4.4 Forward looking statements**

Certain of the information contained in this Offering Circular necessarily relates to future events and conditions. Accordingly, any information other than historical information set forth herein, including all projection, forecasts and estimates contained herein, are forward looking statements and are based upon certain assumptions regarding future conditions that the Compartment considers reasonable. Actual results may significantly vary from projections. Consequently, the inclusion of projections herein should not be regarded as a representation of any entity or their affiliates or the results that will actually achieved by the Compartment otherwise than expressly stated herein. Neither the Compartment or any other entity or their affiliates has an obligation to revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof.



## CREDIT STRUCTURE

*The credit risks associated with the Class A Units and the manner in which it is addressed in the structure are set out below. Attention is also drawn to the “Risk factors” section of this Offering Circular for the principal risks in respect of the Class A Units, the Financial Guarantor and the Financial Guarantee, the Loan Receivable and the Related Security, the Lease Contracts and certain other risks linked to the transaction and the investment of the Class A Units.*

The Compartment is subject to the risk of default in payment and the failure by the Management Company, through the Loan Servicer, to realise or recover sufficient funds from XFS in respect of interest and principal as they become due under the Loan Agreement.

Until the occurrence of a Financial Guarantor Event of Default, the risk of default in payment of the amount of regularly scheduled interest which will be payable in respect of the Loan and then, the amount of regularly scheduled interest which will be payable under the Class A Units on the Final Maturity Date, is addressed by the Financial Guarantee which may be enforced by the Management Company through the Loan Servicer up to the amount of regularly scheduled interest which will be payable in respect of the Loan (excluding any additional amounts relating to prepayment, early redemption, broken-funding indemnities, penalties, premiums, default interest or interest on interest).

The risk of default in payment of ultimate outstanding principal which will be payable in respect of the Loan on the Loan Final Repayment Date, and then, the ultimate outstanding principal which will be payable under the Class A Units on the Final Maturity Date, is also addressed by the Financial Guarantee which may be enforced by the Management Company through the Loan Servicer up to the amount of such outstanding principal which will be payable in respect of the Loan on the Loan Final Repayment Date (excluding any additional amounts relating to prepayment, early redemption, broken-funding indemnities, penalties, premiums, default interest or interest on interest).

In addition, other protection mechanisms will include the following:

- the principal amount of the Loan as compared to the total value of the Lease Portfolio;
- the Hedging Agreement which will permit XFS to protect itself against interest rate risk arising as a result of XFS receiving a fixed rate of interest under the Lease Contracts whilst paying a floating rate of interest on the Loan;
- the cash reserve which will be funded into the Loan General Reserve Account, up to € 21,747,406 on the Issue Date and up to the Minimum Reserve Level thereafter will permit to XFS to (i) cover any shortfall in any interest to be paid under the Loan, (ii) prepay the Loan if at any time the aggregate amount standing to the credit of the Loan General Reserve Account is above the outstanding principal amount of the Loan, and (iii) repay the Loan at the Loan Final repayment Date; and
- the Related Security which may be enforced upon the occurrence of a Loan Amortisation Event.

Although the credit structure for the transaction has been reviewed by the Rating Agencies and the realisation of the credit risks mentioned above will to a large extent depend on the credit ratings assigned to the Financial Guarantor, no assurance is given as to the adequacy and sufficiency of the above credit enhancement and other protection mechanism.



## STATISTICAL ANALYSIS OF THE LEASE PORTFOLIO

*The information appearing in this section has been prepared based on the information reviewed by independent auditors appointed by XFS, and has not been independently verified by the Compartment, the Management Company, the Custodian, the Lead Manager, any Manager or any of their affiliates. This review does not constitute an examination made in accordance with auditing standards generally accepted in France and will not provide the same level of assurance as an audit. This review will therefore not necessarily reveal matters of significance for any Class A Unitholder or material misstatement of the information referred to otherwise in this Offering Circular. Accordingly, notwithstanding anything to the contrary herein, none of the above mentioned entities, assumes any responsibility for the accuracy, completeness or applicability of such information.*

### **Selection of the Leases**

The Lease Contracts contributed to XFS pursuant to the Contribution Agreement (the “**Leases**”), or aggregated by XFS pursuant to the Programme Agreement (the “**Programme Leases**”) or purchased by XFS under the Equipment Sale Agreement (the “**Sold Leases**”) were selected from a pool of leases which pursuant to eligibility criteria described hereafter (see “*Contribution, Warehouse Financing, Servicing and Maintenance of the Lease Contracts and the Equipment*”). Among those Contributed Leases, Programme Leases and Sold Leases, only leases, which, as of the Cut-Off, will:

- (i) meet the positive eligibility criteria described hereafter; and
- (ii) not meet the negative eligibility criteria described hereafter,

will form the Lease Portfolio.

### **Positive eligibility criteria**

Each Lease Contract is a Bundled Contract or an Unbundled Contract, as the case may be, and:

- (i) is governed by French law; and
- (ii) is denominated in Euros; and
- (iii) was concluded after 1 October 1999; and
- (iv) is documented on:
  - (a) for Bundled Contract, or Unbundled Contract, a Xerox Standard Form for a Bundled Contract, or Unbundled Contract, as the case may be; or
  - (b) an amended XFS Standard Form for an Unbundled Contract relating to a public entity customer compliant with the accepted variations, except for those contracts listed in the Schedule to the Loan Agreement; and
- (v) is identified by a unique identifier in the Primary Service Provider’s data base; and
- (vi) the contractual term of such Lease Contract ends prior to 1 March 2010; and
- (vii) the frequency of payment provided in such Lease Contract is either monthly, quarterly, semi-annually or annually.

### **Negative eligibility criteria**

- (i) contracts including both lease and services (notably maintenance services) entered into with a public entity customer;
- (ii) contracts entered into pursuant to agreements or arrangements allowing several customers or groups of customers to benefit from identical conditions (for instance, purchase order agreements with public entity services (*marchés publics à bons de commandes*), agreements entered into pursuant to the cooperation (*coordination*) and the pooling of purchase orders, group contracts (*contrats-groupe*) and other framework agreements unless, with respect to contracts entered with customers which are not public entity customers, XF can demonstrate that the relevant customer has signed the relevant assignment agreement related

thereto (see “*Description of the Lease Contracts*”), by which the customer waives any rights of action against XFS in relation to the provisions pursuant to such framework agreement;

- (iii) all the contracts that are in force but which are not billable in the information systems of Xerox;
- (iv) contracts relating to Equipment situated outside France;
- (v) contracts entered into with customers whose domicile or registered office is outside France;
- (vi) leases which qualify as *crédit-baux* of moveable assets;
- (vii) contracts granting customers an option to purchase equipment;
- (viii) contracts having a contractual indefinite term;
- (ix) contracts with any members of the Xerox group;
- (x) contracts which are the subject of tacit or non-tacit reconduction after the relevant agreed contractual final termination; in the event of a relocation of the Equipment;
- (xi) contracts that are subject to judicial proceedings before court or litigation process.

#### **Characteristics of the Leases (outstanding principal)**

The outstanding principal of Leases, in the aggregate pool, bears the following characteristics as at the Cut-Off Date:

	<b>Closing Date April 2003</b>
Number of Leases	50,325
Number of Contracts	31,325
Original Amount Financed Lease	€ 657,117,420
Average Original Amount Financed Lease	€ 13,057
Weighted Average Lease Rate	11.83%
Minimum Lease Rate	0%
Maximum Lease Rate	71.20%
Weighted Average Original Term to Maturity	55.90 months
Minimum of Original Terms to Maturity	6 months
Maximum of Original Terms to Maturity	85 months
Weighted Average Remaining Term to Maturity	39.84 months
Minimum Remaining Term to Maturity	0 months
Maximum Remaining Term to Maturity	74.07 months
Weighted Average Lease Age at Cutoff Date	16.09 months
Minimum Seasoning	0.10 months
Maximum Seasoning	43.86 months
Latest Lease Maturity	31/07/2009
Earliest Lease Start Date	05/10/99
Minimum Balance *	€ 0
Maximum Balance	€ 656,267
Average Cutoff Lease Value	€ 8,409
<b>Eligible Portfolio Lease Value</b>	<b>€ 423,160,716</b>

\* Leases which are in their final payment period and which have not reached their final maturity date represent an outstanding principal of zero due to billing at the beginning of the period. Receivable amounts on those leases will be accounted into the current receivable value of the securitisable portfolio.

## Presentation of the Lease Portfolio

The Lease Portfolio has been divided into tables according to specific criteria:

- Tranches of Lease value
- Interest rate
- Origination year
- Year of maturity
- Original months to maturity
- Remaining months to maturity
- Age of Leases
- Equipment speed
- Scoring indicator
- Colour vs black and white
- Analogic vs digital
- Billing frequency
- Payment mode
- Market segment
- Customer account
- Bundled Contracts vs Unbundled Contracts
- Geographic concentration
- Industry concentration
- Obligors concentration

**Table 1 – Breakdown by Lease Value**

The breakdown of the Leases as at the Cut-Off Date by Lease value was as follows:

Tranche of Principal (in €)	Leases (in number)	Leases (in %)	Principal Value (in €)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
0,000 to 9,999	38,725	76.95	127,596,148	30.15	3,295	13.02	31.89	19.89
10,000 to 19,999	6,717	13.35	94,609,230	22.36	14,085	11.76	40.32	16.16
20,000 to 29,999	2,450	4.87	59,530,711	14.07	24,298	11.53	43.59	13.58
30,000 to 39,999	1,115	2.22	38,052,818	8.99	34,128	11.32	44.79	13.55
40,000 to 49,999	493	0.98	21,833,040	5.16	44,286	11.14	46.08	11.86
50,000 to 59,999	215	0.43	11,671,089	2.76	54,284	11.00	45.59	13.06
60,000 to 69,999	120	0.24	7,718,317	1.82	64,319	10.63	45.20	13.36
70,000 to 79,999	85	0.17	6,357,851	1.50	74,798	10.56	38.27	17.74
80,000 to 89,999	58	0.12	4,919,309	1.16	84,816	10.54	41.99	13.42
90,000 to 99,999	43	0.09	4,113,391	0.97	95,660	11.24	41.49	14.93
100,000 to 109,999	46	0.09	4,837,036	1.14	105,153	10.66	42.22	16.46
110,000 to 119,999	44	0.09	5,077,560	1.20	115,399	10.80	41.57	15.83
120,000 to 129,999	47	0.09	5,867,135	1.39	124,833	10.58	42.56	14.97
130,000 to 139,999	20	0.04	2,660,236	0.63	133,012	10.86	37.56	19.18
140,000 to 149,999	24	0.05	3,496,589	0.83	145,691	10.86	45.27	15.76
150,000 and more	123	0.24	24,820,256	5.87	201,791	10.58	50.25	12.53
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 2 – Breakdown by Interest Rate**

The breakdown of the Leases as at the Cut-Off Date by interest rate was as follows:

Lease Rate (in %)	Leases (in number)	Leases (in %)	Principal Value (in €)	Principal Value (in %)	Average Principal (in €)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
0.000 to 0.999	10	0.02	63,779	0.02	6,378	0.41	19.00	28.32
1.000 to 1.999	—	—	—	—	—	—	—	—
2.000 to 2.999	2	0.00	20,824	0.00	10,412	2.09	26.91	35.20
3.000 to 3.999	2	0.00	12,630	0.00	6,315	3.83	18.76	41.48
4.000 to 4.999	3	0.01	5,963	0.00	1,988	4.72	12.34	19.11
5.000 to 5.999	329	0.65	1,089,645	0.26	3,312	5.69	25.91	19.40
6.000 to 6.999	490	0.97	3,246,906	0.77	6,626	6.46	36.69	14.60
7.000 to 7.999	2,082	4.14	5,432,994	1.28	2,610	7.70	23.45	27.85
8.000 to 8.999	2,731	5.43	24,106,746	5.70	8,827	8.48	30.61	26.11
9.000 to 9.999	3,173	6.31	31,377,395	7.42	9,889	9.58	32.94	22.08
10.000 to 10.999	6,454	12.82	91,466,600	21.62	14,172	10.55	43.15	15.57
11.000 to 11.999	7,961	15.82	109,159,390	25.80	13,712	11.51	43.85	14.54
12.000 to 12.999	6,919	13.75	69,265,565	16.37	10,011	12.54	41.68	13.92
13.000 to 13.999	4,709	9.36	34,713,443	8.20	7,372	13.54	37.48	14.87
14.000 to 14.999	3,408	6.77	20,203,530	4.77	5,928	14.46	38.29	14.21
15.000 to 15.999	2,848	5.66	12,022,545	2.84	4,221	15.45	36.87	14.90
16.000 to 16.999	1,584	3.15	4,830,676	1.14	3,050	16.36	28.69	14.86
17.000 to 17.999	763	1.52	2,354,073	0.56	3,085	17.36	31.98	19.17
18.000 to 18.999	669	1.33	1,790,477	0.42	2,676	18.54	35.94	17.17
19.000 to 19.999	3,294	6.55	7,188,841	1.70	2,182	19.43	35.48	12.90
20.000 to 20.999	2,055	4.08	2,926,330	0.69	1,424	20.46	28.73	13.22
21.000 to 21.999	275	0.55	489,434	0.12	1,780	21.49	30.03	12.35
22.000 to 22.999	190	0.38	498,642	0.12	2,624	22.46	32.45	18.37
23.000 to 23.999	125	0.25	304,100	0.07	2,433	23.49	33.07	16.42
24.000 to 24.999	228	0.45	512,310	0.12	2,247	24.74	25.39	11.79
25 and more	21	0.04	77,878	0.02	3,708	29.23	24.22	23.80
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 3 – Breakdown by Origination Year**

The breakdown of the Leases as at the Cut-Off Date by origination year was as follows:

Origination Year	Leases (in number)	Leases (in %)	Principal Value (in €)	Principal Value (in %)	Average Principal (in €)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
1 Oct 1999 < < 31 Dec 1999	2,313	4.60	9,980,579	2.36	4,315	10.06	19.66	42.19
1 Jan 2000 < < 31 Dec 2000	12,367	24.57	58,892,829	13.92	4,762	10.75	25.10	33.82
1 Jan 2001 < < 31 Dec 2001	14,121	28.06	110,369,555	26.08	7,816	12.05	34.40	22.25
1 Jan 2002 < < 31 Dec 2002	15,297	30.40	165,285,315	39.06	10,805	12.09	44.39	10.51
1 Jan 2003 < < 31 May 2003	6,227	12.37	78,632,439	18.58	12,628	12.04	51.53	2.60
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 4 – Breakdown by Year of Maturity**

The breakdown of the Leases as at the Cut-Off Date by year of maturity was as follows:

Maturity Year	Leases (in number)	Leases (in %)	Principal Value (in €)	Principal Value (in %)	Average Principal (in €)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
2003	2,886	5.73	2,355,477	0.56	816	11.29	5.74	31.47
2004	10,270	20.41	29,755,029	7.03	2,897	11.72	15.28	28.30
2005	14,680	29.17	92,371,166	21.83	6,292	11.64	26.08	24.65
2006	11,693	23.23	116,862,867	27.62	9,994	12.13	37.34	17.74
2007	7,602	15.11	118,391,697	27.98	15,574	11.83	49.45	11.01
2008	3,178	6.31	61,454,436	14.52	19,337	11.72	58.99	3.78
2009	16	0.03	1,970,044	0.47	123,128	9.42	70.26	3.68
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 5 – Breakdown by Original Months to Maturity**

The breakdown of the Leases as at the Cut-Off Date by original months to maturity was as follows:

Original number of months to maturity	Leases (in number)	Leases (in %)	Principal Value (in €)	Principal Value (in %)	Average Principal (in €)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
00 to 11	34	0.07	40,782	0.01	1,199	16.35	6.81	3.34
12 to 23	273	0.54	1,016,767	0.24	3,724	12.47	14.98	6.02
24 to 35	4,372	8.69	18,321,592	4.33	4,191	12.70	22.73	11.10
36 to 47	15,573	30.94	65,068,876	15.38	4,178	12.55	27.54	13.08
48 to 59	10,763	21.39	95,409,626	22.55	8,865	11.91	37.25	17.15
60 to 71	19,062	37.88	235,053,987	55.55	12,331	11.59	45.29	16.73
72 to 83	240	0.48	7,472,612	1.77	31,136	10.32	51.97	21.90
84 to 95	8	0.02	776,474	0.18	97,059	10.34	62.69	21.99
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 6 – Breakdown by Remaining Months to Maturity**

The breakdown of the Leases as at the Cut-Off Date by remaining months to maturity was as follows:

Months until maturity <sup>(1)</sup>	Leases (in number)	Leases (in %)	Principal Value (in €)	Principal Value (in %)	Average Principal (in €)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
00 to 05	2,116	4.20	901,289	0.21	426	11.87	4.11	31.63
06 to 11	3,495	6.94	6,374,840	1.51	1,824	11.80	8.95	30.10
12 to 23	12,643	25.12	51,851,391	12.25	4,101	11.63	19.07	28.26
24 to 35	14,942	29.69	110,514,741	26.12	7,396	11.94	30.21	21.36
36 to 47	9,693	19.26	114,359,921	27.03	11,798	11.97	41.96	15.62
48 to 59	6,519	12.95	116,577,737	27.55	17,883	11.78	53.70	7.83
60 to 71	916	1.82	21,924,531	5.18	23,935	11.51	62.25	2.86
72 to 83	1	0.00	656,267	0.16	656,267	6.50	74.07	1.91
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 7 – Breakdown by Age of the Leases (Seasoning)**

The breakdown of the Leases as at the Cut-Off Date by age of the Leases was as follows:

Age of the leases	Leases (in number)	Leases (in %)	Principal Value (in €)	Principal Value (in %)	Average Principal (in €)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
00 to 05	7,976	15.85	103,203,228	24.39	12,939	11.98	51.31	3.25
06 to 11	7,157	14.22	78,485,552	18.55	10,966	12.17	45.41	9.05
12 to 23	14,692	29.19	134,352,432	31.75	9,145	12.06	38.55	17.43
24 to 35	14,860	29.53	79,983,070	18.90	5,382	11.48	28.13	29.31
36 to 47	5,640	11.21	27,136,433	6.41	4,811	10.21	21.02	39.74
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 8 – Breakdown by Equipment Speed**

The distribution of the Leases as at the Cut-Off Date by Equipment speed was as follows:

Copying Speed Category	Leases (in number)	Leases (in %)	Principal Value (in €)	Principal Value (in %)	Average Principal (in €)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
01 to 20 ppm	7,379	14.66	104,222,907	24.63	14,124	11.81	43.14	13.27
20 to 50 ppm	25,386	50.44	150,819,778	35.64	5,941	12.18	37.49	18.23
50 to 180 ppm	4,822	9.58	133,809,581	31.62	27,750	10.92	40.68	16.72
More than 500 ppm	5	0.01	138,978	0.03	27,796	9.79	45.14	10.28
Other	12,733	25.30	34,169,473	8.07	2,684	13.99	36.89	12.85
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 9 – Breakdown by Scoring Indicator**

The distribution of the Leases as at the Cut-Off Date by scoring indicator was as follows:

Scoring Indicator*	Leases (in number)	Leases (in %)	Principal Value (in €)	Principal Value (in %)	Average Principal (in €)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
Green	11,756	23.36	103,207,128	24.39	8,779	11.70	38.27	16.92
Grey	8,254	16.40	59,829,872	14.14	7,249	10.82	37.98	17.08
Black	1,021	2.03	11,487,047	2.71	11,251	11.29	42.23	15.38
Not Listed	29,294	58.21	248,636,670	58.76	8,488	12.16	40.83	15.55
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

\* Scoring indicators as of Cut-Off Date which do not reflect the credit worthiness of the lessees at the origination date of the underlying leases

**Table 10 – Breakdown by Colour vs Black & White**

The distribution of the Leases as at the Cut-Off Date by colour vs black & white was as follows:

B&W vs Colour	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
B/W	32,326	64.23	248,156,854	58.64	7,677	11.88	38.76	17.68
Colour	4,791	9.52	125,674,396	29.70	26,231	11.35	42.60	13.91
B/W	475	0.94	15,159,994	3.58	31,916	10.17	41.37	15.55
Other	12,733	25.30	34,169,473	8.07	2,684	13.99	36.89	12.85
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 11 – Breakdown by Analogic vs Digital**

The breakdown of the Leases as at the Cut-Off Date by analogic vs digital was as follows:

Analogic vs Digital	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
Digital	32,739	65.06	371,816,269	87.87	11,357	11.64	40.49	16.00
Analogic	5,287	10.51	21,328,670	5.04	4,034	11.71	33.15	22.73
Other	12,299	24.44	30,015,778	7.09	2,441	14.35	36.53	12.56
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 12 – Breakdown by Billing Frequency**

The breakdown of the Leases as at the Cut-Off Date by billing frequency was as follows:

Billing Frequency	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
Quarterly	48,052	95.48	385,031,150	90.99	8,013	11.89	39.81	16.06
Monthly	1,648	3.27	32,332,392	7.64	19,619	11.21	40.23	15.85
Semi Annually	285	0.57	3,124,041	0.74	10,962	11.10	42.03	19.25
Annually	340	0.68	2,673,133	0.63	7,862	11.73	37.22	19.97
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>



**Table 13 – Breakdown by Payment Mode**

The breakdown of the Leases as at the Cut-Off Date by payment mode was as follows:

Payment Mode	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
Direct Debit	37,887	75.28	327,940,387	77.50	8,656	11.97	40.66	15.91
Cheque	7,224	14.35	62,263,516	14.71	8,619	11.07	37.55	16.73
Bank Transfer	3,253	6.46	16,860,710	3.98	5,183	10.57	34.10	16.53
Letter of Credit	248	0.49	2,328,343	0.55	9,388	10.61	36.76	15.92
Awaiting Client's Bank Details	218	0.43	1,517,271	0.36	6,960	12.31	37.04	17.49
Other	1,495	2.97	12,250,489	2.89	8,194	13.92	38.44	17.01
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 14 – Breakdown by Market Segment**

The breakdown of the Leases as at the Cut-Off Date by market segment was as follows:

Production Type	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
Office	35,729	71.00	303,497,884	71.72	8,494	11.90	39.83	16.19
Production	1,844	3.66	85,200,252	20.13	46,204	10.75	41.10	17.01
Production Special	19	0.04	293,107	0.07	15,427	9.86	35.33	21.12
Other	12,733	25.30	34,169,473	8.07	2,684	13.99	36.89	12.85
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 15 – Breakdown by Customer Account**

The breakdown of the Leases as at the Cut-Off Date by customer account was as follows:

Customer Account	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
Mass Market	28,954	57.53	217,490,611	51.40	7,512	12.36	41.10	15.56
Major Account	16,244	32.28	152,766,069	36.10	9,404	11.20	38.15	16.57
Graphic Arts	1,508	3.00	37,688,348	8.91	24,992	11.06	41.50	15.77
Public Sector	3,619	7.19	15,215,689	3.60	4,204	12.58	34.83	19.79
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 16 – Breakdown by Bundled Contracts vs Unbundled Contracts**

The breakdown of the Leases as at the Cut-Off Date by Bundled Contracts vs Unbundled Contracts was as follows:

Type of Contract	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
Bundled	27,890	55.42	298,774,630	70.61	10,713	11.70	40.48	15.95
Unbundled	22,435	44.58	124,386,087	29.39	5,544	12.15	38.31	16.43
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 17 – Breakdown by Geographic Concentration**

The breakdown of the Leases as at the Cut-Off Date by geographic concentration was as follows:

Region	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
Ile de France	24,102	47.89	210,255,812	49.69	8,724	11.71	38.55	16.05
Rhone Alpes	4,232	8.41	37,280,821	8.81	8,809	11.73	41.94	16.35
Pays de Loire	1,862	3.70	16,903,896	3.99	9,078	12.01	43.57	15.09
Nord Pas de Calais	1,921	3.82	14,066,149	3.32	7,322	11.46	38.32	17.83
Languedoc Rousillon	1,496	2.97	13,809,203	3.26	9,231	11.87	44.69	14.53
PACA	1,848	3.67	13,738,052	3.25	7,434	12.28	39.42	16.80
Midi Pyrénées	1,617	3.21	13,685,917	3.23	8,464	11.72	40.30	14.45
Aquitaine	1,936	3.85	12,322,225	2.91	6,365	12.29	39.09	17.52
Centre	1,261	2.51	11,253,329	2.66	8,924	11.52	40.49	16.60
Bretagne	1,371	2.72	11,134,969	2.63	8,122	12.14	40.90	16.55
Alsace	966	1.92	9,880,668	2.33	10,228	11.86	41.36	14.53
Picardie	1,096	2.18	7,330,156	1.73	6,688	12.05	40.76	18.25
Basse Normandie	763	1.52	6,796,997	1.61	8,908	11.56	42.09	16.27
Poitou Charentes	821	1.63	6,673,810	1.58	8,129	11.90	41.13	14.57
Lorraine	737	1.46	6,484,765	1.53	8,799	12.12	41.30	16.22
Bourgogne	850	1.69	6,253,898	1.48	7,358	12.54	38.95	15.50
Haute Normandie	998	1.98	5,839,330	1.38	5,851	12.35	39.25	16.00
Champagne								
Ardennes	585	1.16	5,018,799	1.19	8,579	11.87	43.55	16.93
Auvergne	509	1.01	4,309,506	1.02	8,467	11.98	40.64	18.55
DOM	463	0.92	3,025,314	0.71	6,534	14.08	36.46	15.56
Franche Comté	357	0.71	2,766,731	0.65	7,750	12.44	43.16	17.28
Limousin	343	0.68	2,751,703	0.65	8,022	11.97	42.37	14.84
Corse	183	0.36	1,532,382	0.36	8,374	13.24	40.60	14.76
Others	8	0.02	46,285	0.01	5,786	16.67	32.33	8.03
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 18 – Breakdown by Industry Concentration**

The breakdown of the Leases as at the Cut-Off Date by industry concentration was as follows:

Industry	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
<b>Service Fourni Principalement Entreprise (B-to-B Services Industry)</b>	10,637	21.14	101,756,824	24.05	9,566	11.65	39.55	16.72
<b>Commerce Gros/ Intermediaires Commerce (Wholesale Industry)</b>	3,298	6.55	28,984,544	6.85	8,789	11.45	41.52	15.50
<b>Edition Imprimerie Reproduction (Publishing Industry)</b>	1,229	2.44	26,454,750	6.25	21,525	11.28	43.02	15.20
<b>Education (Education Services)</b>	1,662	3.30	17,536,179	4.14	10,551	11.81	42.23	17.80
<b>Activites Associatives (Non For Profit Organisations)</b>	1,422	2.83	15,434,764	3.65	10,854	12.17	41.98	16.06
<b>Activites Informatiques (Computer Industry)</b>	1,046	2.08	14,964,371	3.54	14,306	11.09	38.19	15.69
<b>Commerce Detail/ Reparation Articles Domestiques (Retail Industry)</b>	2,399	4.77	12,808,234	3.03	5,339	11.78	36.72	18.23
<b>Administration Publique (Public Administration)</b>	1,076	2.14	10,861,930	2.57	10,095	12.88	36.93	17.34
<b>Activites Immobilières (Real Estate Services)</b>	1,196	2.38	10,610,642	2.51	8,872	12.36	41.92	15.55
<b>Services Auxiliaires Des Transports (Logistics and Transportation)</b>	1,473	2.93	10,546,171	2.49	7,160	11.38	43.21	14.82
<b>Assurance (Insurance)</b>	1,058	2.10	10,377,703	2.45	9,809	11.23	39.89	17.05
<b>Industrie Chimique (Chemical Industry)</b>	1,121	2.23	10,312,557	2.44	9,199	10.78	36.80	17.31
<b>Intermediation Financiere (Financial Brokerage)</b>	1,203	2.39	10,246,016	2.42	8,517	11.14	32.02	19.51
<b>Construction (Building Industry)</b>	1,298	2.58	9,984,920	2.36	7,693	12.44	42.13	14.98
<b>Sante et Action Sociale (Health Care)</b>	1,663	3.30	9,067,650	2.14	5,453	12.64	41.49	15.56
<b>Fabrication de Machines et Equipements (Equipment Manufacturing Industry)</b>	897	1.78	8,260,825	1.95	9,209	11.48	41.11	16.62
<b>Activites Recreative/ Culturelle/Sportive (Leisure Industry)</b>	830	1.65	7,665,545	1.81	9,236	12.43	40.26	16.83
<b>Industries Alimentaires (Food Industry)</b>	704	1.40	5,277,274	1.25	7,496	11.63	38.42	16.60
<b>Travail des Metaux (Metal Processing Industry)</b>	747	1.48	4,986,967	1.18	6,676	12.11	40.24	16.98
<b>Auxiliaires Financiers et d'Assurance (Independant Financial Services)</b>	514	1.02	4,075,013	0.96	7,928	12.53	35.65	18.72
<b>Others (Others)</b>	14,852	29.51	92,947,839	21.97	6,258	12.33	39.23	14.60
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

**Table 19 – Breakdown by Obligors Concentration**

The breakdown of the Leases as at the Cut-Off Date by concentration of obligors was as follows:

Obligors	Leases (in number)	Leases (in %)	Principal Value (in EUR)	Principal Value (in %)	Average Principal (in EUR)	Weighted Average Interest Rate (in %)	Remaining Term (in months)	Leases Age (in months)
1	198	0.39	3,224,997	0.76	16,288	9.86	49.70	12.57
2	266	0.53	1,860,720	0.44	6,995	10.68	29.23	7.48
3	186	0.37	1,798,434	0.43	9,669	8.28	37.26	19.62
4	84	0.17	1,795,972	0.42	21,381	10.09	27.45	21.98
5	76	0.15	1,612,753	0.38	21,220	7.30	43.17	7.69
6	1,709	3.40	1,595,768	0.38	934	8.05	18.01	32.24
7	98	0.19	1,473,698	0.35	15,038	10.99	46.24	14.62
8	99	0.20	1,468,625	0.35	14,835	11.22	36.32	14.36
9	56	0.11	1,386,675	0.33	24,762	10.66	50.27	6.75
10	16	0.03	1,359,024	0.32	84,939	9.48	46.52	13.52
11	130	0.26	1,184,099	0.28	9,108	10.41	34.71	21.27
12	228	0.45	1,134,990	0.27	4,978	8.78	29.76	21.27
13	72	0.14	1,086,360	0.26	15,088	10.28	43.33	17.76
14	10	0.02	1,019,658	0.24	101,966	9.57	61.17	11.78
15	19	0.04	1,003,213	0.24	52,801	10.76	50.37	16.98
16	210	0.42	1,001,272	0.24	4,768	7.63	39.39	16.21
17	21	0.04	926,638	0.22	44,126	10.32	57.79	6.77
18	18	0.04	923,251	0.22	51,292	10.74	37.74	23.64
19	45	0.09	900,703	0.21	20,016	11.61	35.56	11.37
20	49	0.10	864,382	0.20	17,640	11.21	35.71	20.76
Others	46,735	92.87	395,539,484	93.47	8,463	11.98	39.82	16.12
<b>Total</b>	<b>50,325</b>	<b>100</b>	<b>423,160,716</b>	<b>100</b>	<b>8,409</b>	<b>11.83</b>	<b>39.84</b>	<b>16.09</b>

## PRESENTATION OF HISTORICAL DATA IN RELATION TO EQUIPMENT LEASES

### Important notice – disclaimer

The tables below show the historical data of prepayments rate and the performance relating to the leases originated and managed by XF and XB during the relevant reference period(s) indicated in the tables below, as provided by the same.

No assurance can be given to the Unitholders that the Leases will experience a similar rate of prepayments nor will bear the same profile of performance or levels of defaults.

The data presented in the following tables are for illustrative purposes only. Delinquency and loss experience may be influenced by a variety of economic, social, geographic and other factors beyond the Compartment's control. In addition, these tables include leases from XF and XB's entire portfolio, some of which have characteristics that differ from those of the Leases. As a result, the Compartment nor any other entity named herein can assure that delinquency experience and loss experience with respect to the Leases will be of similar nature.

Any increase in the prepayments rate, loss and delinquency rates and decrease of performance in relation to the Leases will affect the ability of XFS to repay the Loan, and then, the ability of the Compartment to repay the Units, thus affecting the yield realised by the Unitholders.

### Prepayments

Prepayment rate on the Leases may be influenced by a variety of factors, including, but not limited to, the economic environment and availability of cheaper source of financing or the availability of competing document processing equipment lease programmes and the conditions in the document processing equipment market. Any increase in the prepayments rate will affect the ability of XFS to repay the Loan, and then, the ability of the Compartment to repay amounts due under the Units, thus affecting the yield realised by the Unitholders.

A prepayment in full of a lease during the reference period(s) indicated in the tables below occurred in the form of:

- (i) proceeds resulting from a voluntary early termination of the relevant leases;
- (ii) insurance proceeds resulting from the relevant casualty leases whereby the related equipment has been damaged beyond economic repair; and
- (iii) repurchase payments made by XF or XB ("Churn of contracts").

The relevant leases may have been prepaid without charge if XF or XB, as part of its marketing policy, initiates the prepayment. It is a common practice for XF's sales force to "churn" equipment before the end of the relevant lease contracts. In this respect pays, the outstanding amount of the relevant leases has been paid down to XF or XB by the Xerox group. Voluntary termination of the relevant lease contracts by the customers triggered an indemnity payment to XF or XB amounting 10% of the original value of the lease.

The table below shows the amounts and the rates of prepayments on an annual basis.

*Table 1 – Historical Statistics of Prepayments*

Year	Portfolio at the end of period		Prepayment	
	Outstanding principal Value (in €)		In €	% Outstanding
1998	640,133,423		72,562,554.82	11.34%
1999	670,623,227		78,652,174.62	11.73%
2000	693,658,273		78,873,143.08	11.37%
2001	676,111,391		71,964,457.89	10.64%
2002	645,474,556		70,303,050.95	10.89%

Source Xerox

The prepayment rate in the table above is calculated as the following ratio:

$$\text{Prepayment Rate} = \frac{\text{Principal of prepayment occurring during year of reference}}{\text{Outstanding principal of portfolio at year end}}$$

### Write-offs

Where individual lease receivable balances became uncollectible, XF's corporate policy has been to write-off such balances against the bad debt provisions held on the balance sheet. As a general guideline, a bad debt was to be written off once it has become overdue by more than 180 days. Earlier write-off may have taken place where collection activity provided firm evidence to the cash manager that a default or an insolvency will occur. Charges to the allowance account were made only when specific accounts have been identified as uncollectible and appropriate approvals have been obtained to write off the accounts. Collection effort continued after the legal pursuits have been initiated (e.g. post judgement recoveries) and potential recoveries have later come as a deduction of allowance account. If an account previously written off was subsequently recovered, the net amount collected (gross recovery less any collection fees) was added to the allowance account.

Values written off were composed of (i) past due rents (client's outstanding receivable balance) and (ii) outstanding principal of the relevant leases.

The table below shows the amounts and the rates of leases written-off on an annual basis.

**Table 2 – Historical Statistics of Leases Amounts written-off**

Origination Year	Amount written of in K € by Year of Write-off (wo)						
	2002	2001	2000	1999	1998	1997	1996
1991							9
1992							630
1993					27	244	706
1994				2	227	1,406	2,803
1995			195	180	633	2,489	1,794
1996	26	18	188	412	691	1,541	907
1997	158	675	948	986	1,807	1,272	53
1998	802	1,182	2,480	3,023	423		
1999	1,251	2,736	2,038	269			
2000	2,784	4,534	765				
2001	4,039	674					
2002	974						
<b>TOTAL WO Net</b>	<b>10,032</b>	<b>9,819</b>	<b>6,614</b>	<b>4,873</b>	<b>3,808</b>	<b>6,952</b>	<b>6,903</b>
Principal Value	645,475	676,111	693,658	670,623	640,133	619,553	654,464
<b>WO Net / Principal Value</b>	<b>1.55%</b>	<b>1.45%</b>	<b>0.95%</b>	<b>0.73%</b>	<b>0.59%</b>	<b>1.12%</b>	<b>1.05%</b>
Recoveries	1,711	362	132	511	267	479	483
WO Gross	11,743	10,181	6,746	5,384	4,075	7,431	7,386
<b>WO Gross / Principal Value</b>	<b>1.82%</b>	<b>1.51%</b>	<b>0.97%</b>	<b>0.80%</b>	<b>0.64%</b>	<b>1.20%</b>	<b>1.13%</b>

The default rate in the table above is calculated as the following ratio:

$$\text{Default Rate} = \frac{\text{Amount written off during year of reference}}{\text{Outstanding principal of portfolio at year end}}$$

### Aged balances

Customers who have not made a payment by the end of the month in which an invoice is received are reported by XF as being zero to 30 days delinquent. Similarly, lessees who have not made a payment by the end of the month



after the month in which an invoice is sent are reported as being 31 to 60 days delinquent. The uncollected and due amounts are tracked following this principle of Aged Balance Buckets which reports the client balance due in the appropriate 30 days time bucket.

Notwithstanding the foregoing, for collection purposes Xerox generally does not consider a customer to be delinquent until the end of the month following the month in which the related invoice was received, and therefore did not take any collection action until that time.

**Table 3 – Historical Statistics of Aged Balances – Xerox**

Aged Receivable Balances (at end of Year, in K €)							
Year	0-30 days	31-61 days	61—90 days	91 -120 days	120-180 days	180 over	Total
1999	5,514	2,815	2,235	1,485	1,241	3,705	16,995
2000	4,868	3,628	5,261	1,453	2,203	7,452	24,865
2001	7,098	3,715	4,374	1,399	1,944	3,638	22,169
2002	8,163	2,532	3,719	473	1,002	1,510	17,399

Source: Xerox

## WEIGHTED AVERAGE LIFE OF THE CLASS A UNITS AND ASSUMPTIONS

### Important notice – disclaimer

The weighted average lives of the Class A Units cannot be predicted as the actual rate at which Leases will be repaid, the rate of prepayment, the default rate of the customers and a number of other relevant factors are unknown. Notwithstanding, calculations of the possible weighted average life of the Class A Units can be made based on certain assumptions defined below. No representation is made as to what the actual levels of losses and delinquencies on the Leases will be. Because payments on the Leases will differ from those used in preparing the following table, payments of the Outstanding Principal Amount under the Class A Units may be made earlier or later than as set forth below. Unitholders are urged to make their investment decisions on a basis that includes their determination as to anticipated prepayment and default rates under a variety of the assumptions discussed herein.

### Yield to Maturity on the Class A Units

The yield to maturity on the Class A Units will be affected by the amount and timing of payments made by the customers under the Leases and in particular by the rate of prepayment, the delinquencies, defaults and losses recorded on the Leases.

### Weighted average life of the Class A Units

Weighted average life of the Class A Units (expressed in years) refers to the average amount of time that will elapse from the date of issuance of the Units to the date of distribution to the investors of each amount distributed in reduction of the Outstanding Principal Amount of the Class A Units. The weighted average life of the Class A Units will mainly depend on the amount and timing of principal payments received from the customers under the Leases. Such principal payments shall be calculated on the basis of the available principal payments, the prepayments, the amount of losses recorded on the Leases and the collections on the Leases.

The weighted average life of the Class A Units shall also depend on the available funds that will remain available to XFS to repay the Loan after allocation of principal payments received from the customers under the Leases according to the Funds Flow Management Agreement.

Based on the assumptions that:

- (a) no Lease forming part of the Lease Portfolio will be deleted or retransferred by XFS;
- (b) no early liquidation of the Compartment will occur;
- (c) interest payments on the Class A Units, are due on a quarterly basis, and will be received on the eighth Business Day following the last Business Day of each calendar quarter;
- (d) 2.98 per cent investment return is earned on the Compartment Accounts;
- (e) the interest under the Units will be the aggregate of (i) 3 month EURIBOR at 3.38 per cent and (ii) a Margin plus Financial Guarantee premium equal to 1.65 percent;
- (f) no Financial Guarantor Event of Default (as defined in “*The Loan, the Related Security and the Hedging Agreement*”) will occur;
- (g) payments on the Leases are made at the end of the calendar month;
- (h) Compartment Operating Expenses will represent the sum of (i) 50,575 EUR per quarter for FCC management fees, XFS management fees and Account Bank, Custodian, Paying Agent, Loan Servicer Fees and (ii) 0.01 per cent per annum of the Lease Portfolio Value for rating agency surveillance fees;
- (i) all prepayments on the Leases are prepayment in full;
- (j) the Loan General Reserve Account of XFS is initially funded with an amount equal to € 21,747,406;
- (k) the collateral value of the Lease Portfolio as of 31 May 2003 is € 434,948,119 (with € 423,160,716 of outstanding principal value and € 11,787,403 of current receivables value);
- (l) the corporate tax rate applicable to XFS is 35.42%;

- (m) the *contribution de solidarité pour la sécurité sociale* tax rate applicable to XFS is 0.13%;
- (n) the overall amount of tax paid in relation with the trade tax (*taxe professionnelle*) is € 5,015,000;
- (o) no interest on the residual value of the Equipment is earned throughout the life of the Leases;
- (p) the outstanding amount of the Class A Units is paid down if the sum of (i) the amount held in the Loan General Reserve Account of XFS and (ii) the Compartment Available Funds to pay principal on the Units becomes more or equal than the Outstanding Principal Amount;
- (q) servicing fees payable to XF in respect of the service of the Lease Portfolio will represent 1.50 per cent per annum of the Outstanding Lease Portfolio Value as of each quarter preceding a payment date;
- (r) tax liabilities are calculated on a monthly basis; and
- (s) interest incomes earned on positive cash balances are calculated on the account balance at the beginning of the month.

The Outstanding Principal Amount of the Class A Units, in percentage terms, is anticipated to be as follows:

	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 4</b>
<b>Credit Enhancement</b>	13.50%	13.50%	13.50%	13.50%
<b>Prepayment rate p.a.</b>	5.00%	10.00%	15.00%	20.00%
<b>Default rate p.a.</b>	1.80%	1.80%	1.80%	1.80%
<b>Month</b>	<b>Class A Units Profile</b>	<b>Class A Units Profile</b>	<b>Class A Units Profile</b>	<b>Class A Units Profile</b>
<b>1</b>	100%	100%	100%	100%
<b>2</b>	100%	100%	100%	100%
<b>3</b>	100%	100%	100%	100%
<b>4</b>	89%	87%	86%	85%
<b>5</b>	89%	87%	86%	85%
<b>6</b>	89%	87%	86%	85%
<b>7</b>	79%	77%	75%	72%
<b>8</b>	79%	77%	75%	72%
<b>9</b>	79%	77%	75%	72%
<b>10</b>	70%	67%	64%	61%
<b>11</b>	70%	67%	64%	61%
<b>12</b>	70%	67%	64%	61%
<b>13</b>	61%	58%	54%	51%
<b>14</b>	61%	58%	54%	51%
<b>15</b>	61%	58%	54%	51%
<b>16</b>	53%	49%	45%	42%
<b>17</b>	53%	49%	45%	42%
<b>18</b>	53%	49%	45%	42%
<b>19</b>	45%	41%	37%	33%
<b>20</b>	45%	41%	37%	33%
<b>21</b>	45%	41%	37%	33%
<b>22</b>	37%	33%	29%	26%
<b>23</b>	37%	33%	29%	26%
<b>24</b>	37%	33%	29%	26%
<b>25</b>	30%	26%	23%	19%
<b>26</b>	30%	26%	23%	19%
<b>27</b>	30%	26%	23%	19%
<b>28</b>	24%	20%	17%	14%
<b>29</b>	24%	20%	17%	14%
<b>30</b>	24%	20%	17%	14%
<b>31</b>	18%	15%	12%	9%
<b>32</b>	18%	15%	12%	9%
<b>33</b>	18%	15%	12%	9%
<b>34</b>	13%	11%	8%	6%
<b>35</b>	13%	11%	8%	6%
<b>36</b>	13%	11%	8%	6%
<b>37</b>	9%	7%	0%	0%
<b>38</b>	9%	7%	0%	0%
<b>39</b>	9%	7%	0%	0%
<b>40</b>	0%	0%	0%	0%
<b>WAL Class A Units (Year)</b>	1.57	1.48	1.38	1.29

## ORIGINATION AND MANAGEMENT OF THE LEASE PORTFOLIO

*The information appearing in this section has been prepared based on the information delivered by XF, and has not been independently verified by the Compartment, the Management Company, the Custodian, the Lead Manager, any Manager or any of their affiliates. Accordingly, notwithstanding anything to the contrary herein, none of the above mentioned entity, assume any responsibility for the accuracy, completeness or applicability of such information.*

### **Lease Underwriting Procedures**

XF requires every prospective customer to undergo a credit review and be approved by a credit administrative officer or manager. This review includes an analysis of the applicant's financial robustness for all customers and payment history for existing customers. Specific credit criteria are applied based on the amount of the proposed lease contract, the category of customer and the duration of the lease contract. The credit policy is fully documented and periodically updated to reflect changes in the economic environment.

The credit process is supported by a team of credit analysts and dedicated leasing management IT systems and is articulated around three levels: the Credit Lists (Green, Grey, Black), the Credit Scoring Model and the Manual Credit Check.

XF maintains a "Green List" which contains companies or entities that XF deems to present low credit risk. The eligibility of a customer to be on the Green list is based on an assessment of their creditworthiness and actual payment history which has to be validated by the leasing manager for France. Customers on that list are automatically approved for credit for the lease of a Xerox document processing equipment if their payment history does not present any default. As of the date of this offering circular the Green List contains approximately 15,000 firms and 30% of the applications are processed through the Green List. The Green List is updated periodically and XF believes that Green List's customers pose a minimal credit risk to XF based on their demonstrated creditworthiness and financial stability. In addition to the Green List, XF also maintain a 'Grey List' for those customers where a more indepth credit investigation is required before any more business is written "because of delays in payments", and a 'Black List' representing customers for which Xerox France has had payment problems (bad debts) with those customers, a manual credit analysis will be systematically carried out.

*For customers not part of the Green List, the request of credit requires the use of a credit scoring model. The static parameters present in the Credit Scoring Model are reviewed periodically by the leasing manager for France and borderline cases are re-routed to a manual check. The credit model scoring is based on the following criteria: Reuters scoring, turnover, shareholders' equity, industry sector.*

If a customer cannot be approved based on the foregoing (i.e. through the Green List or the credit scoring model) a review must be conducted by one of the credit analysts of XF. This review includes the analysis of the financial statements provided by the applicant, as well as information obtained from public or private credit databases. The payment history of the applicant is reviewed and a financial statement ratio analysis is performed for solvency, profitability and efficiency of payment purposes. The decision to grant a Lease contract to the applicant is taken based on balance sheet analysis, profit and losses account ratios and payment history. Manual credit checks are performed by Xerox's financial analysts on approximately 50% of the credit applications.

### **Lease Underwriting Origination**

Leases are underwritten through two channels being the direct and indirect channels that reflect the sale organisation of XF. The direct channel is owned and directly supervised by XF. It operates through a regional organisation of sale force, sales manager and a business unit manager covering the French territory. The indirect channel is articulated around a dealership network of "concessionaires" to whom XF has granted an exclusivity to distribute its products within a specified commercial area.

The contract underwriting procedures are identical regardless of the underwriting channel. Each prospective lessee has to undergo a credit analysis in order to assess its credit worthiness. Each originator of a prospective lease contract is required to gather pre-set financial and business information necessary to perform a scoring analysis on the applicant. This information is passed to a Credit Administrator who initiates a formal creditworthiness assessment (scoring analysis) on the applicant by inputting the data into Xerox's Credit Scoring system. The scoring department then receives the request for the scoring analysis and takes over the analysis of the creditworthiness assessment. If the applicant's national identifier (registration number code) has been input in

the credit scoring system, an automatic process will identify whether the company's registration number belongs to one of Xerox's pre-set credit lists (i.e. Green, Black or Grey Lists).

If the registration number of the company belongs to the Green List, the scoring result will be positive. If the registration number belongs to the Black List, the scoring system issues a blocking signal and requests a manual confirmation of this belonging. A manual credit analysis is performed to take the final scoring decision. If the registration number belongs to the Grey List, a manual credit assessment will be systematically performed. If the registration number of the company does not belong to any of the credit lists, the credit analysis for this company is carried out by an automated credit scoring system based on several criteria like the lease financed amount, external rating (ORT database), industry, turn-over, balance sheet and income statement. The automated credit scoring system produces a positive or negative scoring result, if the scoring is negative, a manual credit analysis is performed to confirm or unconfirm the negative scoring. Finally, if the lease applicant does not have a registration number, a manual credit analysis is systematically carried out by one of the credit analysts of XF.

With respect to manual analysis, any application for a lease amount above € 76,000 requires the review of the leasing manager for France who makes the ultimate decision to approve or reject the application. Any financed amount above € 1.5 million requires the review and approval of the leasing manager for Europe.

### **Collection Procedure**

XF performs collection activities with respect to delinquent Leases through a dedicated collection team of 139 people based in Dublin, Ireland and Aulnay, France. The collection process is well documented and articulated around strict guidelines.

Each collection agent follows a structured timeline, allowing time for repeated calling on accounts newly reported as delinquent, follow up calls, working identified billing disputes, identifying previous delinquent accounts and initiating stop service and normal collection activities. Accounts that have been charged off are handled by a special collection service group in lieu of an external collection agency. The collection team of XF utilises collection law firms to support its efforts and to manage outside placements to external lawyers or external collection agencies.

The accounts assigned to each collection agent are accumulated in an accounts receivable collection IT programme that identifies delinquencies by customer contract number, aging buckets and total amount owed. The collection agents are responsible for contacting delinquent customers according to the standard collection procedure, identifying reasons for nonpayment and appropriately following up with the customer until payment is received or settlement is reached. An history is attached to each customer contract number which is updated to reflect the status of the account and correspondence with customer. A collection agent may send a variety of collection, default and purchase order renewal letters to facilitate collections.

The collection procedure follows a standard timeline. After a lessee is more than 15 days delinquent, an automated "dunning letter" is sent whose content states the amount due and payable by the lessee. After a 15 to 30 day period following the payment due date, a collection agent attempts to determine the reason for the delinquency and contacts the lessee by phone call. Collection activities include investigation and evaluation of the causes of any delinquency, as well as attempting to ensure that the account is brought current and that future payments will be made as scheduled. During this grace period additional phone calls are made on assigned accounts notifying the lessee of the delinquency and requesting that the account be made current. Unless the delinquency is cured, the collection agent continues to contact the lessee up to 45 days after the due date. After 45 days of delinquency a warning of service, supplies and maintenance termination is notified to the lessee.

After 60 days, if the delinquency still exists, the providing of services, supplies and maintenance is halted and a last payment injunction is made to the lessee before legal action is undertaken to recover the amount due and not paid. Transfer to the litigation department occurs after 90 days. Litigation is the last recourse when all other means of cash collection have been exhausted. The litigation procedure can follow two different routes whether the lessee has been declared bankrupt by a court or not.

Should a bankruptcy procedure be declared, two outcomes are possible:

- (i) if after the legal observation period the liquidation of the company is pronounced, the amount payable by the then defaulted lessee is written off;
- (ii) if the lessee has been restructured as an on-going concern or taken over by a viable acquirer, the lease contract is amended. As part of a proactive customer bankruptcy management, XF's litigation agents or



mandated law firms closely follow up the bankruptcy procedure and negotiate with the bankruptcy receiver a recoverable amount for the Defaulted Lease payments.

In the absence of any bankruptcy procedure, the lessee is thereof deemed being an official delinquent account and consequently Xerox will mandate external recovery agencies to collect the due amount. Depending on the creditworthiness of the lessee, its willingness and ability to meet its financial obligation, legal pursuits can be initiated or a debt rescheduling (personal recovery programme) negotiated.

A Defaulted Lease will be a Lease (i) which has been deemed not to be collectable by the cash manager before its attached Lease receivables have become overdue by more than 180 days if collection activity provided firm evidence to the cash manager that a default or an insolvency will occur or (ii) a Lease whose attached Lease receivables have been overdue by more than 180 days unless the cash manager deems those Lease receivables to be collectable in accordance with the procedures set forth in the Administration and Servicing Agreement. After a Lease has become a Defaulted Lease, XFS will be entitled to Financial Components payments made by a Lessee in respect of a Lease after it has become a Defaulted Lease.

Collection representatives are not specifically dedicated to collection activities related to XFS Lease Contracts but are responsible for all commercial leases administered and serviced by Xerox, including XFS Contracts. Collection representatives are assigned a specific group of accounts based on parameters designed to cover the largest percentage of delinquent accounts.

## CONTRIBUTION, WAREHOUSE FINANCING, SERVICING AND MAINTENANCE OF THE LEASE CONTRACTS AND THE EQUIPMENT

Before the completion of the contributions on 16 December 2002, XL was the sole shareholder of a French company, XF. XF held a 100% shareholding in XB, which in turn held a 100% shareholding in XFS.

### The 2002 Contribution Agreements

#### *Main terms of the Contribution Agreements*

On 16 December 2002, three contribution agreements were contemporaneously completed as follows:

- (a) Xerox XF Holdings (Ireland) Ltd (“**XXFH**”) contributed office equipment it owned to XF in exchange for shares of XF, by way of a French law contribution in kind (*apports en nature à titre pur et simple*) (the “**XXFH-XF Contribution Agreement**”);
- (b) XF contributed to XB in exchange for shares of XB its branch activity relating to its leasing activity made up of all the equipment received from XXFH and the related Bundled Contracts (the “**2002 XF-XB Contribution Agreement**”); and
- (c) XB contributed to XFS in exchange for shares of XFS its branch activity relating to its leasing activity made up of all the Bundled Contracts received from XF and its own Unbundled Contracts and the related equipment (the “**2002 XB-XFS Contribution Agreement**” and together with the XXFH-XF and the XF-XB Contribution Agreements, the “**2002 Contribution Agreements**”).

The 2002 XF-XB Contribution Agreement and the 2002 XB-XFS Contribution Agreement were subject to the French division regime (*apport partiel d'actifs soumis au régime des scissions*).

The 2002 Contribution Agreements were approved by the shareholders of the relevant companies on 16 December 2002.

The value of the assets to XFS was € 403,139,240.

The 2002 Contribution Agreements took effect as from 1 December 2002.

#### *Nature of the contribution*

All Bundled Contracts and Unbundled Contracts entered into by XF and XB between 1 October 1999 and 30 November 2002 were contributed pursuant to the 2002 Contribution Agreements with the exception of some contracts and equipment excluded in accordance with the criteria provided in the Contribution Agreements. The equipment was attached to the Bundled Contracts and Unbundled Contracts.

Positive and negative eligibility criteria similar to those described in “*Statistical Analysis of the Lease Portfolio*” have been used in respect of leases and equipment contributed pursuant to the 2002 Contribution Agreements.

#### *General provisions of the 2002 Contributions Agreements*

Under the 2002 Contribution Agreements, the transferring party agreed to remain responsible for all the charges and to perform all the obligations relating to the contributions which arose or were created before the effective date of transfer (1 December 2002), while XFS agreed to be liable for all the obligations attached to the contributed equipment and contracts as from 1 December 2002.

#### *Representations and Warranties regarding the 2002 Contribution Agreements*

Pursuant to the 2002 XB-XFS Contribution Agreement, XFS, XB, XF and MLI as security agent, on 16 December 2002, entered into an indemnity agreement (the “**2002 Indemnity Agreement**”) (see hereafter).

### The 2003 Contribution Agreements

#### *Subsequent contribution agreements*

On 15 April 2003, four further contribution agreements (the “**2003 Contribution Agreements**”) were contemporaneously completed as follows:

- (a) in exchange for shares of XF, XXFH contributed to XF the equipment leased under the Bundled Contracts and Unbundled Contracts (by way of a contribution in kind (*apport en nature à titre pur et simple*));

- (b) in exchange for shares of XB, XF contributed to XB the equipment (related to Unbundled Contracts) received from XXFH (by way of a contribution in kind (*apport en nature à titre pur et simple*));
- (c) in exchange for shares of XFS, XF contributed to XFS its branch of activity relating to its leasing activity made up of the Bundled Contracts and the related equipment received from XXFH, valued at € 60,834,400 (the “**2003 XF-XFS Contribution Agreement**”); and
- (d) in exchange for shares of XFS, XB contributed to XFS its branch of activity relating to its leasing activity made up of the Unbundled Contracts and the related equipment received from XXFH via XF, valued at € 24,010,870 (the “**2003 XB-XFS Contribution Agreement**”).

The 2003 XF-XFS Contribution Agreement and the 2003 XB-XFS Contribution Agreement were subject to the French division regime (*apport partiel d’actifs soumis au régime des scissions*).

The 2003 Contribution Agreements were approved by the shareholders of the relevant companies on 15 April 2003.

The 2003 Contribution Agreements took effect as from 28 March 2003.

### ***Nature of the contributions***

New contributed equipment and contracts

The additional contracts and equipment transferred to XFS under the 2003 Contribution Agreements are the following:

- (a) leasing agreements (the “**Underlying Agreements**”) entered into under the framework agreements (signed by XF and XB) whose signatories have given the consent for the transfer of the Underlying Agreements;
- (b) Bundled Contracts and Unbundled Contracts, eligible under the criteria provided in the 2003 Contribution Agreements and which were substantially similar to those described for the 2002 Contribution Agreements, entered into by XF and XB between 1 October 1999 and 30 November 2002;
- (c) Bundled Contracts and Unbundled Contracts, eligible under the criteria provided in the 2003 Contribution Agreements, entered into by XF and XB between 1 December 2002 and 27 March 2003.

Positive and negative eligibility criteria similar to those described in “*Statistical Analysis of the Lease Portfolio*” have been used in respect of leases and equipment contributed pursuant to the 2003 Contribution Agreements.

### ***General provisions of the 2003 Contribution Agreements***

The general provisions of the 2003 Contribution Agreements are similar to those agreed in the 2002 Contributions Agreements. XXFH, XF and XB agreed to take responsibility for and perform all the charges and obligations relating to the contributions which arose or were created before the effective date of transfer (28 March 2003), while XFS agreed to be liable for all the obligations attached to the further contributed equipment and contracts as from 28 March 2003.

### ***Representations and Warranties regarding the 2003 Contribution Agreements***

On 15 April 2003, XF, XB, XFS and MLI entered into a new indemnity agreement (the “**2003 Indemnity Agreement**”) in relation to the contributions made pursuant to the 2003 XF-XFS Contribution Agreement and the 2003 XB-XFS Contribution Agreement (see hereafter).

### **The Programme Agreement**

In addition to the contribution of existing finance leases by XB and XF to XFS pursuant to the 2002 Contribution Agreements and the 2003 Contribution Agreements, XFS was temporarily entitled to (i) write new finance lease business with customers introduced to it by XF and (ii) purchase the corresponding equipment from XF, on terms set out in the French law governed programme agreement entered into on 16 December 2002 (as amended and restated on the Issue Date) (the “**Programme Agreement**”).

The leases under-written pursuant to the Programme Agreement conformed to lease eligibility criteria substantially similar to those provided for in the Contribution Agreements.

The Programme Agreement contains indemnity provisions substantially similar to that of the 2002 Indemnity Agreement and 2003 Indemnity Agreement (as described below). The maximum liability of XF to XFS pursuant to the indemnity provisions under the Programme Agreement is € 100,000,000.

Under this Programme Agreement, XF may extend fully subordinated loans to XFS.

### **The Second Portfolio Programme Agreement**

Following the Issue Date, XFS will be entitled to enter into new finance lease contracts (the “**Second Lease Portfolio**”) pursuant to a second portfolio programme agreement governed by French law, entered into on 15 April 2003 between XFS and XF and amended and restated on the Issue Date (the “**Second Portfolio Programme Agreement**”). A separate facility is made available to XFS on the Issue Date to finance the acquisition of equipment subject to the Second Lease Portfolio contracts (the “**Second Portfolio Equipment**”).

### **Main Terms of the Second Portfolio Programme Agreement**

The Second Portfolio Programme Agreement provides that:

- (a) XF will indemnify XFS up to an amount of € 350,000,000 in the event XF is liable to XFS in the circumstances set out in the Second Portfolio Programme Agreement;
- (b) variations to the standard lease form adopted by XFS may be accepted, as listed in the second Portfolio Programme Agreement;
- (c) XFS will have the right to refuse at any time and at its discretion to enter into a Second Portfolio Lease Contract with any customers introduced by XF, in particular, where XFS will be unable to obtain the necessary funding;
- (d) XF’s customers to which XFS will be introduced will have the right to request that a third party finance the acquisition of Xerox equipment. In the same way, XF is entitled to finance or arrange the financing of the acquisition of the equipment;
- (e) XF will be paid a commission by XFS corresponding to a percentage of the total price paid by XFS for the equipment which differs according to whether or not the customer has been introduced by XF directly or by XF after the introduction of its resellers; and
- (f) the financing of framework agreements which complies with certain conditions set out in the Second Portfolio Programme Agreement is allowed.

Pursuant to the Second Portfolio Programme Agreement, XF agrees that it will not be entitled to benefit from any indemnification, damages or compensation whatsoever at the end of the Second Portfolio Programme Agreement on the basis of a *mandat d’intérêt* commun or a commercial agency relationship.

The customers which will be introduced by XF to XFS are existing or new customers of XF and will remain customers of XF at the end or termination of the Second Portfolio Programme Agreement. XFS will agree that during the term of the Second Portfolio Programme Agreement and for a period of five years thereafter not to approach any customers to market and/or propose either directly or indirectly, on its own behalf or on behalf of a third party, any services connected to the supply of lease finance services which might compete with XF. Any breach by XFS of its non-compete obligations will entitle XF to terminate the Second Portfolio Programme Agreement without any indemnity due to the other parties to the Second Portfolio Programme.

### **The Equipment Sale Agreement**

An equipment sale agreement (the “**Equipment Sale Agreement**”) has been entered prior to the Issue Date among XFS, XXFH, XF and XB for the purpose of transferring to XFS certain Lease Contracts and selling to XFS the related Equipment, not contributed to XFS pursuant to the Contribution Agreements.

XFS financed the purchase price of the Equipment through a partial repayment of the loan granted by XFS to XB on 17 April 2003.

The Equipment Sale Agreement contains indemnity provisions substantially similar to that of the 2002 Indemnity Agreement and 2003 Indemnity Agreement.

### **The 2002 Indemnity Agreement**

The 2002 Indemnity Agreement is the French law governed agreement dated 16 December 2002 (as amended on 15 April 2003 and as amended and restated on the Issue Date) and made between (i) XFS as beneficiary and (ii) XB.

#### ***The Purpose***

Pursuant to the 2002 XB-XFS Agreement certain Leases were contributed to XFS by XB. The 2002 Indemnity Agreement sets out the warranties and indemnities relating to such Leases given by XB to XFS and guaranteed by XL.

#### ***Representations, Warranties and Indemnities***

Under the 2002 Indemnity Agreement, XB has represented to XFS that, *inter alia*, (a) the contributions did not include any liabilities, off-balance sheet liabilities save for any liability expressly set out in the contributed leases themselves or transfer any employment contracts, (b) it had full and exclusive ownership of the Equipment and all rights under the Contributed Leases, free from all securities, options and other third party rights save as expressly disclosed under article 6 of the 2002 Contribution Agreements, (c) all the information in the warranties and schedules concerning the eligible contributions was true and accurate, (d) it was not aware of anything likely to affect significantly and unfavourably the contributions and (e) the Equipment and the contributed Leases did not meet certain exclusion criteria. The scope of the warranties is extended to the infringement of any intellectual property right owned/licensed by XB or a member of the Xerox Group and which is transferred or licensed by XB or a member of the Xerox Group to XFS for the purpose of leasing, maintaining servicing and administering the Contributed Leases. The benefit of the warranties can be assigned to any credit institution, financial body or special purpose vehicle that would finance directly or indirectly the contributions.

#### ***Other provisions of the 2002 Indemnity Agreement***

The total amount for which XB can be liable under the 2002 Indemnity Agreement is € 403,139,240 which represents the value of the assets contributed to XFS under the 2002 XB-XFS Contribution Agreement.

All claims made under the 2002 Indemnity Agreement shall be notified to XB before the earliest of (i) the final repayment of any amount due by XFS under the Loan Agreement and (ii) the date on which the last contributed lease expires, with the exception of the requests for payment consecutively made to the tax, custom and social security authorities, which must be given before the end of the a term equal to the applicable statutory limitation period plus three months.

### **The 2003 Indemnity Agreement**

The 2003 Indemnity Agreement is the French law governed agreement dated 15 April 2003 (as amended and restated on the Issue Date) and made between (i) XFS as beneficiary, (ii) XF and (iii) XB.

XF's and XB's liabilities under the 2003 Indemnity Agreement are joint and several (*solidaires*) and are guaranteed by XL.

#### ***The Purpose***

Pursuant to the 2003 XF-XFS Contribution Agreement certain leases were contributed to XFS by XF and pursuant to the 2003 XF-XFS Contribution Agreement certain leases were contributed to XFS by XB. The 2003 Indemnity Agreement dated 15 April 2003 (as amended and restated on the Issue Date) sets out the warranties and indemnities relating to such leases given by XB and XF to XFS.

#### ***Representations, Warranties and Indemnities***

The representations and warranties are substantially similar to those stipulated in the 2002 Indemnity Agreement.

#### ***Other provisions of the Indemnity Agreement***

The total amount for which XF and XB can be liable to XFS under the representations and warranties is € 84,845,270 which represents the value of the assets contributed to XFS under the 2003 XF-XFS Contribution Agreement, and the value of the assets contributed to XFS under the 2003 XB-XFS Contribution Agreement.

All claims made under the 2003 Indemnity Agreement shall be notified to XB before the earliest of (i) the final repayment of any amount due by XFS under the Loan Agreement and (ii) the date on which the last contributed

lease expires, with the exception of the requests for payment consecutively made to the tax, custom and social security authorities, which must be given before the end of the a term equal to the applicable statutory limitation.

### **The First Warehouse Facility**

By the First Warehouse Facility, XFS was made available a revolving loan facility of an amount up to € 438,000,000 to finance the equipment contributed to, or acquired by, XFS as from the first Contribution Agreement.

On the Issue Date, all sums outstanding under the First Warehouse Facility have been repaid in full by XFS by netting the corresponding aggregate amount with the principal amount to be made available to XFS under the Loan Agreement.

### **The XFS-XB Loan Agreement**

The XFS-XB Loan Agreement refers to the € 349,000,000 loan facility granted to XB under the loan agreement dated 16 December 2002 as amended on 3 February 2003 and the € 9,475,000 loan facility granted under the loan agreement dated 17 April 2003 and made between (i) XFS as lender, and (ii) XB as borrower.

Under XFS-XB Loan Agreement, all payments by XB shall be made in full, without any set-off or counterclaim and free and clear of any deductions or withholdings.

In addition, XFS may set off any obligation owing by XB under the XFS-XB Loan Agreement against any obligation owed by XFS to XB if XFS's obligation does not exceed the amount of (i) any contemporaneous distribution being made to XFS in respect of any other intergroup loan arrangement or (ii) any contemporaneous distribution intended to be made to XB by XFS in respect of the XB's shareholding in XFS.

In compliance with the loan agreement dated 16 December 2002 as amended on 3 February 2003, to guarantee the payment of the € 349,000,000 loan facility, XF and XB entered into a guarantee agreement (*cautionnement solidaire*) on 16 December 2002 under which XF accepts to be liable for any XB's obligations under the loan agreement as mentioned above in case of a default which is not cured within 45 business days from the date of such notice from XFS to XB and to XF. According to this guarantee agreement, XF waived all the rights that a guarantor may have under articles 2021 et seq of the French Civil Code (*Code civil*) (*renonciation aux bénéfices de discussion et de division*).

### **The XFS-XF Loan Agreement**

The XFS-XF Loan Agreement refers to the € 22,108,232 loan facility granted to XF under the Loan Agreement dated 17 April 2003 and made between (i) XFS as lender, and (ii) XF as borrower.

The terms of the XFS-XF Loan agreement are similar to those provided for in the loan agreement dated 17 April 2003 between XB and XFS as summarized above.

### **Maintenance Services Agreement**

#### ***Background***

The maintenance services agreement (the "**Maintenance Services Agreement**") was entered into on 16 December 2002 between XF and XFS under which XF agreed to provide maintenance services in relation to Bundled Contracts. The Maintenance Services Agreement has subsequently been amended and the principal provisions of the amended and restated agreement are set out below.

XFS appointed XF to be the Primary Maintenance Provider solely in relation to the specific obligations of XFS under the Bundled Contracts in both the First Lease Portfolio and the Second Lease Portfolio (including any ancillary activities). The Primary Maintenance Provider has no authority or power to do anything in respect of the business and undertaking of XFS itself or in respect of the strategic, operating or financial policies of XFS.

The Maintenance Services Agreement continues until the earlier of the Final Repayment Date (being the final payment by XFS of monies owed under the Loan Agreement or the Second Warehouse Facility, the Reimbursement Agreement or the Maintenance Guarantee, the termination of the Maintenance Services Agreement itself or the date upon which the last Lease is serviced by the Primary Maintenance Provider expires.

The Maintenance Services Agreement is entered into on a limited recourse basis.



XFS appoints the Primary Maintenance Provider as its attorney on its behalf to execute all documents and do all acts or things which are considered reasonably necessary or desirable by the Primary Maintenance Provider for the provision of the maintenance services.

### ***Services***

The principal obligation of the Primary Maintenance Provider is to comply with the terms of the Bundled Contracts in so far as they relate to maintenance services. Compliance by the Primary Maintenance Provider with the terms of the Bundled Contracts includes the following: providing a good standard of maintenance services throughout the whole maintenance value chain; updating and maintaining maintenance records; maintaining an organisation system; maintaining a stock of spare parts; providing technicians with adequate training; managing the Xerox call centre in Dublin; maintaining technical staff in relevant areas to ensure quality of on-site visits; providing updated technical documentation; maintaining a dedicated software team; disposal or refurbishment of equipment and performing all security and prudential requirements in relation to equipment contributed to XFS. The Primary Maintenance Provider is also obliged to provide certain monthly reports to XFS and the Financial Guarantor relating to the portfolio and XF's performance in the provision of maintenance services.

### ***Payments to the Primary Maintenance Provider***

Payment of the Maintenance Component of the payments from Customers pursuant to the Bundled Contracts by XFS to the Primary Maintenance Provider is on a pass-through basis. Each month, the Primary Maintenance Provider invoices XFS for an amount equal to the amount invoiced to Customers in respect of the maintenance component under Bundled Contracts in the portfolio and XFS is obliged to remit such amounts to the Primary Maintenance Provider as and when they are received.

### ***Representations and warranties***

The Primary Maintenance Provider gives XFS a number of standard warranties, covenants and representations, agrees to maintain insurance for the benefit of XFS, and confirms that it consents to the method of transfer of the leases pursuant to the 1975 Law on sub-contracting. The Primary Maintenance Provider agrees to waive any claim it may have against XFS in respect of the failure on the part of a customer to give consent to its appointment as subcontractor of XFS or an objection by a customer to the appointment of the Primary Maintenance Provider as provider of the maintenance services. The Primary Maintenance Provider agrees to indemnify XFS against any loss arising out of the performance of the maintenance services to the extent that such loss was caused by its negligence, wilful misfeasance or bad faith or by reason of the reckless disregard of its obligations and duties under the Maintenance Services Agreement. The Primary Maintenance Provider guarantees the indemnity given by XFS to EDS (the back-up maintenance provider) in the Back-up Maintenance Agreement against certain employee liabilities and costs which may be incurred in the event of termination of the Maintenance Services Agreement.

### ***Termination provisions***

The Primary Maintenance Provider may not resign unless it is prevented by law from providing the maintenance services and has obtained counsel's opinion to that effect.

The following matters constitute defaults of the Primary Maintenance Provider:

- (a) if a representation or warranty made by the Primary Maintenance Provider proves to have been incorrect or misleading, and (i) could reasonably be expected to have a Material Adverse Effect (being a material adverse effect on the ability of XFS to fulfil its obligations under the Compartment Transaction Documents and in certain cases having a direct or indirect financial effect on XFS of not less than € 5,000,000); and (ii) such breach is not remedied within 30 days;
- (b) if the Primary Maintenance Provider fails to perform or comply with any other obligation and such failure (i) could reasonably be expected to have a Material Adverse Effect and (ii) is not remedied within 90 days;
- (c) if it becomes unlawful for the Primary Maintenance Provider to perform or comply with material obligations under the agreement;
- (d) a failure within 10 Business Days to deliver key reports to XFS or within 20 Business Days in relation to other reports;
- (e) a Level 1 Insolvency Event (initial insolvency steps); or

(f) a Level 2 Insolvency Event (opening of formal insolvency proceedings).

If any of these termination events are caused by an Event of Force Majeure, the time period for remedy of the breach is increased accordingly. If a default under paragraphs (a) to (d) and (f) has occurred (and has not been remedied in the time provided) XFS has the right (in consultation with the Financial Guarantor) to terminate the Primary Maintenance Provider's appointment.

There is one performance measurement obligation that the Primary Maintenance Provider is required to fulfil. This is the "**Availability Ratio**" which calculates as a percentage across the First Lease Portfolio and the Second Lease Portfolio the amount of idle time per piece of equipment leased under a Bundled Contract, and in particular the time taken to resolve a reported problem in relation to that piece of equipment by reference to the number of work hours per month of XF maintenance employees. The Availability Ratio is measured in three stages: an early warning event, a level 1 default and a level 2 default.

If an early warning event occurs, XF is obliged to provide a full explanation of the reasons for such event and certain consultation obligations and audit rights may be implemented by XFS in consultation with the Financial Guarantor. XFS is obliged to set aside a percentage of the Maintenance Component revenues for the benefit of the Back-up Maintenance Provider, to cover human resources costs and the cost of spare parts procurement. If a Level 1 default persists for three consecutive months, XFS is entitled (in consultation with the Financial Guarantor) to terminate the appointment of XF as Primary Maintenance Provider. If a Level 2 default persists for one month and XF has not recovered to a certain level of performance, XFS is entitled (in consultation with the Financial Guarantor) to terminate the appointment of XF as Primary Maintenance Provider.

The Primary Maintenance Provider may only merge into or transfer or lease all or substantially all of its assets in limited circumstances.

## **Administration Services Agreement**

### ***Background***

The administration services agreement (the "**Administration Services Agreement**") was entered into on 16 December 2002 between XF and XFS under which XF agreed to provide administrative services in relation to a portfolio of Unbundled and Bundled Contracts. The Administration Services Agreement has subsequently been amended and the principal provisions of the amended and restated Administration Services Agreement in relation to the First Lease Portfolio are set out below. A substantially similar administration services agreement has been entered into in relation to the Second Lease Portfolio.

Under the terms of the Administration Services Agreement, XFS appoints XF to be the Primary Servicer to provide certain services for XFS in relation to the First Lease Portfolio.

The Primary Servicer has no authority or power to do anything in respect of the business and undertaking of XFS itself or in respect of the strategic, operating and financial policies of XFS.

The Administration Services Agreement continues until the earlier of the Final Repayment Date (being the final payment by XFS of monies owed under the Loan Agreement or the Second Warehouse Facility, the Reimbursement Agreement or the Maintenance Guarantee, the termination of the Administration Services Agreement itself or the date upon which the last Lease is serviced by the Primary Service Provider.

The Administration Services Agreement is entered into on a limited recourse basis.

### ***Services***

The services to be provided by the Primary Servicer include performing on behalf of XFS its obligations under the leases, including invoicing, collecting and processing payments, responding to enquiries, investigating delinquencies and sending payment statements, notices and invoices in relation to the leases. The Primary Servicer is also responsible for generally administering and servicing the leases, repossessing Equipment, undertaking reporting requirements, maintaining the lease data, repurchasing and funding the repurchase of equipment and re-sizing certain of the accounts created for the benefit of the Back-up Maintenance Provider and Back-up Service Provider on an ongoing basis to match the volume of the First Lease Portfolio and the Second Lease Portfolio.

The Primary Servicer undertakes not to materially change the nature of its business if such change would be likely to affect the collections of receivables under the leases.

The Primary Servicer undertakes to ensure the correct allocation of payments received into the general collection account, to allocate such payments on a daily basis and maintain daily records of the allocations as between the various components of flows deriving from the leases (including but not limited to the financial components, the maintenance components, taxes, etc.) and to reconcile and maintain records of the reconciliations of such payments.

Specific procedures are put in place to deal with defaulted leases and accidental payments.

### ***Payments***

The Primary Servicer is entitled to payment of an administration fee based on a percentage of the collateral value of the First Lease Portfolio, payable on a quarterly basis.

### ***Representations and warranties***

The Primary Servicer gives a number of standard representations, covenants and warranties for the benefit of XFS. The Primary Servicer agrees to indemnify XFS against any loss arising out of the performance of the administration services to the extent that such loss was caused by its negligence, wilful misfeasance or bad faith, or by reason of the reckless disregard of its obligations and duties under the Administration Services Agreement.

### ***Termination provisions***

The Primary Servicer may not resign unless it is prevented by law from providing the administration services and has obtained counsel's opinion to that effect.

The following matters constitute defaults of the Primary Servicer:

- (a) if a representation or warranty made by the Primary Servicer proves to have been incorrect or misleading, and (i) could reasonably be expected to have a Material Adverse Effect (being a material adverse effect on the ability of XFS to fulfil its obligations under the Compartment Transaction Documents and having a direct or indirect financial effect on XFS of not less than € 5,000,000); and (ii) such breach is not remedied within 30 days;
- (b) if the Primary Servicer fails to perform or comply with any other obligation and such failure (i) could reasonably be expected to have a Material Adverse Effect and (ii) is not remedied within 90 days;
- (c) if it becomes unlawful for the Primary Servicer to perform or comply with material obligations under the Administration Services Agreement;
- (d) a failure within 10 Business Days to deliver key reports to XFS or within 20 Business Days to deliver other reports;
- (e) a Level 1 Insolvency Event (initial insolvency steps);
- (f) a Level 2 Insolvency Event (opening of formal insolvency proceedings); or
- (g) if the Maintenance Services Agreement has been terminated in accordance with its terms.

If termination events (a) to (d) inclusive are caused by an Event of Force Majeure, the time period for remedy of the breach is increased accordingly. If a default under paragraphs (a) to (d) or (f) and (g) has occurred (and has not been remedied in the time provided) XFS has the right to terminate the Primary Maintenance Provider's appointment.

In addition, there are two performance measurement obligations that the Primary Servicer is required to comply with. These are the "Aged Balance Ratio" and the "Cumulative Loss Ratio". The aged balance ratio measures, on a rolling three-monthly basis, the percentage of amounts collected as against amounts billed in respect of both the Financial Components and the Maintenance Component. The Cumulative Loss Ratio measures the percentage loss of receivables across the First Lease Portfolio over time, based on the outstanding principal value plus the value of the current receivables as at 31 May 2003. The performance measurement criteria are divided into Level 1 and Level 2 defaults. A Level 1 default does not amount to a termination event, but leads to greater information sharing between the Service Provider, XFS, the Financial Guarantor, SFM and the Management Company, together with the start of preparation by the Back-up Service Provider for transition. A Level 2 default entitles XFS to terminate the Primary Servicer's appointment if it continues for a further 30 days at that level.

## **Maintenance Guarantee Letter of Request, the Maintenance Guarantee and the Maintenance Counter Guarantee**

The Maintenance Guarantee Letter of Request (*lettre d'ordre*) refers to the French law governed maintenance guarantee letter of request and related schedules dated the Issue Date and made between (i) XFS, (ii) MLIBL in its capacity as maintenance guarantee provider and (iii) the Financial Guarantor.

### **The Purpose**

Pursuant to the Maintenance Services Agreement, XFS has undertaken irrevocably as contractor (*entrepreneur principal*) to sub-contract to XF as the Primary Maintenance Provider (*sous-traitant*) the maintenance obligations XFS owes to certain private debtors under equipment lease contracts.

Pursuant to the Maintenance Guarantee Letter of Request and in accordance with the provisions of Article 14 of the Law No 75-1334 of 31 December 1975 relating to subcontracting, XFS has instructed MLIBL to issue a personal and joint and several guarantee (*caution personnelle et solidaire*) in favour of XF (the “**Maintenance Guarantee**”).

Under the Maintenance Guarantee, MLIBL as guarantor undertakes unconditionally and irrevocably to pay XF as the beneficiary under the Maintenance Guarantee up to a maximum aggregate amount of € 9,000,000, any sums that XFS owes to XF pursuant to the Maintenance Services Agreement.

In addition, in accordance with the Maintenance Guarantee Letter of Request, XFS has instructed the Financial Guarantor to issue, in favour of MLIBL as provider of the Maintenance Guarantee, a counter guarantee (the “**Maintenance Counter Guarantee**”) in order to guarantee payment by MLIBL of a certain amount due by MLIBL under the Maintenance Guarantee.

Pursuant to the Maintenance Guarantee Letter of Request, the Maintenance Guarantee Provider agreed also to issue a maintenance guarantee similar to the Maintenance Guarantee in favour of EDS France or any subcontractor of EDS France which may be appointed pursuant to the Back-up Maintenance Services Agreement upon activation of EDS France as Back-up Maintenance Provider.

The Maintenance Guarantee Letter of Request is entered into on a limited recourse basis. The parties to the Maintenance Guarantee Letter of Request waived their right to file any petition in bankruptcy against XFS.

## DESCRIPTION OF THE BACK-UP SERVICING AND BACK-UP MAINTENANCE OF THE LEASE PORTFOLIO AND THE EQUIPMENT

*The business description appearing in this section has been prepared based on information provided by EDS Corp., and has not been independently verified by the Compartment, the Management Company, the Custodian, the Issuing Manager or any of their affiliates. Accordingly, notwithstanding anything to the contrary herein, none of the above mentioned entities assumes any responsibility for the accuracy, completeness or relevance of such business description.*

### **Business Description**

#### ***The Back-up Servicer Guarantor***

Electronic Data Systems Corporation (“**EDS Corp.**”), the Back-up Servicer Guarantor, was incorporated in Delaware in 1994 and with its predecessor has almost 40 years of experience in the global information technology services industry. Its business activities are based around five lines of business — Operation Solutions, Solutions Consulting, A.T. Kearney and PLM Solutions. It also has seven global industry groups — Communications, Energy, Financial, Government, Health Care, Manufacturing & Retail and Transportation. Its principal executive offices are located at 5400 Legacy Drive, Plano, Texas 75024. The common stock of EDS is listed for trading on the New York and London Stock Exchanges.

### **Main Business Areas**

EDS’s organisation and its comprehensive portfolio of services are managed through four market-facing lines of business:

**Operations Solutions** — Integrates IT outsourcing services with business process outsourcing to help clients align technology and operations with business strategy;

**Solutions Consulting** — Combines electronic business and solutions consulting offerings with applications services to enhance performance in the digital economy;

**A.T. Kearney** — Management consulting, addresses CEO-level concerns through strategy, organisation, operations, IT and executive search services; and

**PLM Solutions** — Offers the most robust product lifecycle management (PLM) portfolio including product development, manufacturing planning, product data management and collaborative commerce offerings supported by a broad set of product-driven services.

### **Selected Financial Data**

<b>(Amounts in USD 000)</b>	<b>Notes</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Operating Results</b>						
Revenues:		21,502	21,141	18,856	18,401	16,892
Operating income — pro forma:	(1)	1,889	1,880	1,776	1,853	1,838
<b>Financial Position</b>						
Long-term debt, less current portion, redeemable preferred stock of subsidiaries, minority interests and other long-term liabilities:		4,148	4,692	2,585	2,216	1,184
<b>Shareholder’s Equity:</b>		7,022	6,446	5,139	4,535	5,916

*Source:* EDS 2002 Annual Report.

Note (1): Excluding one-time split-off costs and restructuring and other charges. As of 31 December 2002, EDS employed approximately 140,000 employees. Revenues were primarily generated in the US market (58%) and the United Kingdom (12%).

#### ***The Back-up Servicer***

EDS (Electronic Data Systems) France S.A.S. (“**EDS France**”) was founded in 1985 and is the French subsidiary of EDS and the main operating company of EDS in France. The French operations are engaged in all of the four main business areas of EDS. EDS France had, together with its subsidiaries, approximately 4,200

employees as of 31 December 2002 (see “*Description of the Back-up Servicing and Back-up Maintenance of the Lease Portfolio and the Equipment – The Back-up Servicer Guarantor – Main Business Areas*”).

EDS France will issue an irrevocable and unconditional performance guarantee on or prior to the Issue Date with respect to the obligations of EDS France as Back-up Servicer under the Back-up Maintenance Services Agreement and the Back-up Administration Services Agreement (see “*Description of the Back-up Servicing and Back-up Maintenance of the Lease Portfolio and the Equipment*”).

## **Legal Description**

### **Back-up Maintenance Services Agreement**

#### ***Background***

Under the terms of the back-up maintenance services agreement (the “**Back-up Maintenance Services Agreement**”), EDS France as Back-up Maintenance Provider agrees to provide certain Maintenance Services for XFS in relation to the Bundled Contracts comprised in the First Lease Portfolio following termination of the appointment of the Primary Maintenance Provider. A substantially similar agreement has been entered into in relation to the Bundled Contracts in the Second Lease Portfolio.

Under the terms of the Back-up Maintenance Services Agreement, XFS appoints EDS France to be the Back-up Maintenance Provider solely in relation to the specific obligations of XFS under the Bundled Contracts (including anything necessarily incidental thereto).

The Back-up Maintenance Services Agreement continues until the earlier of (i) the termination of the agreement in accordance with its terms; (ii) the date upon which interest and principal of the Loan have been repaid in full; or (iii) the date on which the last lease is maintained by the Back-up Maintenance Provider under the agreement.

The Back-up Maintenance Services Agreement is entered into on a limited recourse basis.

#### ***Services***

The services to be provided by the Back-up Maintenance Provider in the event of its activation as Back-up Maintenance Provider principally relate to compliance with the maintenance obligations of XFS under the Bundled Contracts. The Back-up Maintenance Provider is also obliged to provide certain monthly reports to XFS relating to the portfolio and its performance in the provision of the maintenance services.

#### ***Liability***

The liability of the Back-up Maintenance Provider is limited in certain respects. It has no liability for any action taken or for not taking any action under the Back-up Maintenance Services Agreement, except where loss, cost, expense or damage is suffered or incurred by XFS as a result of a breach by the Back-up Maintenance Provider of its obligations under the Back-up Maintenance Services Agreement or by its negligence, fraud or wilful default. The Back-up Maintenance Provider has no liability for any indirect or consequential loss of any kind (including but not limited to lost profits).

The overall liability of the Back-up Maintenance Provider (except in the case of gross negligence, wilful misconduct or fraud) is limited to the smaller of the following amounts: (i) the fees invoiced by the Back-up Maintenance Provider pursuant to the Back-up Maintenance Services Agreement in the 12 calendar months preceding the date of occurrence of the damage; or (ii) € 10,000,000.

#### ***Payment***

The Back-up Maintenance Provider is paid an annual retainer fee in quarterly instalments. Following activation of the Back-up Maintenance Provider’s appointment, the Back-up Maintenance Provider will be paid on a “cost-plus” basis, reflecting the actual cost to the Back-up Maintenance Provider of providing the maintenance services together with a variable margin. The Back-up Maintenance Provider may, under a deferred margin mechanism in place during the first four months following its activation, defer collection of unpaid margin until maintenance flows are sufficient to pay such margin. During activation, unpaid invoices will move forward to the next payment cycle and earn interest at an agreed rate between EDS France and XF.

XFS has certain rights to audit the invoices submitted by the Back-up Maintenance Provider.



### ***Accounts and Employee Costs and Liabilities***

A transition account will be established by XFS and funded on or before the Issue Date to an initial amount of € 2,202,574 of which € 1,457,000 is related to maintenance costs under the Back-up Maintenance Services Agreement and € 745,574 is related to administration costs under the Back-up Administration Services Agreement. The account will be pledged in favour of the Back-up Maintenance Provider, which account is intended to meet the reasonable and duly documented transitional costs of the Back-up Maintenance Provider and the transitional costs of the Back-up Servicer under the Back-up Administration Agreement.

A spare parts account, funded at the outset by way of a loan from XF as to € 2,905,693 and funded subsequently out of Maintenance Component receivables as to € 504,707, will be established to enable the Back-up Maintenance Provider to meet any requirements in relation to the procurement of spare parts during the transition period prior to its activation.

Should the replacement of the Primary Maintenance Provider by the Back-up Maintenance Provider for the performance of the Maintenance Services be deemed to be a transfer of activity triggering the application of Article L.122-12 of the French Labour Code (*Code du travail*) and of the Acquired Rights Directive under applicable law as at the designated replacement date, the Back-up Maintenance Provider shall as from that date assume full responsibility for all rights, liabilities and obligations under all employment agreements, collective bargaining agreements, internal rules and benefit plans, or other employment relationships in respect of the transferred employees in accordance with the French Labour Code (*Code du travail*). XFS and the Primary Maintenance Provider agree to indemnify the Back-up Maintenance Provider against certain employee costs and liabilities which it may incur in relation to the transferred employees up to a maximum amount of € 19,614,414.

€ 7,333,362 of that maximum amount will be funded by way of an indemnity from XFS to be deposited in a back-up servicer reserve account (the “**BSRA**”) and drawn down proportionately to the number of transferred employees. The indemnity given by XFS will be guaranteed by XF under the Maintenance Services Agreement. The remainder of the € 19,614,414 is payable, if applicable, from the Maintenance Component through the cost-plus remuneration of the Back-up Maintenance Provider. The amounts mentioned above apply to both the Back-up Maintenance Services Agreement and the Back-up Administration Services Agreement the division being € 17,629,621 and € 1,984,793 respectively. The Back-up Maintenance Provider is not obliged to provide maintenance services until such time as the BSRA is fully funded.

The Back-up Maintenance Services Agreement also contemplates the re-sizing of the transition account, the spare parts account and the BSRA depending on the size of the First Lease Portfolio and the Second Lease Portfolio.

### ***Representations and warranties***

The Back-up Maintenance Provider gives XFS a number of standard warranties and representations. The Back-up Maintenance Provider agrees to waive any claim it may have against XFS in respect of the failure on the part of a customer to give consent or an objection by a customer to the appointment of the Back-up Maintenance Provider as provider of the maintenance services.

XFS also gives a number of standard representations and warranties to the Back-up Maintenance Provider.

### ***Termination***

The Back-up Maintenance Provider may not resign unless it is prevented by law from providing the Maintenance Services and has obtained counsel’s opinion to that effect or in certain very limited circumstances if the Back-up Maintenance Provider is not paid.

The following matters constitute defaults of the Back-up Maintenance Provider:

- (a) if a representation or warranty made by the Back-up Maintenance Provider proves to have been incorrect or misleading, and (i) will have a Material Adverse Effect (being a material adverse effect on the ability of XFS to fulfil its obligations under the Back-up Maintenance Services Agreement and having a financial effect on XFS of not less than € 5,000,000); and (ii) such breach is not remedied within 30 days;
- (b) if the Back-up Maintenance Provider fails to perform or comply with any other obligation and such failure (i) will have a Material Adverse Effect; and (ii) is not remedied within 30 days; and
- (c) a failure under certain circumstances to deliver key reports or other reports to XFS.

If a default under paragraphs (a) to (c) has occurred (and has not been remedied in the time provided) XFS has the right to terminate the Back-up Maintenance Provider's appointment.

XFS has the right to terminate the appointment of the Back-up Maintenance Provider by notice in writing with immediate effect if certain insolvency events occur, if it ceases to carry on the whole or a substantial part of its business, or the performance guarantee ceases to be valid and/or enforceable and cannot be replaced to XFS reasonable satisfaction within 7 days of ceasing to become valid and/or enforceable, or in certain circumstances if it becomes unlawful for the Back-up Maintenance Provider to perform or comply with material obligations under the Back-up Maintenance Services Agreement.

XFS may also terminate the appointment of the Back-up Maintenance Provider for convenience only during the period prior to activation and subject to the payment of a break fee of a small portion of the value of the transition account.

### **Back-up Administration Services Agreement**

Under the terms of the Back-up Administration Services Agreement, EDS as Back-up Servicer agrees to provide certain services for XFS in relation to the First Lease Portfolio following termination of XF as Primary Servicer. A substantially similar back-up administration services agreement has been entered into in relation to the Second Lease Portfolio.

The Back-up Administration Services Agreement continues until the earlier of (i) the termination of the agreement in accordance with its terms; (ii) the date upon which interest and principal of the Loan have been repaid in full; or (iii) the date on which the last Lease receivables are collected by the Back-up Servicer (except receivables under defaulted leases).

The Back-up Administration Services Agreement is entered into on a limited recourse basis.

### ***Services***

The services to be provided by the Back-up Servicer on behalf of XFS in relation to the Leases include using all reasonable endeavours to invoice, collect and process payments, respond to enquiries, investigate delinquencies and send payment statements, notices and invoices in relation to the Leases. The Back-up Servicer is also responsible for generally administering and servicing the Leases, undertaking reporting requirements and maintaining the Lease data.

The Back-up Servicer further undertakes not to materially change the nature of its business if such change will affect the collections of receivables under the Leases.

The Back-up Servicer agrees to use all reasonable endeavours so that payments received into the general collection account of XFS into which payments from lessees are to be made will be correctly allocated, to allocate such payments on a daily basis and maintain daily records of the allocations as between the various components of flows deriving from the leases (including but not limited to the financial components, the maintenance components, taxes, etc.) and to reconcile and maintain records of the reconciliations of such payments.

### ***Liability***

The liability of the Back-up Servicer is limited in certain respects. It has no liability for any action taken or for not taking any action under the Back-up Administration Services Agreement, except where loss, cost expense or damage is suffered or incurred by XFS as a result of a breach by the Back-up Servicer of its obligations under the Back-up Administration Services Agreement or by its negligence, fraud or wilful default. The Back-up Servicer has no liability for any indirect or consequential loss of any kind (including but not limited to lost profits).

The overall liability of the Back-up Servicer (except in the case of gross negligence, wilful misconduct or fraud) is limited to the smaller of the following amounts: (i) the fees invoiced by the Back-up Servicer pursuant to the Back-up Administration Services Agreement in the 12 calendar months preceding the date of occurrence of the damage; or (ii) € 10,000,000.

### ***Payment***

The Back-up Servicer is paid an annual retainer fee in quarterly instalments. Following activation of the Back-up Servicer's appointment, the Back-up Servicer will be paid on a "cost-plus" basis, reflecting the actual cost to the Back-up Servicer of providing the administration services together with a margin.

XFS has certain rights to audit the invoices submitted by the Back-up Servicer.

#### ***Accounts and Employee Costs and Liabilities***

The provisions relating to the transition account and the indemnification against certain employee costs and liabilities are replicated in the Back-up Administration Services Agreement. See the description of the Back-up Maintenance Services Agreement for further information on these matters. The spare parts account relates only to the maintenance services. The Back-up Administration Services Agreement also where relevant replicates the re-sizing provisions in relation to those accounts contained in the Back-up Maintenance Services Agreement.

#### ***Representations and Warranties***

The Back-up Servicer gives a number of standard representations and warranties to XFS. XFS also gives a number of standard representations and warranties to the Back-up Servicer.

#### ***Termination***

The Back-up Servicer may not resign unless it is prevented by law from providing the administration services and has obtained counsel's opinion to that effect or in certain circumstances if the Back-up Servicer is not paid.

The following matters constitute defaults of the Back-up Servicer:

- (a) if a representation or warranty made by the Back-up Servicer proves to have been incorrect or misleading, and (i) will have a Material Adverse Effect (being a material adverse effect on the ability of XFS to fulfil its obligations under the Back-up Administration Services Agreement) and having a financial effect on XFS of not less than € 5,000,000); and (ii) such breach is not remedied within 30 days;
- (b) if the Back-up Servicer fails to perform or comply with any other obligation and such failure (i) will have a Material Adverse Effect; and (ii) is not remedied within 30 days; and
- (c) a failure under certain circumstances to deliver key reports or other reports to XFS.

If a default under paragraphs (a) to (c) has occurred (and has not been remedied in the time provided) XFS has the right to terminate the Back-up Servicer's appointment.

XFS has the right to terminate the appointment of the Back-up Servicer by notice in writing with immediate effect if certain insolvency events occur, if it ceases to carry on the whole or a substantial part of its business or the performance guarantee ceases to be valid and/or enforceable and cannot be replaced to XFS reasonable satisfaction within 7 days of ceasing to become valid and/or enforceable, or in certain circumstances if it becomes unlawful for the Back-up Servicer to perform or comply with material obligations under the Back-up Administration Services Agreement.

XFS may also terminate the appointment of the Back-up Servicer for convenience only during the period prior to activation subject to the payment of a break fee of a small portion of the value of the transition account.

## LEGAL DESCRIPTION OF THE LEASE CONTRACTS

### Typologies of Leases

#### *Bundled Contracts / Unbundled Contracts*

XFS may be party to either Bundled Contracts or Unbundled Contrats.

Bundled Contracts are contracts with customers for the leasing, hiring or other bailment or financing of equipment, its installation and the provision of services in relation to the equipment (mainly maintenance services).

Unbundled Contracts are contracts with customers for the leasing, hiring or other bailment or financing of equipment and its installation and excluding any other provision of services (e.g., maintenance services).

#### *Public entity customers / Private customers*

Leases were concluded with private law customers or public entity customers. However, XFS is not party to Bundled Contracts with customers who are either the French State, a local public authority, public entity or public business in accordance with the provisions of section II of the law no. 75-1334 dated 31 December 1975.

#### *Framework Agreements*

Certain Leases (either Contributed Leases or Programme Leases) were concluded pursuant to agreements or arrangements, entered into by XF and/or XB, allowing a private law customer and/or its affiliates, subsidiaries and holding companies to benefit from identical conditions (the “**Framework Agreements**”).

### Transfer of Leases to XFS

The transfer to XFS, from XF or from XB, as the case may be, of those Contributed Leases which were concluded with private law customers was notified to the relevant customers. No consent to the transfer was sought from those customers.

The transfer to XFS, from XF or from XB, as the case may be, of those Contributed Leases which were subject to French administrative law required the consent of the relevant customers. In most of the cases, this consent was obtained.

The transfer to XFS, from XF or from XB, as the case may be, of the Lease Portfolio required the consent of the relevant customer, due to the *intuitu personae* nature of the Framework Agreements.

To this effect, amendments to the corresponding Framework Agreements were executed with the relevant customers for the purpose of:

- (i) authorising the transfer of the relevant Lease Contracts (and the corresponding Equipment) to XFS;
- (ii) clarifying that only the Underlying Agreements and the rights and obligations expressly provided for therein were transferred to XFS and the rights and obligations provided for in the Framework Agreements will remain with XF and/or XB and no obligation arising from such Framework Agreements will be transferred to XFS;
- (iii) clarifying that if a Framework Agreement were to be terminated, this would not have, *per se*, the effect of cancelling (*rendre nul*) or terminating (*résilier*) the related Underlying Agreements; and
- (iv) forbidding any offset between obligations of XF and/or XB deriving from the Framework Agreements and rights of XFS under the Lease Portfolio.

Pursuant to the Programme Agreement and the Second Portfolio Programme Agreement, XFS is authorised to enter into Lease Contracts only if the corresponding Framework Agreement contains provisions equivalent to those described above.

As a result, all Lease Contracts to which XFS is (or has become) a party should benefit from the protective provisions described above.

### **Standard Form of Leases**

With the exception of certain Leases concluded pursuant to the French Public Procurement Code (*Code des marchés publics*) procedure, all leases were concluded on a standard form of Bundled Contract or Unbundled Contract, as the case may be, prepared and updated from time to time by XF and/or XB, as the case may be (the “Xerox Standard Forms”).

### **Main provisions relating to payments and invoicing under the Lease Contracts**

The rents specified in the Lease Contracts may be revised as provided in the applicable general terms and conditions (i.e upon notice, subject to termination of the contract by the customer where the price increase in above 90% of the increase of a specific index). The reviewed rent shall be at least equal to the price of the rent or the price of copies generated applicable during the last invoicing period and may not be less than this. The new rent applies on the new date indicated in the notification of the increase.

The price of the maintenance services under the Bundled Contracts may be based on a set number of copies generated by the equipment or on a ‘price per copy generated’ basis. This price may be modified unless otherwise provided for by the parties in the Bundled Contract. The price increase applies on the date indicated in the notification of the price increase.

Invoices may be issued either upon dispatch of the equipment, upon installation or following the provision of services. Any product which is not included in the initial order will be invoiced separately. Invoices are payable by direct debit. A penalty payment amounting 1.5 times the current legal interest rate may be applied in this case of late payment.

For the maintenance services performed under the Lease Contracts, invoicing is carried out at the beginning of each invoicing period. As regards copies generated which exceed the number of copies fixed at the outset, an invoice is issued at the end of each term based on an estimated number of copies generated. A regularisation invoice is issued unless otherwise decided by XFS.

### **Main provisions relating to early termination of the Lease Contracts**

Termination is possible at the end of each term upon either party giving the other party 90 days notice by registered letter.

In case of a review of the rent or services and where the price increase is above 90% of the increase of a specific index, the customer may terminate the contract by giving the lessor 15 days notice (from the notification of the increase) by registered letter. If the Lease Contract is terminated, it shall cease 3 months from the date of notification of the increase by XFS. During the 3 month period, the former rate of rent or price of services applies.

XFS may terminate a Lease Contract at any time and without indemnity eight days after sending notice by registered letter if the customer does not perform one of its contractual obligations. In such a case, the equipment and software may be removed by XFS, at the expense of the customer. In addition, XFS may demand payment of all rent payable until the end of the contractual term together with damages amounting to 10% of the remaining rent.

### **Non standard public leases**

Certain Lease Contracts concluded with public customers pursuant to the French Public Procurement Code (*Code des marchés publics*) procedure were concluded on forms which may deviate from either Xerox Standard Forms or XFS Standard Forms. The number of those Lease Contracts is however limited.

Although a satisfactory due diligence has been conducted on those non standard public Lease Contracts to make sure that no additional liability (compared to that resulting from the Xerox Standard Forms) was brought to XFS as a result of the transfer of those Lease Contracts to XFS, there is no assurance those Lease Contracts will not bring additional liability to XFS.

## THE LOAN, THE RELATED SECURITY AND THE HEDGING ARRANGEMENT

### Origination of the Loan

The Loan has been made by MLCMB pursuant to the Loan Agreement. The Loan will be fully drawn down on the Issue Date.

### Terms of the Loan

The Loan is documented under a term loan agreement dated 15 July 2003 (the “**Loan Agreement**”) between (i) XFS as borrower, (ii) MLCMB as lender and (iii) the Financial Guarantor (as Controlling Party). MLCMB as lender is entitled to transfer to the FCC all or any of its rights under the Loan Agreement and the Related Security for securitisation purposes, without restriction.

A summary of the principal defined terms of the Loan Agreement and not defined elsewhere in the Offering Circular are set out below.

#### 1. For the purposes of the Loan Agreement:

“**Accidental Payment**” means any payment made to XB or XF by any Lessee and which should have been made to XFS;

“**Amortisation Event**” means any of the circumstances described below in the Amortisation Events section below;

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks are generally open for business in Dublin, London, New York and Paris and which is a TARGET Day;

“**Cash Manager**” means the Head of the collection back-office (*Directeur Administration Commerciale*) of the Primary Servicer;

“**Charged Property**” means any property pledged or charged pursuant to any Security Document in accordance with the terms of the Loan Agreement;

“**Closing Date**” means the execution date of the Loan Agreement;

“**Collateral Value**” means in respect of all Eligible Leases and on any date the sum of (i) Outstanding Principal, (ii) Unbilled Bundled Contract Amounts, (iii) Outstanding Receivables and (iv) Billed Receivables, where such terms shall have the following meanings:

- (i) “**Bundled Contracts**” means Leases with Lessees for the leasing, hiring or other bailment or financing of Equipment, its installation and the provision of maintenance and services in relation to such Equipment;
- (ii) “**Unbilled Bundled Contract Amounts**” means, in respect of the Financial Component of the Lease receivables under each Bundled Contract only, any amount which formed part of the Outstanding Principal but which has been deducted therefrom and which has not yet been billed to the Lessee;
- (iii) “**Outstanding Receivables**” means the Financial Component of Lease receivables which have been billed to the relevant Lessees, which have become due for payment and which have not yet been collected by the Company;
- (iv) “**Billed Receivables**” means the Financial Component of Lease receivables which have been billed to the relevant Lessees but have not yet become due for payment;
- (v) “**Outstanding Principal**” means, in respect of all Eligible Leases at any date, the principal amount of the Financial Component of such Leases as shown in the amortisation schedules for each Lease derived from the computer model prepared by the Company and agreed by the Lender and representing the present value of all future Eligible Lease receivables calculated using a discount rate equal to the inherent rate of return in each such Lease, plus the proportion of any such receivable representing interest paid in advance by the Lessees, less the future interest on any residual value of the equipment;

“**Controlling Party**” means, at any time, (i) the Financial Guarantor, except as regards the enforcement of the Financial Guarantee and unless (a) a Financial Guarantor Event of Default shall have occurred and be continuing or (b) the Financial Guarantor has no further obligations, actual or contingent under the Financial Guarantee and



the Maintenance Counter Guarantee and no amount is owing or capable of becoming owed to the Financial Guarantor under the Reimbursement Agreement and the Maintenance Guarantee Letter of Request or (c) the Financial Guarantor shall have delivered to MLCMB a notice of resignation as a Controlling Party, and (ii) otherwise MLCMB or the Compartment represented by its management company after the date on which MLCMB assigns and transfers the Loan Receivable and the Related Security to the Compartment;

**“Defaulted Lease”** means:

- (i) a Lease which has been deemed not to be collectable by the Cash Manager before the related Lease receivables have become overdue for more than 180 days where collection activity provided firm evidence to the Cash Manager that a default or an insolvency of the relevant Lessee will occur, or
- (ii) a Lease whose related Lease receivables have been overdue for more than 180 days only to extent provided in the Administration Services Agreement;

**“Deleted Lease”** means a Lease other than a Defaulted Lease which in fact did not conform to one or more Lease Eligibility Criteria on 31 May 2003;

**“Deleted Lease Compensation Payment”** means any payment to be made by XF in respect of a Deleted Lease pursuant to the Programme Agreement and/or the Indemnity Agreement;

**“Eligible Lease”** shall mean on any date a Lease which conforms to the Lease Eligibility Criteria on 31 May 2003;

**“Encumbrance”** means:

- (a) a mortgage, charge, pledge, lien or other encumbrance securing any obligation of any person;
- (b) any arrangement under which money or claims to, or the benefit of, a bank or other account may be applied, set-off or made subject to a combination of accounts so as to effect payment of sums owed or payable to any person; or
- (c) any other type of preferential arrangement (including title transfer and retention arrangements) having a similar effect;

**“Equipment”** means office and document production equipment branded (in whole or in part) with the name “Xerox” and/or manufactured and/or distributed by or on behalf of Xerox Corporation or any of its direct or indirect subsidiaries or agents and all equipment and software provided with such equipment;

**“EURIBOR”** means in relation to any amount owed by XFS for which interest for a given period is to accrue, (i) the applicable Screen Rate for deposits in Euro for such period at or about 11.00 am (Brussels time) on the Quotation Date for such period; or (ii) where there is no Screen Rate for the exact period, the rate obtained by MLCMB by interpolation of the Screen Rate of the two most applicable periods for which there is a Screen Rate; or (iii) where there is no Screen Rate for the exact period or for any such applicable periods, the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to MLCMB at its request quoted by the Reference Banks to leading banks in the European inter-bank market, at or about 11.00 a.m. (Brussels time) on the Rate Fixing Day for the offering of deposits in Euro for such period;

**“Existing Facility”** means the € 438,000,000 secured limited recourse revolving loan facility granted to XFS under the Existing Facility Agreement;

**“Existing Facility Agreement”** means the facility agreement dated 16 December 2002 as amended on 3 February 2003 and 15 April 2003, made between (i) XFS as borrower, (ii) Merrill Lynch Capital Markets Bank Limited and Merrill Lynch International Bank Limited as lenders, (iii) Merrill Lynch International as arranger and agent and (iv) XF as service provider;

**“Facility Office”** means, with respect to MLCMB, the office identified with MLCMB’s signature below, or such other office as it may from time to time select and notify to the other parties;

**“Finance Documents”** means the Loan Agreement, the Security Documents, the Maintenance Guarantee, the Maintenance Counter Guarantee, the Maintenance Guarantee Letter of Request, the Administration Services Agreement, the Maintenance Services Agreement, the Back-Up Administration Services Agreement, the Back-Up Maintenance Services Agreement, the Programme Agreement, the First Account Bank Agreement, the



Second Account Bank Agreement, the Funds Flow Management Agreement, the Hedging Agreement, the Indemnity Agreement, the Intercreditor Agreement, the Corporate Services Agreement, the Financial Guarantee, the Reimbursement Agreement, the Third-Party Beneficiary Bank Accounts Agreement and any agreement designated as such by MLCMB and XFS;

**“Financial Components”** means at any given date:

- (a) subject to the proviso at the end of this definition, all rights of XFS to rental payments and termination payments payable by customers (or any guarantor in respect of the obligations of a customer under a Lease) under a Lease (which, at such date, is not a Deleted Lease as to which the corresponding Deleted Lease Compensation Payment has been effectively received by XFS pursuant to the Programme Agreement and/or the Indemnity Agreement) only to the extent that such payments comprise payments in respect of the leasing and financing of the Equipment which is the subject of such Lease (and not, for avoidance of doubt, maintenance and servicing of the Equipment which is the subject of such Lease); and
- (b) all rights of XFS to payments payable by customers (or any guarantor in respect of the obligations of a customer under a Lease) under a Lease (which, at such date, is not a Deleted Lease as to which the corresponding Deleted Lease Compensation Payment has been effectively received by XFS pursuant to the Programme Agreement and/or the Indemnity Agreement) only to the extent that such payments comprise payments in respect of maintenance and servicing (and not leasing and financing) provided to such customer in accordance with the terms of such Lease and then only to the extent of amounts which are:
  - (i) equal to any amount which has, at such time, been paid to the Primary Servicer and/or the Primary Maintenance Provider by the Maintenance Guarantor under the terms of the Maintenance Guarantee; and
  - (ii) are capable of being off-set against any other matured obligation of the Primary Servicer and/or the Primary Maintenance Provider to XFS;

Provided that, all rights of XFS to payments to be made by customers under Leases which are not amounts payable in respect of the leasing of the Equipment during the minimum period of such Leases (whether such amounts are in the nature of a payment to acquire such Equipment or are rents for the continued use of the Equipment after expiry of the minimum period of such Lease) shall not be considered as a Financial Component, provided further however that the foregoing shall not apply to a Lease if and to the extent that any amounts which constitute a Financial Component taking into account the proviso above are outstanding from the Lessee under such Lease;

**“Financial Flow Account”** means the account of XFS with the Second Account Bank into which certain financial flows from payments by Lessees under the Leases in the Lease Portfolio shall be credited in the circumstances set out in the Funds Flow Management Agreement;

**“Financial Guarantee”** means the financial guarantee to be issued by the Financial Guarantor at the request of XFS prior to the Issue Date pursuant to which the Financial Guarantor agrees to unconditionally and irrevocably guarantee amounts due by XFS to MLCMB in accordance with the term of such financial guarantee;

**“Financial Guarantor Event of Default”** means any of the following events:

- (a) any amount insured by the Financial Guarantor under the Financial Guarantee falls due for payment in accordance with the terms of the Financial Guarantee and is not paid by the Financial Guarantor in full on the date stipulated in the Financial Guarantee;
- (b) (i) the Financial Guarantor disclaims, disaffirms, repudiates or challenges the validity of any of its obligations under the Financial Guarantee or seeks to do so, or (ii) the Financial Guarantee ceases to be in full force and effect;
- (c) the Financial Guarantor:
  - (i) files any petition or commences any case or proceeding under any provision or chapter of any Bankruptcy Law (as defined below);
  - (ii) makes a general assignment for the benefit of its creditors;

- (iii) has a final and non-appealable order for relief entered against it under any Bankruptcy Law; or
- (iv) has a final and non-appealable order, judgment or decree of a court of competent jurisdiction entered against it appointing any receiver, administrative receiver, trustee, assignee, custodian, sequestrator, liquidator, administrator or similar official under any Bankruptcy Law (each a “Custodian”) for the Financial Guarantor or all or any material portion of its property or authorising the taking of possession by a Custodian of the Financial Guarantor.

For the purpose of this definition, “Bankruptcy Law” means the Sixth Book of the French Commercial Code (*Code de Commerce*) or any similar present or future federal or state bankruptcy, insolvency, reorganisation, moratorium, rehabilitation, liquidation, conservation, fraudulent conveyance or similar law, statute or regulation in the French Republic or any other applicable jurisdiction for the relief of debtors;

“**First Account Bank**” means Natexis Banques Populaires and/or such other bank as XFS may designate as the First Account Bank with the prior written approval of the Controlling Party and the lender under the Second Warehouse Facility Agreement;

“**First Account Bank Agreement**” means the account bank agreement dated 3 February 2003 between *inter alia* XFS and the First Account Bank, as amended pursuant to an amendment agreement dated on or prior to the Issue Date, as amended from time to time;

“**First Payment Lease**” means:

- (i) a Lease in respect of which, by 31 December 2003 (the “**Backstop Date**”), either (a) the last lease payment which has been made by the Lessee to XFS since such Lease was transferred to XFS was an Accidental Payment or (b) no payment has been made by the Lessee to XFS since such Lease was transferred to XFS,

provided that such Lease is not a Defaulted Lease and the Lessee is not subject to any of the relevant insolvency events referred to in the Loan Agreement (if such Lessee were XFS); or

- (ii) a Lease which is a Public Unbundled Contract and no consent to the transfer of such Lease has been given by the Lessee thereunder by the Backstop Date at the latest,

provided that if the long term credit rating assigned to Merrill Lynch Corporation is downgraded below A1/P1/F1, the Backstop Date shall be the date falling at the end of the calendar month during which such downgrading has occurred;

“**First Payment Lease Compensation Payment**” means, in respect of a First Payment Lease, an amount equal to a certain percentage of the Collateral Value of such First Payment Lease; such percentage shall be equal to (1) the Loan minus the amount which shall be deposited on the General Reserve Account on the Issue Date, divided by (2) the Collateral Value of all Leases, as determined by the Controlling Party and the Rating Agencies as at the Issue Date;

“**General Collection Account**” is described in the First Account Bank Agreement;

“**General Reserve Account**” means the bank account which is opened in the name of XFS in the books of the Second Account Bank and which shall be funded (i) on the Issue Date up to an amount of € 21,747,406 and (ii) on each Loan Interest Payment Date up to the Minimum Reserve Level by transfer of the amount standing to the credit of the Financial Flow Account at such date after all payments ranking senior thereto have been made by XFS pursuant to the Funds Flow Management Agreement;

“**Indebtedness**” means any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

“**Indemnity Agreement**” means each or both of (i) the indemnity agreement dated 16 December 2002 as it shall be amended and restated on 17 July 2003 between *inter alia* XFS, XF and XB, as amended from time to time, and (ii) the indemnity agreement dated 15 April 2003 as it shall be amended and restated on 17 July 2003 between *inter alia* XFS, XB and XF, as amended from time to time;

“**Initial Value**” means in respect of a Lease at any time, the Collateral Value attributed to such Lease, as at the Closing Date;

“**Intercreditor Agreement**” means the intercreditor agreement, to be entered into prior to the Issue Date, between, *inter alia*, XFS, the Financial Guarantor, MLCMB, BRED Banque Populaire and MLIBL as lender under the Second Warehouse Facility Agreement and in the presence of France Titrisation as management company of the Compartment;

“**Lease**” means a lease of Equipment to a Lessee contributed to XFS pursuant to the Contribution Agreement or originated by XFS pursuant to the Programme Agreement or transferred to XFS on or prior to 31 May 2003 pursuant to any other agreement;

“**Lease Data**” means the information in the Monthly Report to be provided to MLCMB pursuant to the Administration Services Agreement or as otherwise agreed between XFS and MLCMB;

“**Lease Eligibility Criteria**” has the meaning ascribed in “Eligibility Criteria as adjusted on the Issue Date” (see “*Summary – The Lease Portfolio*”);

“**Lease Warranties**” means the warranties in relation to any Lease given by XB and/or XF to XFS, as set forth in the Indemnity Agreement;

“**Lessee**” means, in relation to each Lease, the person or persons who is or are named and defined as such in the relevant Lease or such other person or persons who may have taken over the obligation to make the payments under the Lease;

“**Loan**” means the principal amount outstanding under the Loan Agreement not greater than €398,000,000;

“**Loan Distribution Account**” means the bank account to be opened in the name of XFS in the books of the Second Account Bank and which shall be funded on each Interest Payment Date by transfer of the amounts standing to the credit of the Financial Flow Account at such date after all payments ranking senior thereto have been made by XFS pursuant to the Funds Flow Management Agreement;

“**Loan Final Repayment Date**” means 19 March 2010;

“**Loan Interest Amount**” means the total amount of interest due and payable on the Loan on each Loan Interest Payment Date;

“**Loan Interest Payment Date**” means (i) the last Business Day of each calendar quarter, and (ii) the Final Repayment Date; provided, however, that the first interest payment date shall be 30 September 2003;

“**Loan Interest Period**” means any interest accrual period of three (3) months from, and including, the immediately preceding Loan Interest Payment Date to, and excluding, such Loan Interest Payment Date. The initial Interest Period and the final Interest Period shall have the duration set forth below;

“**Loan Receivable**” means (i) the interest and principal payments which are due by XFS to MLCMB as a result of the Loan and (ii) any amounts which are due by the Financial Guarantor to MLCMB under and pursuant to the Financial Guarantee;

“**Maintenance Counter Guarantee**” means the maintenance counter guarantee issued on or prior to the Issue Date by the Financial Guarantor to the Maintenance Guarantor, at the request of the XFS pursuant to the Maintenance Guarantee Letter of Request, as amended from time to time;

“**Maintenance Guarantee**” means the maintenance guarantee issued on or prior to the Issue Date by the Maintenance Guarantor to the Primary Maintenance Provider, at the request of XFS pursuant to the Maintenance Guarantee Letter of Request, as amended pursuant to an amendment agreement dated on or prior to the Issue Date, as renewed from time to time;

“**Maintenance Guarantee Letter of Request**” means the letter of request for the Maintenance Guarantee dated on or prior to the Issue Date between XFS, the Maintenance Guarantor and the Financial Guarantor as counter-guarantor;

“**Maintenance Guarantor**” means MLCMB;

“**Maintenance Obligations**” means the obligations relating to, *inter alia*, the provision of lease maintenance services for the Leases set out in the Maintenance Services Agreement;

“**Margin**” means the aggregate of (i) 0.40 percent per annum and (ii) € 181,300 net of any taxes per annum from, and including, the Issue Date to, but excluding, the Loan Final Repayment Date;

“**Material Adverse Effect**” shall mean a material adverse effect on (a) the ability of XFS to perform its obligations under any of the Finance Documents or (b) the validity or enforceability of any of the Finance Documents;

“**Minimum Reserve Level**” means an amount equal to € 21,747,406 which will be deposited in the General Reserve Account on the Issue Date. On each Loan Interest Payment Date, the General Reserve Account shall be credited with such amount as may be necessary in order to maintain the balance of such account at an amount equal to the greater of the following amounts (i) 2% of the Initial Value of the Lease Portfolio or (ii) the amount of interest which shall be due during the two successive Interest Periods following each Interest Payment Date, using the last available EURIBOR;

“**Monthly Report**” means the report, certified by an officer of XFS, in written or electronic form for all Leases in the Lease Portfolio setting out the Lease Data and cumulative historic payment default data and all other monthly reports, all to be provided to MLCMB and the Financial Guarantor pursuant to the Administration Services Agreement;

“**Non-Recourse Assets**” means the assets of XFS to which neither MLCMB nor the Financial Guarantor has any recourse in respect of XFS’s obligations under the Loan Agreement comprising all of the assets of XFS other than the Recourse Assets and any payments by the Lessees (or their guarantors) of VAT in respect of the Recourse Assets;

“**Payment Date**” means either or both the Loan Interest Payment Date and the Principal Amortisation Payment Date;

“**Permitted Encumbrance**” means any of the following:

- (a) bankers’ liens and liens and rights of set off arising by operation of law and retention of title clauses in suppliers’ standard terms and conditions of business, in each case in the normal course of business;
- (b) liens arising from unpaid tax provided such tax is not more than 30 days overdue (but without prejudice to any Amortisation Event resulting from the non-payment);
- (c) security provided pursuant to the Security Documents;
- (d) security existing as at the Closing Date provided that, except with the prior written consent of the Controlling Party, the same are not hereafter extended or the amount secured increased; and
- (e) any other security to be granted by XFS as the result of any other financing and/or securitisation of an existing Lease Portfolio or future Lease Portfolio, to be financed or refinanced by XFS in accordance with XFS’s by-laws and the Programme Agreement;

“**Permitted Indebtedness**” means any Indebtedness:

- (a) by way of loans made to XFS by a member of its group to the extent permitted under, and in accordance with, the Programme Agreement;
- (b) which is existing at the Closing Date, provided that, except with the prior written consent of the Controlling Party, the same are not hereafter extended or the amount granted increased;
- (c) by way of loans or guarantee made by MLCMB’s group entity as the result of any other financing and/or securitisation of an existing Lease Portfolio or a future Lease Portfolio, to be financed or refinanced by XFS in accordance with XFS’s by-laws and the Programme Agreement;
- (d) in respect of tax or otherwise if specifically agreed to in advance and in writing by the Controlling Party;  
or
- (e) incurred with the prior written consent of the Controlling Party;

“**Potential Amortisation Event**” means any event which, if not cured or corrected, would within a month become an Amortisation Event;

“**Principal Amortisation Amount**” means the amount of principal due and payable under the Loan Agreement by XFS to MLCMB on any Principal Amortisation Payment Date;

“**Principal Amortisation Payment Date**” means any Loan Interest Payment Date on which MLCMB determines a Surplus Amount;

“**Public Unbundled Contracts**” means contracts with Lessees which are governed by French administrative law;

“**Quotation Date**” means, in relation to any period for which an interest rate is to be determined under the Loan Agreement, the day on which quotations would ordinarily be given by prime banks in the Euro-zone Interbank Market for deposits in Euro for delivery on the first day of that period, provided that, if for any such period quotations would ordinarily be given on more than one date, the Quotation Date for that period shall be the last of those dates;

“**Rate Fixing Day**” means, in relation to any period for which an interest rate is to be determined (in relation to Euro), the date falling two Business Days before the first day of that period;

“**Recourse Assets**” means the aggregate of (i) Financial Component payments by the Lessees under all Leases that form part of the Lease Portfolio, and (ii) Deleted Lease Compensation Payments;

“**Reference Banks**” means CDC Finance – CDC IXIS and BNP Paribas or such other two banks as MLCMB and XFS both acting reasonably from time to time agree to appoint;

“**Reporting Date**” means the tenth Business Day of each calendar month or any other date which MLCMB and the Financial Guarantor may reasonably request;

“**Screen Rate**” means, in relation to EURIBOR, (i) the percentage per annum determined by the Banking Federation of the European Union for the relevant period, as displayed on page 248 of the Moneyline Telerate Monitor Screen; or (ii) such other page as may replace such display; or (iii) in the event such page ceases to be available and there is no suitable replacement, another page commonly used in the Euro-Zone Interbank Market displaying the appropriate rate, as may be selected by MLCMB after consultation with XFS and the Financial Guarantor, for so long as it is a Controlling Party;

“**Security Documents**” means each of the following security documents to be entered into between, *inter alios*, XFS, MLCMB and the Financial Guarantor on or prior to the Issue Date;

“**Servicing Obligations**” means the obligations relating to, *inter alios*, the provision of lease administration services for the Leases set out in the Administration Services Agreement;

“**Standard Lease Documentation**” means the standard lease documentation for the Leases in form and substance as set out in the schedule to the Programme Agreement;

“**Surplus Amount**” means, on any Loan Interest Payment Date, the balance remaining in the Loan Distribution Account (i) over and above the amount to be paid to the Financial Guarantor on such Loan Interest Payment Date pursuant to the Reimbursement Agreement and the Maintenance Guarantee Letter of Request or (ii) over and above the Loan Interest Amount to be paid on such Loan Interest Payment Date, if no amount is due and payable on such date to the Financial Guarantor;

“**TARGET Day**” means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer payment system is open for the settlement of payments in Euro;

“**Tax Deduction**” means a deduction or withholding for or on account of tax from a payment under the Loan Agreement;

“**Termination Event**” has the meaning ascribed to it in the context of the Maintenance Services Agreement and/or the Administration Services Agreement (see “*Contribution, warehouse financing, servicing and maintenance of the Lease Contracts and the Equipment*”);

“**Third-Party Beneficiary Bank Accounts Agreement**” means the trust accounts agreement (*convention de comptes d'affection spéciale*) entered into between XFS, the Compartment, as represented by its management company, the Financial Guarantor and the Second Account Bank on or prior to the Issue Date and pursuant to which XFS shall put in place a third party beneficiary bank accounts arrangement in favour of the Compartment



and (in recognition of its subrogation rights following any payment under the Financial Guarantee) the Financial Guarantor, over the Financial Flow Account, the General Reserve Account and the Loan Distribution Account (and the respective securities accounts related thereto, if any), as the same may be amended and supplemented from time to time;

“Units” means any of the Units issued by the Compartment; and

## **2. The Loan**

MLCMB has granted to XFS, upon the terms and subject to the conditions of the Loan Agreement, the Loan in a maximum amount of € 398,000,000.

The Loan shall be used solely to refinance any amount outstanding and/or remaining unpaid under the Existing Facility and the Existing Facility Agreement.

MLCMB’s obligations under the Loan Agreement are subject to a number of usual conditions precedent, including the Security Documents, which must be satisfied or waived prior to the Issue Date.

## **3. Drawdown**

Subject to the conditions precedent, the Loan will be made available to XFS on or prior to the Issue Date.

If XFS has not drawn down the Loan on or prior to the Issue Date, in accordance with the terms of the Loan Agreement, the Loan shall be automatically cancelled and MLCMB shall be released from its obligations under the Loan Agreement.

## **4. Repayment**

**Repayment on each Principal Amortisation Payment Date** XFS shall repay to MLCMB each Principal Amortisation Amount on each Principal Amortisation Payment Date, up to (but not less than) the total Surplus Amount, if any, as determined by MLCMB on each such Principal Amortisation Payment Date. No Principal Amortisation Amount shall be due and payable unless and until MLCMB determines that there is a Surplus Amount on any Principal Amortisation Payment Date.

**Repayment on the Loan Final Repayment Date** XFS shall have repaid the Loan in full at the Loan Final Repayment Date at the latest.

**No Other Repayments** XFS shall not repay all or any part of the Loan outstanding under the Loan Agreement except at the times and in the manner expressly provided in the Loan Agreement.

## **5. Prepayment**

**Voluntary prepayment by XFS** Unless an Amortisation Event has occurred and is continuing, XFS may by giving not less than two Business Days’ prior notice to MLCMB prepay all or part of the Loan at any time (being an amount or integral multiple of € 1,000,000) (i) whenever the Collateral Value of the Lease Portfolio at such time represents 10% or less than the Initial Value of the Lease Portfolio, and /or (ii) with the prior written consent of MLCMB, and/or (iii) under the tax indemnity and increased costs provisions in the Loan Agreement.

**Mandatory Prepayment Prior to Removal of a Deleted Lease** If at any time MLCMB or XFS becomes aware that there are one or more Leases in the Lease Portfolio that were included and were Deleted Leases on 31 May 2003 then on the earlier to occur of (x) the next Loan Interest Payment Date and (y) such date as MLCMB demands prepayment (provided, however, that if MLCMB demands such prepayment, XFS shall not be liable for any interest breakage costs incurred by MLCMB as a result of such prepayment), XFS shall prepay that part of the Loan which shall be equal to the Deleted Lease Payment and, upon such prepayment, (i) such Leases shall be released from the security created by the Security Documents, and (ii) such Leases shall be considered Non-Recourse Assets.

**Mandatory Prepayment Prior to Removal of a First Payment Lease** If at any time by the Backstop Date (as such term is defined in the First Payment Lease definition) MLCMB or XFS becomes aware that there are one or more Leases in the Lease Portfolio that are First Payment Leases then within 30 days after the Backstop Date, XFS shall prepay that part of the Loan which shall be equal to the First Payment Lease Compensation Payment and, upon such prepayment, (i) such Leases shall be released from the security created by the Security Documents, and (ii) such Leases shall be considered Non-Recourse Assets. The First Payment Lease Compensation Payment shall be funded by the proceeds of the Second Warehouse Facility Agreement.



***Mandatory Prepayment Prior to Removal of other Leases*** If at any time, MLCMB or XFS becomes aware that there are one or more Leases in the Lease Portfolio that shall be early terminated in accordance with the provisions of the Administration Services Agreement, XFS shall prepay that part of the Loan which shall be equal to the compensation payment to be made by XF to XFS pursuant to the provisions of the Administration Services Agreement and, upon such prepayment, (i) such Leases shall be released from the security created by the Security Documents and (ii) such Leases shall be considered Non-Recourse Assets.

***Mandatory Prepayment from Disposals*** If at any time XFS sells, transfers, leases or otherwise dispose of any of the Recourse Assets, the net proceeds received from such sale, transfer, lease out or other disposal (after payment of any taxes, fees or other expenses) shall be applied in prepayment of the Loan on the next Loan Interest Payment Date.

***Mandatory Prepayment from General Reserve Account*** If at any time the aggregate amount standing to the credit of the General Reserve Account is above the outstanding principal amount of the Loan, such amount standing to the credit of the General Reserve Account shall be applied in prepayment of the Loan on the next Loan Interest Payment Date.

All prepayments under the Loan Agreement shall be made together with accrued interest on the amount prepaid and, in case of prepayment in full, all relevant unpaid fees should have been paid. No premium or penalty is payable in respect of any prepayment except pursuant to the broken funding indemnity provision in the Loan Agreement.

All amounts prepaid or cancelled are definitive and may not be re-borrowed.

## **6. Interest**

***Loan Interest Period*** Interest under the Loan shall accrue for successive Loan Interest Periods, from, and including, the Issue Date to, and excluding the Loan Final Repayment Date, except that (a) the initial Loan Interest Period will commence on, and include, the Issue Date, and end on, but exclude, 30 September 2003, and (b) the final Loan Interest Period will end on, but exclude, the date which is the earlier of (i) the Loan Final Repayment Date, or (ii) the date on which all sums due under the Loan Agreement shall have been repaid in full.

***Payment of Interest*** XFS shall pay to MLCMB accrued interest in respect of the Loan on each Loan Interest Payment Date.

***Calculation of Interest*** The rate of interest applicable to the Loan during each Loan Interest Period shall be the rate per annum equal to the sum of the Margin and EURIBOR on the Quotation Date therefor.

If, in relation to a Loan Interest Period, at or about 11.00 am (Brussels time) on the Quotation Date, MLCMB is unable to determine EURIBOR in accordance with the definition of the Loan Agreement, EURIBOR shall be the rate MLCMB and the Financial Guarantor, for so long as it is the Controlling Party, reasonably determines as being available to it in the Euro-zone Interbank Market for deposits in Euro for the relevant Loan Interest Period.

Default interest is the rate of interest plus 2%.

## **7. Taxes**

***Tax Gross-up*** All payments to be made by XFS to MLCMB under the Loan Agreement shall be made free and clear of and without deduction for or on account of tax unless XFS is required by law to make such a payment subject to the deduction or withholding of tax, the sum payable by XFS in respect of which such deduction or withholding is required to be made shall be increased to the extent necessary to ensure that, after the making of the required deduction or withholding, MLCMB receives and retains (free from any liability in respect of any such deduction or withholding) a net sum equal to the sum which it would have received and so retained had no such deduction or withholding been made or been required to be made. However, XFS is not obliged to pay any additional amount pursuant to this paragraph in respect of any deduction which would not have been required if MLCMB had completed a declaration, claim or exemption or other form which it is able to complete or had reasonably co-operated in completing any other procedural formalities.

## **8. Representations and Warranties**

XFS makes for the benefit of MLCMB and the Financial Guarantor the representations and warranties and the Lease Warranties below.

**Status, Due Authorisation and Powers** It is a company duly organised and established under the laws of France and incorporated as a simplified joint stock company (*société par actions simplifiée*) with registered number R.C.S. Nanterre 441 339 389 with power to enter into the Finance Documents to which it is a party and to exercise its rights and perform its obligations under the Loan Agreement and all corporate and other action required to authorise its execution of the Loan Agreement and its performance of its obligations under the Loan Agreement has been duly taken.

**Legal Validity and Admissibility in Evidence** All acts, conditions and things required to be done, fulfilled and performed in order (i) to enable it lawfully to enter into, exercise its rights under and perform and comply with the obligations expressed to be assumed by it in the Finance Documents to which it is a party, (ii) to ensure that the obligations expressed to be assumed by it in the Finance Documents are legal, valid and binding and (iii) to make the Finance Documents admissible in evidence in its jurisdiction of incorporation have been done, fulfilled and performed.

**No Filing or Stamp Taxes** Under the laws of its jurisdiction of incorporation in force at the Closing Date, it is not necessary that the Finance Documents to which it is a party be filed, recorded or enrolled with any court or other authority in such jurisdiction or that any *ad valorem* stamp, registration or similar tax be paid on or in relation to the Loan Agreement.

**Binding Obligations** The obligations expressed to be assumed by it in the Finance Documents are legal and valid obligations binding on it in accordance with their respective terms, subject to insolvency laws and other laws affecting creditors' rights generally.

**No Material Proceedings** No litigation, arbitration or administrative proceedings of or before any court or agency, which relates to the Recourse Assets or the Finance Documents and if adversely determined could reasonably be expected to have a Material Adverse Effect, have been started or to its knowledge are threatened or pending against XFS.

**Original Financial Statements** The Original Financial Statements of XFS were prepared in accordance with accounting principles generally accepted in France and consistently applied and give (in conjunction with the notes thereto) a true and fair view (*image sincère et fidèle*) of the financial condition of XFS at the date as of which they were prepared and the results of XFS's operations during the financial year then ended.

**No Material Adverse Change** Since publication of the Original Financial Statements of XFS, there has been no material adverse change in the business or financial condition of XFS.

**Encumbrances** Each of the Security Documents validly creates the security which is expressed to be created by it and evidences the security it is expressed to evidence.

The security created or expressed to be created in favour of MLCMB pursuant to the Security Documents has, or will have, the ranking priority of the type described in the Security Documents or in the Intercreditor Agreement, over the Charged Property.

**Execution of the Loan Agreement** Its execution of the Loan Agreement and its exercise of its rights and performance of its obligations under the Loan Agreement do not and will not:

- (a) conflict with its constitutive documents and rules and regulations; or
- (b) conflict with any applicable law, regulation or official or judicial order applicable to it.

**Ownership of XFS** Other than any shares in XFS held by Copytrust Limited, both XB and XF own directly or indirectly 100% of the issued share capital of XFS;

**Ownership of Lease Portfolio** It owns each of the Leases in the Lease Portfolio and all receivables therefrom and all rights in connection therewith. Each of the Leases in the Lease Portfolio is an Eligible Lease.

**Insurance for Equipment** Each Equipment leased in each Lease Portfolio is fully covered by the insurance policies arranged by XF or one or more of its Affiliates.

**Information** All factual information contained in each Monthly Report and all written information completed and supplied by XFS to MLCMB in connection with the Leases (including, without limitation, the Lease Data provided with the drawdown request) is true, complete and accurate in all material respects as at its relevant date.

All information provided in writing by XFS to MLCMB prior to the date of the Loan Agreement is factual, true, complete and accurate in all material respects, and does not omit as at its date any material information which, if disclosed, could reasonably be expected to adversely affect the decision of a reasonably prudent lender considering whether to enter into the Loan Agreement.

So far as XFS is aware (having made due enquiry), nothing has occurred since the date the information referred to above was provided which renders the information contained in it untrue or misleading in any material respect and which, if disclosed, could reasonably be expected to adversely affect the decision of a person considering whether to enter into the Loan Agreement.

XFS has not knowingly failed to disclose to the Lender any material facts or circumstances which would be reasonably likely, if disclosed, to have a Material Adverse Effect.

**No Contravention** Neither the execution and delivery of any of the Finance Documents by XFS nor the creation of the security thereby constituted do now or will:

- (a) conflict with its constitutive documents; or
- (b) contravene or constitute a default under or otherwise conflict with any provision contained in any law, judgment, order, licence, permit or consent by which XFS or any of the assets of XFS is bound or affected.

Neither the performance by XFS of any of the transactions contemplated in the Finance Documents nor the performance of any of its obligations thereunder do now or will:

- (a) conflict with its constitutive documents; or
- (b) contravene or constitute a default under or otherwise conflict with any provision contained in any law, judgment, order, licence, permit or consent by which XFS or any of the assets of XFS is bound or affected.

**Times for making Representations and Warranties** The representations and warranties and the Lease Warranties are made by XFS on the Closing Date and the Issue Date, with some exceptions, are deemed to be repeated by XFS on each Payment Date with reference to the facts and circumstances then subsisting. XFS acknowledges that MLCMB and the Financial Guarantor have entered into the Loan Agreement in reliance on the representations and warranties made on the Closing Date.

**Disclosures and Notices** The representations and warranties may also be qualified by disclosures made by XFS against specific representations and warranties where such disclosures are proposed on or prior to each Reporting Date and are acceptable to MLCMB and the Financial Guarantor.

In the event that a repeated representation or warranty is or was not true on the date it was given, the party becoming aware of the relevant breach shall give notice of the relevant facts to the other party as soon as reasonably practicable.

## **9. Financial Information**

XFS is obliged to provide financial statements for each of its financial years, its quarterly management reports, the Monthly Reports and such other financial information as MLCMB and the Financial Guarantor may reasonably require.

## **10. Undertakings**

XFS makes for the benefit of MLCMB and the Financial Guarantor each of the covenants below.

**Maintenance of Legal Validity** XFS shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect and renew all authorisations, approvals, licences and consents required in or by the laws and regulations of France to enable it lawfully to enter into and perform its obligations under the Loan Agreement and to ensure the legality, validity, and enforceability or admissibility in evidence in France of the Finance Documents.

**Insurance** XFS shall maintain insurance coverage in relation to all Leases with reputable underwriters or insurance companies against such risks and to such extent as is usual for companies carrying on a business such as that carried on by XFS.

**Untrue Representations and Warranties** After the delivery of the drawdown request, XFS shall notify MLCMB and the Financial Guarantor of the occurrence of any event which results in or may reasonably be expected to result in any of the representations and warranties being untrue in any material respect at or before the Issue Date.

**Notification of Amortisation Events** XFS shall promptly inform MLCMB and the Financial Guarantor of the occurrence of any Amortisation Event or Potential Amortisation Event and, upon receipt of a written request to that effect from MLCMB or the Financial Guarantor, confirm to MLCMB and the Financial Guarantor that, save as previously notified to it or as notified in such confirmation, no Amortisation Event or Potential Amortisation Event has occurred.

**Indebtedness** XFS shall not incur any Indebtedness (including, without limitation, entering into any loans or other forms of credit) other than (i) Permitted Indebtedness, or (ii) pursuant to the terms of the Finance Documents.

**Notification of Proceedings** XFS will supply to MLCMB and the Financial Guarantor promptly upon XFS becoming aware thereof the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against XFS in relation to the Recourse Assets and could reasonably be expected to have a Material Adverse Effect.

**Claims Pari Passu** XFS shall ensure that at all times the claims of MLCMB against it under the Loan Agreement rank at least pari passu with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application and save to the extent such claims are limited by no recourse and non petition provisions below.

**Negative Pledge** XFS shall not, without the prior written consent of MLCMB, create or permit to subsist any Encumbrance over the whole or any part of the Lease Portfolio and the Related Security other than a Permitted Encumbrance.

**Disposals** XFS shall not sell, transfer, lease out or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), whether voluntary or involuntary the whole or any part of the Recourse Assets and the Related Security other than with the prior written consent of MLCMB (such consent to be granted upon either (a) payment being received by MLCMB in repayment of any part of the Loan made by MLCMB to refinance the funding of the relevant Leases together with any accrued and unpaid interest and all other amounts owing in respect of the relevant part of the Loan under the Loan Agreement, or (b) such proposed disposal being permitted under any Finance Document); provided, however, that the proceeds received from any such sale, transfer, lease out or other disposal (other than a disposal of Deleted Leases) must be applied by XFS solely in repaying the Loan,

Provided that nothing in this provision shall prevent:

- (a) XFS selling any item of Equipment in circumstances where the Lease to which such Equipment relates has expired and all payments under the Loan Agreement in respect of the minimum period of such Lease have been paid in full to XFS where the consideration for which it will be sold will be at least equal to the residual value (if any) in the records of XFS for such Equipment or, if there is no such residual value, €15; and
- (b) XFS transferring title to the Equipment in accordance with the Administration Services Agreement or the Back-Up Administration Services Agreement where the amount payable to XFS under the Administration Services Agreement or Back-Up Administration Services Agreement has been paid in full and a voluntary prepayment of the Loan has been made to MLCMB of an equal amount.

**Portfolio Information** XFS shall provide, or shall cause the Primary Servicer and/or the Primary Maintenance Provider and/or the Back-Up Servicer and/or the Back-Up Maintenance Provider to provide, to MLCMB, the Financial Guarantor and the Rating Agencies on each Reporting Date the Monthly Report and the Lease Data relating to the Lease Portfolio.

XFS shall (subject to any applicable laws and regulations) permit MLCMB and/or its representatives or the Financial Guarantor, for as long as it is the Controlling Party, upon prior reasonable notice full access to all other records, accounts and other information relating to XFS and its business to the extent relevant to the Leases, the Financial Flow Account and the servicing of the same and shall procure access to those of the Back-Up Servicer, the Back-Up Maintenance Provider and any relevant sub-contractor engaged in such activity (including access to any premises where such records, accounts or other information may be kept) as may be reasonable.

**Leases** XFS undertakes:

- (a) not to, amend, modify, terminate or waive any provision of any Lease in the Lease Portfolio in any manner which could reasonably be expected to materially and adversely affect the value of the relevant Lease or cause the Lease not to be an Eligible Lease unless such amendment, modification or waiver is permitted under the Administration Services Agreement; and
- (b) to promptly inform MLCMB and the Financial Guarantor of any amendment to or any variation in the terms of, or the extent or nature of, the Standard Lease Documentation (to the extent applicable to Eligible Leases) or the Lease Eligibility Criteria (except where the amendment or variation is required to remedy any manifest error or is of a formal, minor or technical nature).

**Servicing** XFS shall:

- (a) procure compliance by the Primary Servicer and/or the Back-Up Servicer with the Servicing Obligations and the Administration Services Agreement and/or the Back-Up Administration Services Agreement in all material respects;
- (b) procure compliance by the Primary Maintenance Provider and/or the Back-Up Maintenance Provider with the Maintenance Obligations and the Maintenance Services Agreement and/or the Back-Up Maintenance Services Agreement;
- (c) advise MLCMB and the Financial Guarantor as soon as reasonably practicable upon becoming aware of any circumstance or event giving rise to or which would give rise to a breach of the terms of the Servicing Obligations, the Maintenance Obligations and/or the Lease Warranties;
- (d) not without the consent of MLCMB and the Financial Guarantor, for so long as it is Controlling Party (such consent not to be unreasonably withheld) materially alter in respect of the Leases in the Lease Portfolio the servicing or maintenance arrangements in relation to Leases in existence at the Closing Date (in particular and without limitation to delegate in a material manner the Servicing Obligations or the Maintenance Obligations in relation to the Leases to a third party or to appoint a third party as servicer of, or maintenance provider in respect of, the Leases).

**Intellectual Property** XFS shall observe and comply with all material obligations in respect of intellectual property related to the Recourse Assets, the maintenance and servicing of the Loan Agreement, the Leases and the Lessees.

**Maintenance and Compliance** XFS shall maintain its corporate existence and comply with all laws and directives applicable to its business.

**No Amalgamations or Mergers** XFS shall not amalgamate with or merge with any entity.

**No Other Business** XFS shall not carry on any business other than as carried on at the Issue Date and in accordance with the *statuts* of XFS on the Issue Date.

**No Amendments or Waivers** XFS shall not amend, vary, supplement or waive the terms of any Finance Document without the prior written consent of MLCMB.

**No Dividends or Distributions** XFS shall not declare or pay any dividend or make any distribution or pay any interest or other amounts in respect of its share capital other than (i) to the extent that such amount will be set off against principal amounts owing and interest amounts accruing under a Xerox loan or (ii) with the prior written consent of MLCMB. This negative covenant shall not apply in respect of Non-Recourse Assets or funds derived from Non-Recourse Assets.

**No Issue or Allotment** XFS shall not issue or allot any shares or relevant securities.

**Hedging** XFS shall enter into, and at all times comply with its obligations under, the Hedging Agreement (except the Hedging Guarantee to which it is not a party).

**No Additional Hedging** XFS shall not enter into any hedging transactions other than those hedging transactions either (i) referred to above, or (ii) in connection with Permitted Indebtedness.



**No Acquisition** XFS shall not acquire any property, business, shares, investments or subsidiaries and shall not enter into any joint venture or similar arrangement otherwise than (i) as contemplated or permitted under the Finance Documents, or (ii) in connection with Permitted Indebtedness.

**No Repayment** XFS shall not make any payments in respect of any Indebtedness other than in respect of any Permitted Indebtedness until all amounts outstanding under the Loan Agreement have been discharged in full. This negative covenant shall not apply in respect of Non-Recourse Assets or funds derived from Non-Recourse Assets.

**Tax Grouping** XFS shall remain part of the tax consolidated group formed under the régime d'intégration fiscale provided by article 223 A et seq of the French Tax Code with XF as head of that group. XFS shall not amend the *convention d'intégration fiscale* in force at the date thereof without the agreement of MLCMB and MBIA.

**Capital reduction** Nothing in the Loan Agreement shall prevent reductions in the share capital of XFS when and to the extent permitted by XFS's constitutional documents provided that before any such reduction takes place XFS shall procure that a tax opinion is obtained from a reputable firm of lawyers addressed to XFS's shareholders and MLCMB confirming that such reduction in the share capital will not be made in breach of the undertaking XFS's shareholders made to retain their shares in XFS for a period of at least three years following the date when the assets in consideration of which such shares were issued were contributed to XFS.

**Minimum Reserve** XFS shall at all times comply with its obligations under the Funds Flow Management Agreement as regards the funding of the Minimum Reserve Level, the Corporate Tax Reserve Account and the Back-Up Transition Reserve Account.

**Corporate Tax Reserve Account** XFS shall at all times comply with its obligations to fund the Corporate Tax Reserve Account in accordance with the Funds Flow Management Agreement (as defined in such agreement).

**Back-Up Transition Reserve Account** XFS shall at all times comply with its obligations to fund the Back-Up Transition Reserve Account in accordance with the Funds Flow Management Agreement (as defined in such agreement).

**Notification of Material Adverse Change** XFS shall promptly notify MLCMB and the Financial Guarantor, for so long as it is the Controlling Party, of any material business or financial event, including without limitation, any litigation, arbitration, administrative or other proceedings being commenced, any change in relevant market conditions, or any change affecting suppliers, customers or competition which is likely to have a material adverse effect on the business, assets or financial condition of XFS or which likely to materially and adversely affect MLCMB, the Financial Guarantor or the interests of MLCMB or the Financial Guarantor under the Loan Agreement or under the Financial Guarantee.

**Trust account arrangements** Since each of the Compartment and (in recognition of its subrogation rights following any payment under the Financial Guarantee), the Financial Guarantor shall benefit, upon the transfer by MLCMB of the Loan Receivable to the Fund and its allocation to the Compartment on the Issue Date, from the assignments by way of security (*cessions de créances professionnelles à titre de garantie*) made between XFS, MLCMB and the Financial Guarantor (i) of the lease receivables owed by XFS against any Lessee under any Lease, (ii) of the proceeds, if any, paid by Xerox France and Xerobail under the Indemnity Agreement and (iii) the proceeds, if any, paid by the Hedging Provider under the Hedging Agreement, XFS shall promptly, upon such transfer, set up trust account arrangements (*comptes à affectation spéciale*) between XFS, the Financial Guarantor and the Compartment over the Financial Flow Account, Loan Distribution Account and the General Reserve Account in accordance with the Third-Party Beneficiary Bank Accounts Agreement.

## **11. Amortisation Events**

The following events shall constitute an Amortisation Event under the Term Loan:

**Failure to Pay** XFS fails to pay any sum due under the Finance Documents when due, (or, in the case of sums expressed to be payable on demand, within 3 Business Days of MLCMB's demand); provided, however, that (i) where such non-payment is due to the failure of continuing external payment systems or clearing systems reasonably used by XFS and such payment is made by XFS immediately upon cessation of such system failure or (if earlier) within 1 Business Day of such non-payment, such non-payment shall not constitute an Amortisation Event, and (ii) where such non-payment is a non-payment of scheduled interest or ultimate principal due under the Loan Agreement and the Financial Guarantor pays such amount pursuant to and in accordance with the terms of the Financial Guarantee, such non-payment shall not constitute an Amortisation Event.



**Misrepresentation** Any representation or warranty made by XFS, the Primary Servicer or the Primary Maintenance Provider in the Finance Documents or in any notice or other document, certificate or statement delivered by it pursuant hereto or in connection herewith is or proves to have been incorrect or misleading in any material respect when made, and the same is not rectified (if capable of remedy) within 5 Business Days after MLCMB has given notice under the Loan Agreement to XFS or (if sooner) XFS becomes aware of the same and the same could reasonably be expected to have a Material Adverse Effect.

**Other Obligations** XFS, the Primary Servicer or the Primary Maintenance Provider fails to comply with any of their respective undertakings, representations and warranties or other material obligations under any of the Finance Documents (including, without limitation, with respect to XFS, any of its financial information and portfolio obligations).

### **Insolvency**

- (a) XFS is, or is deemed or declared for the purposes of any law to be, unable to pay its debts as they fall due or to be insolvent, including without limitation, *en état de cessation des paiements*, or admits in writing its inability to pay its debts as they fall due; or
- (b) XFS by reason of financial difficulties, begins formal negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of any of its Indebtedness or applies for or subject to an amicable settlement or a *réglement amiable* pursuant to articles L. 612-1 to L. 611-6 and L. 612-1 to L. 612-4 of the French Commercial Code (“*Code de Commerce*”) (previously known as law 84.148 of 1st March 1984).

### **Insolvency Proceedings**

- (a) A meeting of XFS is convened for the purpose of considering any resolution for (or to petition for) its winding-up or its administration or any such resolution is passed; or
- (b) Any person presents a petition for the winding-up or for the administration or for the bankruptcy of XFS and the petition is not discharged within 21 days; or
- (c) Any order for the winding-up or administration of XFS is made; or
- (d) A judgment is issued for the judicial liquidation (*liquidation judiciaire*) or the rescheduling of XFS’s debt (*redressement judiciaire*) or the transfer of the whole or part of the business of XFS (*cession de l’entreprise*) pursuant to articles L. 620-1 and seq. and articles L. 811-1 and seq. of the French Commercial Code (*Code de commerce*) (previously known as laws no. 85-98 and no. 85-99 of 25 January 1985).

### **Appointment of Receivers and Managers**

- (a) Any liquidator, trustee in bankruptcy, receiver, administrative receiver, administrator or the like (including, without limitation, any “*mandataire ad hoc*”, “*administrateur judiciaire*”, “*administrateur provisoire*”, “*conciliateur*” or “*mandataire liquidateur*”) is appointed in respect of XFS or any substantial or material part of the Recourse Assets or the directors of XFS request such appointment; or
- (b) Any other steps are taken to enforce any Encumbrance over any substantial or material part of the Recourse Assets save where XFS is in good faith contesting such enforcement by appropriate proceedings and MLCMB acting reasonably is satisfied that the ability of XFS to comply with its respective obligations under the Finance Documents will not be materially and adversely affected.

**Creditors’ Process** Any attachment, sequestration, distress or execution affects any Recourse Assets having an aggregate value of a minimum of €5,000,000 (or the equivalent in other currencies) and is not discharged within 30 days save where XFS is in good faith contesting such attachment, sequestration, distress or execution by appropriate proceedings and MLCMB, acting reasonably, is satisfied that the ability of XFS to comply with its respective obligations under the Finance Documents would not be materially or adversely affected.

**Analogous proceedings** There occurs, in relation to XFS, in any jurisdiction to which it or any of the Recourse Assets are subject, any event which, in the reasonable opinion of MLCMB, has an effect equivalent or substantially similar to any of those mentioned above.

**XFS's Business** XFS ceases to carry on the whole or a substantial part of or makes a material modification to the business it carries on at the Closing Date or as permitted by XFS's by-laws or XFS enters into any unrelated business.

**Illegality** At any time it is or becomes unlawful for XFS, the Primary Servicer or the Primary Maintenance Provider to perform or comply with any or all of its material obligations under the Finance Documents or any of the obligations of XFS, the Primary Servicer or the Primary Maintenance Provider under the Finance Documents are not or cease to be legal, valid and binding.

**Licences and Authorisations** The licences or authorisations (in particular but without limitation under the Administration Services Agreement or the Maintenance Services Agreement or the Back-Up Administration Services Agreement or the Back-Up Maintenance Services Agreement) required by each of XFS, the Primary Servicer, the Primary Maintenance Provider, the Back-Up Servicer or the Back-Up Maintenance Provider and XF to carry out its respective business of originating, holding, financing and servicing the Leases are not maintained or obtained by any of XFS, the Primary Servicer, the Primary Maintenance Provider, XB and XF or are revoked or suspended.

**Security** The security purported to be granted to MLCMB under the Security Documents is not, or is alleged by XFS not to be, binding on or enforceable against XFS or effective to create the security intended to be created by it.

**Ownership of XFS** Other than any shares in XFS held by Copytrust Limited, (i) either XB or XF or both of them cease to own directly or indirectly 100% of the issued share capital of XFS; or (ii) any other change whatsoever occurs in the ownership of XFS.

**Ownership of XB** (i) XF ceases to own directly or indirectly 100% of the issued share capital of XB; or (ii) any other change whatsoever occurs in the ownership of XB.

**Ownership of XF** (i) either Xerox Limited or Xerox XF Holdings (Ireland) Limited or both of them cease to own directly or indirectly 100% of the issued share capital of XF; or (ii) any other change whatsoever occurs in the ownership of XF.

**Inability to Appoint** The appointment of the Back-Up Servicer and/or the Back-Up Maintenance Provider is terminated for whatever reason and XFS is unable to appoint within three months a new Back-Up Servicer under the Back-Up Administration Services Agreement and/or a new Back-Up Maintenance Provider under the Back-Up Maintenance Services Agreement, as the case may be.

**Lease Data** The relevant Lease Data and cumulative historic default data are not provided on the Reporting Date.

**Termination Event** The occurrence and continuance of any Termination Event.

**Material Adverse Effect** Any event or circumstance occurs that has a Material Adverse Effect as determined by MLCMB acting reasonably provided that the impact on XFS's revenues or income will be in an amount of at least €5,000,000.

**General Reserve Account** Any of the amounts deposited in the General Reserve Account are transferred from the account, for whatever reason, other than pursuant to the provisions of the Funds Flow Management Agreement or with the prior written consent of MLCMB and the Financial Guarantor.

**Capital Reduction** The share capital of XFS is reduced at any time without a tax opinion being first obtained from a reputable firm of lawyers and being addressed to XFS's shareholders and MLCMB.

**Enforcement of the Financial Guarantee** If XFS fails to pay any scheduled interest or ultimate principal under the Loan Agreement, MLCMB or the Compartment represented by its management company after the date on which MLCMB assigns and transfers the Loan Receivable and the Related Security to the Compartment, may enforce the Financial Guarantee.

**Amortisation** Upon the occurrence of an Amortisation Event (and after any period specified to allow cure) and at any time thereafter whilst the same is continuing unremedied or unwaived, the Controlling Party or, upon the occurrence of a Financial Guarantor Event of Default, MLCMB may (if such Amortisation Event is continuing unremedied or unwaived at least 10 calendar days after such Amortisation Event occurred (provided that the 10 calendar days cure period shall not apply to an Amortisation Event), by written notice (such notice to constitute a *mise en demeure*) to XFS:

- (a) declare that XFS shall apply all available amounts received under the Recourse Assets (other than any amounts otherwise payable to MLCMB hereunder) to prepay and amortise the principal amount of the Loan until the Loan is reduced to zero. For the avoidance of any doubt such application of all available amounts shall continue up to and after the Final Repayment Date regardless of whether or not an Amortisation Event is remedied after such a declaration by MLCMB has been made; and
- (b) enforce the security granted under the Security Documents according to the no recourse and non petition provisions below.

Payment by the Financial Guarantor: Upon the occurrence of an Amortisation Event (and after any period specified in the Loan Agreement to allow cure) and at any time thereafter whilst the same is continuing unremedied or unwaived, XFS acknowledges and accepts that the Financial Guarantor shall be entitled, pursuant to the Loan Agreement and the Financial Guarantee, but in no circumstances obliged, to pay any amount hereunder in respect of Guaranteed Obligations (as defined in the Financial Guarantee) on an accelerated basis, whether or not the Financial Guarantor is in receipt of any notice of claim in respect thereof.

## **12. Set-off**

Following the occurrence of an Amortisation Event, whilst the same is continuing unremedied and unwaived, XFS authorises MLCMB to apply (in accordance with the Funds Flow Management Agreement) any credit balance to which XFS is entitled on any account of XFS with MLCMB in satisfaction of any sum due and payable from XFS to MLCMB under the Loan Agreement but unpaid; for this purpose MLCMB is authorised to purchase with the moneys standing to the credit of any such account such other currencies as may be necessary to effect such application.

## **13. Governing Law**

The Loan Agreement is governed by, and shall be construed in accordance with, French law. The *Tribunal de Commerce de Paris* has jurisdiction to settle any disputes which may arise out of or in connection with the Loan Agreement.

## **14. No Recourse and Non Petition**

The obligations of XFS under the Loan Agreement and the other Finance Documents shall only be recoverable by MLCMB and the Financial Guarantor as against the Recourse Assets and Related Security. Each of the Financial Guarantor and MLCMB expressly agrees that it shall have no recourse to the Non-Recourse Assets.

Notwithstanding the provisions of article 2092 of the French Civil Code (*Code civil*), any claim by MLCMB and the Financial Guarantor against XFS pursuant to the Loan Agreement and the other Finance Documents shall be limited to the amount representing from time to time the amounts received by XFS under the Recourse Assets and Related Security. In the event that the net proceeds of the Recourse Assets and the Related Security becoming enforceable or being liquidated is not sufficient to cover all payment due under the Finance Documents, the obligations of XFS under the Loan Agreement shall be limited to such net proceeds and such net proceeds shall be applied in accordance with the provisions of the Funds Flow Management Agreement and the Intercreditor Agreement and no other assets of XFS will be available for any further payments under the Loan Agreement.

Any such claim in excess of the amounts mentioned in the above clause shall be extinguished upon payment of all sums due to XFS in respect of all Recourse Assets or upon writing off of any receivables deriving from the Recourse Assets.

MLCMB and the Financial Guarantor irrevocably:

- (a) agree not to take any corporate action or other steps or legal proceedings for the winding-up, dissolution or re-organisation or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, sequestrator or similar officer of XFS's revenues and assets or to commence any procedure against XFS pursuant to article L. 621-2 et seq of the French Commercial Code (*Code de commerce*); and
- (b) subject to the provisions set forth above, waive any claim they may have against XFS for an amount greater than the available proceeds of the Recourse Assets and the Related Security; and
- (c) waive any claim they may have against the assets of XFS other than the Recourse Assets and the Related Security.

The above provisions are without prejudice to the rights of the Financial Guarantor under the Maintenance Guarantee Letter of Request.

## 15. Financial Guarantor's Rights under the Loan Agreement

The Financial Guarantor shall not be entitled to its rights under the Loan Agreement after the occurrence of a Financial Guarantor Event of Default whilst the same is continuing unremedied and unwaived.

### The Related Security

On the Issue Date, the Related Security will be granted by XFS to MLCMB to secure XFS's obligations under the Loan Agreement. The Financial Guarantor will act in its capacity as Controlling Party in respect of the Related Security.

For the avoidance of doubt, the Related Security will not be a security for the redemption of the Units but will be granted by the relevant parties to the Lender as security for the repayment of the Loan. Upon transfer of the Loan Receivable and the Related Security by the Originator to the Compartment pursuant to the Transfer and Servicing Agreement, the Related Security will be transferred to the Compartment together with the Loan Receivable. The Related Security may be enforced if an Amortisation Event occurs under the Loan Agreement. For avoidance of doubt, if the Financial Guarantor pays the amount of scheduled interest or ultimate principal due under the Loan Agreement pursuant to and in accordance with the terms of the Financial Guarantee, the non-payment of the same by XFS shall not constitute a Loan Amortisation Event.

Certain security interests which form part of the Related Security will also secure payments (if any) owed by XFS to the Financial Guarantor under the Financial Guarantor Documents (see "*Summary – The Financial Guarantee and related documents*").

The Related Security shall include the following security interests:

- (i) the Assignment of the Lease Receivables;
- (ii) the Assignment of the Lease Warranties;
- (iii) the Assignment of the XL Guarantee Agreement; and
- (iv) the Assignment of Hedging Receivables.

In addition, XFS has agreed under the Loan Agreement to set up a third party beneficiary bank accounts arrangement (*comptes à affectation spéciale*) between (i) XFS, (ii) the Compartment as beneficiary, (iii) the Financial Guarantor (as Controlling Party), and (iv) the Second Account Bank over the Loan Financial Flow Account, the Loan Distribution Account and the Loan General Reserve Account.

### 1. Master Agreement for Assignment of Lease Receivables

The Master Agreement for Assignment of Lease Receivables (*Cession de Créances Professionnelles à Titre de Garantie*) refers to the French law governed agreement dated the Issue Date and made between (i) XFS and (ii) MLCMB and (iii) MBIA (the "**Master Agreement for Assignment of Lease Receivables**").

#### The Purpose

Under the Master Agreement for Assignment of Lease Receivables and the related assignment deed, XFS assigns by way of security certain of its lease receivables (the "**Assigned Lease Receivables**"), as security for its obligations under the Loan Agreement, pursuant to the provisions of Articles L.313-23 to L.313-34 of the Code.

The Master Agreement for Assignment of Lease Receivables is entered into on a limited recourse basis. The parties to the Master Agreement for Assignment of Lease Receivables have agreed to waive their right to file any petition for bankruptcy against XFS.

#### Covenants

XFS covenants *inter alia* that it shall not without the Controlling Party's written consent and/or except as permitted or required under the Loan Agreement and the Transfer and Servicing Agreement assign, pledge, transfer or otherwise dispose of, nor suffer or permit any of the same to occur in respect of any Assigned Lease Receivables or its rights attached to such Assigned Lease Receivables to the benefit of a party other than the Beneficiary.

### ***Enforcement***

Subject to the Intercreditor Agreement, the Controlling Party on behalf of the Beneficiary, ”) shall be entitled at any time following the notification of the occurrence of an Amortisation Event in accordance with the relevant provisions of the Loan Agreement, to notify any assignment made pursuant to the Master Agreement of Assignment of Lease Receivables to any relevant assigned debtor in accordance with the provisions of Article L.313-28 of the Code. In any such case, any relevant assigned debtor shall then pay the sums payable by it under each Assigned Lease Receivables to the account as specified by the Loan Servicer on behalf and for the account of the Beneficiary in order to recover all interest, accrued interest and principal payments now or hereafter due or owing by XFS to the Beneficiary, in whatsoever manner in any currency, whether present, future, actual or contingent, in the manner and the order set forth in the Intercreditor Agreement.

## **2. Master Agreement for Assignment of Lease Warranties**

The Master Agreement for Assignment of Lease Warranties (*Cession de Créances Professionnelles à Titre de Garantie*) refers to the French law governed agreement dated the Issue Date and made between (i) XFS, (ii) MLCMB, and (iii) MBIA (the “**Master Agreement for Assignment of Lease Warranties**”).

The Master Agreement for Assignment of Lease Warranties is entered into on a limited recourse basis. The parties to the Master Agreement for Assignment of Lease Warranties have agreed to waive their right to file any petition in bankruptcy against XFS.

### ***The Purpose***

Under the Master Agreement for Assignment of Lease Warranties and the related assignment deed, XFS assigns by way of security its receivables under lease warranties granted by XF and XB (the “**Assigned Lease Warranties**”), as security for its secured liabilities pursuant to the provisions of Articles L.313-23 to L.313-34 of the Code.

### ***Covenants***

XFS covenants *inter alia* that it shall not without the Controlling Party’s written consent and/or except as permitted or required under the Loan Agreement and the Transfer and Servicing Agreement assign, pledge, transfer or otherwise dispose of, nor suffer or permit any of the same to occur in respect of any Assigned Lease Warranties or its rights attached to such Assigned Lease Warranties to the benefit of a party other than the Beneficiary.

### ***Enforcement***

Subject to the Intercreditor Agreement, the Controlling Party on behalf of the Beneficiary, ” shall be entitled at any time following the notification of the occurrence of an Amortisation Event in accordance with the relevant provisions of the Loan Agreement, to notify any assignment made pursuant to the Master Agreement of Assignment of Lease Warranties to any relevant assigned debtor in accordance with the provisions of Article L.313-28 of the Code. In any such case, any relevant assigned debtor shall then pay the sums payable by it under each Assigned Lease Warranty to the account as specified by the Loan Servicer on behalf and for the account of the Beneficiary in order to recover all interest, accrued interest and principal payments now or hereafter due or owing by XFS to the Beneficiary, in whatsoever manner in any currency, whether present, future, actual or contingent, in the manner and the order set forth in the Intercreditor Agreement.

## **3. The Master Agreement for Assignment of Hedging Receivables**

The Master Agreement for Assignment of Hedging Receivables (*Cession de Créances Professionnelles à Titre de Garantie*) refers to the French law governed agreement dated the Issue Date and made between (i) XFS, (ii) MLCMB and (iii) MBIA (the “**Master Agreement for Assignment of Hedging Receivables**”).

The Master Agreement for Assignment of Hedging Receivables is entered into on a limited recourse basis. The parties to the Master Agreement for Assignment of Hedging Receivables have agreed to waive to their right to file any petition for bankruptcy against XFS.

### ***The Purpose***

Under the Master Agreement for Assignment of Hedging Receivables and the related assignment deed, XFS assigns by way of security its receivables under the Hedging Agreement and the Hedging Guarantee (the “**Assigned Hedging Receivables**”) as security for its secured liabilities pursuant to the provisions of Articles L.313-23 to L.313-34 of the Code.



### ***Covenants***

XFS covenants *inter alia* that it shall not without the Controlling Party's written consent and/or except as permitted or required under the Loan Agreement and the Transfer and Servicing Agreement assign, pledge, transfer or otherwise dispose of, nor suffer or permit any of the same to occur in respect of any Assigned Hedging Receivables or its rights attached to such Assigned Hedging Receivables to the benefit of a party other than the Beneficiary.

### ***Enforcement***

Subject to the Intercreditor Agreement, the Controlling Party on behalf of the Beneficiary", shall be entitled at any time following the notification of the occurrence of an Amortisation Event in accordance with the relevant provisions of the Loan Agreement, to notify any assignment made pursuant to the Master Agreement for Assignment of Hedging Receivables to any relevant assigned debtor in accordance with the provisions of Article L.313-28 of the Code. In any such case, any relevant assigned debtor shall then pay the sums payable by it under each Assigned Hedging Receivables to the account as specified by the Loan Servicer on behalf and for the account of the Beneficiary in order to recover all interest, accrued interest and principal payments now or hereafter due or owing by XFS to the Beneficiary, in whatsoever manner in any currency whether present, future, actual or contingent, in the manner and the order set forth in the Intercreditor Agreement.

## **4. The Assignment of the XL Guarantee Agreement**

### ***The Assignment of the XL Guarantee Agreement***

The Assignment of the XL Guarantee Agreement (*Acte de Délégation Imparfait*), refers to the French law delegation agreement dated the Issue Date and made between (i) XFS as the grantor of the delegation (*délegant*), (ii) XL as delegated debtor, (iii) MLCMB, and (iv) MBIA as the Financial Guarantor (the "**Assignment of the XL Guarantee Agreement**").

The Assignment of the XL Guarantee Agreement is entered into on a limited recourse basis. The parties to the Assignment of the XL Guarantee Agreement have agreed to waive their right to file any petition for bankruptcy against XFS.

### ***The Purpose***

XFS irrevocably delegates XL, and XL accepts such delegation, for the payment of any proceeds to be paid by XL as guarantor under the guarantee (*acte de cautionnement solidaire*) dated the Issue Date entered into between XL and XFS, (the "**Guarantee Proceeds**") to the Beneficiary and the Financial Guarantor.

### ***Covenants***

XFS covenants that *inter alia* it shall not without the prior written consent of the Beneficiary and the Financial Guarantor and/or except as permitted or required under the Assignment of the XL Guarantee Agreement, assign, pledge or transfer or delegate or otherwise dispose of, nor suffer or permit any of the same to occur, with respect to any of its rights against XL under the guarantee (*acte de cautionnement solidaire*) and the 2002 Indemnity Agreement and the 2003 Indemnity Agreement to the benefit of a party other than the Beneficiary and the Financial Guarantor.

Any payment made by XL under the Delegation Agreement shall reduce its payment obligations to XFS under the XL Guarantee by the same amount.

### ***Enforcement***

XL has agreed to pay any Guarantee Proceeds to the account opened in the name of XFS so long as XL has not received a notification letter from the Controlling Party notifying the occurrence of an Amortisation Event in accordance with the relevant provisions of the Loan Agreement. However, upon receipt of such notification letter by the Controlling Party, XL agrees to redirect payment of any Guarantee Proceeds directly to the account as specified by the Loan Servicer, on behalf and for the account of the Beneficiary and the Financial Guarantor (in accordance with Articles 1275 and *seq.* of the French Civil Code (*Code civil*)), the references of which shall be notified by the Controlling Party to XL in such notification letter and shall be applied for repayment of (i) all monies and liabilities due by XFS to the Financial Guarantor under the Financial Guarantor Documents, in whatsoever manner, in any currency, whether present, future, actual or contingent whether incurred solely or jointly with another person, together with all interest accruing thereon and all costs, charges and expenses incurred in connection therewith and (ii) all interest, accrued interest and principal payments now or hereafter due or owing to the Lender by XFS, in its capacity as a Borrower under the Loan Agreement, in whatsoever manner



in any currency whether present, future, actual or contingent in the manner and in the order and priority set forth in the Intercreditor Agreement.

### **Transfer of the Related Security**

The execution and the delivery of the Transfer Deed will automatically (*de plein droit*) transfer the Loan Receivable together with the Related Security and any other ancillary rights from the Originator to the Compartment.

### **The Trust Accounts Agreement**

#### ***The Trust Accounts Agreement – the Compartment as third party beneficiary***

The Trust Accounts Agreement (*Convention de Comptes Bancaires à Affectation Spéciale*) is the French law governed agreement dated the Issue Date and made between (i) XFS, (ii) the Compartment as third party beneficiary, (iii) the Financial Guarantor, and (iv) BRED Banque Populaire as the Second Account Bank (the “**Trust Accounts Agreement**” (*convention de compte d’affectation spéciale*)).

The Trust Accounts Agreement is entered into on a limited recourse basis. The parties to the Trust Accounts Agreement have agreed to waive their right to file any petition for bankruptcy against XFS.

#### ***The Purpose***

In accordance with the Loan Agreement and the Transfer and Servicing Agreement, XFS shall enter into the Trust Accounts Agreement pursuant to which a third party beneficiary bank accounts arrangement shall be set up over certain XFS Transaction Accounts.

#### ***Ledger Entry***

The Second Account Bank shall enter into its books, by way of ledger entry (“*en rubrique*”) in respect of each relevant account (and, if any, the relevant securities account related thereto), the name of the Compartment as the third party beneficiary under the Trust Accounts Agreement. Such ledger entry shall identify each relevant account (and, if any, the relevant securities account related thereto) as a “third party beneficiary bank account” (*compte à affectation spéciale*). Pursuant to the Trust Accounts Agreement, the Second Account Bank has an obligation to insert such ledger entry in any document relating to each relevant account (and, if any, the relevant securities account related thereto), including in documents where the Second Account Bank is required to disclose the balance of each such relevant account as a result of any seizure (*saisie*), attachment order (*avis à tiers détenteur*), garnishment (*saisie-arrêt*) or other rights of execution (*droit de poursuites*) undertaken against the relevant accounts by a creditor of XFS or during the course of any other process.

#### ***Exercise of Rights***

Each of the parties to the Trust Accounts Agreement have agreed that unless and until delivery by the Chairman of XFS of a notice to the Second Account Bank to the effect that XF has resigned or is revoked from its mandate to act on behalf of XFS, XF will act as agent of XFS to exercise all of the rights of XFS under the Trust Accounts Agreement and the Second Account Bank shall act on the written instructions of XF, if so requested, in exercising any rights, powers or discretion under the Trust Accounts Agreement. Upon delivery of the notice referred to above from the Chairman of XFS, the Chairman of XFS shall replace XF as agent to exercise the rights and obligations of XFS for the purposes of the Trust Accounts Agreement, and shall be the sole entity entitled to act in such capacity in the name and on behalf of XFS and the Second Account Bank shall act on the written instructions of the Chairman of XFS in exercising any rights, powers or discretion under the Trust Accounts Agreement.

#### ***Beneficiary and Second Account Bank Rights***

XFS expressly and irrevocably covenants, represents and warrants for the benefit of the Compartment that, subject to the terms of the Trust Accounts Agreement, notwithstanding that each relevant account is opened in its name, it has and will have no rights *vis-à-vis* the Second Account Bank in connection with the sums standing to the credit of any Relevant Account and that the Compartment, as third party beneficiary, shall be the sole creditor of the Second Account Bank of the credit balance of each relevant account. The parties recognise that, following any payment under the Financial Guarantee, the Financial Guarantor shall be subrogated to the rights of the Compartment under the Trust Accounts Agreement to the extent of such payment only.

### ***Operation of the Relevant Accounts***

Until and unless the above mentioned notice is sent, (i) XFS shall be entitled to give any instructions to the Second Account Bank with respect to any relevant account and, subject to the provisions of the Trust Accounts Agreement, (ii) payments to, and withdrawals from, the relevant accounts shall be expressly permitted for XFS or on its behalf in accordance with the Funds Flow Management Agreement. The Second Account Bank shall not enforce any possessory lien (*droit de rétention*) on any amount standing to the credit of any relevant account, for any reason whatsoever in connection with any other relationship that may exist between the Second Account Bank and XFS.

At any time during the Trust Accounts Agreement, each of the parties to the Trust Accounts Agreement agrees that the Financial Guarantor (for so long as the Financial Guarantor remains the Controlling Party) and the Compartment (as from the date upon which the Financial Guarantor ceases to be the Controlling Party) shall have the discretionary right to send such blocking notice with respect to the Loan Distribution Account only.

Upon the occurrence of a Loan Amortisation Event (as defined in the Loan Agreement), each of the parties to the Trust Accounts Agreement agrees that the Financial guarantor (for as long as the Financial Guarantor remains a Controlling Party) or the Compartment (as from the date on which the Financial Guarantor ceases to be a Controlling Party) shall have the discretionary right to send a Stop Drawing Notice with respect to any and all relevant accounts other than the Loan Distribution Account.

### **The Hedging Agreement**

The Hedging Agreement refers to (i) an English law governed master ISDA agreement dated the Issue Date and made between XFS and the Hedging Provider (together with the corresponding ISDA Schedule and ISDA confirmations of same date), and (ii) the Hedging Guarantee governed by the laws of New York, USA.

Pursuant to the Hedging Agreement, (i) the Hedging Provider agrees with XFS a cap rate of 3.38% and a floor rate of 2.10%, and (ii) the Hedging Guarantor agrees to guarantee to XFS all sums that may become due and payable to XFS by the Hedging Provider.

## DESCRIPTION OF THE FINANCIAL GUARANTEE AND RELATED DOCUMENTS

### The Financial Guarantee

This is the Financial Guarantee in the form it has been executed by the Financial Guarantor on the Issue Date:

**MBIA Assurance S.A.**

112 Avenue Kléber  
75116 Paris  
France

Telephone: 33 1 53 70 43 43

Fax: 33 1 53 70 43 53

#### **Financial Guarantee in respect of the Loan Agreement**

**Financial Guarantee Number:** FR 03126

**Guaranteed Obligations:** The payment obligations of Xerox Financial Services SAS (the “**Guaranteed Party**”) in respect of each amount of Scheduled Interest and Ultimate Principal owing by the Guaranteed Party under a € 398,000,000 loan agreement dated 15 July 2003 and made between the Guaranteed Party as Borrower, Merrill Lynch Capital Markets Bank Limited as Lender and MBIA (as amended from time to time, the “**Loan Agreement**”).

**Beneficiary:** Prior to the Transfer Date (as defined in the Endorsement attached hereto), Merrill Lynch Capital Markets Bank Limited in its capacity as Lender under the Loan Agreement and, after the Transfer Date, the Compartment.

**Agent:** Prior to the Transfer Date, Merrill Lynch Capital Markets Bank Limited as Lender and after the Transfer Date, the Loan Servicer (as defined in the Endorsement attached hereto).

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. B 377 883 293 (98 B 05130)), and subject to the terms of this financial guarantee (including the Endorsement attached hereto, this “**Financial Guarantee**”), hereby unconditionally and irrevocably guarantees to the Beneficiary the payment of all Guaranteed Amounts which shall have become Due for Payment but shall have remained unpaid by reason of Non-payment.

MBIA will make any such payment to the Beneficiary by 10.00 a.m. (Paris time) on the later of (a) the day which is three (3) Business Days following the giving by the Agent to MBIA of a validly completed Notice of Claim signed by the Agent notifying that Non-payment has occurred or will occur on the applicable Interest Payment Date or (b) the day on which the Guaranteed Amounts are Due for Payment or, if that is not a Business Day, on the next succeeding Business Day. Such payments of Guaranteed Amounts shall be made only upon MBIA’s Receipt of a validly completed Notice of Claim signed by the Agent and in the form set forth in the Endorsement hereto. MBIA shall be subrogated to all the Beneficiary’s rights to payment on the Guaranteed Obligations to the extent of any payments made by or on behalf of MBIA hereunder in respect thereof. MBIA’s obligations hereunder in respect of Guaranteed Amounts and any other amounts due by it hereunder shall be discharged, and MBIA shall have no further obligation hereunder in respect of such amounts, to the extent such amounts are paid by the Guaranteed Party in accordance with the Guaranteed Obligations or paid by MBIA to the Beneficiary (or to its order), whether or not such amounts are properly applied by the Beneficiary, or to any person to whom the Beneficiary directs such payments to be made.

In the event that the Agent has notice that any payment of Guaranteed Amounts in respect of the Guaranteed Obligations which has become Due for Payment and which was made to the Beneficiary by or on behalf of the Guaranteed Party has been deemed a preference and recovered from the Beneficiary pursuant to applicable bankruptcy or insolvency law in accordance with a final, non-appealable order of a court of competent jurisdiction (the amount recovered being referred to herein as the “**Avoided Payment Amount**”), the Beneficiary will be entitled to payment from MBIA to the extent of the Avoided Payment Amount, if sufficient funds are not otherwise available.

This Financial Guarantee is non-cancellable by MBIA for any reason, including failure by MBIA to receive payment of any Guarantee Fee due in respect hereof. 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 below, nor against any risk other than Non-payment, including after receipt of any payment from MBIA by any person on account of the Beneficiary, failure of such person to make any payment due to the Beneficiary of Guaranteed Amounts.

To the fullest extent permitted by applicable law, MBIA hereby waives for the benefit of the Agent and the Beneficiary and agrees not to assert any and all rights (whether by counterclaim, set-off, avoidance or otherwise) and defences, whether as financial guarantor hereunder or in any other capacity, including, without limitation, any defence of or right of avoidance arising from: (i) fraud (other than fraud on the part of the Beneficiary or the Agent (including, without limitation, fraud in the making of a claim hereunder)) or (ii) misrepresentation, breach of warranty, breach of covenant or undertaking or other obligation or non-disclosure of information by any person or (iii) the commencement of any insolvency or analogous proceedings in respect of insolvency, winding-up, dissolution or administration under any applicable law (“**Insolvency Proceedings**”) of any person or the change in the status, function, control or ownership of any person or (iv) the Guaranteed Obligations being or becoming illegal, invalid, unenforceable or ineffective in any respect or (v) any time or indulgence granted to the Guaranteed Party in respect of the Guaranteed Obligations or any amendment, variation, waiver or release of the Guaranteed Obligations or (vi) any failure or omission of the Agent or the Beneficiary to make a demand under this Financial Guarantee (other than the delivery of a Notice of Claim) or to perfect or enforce any security given by the Guaranteed Party in respect of the Guaranteed Obligations to the extent

such rights or defences may be available to MBIA to avoid payment of its obligations under this Financial Guarantee in accordance with the express provisions hereof. MBIA agrees that, save for the requirement to deliver a Notice of Claim as described in the Endorsement hereto, nothing in this Financial Guarantee (including the Endorsement hereto) constitutes a warranty or a condition precedent to MBIA's obligations under this Financial Guarantee, but that nothing in this paragraph shall affect the rights of MBIA under any other agreement, instrument or document entered into in connection with this Financial Guarantee.

All payments of Guaranteed Amounts by or on behalf of MBIA shall be made without withholding or deduction for, or on account of, any present or future tax, duties, assessment or other governmental charges of whatever nature, unless the withholding or deduction of such tax, assessment or other governmental charge is required by law or regulation or administrative practice of any jurisdiction. If any such withholding or deduction is required, MBIA shall pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. Subject to paragraph 5.1 of the Endorsement attached hereto, neither MBIA nor any person on its behalf shall be obliged to pay any amount to the Beneficiary or any other person in respect of the amount of such withholding or deduction.

This Financial Guarantee (including the Endorsement attached hereto) constitutes the entire agreement between MBIA and the Beneficiary in relation to MBIA's obligation to make payments to the Beneficiary in respect of Guaranteed Amounts which shall become Due for Payment but shall have remained unpaid by reason of Non-payment and supersedes any previous agreement between MBIA and any other person or entity in respect of this Financial Guarantee and the subject matter hereof.

Any capitalised terms not defined herein shall have the meaning given to such terms in the Endorsement attached hereto, which forms an integral part of this Financial Guarantee.

IN WITNESS WHEREOF MBIA has caused this Financial Guarantee to be executed and delivered as a deed this 17 day of July, 2003.

EXECUTED and DELIVERED as a DEED )  
for and on behalf of MBIA ASSURANCE S.A., )  
a joint stock corporation incorporated under the )  
laws of the French Republic, by )  
being a person who, in accordance with the laws )  
of that territory, is acting under the authority of )  
such corporation

MBIA Assurance S.A.  
112 Avenue Kléber  
75116 Paris  
France

Telephone: 00 33 1 53 70 43 43  
Fax: 00 33 1 53 70 43 53

Financial Guarantee Endorsement  
(the "Endorsement")

Effective Date of Endorsement: 17 July, 2003

Attached to and forming a part of Financial Guarantee No. FR 03126 (together with this endorsement, the "Financial Guarantee") issued in respect of:

**Guaranteed Obligations:** The payment obligations of the Guaranteed Party in respect of each amount of Scheduled Interest and Ultimate Principal owing by the Guaranteed Party under a € 398,000,000 loan agreement dated 15 July 2003 made between the Guaranteed Party as Borrower, Merrill Lynch Capital Markets Bank Limited as Lender (the "Originator" and MBIA (as amended from time to time, the "Loan Agreement").

1. Definitions

For all purposes of this Financial Guarantee, the following terms shall have the following meanings:

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

"Agent" shall mean prior to the Transfer Date, Merrill Lynch Capital Markets Bank Limited as Lender and after the Transfer Date, the Loan Servicer.

"Beneficiary" shall mean prior to the Transfer Date, Merrill Lynch Capital Markets Bank Limited in its capacity as Lender under the Loan Agreement and, after the Transfer Date, the Compartment.

"Business Day" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in London, Dublin, Paris and New York.

**“Custodian”** shall mean BRED Banque Populaire in its capacity as depositary (dépositaire) of the FCC pursuant to Article L.214-48.II of the French Monetary and Financial Code and includes all successors in such capacity from time to time.

**“Due for Payment”** shall mean, in respect of an amount of interest, due and payable by the Guaranteed Party on an Interest Payment Date pursuant to Clause 7 (Interest) of the Loan Agreement and, in respect of an amount of principal, due and payable by the Guaranteed Party on the Final Repayment Date pursuant to Clause 5.2 (Repayment on the Final Repayment Date) of the Loan Agreement, in each case without regard to any amendment or modification of the Loan Agreement or the Guaranteed Obligations after the date hereof, provided however that:

- (a) to the extent that MBIA has given its written consent to any such amendment or modification, Scheduled Interest or Ultimate Principal, as the case may be, shall be Due for Payment in accordance with the Loan Agreement or Guaranteed Obligation as so amended or modified; and
- (b) in circumstances where the Guaranteed Obligations have become due on an accelerated basis but where (and for so long as) MBIA has not agreed to pay the principal due on an accelerated basis (or any accrued interest to the date of acceleration) the Guaranteed Amounts shall be Due for Payment on the Payment Day on which they would have been due and payable but for the acceleration of the Guaranteed Obligations.

**“FCC”** shall mean FCC Copy First, a Fonds Commun de Créances à Compartiments jointly created on 17 July 2003 by the Management Company and the Custodian in accordance with Articles L.214-43 to L.214-49 of the French Monetary and Financial Code and French Decree No. 89-158 of 9 March 1989 and the General Regulations.

**“Compartment”** shall mean the compartment named FCC Copy First Compartment 2003-1 of the FCC jointly created on 17 July 2003, in accordance with Articles L.214-43 to L.214-49 of the French Monetary and Financial Code and French Decree No. 89-158 of 9 March 1989, the General Regulations and the Compartment Regulations, by the Management Company and the Custodian and to which the Loan Receivable arising from the Loan Agreement and the Related Security will be transferred and assigned on the Transfer Date pursuant to Transfer and Servicing Agreement, together with the benefit of this Financial Guarantee.

**“FCC Units”** shall mean the EUR 398,000,000 Class A Floating Rate Units due 31 March 2010 issued by the FCC in respect of the Compartment.

**“Final Repayment Date”** means, with respect to the Loan Agreement, 19 March 2010.

**“Guarantee Fee”** shall have the meaning given to it in the Reimbursement Agreement.

**“Guaranteed Amounts”** shall mean, with respect to any Payment Day, the sum of (i) with an amount equal to the amount of Scheduled Interest due and payable on such Payment Date and (ii) an amount equal to the amount of Ultimate Principal due and payable on such Payment Day.

**“Guaranteed Obligations”** shall mean the payment obligations of the Guaranteed Party in respect of each amount of Scheduled Interest and Ultimate Principal owing by the Guaranteed Party and outstanding and Due for Payment under the Loan Agreement.

**“Guaranteed Party”** shall mean Xerox Financial Services S.A.S., a Société par Actions Simplifiée incorporated with limited liability under the laws of the French Republic (registered with the Nanterre Register of Trade and Companies under No. B 441 339 389).

**“Loan Servicer”** shall mean BRED Banque Populaire, whose principal office is at 18, quai de la Rapée, 75012 Paris, in its capacity as servicer appointed by the Management Company pursuant to Article L.214-46 of the French Monetary and Financial Code in accordance with the Transfer and Servicing Agreement and includes all persons for the time being appointed under the Transfer and Servicing Agreement in respect of the servicing of the Loan Receivable and the administration and enforcement of the Related Security and the Financial Guarantee.

**“Management Company”** shall mean France Titrisation in its capacity as management company (société de gestion) of the FCC pursuant to Article L.214-48.I of the French Monetary and Financial Code and includes all successors in such capacity from time to time.

**“Non-payment”** shall mean, as of any Payment Day, the failure by the Guaranteed Party to pay all or any part of any Guaranteed Amount.

**“Notice of Claim”** shall mean the notice of claim and certificate attached in the form hereto.

**“Payment Day”** shall mean:

- (a) in respect of Scheduled Interest, an Interest Payment Date (as defined in the Loan Agreement); and
- (b) in respect of Ultimate Principal, the Final Repayment Date (as defined in the Loan Agreement).

**“Receipt”** shall mean (a) actual delivery of the Notice of Claim to MBIA prior to 12:00 noon, Paris time, on a Business Day or (b) if actual delivery is on a day that is not a Business Day or after 12:00 noon, Paris time, it shall be deemed to be Receipt on the next succeeding Business Day. For all purposes hereunder, **“actual delivery”** to MBIA (i) by registered mail or personally shall require the delivery of the original Notice of Claim or other applicable documentation to MBIA at, in the case of MBIA, its address set forth above or such other address as shall have been notified by MBIA to the Agent from time to time by at least two Business Days’ notice and (ii) by facsimile transmission shall require (x) transmission of the original Notice of Claim or other applicable documentation to MBIA at its facsimile number set forth above or such other facsimile number as shall have been notified by MBIA by at least two Business Days’ notice, (y) simultaneous confirmation of transmission by the Agent by telephone to MBIA at its telephone number set forth below or such other number as shall have been notified by MBIA to the Agent from time to time by at least two Business Days’ notice, and (z) as soon as reasonably practicable thereafter, actual delivery by registered mail or personally of the original Notice of Claim or other applicable documentation to MBIA



provided that timing of such delivery shall not affect the determination of when the original Notice of Claim or other applicable documentation is received in accordance with this sub-paragraph (ii), which shall be determined by reference only to (x) and (y).

**“Reimbursement Agreement”** shall mean the agreement between MBIA, the Guaranteed Party and the Lender dated 17 July 2003 as amended, restated, supplemented or otherwise modified from time to time with the prior written consent of MBIA.

**“Scheduled Interest”** shall mean any amount in respect of regularly scheduled interest owing by the Guaranteed Party under Clause 7 (Interest) of the Loan Agreement (excluding any additional amounts relating to prepayment, early redemption, broken-funding indemnities, penalties, premiums, default interest or interest upon interest).

**“Transfer and Servicing Agreement”** shall mean the agreement dated 17 July 2003 between the Management Company, acting on behalf, and for the account, of the FCC, in respect of the Compartment, the Custodian, the Borrower, the Financial Guarantor and the Originator pursuant to which the Originator will, on the Transfer Date, transfer and assign to the Compartment the Loan Receivable arising from the Loan Agreement and all Related Security, together with the benefit of this Financial Guarantee.

**“Transfer Date”** shall mean the date on which the transfer to the Compartment of the Loan Receivables arising from the Loan Agreement and all Related Security, together with the benefit of this Financial Guarantee, will be effective pursuant to the Transfer and Servicing Agreement.

**“Ultimate Principal”** shall mean the aggregate principal amounts payable in respect of the Loan Agreement on the Final Repayment Date pursuant to Clause 5.2 the Loan Agreement (excluding any additional amounts relating to prepayment, early redemption, broken funding indemnities, penalties, premiums, default interest and interest on interest).

Capitalised terms not otherwise defined in this Financial Guarantee shall have the meaning ascribed thereto in the Master Definitions Schedule.

## **2. Transfers**

**2.1** The obligations of MBIA hereunder may be transferred to any Affiliate of MBIA, such assignment or transfer to be effected in accordance with Clause 12.3 of the Reimbursement Agreement, provided that:

- (a) no Financial Guarantor Event of Default (as defined in the Loan Agreement) has occurred and is continuing at the time of such transfer;
- (b) MBIA or such transferee delivers to the Agent written confirmation from the Rating Agencies (as defined in the Loan Agreement) the then rating of the FCC Units, that, at the time of such transfer, the claims-paying ability of such Affiliate is rated at least equal to the claims-paying ability of MBIA at that time;
- (c) MBIA or such transferee thereafter delivers to the Agent written notice of any such assignment or transfer and such assignee or transferee assumes the obligations of MBIA hereunder and accedes to the relevant Transaction Documents; and
- (d) the Beneficiary shall be entitled to receive the full amounts which it would otherwise have been entitled to receive under this Financial Guarantee but for such assignment or transfer.

**2.2** Upon the assignment or transfer of MBIA's obligations herein in accordance with Clause 12.3 of the Reimbursement Agreement, MBIA shall, without further action, be released from its obligations hereunder.

## **3. Notices and Conditions Precedent to Payment of Guaranteed Amounts**

**3.1** If any Notice of Claim delivered under this Financial Guarantee by the Agent is not in proper form or is not properly completed, executed or delivered, it shall be deemed not to have been received and MBIA shall promptly so advise the Agent and the Agent may submit to MBIA an amended Notice of Claim.

**3.2** Upon the occurrence of an Amortisation Event (as defined in Clause 17 (Amortisation Events) of the Loan Agreement), and any time thereafter whilst the same is continuing, MBIA shall be entitled, but in no circumstances obliged, to pay any amount hereunder in respect of Guaranteed Obligations and any amount due in accordance with paragraph 4 of this Endorsement on an accelerated basis, whether or not MBIA is in Receipt of any Notice of Claim in respect thereof. If MBIA decides to make an accelerated payment under this Financial Guarantee, nothing in this Financial Guarantee shall oblige MBIA to make payments in respect of any part of the Guaranteed Obligations which would be greater than the outstanding principal amount of such part of the Guaranteed Obligations (plus accrued but unpaid interest) and MBIA's obligations under this Financial Guarantee shall be satisfied in full by the payment of such outstanding amount in accordance with the terms of this Financial Guarantee. MBIA may elect to accelerate payments under this Financial Guarantee in full or partially.

## **4. Notices and Conditions Precedent to Payment in Respect of Avoided Payment Amounts**

MBIA shall make payment in respect of an Avoided Payment Amount on the later of (x) the date when the Avoided Payment Amount is due to be returned by the Beneficiary pursuant to the order under which the Avoided Payment Amount arises and (y) five (5) Business Days following Receipt by MBIA from the Agent of (i) a certified copy of the order (the “Order”) of the court which exercised jurisdiction to the effect that the Beneficiary is required to return the relevant Guaranteed Amount during the term of this Financial Guarantee because the payment of such Guaranteed Amount by the Guaranteed Party was avoided under applicable bankruptcy, insolvency, receivership or similar law, (ii) a certificate of the Agent or the Beneficiary that the Order has been entered and is not subject to any stay, (iii) an assignment duly executed and delivered by the Beneficiary in such form as is reasonably satisfactory to MBIA, irrevocably assigning to MBIA all rights and claims of the Beneficiary relating to or arising under such payment against the Guaranteed Party or otherwise with respect to such payment, and (iv) an appropriately completed Notice of Claim.



**5. Payments Free of Tax**

- 5.1** All payments by or on behalf of MBIA under this Financial Guarantee shall be made without withholding or deduction for or on account of any Taxes imposed, levied or assessed in respect or by or on behalf of the French Republic or any political subdivision or taxing authority in or of the French Republic ("**France**"), unless the withholding or deduction of such Tax is required by law or regulation or administrative practice of France. If any withholding or deduction is so required in respect of Tax imposed, levied or assessed by France, (i) MBIA shall account to the appropriate tax authority for the amount so required to be withheld or deducted and (ii) subject as provided below, MBIA shall, to the extent permitted by law, pay such amounts ("**MBIA Additional Amounts**") to the Beneficiary as may be necessary to ensure that the net amounts receivable by the Beneficiary after such withholding or deduction shall equal the amount which would have been received by the Beneficiary from MBIA under this Financial Guarantee in the absence of such withholding or deduction but provided that no MBIA Additional Amount shall be payable by or on behalf of MBIA under this Financial Guarantee:
- (a) where the Beneficiary is liable or subject to the Tax in respect of which such withholding or deduction is required to be made by reason of the Beneficiary having some connection with France;
  - (b) (i) where the Beneficiary would not be liable or subject to the Tax in respect of which such withholding or deduction is required to be made if the Beneficiary had made a declaration of non-residence or other similar claim for exemption to the relevant Tax authority; or (ii) to the extent that such withholding or deduction would have been eliminated or reduced if the Beneficiary had made a claim for relief from such withholding or deduction pursuant to an applicable double tax treaty; or
  - (c) more than 30 days after the relevant Payment Day except to the extent that the Beneficiary would have been entitled to such additional amounts if a Notice for Payment had been received by MBIA on the last day of such period of 30 days.
- 5.2** For the avoidance of doubt, all payments by or on behalf of MBIA under this Financial Guarantee shall be made subject to any other withholding or deduction required by law, regulation or administrative practice in any jurisdiction (other than in France) to which MBIA is subject or in or through which any payment is made by or on behalf of MBIA and MBIA shall have no obligation to pay any MBIA Additional Amounts in connection with any such withholding or deduction.

**6. Governing Law**

- 6.1** This Financial Guarantee shall be governed by and construed in accordance with the laws of England.
- 6.2** MBIA irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Financial Guarantee (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.
- 6.3** MBIA irrevocably waives any objection which it might now or hereafter have to the courts referred to in the preceding paragraph being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.
- 6.4** MBIA agrees that the process by which any Proceedings are begun may be served on it by being delivered to it at the following address:

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

If the appointment contained in the preceding sentence ceases to be effective, MBIA shall on written demand of the Beneficiary appoint a further person in England to accept service of process on its behalf in England and to notify the name and address of such person to the Beneficiary and, failing such appointment within 15 days, the Beneficiary shall be entitled to appoint such a person by notice to MBIA. Nothing contained herein shall affect the right to serve process in any other manner permitted by law.

**7. Miscellaneous**

- 7.1** Any right under the United Kingdom Contracts (Rights of Third Parties) Act 1999 which any person (other than the Beneficiary of this Financial Guarantee) may otherwise have to enforce any term or condition of this Financial Guarantee is expressly excluded.
- 7.2** In the event that any term or provision on the face of this Financial Guarantee is inconsistent with the provision of this Endorsement, the provisions of this Endorsement shall take precedence and shall be binding.

**8. Termination**

Unless prior to such date the Guaranteed Party has become subject to any Insolvency Proceeding, this Financial Guarantee shall terminate on the date falling eighteen months and one day after the last Interest Payment Day (the "**Termination Date**") and MBIA shall cease upon the Termination Date to be liable for any claim made in respect hereof after such date. In the event that the Guaranteed Party has become subject to an Insolvency Proceeding, and the liability of MBIA in respect of any claim made hereunder shall have arisen prior to the Termination Date, this Financial Guarantee shall terminate on the later of (x) the date of the conclusion or dismissal of such Insolvency Proceedings without continuing jurisdiction by the court in such Insolvency Proceeding and (y) if the Beneficiary is required to return any payment (or portion thereof) in respect of any Guaranteed Obligation that is voided as a result of such Insolvency Proceedings, the date on which MBIA has made all payments required to be made under the terms of this Financial Guarantee to the Beneficiary in respect of all such voided payments. In any event, this Financial Guarantee shall terminate and the liability of MBIA in respect of any claims made hereunder shall cease upon receipt by MBIA of written notice signed by the Agent, terminating this Financial Guarantee.

**IN WITNESS WHEREOF** MBIA has caused this Endorsement No.1 to be executed and delivered as a deed this 17 day of July, 2003.

**EXECUTED and DELIVERED as a DEED** )  
for and on behalf of **MBIA ASSURANCE S.A.**, )  
a joint stock corporation incorporated under the )  
laws of the French Republic, by )  
being a person who, in accordance with the laws )  
of that territory, is acting under the authority of )  
such corporation )

**NOTICE OF CLAIM AND CERTIFICATE**

**MBIA Assurance S.A.**  
112 Avenue Kléber  
75116 Paris  
France

Telephone: 33 1 53 70 43 43  
Fax: 33 1 53 70 43 53

Attention: The Managing Director

**Notice of Claim**

The undersigned, a duly authorised officer of [Merrill Lynch Capital Markets Bank Limited] [BRED Banque Populaire] (the "**Agent**"), hereby certifies to MBIA Assurance S.A. ("**MBIA**"), with reference to Financial Guarantee No. FR 03126 and the endorsement thereto dated 17 July 2003 (together, the "**Financial Guarantee**") issued by MBIA in respect of the payment obligations of Xerox Financial Services S.A.S. (the "**Guaranteed Party**") in respect of each amount of Scheduled Interest and Ultimate Principal owing by the Guaranteed Party and outstanding under a € 398,000,000 loan agreement dated 15 July 2003 made between the Guaranteed Party as Borrower, Merrill Lynch Capital Markets Bank Limited as Lender and MBIA (as amended from time to time, the "**Loan Agreement**") (the "**Guaranteed Obligations**"), that:

**[In respect of a draw taking place prior to the Transfer Date]:**

[(i) Merrill Lynch Capital Markets Bank Limited is the Beneficiary of this Financial Guarantee under the terms thereof and the Agent is duly empowered to serve this Notice of Claim;]

**OR:**

**[In respect of a draw taking place on or after the Transfer Date]:**

[(i) the Compartment is the Beneficiary of this Financial Guarantee under the terms thereof and the Agent is duly empowered to serve this Notice of Claim on behalf of the Compartment;]

**AND:**

[(ii) the Agent has calculated that the deficiency in respect of Guaranteed Amounts which are Due for Payment on [insert Payment Date] is € ● (the "**Shortfall**");]

**OR:**

[(ii) the Beneficiary is required to return on [insert date], in accordance with a final, non-appealable order of a court of competent jurisdiction in connection with the avoidance of payments under applicable bankruptcy, insolvency, receivership or similar law in aggregate: € ● (the "**Avoided Payment Amount**");]

[(iii) the Agent is making a claim under the Financial Guarantee for the [Shortfall to be applied to the payment of Guaranteed Amounts which are Due for Payment] [Avoided Payment Amount] and represents that sufficient funds are not available for payment thereof from a source other than MBIA;

[(iv) the Agent agrees that, following payment of funds by or on behalf of MBIA to the Beneficiary (if applicable), it shall procure that (a) such amounts are applied directly to the payment of Guaranteed Amounts which are Due for Payment; (b) such funds are not applied for any other purpose; (c) such funds are not commingled with other funds held by the Beneficiary; and (d) a record of such payments with respect to each Guaranteed Obligation and the corresponding claim on the Financial Guarantee and the proceeds thereof is maintained by the Agent;

[(v) the Agent acknowledges for itself and on behalf of the Beneficiary that under the Reimbursement Agreement the MBIA is subrogated to the rights of the Beneficiary in respect of the Guaranteed Obligations to the extent of any payments which have been made under the Financial Guarantee. The Agent shall take or procure that the Beneficiary takes such action and delivers such instruments as may be reasonably requested or required by MBIA to effectuate the purpose or provisions of this clause (v); and

[(vi) payment should be made euro by credit to a designated euro 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 Claim and not defined herein shall have the meanings provided in the Financial Guarantee.

This Notice of Claim may be revoked by written notice by the Agent to MBIA at any time prior to [10.00 a.m.] (Paris time) on the Business Day prior to the date specified above on which [Guaranteed Amounts are Due for Payment] [the Avoided Payment Amount is required to be returned by the Beneficiary] if and only to the extent that moneys are actually received in respect of the [Guaranteed Amount] [Avoided Payment Amount] prior to such time from a source other than MBIA.

This Notice of Claim shall be governed by and construed in accordance with the laws of England.

**IN WITNESS WHEREOF** the Agent has executed and delivered this Notice of Claim on the [●].

By:  
Title:  
For MBIA Assurance S.A. Use Only

Wire transfer sent on [●] By [●]  
Confirmation Number

### **The Reimbursement Agreement**

The Reimbursement Agreement refers to the English law governed agreement entered into on the Issue Date between (i) the Financial Guarantor, and (ii) XFS as the guaranteed party under the Financial Guarantee.

Pursuant to the Reimbursement Agreement, each party acknowledges that the Financial Guarantor shall be subrogated to the rights of MLCMB against XFS under the Loan Agreement to the extent of any payment made by the Financial Guarantor under the Financial Guarantee and XFS agrees to reimburse the Financial Guarantor for any payments made by the Financial Guarantor under the Financial Guarantee.

In addition, the Reimbursement Agreement sets out certain conditions precedent, covenants and representations and warranties in relation to the issue by the Financial Guarantor of the Financial Guarantee.

The Reimbursement Agreement is entered into on a limited recourse basis. The parties under the Reimbursement Agreement have agreed to waive their right to file any petition for bankruptcy against XFS.

### **The Financial Guarantor Related Security**

The Financial Guarantor Related Security will be granted to the Financial Guarantor as security for sums due by XFS to the Financial Guarantor under the Financial Guarantor Documents and will include:

- (i) the Assignment of the XL Guarantee Agreement;
- (ii) the Pledge of the General Collection Account;
- (iii) the XF Shares Account Pledge Agreement;
- (iv) the XB Shares Account Pledge Agreement; and
- (v) the Loss Payee Arrangement.

The Intercreditor Agreement will provide, among other provisions, for the sharing of the enforcement rights and related proceeds under the security interests granted to MLCMB, MLIBL and the Financial Guarantor (see “*The Intercreditor Arrangements*”).

### **The Pledge of the General Collection Account**

The General Collection Account Pledge Agreement (*Nantissement de Solde du Compte Général de Collection*), is the French law governed agreement dated the Issue Date and made between (i) XFS, (ii) MLIBL, and (iii) the Financial Guarantor (the “**General Collection Account Pledge Agreement**”).

The General Collection Account Pledge Agreement is entered into on a limited basis. The parties to the General Collection Account Pledge Agreement have agreed to waive their right to file any petition for bankruptcy against XFS.

### ***The Purpose***

Under the General Collection Account Pledge Agreement, XFS grants to MLIBL and the Financial Guarantor, as security for its obligations towards them under the Second Warehouse Facility, and the Financial Guarantor documents, a pledge over its rights, title and interest, whether present or future, actual or contingent, in respect of the credit balance of the General Collection Account, in accordance with Article L.521-1 of the French Commercial Code (*Code de commerce*) and Articles 2071 *et seq.* of the French Civil Code (*Code civil*).

### ***Enforcement***

Subject to the Intercreditor Agreement and provided that all sums due and payable to the Class A Unitholders have been fully discharged, each of MLIBL and the Financial Guarantor shall be entitled, following a default payment in respect of the secured liabilities owed to them, to enforce all the beneficiaries’ rights and remedies under the pledge granted under the General Collection Account Pledge Agreement provided that all money due and payable to the Class A Unitholders has been fully discharged and in particular, eight Business Days after

giving notice to the pledgor in accordance with the provisions of Article L.521-3 of the French Commercial Code (*Code de commerce*), to request the French Court that all or part of the credit balance of the relevant account shall be appropriated to the beneficiaries in accordance with Article 2078 of the French Civil Code (*Code civil*). For this purpose, the beneficiaries or any of them (subject to the provisions of the Intercreditor Agreement) shall notify the account bank (with a copy to the pledgor) in order to have the balance of the pledgor's accounts, subject to the pledge, immediately blocked.

### **The XF Shares Account Pledge Agreement and XB Shares Account Pledge Agreement**

#### ***Background***

The XF Shares Account Pledge Agreement and XB Shares Account Pledge Agreement (*Actes de Nantissement de Compte d'Instruments Financiers*), refer to the agreements dated the Issue Date and made between (i) XFS, (ii) XF (in respect of the XF Shares Account Pledge Agreement) or XB (in respect of the XB Shares Account Pledge Agreement), (iii) MLIBL and (iv) the Financial Guarantor (the “**Shares Account Pledge Agreements**”).

#### ***The Purpose***

Under the Shares Account Pledge Agreements, XF or, as the case may be, XB (as appropriate), as shareholders of XFS, have pledged in favour of MLIBL and the Financial Guarantor as security for XFS' obligations under the Second Warehouse Facility and the Financial Guarantor Documents, respectively, their account (*nantissement de compte d'instruments financiers*) held by XFS as the account holder to the credit of which their shareholder interest in XFS has been credited in accordance with the provisions of Article L.431-4 of the Code.

The Shares Account Pledge Agreements are entered into on a limited recourse basis. The parties to the Share Account Pledge Agreements have agreed to waive their rights to file any petition for bankruptcy against XFS.

#### ***Enforcement***

Subject to the Intercreditor Agreement, and provided that all sums due and payable to the Class A Unitholders have been fully discharged, following a payment default in respect of the secured liabilities, each of MLIBL and the Financial Guarantor shall be entitled, to (i) exercise all rights, actions and privileges on the pledged account and/or the shareholder interest of the pledgor as granted by law to a secured creditor, and in particular, (ii) request direct payment of moneys or cash proceeds credited to the pledged account, in accordance with any legal requirements including Article L.431-4 of the Code and the Decree of 21 May, 1997.

### **The Loss Payee Arrangement**

The Loss Payee Arrangement refers to the naming of the Financial Guarantor as “Loss Payee” of the proceeds of the insurance policies covering the Lease Contracts, the Second Lease Portfolio, the related equipment and/or the relevant lessees as security for XFS's obligations under the Financial Guarantee Documents. The Financial Guarantor has agreed that any insurance proceeds shall be shared with MLIBL as Lender under the Second Warehouse Facility in accordance with the Intercreditor Agreement.

## THE SECOND WAREHOUSE FACILITY AND THE MLIBL RELATED SECURITY

### The origination and financing of subsequent lease portfolios

XFS is able to enter into new lease contracts directly with lessees on terms similar to the Lease Contracts. XFS will write Second Lease Portfolio contracts on terms substantially similar to Programme Leases originated by XFS pursuant to the Programme Agreement. Such Second Lease Portfolio contracts will form part of a portfolio separate from the Lease Portfolio. The Second Lease Portfolio contracts will be financed by a secured limited recourse revolving credit facility dated 15 April 2003 as amended and restated on 15 July 2003 in the amount of € 350,000,000 (the “**Second Warehouse Facility**”) made available by MLIBL (the “**Second Warehouse Facility Lender**”) to XFS. The Second Lease Portfolio contracts will be originated by XFS pursuant to the terms of a programme agreement between XFS, XF, the Second Warehouse Facility Lender and MLI dated 15 April 2003 as amended and restated on the Issue Date (the “**Second Portfolio Programme Agreement**”).

XFS shall enter into Second Lease Portfolio back-up agreements which have terms substantially similar to the Back-up Administration Services Agreement and the Back-up Maintenance Services Agreement.

It is the intention of XFS and the Second Warehouse Facility Lender that the Second Lease Portfolio contracts in the future shall form part of separate refinancings.

Subsequent to the Second Lease Portfolio contracts, further portfolios of lease contracts may be financed and securitised.

### The Second Warehouse Facility

The French law governed Second Warehouse Facility shall be used solely to provide liquidity to XFS for the aggregation of the Second Lease Portfolio prior to a separate refinancing subsequent to the signing date of the Second Warehouse Facility. Such Second Lease Portfolio will form part of a portfolio separate from the Lease Portfolio.

The Second Warehouse Facility is entered into on a limited recourse basis. Early amortisation of the Second Warehouse Facility will not trigger the cross amortisation of the Loan.

### The MLIBL Related Security

XFS has granted various security interests to MLIBL, (the “**MLIBL Related Security**”) to secure its obligations under the Second Warehouse Facility and the Maintenance Guarantee Letter of Request. The MLIBL security package includes:

- (i) the Pledge of the General Collection Account;
- (ii) the XF Shares Account Pledge Agreement;
- (iii) the XB Shares Account Pledge Agreement,
- (iv) the Loss Payee Arrangement;
- (v) the Second Warehouse Facility Assignment of the Lease Receivables;
- (vi) the Second Warehouse Facility Assignment of Lease Warranties; and
- (vii) the Second Warehouse Facility Assignment of the XL Guarantee Agreement.

All of the security interests mentioned in clauses (i) to (iv) above which form part of the MLIBL Related Security will also secure payments (if any) made by the Financial Guarantor under the Financial Guarantor Documents (see “*Description of the Financial Guarantee and Related Documents*”).

However, the MLIBL Related Security mentioned in clauses (v) to (viii) above will be granted by XFS solely to MLIBL. Such agreements will be similar in form to the Assignment of the Lease Receivables, Assignment of Lease Warranties, Assignment of the XL Guarantee Agreement, and the Assignment of Hedging Receivables which are entered into by XFS in relation to the Loan Agreement.

In addition, XFS has agreed to enter into a third party beneficiary bank accounts agreement (*comptes à affectation spéciale*) between (i) XFS, (ii) MLIBL as third party beneficiary and (iii) the Second Account Bank, over several of the XFS Transaction Accounts.



## THE INTERCREDITOR AGREEMENT

### *Background*

The Intercreditor Agreement refers to the French law governed agreement dated the Issue Date and made between (i) XFS as borrower, (ii) MLCMB as lender under the Loan Agreement, (iii) MLIBL as lender under the Second Warehouse Facility and as issuer under the Maintenance Guarantee, (iv) the Financial Guarantor as guarantor under the Financial Guarantee and as Issuer under the Maintenance Guarantee, (v) BRED Banque Populaire as the Loan Servicer, and in the presence of the Compartment as represented by the Management Company (the “**Intercreditor Agreement**”).

The Intercreditor Agreement is entered into on a limited recourse basis. The parties to the Intercreditor Agreement have agreed to waive their right to file any petition in bankruptcy against XFS.

### *The Purpose*

The purpose of the Intercreditor Agreement is mainly to:

- (i) ensure the limited recourse mechanism between certain creditors of XFS and the segregation between (a) indebtedness incurred under the Loan Agreement and the Related Security, (b) the indebtedness incurred under the Financial Guarantee Documents and the Financial Guarantor Related Security and (c) the indebtedness incurred under the Second Warehouse Facility and the MLIBL Related Security;
- (ii) organise the sharing of any enforcement action that may be undertaken by (a) MLCMB as the Lender under the Loan Agreement (or, as the case may be, the Compartment upon transfer of the Loan Receivable and the Related Security), (b) the Financial Guarantor as guarantor under the Financial Guarantee and under the Maintenance Counter Guarantee, and (c) MLIBL as lender under the Second Warehouse Facility and the Maintenance Guarantee; and
- (iii) organise any enforcement rights and related proceeds under the Related Security, the MLIBL Related Security and the Financial Guarantor Related Security.

### *Prohibited payments*

Under the Intercreditor Agreement:

- (a) XFS will not make or permit to be made and MLCMB, and the Financial Guarantor will not demand, receive or accept or take any action to receive payment, prepayment or repayment of, or any distribution in respect of, or on account of, all or any part of the Second Warehouse Facility financial components and the Second Warehouse Facility collateral security (provided that the Financial Guarantor shall benefit from the common security), in cash or in kind, in order to repay or prepay the Loan indebtedness (even if due and payable for any reason whatsoever);
- (b) neither XFS, MLCMB nor the Financial Guarantor will discharge or seek to discharge all or any part of the Loan Indebtedness by set-off or otherwise against the Second Warehouse Facility financial components and the Second Warehouse Facility collateral security (provided that the Financial Guarantor shall benefit from the common security);
- (c) XFS will not grant and MLCMB and the Financial Guarantor will not request, take, permit to subsist or receive, or permit XFS to create or permit to subsist, any security interest over any of the Second Warehouse financial components and the Second Warehouse Facility collateral security (provided that the Financial Guarantor shall benefit from the common security) in order to guarantee the Loan indebtedness or any part of it;
- (d) XFS will not make or permit to be made and MLIBL will not demand, receive or accept or take any action to receive payment, prepayment or repayment of, or any distribution in respect of, or on account of, all or any part of the Loan financial components, in cash or in kind, in order to repay or prepay the Second Warehouse Facility indebtedness (even if due and payable for any reason whatsoever);
- (e) neither XFS nor MLIBL will discharge or seek to discharge all or any part of the Second Warehouse Facility indebtedness by set-off or otherwise against the Loan financial components; and

- (f) XFS will not grant and MLIBL will not request, take, permit to subsist or receive, or permit XFS to create or permit to subsist, any security interest over any of the Loan financial components in order to guarantee the Second Warehouse Facility indebtedness or any part of it.

### ***Enforcement Action***

Under the Intercreditor Agreement:

- (a) MLCMB and the Financial Guarantor irrevocably waive any enforcement action they may have against XFS for an amount greater than the available proceeds of the Loan financial components and the Loan related security (provided that the Financial Guarantor (i) shall also benefit from the common security and (ii) shall have recourse as maintenance counter guarantor under the Maintenance Counter Guarantee, against payments payable by customers (or any guarantor in respect of the obligations of a customer under a Lease) only to the extent of payments in respect of the maintenance obligations of the equipment which is the subject of such Leases;
- (b) MLCMB and the Financial Guarantor irrevocably waive any enforcement action they may have against the assets of XFS other than the Loan financial components and the Loan related security (provided that the Financial Guarantor (i) shall also benefit from the common security and (ii) shall have recourse as maintenance counter guarantor under the Maintenance Counter Guarantee, against payments payable by customers (or any guarantor in respect of the obligations of a customer under a Lease) only to the extent of payments in respect of the maintenance obligations of the equipment which is the subject of such Leases;
- (c) MLIBL irrevocably waives any enforcement action it may have against XFS for an amount greater than the available proceeds of the Second Warehouse Facility financial components and the Second Warehouse Facility collateral security (provided that MLIBL shall have recourse as Maintenance Guarantee Provider against payments payable by customers (or any guarantor in respect of the obligations of a customer under a Lease) only to the extent of payments in respect of the maintenance obligations of the equipment which is the subject of such Leases; and
- (d) MLIBL irrevocably waives any enforcement action it may have against the assets of XFS other than the Second Warehouse Facility financial components and the Second Warehouse Facility collateral security (provided that MLIBL shall have recourse as Maintenance Guarantee Provider against payments payable by customers (or any guarantor in respect of the obligations of a customer under a Lease) only to the extent of payments in respect of the maintenance obligations of the equipment which is the subject of such Leases.

### ***Turnover of receipts***

If at any time:

- (a) MLCMB, the Financial Guarantor or BRED Banque Populaire receives or recovers a payment in cash or a payment or distribution of any kind whatsoever in respect or on account of any Loan indebtedness which is prohibited under the Intercreditor Agreement or receives or recovers proceeds pursuant to any enforcement action which is also prohibited under the Intercreditor Agreement, the recipient or beneficiary of that payment, distribution, set-off or combination will immediately upon receipt pay and transfer all amounts and assets received to MLIBL for application (subject to limitations provided in the Intercreditor Agreement) after deducting the costs, liabilities and expenses (if any) reasonably incurred in recovering or receiving that payment or distribution and, pending such payment and transfer, will hold those amounts for the account of MLIBL;
- (b) the Financial Guarantor receives or recovers a payment in cash or a payment or distribution of any kind whatsoever in respect or on account of any of the insurance policies covering the equipment at any time owned by XFS, the Financial Guarantor will immediately upon receipt of such insurance proceeds pay and transfer to MLIBL, the proportionate share of MLIBL in such amounts and assets according to its credit risk exposure at the time such proceeds are received after deducting the costs, liabilities and expenses (if any) reasonably incurred in recovering or receiving those proceeds and, pending such payment and transfer, will hold those amounts for the account of MLIBL; and
- (c) MLIBL receives or recovers a payment in cash (including, without limitation, as a result of set-off or combination of accounts) or a payment or distribution of any kind whatsoever in respect or on account of

any Second Warehouse Facility indebtedness which is prohibited under the Intercreditor Agreement or receives or recovers proceeds pursuant to any enforcement action which is also prohibited under the Intercreditor Agreement, the recipient or beneficiary of that payment, distribution, set-off or combination will immediately upon receipt pay and transfer all amounts and assets received to BRED Banque Populaire for application in accordance with the Intercreditor Agreement after deducting the costs, liabilities and expenses (if any) reasonably incurred in recovering or receiving those proceeds and, pending such payment and transfer, will hold those amounts for the account of BRED Banque Populaire.

### ***Enforcement of Security***

The Intercreditor Agreement provides that with respect to the Loan related security, until after notification by the Financial Guarantor of the occurrence of a Financial Guarantor Event of Default (as defined in “*The Loan, the Related Security and the Hedging Agreement*”) or until after BRED Banque Populaire becoming aware of the same, the parties agree that BRED Banque Populaire shall act, in relation to the Loan related security in accordance with the express instructions of the Financial Guarantor (as such instructions are agreed and specified in the Loan related security and in the Transfer and Servicing Agreement) which shall override any conflicting instructions given by or on behalf of MLCMB or the Management Company, for the account of the Compartment, provided that all proceeds of enforcement shall be recovered and collected by BRED Banque Populaire and applied in accordance with the Intercreditor Agreement. BRED Banque Populaire and the Management Company agree not to contest, or to bring any action or proceeding for the purpose of contesting the validity, enforceability, perfection or priority of, or seeking to avoid, the Loan related security or any rights of the Financial Guarantor in or with respect to the security created.

Upon notification by the Financial Guarantor of the occurrence of a Financial Guarantor Event of Default (as defined in “*The Loan, the Related Security and the Hedging Agreement*”) or upon BRED Banque Populaire becoming aware of the same and as long as the same remains unremedied and unwaived, BRED Banque Populaire shall act in relation to the Loan related security in accordance with the instructions of the Management Company, acting on behalf and for the account of the Compartment and all proceeds of enforcement shall be recovered and collected by BRED Banque Populaire and applied in accordance with the Intercreditor Agreement.

With respect to the common security, the Intercreditor Agreement provides that until all amounts due and payable to the Class A Unitholders have been fully discharged and until after notification by the Financial Guarantor of the occurrence of a Financial Guarantor Event of Default (as defined in “*The Loan, the Related Security and the Hedging Agreement*”) or until after MLIBL becoming aware of the same, the Financial Guarantor is solely entitled to enforce the common security provided that all proceeds of enforcement shall be applied in accordance with the Intercreditor Agreement. MLIBL agrees not to contest, or to bring any action or proceeding for the purpose of contesting the validity, enforceability, perfection or priority of, or seeking to avoid, the Share Pledge Agreements or any rights of the Financial Guarantor in or with respect to the security created.

Provided that all amounts due and payable to the Class A Unitholders have been fully discharged and upon notification by the Financial Guarantor of the occurrence of a Financial Guarantor Event of Default (as defined in “*The Loan, the Related Security and the Hedging Agreement*”) or upon MLIBL becoming aware of the same and as long as the same remains unremedied and unwaived, the Financial Guarantor shall act in relation to the common security in accordance with the instructions of MLIBL and all proceeds of enforcement shall be applied in accordance with the Intercreditor Agreement.

### **Application of Recoveries**

#### ***Application in relation to the indebtedness under the Loan***

All proceeds and other amounts paid pursuant to the enforcement of the Related Security, all recoveries in relation to any indebtedness and all amounts paid under the Intercreditor Agreement in relation to indebtedness under the Loan Agreement shall be applied by the Loan Servicer after the payment of all costs, charges and expenses incurred by or on behalf of the Loan Servicer (and any adviser or agent appointed by it) for the enforcement of the Related Security under the Loan Agreement, in accordance with the order of priority set forth in the Funds Flow Management Agreement.

The repayment of the Financial Guarantor shall be made on each date on which an amount is due and payable under the Financial Guarantee and the related agreements according to the terms of such agreements. The repayment of the Compartment shall be made on each date on which an amount is due and payable under the Compartment Transaction Documents to the Compartment for payment of the Class A Unitholders and other parties according to the terms of such documents and pending the application of proceeds and other amounts paid

pursuant to the enforcement of the Related Security under the Loan Agreement and in respect of those proceeds only. Such proceeds shall be deposited in an interest bearing blocked account to be opened (i) in the name of the Compartment and the Financial Guarantor if such amounts are proceeds paid pursuant to the enforcement of the delegation (*délégation imparfaite*) of XL by XFS to the Financial Guarantor and MLCMB for the payment of all amounts due by XL to XFS pursuant to a guarantee issued by XL in favor of XFS or (ii) in the name of the Compartment solely if such amounts are proceeds paid pursuant to the enforcement of the Related Security under the Loan Agreement being assignments by way of security (*cessions de créances professionnelles à titre de garantie*), the Compartment hereby undertaking to promptly retransfer to the Financial Guarantor any amount due and payable to the Financial Guarantor in accordance with the provisions of and subject to the order of priority set out in the Compartment Regulations on the date on which such amount is due and payable under the Financial Guarantor Documents in accordance with the terms of the Intercreditor Agreement.

***Application in relation to the indebtedness under the Second Warehouse Facility***

All proceeds and other amounts paid pursuant to the enforcement of the MLIBL Related Security other than the Financial Guarantor Related Security, all recoveries in relation to the indebtedness under the Second Warehouse Facility and all amounts paid under the Intercreditor Agreement in relation to indebtedness under the Second Warehouse Facility shall be applied in the following order:

- (i) first, in payment of all costs, charges and expenses incurred by or on behalf of MLIBL (and any adviser or agent appointed by it) for the enforcement of the MLIBL Related Security;
- (ii) second, in payment of the Maintenance Guarantee Provider that part of the proceeds, recoveries or amount that represents payments payable by customers (or any guarantor in respect of the obligations of a customer under a Lease) only to the extent of payments in respect of the maintenance obligations of the equipment which is subject to such Leases;
- (iii) third, in payment of MLIBL as lender under the Second Warehouse Facility that part of the proceeds, recoveries or amount which represents the financial components under the Second Warehouse Facility;
- (iv) fourth, in payment of the Maintenance Guarantee Provider the remainder of the financial components under the Second Warehouse Facility up to the amount of debt due to the Maintenance Guarantee Provider pursuant to the Maintenance Guarantee Letter of Request (if any); and
- (v) fifth, in payment of the surplus (if any) to XFS for distribution in accordance with the provisions of the Funds Flow Management Agreement.

***Application in relation to the proceeds paid under the security relating to the XF Shares Account Pledge Agreement, XB Shares Account Pledge Agreement, the General Collection Account Pledge Agreement and the insurance proceeds under the Loss Payee Arrangement.***

All proceeds paid pursuant to the enforcement of the XF Share Pledge Agreement, the XB Share Pledge Agreement, the General Collection Account Pledge Agreement and the insurance proceeds under the Loss Payee Arrangement in accordance with the provisions of the Intercreditor Agreement shall be applied (after payment of all costs, charges and expenses incurred by the Financial Guarantor or MLIBL for the enforcement of such security) (i) in immediate repayment or prepayment of the amounts due to MLIBL under the Second Warehouse Facility documents and (ii) in repayment, in accordance with the last paragraph below, of the amounts due to the Financial Guarantor under the Financial Guarantor Documents, pro rata between MLIBL and the Financial Guarantor according to their respective credit risk exposure at the time such proceeds are paid pursuant to the enforcement of the documents referred to above.

All proceeds paid pursuant to the enforcement of the General Collection Account Pledge Agreement shall be applied (after payment of all costs, charges, expenses incurred by the Financial Guarantor or MLIBL for the enforcement of the security relating to the Shares Account Pledge Agreements, the General Collection Account Pledge Agreement and the insurance proceeds under the Loss Payee Arrangement) in the following manner:

- (i) with respect to amounts that represent payments payable by customers (or any guarantor in respect of the obligations of a customer under a lease) only to the extent of payments in respect of the maintenance obligations of the Second Portfolio equipment which is subject to such leases in immediate payment or repayment of the amounts due to the Maintenance Guarantee Provider under the Maintenance Guarantee Letter of Request;

- (ii) with respect to amounts that represent payments payable by customers (or any guarantor in respect of the obligations of a customer under a lease) only to the extent of payments in respect of the maintenance obligations of the equipment which is subject to such leases in repayment, in accordance with the paragraph below of the amounts due to the Financial Guarantor under the Maintenance Guarantee Letter of Request;
- (iii) with respect to amounts which represent financial components under the Second Warehouse Facility, in immediate repayment or prepayment of the amounts due to MLIBL under the Second Warehouse Facility Agreement;
- (iv) with respect to amounts which represent financial components under the Loan, in repayment, in accordance with the paragraph below, of the amounts due to the Financial Guarantor under the Financial Guarantor Documents; and
- (v) with respect to any other amounts not mentioned in points (i) to (iv) above, in payment of XFS for application in accordance with the provisions of the Funds Flow Management Agreement.

The repayment of the Financial Guarantor shall be made on each date on which an amount is due and payable under the Financial Guarantor Documents according to the terms of such agreements and pending such application, all amounts recovered pursuant to the enforcement of the Shares Account Pledge Agreements or the General Collection Account Pledge Agreement and allocated to the Financial Guarantor in accordance with the relevant paragraph above, shall be deposited in a bank account to be opened in the name of the Financial Guarantor as a cash pledged account (*compte de gage-espèces*) as security for the performance of XFS' obligations.

## TRANSFER OF THE LOAN RECEIVABLE AND LOAN SERVICING

*The purpose of this section is to describe the main servicing procedures which will be applied to the Loan Receivable and the Related Security.*

Pursuant to Article L.214-46 of the Code, the Management Company has appointed BRED Banque Populaire as the Loan Servicer pursuant to the Transfer and Servicing Agreement to be entered into on or prior to the Issue Date between XFS, the Originator, the Loan Servicer, the Management Company, the Custodian and the Financial Guarantor.

The Loan Servicer will act as agent (*mandataire*) of the Compartment and, so long as there has been no Financial Guarantor Event of Default, as agent (*mandataire*) of the Financial Guarantor, for the servicing of the Loan Receivable and the Related Security.

### **Principal terms of the Transfer and Servicing Agreement**

The principal terms of the Transfer and Servicing Agreement are set out below.

#### **1. Transfer of the Loan Receivable and the Related Security**

The transfer of the Loan Receivable and the Related Security will be completed on the Issue Date by the delivery by the Originator of a Transfer Deed (the “**Transfer Deed**”) (*bordereau de cession*). The original Transfer Deed will be delivered by the Originator to the Management Company which will deliver it to the Custodian.

The execution and the delivery of the Transfer Deed will automatically (*de plein droit*) transfer from the Originator to the Compartment the Loan Receivable together with the Related Security.

The Related Security consists of:

- (i) the Assignment of the Lease Receivables;
- (ii) the Assignment of the Lease Warranties;
- (iii) the Assignment of the XL Guarantee;
- (iv) the Assignment of Hedging Receivables.

In addition, XFS has agreed under the Loan Agreement to set up a third party beneficiary bank accounts arrangement (*comptes à affectation spéciale*) between (i) XFS, (ii) the Compartment as beneficiary, (iii) the Financial Guarantor and (iv) the Second Account Bank over the Loan Financial Flow Account, the Loan Distribution Account and the Loan General Reserve Account (see “*The Loan, the Related Security and the Hedging Arrangement – The Trust Accounts Agreement*”).

#### **2. Transfer Price**

The transfer price of the Loan Receivable and the Related Security is € 398,000,000 and shall be payable at or about 11.00 a.m. in full to the Originator on the Issue Date by debiting the Compartment Distribution Account provided that the amount corresponding to the subscription of the Class A Units and the Class R Unit has been paid to the credit of the Compartment Distribution Account no later than 10.00 a.m. Should this amount be received after such time, the payment of the transfer price to the Originator will be postponed for a period of time equivalent to this delay and in the event that it is impossible to make such payment on the same day, the following Business Day.

#### **3. Representations and Warranties**

##### **3.1 Representations and Warranties concerning the Originator**

On the date of signing of the Transfer and Servicing Agreement and on the Issue Date, the Originator represents and warrants to the Compartment, represented by the Management Company, and to the Financial Guarantor, that:

- (i) it is a company duly incorporated and validly existing under the laws of Ireland, licensed to provide banking services, and has the capacity to carry on its business, to enter into the Transfer and Servicing Agreement and to fulfil its obligations;



- (ii) it has full corporate power and authority to execute the Transfer and Servicing Agreement and to perform its obligations; in particular, the Originator represents that it has full corporate power and authority to transfer the Loan Receivable and the relevant Related Security to the Compartment in accordance with the terms of the Transfer and Servicing Agreement and to execute and deliver the Transfer Deed;
- (iii) the execution and performance of the Transfer and Servicing Agreement and the execution and delivery of the Transfer Deed, does not require, in respect of the Originator, any governmental licence, authorisation, consent or approval that the Originator has not already obtained;
- (iv) the Transfer and Servicing Agreement constitutes legal, valid and binding obligations of the Originator which are enforceable in accordance with their respective terms subject to applicable statutory or regulatory provisions relating to bankruptcy proceedings or affecting creditors' rights generally; and
- (v) it is not subject to any administration, insolvency, bankruptcy, dissolution, receivership or winding up proceedings.

### 3.2 *Representations and Warranties concerning the Financial Guarantor*

On the date of signing of the Transfer and Servicing Agreement and on the Issue Date, the Financial Guarantor represents and warrants to the Compartment, represented by the Management Company, that:

- (i) it is a company duly incorporated and validly existing under the laws of France, licensed to provide insurance services, and has the capacity to carry on its business, to enter into the Transfer and Servicing Agreement and the Financial Guarantee and to fulfil its obligations;
- (ii) it has full corporate power and authority to execute the Transfer and Servicing Agreement, in particular to grant the Financial Guarantee, and to perform its obligations thereunder; in particular, the Financial Guarantor agrees and acknowledges, if need be, that the benefit of the Financial Guarantee is transferred to the Compartment as from the date of the Transfer Deed;
- (iii) the execution and performance of the Transfer and Servicing Agreement does not require any governmental licence, authorisation, consent or approval that it has not already obtained;
- (iv) the Transfer and Servicing Agreement constitutes its legal, valid and binding obligations which are enforceable in accordance with their respective terms subject to applicable statutory or regulatory provisions relating to bankruptcy proceedings or affecting creditors' rights generally; and
- (v) it is not subject to any administration, insolvency, bankruptcy, dissolution, receivership or winding up proceedings nor subject to any cessation of payments (*cessation de paiement*).

### 3.3 *Representations and Warranties concerning the Loan Receivable and the Related Security acquired by the FCC and allocated to the Compartment*

On the Issue Date, the Originator represents and warrants to the Compartment, represented by the Management Company, and to the Financial Guarantor, that the Loan Receivable shall bear the following characteristics:

- (i) the Loan Receivable and the Related Security shall exist and comply with the description given to them in the Transfer and Servicing Agreement and in the Transfer Deed;
- (ii) the Loan Receivable is fully and solely owned by the Originator and it has the full legal title to, or is the beneficiary of, the Related Security;
- (iii) the Loan Receivable is not subject to any transfer restriction, is free from all liens, charges, pledges, pre-emption rights, options, or other rights or security interests of any nature whatsoever in favour of, or claims of, third parties, other than the Related Security, which would prevent the Loan Receivable from being freely transferred to the Compartment;
- (iv) the Loan Receivable is not non-transferable as a matter of law (*immobilisée*), or doubtful (*douteuse*), or subject to litigation (*litigieuse*); and

- (v) the transfer of the Loan Receivable and the Related Security to the Compartment in accordance with the Transfer and Servicing Agreement and following the delivery by the Originator of the Transfer Deed will be effective to transfer to the Compartment full and unencumbered title to such Loan Receivable and Related Security.

In addition, the Originator acknowledges in favour of the Financial Guarantor that the Financial Guarantor shall be subrogated to the rights of the Originator and (upon transfer of the Loan Receivable and the Related Security pursuant to the Transfer and Servicing Agreement and the Transfer Deed), the Compartment, represented by the Management Company, against XFS under the Loan Agreement to the extent of any payment made by the Financial Guarantor under the Financial Guarantee.

The Originator does not make any express or implied representation and/or warranty on (i) the solvency of XFS (ii) the economic value of the Loan Receivable, (iii) the economic value of the Related Security and the Lease Receivable, and/or (iv) any other matters other than the matters expressly referred to in the representations and warranties section of the Transfer and Servicing Agreement.

### **3.4** *Representations and Warranties concerning XFS*

On the date of signing of the Transfer and Servicing Agreement and on the Issue Date, XFS represents and warrants to the Compartment, represented by the Management Company, and to the Financial Guarantor that:

- (i) it has obtained or made all necessary licences, permits and registrations, consents and approvals necessary to enter into the Transfer and Servicing Agreement and to fulfil its obligations thereunder;
- (ii) the execution and performance by XFS of the Transfer and Servicing Agreement have been duly authorised and all necessary corporate action has been taken and does not require any additional approvals or consents or other action by or any notice to or filing with any person;
- (iii) XFS's obligations arising under the Transfer and Servicing Agreement are legal, valid and binding on XFS and enforceable against it in accordance with their respective terms subject to applicable statutory or regulatory provisions relating to bankruptcy proceedings or affecting creditors' rights generally;
- (iv) it is not subject to any administration, insolvency, bankruptcy, dissolution, receivership or winding up proceedings nor subject to any cessation of payments (*cessation de paiement*); and
- (v) XFS shall inform the Management Company and the Financial Guarantor as soon as practically possible in the event that any representation or warranty above becomes inaccurate.

In addition, XFS acknowledges in favour of the Financial Guarantor that the Financial Guarantor shall be subrogated to the rights of the Originator and (upon transfer of the Loan Receivable and the Related Security pursuant to the Transfer and Servicing Agreement and the Transfer Deed), the Compartment, represented by the Management Company, against XFS under the Loan Agreement to the extent of any payment made by the Financial Guarantor under the Financial Guarantee.

### **3.4** *Misrepresentation*

If the Loan Receivable is found to be non-existent or does not comply with the representations and warranties made by the Originator in the Transfer and Servicing Agreement, the Management Company may terminate and rescind the transfer of the Loan Receivable and the Related Security and claim for the repayment of the Transfer Price.

Representations and warranties made by the Originator do not entitle the Unitholders to make any claims directly against the Originator, as the Management Company has the exclusive right, pursuant to Article L. 214-48-I of the Code, to represent the FCC and the Compartment in respect of third parties and for the purpose of any legal proceedings.

## **4. Covenants**

- 4.1** XFS covenants to the Compartment, represented by the Management Company, to the Financial Guarantor and to the Loan Servicer, until the liquidation of the Compartment, that:

- (i) it will permit the Loan Servicer and the Financial Guarantor (or their agents) during normal working hours and upon reasonable notice to inspect XFS's performance of the Loan Agreement and the Security Documents;
- (ii) as soon as practicable after demand, it will furnish to the Loan Servicer (or its agents) such other information relating to the Loan Receivable or the Related Security as may be requested by the Loan Servicer (or its agents);
- (iii) upon transfer of the Loan Receivable and the Related Security pursuant to the Transfer and Servicing Agreement, the security interests created in favour of the Originator as Lender under the Security Documents, shall benefit the Compartment, represented by the Management Company, and that all rights and remedies of MLCMB in respect of the same may be enforced by the Management Company or the Loan Servicer on behalf of the Financial Guarantor or the Compartment; and for this purpose, it will at its own expense promptly and duly execute and do all such assurances, acts and things as the Management Company or the Loan Servicer may require and execute all documents or instruments and give all notices, orders and directions and make all registrations which the Management Company or the Loan Servicer may think expedient; and
- (iv) all proceeds to be paid under the Loan shall be paid directly to the Compartment Distribution Account.

**4.2** The Financial Guarantor covenants to the Compartment, represented by the Management Company, and to the Loan Servicer, upon transfer of the Loan Receivable and the Related Security that:

- (i) the Financial Guarantee has been validly authorised and constitutes legal, valid and enforceable obligations in accordance with its terms and the Financial Guarantor accepts, concomitantly with the transfer of the Loan Receivable to the FCC and allocation of the same to the Compartment, to promptly execute any relevant instructions that the Management Company may reasonably require and to execute all documents or instruments and to give all notices, orders and directions and make all registrations which the Management Company or the Loan Servicer may reasonably require;
- (ii) all proceeds to be paid under the Financial Guarantee shall be paid directly to the Compartment Distribution Account;
- (iii) it shall promptly notify the Management Company and the Loan Servicer of the occurrence of any Financial Guarantor Event of Default; and
- (iv) it will cease to be entitled to give instructions to the Loan Servicer in respect of the Loan Receivable and the Related Security immediately and without formalities upon the occurrence of any Financial Guarantor Event of Default.

## **5. *Appointment and Authority of the Loan Servicer***

### **5.1 *Appointment and duties***

The parties agree that the Loan Servicer shall act in connection with the management, servicing and collection of the Loan and the Related Security, including obtaining the performance of XFS's obligations and duties under the Loan Agreement and the Security Documents, and taking all necessary steps to preserve the Financial Guarantor's and the Compartment's rights under the Loan Agreement and the Security Documents.

### **5.2 *Scope of Authority of the Loan Servicer***

5.2.1 Without prejudice to the provisions contained in the following paragraph, in performing its obligations in respect of the management, servicing and collection of the Loan and the Related Security, the Loan Servicer shall (i) without limitation, take all necessary action as may be required in relation to the recovery of any sums due under the Loan, the Related Security and the Financial Guarantee and (ii) act at all times in accordance with the provisions of the Transfer and Servicing Agreement.

In performing its obligations thereunder in respect of the decision to declare an accelerated amortisation of the Loan and/or any enforcement of the Related Security, the Loan Servicer shall, upon notification by the Financial Guarantor of the occurrence of an Amortisation Event (as defined in the Loan Agreement) or, in the event that a Financial Guarantor Event of Default has occurred, upon becoming aware of the

occurrence of an Amortisation Event (as defined in the Loan Agreement), (i) request instructions from (a) the Financial Guarantor for so long as no Financial Guarantor Event of Default has occurred or (b) upon notification by the Financial Guarantor of the occurrence of a Financial Guarantor Event of Default or upon the Loan Servicer becoming aware of the same, the Management Company, and (ii) act at all times in accordance with the express instructions of (a) the Financial Guarantor for so long as no Financial Guarantor Event of Default has occurred or (b) upon notification by the Financial Guarantor of the occurrence of a Financial Guarantor Event of Default, or upon the Loan Servicer becoming aware of the same, the Management Company. In the event that the Loan Servicer does not receive, in a reasonable time period, instructions, as mentioned above, the Loan Servicer shall act as if the Loan Receivable and the Related Security were its own, without incurring any liability thereof.

- 5.2.2 In performing its obligations in respect of the Financial Guarantee, the Loan Servicer shall act at all times (i) in accordance with the provisions of the Transfer and Servicing Agreement, or (ii) after having requested instructions from the Management Company, in accordance with the express instructions of the Management Company. In the event that the Loan Servicer does not receive, in a reasonable time period, instructions, as mentioned above, the Loan Servicer shall act as if it was the beneficiary of the Financial Guarantee, without incurring any liability thereof.
- 5.2.3 In the event that the Loan Servicer considers (in its judgement and without incurring any liability thereof) it necessary, in order to minimise loss relating to the Loan Receivable or the Related Security, to take action that is not envisaged by the relevant agreements, the Loan Servicer shall notify the Financial Guarantor and/or the Management Company and the Custodian of the proposed action, who shall determine whether or not to authorise the action proposed. Pending such notification, the Loan Servicer shall, without incurring any liability in this respect, not undertake the proposed action unless it believes that a failure to do so would materially and adversely affect the rights or interests of the FCC or the Compartment, and then, the Unitholders.
- 5.2.4 The Loan Servicer shall only provide the Financial Guarantor and/or the Compartment, represented by the Management Company, with such duties and services as are provided for in the Transfer and Servicing Agreement and shall have no authority whatsoever in determining the operating policies of the Financial Guarantor and/or the Compartment.

## **6. *Services provided by the Loan Servicer***

- 6.1 Two Business Days before each Loan Interest Payment Date, the Loan Servicer shall calculate the amount of interest accrued and which will be payable on each Loan Interest Payment Date and notify XFS, the Financial Guarantor and the Management Company. Such amount, together with the relevant three-month EURIBOR for the relevant interest period under the Loan, such as calculated pursuant to the Loan Agreement, in order for the Management Company to calculate the Rate of Interest due to the Class A Unitholders in relation to the relevant Interest Period under the Class A Units.
- 6.2 On each Loan Interest Payment Date and on the Loan Final Repayment Date, no later than 10.00 a.m. (Paris time) on any such date, the Loan Servicer shall request from the Second Account Bank the total amount of funds standing to the credit of the Loan Distribution Account at such time.
- 6.3 On each Loan Interest Payment Date and on the Loan Final Repayment Date, no later than 12.00 a.m. (Paris time) on such date, the Loan Servicer shall determine (if any):
- (i) the amount of the shortfall;
  - (ii) (a) the amount corresponding to any sums (including principal) due under the Loan Receivable which, pursuant to the Financial Guarantee, shall be paid by the Financial Guarantor upon the occurrence of a Loan Amortisation Event; and  
(b) the amount to be repaid to the Financial Guarantor pursuant to the Funds Flow Management Agreement, such as provided by the Financial Guarantor to the Loan Servicer no later than one Business Day before such Loan Interest Payment Date; and
  - (iii) the amount of any Compartment Available Surplus.

The information referred to in this Clause 6.3 shall be notified by the Loan Servicer to the Financial Guarantor and the Management Company no later than 12.00 p.m. on the relevant date.

- 6.4 No later than 12.00 p.m. on any Loan Interest Payment Date and on the Loan Final Repayment Date and if the Loan Servicer has determined a shortfall in respect of Guaranteed Amounts which is due for payment, the Loan Servicer shall deliver to the Financial Guarantor (with a copy to the Management Company) a duly completed notice of claim for the purpose of enforcing the Compartment's rights (in its capacity as Beneficiary of the Financial Guarantee pursuant to the terms of the Financial Guarantee, the Transfer and Servicing Agreement and the Transfer Deed) under the Financial Guarantee so that any such shortfall is paid by the Financial Guarantor to the Compartment Distribution Account on or prior to 12.00 p.m. on the third Business Day after the relevant Loan Interest Payment Date.
- 6.5 No later than 12.00 p.m. on any Loan Interest Payment Date, the Loan Servicer shall ensure that the appropriate instructions shall have been given by XFS to effect the payment, no later than the date falling four (4) Business Days after a Loan Interest Payment Date (the "**Calculation Date**"), of the funds standing to the credit of the Loan Distribution Account into the Compartment Distribution Account and/or (as appropriate) the account of the Financial Guarantor which shall have been specified.
- 6.6 Subject to obtaining, upon its request, any appropriate specific mandate (*mandat spécial*), where necessary, the Loan Servicer shall take, after having been instructed to do so or if it deems necessary or appropriate within the context of its authority, all necessary or useful judicial or extra-judicial steps to obtain (i) the execution of XFS's obligations and duties in connection with the Loan Agreement and the Security Documents, and (ii) the execution of the Financial Guarantor's obligations and duties in connection with the Financial Guarantee.
- 6.7 Subject to obtaining, upon its request, any appropriate specific mandate (*mandat spécial*), where necessary, the Loan Servicer shall initiate, after having been instructed to do so or if it deems necessary or appropriate within the context of its authority, all such proceedings that are necessary to preserve (*conserver*) all rights under the Related Security and the Financial Guarantee.
- 6.8 The Loan Servicer shall release (*opérer mainlevée sur*) the Related Security upon repayment in full of the sums secured by such Related Security or as otherwise instructed by the Financial Guarantor and/or (as appropriate) the Management Company.
- 6.9 Subject to obtaining, upon its request, any appropriate specific mandate (*mandat spécial*), where necessary, the Loan Servicer shall initiate, after having been instructed to do so or if it deems necessary or appropriate within the context of its authority, all such proceedings, if need be, that are necessary to enforce (*obtenir l'exécution forcée de*) all rights under the Related Security and the Financial Guarantee.

If the Loan Servicer receives any money whatsoever arising from the enforcement of the Loan Receivable and the Related Security, which belongs to the Financial Guarantor or the Compartment, or is to be paid or otherwise transferred to the Financial Guarantor or the Compartment, the Loan Servicer shall keep such money separate from all other money belonging to the Loan Servicer and shall forthwith upon receipt thereof pay the same to the beneficiary thereof. The Loan Servicer waives any right it has or may hereafter acquire to set-off any liabilities of the Financial Guarantor or the Compartment to the Loan Servicer and agrees that it shall not set-off or transfer any such sum in or towards the satisfaction of any liabilities to the Loan Servicer of the Compartment, the Financial Guarantor or any other person.

- 6.10 The Loan Servicer shall promptly notify the Financial Guarantor or the Management Company of, *inter alia*, any information which becomes known to the Loan Servicer which is a breach of any of the obligations or duties of XFS in connection with the Loan Receivable and/or the Related Security; any proposed waiver or amendment in connection with the Loan Receivable and/or the Related Security; and the potential occurrence of a Loan Amortisation Event.

## 7. **Sub-Contracting**

The Loan Servicer may sub-contract or delegate part of its obligations under the Transfer and Servicing Agreement to one or several third parties, however, in such instance, the Loan Servicer shall still remain responsible and liable for the performance of its obligations under the Transfer and Servicing Agreement and any breach by a sub-contractor or delegate of any obligation of the Loan Servicer shall be treated as a breach by the Loan Servicer itself. In addition, any third party irrevocably waives (i) any claim it may have against the assets of any other compartment of the FCC and (ii) any contractual claim it may have against the FCC and the Compartment.

**8. Representations, Warranties and Undertakings of the Loan Servicer, the Management Company and the Custodian**

On the date of signing of the Transfer and Servicing Agreement and on the Issue Date, each of the Loan Servicer, the Management Company and the Custodian shall make customary representations and warranties to the other parties.

**9. Termination of Appointment**

The Financial Guarantor or, upon the occurrence of a Financial Guarantor Event of Default, the Management Company, acting on behalf of the Compartment, may, with the consent of the Custodian, terminate the appointment of the Loan Servicer and appoint any substitute loan servicer, in accordance with the provisions of the Transfer and Servicing Agreement, to manage, service and collect the Loan and administer and enforce the Related Security if, *inter alia*, the Loan Servicer has defaulted on its obligations under the Transfer and Servicing Agreement in a manner which has a material adverse effect on the interests of the Financial Guarantor or, upon the occurrence of a Financial Guarantor Event of Default, the Unitholders. The Loan Servicer may terminate its appointment under the Transfer and Servicing Agreement upon the expiry of not less than three months' notice of termination given to the Management Company and the Financial Guarantor, provided that a substitute loan servicer shall be appointed by the Management Company effective from the date of termination of the Loan Servicer's appointment.

**10. Servicing Fee – Costs And Expenses**

By way of remuneration for its duties, the Loan Servicer shall be entitled to a servicing fee equal to EUR 30,000 (thirty thousand Euro) per annum, payable, in accordance with the Compartment Regulations, *pro rata temporis* on each Payment Date.

Pursuant to the Priority Orders of Payments, the Compartment shall reimburse the Loan Servicer for all reasonable and duly invoiced out-of-pocket costs, expenses and charges properly incurred by the Loan Servicer in the performance of its obligations under the Transfer and Servicing Agreement.

**11. No Recourse/Non-Petition**

The Transfer and Servicing Agreement provides that each party (other than the Management Company acting in the name and on behalf of the Compartment) irrevocably (i) waives any claim it may have against the assets of any other compartment of the FCC; (ii) waives any contractual claim it may have against the FCC and the Compartment; and (iii) waives, subject to the Priority Orders of Payments set out in the Compartment Regulations, any claim it may have against the Compartment for an amount greater than the Compartment Available Funds. Each party (other than XFS) renounces the right to take any action or other steps for the winding-up or for the appointment of a receiver or similar officer over any or all of XFS's revenues and assets.

**12. Governing Law and Jurisdiction**

The Transfer and Servicing Agreement shall be governed by French law. Any dispute arising out of or in connection with the Transfer and Servicing Agreement or any instrument delivered pursuant to the Transfer and Servicing Agreement shall be subject to the jurisdiction of the Commercial court of Paris (*Tribunal de Commerce de Paris*).



## TERMS AND CONDITIONS OF THE UNITS

The following are the terms and conditions of the Class A Units and the Class R Unit. The Class A Units and the Class R Unit are collateralised by the assets allocated to the Compartment. This section sets out the terms and conditions of the Class A Units and the Class R Unit in the form in which they appear in the Compartment Regulations.

### 1. General provisions applicable to the Units

The rights of the co-owners (*copropriété*) are represented by Units, which are securities (*valeurs mobilières*) within the meaning of Article L. 211-2 of the Code. The Units are issued in book-entry form (*forme dématérialisée*). No physical documents of title will be issued in respect of any Unit. All the Class A Units will, upon issue, be registered in the Relevant Clearing Systems (see “*The Descriptive Table of the Units*” below).

The Compartment is not allowed to create new Units representing such additional receivable(s) after the Issue Date.

By subscribing for or purchasing any Unit, the relevant subscriber or purchaser agrees to abide by the General Regulations and the Compartment Regulations and any amendment made to them in accordance with their terms.

Selling Restrictions: pursuant to the terms of the Class A Units Subscription Agreement, the Class A Units shall only be offered, in accordance with general selling restrictions (see “*Subscription and Offering of the Class A Units*” below), to (i) qualified investors, as defined by the Code and the Decree, acting for their own account or (ii) investors resident outside France. Notwithstanding the foregoing, any class of prospective investors may purchase the Class A Units on the secondary market.

### 2. Characteristics of the Units

#### (a) Classes of Units

Pursuant to Articles L. 214-43 of the Code, the units issued by a French mutual debt fund (*fonds commun de créances*) may entitle their holders to different rights in respect of the principal and interest.

The Compartment will issue, on the Issue Date, at par value two different classes of units (the “**Units**”) representing the Loan Receivable and the Related Security, namely the Class A Units and the Class R Unit.

All of the Units, except the Class R Unit, are rated by the Rating Agencies. Upon issue, the Class A Units are expected to be rated by the Rating Agencies as follows: Moody’s – Aaa, S&P – AAA, Fitch – AAA.

#### (b) Class A Units

The Class A Units are floating rate Units due 31 March 2010 issued in bearer form in the denomination of € 10,000 each, and will be represented in book-entry form (*forme dématérialisée*) in accordance with Article L.211-4 of the Code.

Application has been made to Euronext Paris S.A. to list all of the Class A Units on the Reserved Section of the Paris Stock Exchange.

#### (c) Class R Unit

The Class R Unit is a subordinated unit (*part spécifique*) within the meaning of Article 9 of the Decree. The Class R Unit is issued in registered form (*part nominative*) in the denomination of € 10,000 and will be represented in book-entry form (*forme dématérialisée*) in accordance with Article L.211-4 of the Code.

The Class R Unit will not bear interest and may not be redeemed until all Class A Units are redeemed in full, at which time, the Class R Unitholder will be entitled to the “*boni de liquidation*” of the Compartment, if any.

### 3. Status and Relationship between the Class A Units and the Class R Unit

(a) The Class A Units constitute direct and unconditional obligations of the Compartment. The Class A Units will rank *pari passu* without any preference or priority among themselves.

- (b) The Class R Unit constitutes a direct fully subordinated and conditional obligation of the Compartment.
- (c) As between the Class A Units and the Class R Unit, any Class A Units will rank at all times in priority to the Class R Unit.

#### 4. Interest on the Class A Units

##### (a) Payment Date

Each Class A Unit will bear interest on its Outstanding Principal Amount from (and including) the Issue Date to (but excluding) the earlier of (i) the date on which the Outstanding Principal Amount of each Class A Unit is reduced to zero and (ii) the Final Maturity Date.

Interest Amounts accrued in respect of each Class A Unit will be payable in Euro on the eighth Business Day following the last Business Day of each calendar quarter and on which payment of interest or principal, if any, are to be made to the relevant Class A Unitholder. The first Payment Date in respect of the Class A Units will be 10 October 2003. As used in this Offering Circular, “Business Day” means a day (other than a Saturday or Sunday) on which banks are generally open for business in Dublin, London, New York and Paris and which is a TARGET Day.

##### (b) Rate of Interest

The Rate of Interest, calculated by the Management Company on the fifth Business Day following the last Business Day of each calendar quarter (each, a “**Calculation Date**”), applicable to the Class A Units from time to time will be three month EURIBOR (as defined below) plus the Unit Margin (as defined below):

- (i) “**EURIBOR**” shall mean in relation to the Compartment Regulations, and in relation to any Interest Period, the European Interbank Offered Rate such as determined and calculated by the Loan Servicer, for the relevant interest period applicable under the Loan Agreement and transmitted by the Loan Servicer to the Management Company;
- (ii) the “**Unit Margin**” in respect of the Class A Units will be 0.40% per annum; and
- (iii) there shall be no maximum or minimum Rate of Interest.

##### (c) Determination of the Rate of Interest and calculation of Interest Amount

- (i) Determination of the Rate of Interest by the Management Company: The Management Company will, on the basis of the three-month EURIBOR provided by the Loan Servicer pursuant to the Transfer and Servicing Agreement, determine on each Calculation Date the Rate of Interest and calculate the Interest Amount payable in relation to the Class A Units on the relevant Payment Date;
- (ii) Notification to be final: All notifications, determinations, calculations and decisions given, expressed or made by the Management Company (in the absence of wilful default, bad faith or manifest error) will be binding on the Paying Agent and the Class A Unitholders, and (in the absence of aforesaid) no liability to the Unitholders shall attach to the Management Company or the Paying Agent in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions;
- (iii) Calculation of Interest Amount: The relevant Interest Amount payable in respect of each Class A Unit on each Payment Date shall be determined by the Management Company, and shall be equal to:
  - (A) the aggregate Outstanding Principal Amount of such Class A Unit on the relevant Calculation Date;
  - (B) multiplied by the Rate of Interest applicable to such Class A Unit;
  - (C) multiplied by the actual number of days during the relevant Interest Period;
  - (D) divided by 360; and
  - (E) rounded down to the nearest Euro cent.

(iv) Interest payments: Interest Amounts shall be paid to the Class A Unitholders in accordance with the Priority Order of Payments.

**(d) Late payment interest**

No late payment interest shall be due in respect of the Class A Units.

**5. Redemption**

**(a) Final redemption**

Unless previously redeemed in full and cancelled as provided below, the Compartment shall redeem the Class A Units at their Outstanding Principal Amount together with accrued interest on the Payment Date falling on the Final Maturity Date.

The Compartment may not redeem any Class A Unit in whole or in part prior to that date, except as provided hereafter.

**(b) Normal Redemption**

No Principal Amount in respect of any Class A Unit will be due on any date prior to the Final Maturity Date unless the Compartment, as at any Payment Date, has sufficient Compartment Available Surplus (as defined below) after payment in full of all payments (including the relevant Interest Amount) scheduled to be payable on any such Payment Date pursuant to the Priority Orders of Payments referred to in Condition 5 (e) below.

The Class A Units shall then be redeemed to the extent of such Compartment Available Surplus.

Therefore it is possible that the Class A Units will be redeemed in full prior to the Final Maturity Date (see “*Statistical Analysis of the Lease Portfolio – Weighted Average Life of the Class A Units and Assumptions*”).

Subject to optional redemption as provided below, the Class A Units shall amortise on each Payment Date until the earlier of (i) the date on which all the Class A Units are fully redeemed and (ii) the Final Maturity Date.

On each Payment Date, the Compartment Available Funds will provide the principal source of funds for the Compartment to make payments of Interest Amount and, if any, Principal Amount in respect of the Class A Units. The Compartment Available Funds consist of (i) funds paid into the Compartment Distribution Account by XFS under the Loan Agreement, (ii) Guaranteed Amounts, if any, paid by the Financial Guarantor, (iii) earnings on any Permitted Investments and (iv) if any, proceeds of the Related Security.

**(c) Optional Redemption**

The Class A Units shall be redeemed in the event that the Management Company dissolves the Compartment in accordance with the provisions of Article 26.2 of the Compartment Regulations.

**(d) Principal Amount and Outstanding Principal Amount**

The Principal Amount (if any) to be paid in respect of each Class A Unit on any Payment Date under normal redemption shall be a *pro rata* share of the Compartment Available Surplus on the relevant Calculation Date, (rounded down to the nearest Euro cent), provided always that such Principal Amount may not exceed the Outstanding Principal Amount of such Class A Unit.

No Principal Amount (if any) shall be made in respect of the Class R Unit until the full redemption of the Class A Units.

On each Calculation Date, the Management Company shall determine (i) the amount of any Principal Amount (if any) due on the next following Payment Date, and (ii) the Outstanding Principal Amount of each Class A Unit on the next following Payment Date (after deducting any Principal Amount to be paid on that Payment Date). Each determination by the Management Company, such as approved by the Custodian, of any Principal Amount and the Outstanding Principal Amount of any Class A Unit shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons, including the Class A Unitholders.

The Management Company, acting in the name and on behalf of the Compartment, will cause, subject to having obtained the prior consent of the Custodian, each determination of any Principal Amount and Outstanding Principal Amount to be notified in writing on each Calculation Date forthwith to the Paying Agent, the Rating Agencies, the Operating Bank and, for so long as the Class A Units are listed on the Reserved Section of the Paris Stock Exchange, will cause notice of each determination of any Principal Amount and Outstanding Principal Amount to be given to the Class A Unitholders two Business Days prior to each Payment Date.

(e) **Priority Orders of Payments**

On each Calculation Date, provided that no Loan Amortisation Event has occurred and the Related Security has not been enforced in accordance with its terms and the relevant terms of the Intercreditor Agreement, the Management Company shall give instructions to the Custodian which shall give instructions to the Operating Bank to make, up to the Compartment Available Funds on the relevant Payment Date, the following payments out of the Compartment Distribution Account in accordance with the following Priority Order of Payments:

- (i) **first**, sums then due and payable to the Loan Servicer, the Custodian, the Management Company, the Paying Agent, the Operating Bank, the Rating Agencies, the Compartment's Statutory Auditor *pro rata temporis* and, if any, to any other third party (the "**Third Party Expenses**"), rateably without any preference or priority among themselves;
- (ii) **second**, each Interest Amount then due and payable on each Class A Unit, rateably without any preference or priority among the Class A Units;
- (iii) **third**, each Principal Amount then due and payable up to the remaining Compartment Available Funds after payment in full of amounts referred to in (i) to (ii) (inclusive) above, (the "**Compartment Available Surplus**"); and
- (iv) **fourth**, after redemption in full of all the amounts due under the Class A Units, in payment of any sums due under the Class R Unit.

On each Calculation Date following the occurrence of a Loan Amortisation Event and the enforcement of the Related Security in accordance with its terms and the relevant terms of the Intercreditor Agreement, the Management Company shall give instructions to the Custodian which shall give instructions to the Operating Bank to make, up to the Compartment Available Funds on the relevant Payment Date, the following payments out of the Compartment Distribution Account in accordance with the following Priority Order of Payments:

- (i) **first**, (in repayment to XFS of) any sums sufficient for XFS to comply with its liability in respect of taxes until the next Payment Date (as determined by the Controlling Party in accordance with the information made available to it by XFS upon the Controlling Party's request);
- (ii) **second**, (in repayment to XFS of) any sums sufficient for XFS to pay any sums due and payable to the Hedging Provider or the Hedging Guarantor under the Hedging Agreement (not including termination costs, if any) (as determined by the Controlling Party in accordance with the information made available to it by XFS upon the Controlling Party's request);
- (iii) **third**, (in repayment to XFS of) any sums sufficient for XFS to pay its operating expenses then due and payable or which are to become due and payable until the next Payment Date (as determined by the Controlling Party in accordance with the information made available to it by XFS upon the Controlling Party's request);
- (iv) **fourth**, sums then due and payable to the Loan Servicer, the Custodian, the Management Company, the Paying Agent, the Operating Bank, the Rating Agencies, the Compartment's Statutory Auditor *pro rata temporis* and, if any, any other Third Party Expenses, rateably without any preference or priority among themselves;
- (v) **fifth**, the fees then due and payable to the Financial Guarantor pursuant to the Financial Guarantor Documents;
- (vi) **sixth**, each Interest Amount then due and payable on each Class A Unit, rateably without any preference or priority among the Class A Units;

- (vii) *seventh*, in payment, on a *pari passu* and *pro rata* basis, of each Principal Amount then due and payable on each Class A Unit, such as determined in accordance with Clause 18.2 of the Compartment Regulations;
- (viii) *eighth*, after redemption in full of all the sums due under the Class A Units and payment of all other sums due under items (i) to (vii) (inclusive) above, in payment of each remaining amount then due and payable to the Financial Guarantor pursuant to the Financial Guarantor Documents; and
- (ix) *ninth*, after redemption in full of (a) all the sums due under the Class A Units and payment of all other sums due under items (i) to (viii) (inclusive) above and (b) (subject to the Loan having been repaid in full and all amounts due by XFS to the Financial Guarantor under the Reimbursement Agreement having been repaid in full) all termination costs (if any) under the Hedging Agreement, in payment of any amount due under the Class R Unit.

**(f) Notice of Redemption**

Any such notice as is referred to in Condition 5(d), shall be irrevocable and, upon the expiration of such notice, the Compartment shall be bound to redeem the Class A Units in the amounts specified in these Conditions.

**(g) Cancellation**

All Class A Units redeemed in full pursuant to the foregoing provisions will be cancelled forthwith and may not be resold or re-issued.

**(h) Estimated Weighted Average Lives of the Units**

Weighted average life refers to the weighted average time that will elapse from the Issue Date to the date on which the Units will be redeemed in full. The weighted average life of the Units will be primarily influenced by repayments from lessees effected over the term of the Loan.

The weighted average life of the Units are subject to factors largely outside the control of the Compartment and consequently, no assurance can be given that the estimates above will prove in any way to be realistic and they must, therefore, be viewed with considerable caution.

**(i) Repurchase of the Units**

In accordance with Article L. 214-43 of the Code, no Unitholder may require the Compartment to repurchase the Unit(s) that such Unitholder holds.

**6. Payments**

**(a) Payments**

Any instalment of Interest Amount or Principal Amount, if any, payable on any Class A Unit in accordance with the Priority Orders of Payment shall be paid in Euro on the corresponding Payment Date. Such payments shall be paid to the person in the name of whom such Class A Unit is registered in the registers of the relevant Account Holder affiliated with the relevant Clearing System or, in respect of the Class R Unit, to the relevant bank account of the Class R Unitholder. Any payment shall be made by the Paying Agent only if the Paying Agent has received the appropriate funds no later than two Business Days before the relevant Payment Date. Any payment of Interest Amount and/or Principal Amount, if any, shall be made in accordance with the rules of the Relevant Clearing Systems.

To the extent that, on any Payment Date, the Compartment Available Funds are insufficient to pay in full any Interest Amount and/or, if any, any Principal Amount otherwise due by the Compartment, any arrears resulting therefrom shall be paid on the subsequent Payment Date, if and when permitted by subsequent cash flow available, after the Compartment's other priority amounts have been discharged, pursuant to the Priority Orders of Payments.

**(b) Paying Agent**

The Paying Agent (and its initial specified office) is listed on the back page of this Offering Circular.

The Management Company may, subject to at least one month's prior written notice to the Paying Agent (with a copy to the Custodian, the Operating Bank and the Rating Agencies) and subject to the terms of the Paying Agency Agreement, terminate the Paying Agent's appointment without providing compensation and appoint a new paying agent, provided that no such substitution shall be made unless an event having a material adverse effect on the Paying Agent's ability to perform its obligations under the Paying Agency Agreement has occurred (including, in particular, the notification by any Rating Agency that failure to replace the Paying Agent will result in a downgrade of the ratings assigned to the Units). Notice of any such termination of the Paying Agent will be given to the Unitholders promptly by the Management Company in accordance with Condition 8.

## 7. **Taxation**

All payments in respect of the Units of any class either of interest or of principal 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 Compartment or the Paying Agent is required by applicable law to make any payment in respect of the Units of any class subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Compartment or the Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amounts so required to be withheld or deducted. Neither the Compartment nor the Paying Agent will be obliged to make any additional payments to any class of Unitholders in respect of any such withholding or deduction.

The European Union has adopted a new directive regarding the taxation of savings income on 3 June 2003 (the "**Directive**").

Under the Directive, and subject to certain conditions being met, the Member States will be required, as from 1 January 2005, the expected date of entry into force of the Directive, to provide to the tax authorities of another Member State details of payments of interest within the meaning of the Directive (interest, products, premiums or other debt income) made by a paying agent within its jurisdiction to or for the benefit of an individual resident in that other Member State (the "**Disclosure of Information Method**").

In this way, the term "paying agent" is defined widely and includes in particular any economic operator who is responsible for making interest payments, within the meaning of the Directive, for the immediate benefit of individuals.

However, throughout a transitional period, certain Member States (the Grand-Duchy of Luxembourg, Belgium and Austria) will be allowed to withhold an amount on interest payments instead of using the Disclosure of Information Method used by other Member States. The rate of such withholding tax will equal 15 per cent. as from 1 January 2005, 20 per cent. as from 1 January 2008 and 35 per cent. as from 1 January 2011.

Under the Directive, such transitional period will end if and when the European Union enters into agreements on exchange of information upon request with Switzerland, Liechtenstein, San Marino, Monaco, Andorra and the United States of America.

## 8. **Notices**

Any notice to any Class A Unitholder may be given in any manner deemed acceptable by the Management Company provided that for so long as the Class A Units are listed on the Reserved Section of the Paris Stock Exchange, such notice shall be in accordance with the rules of the Paris Stock Exchange.

Since all the Class A Units are in book-entry form (*forme dématérialisée*), any notice to the Class A Unitholders shall be deemed to be duly given if sent to each of the Relevant Clearing Systems.

Any notice to the Class R Unitholder shall be deemed to be duly given if sent by post by the Paying Agent to the Class R Unitholder.

## 9. **Governing Law and Jurisdiction**

The Units, the Paying Agency Agreement, the Transfer and Servicing Agreement, the Class A Units Subscription Agreement, the Class R Unit Subscription Agreement, the Compartment Accounts



Agreement, the General Regulations and the Compartment Regulations are governed by, and shall be construed in accordance with, French law.

Any dispute as to the validity, interpretation, performance or any other matter arising out of the Compartment Transaction Documents or instrument delivered pursuant thereto shall be subject to the exclusive jurisdiction of the Commercial court of Paris (*Tribunal de Commerce de Paris*).

## 10. General Provisions Applicable to Units

### (i) *Recourse Limited to the Assets allocated to the Compartment:*

The holders of Units relating to the Compartment shall not have any claim against, or any right to obtain any payment deriving from, the assets of any other compartment of the FCC. Therefore, the Unitholders relating to the Compartment may not be paid fully and in a timely manner under the Compartment Regulations applicable to the Compartment whereas the unitholders of any other compartment of the FCC may be paid fully and in a timely manner under the specific compartment regulations applicable to such other compartment.

As a consequence of the above, upon subscribing or acquiring any Unit representing the Loan Receivable and Related Security allocated to the Compartment, the relevant subscriber or acquirer of such Unit shall be deemed to waive automatically:

- (a) any claim it may have against the assets of any other compartment of the FCC; and
- (b) any claim it may have against the Compartment for an amount greater than the Compartment Available Funds and in proportion to its respective interests therein, in accordance with the allocation of payments determined in the Compartment Regulations.

### (ii) *Further Issues:*

Under the Compartment Regulations, the Compartment shall not issue any further Class A Units after the Issue Date, although the FCC may, under the General Regulations, issue further units in respect of any additional compartment other than the Compartment that may be created by the Management Company and the Custodian.

## 11. Restrictions on the Ownership Rights over the Units

Subject to applicable laws and regulations, the ownership rights of certain Unitholders over the Units may be constrained or restricted. Therefore, any Unitholder shall refer to the laws and regulations applicable to it, it being understood that neither the Management Company nor the Custodian shall be in any way responsible in the event that such Unitholder does not comply with such constraints or restrictions.

For information purposes, and in accordance with the applicable laws and regulations as at the date hereof:

- (i) mutual debt funds (*fonds communs de placement*) whose management company is controlled by any originator in relation to any compartment or SICAV (*sociétés d'investissement à capital variable*) whose directors and officers are employees of any originator in relation to any compartment may not subscribe for more than five per cent of the value of Units issued by such compartment, as such percentage is determined on the Issue Date; and
- (ii) the Class R Unit issued by the Compartment, as a subordinated unit (*part spécifique*) may only be subscribed for or held by the Originator, a qualified investor within the meaning of Article L. 411-2 of the Code or a non-French resident investor.

In accordance with the Class R Unit Subscription Agreement, the Class R Unitholder has agreed to subscribe for the Class R Unit (the “**Class R Unitholder**”) and either (i) to hold such Class R Unit until the full redemption of any and all of the Class A Units or (ii) in the event that the Class R Unitholder sells or transfers the Class R Unit, to ensure that (a) the assignee is a qualified investor (*investisseur qualifié*) within the meaning of Article L. 411-2 of the Code and the decree no. 98-880 of 1 October 1998, a non-French resident investor, or the Originator and (b) such assignee agrees and acknowledges that no sums arising from the Loan Receivable or the Related Security will be paid under the Class R Unit until full redemption of the Class A Units.

## 12. Rights and Obligations of the Unitholders

In accordance with Article L. 214-48 of the Code, the Unitholders may exercise the rights to which shareholders (*actionnaires*) are entitled pursuant to Articles L. 225-230 and L. 225-231 of the French Commercial Code (*Code de commerce*).

The Unitholders shall be regularly kept informed by the Management Company and the Custodian with regard to the operation of the Compartment in accordance with the conditions set out below (see “*Additional Information Relating to the Compartment*”).

The Unitholders shall only be liable for the debts of the Compartment to the extent of the Compartment’s assets, from time to time, and in proportion to their respective interests (*quote-part*) therein.

In accordance with Article L. 214-43 of the Code, no Unitholder may require the Compartment to repurchase the Unit(s) that such Unitholder holds.

## 13. Issuance and Placement of the Units

The Class A Units are senior units to be privately placed with qualified investors (*investisseurs qualifiés*) within the meaning of Article L. 411-2 of the Code and the decree no. 98-880 of 1 October 1998, acting for their own account and/or with non-French resident investors.

Application has been made to Euronext Paris S.A. for the listing of all the Class A Units on the Reserved Section of the Paris Stock Exchange. The offering of the Class A Units does not constitute a public offering (*opération par appel public à l’épargne*) in France within the meaning of Article L. 411-2 of the Code due to the private placement of the Class A Units. However, the request for listing of the Class A Units on the Reserved Section of the Paris Stock Exchange constitutes a public offering (*opération par appel public à l’épargne*) within the meaning of Article L. 411-1 of the Code.

As a fully subordinated residual Unit (*part spécifique*) within the meaning of Article 9 of the Decree, the Class R Unit may only be acquired and held by a qualified investor (*investisseur qualifié*) within the meaning of Article L. 411-2 of the Code and the decree no. 98-880 of 1 October 1998, or by the Originator or by a non-French resident investor.

The Class R Unit issued by the Compartement will be privately placed with a non-French resident investor in accordance with Article 9 of the Decree.

#### 14. Descriptive table of the Units

The principal characteristics of the Units on the Issue Date are shown in the table below:

	<b>Class A Units</b>	<b>Class R Unit</b>
Ranking	Senior	Subordinated ( <i>part spécifique</i> , within the meaning of Article 9 of the Decree)
Number of Units . . . . .	39,800	1
Nominal value per Unit . . . . .	€ 10,000	€ 10,000
Aggregate nominal value . . . . .	€ 398,000,000	€ 10,000
Issue . . . . .	In one issuing on the Issue Date	On the Issue Date
Date of Subscription . . . . .	Issue Date	Issue Date
Issue price . . . . .	100%	100%
Interest rate. . . . .	3 month EURIBOR + 0.40%	No interest payable
Frequency of interest payments . . . . .	Quarterly in arrear	Not relevant
Interest Payment Dates (1) . . . . .	Eight Business Days after the end of each calendar quarter	Not relevant
Daycount Fraction . . . . .	Actual/360	Not relevant
Principal Payments . . . . .	Quarterly, as the case may be	Not relevant
Weighted Average Lives . . . . .	1.6	Undetermined
Expected Final Payment Date . . . . .	31 March 2010	31 March 2010
Final Maturity Date . . . . .	31 March 2010	31 March 2010
Moody's Ratings (2) . . . . .	Aaa	Not rated
S&P Ratings (2) . . . . .	AAA	Not rated
Fitch Ratings (2) . . . . .	AAA	Not rated
Form of Units . . . . .	Book-entry form	Book-entry form
Listing . . . . .	Listed	Not listed
Placement. . . . .	Private	Private
Authorised Unitholders. . . . .	Qualified investors (3) or non-French resident investors	A qualified investor (3) or a non-French resident investor or the Originator
Relevant Clearing Systems . . . . .	Euroclear, and/or Euroclear France, and/or Clearstream, Luxembourg	Not admitted
Common Code . . . . .	017269313	N/A
ISIN. . . . .	FR0000504953	N/A
Application for Listing. . . . .	Reserved Section of the Paris Stock Exchange	Unlisted

(1) Except for the last Interest Payment Date which will occur on the Final Maturity Date.

(2) Preliminary ratings.

(3) Within the meaning of Article L. 411-2 of the Code and the decree no. 98-880 of 1 October 1998.

## STRUCTURE AND DESCRIPTION OF THE TRANSACTION ACCOUNTS AND FUNDS FLOW MANAGEMENT

### **The First Account Bank Agreement**

The First Account Bank Agreement is the French law governed account bank agreement dated 3 February 2003, as amended and restated on the Issue Date and made between *inter alia*: (i) XFS as Account Holder and (ii) Natexis Banques Populaires as the First Account Bank (the “**First Account Bank Agreement**”).

It is pursuant to the First Account Bank Agreement that the General Collection Account is operated. All sums payable under the Lease Contracts and the Equipment are initially credited to the General Collection Account at the First Account Bank. Thereafter such sums are transferred on a daily basis to XFS accounts held at the Second Account Bank for subsequent allocation pursuant to the Funds Flow Management Agreement (see “*Structure and Description of the Transaction Accounts and Funds Flow Management – The Funds Flow Management Agreement*”).

The First Account Bank Agreement is entered into on a limited recourse basis. The First Account Bank has agreed to waive its right to file any petition for bankruptcy against XFS.

### **The Second Account Bank Agreement**

The Second Account Bank Agreement is the French law governed agreement dated 8 July 2003 and made between XFS in its capacity as an Account Holder and BRED Banque Populaire as the Second Account Bank (the “**Second Account Bank Agreement**”), with retroactive effect as of the Cut-Off Date.

The purpose of the Second Account Bank Agreement is to set out the responsibilities of the Second Account Bank and the conditions for the operating of the XFS Transaction Accounts listed below.

The following XFS Transaction Accounts shall be operated by the Second Account Bank pursuant to the Second Account Bank Agreement:

- (a) Control Account for Deleted Lease Payments;
- (b) Maintenance Flow Account;
- (c) VAT Account for Maintenance Flow;
- (d) VAT account for Financial Flow;
- (e) Spare Parts Account;
- (f) Back-up Servicer Reserve Account;
- (g) XFS Maintenance Revenue Account;
- (h) Transition Account;
- (i) Loan Financial Flow Account;
- (j) Loan Hedging Flow Account;
- (k) Operating Account;
- (l) Tax Reserve Account;
- (m) Loan General Reserve Account;
- (n) Loan Distribution Account;
- (o) Second Warehouse Facility Financial Flow Account;
- (p) Second Warehouse Facility Hedging Flow Account;
- (q) Second Warehouse Facility Interest Reserve Account;
- (r) Second Warehouse Facility General Reserve Account;

- (s) Second Warehouse Facility Reloading Reserve Account; and
- (t) Second Warehouse Facility Distribution Account.

## **The Funds Flow Management Agreement**

### ***Background***

The Funds Flow Management Agreement refers to the French law governed agreement entered into on or prior to the Issue Date and made between (i) XFS, (ii) XF as the funds flow manager, (iii) the Financial Guarantor, (iv) MLIBL as the lender under the Second Warehouse Facility Agreement and (v) MLI as arranger (the “**Funds Flow Management Agreement**”).

### ***The Purpose***

Under the Funds Flow Management Agreement, XFS has appointed XF as its agent (*mandataire*) to carry out the management of XFS funds flow, the allocation of its funds into its various bank accounts and the payments to be made by XFS or on its behalf pursuant to the Transaction Documents to which XFS is a party (in such capacity, the “**Funds Flow Manager**”). The agreement sets out the order in which funds are allocated to the XFS accounts and the order in which XF should make any payments to third parties on behalf of XFS.

### ***Reconciliation and segregation of funds***

All of XFS’ income resulting from rental deriving from the leases (the “**Rental Income**”) is directed into the General Collection Account.

On each Business Day, all funds credited into the General Collection Account are (i) identified, reconciled with the funds that XFS should have received pursuant to all of its lease contracts, (ii) segregated from other monies and (iii) the respective amounts thereof reported to XFS.

The funds standing to the credit of the General Collection Account are then allocated by the Funds Flow Manager by debiting the General Collection Account and crediting the various XFS Transaction Accounts.

### ***Allocation of financial flows deriving from the Lease Portfolio into the relevant XFS Transaction Accounts***

The funds standing to the credit of the Loan Financial Flow Account are segregated into the following amounts and allocated from the Loan Financial Flow Account into the following XFS Transaction Accounts:

- (a) as to all amounts on the Loan Financial Flow Account corresponding to tax liabilities (other than VAT liabilities), the Tax Reserve Account;
- (b) as to all amounts standing to the credit of the Loan Financial Flow Account corresponding to loan hedging liabilities (not including termination costs, if any), the Loan Hedging Flow Account;
- (c) as to all amounts standing to the credit of the Loan Financial Flow Account corresponding to operating expenses, the Operating Account;
- (d) as to the balance of all amounts standing to the credit of the Loan Financial Flow Account after all transfers required to be made pursuant to the allocation order below (*first to third*) shall have been made, the Loan General Reserve Account; and
- (e) as to the balance of all amounts standing to the credit of the Loan Financial Flow Account (as the case may be increased by all payments to be made to XFS by the Loan Hedging Provider or the Loan Hedging Guarantor pursuant to the Loan Hedging Agreement), after all transfers required to be made pursuant to allocation order below (*first to fourth*) shall have been made, the Loan Distribution Account.

### ***Investment of credit balances***

The Funds Flow Manager shall be entitled to manage the cash on the credit balances on any of the relevant XFS Transaction Accounts to achieve a return on such credit balances and shall be entitled to give instructions with respect to the subscription for securities and financial instruments, within the limits of the amount standing to the credit of each such accounts provided that investments are limited to:

- (i) French government treasury bonds (*bons du Trésor*);

- (ii) debt securities referred to in Article L. 211-1 2° of the Code and denominated in Euro, provided that they are traded on a regulated market located in a country that is a member of the European Economic Area, with the exception of securities giving access directly or indirectly to the share capital of a company, having a maturity at least one Business Day prior to the said Calculation Date and having a rating of no lower than A-1+ by S&P, P-1 by Moody's and F1+ by Fitch or having a rating otherwise acceptable to the Rating Agencies;
- (iii) negotiable debt instruments (*titres de créances négociables*), having a maturity at least one Business Day prior to the next applicable Due Date or (as appropriate) Transaction Payment Date and having a short term rating of no lower than A-1+ by S&P, P-1 by Moody's and F1+ by Fitch or having a rating otherwise acceptable to the Rating Agencies;
- (iv) SICAV (*société d'investissement à capital variable*) shares or a mutual fund (*fonds commun de placement*) units denominated in Euro, provided that the SICAV or the mutual fund is invested primarily in the securities described in clauses 1, 2 and 3 of Article 4 of the Decree, relating to French mutual debt funds (*fonds communs de créances*), but excluding investments in funds described in Articles L. 214-36 and L. 214-42 of the Code, having a maturity at least one Business Day prior to the next said Calculation Date and having a rating of no lower than A-1+ by S&P, P-1 by Moody's and F1+ by Fitch or having a rating otherwise acceptable to the Rating Agencies;
- (v) units issued by a French mutual debt fund *fonds commun de créances* with the exception of units issued by the Fund denominated in Euro and having a rating of no lower than A-1+ by S&P, P-1 by Moody's and F1+ by Fitch or having a rating otherwise acceptable to the Rating Agencies.

#### ***Allocation of funds from the Loan Financial Flow Account***

On a quarterly basis, the Funds Flow Manager shall give the appropriate instructions to the Second Account Bank so that (after allocation to the credit of the Financial Flow Account of any amount required to be allocated to the credit of the Financial Flow Account by the debit of the Loan General Reserve Account to cover any shortfall referred to below) the balance standing to the credit of the Loan Financial Flow Account shall be allocated pursuant to the following priority allocation order:

***first***, to the Tax Reserve Account up to the full amount of the required tax reserve;

***second***, to the Loan Hedging Flow Account up to the full required amount of loan hedging liabilities (not including termination costs, if any which are due and payable at such date or which is to become due and payable;

***third***, to the Operating Account up to the full required amount of the operating expenses which are due and payable at such date or which is to become due and payable;

***fourth***, to the Loan General Reserve Account up to the full amount necessary to reload the Loan General Reserve Account up to the required minimum level of the interest reserve; and

***fifth***, any remaining balance on the Loan Financial Flow Account after (i) application in accordance with the above priority allocation *first* to *fourth* and (ii) (subject to the Loan having been repaid in full and all amounts due by XFS to the Financial Guarantor under the Reimbursement Agreement having been repaid in full) payment of all termination costs (if any) under the Hedging Agreement, shall be allocated to the Loan Distribution Account.

At any date, if the Funds Flow Manager determines or is notified by any party that there is a shortfall which is then due and payable at such date in respect of any XFS liabilities which shall be paid out from the Loan Financial Flow Account (including any shortfall amount in respect of Loan Interest Payment), the Funds Flow Manager shall first allocate to the Loan Financial Flow Account from the balance standing to the credit of the Loan General Reserve Account an amount equal to whichever is less of (a) such shortfall or (b) the balance standing to the credit of the Loan General Reserve Account, before allocating the balance of the Loan Financial Flow Account on such date (as increased by the above mentioned amount) for application pursuant to the above priority allocation.

#### ***Payments from the Loan Financial Flow Account***

The Funds Flow Manager shall ensure that no amount shall be debited from the Loan Financial Flow Account other than pursuant to the above allocation priority order.



***Payments from the Loan Hedging Flow Account***

The Funds Flow Manager shall promptly give the appropriate instructions to the Second Account Bank so that any loan hedging liabilities (then due and payable shall be paid directly to the Loan Hedging Provider, provided that the Funds Flow Manager shall ensure that any termination costs (if any) shall only be paid subject to the above mentioned allocation order (see “Allocation of funds from the Loan Financial FlowAccount”).

***Payments from the Loan General Reserve Account***

The Funds Flow Manager shall ensure that no amount shall be debited from the Loan General Reserve Account other than (i) for allocation of any shortfall pursuant to the above allocation order, or (ii) for prepayment of the Loan if at any time the aggregate amount standing to the credit of the Loan General Reserve Account is above the outstanding principal amount of the Loan, or (iii) payment of the Loan on the Loan Final Maturity Date.

***Payments from the Loan Distribution Account***

The Funds Flow Manager shall promptly give the appropriate instructions to the Second Account Bank so that, subject to above allocation priority order:

***first***, the portion of the loan interest payments corresponding to the fees payable by the Compartment (as specified in the Compartment Regulations) then due and payable pursuant to the Loan Agreement shall be paid directly to the Compartment Distribution Account;

***second***, the Counter Guarantee fee then due and payable to the Financial Guarantor pursuant to the Maintenance Guarantee Letter of Request;

***third***, the Guarantee Fee then due and payable to the Financial Guarantor pursuant to the Maintenance Guarantee Fee Letter;

***fourth***, the remaining portion of the Loan Interest Payments then due and payable pursuant to the Loan Agreement shall be paid directly to the Compartment Distribution Account;

***fifth***, any amounts due and payable to the Financial Guarantor pursuant to the Reimbursement Agreement;

***sixth***, any shortfall in respect of the Maintenance Counter Guarantee provider liabilities and the Maintenance Guarantee Provider liabilities then due and payable to the Maintenance Counter Guarantee provider and the Maintenance Guarantee Provider; and

***seventh***, the principal payments under the Loan Agreement then due and payable shall be paid directly to the Compartment Distribution Account.

***Accession of substitute funds flow manager***

XF acknowledges that the mandate (*mandat*) granted to it pursuant to the Funds Flow Management Agreement shall immediately and automatically terminate upon the appointment of EDS as Back-up Servicer. A substitute funds flow manager may be appointed by XFS on such date as XF has executed an accession letter in the form provided in the Funds Flow Management Agreement.

## FEES AND COMMISSIONS

The Compartment will pay all the costs and expenses relating to the establishment of the FCC and the Compartment. This includes all the costs and expenses of the legal advisers, the accountants and the Rating Agencies as at the Issue Date. All the fees relating to the remuneration of the Loan Servicer, the Custodian, the Management Company, the Paying Agent, the Operating Bank, the Compartment's Statutory Auditor and the Rating Agencies as well as all the sums due to third parties after the Issue Date will be paid from the Compartment Available Funds.

In accordance with the Compartment Regulations, the Transfer and Servicing Agreement, the Transfer Deed, the Paying Agency Agreement, the Compartment Accounts Agreement, the Class A Units Subscription Agreement, the Class R Unit Subscription Agreement, the Intercreditor Agreement, and any other document relating to the issue of the Class A Unit, together the "**Compartment Transaction Documents**", the Compartment Operating Expenses as listed below, will be paid to their respective beneficiaries on each Payment Date pursuant to the Priority Orders of Payments.

On each Payment Date, the Compartment, as represented by the Management Company, shall also pay the Third Party Expenses relating to the period between such Payment Date and the immediately preceding Payment Date.

### **Compartment Operating Expenses**

The aggregate amount of the Compartment Operating Expenses is initially estimated at approximately € 181,300 per annum.

These Compartment Operating Expenses are exclusive of V.A.T. However, in the event that they become subject to V.A.T., V.A.T. will be paid in addition to such fees.

### ***Management Company***

In consideration for its obligations with respect to the Compartment, the Management Company shall receive a fee equal to € 58,000 and a fee due to the Statutory Auditor equal to € 3,300 (excluding tax) per annum payable, in accordance with the Priority Orders of Payments, *pro rata temporis* on each Payment Date.

### ***Custodian***

In consideration for its obligations with respect to the Compartment, the Custodian shall receive a fee equal to € 40,000 (excluding tax) per annum payable, in accordance with the Priority Orders of Payments, *pro rata temporis* on each Payment Date.

### ***Loan Servicer***

In consideration for its obligations with respect to the Compartment, the Loan Servicer shall receive a fee equal to € 30,000 (excluding tax) per annum payable, in accordance with the Priority Orders of Payments, *pro rata temporis* on each Payment Date.

### ***Operating Bank***

In consideration for its obligations with respect to the Compartment, the Operating Bank shall receive a fee equal to € 10,000 (excluding tax) per annum payable, in accordance with the Priority Orders of Payments, *pro rata temporis* on each Payment Date.

### ***Paying Agent***

In consideration for its obligations with respect to the Compartment, the Paying Agent shall receive a fee equal to € 5,000 (excluding tax) per annum payable, in accordance with the Priority Orders of Payments, *pro rata temporis* on each Payment Date.

### ***Statutory Auditor***

In consideration for its obligations with respect to the Compartment, the Statutory Auditor shall receive a fee equal to € 1,375 (excluding tax) for the period elapsing from the Issue Date to 31 December 2003 and subsequently € 3,300 (excluding tax) per annum. Such fee shall be borne exclusively by the Management Company.

### ***Rating Agencies***

In consideration for their obligations with respect to the Compartment, the Rating Agencies shall receive a fee equal to € 35,000 (excluding tax) per annum payable, in accordance with the Priority Orders of Payments, *pro rata temporis* on each Payment Date.

### **Third Party Expenses**

The Third Party Expenses includes all sums due to third parties (other than those sums due to the Loan Servicer, the Custodian, the Management Company, the Paying Agent, the Operating Bank, the Statutory Auditor of the FCC in respect of the Compartment and the Rating Agencies), including (i) the combined management and underwriting commission and placement fee due and payable on the Issue Date to the Lead Manager and the Managers, and (ii) obligations incurred in the course of the Compartment's business, including taxes, costs, expenses, fees and indemnity claims due and payable, on each Payment Date, in connection with the purchase and/or the management of the Loan Receivable or other asset upon or following the enforcement of any Related Security by the Loan Servicer.

In accordance with the Class A Units Subscription Agreement, a combined management and underwriting commission and placement fee shall be payable by the Compartment to the Lead Manager and the Managers at the same time as the subscription moneys for the Class A Units are paid (it being understood that the Compartment may substitute any other entity in such obligation of payment).

## DISSOLUTION AND LIQUIDATION OF THE COMPARTMENT

*This section describes the Liquidation Events, the procedure for the liquidation of the Compartment and for the obligations of the Management Company in this case, in accordance with the provisions of the Compartment Regulations and the General Regulations.*

### General

Pursuant to Article L. 214-49 of the Code and the Compartment Regulations, the Management Company shall liquidate the Compartment no later than six months following the Loan Receivable held by the Compartment being extinguished, sold or written-off.

### Mandatory Liquidation Events

The Management Company, acting on behalf of the Compartment, shall, if it is in the interest of the Unitholders and in accordance with Article L. 214-43 of the Code and Article 6 of the Decree, declare the Compartment dissolved and carry out its liquidation upon the occurrence of any of the following events:

- (i) the Compartment's temporarily available cash has exceeded 60% of the Compartment's assets for a period of six months; or
- (ii) a change in circumstances has occurred (which is not related to the level of defaults of the Borrower under the Loan Agreement) which may result in the reduction of the level of security offered to the Unitholders.
- (iii) the outstanding amount of the Class A Units is paid down if the sum of (i) the amount held in the Loan General Reserve Account of XFS and (ii) the Compartment Available Funds to pay principal on the Units becomes more or equal to the then Outstanding Principal Amount.

### Optional Liquidation Events

Under the terms of the Compartment Regulations, the Management Company, acting in the name and on behalf of the Compartment, may decide to declare the early dissolution of the Compartment and carry out the liquidation upon the occurrence of one of the following events (each, an "**Optional Liquidation Event**"):

- (i) the principal outstanding amount of the Loan Receivable is less than 10% of the maximum aggregate principal outstanding amount of the Loan Receivable since the Issue Date; or
- (ii) all of the Units are held by a single Unitholder (including the Originator) which requests such a dissolution.

### Dissolution Procedures

Upon the occurrence of any of the dissolution events referred to above, the Management Company, acting on behalf of the Compartment, shall propose to the Originator to repurchase the Loan Receivable and the Related Security in accordance with the terms and conditions described hereafter.

The Management Company will use its best endeavours to sell the Loan Receivable and the Related Security for an amount equal to the principal amount outstanding of the Loan Receivable plus the unpaid amount of all finance charges, interest payments and other amounts accrued on or payable under or in connection with the Loan Receivable and the Related Security. In the event that the Loan or the Loan Receivable is/are in default, the Management Company will try to sell the Loan Receivable and the Related Security for a purchase price based on the fair market value as agreed by the Management Company and the Originator or any other prospective purchaser.

The Originator is entitled to refuse the offer made by the Management Company to repurchase the Loan Receivable and the Related Security. If the transfer of the Loan Receivable and the Related Security to the Originator in accordance with the conditions set out above does not occur, for whatever reason, the Management Company will use its best endeavors to transfer the Loan Receivable and the Related Security to any credit institution (*établissement de crédit*) or any other entity authorised to acquire the Loan Receivable and the Related Security under the same terms and conditions.

The repurchase price of the Loan Receivable and the Related Security under the above conditions must provide the Compartment with sufficient funds, including the Compartment's temporarily available cash (if any), to pay any amounts due in respect of principal, interest and other amounts due to the Unitholders. If the repurchase price

is less than the amount required to pay such amounts in full, such transfer shall not be permitted unless such transfer is in the interest of the Unitholders.

The Compartment shall be dissolved at the time of the transfer of the Loan Receivable and the Related Security by the Compartment and liquidated no later than six (6) months following such transfer.

#### **Duties of the Management Company**

Whatever the cause of the early liquidation of the Compartment, the Management Company shall be responsible for the liquidation process. For this purpose, it shall be vested with the broadest powers to (i) dispose of the Loan Receivable and the Related Security and, if any, the remaining Compartment's temporarily available cash, (ii) pay any potential creditor in accordance with the Priority Order or Payments and (iii) distribute any available balance.

The Statutory Auditor and the Custodian shall continue to exercise their respective functions until the completion of the liquidation process.

#### **Liquidation Surplus – Liquidation Shortfall**

The winding up of the Compartment is not expected to produce a Liquidation Surplus.

Nevertheless, in the event that a Liquidation Surplus should be generated when the Compartment is wound up, such Liquidation Surplus will be paid out to the Class R Unitholder.

If, after the Loan Receivable is repaid, written off or sold, the Management Company is unable to repay all the debts of the Compartment and/or to pay any amounts still due to all or part of the Unitholders, the Management Company shall repay the debts of the Compartment in accordance with the Priority Orders of Payments. The Management Company shall then inform the creditors and/or Unitholders who are still unpaid, through any means that the Management Company deems appropriate, that the liquidation of the Compartment is terminated and that there is a liquidation shortfall.

## GENERAL ACCOUNTING PRINCIPLES GOVERNING THE COMPARTMENT

The accounts of the Compartment shall be drawn up in accordance with the recommendations of the French National Accounting Board (*Conseil National de la Comptabilité*), as set out in its *bulletin* of 15 December 1989.

### **The Loan Receivable and Income**

The Loan Receivable shall be recorded on the Compartment's balance sheet at its nominal value. Any potential difference between the Transfer Price and the nominal value of the Loan Receivable, whether positive or negative, shall be recorded in an adjustment account on the asset side of the balance sheet. This difference shall result in a carry-forward *pro rata* to the amortisation of the Loan Receivable.

The interest on the Loan Receivable shall be recorded in the income statement, *pro rata temporis*. The accrued and overdue interest shall appear on the asset side of the balance sheet in a miscellaneous receivables account.

If the Loan Receivable is overdue for payment or has defaulted, it shall not be specified in the balance sheet but shall be the subject of a disclosure note in the annex.

If the Loan Receivable is in default, it shall be accounted for as a loss in the account for non-performing assets.

### **Units Issued and Income**

The Units shall be recorded at their nominal value and shown separately on the liability side of the balance sheet. Any potential difference, whether positive or negative, between the issue price and the nominal value of the Units shall be recorded in an adjustment account on the liability side of the balance sheet. This difference shall result in a carry-forward *pro rata* to the amortisation of the Units.

The interest due on the Units shall be recorded in the income statement *pro rata temporis*. The accrued and overdue interest shall appear on the liability side of the balance sheet in a miscellaneous liabilities account.

### **Term of Financial Period**

Each accounting period (each, a “**Financial Period**”) of the Compartment shall be a period of 12 months, beginning on 1 January and ending on 31 December of each year, with the exception of the first Financial Period, which will begin on the Issue Date and end on 31 December 2003.

### **Costs, Commissions and Payments relating to the Compartment's Operations**

The various commissions and payments paid to the Custodian, the Management Company, the Loan Servicer, the Operating Bank, the Paying Agent, the Rating Agencies and the Statutory Auditor shall be accounted for *pro rata temporis* over the Financial Period.

All costs and expenses together with any V.A.T. thereon incurred in connection with the establishment of the FCC as well as of this first Compartment as of the Issue Date will be borne by the Compartment (it being understood that the Compartment may substitute any other entity in such obligation of payment).

All costs and expenses (including legal fees and valuation fees) together with any V.A.T. thereon incurred in connection with the operation of the Compartment after the Issue Date will be deemed included in the various commissions and payments paid to the Loan Servicer, the Custodian, the Management Company, the Paying Agent, the Operating Bank, the Statutory Auditor, the Rating Agencies in accordance with the relevant Compartment Transaction Documents.

As from the Issue Date and during the life of the Compartment, the Loan Servicer shall reimburse the Management Company or the Custodian for costs and expenses incurred by them in connection with the translation into French of the Compartment Transaction Documents and/or the General Regulations in the event that such documents are submitted to the French competent courts.

### **Costs of the Placement of the Class A Units**

In accordance with the Class A Units Subscription Agreement the costs and expenses of placing the Class A Units incurred as of the Issue Date shall be borne by the Compartment (it being understood that the Compartment may substitute any other entity in such obligation of payment).



**Compartment Cash**

Any investment income derived from the investment of any Compartment's available cash in Permitted Investments shall be accounted *pro rata temporis*.

**Net Income**

The net income shall be posted to a retained earnings carry-forward account.

**Liquidation Surplus**

The Liquidation Surplus (if any) shall consist of the income from the liquidation of the Compartment and the retained earnings carry-forward.

**Accounting information in relation to the Compartment**

The accounting information with respect to the Compartment shall be provided by the Management Company, under the supervision of the Custodian, in its annual report of activity and half-yearly report of activity, pursuant to the applicable accounting standards.

## ADDITIONAL INFORMATION RELATING TO THE COMPARTMENT

The Compartment will not be established prior to the Issue Date. Accordingly, the Compartment has not engaged in any business and has not produced any financial statements.

After the Issue Date, the Management Company shall make available to Unitholders the following information below.

### Annual Information

No later than four months following the end of each Financial Period, the Management Company shall prepare and publish, under the supervision of the Custodian and in accordance with the then current and applicable accounting rules and practices, an annual activity report in relation to such a Financial Period containing:

- (i) the following accounting documents:
  - (a) the inventory of the assets allocated to the Compartment including:
    - the inventory of the Loan Receivable allocated to the Compartment; and
    - the amount and the distribution of the cash of the Compartment;
  - (b) the annual accounts and the schedules referred to in the opinion (*avis*) of the *Conseil national de la comptabilité* (National Accounting Committee) and, as the case may be, a detailed report on the debts of the Compartment and the guarantees received;
- (ii) a management report consisting of:
  - (a) the nature, amount and proportion of all fees and expenses borne by the Compartment during the course of the relevant accounting period;
  - (b) the certified level during the relevant accounting period of temporarily available sums and the sums pending allocation as compared with the assets of the Compartment;
  - (c) the description of transactions carried out on behalf of the Compartment during the course of the relevant accounting period;
  - (d) information relating to the Loan Receivable and the classes of Units issued by the Compartment; and
  - (e) more generally, any information required in the applicable instruction of the French Stock Exchange Commission;
- (iii) any changes made to the rating document(s) and to the main features of the Information Memorandum and any event which may have an impact on the Units issued by the Compartment in respect of the assets allocated to the Compartment; and
- (iv) any other information required, as the case may be, by the laws and regulations in force.

The Statutory Auditor shall certify the annual accounts and verify the information contained in the annual activity report.

### Interim Information

No later than three months following the end of the first six-month period of each Financial Period, the Management Company shall prepare and publish, under the supervision of the Custodian and in accordance with the then current and applicable accounting rules and practices, an interim report in relation to the said six-month period containing:

- (i) financial information in relation to the Compartment with a notice indicating a limited review by the Statutory Auditor;
- (ii) an interim management report containing the information described in the Compartment Regulations; and

- (iii) any modifications to the rating documents in relation to the Class A Units, to the principal elements of the Compartment Regulations and Information Memorandum and any matters that may have an effect on the Units issued by the Compartment.

#### **Quarterly Information**

Upon request, the Management Company shall send to the Rating Agencies quarterly reports whose format and content shall be set out between the said Rating Agencies and the Management Company.

#### **Additional Information**

Subject to the paragraph below, the Management Company shall be entitled to publish on its web site <http://www.france-titrisation.com>, or on any other medium which it may deem the most appropriate, any other information relating to the Originator, to the Loan Receivable and the Related Security and/or the management of the Compartment, such information to be sufficient in its opinion to ensure the most relevant, accurate or reasonable information of the Unitholders of the Units issued by the Compartment. The information contained in the Management Company's web site does not form part of this Offering Circular.

**THE MANAGEMENT COMPANY SHALL AT SUCH TIMES AS IT MAY DEEM APPROPRIATE PUBLISH ANY ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF THIS PARAGRAPH. THE MANAGEMENT COMPANY SHALL BEAR ANY LIABILITY ARISING THEREFROM.**

The annual report, the interim report and all other documents published by the Compartment shall be (i) provided by the Management Company to the Unitholders who request such information and (ii) made available to Unitholders at the premises of the Custodian.

Any Unitholder may obtain free of cost from the Management Company and the Custodian, as soon as they are published, the management reports of their activity.

The above mentioned information shall be released by mail. Such information is also provided to the French Stock Exchange Commission and to the Rating Agencies.

Furthermore, the Management Company shall provide the Rating Agencies with the data relating to the Compartment in electronic form as agreed between the Management Company and the Rating Agencies.

#### **Consultation of the Management Company upon occurrence of a Financial Guarantor Trigger Event**

- 1) Upon the occurrence of a Financial Guarantor Trigger Event, any authorised representative of Copytrust, as shareholder of the Borrower, may, in accordance with the Copytrust Regulations, consult the Management Company for any Proposed Decision.
- 2) Upon the occurrence of a Financial Guarantor Trigger Event (such as Copytrust may be aware of or may be notified by the Financial Guarantor) and until the Unitholders have been repaid in full, the authorised representative of Copytrust shall (a) cease to take the recommendations of the Financial Guarantor and MLI and, (b) consult with the authorised representative of the Management Company 10 business days prior to the decision on any Proposed Decision in order that the Management Company confirms that the anticipated decision of Copytrust for such Proposed Decision does not materially and adversely affect the rights of the Management Company, the FCC, the Compartment or the Unitholders.
- 3) Upon consultation by Copytrust, the Management Company shall be under no obligation to give the above mentioned recommendation in the event that the Management Company has not been provided with any and all necessary information, which it has requested, in order to enable the latter, in turn, to consult with the Rating Agencies and obtain confirmation from each Rating Agency that the anticipated decision of Copytrust for such Proposed Decision (a) will not trigger the downgrading, credit watch or withdrawal of a least one of the then current rating of the Class A Units or (b) will prevent such downgrading, credit watch or withdrawal or (c) if a downgrading is to occur in any event, will not prevent a worse downgrading.
- 4) The Management Company may consider that it has no confirmation from the Rating Agencies that the anticipated decision for relevant the Proposed Decision (a) will not trigger the downgrading, credit watch or withdrawal of a least one of the then current rating of the Class A Units or (b) will prevent such downgrading, credit watch or withdrawal or (c) if a downgrading is to occur in any event, will not prevent a worse downgrading if either:

- (i) at least one Rating Agency has failed to respond to the consultation sought by the Management Company within eight business days of the consultation of the Management Company by Copytrust (without such failure entitling any interested person to render such Rating Agency liable); or
  - (ii) at least one Rating Agency has confirmed that the anticipated decision for the relevant Proposed Decision (a) will trigger the downgrading, credit watch or withdrawal of a least one of the then current rating of the Class A Units or (b) will not prevent such downgrading, credit watch or withdrawal or (c) if a downgrading is to occur in any event, will not prevent a worse downgrading.
- 5) If, pursuant to points 3 or 4 above, the Management Company determines that no confirmation has been given to it by the Rating Agencies, the Management Company shall be under no obligation to give any recommendation to Copytrust. On the contrary, if the Management Company determines that it has received such confirmation, the Management Company shall, at least two business days prior to the day on which the decision of the relevant Proposed Decision is required, provide Copytrust with its confirmation that the anticipated decision of Copytrust for such Proposed Decision does or does not materially and adversely affect the rights of the Management Company, the FCC, the Compartment or the Unitholders.
- 6) Neither Copytrust nor any of the directors of Copytrust shall be liable for any of their decisions if, in the event that no recommendation is given by the Management Company to Copytrust in accordance with point 5, Copytrust either (a) decides on any Proposed Decision so that XFS's situation prior to the decision remains unchanged, provided that the Proposed Decision states on the face of it whether or not the Proposed Decision will change XFS's situation or (b) if such Proposed Decision relates to the exercise or enforcement of a right to which XFS is entitled to (including a termination right) pursuant to the contracts to which XFS is a party, decides on the Proposed Decision so that XFS effectively enforces such right. If a recommendation from the Management Company is given to Copytrust at the latest two business days immediately preceding the day on which the decision of such Proposed Decision is required, Copytrust may decide any Proposed Decision in accordance with the written recommendation of the Management Company.
- 7) The Management Company shall not render Copytrust or any of its directors liable for any decisions adopted accordance with the Copytrust Regulations provided that Copytrust and its directors have fully complied with such Copytrust Regulations.
- 8) The Management Company and its directors shall not be liable vis-à-vis Copytrust nor the Compartment nor the FCC nor the Compartment any Unitholder if the Management Company's confirmation (if any) to Copytrust complies with the confirmation it has received from the Rating Agencies in accordance with this clause.
- 9) For the purpose of providing Copytrust with its recommendation in accordance with this clause, the Management Company may, consult with the French Stock Exchange Commission in the event that the relevant Proposed Decision may affect the Offering Circular relating to the issue of the Class A Units.
- 10) This clause is without prejudice to the obligations of the Management Company to obtain a prior consent of the French Stock Exchange Commission where such consent is required by any applicable laws and/or regulations.

## FRENCH TAX REGIME APPLICABLE TO THE CLASS A UNITHOLDERS

Individuals French tax residents	Companies and legal entities subject to corporate income tax	Non profit organisations	Non-residents	Unit trust (OPCVM)
<p>Income from Class A Units</p> <p>Premium (if less than 10 % of the offering price)</p>	<p>The French tax authorities ("Direction Générale des Impôts") have taken the position that Units must be marked-to-market at the close of each financial year, the result of such valuation being fully taxable or deductible at the normal rate of 35.43%.</p>	<p>Income from Units is annually subject to corporate income tax at the rate of 10% provided for by Article 219 bis I of the French Tax Code (<i>Code général des impôts</i>).</p>	<p>Income from Units is exempted from the withholding tax (currently of 15%), provided the holders prove they have their tax residence or registered office in a country other than France.</p>	<p>The tax treatment of income of Units distributed to holders having their residence in France, depends on the status of each trust Unit holder, in accordance with the principles referred to in this table.</p>
<p><b>Without option for withholding tax:</b></p> <p>Subject to personal income tax at the progressive rates from 0% to 49.58% (increased by social levies: general social security contribution "CSG" (7.5%), contribution to the reimbursement of the social security debt "CRDS" (0.5%), and social withholding (2%).</p> <p><b>With option for withholding tax:</b></p> <p>Taxation at the rate of 25% including the withholding tax itself (15%), the CSG (7.5%), the CRDS (0.5%) and the social withholding (2%).</p>	<p>Capital gains from Units are annually subject to corporate income tax at the normal rate of 35.43%. This calculation takes into account the unrealised capital gain previously taxed.</p>	<p>Not subject to tax in France.</p>	<p>Not subject to tax in France.</p>	<p>Capital gains on sales of FCC Units cannot be distributed. Such gains increase the liquidative value of the trust Unit.</p>
<p>Capital gains from sales of Class A Units (expected maturity over five years as from the Issue Date)</p>	<p>Taxation on capital gains at the global rate of 26% (including CSG, CRDS and social withholding) during the fiscal year for an annual amount exceeding €15,000 (Article 150 0-A II-5° of the French Tax Code (<i>Code général des impôts</i>)).</p>	<p>Not subject to tax in France.</p>	<p>Not subject to tax in France.</p>	<p>The tax treatment of capital gains on sales of FCC Units distributed to French holders, depends on the status of each trust Unit holder, in accordance with the principles referred to for Individuals French tax resident pursuant to Article 124 B of the French Tax Code.</p>
<p>Capital gains from sales of Class A Units (expected maturity under or equal to five years as from the Issue Date)</p>	<p>Same treatment as capital gains on sales of Units having a maturity superior to five years.</p>	<p>Not subject to tax in France.</p>	<p>Not subject to tax in France.</p>	<p>The tax treatment of capital gains on sales of FCC Units distributed to French holders, depends on the status of each trust Unit holder, in accordance with the principles referred to for Individuals French tax resident pursuant to Article 124 B of the French Tax Code.</p>

## MODIFICATIONS TO THE TRANSACTION

### Modifications

Any event which may have a significant impact on the terms and conditions of the Units and any modification to the information contained in this Offering Circular shall be made public in a press release subject to the prior notification of the Rating Agencies. The press release shall be incorporated in the next management report. Modifications shall be enforceable against Unitholders three clear days following publication of the relevant press release. While the Units are listed on the Reserved Section of the Paris Stock Exchange, any modifications will be promptly notified to the Paris Stock Exchange.

### Amendments to the Compartment Regulations

Any event which may have a significant impact on the terms and conditions of the Units and any modification to the information contained in the Compartment Regulations and the Information Memorandum shall be made public in a press release subject to the prior notification of the French Stock Exchange Commission and the Rating Agencies. Such press release shall be incorporated in the next management report. Modifications shall be enforceable against Unitholders three clear days following publication of the relevant press release.

The Management Company and the Custodian, acting in their capacity as founders of the FCC and the Compartment, may agree to amend the provisions of the Compartment Regulations, provided that:

- (i) such amendments shall not result in, or shall be intended to limit, the downgrading of the level of security offered to the Unitholders or, as applicable, the downgrading of any of the then current ratings (if any) assigned to any of the Units issued by the Compartment; and/or
- (ii) all provisions of the laws relating to the information of the Unitholders are complied with; and/or
- (iii) any amendment to the financial characteristics of any type of Units issued by the Compartment shall require the prior approval of the Unitholders of such Units; and/or
- (iv) any amendments to the Compartment Regulations shall be notified to the Unitholders of all outstanding Units issued by the Compartment,

it being specified that such amendments shall, automatically and without any further formalities (*de plein droit*), be enforceable as against such Unitholders five clear days after the publication of the appropriate documents.



## GOVERNING LAW AND JURISDICTION

### **Governing law**

The Units, the Paying Agency Agreement, the Transfer and Servicing Agreement, the Class A Units Subscription Agreement, the Class R Unit Subscription Agreement, the Compartment Accounts Agreement, the General Regulations and the Compartment Regulations are governed by, and shall be construed in accordance with, French law.

### **Settlement of disputes**

The Commercial court of Paris (*Tribunal de Commerce de Paris*) shall have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Compartment Transaction Documents or the formation, functioning or liquidation of the Compartment.

## SUBSCRIPTION AND OFFERING OF THE CLASS A UNITS

### **The Class A Units Subscription Agreement**

Pursuant to the Class A Units Subscription Agreement, the Lead Manager and each Manager has agreed, subject to certain conditions, to underwrite, subscribe and pay for, the Class A Units at the price shown on the front cover of this Offering Circular.

Since the Class A Units will be admitted to the clearing systems of Euroclear France, Euroclear and Clearstream, Luxembourg, BNP – Paribas Securities Services 030 is appointed to act as intermediary between the Lead Manager and the Managers and the Relevant Clearing Systems (the “**Centralising Manager**”). Pursuant the Class A Units Subscription Agreement, the Compartment, as represented by the Management Company, undertakes that on the Issue Date it will apply the amounts paid by the Lead Manager to the Compartment forthwith in or towards acquiring from the Originator the Loan Receivable and the Related Security pursuant to the terms of the Transfer and Servicing Agreement.

Pursuant to the Class A Units Subscription Agreement and in relation to the offering and distribution of the Class A Units, the Lead Manager and/or each Manager shall be held liable and shall indemnify the Compartment if it does not comply with the selling restrictions referred to below.

Pursuant to the Class A Units Subscription Agreement, from (and including) the Issue Date to (but excluding) the Listing Date, the Lead Manager, at its discretion, but only to the extent permitted by, and in accordance with any applicable law and/or regulation, may over-allot or otherwise effect any transaction in the open market in relation to the Class A Units in order to, as the case may be, stabilise or maintain the market prices of the Class A Units at levels which might not otherwise prevail in the open market and such stabilisation, if commenced, may be discontinued at any time.

As from (and including) the Listing Date, the Lead Manager may, at its discretion, but only to the extent permitted by, and in accordance with any applicable law and/or regulation, engage in transactions to stabilise or maintain the market price of Class A Units at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time and will be effected in accordance with all applicable laws and regulations.

Any loss resulting from over-allotment and stabilisation shall be borne, and any profit arising from them shall be retained by the Lead Manager for its own account.

### **The Class R Unit Subscription Agreement**

Pursuant to the Class R Unit Subscription Agreement, the Class R Unitholder has agreed, subject to certain conditions, to subscribe and pay for the Class R Unit at an aggregate issue price equal to 100 per cent of the nominal value thereof.

### **Selling and Transfer Restrictions**

Pursuant to the Class A Units Subscription Agreement, the Lead Manager and each Manager has represented, warranted and undertaken to the Management Company to comply with the following selling and transfer restrictions in respect of the offering of the Class A Units:

#### ***France***

Under the Class A Units Subscription Agreement, the Lead Manager and each Manager has undertaken towards the Management Company and the Custodian that it will only offer Class A Units, within the context of a private placement, to qualified investors (*investisseurs qualifiés*) (within the meaning of Article L. 411-2 of the Code and the decree no. 98-880 of 1 October 1998, acting for their own account implementing the provisions of Article L. 411-2 of the Code).

Pursuant to the second paragraph of Article L. 411-2 of the Code, “*a qualified investor is a legal person who is competent and has the necessary means to evaluate the risk associated with any transaction carried out in connection with financial instruments*”. The list of the class of investors recognised as qualified investors has been laid down by decree no. 98-880 of 1 October 1998. Pursuant to the second paragraph of Article L. 411-2 of the Code, French undertakings for collective investments in transferable securities (“**UCITS**”) (*organismes de placement collectif en valeurs mobilières* or “**OPCVM**”) are deemed to be acting as qualified investors.

The offering of the Class A Units is not a public offering (*opération par appel public à l'épargne*) in France within the meaning of Article L. 411-2 of the Code due to the private placement of the Class A Units. However, the request for listing of the Class A Units on the Reserved Section of the Paris Stock Exchange constitutes a public offering (*opération par appel public à l'épargne*), within the meaning of Article L.411-1 of the Code.

### ***United States of America***

Class A Units shall not be the subject of a request for registration under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or under the state securities law of any state of the United States of America or any other jurisdiction. Subject to certain exceptions, Class A Units may not be offered or sold within the United States or to, or for the account or benefit of US persons (as defined in Regulation S promulgated under the Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act.

Moreover, any offer or sale of Class A Units within the United States, before the fortieth calendar day following the commencement of the placement by the Lead Manager, each Manager, or any other institution may violate the registration requirements of the Securities Act.

### ***United Kingdom***

Under the Class A Units Subscription Agreement, the Lead Manager and each Manager, has agreed with the Management Company and the Custodian and has undertaken that:

- (i) it has not offered or sold and, prior to the date six months after the Issue Date of any Class A Units will not offer or sell any Class A Units 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 businesses or otherwise in circumstances that have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated in the United Kingdom any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) in connection with the offer of Class A Units in circumstances in which section 21 (1) of the FSMA does not apply to the Compartment; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Class A Units in, from or otherwise involving the United Kingdom.

### ***Germany***

Each of the FCC, in respect of the Compartment, the Lead Manager and the other Managers represents and agrees not to offer or sell Class A Units in the Republic of Germany other than in compliance with the German law on securities offering prospectus (*Wertpapier-Verkaufsprospektgesetz*) of 9 September 1998 (as amended), or any other law applicable in the Republic of Germany governing the issue, offering and sale of securities.

### ***Japan***

Class A Units have not been, and will not be, registered in Japan under the Securities and Exchange Law of Japan. Therefore, the Lead Manager and each Manager has undertaken not to offer or sell, directly or indirectly, Class A Units in Japan or to any resident of Japan except in accordance with the exceptions provided for by the Securities and Exchange Law of Japan or any other applicable laws and regulations in Japan. For the purposes of the present paragraph, a “resident of Japan” means any person resident in Japan and any business or other entity subject to Japanese law.

### ***Miscellaneous***

Other than with respect to the listing of the Class A Units on the Reserved Section of the Paris Stock Exchange, no action has been or will be taken in any country or jurisdiction by the Management Company, the Custodian, the Lead Manager or any Manager that would, or is intended to, permit a public offering of the Class A Units. This Offering Circular and any document established thereto does not constitute an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

Class A Units may not be subscribed for or sold via the Internet (or any other similar means) unless in accordance with applicable laws and regulations.

The Lead Manager and each Manager has undertaken to observe and comply with applicable laws and regulations in force in any jurisdiction, and to obtain, as the case may be, any necessary authorisation in connection with the offering of the Class A Units.

Subject to the restrictions mentioned above, the Lead Manager and each Manager may distribute this Offering Circular in connection with the Offering of the Class A Units. However, the Lead Manager and each Manager does not guarantee the creation or the development of a secondary market in the Class A Units and is not liable to do so, and should the Lead Manager or any Manager intervene to create such a secondary market of Class A Units, such intervention may be interrupted at any time.

Purchasers of Class A Units may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase, in addition to the issue price.

## GENERAL INFORMATION

### 1. Filings and Approvals of the French Stock Exchange Commission

For the purpose of the listing of the Class A Units on the Reserved Section of the Paris Stock Exchange in accordance with Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 of the Code and pursuant to French Stock Exchange Commission Regulations no. 94-01 of 1 July 1994 relating to *fonds communs de créances* (as amended), (i) the General Regulations and (ii) the Offering Circular (*note de référence*) have been registered with the French Stock Exchange Commission prior to the listing date of the Class A Units on the Reserved Section of the Paris Stock Exchange.

### 2. Listing on Regulated Markets

Application has been made to the Reserved Section of the Paris Stock Exchange for the Class A Units to be admitted to the Reserved Section of the Paris Stock Exchange. It is expected that the Class A Units will be listed on the Reserved Section of the Paris Stock Exchange on 28 July 2003.

### 3. Clearing Systems – Clearing Codes – ISIN Numbers

The Class A Units have been accepted for clearance through Euroclear France, Euroclear and Clearstream, Luxembourg under number 017269313. The ISIN number (international identification number) allocated to the Class A Units is FR0000504953.

### 4. Available Documents

The General Regulations and this Offering Circular (*note d'émission*) shall be made available free of charge at the respective head offices of the Management Company, the Custodian, the Lead Manager, any Manager and the Class A Units Subscribers. Copies of the General Regulations and of the Compartment Regulations shall be made available for inspection by the Class A Unitholders at the respective head offices of the Management Company and the Custodian (the addresses of which are specified on the last page of this Offering Circular).

### 5. Statutory Auditor to the Compartment

Pursuant to Article L. 214-48-VI of the Code, the Statutory Auditor of the Compartment, Mazars & Guérard, have been appointed by the board of directors of the Management Company with the prior approval of the French Stock Exchange Commission. Under the applicable laws and regulations, the statutory auditor shall establish the accounting documents relating to the Compartment. In compliance with Article L. 214-48-V of the Code, the financial accounts of the Compartment shall remain separate from the general accounts of the Compartment.

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**APPENDIX 2 XFS AUDITED ACCOUNTS AS OF 31 DECEMBER 2002**

XFS – Bilan Actif

<b>Rubriques</b>	<b>31/12/02</b>
Capital souscrit non appelé	
<b>IMMOBILISATIONS INCORPORELLES</b>	
Frais d'établissement	
Frais de recherche et développement	
Concessions, brevets et droits similaires	
Fonds commercial	
Autres immobilisations incorporelles	
Avances, acomptes sur immo. incorporelles	
<b>IMMOBILISATIONS CORPORELLES</b>	
Terrains	
Constructions	
Installations techniques, matériel, outillage	
Autres immobilisations corporelles	386 763 201
Immobilisations en cours	15 564
Avances et acomptes	
<b>IMMOBILISATIONS FINANCIERES</b>	
Participations par mise en équivalence	
Autres participations	
Créances rattachées à des participations	
Autres titres immobilisés	
Prêts	345 000 000
Autres immobilisations financières	320
<b>ACTIF IMMOBILISE</b>	<b>731 779 084</b>
<b>STOCKS ET EN-COURS</b>	
Matières premières, approvisionnements	
En-cours de production de biens	
En-cours de production de services	
Produits intermédiaires et finis	
Marchandises	
Avances et acomptes versés sur commandes	
<b>CREANCES</b>	
Créances clients et comptes rattachés	8 432 742
Autres créances	79 005 824
Capital souscrit et appelé, non versé	
<b>DIVERS</b>	
Valeurs mobilières de placement (dont actions propres) :	3 440 310
Disponibilités	6 096 954
<b>COMPTES DE REGULARISATION</b>	
Charges constatées d'avance	480 605
<b>ACTIF CIRCULANT</b>	<b>97 456 435</b>
Charges à répartir sur plusieurs exercices	4 435 582
Primes de remboursement des obligations	
Ecart de conversion actif	
<b>TOTAL GENERAL</b>	<b>833 671 101</b>

<i><b>Rubriques</b></i>	<i><b>31/12/02</b></i>
Capital social ou individuel (dont versé) :	403 177 440
Primes d'émission, de fusion, d'apport	
Ecarts de réévaluation (dont écart d'équivalence) :	
Réserve légale	
Réserves statutaires ou contractuelles	
Réserves réglementées (dont rés. Prov. fluctuation cours) :	
Autres réserves (dont achat œuvres originales artistes) :	
Report à nouveau	
<b><i>RESULTAT DE L'EXERCICE (bénéfice ou perte)</i></b>	<b>(15 199 200)</b>
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Provisions réglementées	
<b>CAPITAUX PROPRES</b>	<b>387 978 240</b>
Produits des émissions de titres participatifs	
Avances conditionnées	
<b>AUTRES FONDS PROPRES</b>	
Provisions pour risques	
Provisions pour charges	
<b>PROVISIONS POUR RISQUES ET CHARGES</b>	
<b><i>DETTES FINANCIERES</i></b>	
Emprunts obligataires convertibles	
Autres emprunts obligataires	
Emprunts et dettes auprès des établissements de crédit	355 270 757
Emprunts et dettes financières divers (dont empr. participatifs)	
Avances et acomptes reçus sur commandes en cours	
<b><i>DETTES D'EXPLOITATION</i></b>	
Dettes fournisseurs et comptes rattachés	80 501 113
Dettes fiscales et sociales	852 550
<b><i>DETTES DIVERSES</i></b>	
Dettes sur immobilisations et comptes rattachés	2 602 156
Autres dettes	
<b><i>COMPTES DE REGULARISATION</i></b>	
Produits constatés d'avance	6 466 285
<b>DETTES</b>	<b>445 692 861</b>
Ecarts de conversion passif	
<b>TOTAL GENERAL</b>	<b>833 671 101</b>

XFS – Compte de Résultat

<i>Rubriques</i>	<i>31/12/02</i>
Produits exceptionnels sur opérations de gestion	
Produits exceptionnels sur opérations en capital	0
Reprises sur provisions et transferts de charges	
<b>PRODUITS EXCEPTIONNELS</b>	<b>0</b>
Charges exceptionnelles sur opérations de gestion	
Charges exceptionnelles sur opérations en capital	(112)
Dotations exceptionnelles aux amortissements et provisions	
<b>CHARGES EXCEPTIONNELLES</b>	<b>(112)</b>
<b>RESULTAT EXCEPTIONNEL</b>	<b>113</b>
Participation des salariés aux résultats de l'entreprise	
Impôts sur les bénéfices	
<b>TOTAL DES PRODUITS</b>	<b>6 698 275</b>
<b>TOTAL DES CHARGES</b>	<b>21 897 475</b>
<b>BENEFICE OU PERTE</b>	<b>(15 199 200)</b>

XFS – Compte de Résultat (en liste)

<i>Rubriques</i>	<i>31/12/02</i>
Ventes de marchandises	3 100 383
Production vendue de biens	
Production vendue de services	2 871 955
<b>CHIFFRES D’AFFAIRES NETS</b>	<b>5 972 337</b>
Production stockée	
Production immobilisée	
Subventions d’exploitation	
Reprises sur amortissements et provisions, transferts de charges	
Autres produits	
<b>PRODUITS D’EXPLOITATION</b>	<b>5 972 337</b>
Achats de marchandises (y compris droits de douane)	
Variation de stock (marchandises)	
Achats de matières premières et autres approvisionnements (et droits de douane)	
Variation de stock (matières premières et approvisionnements)	
Autres achats et charges externes	5 150 665
Impôts, taxes et versements assimilés	10 558
Salaires et traitements	
Charges sociales	
<b>DOTATIONS D’EXPLOITATION</b>	
Sur immobilisations : dotations aux amortissements	9 138 256
Sur immobilisations : dotations aux provisions	3 626 052
Sur actif circulant : dotations aux provisions	
Pour risques et charges: dotations aux provisions	
Autres charges	3 091 676
<b>CHARGES D’EXPLOITATION</b>	<b>21 017 207</b>
<b>RESULTAT D’EXPLOITATION</b>	<b>(15 044 870)</b>
<b>OPERATIONS EN COMMUN</b>	
Bénéfice attribué ou perte transférée	
Perte supportée ou bénéfice transféré	
<b>PRODUITS FINANCIERS</b>	
Produits financiers de participations	
Produits des autres valeurs mobilières et créances de l’actif immobilisé	
Autres intérêts et produits assimilés	724 863
Reprises sur provisions et transferts de charges	
Différences positives de change	
Produits nets sur cessions de valeurs mobilières de placement	1 074
<b>PRODUITS FINANCIERS</b>	<b>725 937</b>
Dotations financières aux amortissements et provisions	
Intérêts et charges assimilées	880 155
Différences négatives de change	
Charges nettes sur cessions de valeurs mobilières de placement	
<b>CHARGES FINANCIERES</b>	<b>880 155</b>
<b>RESULTAT FINANCIER</b>	<b>(154 218)</b>
<b>RESULTAT COURANT AVANT IMPOTS</b>	<b>(15 199 088)</b>



*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.**

<b>ASSETS</b>	<b>At Dec. 31, 2002</b>	<b>At Dec. 31, 2001</b>
<b>Subscribed capital uncalled</b> . . . . .	0	0
<b>Intangible assets</b> . . . . .	0	0
<b>Investments</b>		
Land and buildings . . . . .	0	0
Investments in related parties . . . . .	0	0
Other investments . . . . .	130,277,108	73,540,362
Cash deposits with guarantors		
	<b>130,277,108</b>	<b>73,540,362</b>
<b>Investment related to unit-linked contracts</b> . . . . .	<b>0</b>	<b>0</b>
<b>Reinsurers' share in technical reserves</b>		
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
	<b>49,998,641</b>	<b>31,594,546</b>
<b>Debtors</b>		
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
	<b>8,632,839</b>	<b>6,568,358</b>
<b>Other assets</b>		
Tangible assets . . . . .	380,739	281,210
Other deposits and guarantees . . . . .	82,936	67,769
Cash and cash equivalents . . . . .	2,541,152	779,736
	<b>3,004,827</b>	<b>1,128,715</b>
<b>Prepayments and accrued income</b>		
Other . . . . .	377,741	226,785
Deferred acquisition costs . . . . .	4,272,931	1,311,965
Accrued interest and rental income . . . . .	516,637	654,841
	<b>5,167,309</b>	<b>2,193,591</b>
<b>Unrealised exchange differences</b> . . . . .	<b>2,467,938</b>	<b>2,104,611</b>
<b>TOTAL ASSETS</b> . . . . .	<b>199,548,662</b>	<b>117,130,183</b>

FINANCIAL STATEMENTS: BALANCE SHEET/ASSETS (in Euros)

**MBIA ASSURANCE S.A.**  
**FINANCIAL STATEMENTS: BALANCE SHEET / LIABILITIES (in Euros)**

<b>LIABILITIES</b>	<b>At Dec. 31, 2002</b>	<b>At Dec. 31, 2001</b>
<b>Shareholders' equity</b>		
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)
	<b>38,068,355</b>	<b>31,002,236</b>
<b>Subordinated liabilities</b> . . . . .	<b>0</b>	<b>0</b>
<b>Gross technical reserves</b>		
Unearned premiums and premium deficiency reserves . . . . .	127,963,776	64,237,422
Claims reserve . . . . .	0	0
Other technical reserves . . . . .	0	0
	<b>127,963,776</b>	<b>64,237,422</b>
Technical reserve for unit-linked contracts . . . . .	0	0
<b>Provisions for liabilities and charges</b>		
Provision for exchange losses . . . . .	3,038,661	2,117,575
Provision for charges . . . . .	0	0
	<b>3,038,661</b>	<b>2,117,575</b>
<b>Cash deposits received from reinsurers</b> . . . . .	<b>2,195,266</b>	<b>2,195,266</b>
<b>Other liabilities</b>		
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
	<b>22,988,862</b>	<b>15,324,956</b>
<b>Accruals and deferred income</b>		
Other accruals . . . . .	5,293,742	2,252,728
	<b>5,293,742</b>	<b>2,252,728</b>
<b>Unrealised exchange differences</b> . . . . .	<b>0</b>	<b>0</b>
<b>TOTAL LIABILITIES</b> . . . . .	<b>199,548,662</b>	<b>117,130,183</b>

**MBIA ASSURANCE S.A.**  
**FINANCIAL STATEMENTS: PROFIT AND LOSS ACCOUNT (in Euros)**

<b>NON LIFE INSURANCE TECHNICAL ACCOUNT</b>	<b>2002 Gross</b>	<b>Ceded business</b>	<b>2002 Net</b>	<b>2001 Net</b>
<b>Earned premiums</b>				
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)
<b>Allocated investment income</b> . . . . .	275,800		275,800	1,420,561
<b>Other technical income</b> . . . . .	11,445,725		11,445,725	99,545
<b>Claim charges</b> . . . . .	0		0	0
<b>Charges from other technical reserves</b> . . . . .	0		0	0
<b>Acquisition and administration costs</b>				
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
<b>Other Technical charges</b> . . . . .	0		0	0
	4,591,286	2,497,462	7,088,748	(4,134)
<b>Non-life underwriting result</b> . . . . .			7,088,748	(4,134)
<b>NON-LIFE INSURANCE NON-TECHNICAL ACCOUNT</b>				
<b>Investment income</b>				
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
<b>Allocated investment income</b> . . . . .			0	0
<b>Investment expense</b>				
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)
<b>Investment income transferred to the technical accounts</b> . . . . .			(275,800)	(1,420,561)
<b>Other non-technical income</b> . . . . .			296	61,635
<b>Other non-technical expense</b> . . . . .			(149)	0
<b>Non-recurring income/expense</b>				
Non-recurring income . . . . .			0	656
Non-recurring expense . . . . .			(288)	0
<b>Employee profit sharing</b> . . . . .			0	0
<b>Income tax</b> . . . . .			(157,154)	(2,770,624)
<b>Non-technical result on non-life insurance</b> . . . . .			<b>(22,629)</b>	<b>(1,385,619)</b>
<b>INCOME FOR THE YEAR</b> . . . . .			<b>7,066,119</b>	<b>(1,389,753)</b>

## 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 until the expected maturity date. 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 reserves) divided by the sum of shareholders' equity, excluding the capitalisation reserve, and net technical provision (+ capitalisation reserves).

#### *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 of the provisions 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.

*g) 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.

*h) 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

*i) 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)
<b>Long-term investments</b>					
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
<b>Total within the OECD . . . . .</b>		<b>46,069,335</b>		<b>46,694,216</b>	<b>624,881</b>
<b>Total outside the OECD . . . . .</b>		<b>0</b>		<b>0</b>	<b>0</b>
<b>Total long-term investment . . . . .</b>		<b>46,069,335</b>		<b>46,694,216</b>	<b>624,881</b>
<b>Short-term investments</b>					
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
<b>Total within the OECD . . . . .</b>		<b>84,207,773</b>		<b>85,782,385</b>	<b>1,574,612</b>
<b>Total outside the OECD . . . . .</b>		<b>0</b>		<b>0</b>	<b>0</b>
<b>Total short-term investment . . . . .</b>		<b>84,207,773</b>		<b>85,782,385</b>	<b>1,574,612</b>
<b>Total investment within the OECD . . . . .</b>		<b>130,277,108</b>		<b>132,476,601</b>	<b>2,199,493</b>
<b>Total investment outside the OECD . . . . .</b>		<b>0</b>		<b>0</b>	<b>0</b>
<b>TOTAL investments in euros . . . . .</b>		<b>130,277,108</b>		<b>132,476,601</b>	<b>2,199,493</b>

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)*

<b>Debtors</b>	<b>Reinsurers' share of technical reserves</b>	<b>Insurance receivables</b>	<b>Inter-company account</b>
MBIA Insurance Corporation and branches . . .	469,586	0	4,300,515
<hr/>			
<b>Creditors</b>	<b>Reinsurance debts</b>	<b>Guarantee deposit</b>	<b>Inter-company account</b>
MBIA Insurance Corporation . . . . .	2,404,676	2,195,266	14,894,133
MBIA Inc. . . . .	668,500		
<b>Total</b> . . . . .	<b>3,073,176</b>	<b>2,195,266</b>	<b>14,894,133</b>

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:

<b>(in thousands of euros)</b>	<b>January 1, 2002</b>	<b>Allocation of 2001 earnings</b>	<b>Reduction of capital</b>	<b>Other changes</b>	<b>December 31, 2002</b>
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
<b>Total</b> . . . . .	<b>31,002</b>	<b>0</b>	<b>0</b>	<b>7,066</b>	<b>38,068</b>

e) *Currency balances*

	<b>Assets</b>		<b>Liabilities</b>	
	<b>Value In base currency</b>	<b>Converted in euros</b>	<b>Value In base currency</b>	<b>Converted in euros</b>
<b>12/31/02</b>				
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
<b>Total</b> . . . . .		<b>141,548,284</b>		<b>137,658,287</b>

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)*

	<b>2002</b>	<b>2001</b>
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
<b>Total Assets . . . . .</b>	<b>5,167,309</b>	<b>2,193,591</b>

	<b>2002</b>	<b>2001</b>
Other accruals		
- Amortisation capital losses . . . . .	409,429	303,914
- Deferred commissions . . . . .	4,884,313	1,948,814
<b>Total Liabilities . . . . .</b>	<b>5,293,742</b>	<b>2,252,728</b>

g) *Fixed assets and depreciation*

<b>Fixed assets (in euros)</b>	<b>Balance at 01/01/02</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at 12/31/02</b>
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
<b>Total fixed assets . . . . .</b>	<b>664,281</b>	<b>372,022</b>	<b>59,760</b>	<b>976,543</b>

<b>Depreciation (in euros)</b>	<b>Balance at 01/01/02</b>	<b>Depreciation charge</b>	<b>Disposals</b>	<b>Balance at 12/31/02</b>
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
<b>Total depreciation . . . . .</b>	<b>383,071</b>	<b>284,013</b>	<b>71,280</b>	<b>595,804</b>

#### 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)

	<u>2002</u>	<u>2001</u>
Revenues from investments in subsidiaries and affiliates . . . . .	—	—
Revenues from property holdings . . . . .	—	—
Other investment revenues . . . . .	2,660	2,005
<b>Total</b> . . . . .	<b><u>2,660</u></b>	<b><u>2,005</u></b>

Breakdown of other investment income (in thousands of euros)

	<u>2002</u>	<u>2001</u>
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
<b>Total</b> . . . . .	<b><u>2,145</u></b>	<b><u>3,757</u></b>

Breakdown of investment expenses (in thousands of euros)

	<u>2002</u>	<u>2001</u>
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
<b>Total</b> . . . . .	<b><u>4,670</u></b>	<b><u>4,000</u></b>



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>	<b>2002</b>	<b>2001</b>	<b>2000</b>
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
<b>Total . . . . .</b>	<b>2,186,426</b>	<b>1,001,931</b>	<b>708,202</b>
<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>	<b>2002</b>	<b>2001</b>	<b>2000</b>
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
<b>Total . . . . .</b>	<b>69,035,496</b>	<b>21,080,375</b>	<b>19,819,280</b>

<i>(By geographic region in euros)</i>	<b>2002</b>	<b>2001</b>	<b>2000</b>
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
<b>Total . . . . .</b>	<b>69,035,496</b>	<b>21,080,375</b>	<b>19,819,280</b>

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.

<b>(in thousands of euros)</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
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
<b>Total . . . . .</b>	<b>10,330,907</b>	<b>5,955,262</b>	<b>4,127,839</b>

(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.

**THE FCC AND THE COMPARTMENT**  
French *fonds commun de créances à compartiments* (umbrella mutual debt fund)  
**Compartment FCC Copy First Compartment 2003-1**  
the first compartment of FCC Copy First

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**MBIA**  
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