

Offering Circular

DELAMARE FINANCE PLC

(incorporated in England and Wales with limited liability under registered number 5069866)

£382,500,000 Class A Secured 5.5457 per cent. Bonds due 2029

(Issue Price: 100 per cent.)

£200,000,000 Class B1 Secured 6.0670 per cent. Bonds due 2029

(Issue Price: 100 per cent.)

£50,000,000 Class B2 Secured Floating Rate Bonds due 2029

(Issue Price: 100 per cent.)

Application has been made to the Irish Stock Exchange Limited (the "Stock Exchange") for the £382,500,000 Class A Secured 5.5457 per cent. bonds due 19 February 2029 (together with any further Class A Bonds, the "Class A Bonds"), the £200,000,000 Class B1 Secured 6.0670 per cent. bonds due 19 February 2029 (together with any further Class B1 Bonds the "Class B1 Bonds") and the Class B2 Secured Floating Rate Bonds (together with any further Class B2 Bonds, the "Class B2 Bonds" and, together with the Class B1 Bonds, the "Class B Bonds" and, the Class A Bonds together with the Class B Bonds, the "Bonds") of Delamare Finance plc (the "Issuer") to be admitted to listing on the Official List. The Bonds will be issued on or about 7 April 2004 (the "Closing Date"). The primary source of funds for the payment of principal and interest on the Bonds will be the right of the Issuer to receive interest and principal repayments under the secured Intercompany Loan made by the Issuer to the Borrower.

The Bonds of each class will initially be represented by a temporary global bond in bearer form (each a "Temporary Global Bond"), without coupons or talons, which will be deposited with a common depositary (the "Common Depositary") for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), on or about the Closing Date or such later date as may be agreed by the Issuer, Morgan Stanley & Co. International Limited (the "Lead Manager") and HSBC Trustee (C.I.) Limited (the "Bond Trustee", which expression shall include its successors and assignees). Each Temporary Global Bond will be exchangeable not earlier than 40 days after the Closing Date (and upon certification of non-U.S. beneficial ownership) for interests in a permanent global bond representing the Bonds of the relevant class (each a "Permanent Global Bond" and, together with each Temporary Global Bond, the "Global Bonds"), each in bearer form, without coupons or talons, which will also be deposited with the Common Depositary. Save in certain limited circumstances, bonds in definitive form will not be issued in exchange for the Global Bonds.

Interest on the Bonds is payable by reference to successive interest periods (each an "Interest Period"). Interest will be payable quarterly in arrear on 5 January, 5 April, 5 July and 5 October (subject to adjustment as specified herein for non-business days) in each year commencing on the Payment Date falling in July 2004, provided that the final interest payment date will be 19 February 2029 (the "Final Payment Date") and the final Interest Period will commence on (and include) 5 October 2028 and end on (but exclude) 19 February 2029 (subject to adjustment as specified in the Conditions for non-business days). Interest on the Class A Bonds will accrue at an annual rate of 5.5457 per cent. Interest on the Class B1 Bonds will accrue at an annual rate of 6.0670 per cent. Interest on the Class B2 Bonds will accrue at an annual rate of LIBOR (as defined in the Conditions) for three month, or in the case of the final Interest Period, the linear interpolation between four and five month sterling deposits and, in the case of the first Interest Period, the linear interpolation between two and three month sterling deposits, plus 1.2 per cent. per annum. Payments of interest in respect of the Bonds are further described herein and, in particular, in Condition 5 (Interest) of the terms and conditions of the Bonds reproduced herein in the section entitled "Terms and Conditions of the Bonds" below (the "Conditions").

The Class A Bonds and the Class B Bonds will mature on 19 February 2029 (the "Final Maturity Date") unless previously redeemed. Prior to the service of a Bond Enforcement Notice, the Class A Bonds shall be repaid in instalments on each Payment Date commencing on the Payment Date falling on 5 January 2016 in accordance with the amortisation schedule set out in Condition 6(b) (Redemption, Purchase and Cancellation - Scheduled Mandatory Redemption in Part of Class A Bonds) (the "Amortisation Schedule"). There is no scheduled mandatory redemption of the Class B Bonds other than a single repayment of principal on the Final Maturity Date. In addition to the quarterly scheduled repayment of the Class A Bonds and the scheduled repayment of the Class A Bonds and the Class B Bonds on the Final Maturity Date, the Bonds will be subject to mandatory redemption and/or optional redemption in whole or in part before the Final Maturity Date in the circumstances, and subject to the conditions, described in the Conditions.

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

The Bonds will be obligations of the Issuer only and will not be guaranteed by, or be the responsibility of, any other person or entity. It should be noted, in particular, that the Bonds will not be obligations of, and will not be guaranteed by, The Tesco Property Limited Partnership (the "Borrower"), the General Partner, the Limited Partners, the Bond Trustee, the Lead Manager (the Lead Manager, together with The Royal Bank of Scotland, Royal Bank of Canada and BNP Paribas, being the "Managers"), the Operator, the Property Pool Manager, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Borrower Security Trustee, the Cash Manager, the Agent Bank, the Paying Agents or the Account Bank, or the Tesco Group, but the proceeds of the issue of the Bonds will be on-lent to the Borrower and secured over all of the assets and undertaking of the Borrower, the General Partner, the Nominees and Nominees HoldCo, all as more particularly described below.

The Class A Bonds are expected on issue to be assigned an "A1" rating by Moody's Investors Service Limited ("Moody's"), an "A+" rating by Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("S&P") and an "A+" rating by Fitch Ratings Limited ("Fitch") and, together with Moody's and S&P, the "Rating Agencies"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Class B Bonds will not be rated.

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

Sole Arranger and Lead Manager

MORGAN STANLEY

Co-Managers

BNP PARIBAS ROYAL BANK OF CANADA THE ROYAL BANK OF SCOTLAND

The date of this document is 2 April 2004.

The Issuer accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. Each of the Borrower, Tesco Plc, the General Partner, the Limited Partners, the Nominees and Nominees HoldCo accepts responsibility for the information concerning itself contained in the sections entitled "*The Borrower*", "*Tesco Property Partner (GP) Limited (The General Partner)*", "*Tesco Property Partner (No.1) Limited (The Limited Partner)*", "*Dawberry Properties Limited*" (*The Investor Limited Partner*), "*Tesco Property (Nominees) Limited (Nominees HoldCo)*", "*Tesco Property (Nominees) (No.1) Limited (Nominee No.1)*", "*Tesco Property (Nominees) (No.2) Limited (Nominee No.2)*" and "*Tesco Plc*" below.

No person is or has been authorised in connection with the issue and sale of the Bonds to give any information or to make any representation not contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Borrower, the General Partner, the Limited Partners, the Nominees, Nominees HoldCo, any member of the Tesco Group, the Bond Trustee, the Managers, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Borrower Security Trustee, the Paying Agents, the Agent Bank, the Cash Manager or the Account Bank. Neither the delivery of this document nor any sale or allotment made in connection with the offering of any of the Bonds shall under any circumstances constitute a representation or create any implication that there has been no change in the affairs of the Issuer, the Borrower, the General Partner, the Limited Partners or any other member of the Tesco Group (as defined under "*The Parties*" below) or in 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 Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and include Bonds in bearer form that are subject to U.S. tax law requirements. The Bonds may not be offered, sold or delivered, directly or indirectly, in the United States or to any U.S. persons (as defined in "*Subscription and Sale*" below) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered for sale outside the United States in accordance with Regulation S under the Securities Act. See "*Subscription and Sale*" below.

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

Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this document nor any part hereof nor any other offering circular, prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction (including the United Kingdom), except in circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

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

In connection with the distribution of the Bonds, the Lead Manager or any person acting for the Lead Manager may over-allot or effect transactions with a view to stabilising or maintaining the market price of the Bonds at a level other than that which might otherwise prevail. However, there is no obligation on the Lead Manager (or any agent of the Lead Manager) to do this. Such stabilisation, if commenced, may be discontinued at any time and must be brought to an end after a limited period in compliance with applicable laws, regulations and rules.

Capitalised terms used in this document, unless otherwise indicated, have the meanings set out in this document. An index of defined terms used herein appears at the back of this document.

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SUMMARY INFORMATION

The following information is a summary of the principal features of the issue of the Bonds. This summary should be read in conjunction with, and is qualified in its entirety by reference to, the detailed information presented elsewhere in this document.

PARTIES

Issuer:	Delamare Finance plc
Borrower:	The Tesco Property Limited Partnership
General Partner:	Tesco Property Partner (GP) Limited
Founder Limited Partner:	Tesco Property Partner (No.1) Limited
Investor Limited Partner	Dawberry Properties Limited
Nominee No.1:	Tesco Property (Nominees) (No.1) Limited
Nominee No.2:	Tesco Property (Nominees) (No.2) Limited
Nominees HoldCo:	Tesco Property (Nominees) Limited
Bond Trustee:	HSBC Trustee (C.I.) Limited
Borrower Security Trustee:	HSBC Trustee (C.I.) Limited
Liquidity Facility Provider:	Lloyds TSB Bank plc
Cash Manager:	HSBC Bank plc
Swap Provider:	Morgan Stanley Capital Services Inc.
Swap Guarantor:	Morgan Stanley
Account Bank:	HSBC Bank plc
Operator:	Mourant & Co. Capital Trustees Limited
Issuer Corporate Services Provider:	Structured Finance Management Limited
Nominees/Nominees HoldCo Corporate Services Provider:	Structured Finance Management Limited
Property Pool Manager:	Tesco Property Holdings Limited

PROPERTIES

A portfolio of 33 retail stores and 2 distribution centre properties, as further described in the section entitled "*The Property Portfolio*"

CLASS A BONDS

Class A Bonds Principal Amount:	£382,500,000
Issue Price:	100%
Interest Rate:	5.5457%
Interest Accrual Method:	Actual/365 (fixed)
Interest Periods and Payment Dates:	Interest will be paid quarterly in arrear on 5 January, 5 April, 5 July and 5 October in each year, but provided that the first Interest Period shall commence on (and include) the Closing Date and end on (but exclude) the Payment Date falling in July 2004 and the final Interest Period shall commence on (and include) 5 October 2028 and end on (but exclude) the Final Payment Date
Amortisation:	Scheduled repayments of principal on each Payment Date commencing on 5 January 2016
Final Maturity Date:	19 February 2029
Expected Average Life:	19.7 years
Application for Listing:	Irish Stock Exchange
ISIN:	XS0190042522
Common Code:	019004252
Expected Ratings:	Moody's: A1 S&P: A+ Fitch: A+

CLASS B1 BONDS

Class B1 Bonds Principal Amount:	£200,000,000
Issue Price:	100%
Interest Rate:	6.0670%
Interest Accrual Method:	Actual/365 (fixed)
Interest Periods and Payment Dates:	Interest will be paid quarterly in arrear on 5 January, 5 April, 5 July and 5 October in each year, but provided that the first Interest Period shall commence on (and include) the Closing Date and end on (but exclude) the Payment Date falling in July 2004 and the final Interest Period shall commence on (and include) 5 October 2028 and end on (but exclude) the Final Payment Date
No Scheduled Amortisation:	Bullet repayment on the Final Maturity Date
Final Maturity Date:	19 February 2029
Expected Average Life:	25 years
Application for Listing:	Irish Stock Exchange

ISIN: XS0190043090

Common Code: 019004309

Expected Ratings: Unrated

CLASS B2 BONDS

Class B2 Bonds Principal Amount: £50,000,000

Issue Price: 100%

Interest Rate: LIBOR for three month sterling deposits, or in the case of the final Interest Period, the linear interpolation between four and five month sterling deposits and, in the case of the first Interest Period, the linear interpolation between two and three month sterling deposits, plus 1.2 per cent. per annum

Interest Accrual Method: Actual/365 (fixed)

Interest Periods and Payment Dates: Interest will be paid quarterly in arrear on 5 January, 5 April, 5 July and 5 October in each year, but provided that the first Interest Period shall commence on (and include) the Closing Date and end on (but exclude) the Payment Date falling in July 2004 and the final Interest Period shall commence on (and include) 5 October 2028 and end on (but exclude) the Final Payment Date

No Scheduled Amortisation: Bullet repayment on the Final Maturity Date

Final Maturity Date: 19 February 2029

Expected Average Life: 25 years

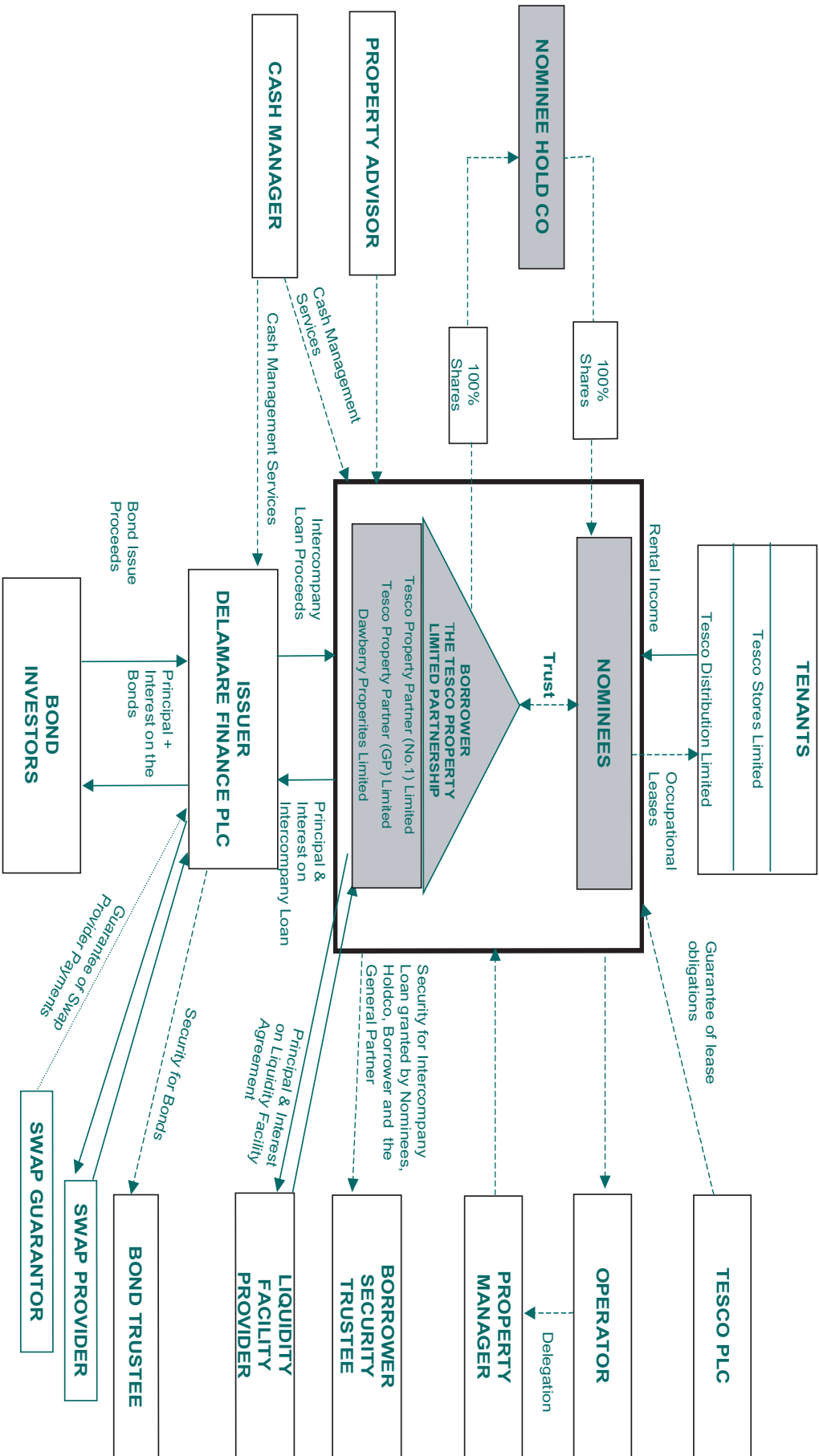
Application for Listing: Irish Stock Exchange

ISIN: XS0190043769

Common Code: 019004376

Expected Ratings: Unrated

DIAGRAMMATIC OVERVIEW OF PARTIES AND TRANSACTION



TRANSACTION OVERVIEW

On the Closing Date, the proceeds of the issue of the Bonds will be applied by the Issuer in making an advance to the Borrower of £632,500,000 (the “**Intercompany Loan**”) comprised of three loans, the A Loan in the amount of £382,500,000, (the “**Initial A Loan**”), the B1 Loan in the amount of £200,000,000 (the “**Initial B1 Loan**”) and the B2 Loan in the amount of £50,000,000 (the “**Initial B2 Loan**” and, together with the B1 Loan, the “**Initial B Loans**”), pursuant to the terms of the Intercompany Loan Agreement.

The Borrower will apply the proceeds of the Intercompany Loan to refinance debt incurred by it in connection with the acquisition of the Property Portfolio. The Property Portfolio was transferred by Tesco Property Partner (No.1) Limited to the Nominees (on trust for the Borrower), in each case in accordance with an agreed form of transfer (each a “**Transfer**”), pursuant to the agreement for sale entered into between Tesco Property Partner (No.1) Limited, the Borrower and the Nominees on 24 November 2003 (the “**Agreement for Sale**”). The Property Portfolio has been valued at the Market Value (as defined in the valuation report reproduced in the Section of this document entitled “*Property Report and Valuation*” (the “**Valuation Report**”), as at 1 March 2004 (the “**Valuation Date**”), of £675,000,000. The proceeds of the Intercompany Loan will be used towards refinancing the debt incurred by the Borrower in connection with the acquisition of the Property Portfolio. For further details as to the use of proceeds see the Section entitled “*Use of Proceeds*”.

Occupational Leases

Tesco Stores Limited (“**TSL**”) is, and as at the Closing Date will be, the occupational tenant of each of the retail store properties and Tesco Distribution Limited (“**TDL**”) is, and as at the Closing Date will be, the occupational tenant of each of the distribution centres (TSL and TDL being the “**Occupational Tenants**” and each of them an “**Occupational Tenant**”), occupying each of the properties in the Property Portfolio in accordance with the terms of the lease originally granted to each of them by Tesco Property Partner (No.1) Limited (the “**Occupational Leases**” and each of them, an “**Occupational Lease**”). The obligations of the Occupational Tenant under each Occupational Lease are guaranteed by Tesco Plc (the “**Guarantee**”). The Occupational Leases do not permit any assignment by an Occupational Tenant save to Tesco Plc in certain restricted circumstances (See “*Summary of Principal Documents — Occupational Leases*” below).

Source of Funds for Payments of the Bonds

The rent payments payable by the relevant Occupational Tenant pursuant to each Occupational Lease or, where an Occupational Tenant is unable to meet its obligations under the Occupational Leases, the amounts payable by the Guarantor under the Guarantee (such rent and amounts being the “**Rental Income**”), together with any advances drawn under the Liquidity Facility Agreement, will provide the primary source of funds for the Borrower to make payments of interest and repayments of principal and any other payments due in respect of the A Loan under the Intercompany Loan Agreement (thereby enabling the Issuer to make payments in respect of the Class A Bonds) and to make payments of interest and any other payments (other than repayments of principal) due in respect of the B Loans under the Intercompany Loan Agreement (thereby enabling the Issuer to make payments in respect of the Class B Bonds). The proceeds of sale or refinancing of the Mortgaged Properties will provide the primary source of funds for the Borrower to repay principal in respect of the B Loans under the Intercompany Loan Agreement (and so enable the Issuer to redeem the Class B Bonds).

Subject in each case as more particularly set out under “*Resources Available to the Borrower and the Issuer*” below, the following amounts will be used by the Issuer, *inter alia*, to pay interest on, and repay principal of, the Bonds and to pay any amounts due to the other Issuer Secured Creditors:

- (a) amounts received by the Issuer from the Borrower under the Intercompany Loan Agreement;
- (b) amounts received by the Issuer from the Swap Provider;
- (c) the earnings and proceeds from the making of Eligible Investments; and
- (d) any other amounts standing to the credit of the Issuer Transaction Account.

Security

The obligations of the Borrower, the General Partner, Nominees HoldCo and the Nominees under the Intercompany Loan Agreement and the other Borrower Transaction Documents to which they are a

party will be secured in favour of the Borrower Security Trustee for the benefit of the Borrower Security Trustee, the Issuer and the other Borrower Secured Creditors by fixed and floating security created by, and pursuant to, the Borrower Security Documents (as to which, see further “*Summary of Principal Documents — The Borrower Security*” below).

The Issuer will assign, by way of first fixed security, *inter alia*, all of its right, title, interest and benefit in and to the Borrower Security Documents and will create fixed and floating security over certain other of its assets in favour of the Bond Trustee for the benefit of itself, the Bondholders and the other Issuer Secured Creditors pursuant to the Issuer Deed of Charge, as security for the obligations of the Issuer under the Bonds and the other Issuer Transaction Documents.

THE PARTIES

The Issuer

Delamare Finance plc, being the Issuer, is a public company with limited liability incorporated in England and Wales with registered number 5069866. The Issuer's issued share capital is £50,000 divided into 50,000 shares of £1.00 each. Each of the shares is one quarter paid up. 49,999 shares are held by Delamare Group Holdings Limited (the "**Issuer HoldCo**"). The entire issued share capital of Issuer HoldCo is held by Stanhope Gate Trustees Limited (the "**Issuer Share Trustee**") under the terms of a trust as nominee for the benefit of charitable institutions. One share in the Issuer is held by Issuer Share Trustee as nominee for the Issuer HoldCo.

The Borrower

The Tesco Property Limited Partnership, being the Borrower, has been established as an English limited partnership under the terms of a short form Partnership Agreement dated 18 November 2003, as amended and restated by a letter of variation dated 24 November 2003. The founder partners of the Borrower were (1) Tesco Property Partner (No.1) Limited (the "**Founder Limited Partner**") and (2) Tesco Property Partner (GP) Limited (the "**General Partner**"), of which the first is a limited partner and the second the general partner and both of which, at the time the Partnership Agreement was entered into, were wholly owned by Tesco Plc. On or prior to the Closing Date, 50% of the shares in the General Partner will be sold to Bellevalle Properties Limited ("**Bellevalle**"). Also, on or prior to the Closing Date, Dawberry Properties Limited (the "**Investor Limited Partner**") will acquire a 49.95% limited partnership interest and be admitted as an additional limited partner in the Borrower. The Partnership Agreement will be further amended and restated on that date (the Partnership Agreement dated 18 November 2003, as amended and restated by a letter of variation dated 24 November 2003, and as further amended and restated on or prior to the Closing Date, being the "**Partnership Agreement**"). The Founder Limited Partner and the Investor Limited Partner are together the "**Limited Partners**" and the Limited Partners together with the General Partner are the "**Partners**".

The Borrower owns the beneficial interest in the Mortgaged Properties and will grant a charge over, *inter alia*, such interest in favour of the Borrower Security Trustee pursuant to the Borrower Deed of Charge as security for the obligations of the Borrower, the General Partner, the Nominees and Nominees HoldCo under the Intercompany Loan Agreement and other Borrower Transaction Documents.

The General Partner

Tesco Property Partner (GP) Limited, being the General Partner, is a limited liability company incorporated in England and Wales, established for the principal purpose of acting as the general partner of the Borrower. As at the Closing Date, the General Partner will be jointly owned by Tesco Plc and Bellevalle. Bellevalle is a member of the Topland Group.

The Limited Partners

Tesco Property Partners (No.1) Limited, being the Founder Limited Partner, is a limited liability company incorporated in England and Wales, established for the principal purpose of acting as the limited partner of the Borrower. The Founder Limited Partner is a wholly-owned subsidiary of Tesco Plc.

Dawberry Properties Limited, being the Investor Limited Partner, is a wholly-owned subsidiary of Topland Group Holdings Limited (the group of companies that are direct or indirect subsidiaries (as defined in Section 736 of the Companies Act 1985) of Topland Group Holdings Limited, being the "**Topland Group**").

The Operator

Mourant & Co. Capital Trustees Limited, being the Operator, is a limited liability company incorporated in England and Wales, which is authorised and regulated by the UK Financial Services Authority, and will act as the operator in respect of the Borrower. For further details as to the Operator and the role it will perform, see the Section entitled "*The Operator*" and the Section entitled "*The Tesco Property Limited Partnership (The Borrower)*" below.

The Nominees

Each of Tesco Property (Nominees) (No.1) Limited and Tesco Property (Nominees) (No.2) Limited (each, a "**Nominee**" and, together, the "**Nominees**"), is a limited liability company incorporated in

England and Wales, which was established for the principal purpose of holding the legal title to the Mortgaged Properties on trust for the Borrower. Each of the Nominees is wholly-owned by Tesco Property (Nominees) Limited.

Nominees HoldCo

Tesco Property (Nominees) Limited, being Nominees Holdco, is a limited liability company incorporated in England and Wales, which was established for the principal purpose of acting as the holding company of the Nominees. Nominees HoldCo is a wholly-owned subsidiary of the General Partner (who holds the shares in Nominees HoldCo on behalf of the Borrower).

The Tesco Group

For the purposes of this document, the “**Tesco Group**” means Tesco Plc and all or any of its direct or indirect subsidiaries (as defined in the Companies Act 1985).

The Bond Trustee

HSBC Trustee (C.I.) Limited will be appointed as the Bond Trustee pursuant to a trust deed which will be entered into on the Closing Date between the Issuer and the Bond Trustee and in relation to which the Bonds will be constituted (the “**Trust Deed**”, which expression shall include such trust deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto).

The Bond Trustee, in its capacity as trustee under the Trust Deed, will represent the interests of the Bondholders and, in its capacity as trustee under the Issuer Deed of Charge, will hold the security granted by the Issuer under and pursuant to the Issuer Deed of Charge on behalf of itself, the Bondholders and the other Issuer Secured Creditors.

The Borrower Security Trustee

HSBC Trustee (C.I.) Limited, being the Borrower Security Trustee, will be granted security by the Borrower and the General Partner under the Borrower Deed of Charge, by the Nominees under the Nominees Deed of Charge, by Nominees HoldCo under the Nominees HoldCo Deed of Charge, together with any Power of Attorney executed and delivered by the Borrower, the Nominees and Nominees HoldCo respectively, and any other document or instrument granted in favour of the Borrower Security Trustee on behalf of the Borrower Secured Creditors (the “**Borrower Security Documents**”). The Borrower Security Trustee will hold the security created by and pursuant to the Borrower Security Documents on behalf of itself, the Issuer and the other Borrower Secured Creditors.

The Cash Manager

HSBC Bank plc, acting through its London office located at 8 Canada Square, London E14 5HQ (the “**Cash Manager**”), will be appointed by each of the Issuer and the Borrower on the Closing Date to act on its behalf in managing, *inter alia*, the calculation and application of monies standing to the credit of, as applicable, the Borrower Accounts (other than the Borrower Distribution Account) and the Issuer Transaction Account, the calculation and application of monies payable by the Borrower under the Intercompany Loan Agreement and the other Borrower Transaction Documents and the calculation and application of monies payable by the Issuer in respect of the Bonds and the Issuer Transaction Documents.

The Liquidity Facility Provider

Lloyds TSB Bank plc, acting through its corporate office located at 25 Monument Street, London EC3R 8BQ (the “**Liquidity Facility Provider**”), will provide a liquidity facility to the Borrower pursuant to the terms of a 364 day facility agreement to be entered into on the Closing Date between the Liquidity Facility Provider and the Borrower (the “**Liquidity Facility Agreement**”). Lloyds TSB Bank plc is a public limited company incorporated under the laws of England and Wales, is a wholly-owned subsidiary of Lloyds TSB Group plc and is regulated by the Financial Services Authority. Lloyds TSB Bank plc carries short-term ratings of A-1+/P-1/F1+ and long-term credit ratings of AA/Aaa/AA+ from S&P, Moody's and Fitch respectively.

The Swap Provider

Morgan Stanley Capital Services Inc. (“**MSCS**”), whose principal office is located at 1585 Broadway, New York, New York 10036, USA will be the swap provider (the “**Swap Provider**”) under the Swap Agreement. MSCS is a Delaware corporation, which conducts forward payment business, including interest rate swaps, currency swaps and interest rate guarantees with institutional clients. MSCS is a wholly-owned unregulated subsidiary of Morgan Stanley. MSCS is incorporated in the State of Delaware.

The Swap Guarantor

Morgan Stanley (“**Morgan Stanley**”), whose principal office is located at 1585 Broadway, New York, New York 10036, USA, will be the swap guarantor (the “**Swap Guarantor**”) pursuant to, and subject to, the terms of a swap guarantee in favour of the Issuer to be dated on or before the Closing Date guaranteeing all of the Swap Provider’s obligations under the swap transactions governed by the Swap Agreement (the “**Swap Guarantee**”).

If MSCS ceases to be the Swap Provider, Morgan Stanley will cease to be the Swap Guarantor.

Morgan Stanley is a global financial services firm that maintains three primary businesses: securities, asset management and credit services. Morgan Stanley combines global investment banking (including the origination of underwritten public offerings and mergers and acquisitions advice) with institutional sales and trading, and provides investment and global asset management products and services and, primarily through its Discover Card brand, consumer credit products. Morgan Stanley is incorporated in the State of Delaware, USA. If MSCS ceases to be the Swap Provider, Morgan Stanley will cease to be the Swap Guarantor.

The long term, unsecured and unsubordinated debt obligations of Morgan Stanley are rated “A+” by S&P, and “AA–” by Fitch and “Aa3” by Moody’s. The consolidated accounts of Morgan Stanley are available upon request.

The Account Bank

HSBC Bank plc, acting through its office at 8 Canada Square, London E14 5HQ (the “**Account Bank**”), will maintain certain accounts on behalf of the Issuer and the Borrower pursuant to the Account Bank and Cash Management Agreement.

The Property Pool Manager

Tesco Property Holdings Limited, being the Property Pool Manager, is a wholly owned subsidiary of Tesco Plc and will provide property management services in relation to the Mortgaged Properties including, *inter alia*, monitoring and inspecting the Mortgaged Properties to ensure that the Mortgaged Properties are kept in good repair and the terms of the Occupational Leases are otherwise complied with (including the collection of rents from the Occupational Tenants) pursuant to the terms of a Property Pool Management Agreement to be entered into on the Closing Date between, *inter alios*, the Borrower, the Operator, the Property Pool Manager, the Cash Manager and the Borrower Security Trustee (the “**Property Pool Management Agreement**”).

The Issuer Corporate Services Provider

Structured Finance Management Limited, which will be appointed, on or prior to the Closing Date, as the Issuer Corporate Services Provider pursuant to the Issuer Corporate Services Agreement, is a limited liability company incorporated in England and Wales (acting through its office at Blackwell House, Guildhall Yard, London EC2V 5AE), and will provide certain secretarial and administration services to the Issuer subject to and in accordance with the Issuer Corporate Services Agreement. The appointment of the Issuer Corporate Services Provider may be terminated by the Issuer with the consent of the Bond Trustee (or, following the delivery of a Bond Enforcement Notice by the Bond Trustee) upon the occurrence of a breach of the Issuer Corporate Services Agreement by the Issuer Corporate Services Provider or upon the liquidation of or other insolvency-related events in respect of the Issuer Corporate Services Provider (provided that the termination shall not be effective until a substitute corporate services provider is appointed).

The Nominees/Nominees HoldCo Corporate Services Provider

Structured Finance Management Limited, which will be appointed, on or prior to the Closing Date, as the Nominees/Nominees HoldCo Corporate Services Provider pursuant to the Nominees/Nominees

HoldCo Corporate Services Agreement, is a limited liability company incorporated in England and Wales (acting through its office at Blackwell House, Guildhall Yard, London EC2V 5AE), which will provide certain secretarial and administration services to the Nominees and Nominees HoldCo subject to and in accordance with the Nominees/Nominees HoldCo Corporate Services Agreement. The appointment of the Nominees/Nominees HoldCo Corporate Services Provider may be terminated by the Nominees or Nominees HoldCo with the consent of the Borrower Security Trustee (or, following the delivery of a Loan Enforcement Notice, by the Borrower Security Trustee) upon the occurrence of a breach of the Nominees/Nominees HoldCo Corporate Services Agreement by the Nominees/Nominees HoldCo Corporate Services Provider or upon the liquidation of or other insolvency-related events in respect of the Nominees/Nominees HoldCo Corporate Services Provider (provided that the termination shall not be effective until a substitute corporate services provider is appointed).

THE PROPERTY PORTFOLIO

Overview

The property portfolio comprises 33 leasehold retail stores (each a “**Store**”) and 2 leasehold distribution centres (each a “**Distribution Centre**”) located in England which are beneficially held by the Borrower under long leases and are operated by the Occupational Tenants (collectively, the “**Property Portfolio**”). The geographic distribution of the Property Portfolio is indicated in the map in the Section entitled “*Geographic Distribution of Property Portfolio*” below.

Prior to the Closing Date, the Property Portfolio was purchased by the Borrower from the Founder Limited Partner (having earlier been leased to the Occupational Tenants under the Occupational Leases) and, at the direction of the Borrower, legal (but not beneficial) title was transferred to the Nominees (for a further description of the acquisition of the Property Portfolio, see “*Transaction Overview*” above).

The properties within the Property Portfolio, together with any Incoming Properties substituted pursuant to the Substitution Agreement, in respect of which the Borrower and the Nominees from time to time will hold an interest and over which security will exist in favour of the Borrower Security Trustee in accordance with and pursuant to the terms of the Borrower Deed of Charge and the Nominees Deed of Charge, are referred to herein together as the “**Mortgaged Properties**” and each as a “**Mortgaged Property**”.

Please refer to the Cushman & Wakefield Healey & Baker Valuation Report reproduced in the section “*Property Report and Valuation*” for a description of the properties within the Property Portfolio, their values and the methodology and assumptions used to derive the values.

Property Portfolio Values

Cushman & Wakefield Healey & Baker (the “**Valuers**”) have valued the Property Portfolio, as at the Valuation Date. The Valuation Report includes the Market Value, Market Value on the special assumption of Vacant Possession and Market Rent (as each term is defined in the Valuation Report) of the Borrower’s interest in respect of each of the properties in the Property Portfolio as at the Closing Date. Please refer to the Cushman & Wakefield Healey & Baker Valuation Report reproduced in the Section entitled “*Property Report and Valuation*” for the details of the valuation.

In addition to providing their opinion of the Market Values, Market Values on the special assumption of Vacant Possession, and Market Rents, the Valuers have provided their estimate as to the Projected Market Value (as that term is defined in the Valuation Report) of the properties within the Property Portfolio, assuming that 100 years are unexpired of the leases held by the Borrower on expiry of the Occupational Leases in 2029 and that the properties are then held with vacant possession.

These Projected Market Values, together with a description of the methodologies used to derive the values, are set out in the Valuation Report reproduced in the Section of this document entitled “*Property Report and Valuation*”.

For further details as to the risks associated with future valuations, please see “*Risk Factors — Estimate of Potential Future Value*”.

Security

The Property Portfolio will form part of the security held by the Borrower Security Trustee in respect of the obligations of the Borrower, the General Partner, the Nominees and Nominees HoldCo under, *inter alia*, the Intercompany Loan Agreement pursuant to the Borrower Deed of Charge and the Nominees Deed of Charge.

Certificates of Title

A certificate of title in respect of each property in the Property Portfolio (the “**Certificates of Title**” and each a “**Certificate of Title**”) will be given on the Closing Date by Berwin Leighton Paisner, the solicitors to the Tesco Group, the Issuer, the Borrower, the General Partner and the Founder Limited Partner.

The Certificates of Title will address the quality of title of each property in the Property Portfolio and will be issued on the basis of Berwin Leighton Paisner’s review of the title documents supplied by the

Tesco Group, the Issuer, the Borrower, the General Partner and the Founder Limited Partner and customary conveyancing searches and enquiries. The Certificates of Title will be based on the City of London Law Society Land Law Sub-Committee long form certificate of title, 5th Edition 2002 (with slight amendment), which is a recognised standard form document used in the legal profession.

Berwin Leighton Paisner have also prepared a report of material issues identified in the preparation of the Certificates of Title (the “**Overview Report**”) (for a further description of risks relating to the Mortgaged Properties, the Certificates of Title and the Overview Report, please see the Section entitled “*Risk Factors*” below). None of the Managers, the Borrower Security Trustee, the Bond Trustee or their legal advisors have reviewed the Certificates of Title but have instead reviewed and relied upon the Overview Report.

For more information with respect to the values and the title to the properties in the Property Portfolio, see the Sections entitled “*Property Report and Valuation*” and “*Risk Factors*” below.

GEOGRAPHIC DISTRIBUTION OF PROPERTY PORTFOLIO



Superstores

- | | | |
|---------------|---------------------|-----------------|
| 1. Axminster | 13. Great Dunmow | 25. Southampton |
| 2. Baldock | 14. Henley | 26. Stowmarket |
| 3. Beverley | 15. Hook | 27. Tetbury |
| 4. Bicester | 16. Kidderminster | 28. Toton |
| 5. Brackley | 17. Launceston | 29. Towcester |
| 6. Brigg | 18. Macclesfield | 30. Twickenham |
| 7. Caterham | 19. Midsomer Norton | 31. Uckfield |
| 8. Cheltenham | 20. New Milton | 32. Winchester |
| 9. Clitheroe | 21. Norwich | 33. York |
| 10. Dereham | 22. Reading | |
| 11. Driffield | 23. Saffron Walden | |
| 12. Enfield | 24. Solihull Extra | |

Distribution Centres

- 34. Daventry
- 35. Milton Keynes

THE BONDS

The Bonds

The Bonds will be issued in accordance with the terms of the Trust Deed and will be direct, secured and unconditional obligations of the Issuer.

Status, Form and Denomination

Prior to the delivery of a Bond Enforcement Notice, the Class A Bonds and the Class B Bonds will, in all cases other than a prepayment pursuant to Condition 6(c)(i) or 6(c)(ii), rank *pari passu* amongst themselves in priority as to payment of interest and as to the payment of principal, provided that no payment of principal shall be due in respect of the Class B Bonds prior to the Final Maturity Date. In the case of a prepayment of the Bonds pursuant to Condition 6(c)(i) or 6(c)(ii), all amounts then due in respect of the Class B2 Bonds shall be paid in priority to any amounts then due in respect of the Class B1 Bonds and all amounts then due in respect of the Class B Bonds shall be paid in priority to any amounts then due in respect of the Class A Bonds.

The holders of the Class A Bonds will be entitled to receive payments of principal, and the holders of the Class A Bonds and the Class B Bonds will be entitled to receive payments of interest on their Bonds on any Payment Date, and both the holders of the Class A Bonds and the holders of the Class B Bonds will be entitled to receive payments of principal on the Final Maturity Date but such entitlement is subordinated to any liabilities ranking in priority to the Class A and Class B Bonds, including, *inter alia*, all amounts payable on the relevant Payment Date to the Swap Provider, the Bond Trustee, the Agents, the Account Bank and the Cash Manager.

For a more detailed description of the provisions of the Issuer Deed of Charge, including the priority of payments both prior and subsequent to the enforcement of security thereunder, see the Section entitled “*Resources Available to the Issuer and the Borrower — Available Funds and their Priority of Application*” and the Section entitled “*Conditions of the Bonds*” below.

Each class of Bonds is secured by the same security. The Class A Bonds and the Class B Bonds rank *pari passu* amongst themselves in point of security and, following the delivery of a Bond Enforcement Notice, the Class A Bonds and the Class B Bonds will rank *pari passu* amongst themselves as to payment of both interest and principal. See “*Summary of Principal Documents — The Issuer Deed of Charge*” and the Section entitled “*Conditions of the Bonds*” below.

The Trust Deed will contain provisions requiring the Bond Trustee to have regard to the interests of the holders of the Class A Bonds (the “**Class A Bondholders**”), the holders of the Class B1 Bonds (the “**Class B1 Bondholders**”) and the holders of the Class B2 Bonds (the “**Class B2 Bondholders**”, and the Class B1 Bondholders, together with the Class B2 Bondholders, the “**Class B Bondholders**” and the Class B Bondholders, together with the Class A Bondholders, the “**Bondholders**”) as a single class. The Trust Deed does not provide for the transaction of separate meetings of different classes of Bondholders, other than in the specific circumstances set out in Condition 3(f) (*Status and Relationship between the Classes of Bonds*).

For further details as to Bondholder meetings, modifications, waivers and consents by the Borrower Security Trustee and the Bond Trustee, see the Sections entitled “*Terms and Conditions of the Bonds*”, “*Summary of Principal Documents*” and “*Risk Factors*” below.

The Bondholders may replace the Bond Trustee by an Extraordinary Resolution of all Bondholders (as long as there is a bond trustee in relation to the Bonds after such removal).

The Bonds are and will be obligations of the Issuer only. The Bonds are not and will not be obligations or responsibilities of, or guaranteed by, any person or entity other than the Issuer. In particular, the Bonds are not and will not be obligations or responsibilities of, or guaranteed by, any of the Bond Trustee, the Borrower Security Trustee, the Managers, the Cash Manager, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Operator, the Property Pool Manager, the Agents, the Account Bank, the Tesco Group, the Borrower, the Partners or the Nominees.

Each class of Bonds (each individual Bond of which (should definitive Bonds be issued) will be in the denomination of £10,000) will initially be represented by a single Temporary Global Bond in bearer form. Interests in each Temporary Global Bond will, upon certification as to non-U.S. beneficial ownership, be exchangeable, subject as provided under “*Terms and Conditions of the Bonds*” below, for interests in the

relevant Permanent Global Bond on the Exchange Date. The Permanent Global Bonds will not be exchangeable for definitive Bonds save in certain limited circumstances (as to which see further “*Provisions Relating to Bonds while in Global Form*” below).

Interest

Interest on the Bonds is payable by reference to successive Interest Periods. Interest will be payable quarterly in arrear on each Payment Date. The first Interest Period will commence on (and include) the Closing Date, and end on (but exclude) the Payment Date falling on 5 July 2004. Each successive Interest Period will commence on (and include) a Payment Date and end on (but exclude) the immediately succeeding Payment Date, provided, however, that the final Interest Period will commence on (and include) 5 October 2028 and end on (but exclude) the Final Payment Date (subject to adjustment as specified herein for non-business days).

Interest on the Class A Bonds will accrue at the rate of 5.5457% per cent. per annum and interest on the Class B1 Bonds will accrue at the rate of 6.0670% per cent. per annum. Interest on the Class B2 Bonds will accrue at an annual rate of LIBOR (as defined in the Conditions) for three month, or, in the case of the final Interest Period, the linear interpolation between four and five month and, in the case of the first Interest Period, the linear interpolation between two and three month and, in the case of the first Interest Period the linear interpolation between two and three month, sterling deposits plus 1.2 per cent. per annum.

A failure by the Issuer to make timely payments of amounts of interest due under the Class A Bonds or Class B Bonds will constitute a default thereunder.

The Bondholders will be entitled to receive payment of interest and principal (if any) on their respective Bonds on any Payment Date as provided in the Conditions and provided that such entitlement is subordinated to any liabilities ranking in priority thereto in accordance with the Issuer Pre-Enforcement Priority of Payments or the Issuer Post Enforcement Priority of Payments (see further the Sections entitled “*Resources Available to the Borrower and the Issuer*” below and the Conditions.

Withholding Tax

All payments of principal and interest in respect of the Bonds will be made without withholding or deduction for or on account of tax unless such withholding or deduction is required by law (whether in the United Kingdom or elsewhere). If any such withholding or deduction is required to be made from payments due in respect of the Bonds (as to which, in relation to the United Kingdom, see the section entitled “*United Kingdom Taxation*” below), neither the Issuer nor any Paying Agent nor any other person will be obliged to pay any additional amounts to Bondholders or, if Definitive Bonds are issued, Couponholders or to otherwise compensate Bondholders or Couponholders for the reduction in the amounts they will receive as a result of such withholding or deduction. In such circumstances, the Issuer will have the option (but not the obligation) to redeem all of the Bonds at their Principal Amount Outstanding, as more particularly set out in Condition 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption due to Change of Tax Law*).

Final Redemption

Unless previously redeemed in full or purchased and cancelled, the Bonds will mature at their then Principal Amount Outstanding, together with accrued interest thereon on the Final Maturity Date.

Expected Amortisation and Mandatory and Optional Redemption

Prior to the service of a Bond Enforcement Notice (as defined in Condition 10 (*Bond Events of Default*)) and to the extent of funds available, the Class A Bonds will be subject to mandatory *pro rata* redemption in part in quarterly instalments commencing on the Payment Date falling on 5 January 2016 in the amounts specified in the Amortisation Schedule set out in the Conditions. Investors should note that the figures set out in the Amortisation Schedule in the Conditions are on the basis that there will be no default in payments under the Intercompany Loan and that there will be no prepayments of the Intercompany Loan. In the event that any amount of principal on the A Loan under the Intercompany Loan is prepaid for any reason, the Cash Manager will recalculate the Amortisation Schedule of the Class A Bonds such that each scheduled repayment is reduced *pro rata*.

There is no scheduled mandatory redemption of the Class B Bonds other than a single repayment of principal on the Final Maturity Date.

In addition to the quarterly scheduled repayment of the Class A Bonds and the scheduled repayment of the Class B Bonds on the Final Maturity Date, the Bonds will be subject to mandatory redemption and/or optional redemption in whole or in part before the Final Maturity Date in the circumstances, and subject to the conditions, described in Condition 6(c) and (d). In particular, the Issuer may, at its option, redeem all of the Bonds or, in the case of certain changes of tax law relating to the Swap Agreement, the Class B2 Bonds only, on any Payment Date at their Principal Amount Outstanding if certain circumstances arise on or after the Closing Date relating to certain changes of tax law (or the application or official interpretation thereof), as more particularly set out in Condition 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption due to Change of Tax Law*).

Security for the Bonds

The Bonds will be secured pursuant to the Issuer Deed of Charge (see “*Summary of Principal Documents — The Issuer Deed of Charge*” for a further description of the Issuer Security).

The Bond Trustee (and any receiver appointed by the Bond Trustee), the Account Bank and the Cash Manager, the Agent Bank and the Paying Agents, the Issuer Corporate Services Provider, the Swap Provider and any other person acceding to the Issuer Deed of Charge as a secured creditor of the Issuer from time to time, will also have the benefit of the Issuer Security created pursuant to the Issuer Deed of Charge.

The obligations of the Issuer in respect of the Bonds and in respect of the other Issuer Secured Creditors pursuant to the Issuer Transaction Documents will rank as to payments of interest and repayment of principal, and in point of security, according to the relevant Issuer Priorities of Payments (as to which, see the Conditions and the Section entitled “*Resources Available to the Borrower and Issuer*” below).

Following the service of a Bond Enforcement Notice, the Bonds will become immediately due and repayable in accordance with Condition 10(b) (*Bond Events of Default — Consequence of Bonds Becoming Due and Payable and Delivery of Bond Enforcement Notice*).

Ratings

It is expected that the Class A Bonds will, when issued, be assigned a rating of A1 by Moody’s, a rating of A+ by S&P, and a rating of A+ by Fitch. The Issuer will use its reasonable endeavours to maintain ratings of the Class A Bonds from the Rating Agencies. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Class B Bonds will not be rated.

Listing

Application has been made to the Stock Exchange for the Bonds to be admitted to listing.

SUMMARY OF PRINCIPAL DOCUMENTS

The following is intended only to be a summary of certain provisions of the principal transaction documents.

The Intercompany Loan Agreement

Intercompany Loan

The Intercompany Loan Agreement will be entered into on the Closing Date between the Issuer, the Borrower, the General Partner, the Nominees, Nominees HoldCo, the Cash Manager and the Borrower Security Trustee.

Pursuant to the terms of the Intercompany Loan Agreement, the Issuer will agree, subject to the satisfaction of certain conditions precedent, to advance to the Borrower on the Closing Date:

- (a) a term loan facility in an aggregate principal amount of £382,500,000 (the “**Initial A Loan**”);
- (b) a term loan facility in an aggregate principal amount of £200,000,000 (the “**Initial B1 Loan**”); and
- (c) a term loan facility in an aggregate principal amount of £50,000,000 (the “**Initial B2 Loan**” and, together with the Initial B1 Loan, the “**Initial B Loans**”, and the Initial B Loans together with the Initial A Loan, the “**Initial Loans**”).

Proceeds from the Intercompany Loan will be used by the Borrower on the Closing Date for the purpose stated in “*Transaction Overview*” above.

Additional Loans

The Intercompany Loan Agreement will provide that the Borrower may also at any time, by written notice to the Issuer, the Borrower Security Trustee and the Rating Agencies, request a further loan (a “**Further Loan**”) or a new loan (a “**New Loan**” and together with any Further Loans, the “**Additional Loans**” and each an “**Additional Loan**”, and the Initial Loans together with any Additional Loans, being the “**Loans**”). A Further Loan is a loan which will rank *pari passu* with the Initial Loans and will have the same terms and conditions of the relevant Initial Loans. A New Loan may rank *pari passu* with or below the Initial Loans.

Each Additional Loan will be financed by the issue of Further Bonds or, as applicable, New Bonds (as to which see Condition 18 (*Further Issues and New Issues*)), and will only be permitted if, *inter alia*, the following conditions precedent are satisfied:

- (a) New Bonds or Further Bonds may only be issued in connection with the financing or refinancing of certain alterations to the Mortgaged Properties;
- (b) each Rating Agency has confirmed that:
 - (i) in respect of a request for a Further Loan (which is to be financed by an issue of Further Class A Bonds), the Further Class A Bonds will be assigned the same rating as the then current rating of the Class A Bonds; and
 - (ii) the then current ratings of the then existing classes of Bonds (to the extent rated) will not be adversely affected as a result of the proposed issue;
- (c) the Class B Bondholders have passed a Reserved Matter Resolution approving the issue of the relevant Further Bonds and/or, as the case may be, the New Bonds for the purpose of financing such Additional Loan; and
- (d) no Loan Event of Default and/or Loan Potential Event of Default has occurred and is subsisting at the time of the granting of the Additional Loan.

Interest on the Intercompany Loan

The rate of interest on each Initial (and Further) Loan will be:

- (a) in respect of the A Loan, 5.5557 per cent. per annum;
- (b) in respect of the B1 Loan, 6.0770 per cent. per annum; and

- (c) in respect of the B2 Loan, 6.2308 per cent. per annum.

Pursuant to the terms of the Intercompany Loan Agreement, interest will be paid by the Borrower to the Issuer quarterly in arrear on each Payment Date.

Repayment of the Intercompany Loan

Subject to any early prepayment of the relevant Loan in accordance with the terms of the Intercompany Loan Agreement:

- (a) the A Loan (as defined in the Conditions) will be repayable in instalments on each Payment Date in accordance with, and in the same amounts specified in, the Amortisation Schedule for the Class A Bonds, as set out in Condition 6(b) (*Redemption, Purchase and Cancellation-Scheduled Mandatory Redemption in Part of the Class A Bonds*); and
- (b) the B Loans (as defined in the Conditions) will be repaid in full on the Final Maturity Date.

Prepayment of the Intercompany Loan

- (a) The Borrower shall, upon giving not less than thirty-five and not more than sixty-five days prior written notice (or, in the case of paragraph (iii) below, upon receiving notice from the Issuer or upon giving such shorter notice as may be necessary to address the applicable illegality) to, *inter alios*, the Issuer, prepay the Loans:
- (i) in part on any Payment Date, if any interest (other than in relation to any minor disposals) in any Mortgaged Property is sold without being substituted by the Borrower and the Nominees (whether as a result of a compulsory purchase or a voluntary disposal as permitted pursuant to and in accordance with the terms of the Intercompany Loan Agreement), the Prepayment Amount being calculated in accordance with the terms of the Intercompany Loan Agreement and as further described below. For further details as to permitted disposals of Mortgaged Properties, see the Section entitled "*Substitutions, Alterations and Disposals of Mortgaged Properties*" below;
- (ii) in part on any Payment Date, if any insurance proceeds are received in respect of any damage or destruction of a Mortgaged Property and:
- (1) such insurance proceeds are not used to reinstate such Mortgaged Property; or
- (2) such Mortgaged Property is not substituted in accordance with the terms of the Substitution Agreement,
- save that no prepayment shall be required if the insurance proceeds received in respect of a Mortgaged Property are less than £100,000 (as adjusted on an annual basis by reference to changes in retail prices). The Prepayment Amount shall be calculated in accordance with the terms of the Intercompany Loan Agreement as further described below; or
- (iii) in whole (but not in part), if it becomes unlawful for either the Issuer or the Borrower to make, fund or, as applicable, permit to remain outstanding advances made pursuant to the Intercompany Loan Agreement.
- (b) In accordance with and pursuant to the terms of the Intercompany Loan Agreement and in addition to the mandatory prepayment scenarios described above, the Borrower may also, upon giving not less than thirty-five and not more than sixty-five days prior written notice to, *inter alios*, the Issuer, prepay:
- (i) in whole (but not in part) the B Loans, on the Payment Date falling in April 2013;
- (ii) in whole (but not in part) the Loans on any Payment Date, if, by reason of a change in Tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date:
- (a) the Borrower becomes a person that is primarily liable to pay Tax on its income, profits and gains and the Borrower certifies to the Issuer, the Borrower Security Trustee and the Bond Trustee that the effect of such changes is materially prejudicial to the interests of the Bondholders;
- (b) an increased amount is payable to the Issuer pursuant to the Intercompany Loan

Agreement as a result of an amount for or on account of any Tax being required to be withheld or deducted from any payment due to the Issuer; or

(c) the Issuer wishes to elect to exercise its option to redeem the Bonds in accordance with Condition 6(d)(i) or (iii); or

(iii) in whole (but not in part) the B2 Loan on any Payment Date, if the Issuer wishes to elect to exercise its option to redeem the Class B2 Bonds in accordance with Condition 6(d)(ii).

The Issuer shall, in accordance with the Conditions and the relevant Issuer Pre-Enforcement Priority of Payments or Issuer Post-Enforcement Priority of Payments, as applicable, apply the proceeds from the prepayment of the Loans towards the early redemption of the Bonds.

Any prepayment of the Loans for the reasons described above (other than in circumstances where all of the Loans or all of the relevant Loans are required to be prepaid) shall be applied first, in the prepayment of the B2 Loan and, second, in prepayment of the B1 Loan, and thereafter in prepayment of the A Loan, in accordance with the terms of the Intercompany Loan Agreement.

The Borrower may only prepay the Loans on a Payment Date (or, in the case of prepayment as a result of illegality, on such other date as is required pursuant to the terms of the Intercompany Loan Agreement) if the Borrower, upon any such prepayment, pays:

- (a) in the case of any prepayment in part but not in full in accordance with paragraph (a)(i) or (ii) above, the Prepayment Amount;
- (b) in the case of the prepayment in full but not in part in the circumstances described in paragraphs (a)(iii) and (b) above, the then aggregate principal amount outstanding of the relevant Loans;
- (c) all accrued and unpaid interest then outstanding on the Loans; and
- (d) any other amounts due and payable under the Intercompany Loan Agreement, including any amounts in respect of Redemption Amounts and any amounts by way of Ongoing Facility Fee (including for the avoidance of doubt amounts in respect of any Swap Termination Payments due to the Swap Provider pursuant to the terms of the Swap Agreement and all other amounts which are required to be paid in priority to or *pari passu* with the class of Bonds being redeemed as a consequence of the prepayment).

For purposes of the Intercompany Loan Agreement, in the case of any prepayment in accordance with paragraph (a)(i) or (ii) above, the “**Prepayment Amount**” means the principal amount of the relevant Loan or Loans to be prepaid, calculated as follows:

1. for so long as the B2 Loan is (in whole or in any part) outstanding immediately prior to such prepayment, an amount equal to:

$$A - \left(\frac{(365 \times (B - C))}{91 \times D} \right)$$

where, for the purposes of this paragraph:

- (i) “**A**” equals the then current Principal Amount Outstanding of the Class B2 Bonds;
 - (ii) “**B**” equals the Interest Amount due in respect of the relevant Class B2 Bonds on the Payment Date falling in April 2028 (as calculated by using an interest rate equal to the fixed swap rate under the Swap Agreement plus the margin over LIBOR applicable to the Class B2 Bonds and based on the assumption that neither the prepayment the subject of this calculation has occurred nor any other future prepayments will occur);
 - (iii) “**C**” equals the Disposed Property Rental Amount (as defined below) for such relevant Mortgaged Property; and
 - (iv) “**D**” equals the fixed swap rate under the Swap Agreement plus the margin over LIBOR applicable to the Class B2 Bonds;
2. if the B2 Loan has been prepaid in full prior to such prepayment and for so long as the B1 Loan is (in whole or in any part) outstanding immediately prior to such prepayment, an amount equal to:

$$A - \left(\frac{(365 \times (B - C))}{91 \times D} \right)$$

where, for the purposes of this paragraph:

- (i) “A” equals the then current Principal Amount Outstanding of the Class B1 Bonds;
 - (ii) “B” equals the Interest Amount due in respect of the relevant Class B1 Bonds on the Payment Date falling in April 2028 (based on the assumption that neither the prepayment the subject of this calculation has occurred nor any other future prepayments will occur);
 - (iii) “C” equals the Disposed Property Rental Amount (as defined below) for such relevant Mortgaged Property; and
 - (iv) “D” equals the interest rate applicable to the Class B1 Bonds; or
3. if the B1 Loan and the B2 Loan have both been prepaid in full prior to such prepayment and for so long as the A Loan is (in whole or in any part) outstanding immediately prior to such prepayment, an amount equal to the higher of:
- (i) 120% of the Allocated Debt Amount; and
 - (ii) the Minimum Prepayment Amount,
- where, for the purposes of this paragraph;
- (a) the “**Allocated Debt Amount**” equals:
- $$A \times \left(\frac{B}{C} \right)$$
- where,
- (1) “A” equals the then Principal Amount Outstanding of the Class A Bonds;
 - (2) “B” equals: (i) in the case of the relevant Mortgaged Property being owned by the Borrower as at the Closing Date, the Vacant Possession Value ascribed to such Mortgaged Property in the Valuation Report; and (ii) in the case of the relevant Mortgaged Property being owned by the Borrower only as a result of a substitution, the Vacant Possession Value ascribed to such Mortgaged Property at the time of its substitution pursuant to and in accordance with the terms of the Substitution Agreement; and
 - (3) “C” equals the Vacant Possession Value of the Property Portfolio on the Closing Date; and
 - (b) the “**Minimum Prepayment Amount**” equals the Disposed Property Rental Amount for such Mortgaged Property multiplied by 29.0537,

provided that, if the Prepayment Amount calculated in accordance with the provisions of paragraph 1, 2 or 3 above is greater than the then aggregate Principal Amount Outstanding on the Bonds, the Prepayment Amount shall equal the then aggregate Principal Amount Outstanding on the Bonds.

For purposes of calculating the Prepayment Amount and the Minimum Prepayment Amount, the “**Disposed Property Rental Amount**” for any prepayment in accordance with paragraph 1 or 2 above, equals the amount of rent that would be due under the Occupational Lease for such Mortgaged Property on 25 March 2028.

Accordingly, the Borrower may only prepay the Intercompany Loan if the Borrower certifies to the Borrower Security Trustee that:

- (a) the Borrower has or, on the relevant payment date, will have the necessary funds available to make such prepayment on the relevant payment date; and
- (b) no Loan Event of Default or event which would become (with the passage of any time provided for, the giving of any notice provided for, in the Intercompany Loan Agreement, or any combination thereof) a Loan Event of Default (a “**Loan Potential Event of Default**”) has occurred and is continuing (and has not been waived) or would occur as a result of such prepayment, save that the Borrower may prepay the Intercompany Loan if such prepayment, or any disposal giving rise to the prepayment, would cure the Loan Event of Default (but only prior to the service of a Loan Enforcement Notice) or Loan Potential Event of Default or if such prepayment is as a result of receipt of insurance or compulsory purchase proceeds as described above.

Issuer Facility Fees

Pursuant to the terms of the Intercompany Loan Agreement and in consideration of the Issuer making the Intercompany Loan available, the Borrower will pay to the Issuer:

- (a) on the Closing Date, an amount equal to all the fees, costs and expenses properly and reasonably incurred by the Issuer on or before the Closing Date in connection with the issue of the Bonds, the making of the Initial Loans and the negotiation, preparation and execution of each Issuer Transaction Document (the “**Initial Facility Fee**”); and
- (b) on each Payment Date, a further fee in an amount equal to such amounts as are then necessary to enable the Issuer to pay or provide for all amounts (other than any payments of interest on, and repayments of principal (including any Redemption Amount) in respect of, the Bonds but including any Swap Termination Payments due to the Swap Provider pursuant to the terms of the Swap Agreement and that are due to be paid on that Payment Date) falling due, in accordance with the terms of the Issuer Transaction Documents, to be paid by the Issuer on such date (the “**Ongoing Facility Fee**” and together with the Initial Facility Fee, the “**Issuer Facility Fees**”).

In addition, pursuant to the terms of the Intercompany Loan Agreement, the Issuer will be required to pay to the Borrower on each Payment Date an amount equal to any payments received by the Issuer from the Swap Provider in connection with the termination of the swap and/or reduction of the notional amount of the swap as a result of the early redemption of any Class B2 Bonds (such amount, the “**Borrower Break Amount**”) on such date.

Withholding tax on the Intercompany Loan

All payments made to the Issuer under the Intercompany Loan Agreement will be made free and clear of, and without withholding or deduction for, any tax unless such withholding or deduction is required by law. If any such withholding or deduction is so required, the amount of the payment due to the Issuer will be increased to the extent necessary to ensure that, after that withholding or deduction has been made, the amount received by the Issuer is equal to the amount that it would have received had that withholding or deduction not been required to be made.

Representations and Warranties

No independent investigation with respect to the matters warranted in the Intercompany Loan Agreement will be made by the Issuer, the Bond Trustee or the Borrower Security Trustee, other than a search made on the Closing Date against the Borrower, the General Partner, the Nominees and Nominees HoldCo (together, the “**Obligors**”) in the relevant file held by the Registrar of Companies and at the Companies Court in respect of winding-up petitions and searches against the Mortgaged Properties at the Land Registry. Apart from such searches, in relation to such matters, the Issuer and the Borrower Security Trustee will rely entirely on the representations and warranties to be given by the Obligors pursuant to the terms of the Intercompany Loan Agreement.

These include representation and warranties, which may be limited by certain materiality qualifications in certain circumstances, as to the following and other matters:

- due incorporation, establishment, ownership and power and authority of the Obligors;
- (subject to the due registration of the relevant legal titles) the Nominees jointly being the sole legal owners and the Borrower being the sole beneficial owner of each Mortgaged Property and having good title to that interest;
- no security interest existing over all or any of the Obligors present or future revenues or assets other than certain permitted security interests;
- each of the Transaction Documents to which it is a party to constituting legal, valid and binding obligations of the relevant Obligors and being enforceable in accordance with their terms (subject to due registration of security interests and certain other reservations);
- no Loan Event of Default has occurred and is continuing;
- compliance with all applicable environmental laws and environmental licences;
- no conflict existing between the relevant Transaction Documents and applicable laws, regulations and the relevant Obligor’s constitutional documents;
- no litigation, arbitration, administrative proceedings or governmental or regulatory investigations or proceedings or disputes being current or to its knowledge threatened or pending against an Obligor which are expected to be adversely determined against it and which, if so adversely determined against it, would be reasonably expected to have a Partnership Adverse Effect;

- no deduction or withholding for or on account of any Tax being required to be made by an Obligor from any payment it may make under the Transaction Documents;
- the accuracy of the information provided to the solicitors who prepared the Certificates of Title, the environmental consultants who prepared the Environmental Report and the Valuers who prepared the Valuation Report; and
- each Obligor's most recent audited financial statements (to the extent that such financial statements have been prepared) having been prepared in accordance with generally accepted accounting principles in the United Kingdom and giving a true and fair view of the financial condition of the relevant company.

The above representations and warranties will also be repeated on each date on which any Additional Loan is made and certain of the above representations and warranties will also be repeated on each Payment Date, by reference to the facts and circumstances then existing and subject to the effect of the breach being limited by reference to whether such breach has or would reasonably be expected to have a Partnership Adverse Effect.

Covenants — General

Pursuant to the terms of the Intercompany Loan Agreement, the Obligors will give certain covenants (which may be limited in certain circumstances by certain materiality qualifications) in favour of the Issuer and the Borrower Security Trustee, including, without limitation:

- to comply with the terms of the tenants' obligations under the headleases of the Mortgaged Properties under which the Nominees hold their interest in the Mortgaged Properties, being, as at the Closing Date, the headleases listed in the Substitution Agreement, and the headlease of any Incoming Property (the "**Headleases**") and the landlords' obligations under the Occupational Leases;
- not to carry out and/or agree to any alterations to a Mortgaged Property unless permitted by the terms of the relevant Occupational Lease or with the consent of the Borrower Security Trustee;
- to take such steps as appropriate with a view to ensuring that an Occupational Tenant keeps and maintains, in good and substantial repair and condition, the Mortgaged Properties and, upon the failure by an Occupational Tenant to so do, to keep and maintain, in good and substantial repair and condition, the Mortgaged Properties;
- to take such steps as appropriate with a view to ensuring that an Occupational Tenant complies in all material respects with laws and regulations relating to or affecting the Mortgaged Properties (including in relation to environmental and planning laws and regulations) and, upon the failure by an Occupational Tenant to so do, to comply in all material respects with laws and regulations relating to or affecting the Mortgaged Properties (including in relation to environmental and planning laws and regulations);
- to maintain insurance in respect of the Mortgaged Properties where the Occupational Tenant has failed to meet the insurance requirements of the Occupational Leases (which allows the Occupational Tenant to self insure where permitted pursuant to and in accordance with the terms of the Occupational Leases);
- to supply to, *inter alios*, the Issuer, the Rating Agencies and the Borrower Security Trustee, ongoing updated financial statements and certain other information with respect to each Obligor and the Tesco Group;
- to notify, *inter alios*, the Issuer, the Borrower Security Trustee and the Bond Trustee of any occurrence of a Loan Event of Default or Loan Potential Event of Default;
- not to acquire any assets or subsidiaries or merge with any other business unless in accordance with and pursuant to the terms of the Transaction Documents; and
- not to incur any additional financial indebtedness unless such indebtedness is in accordance with the terms of the Transaction Documents.

The effect of the breach of certain of the covenants described above may be subject to a rectification period and/or subject to whether the relevant breach would have or would reasonably be expected to have a Partnership Adverse Effect.

Covenants — Disposals

In addition to the general covenants described above, no Obligor shall be entitled to dispose of any assets (including any interest in a Mortgaged Property), unless permitted to do so pursuant to the terms of the Intercompany Loan Agreement and the other Transaction Documents, including, in particular, the Substitution Agreement. For further details as to the circumstances where substitutions and disposals are permitted pursuant to the terms of the Transaction Documents, see the Section entitled “*Substitution, Alteration and Disposal of Mortgaged Properties*”.

Relationship between Intercompany Loan and the Bonds

The occurrence of a Loan Event of Default will constitute a Bond Event of Default. However, this will not necessarily result in the Bonds becoming immediately due and repayable unless the Bond Trustee delivers a Bond Enforcement Notice. The service of a Bond Enforcement Notice shall be at the discretion of the Bond Trustee, or when required or directed by the Bondholders, subject to and in accordance with Condition 10. The occurrence of a Bond Event of Default will constitute a Loan Event of Default.

Security for the Intercompany Loan

The obligations of the Obligors under the Intercompany Loan and other Borrower Transaction Documents are secured, pursuant to the terms of the Borrower Security Documents, over the assets, property and undertaking of the Borrower, the General Partner, the Nominees and Nominees HoldCo (including, *inter alia*, the Mortgaged Properties, the Borrower Accounts and Nominees HoldCo’s shares in the Nominees), as further described in “*Borrower Security*”.

Loan Events of Default

The Intercompany Loan Agreement will contain a list of the events that may lead to a default and acceleration of any amounts outstanding under the Intercompany Loan (each, a “**Loan Event of Default**”).

Certain Loan Events of Default are subject to a rectification period. Also, certain Loan Events of Default contain a materiality test where the occurrence of an event will not necessarily lead to a Loan Event of Default unless the occurrence of such an event also would have or would reasonably be expected to have a Partnership Adverse Effect (for example, a breach of any repeating representation or warranty, the occurrence of any litigation or termination of a management agreement) whereas the occurrence of other events will automatically constitute a Loan Event of Default without such materiality (for example, failure to pay, a Bond Event of Default, an Obligor Insolvency Event or where the Guarantor becomes insolvent).

For purposes of the Intercompany Loan Agreement:

“**Obligor Insolvency Event**” means, in respect of any Obligor:

- (a) it is or is deemed to be unable or admits its inability to pay its debts as they fall due, or suspends making payments on any of its debts; or
- (b) the value of its assets is less than the amount of its liabilities (taking into account its contingent and prospective liabilities); or
- (c) it is or is deemed to be unable to pay its debts within the meaning of section 123 of the Insolvency Act; or
- (d) a moratorium is declared in respect of any indebtedness of the Obligor; or
- (e) the commencement of negotiations with one or more creditors of the Obligor with a view to rescheduling any indebtedness of the Obligor; or
- (f) any corporate action, legal proceedings or other formal procedure or step is taken in relation to:
 - (i) the appointment of an Insolvency Official in relation to the Obligor or in relation to the whole or any part of the undertaking or assets of the Obligor; or
 - (ii) an encumbrancer (excluding, the Borrower Security Trustee or any Receiver of the Obligor appointed by the Borrower Security Trustee) taking possession of the whole or any material part of the undertaking or assets of the Obligor and such possession not being discharged or ceasing to apply within 30 days; or

- (iii) the making of an arrangement, composition, or compromise, (whether way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of the Obligor, a reorganisation or winding-up of the Obligor, a conveyance to or assignment for the creditors of the Obligor generally or the making of an application to a court of competent jurisdiction for protection from the creditors of the Obligor generally other than for the purposes of or pursuant to a solvent amalgamation or reconstruction; or
- (iv) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any material part of the undertaking or assets of the Obligor (excluding, by the Borrower Security Trustee or any Receiver of the Obligor appointed by the Borrower Security Trustee) and the same not be discharged or otherwise ceasing to apply within 30 days; or
- (v) any procedure or step is taken, or any event occurs, analogous to those set out in (i)- (iv) above, in any jurisdiction,

provided that an Obligor Insolvency Event shall not be considered to have occurred in relation to an Obligor where the value of the assets of an Obligor is less than the amount of its liabilities, solely due to the fact that the value of the assets of the Obligor has been materially and adversely affected by a diminution in the Vacant Possession Value of the Mortgaged Properties which is attributable to Market Conditions.

“**Insolvency Official**” means a liquidator, provisional liquidator, administrator, administrative receiver, receiver, receiver or manager or other similar officer or analogous officer;

Upon the occurrence of a Loan Event of Default, the Borrower Security Trustee may (and shall if so directed by the Bond Trustee), subject to being indemnified and/or secured to its satisfaction, serve a Loan Enforcement Notice on, *inter alios*, the Borrower, and upon such service:

- (a) all amounts outstanding under the Intercompany Loan shall either become immediately due and payable or shall become payable on demand; and
- (b) the security granted by the Obligors pursuant to the terms of the Borrower Security Documents shall become enforceable, according to such Loan Enforcement Notice.

The occurrence of a Loan Event of Default (or of any other event where the Borrower Security is threatened or in jeopardy or the interests of the Bond Trustee (as assignee of the Assigned Rights) may be prejudiced) will, upon notice being given by the Borrower Security Trustee, result in the floating charges granted by the Borrower, the General Partner, the Nominees and Nominees HoldCo in the Borrower Security Documents crystallising so as to become fixed charges.

Partnership Adverse Effect

For the purposes of the Intercompany Loan Agreement, “**Partnership Adverse Effect**” means:

- (a) a material and adverse effect on the ability of the Borrower to perform its payment obligations under the Borrower Transaction Documents; or
- (b) a material and adverse effect on the legality, binding nature, validity or enforceability of the Borrower Security; or
- (c) a material and adverse effect on the aggregate Vacant Possession Value of the Mortgaged Properties at any time compared to the aggregate outstanding amounts of the B Loans at that time; or
- (d) a material and adverse effect on the legality, binding nature, validity or enforceability of the Borrower’s entitlement to Rental Income,

provided that, in determining whether or not a Partnership Adverse Effect has occurred, there shall be disregarded:

- (a) in respect of sub-paragraphs (b) and (d) above, the consequences of any matters of law (but not matters of fact) to the extent qualifications have been made as to such matters of law in legal opinions delivered under the Intercompany Loan at or before the Closing Date;
- (b) in respect of all the foregoing sub-paragraphs, any consequences of an actual or a perceived diminution in the financial ability of the Occupational Tenants or the Guarantor to pay the

Rental Income in full and on time (other than an actual failure to pay the Rental Income in full on the Rent Payment Dates); and

- (c) in respect of sub-paragraphs (a) and (c) above, any diminution in the aggregate Vacant Possession Value of the Mortgaged Properties, to the extent attributable to Market Conditions.

For this purpose:

“**Market Conditions**” means, in relation to one or more Mortgaged Properties, conditions applicable generally in the market for similar properties in the same market; and

“**Vacant Possession Value**” has the meaning given to that term in the Substitution Agreement (as to which, see the section entitled “*Substitutions, Alterations and Disposal of Mortgaged Properties*” below).

Governing law

The Intercompany Loan Agreement will be governed by English law.

The Account Bank and Cash Management Agreement

The Issuer, the Cash Manager, the Borrower, the Operator, the Borrower Security Trustee and the Bond Trustee will enter into an Account Bank and Cash Management Agreement (the “**Account Bank and Cash Management Agreement**”) with the Account Bank, on the Closing Date, pursuant to which the Cash Manager will be appointed, as agent of the Issuer and the Borrower and, in certain circumstances, the Bond Trustee and/or the Borrower Security Trustee, to (i) act as cash manager in respect of amounts standing from time to time to the credit of the Borrower Accounts; (ii) act as cash manager in respect of amounts standing from time to time to the credit of the Issuer Transaction Account; (iii) act as agent of the Borrower in connection with the Liquidity Facility Agreement; (iv) invest monies standing to the credit from time to time of the Borrower Accounts and the Issuer Transaction Account in Eligible Investments. In the Account Bank and Cash Management Agreement, the Account Bank will waive all rights of set-off in relation to the Borrower Accounts and the Issuer Transaction Account.

The Issuer and the Borrower will each pay to each of the Cash Manager and the Account Bank an agreed fee (inclusive of any applicable VAT). Payment of the fees due to the Cash Manager and the Account Bank by the Borrower ranks senior to payments to the Issuer in respect of the Intercompany Loan and payment of the fees due to the Cash Manager and the Account Bank by the Issuer ranks senior to payments to the Bondholders.

Pursuant to the Account Bank and Cash Management Agreement, the Issuer will open and maintain the Issuer Transaction Account and the Borrower will open and maintain the Borrower Accounts with the Account Bank (or, in the case of the Liquidity Standby Account, the Liquidity Facility Provider).

The Cash Manager will not be permitted to sub-contract or delegate the performance of any of its obligations without the prior written consent of the Bond Trustee and the Borrower Security Trustee. The Account Bank will give certain representations, including that it is an Eligible Bank (as defined in the Conditions). The Cash Manager will covenant, among other things, that it will allocate or procure that sufficient resources are allocated to enable it to perform its obligations under the Account Bank and Cash Management Agreement.

The Issuer may not withdraw any monies from the Issuer Transaction Account otherwise than in accordance with the provisions of the Issuer Deed of Charge and/or, as applicable, the Account Bank and Cash Management Agreement.

The Borrower may not withdraw any monies from the Borrower Accounts otherwise than in accordance with the provisions of, as applicable, the Borrower Deed of Charge, the Account Bank and Cash Management Agreement and the Liquidity Facility Agreement.

The Account Bank and Cash Management Agreement contains provisions, *inter alia*, for the transfers of amounts between, and withdrawal of funds from, the Borrower Accounts and the Issuer Transaction Account.

Details concerning the Borrower Accounts, the Issuer Transaction Account, the Issuer Pre-Enforcement Priority of Payments, the Borrower Pre-Enforcement Priority of Payments, the Issuer Post-Enforcement Priority of Payments and the Borrower Post-Enforcement Priority of Payments are described further in the section entitled “*Resources Available to the Borrower and the Issuer*” below and Condition 11 (*Enforcement*).

Each of the Borrower Accounts (other than the Borrower Distribution Account) is subject to a first priority security interest created in favour of the Borrower Security Trustee pursuant to the Borrower Deed of Charge, provided that the Liquidity Standby Account shall not be available to the Borrower Secured Creditors generally (as described in “*The Borrower Security*” below). The Issuer Transaction Account is subject to a first priority security interest created in favour of the Bond Trustee pursuant to the Issuer Deed of Charge, provided that any amounts standing to the credit of the Swap Collateral Ledger shall not be available to the Issuer Secured Creditors generally (as described in “*The Issuer Deed of Charge*” below).

The appointments of the Cash Manager and the Account Bank may be terminated by the Issuer or the Borrower (with the consent of the Bond Trustee or Borrower Security Trustee respectively) or by the Bond Trustee and the Borrower Security Trustee (acting jointly) following certain events including a failure by the Cash Manager or the Account Bank, as the case may be, to perform their duties under the Account Bank and Cash Management Agreement and an insolvency-related event in relation to the Cash Manager or the Account Bank, as the case may be.

The Issuer and the Borrower (acting jointly) and with the approval of the Borrower Security Trustee and the Bond Trustee shall appoint a replacement Cash Manager or Account Bank in the event that the appointment of the Cash Manager or Account Bank is terminated. The termination of the appointment of the Cash Manager or Account Bank shall not be effective until a replacement has been appointed.

The Account Bank and Cash Management Agreement will be governed by English law.

The Borrower Security

The Borrower Deed of Charge

The obligations of the Obligors under the Intercompany Loan Agreement and the other Borrower Transaction Documents to which they are a party will be secured, *inter alia*, by the assets and undertaking of the Borrower and the General Partner pursuant to the Borrower Deed of Charge to be entered into on the Closing Date (the “**Borrower Deed of Charge**”). Under the Borrower Deed of Charge, each of the Borrower and the General Partner (on behalf of the Borrower) will create, *inter alia*, the following security (the “**Partnership Security**”) in favour of the Borrower Security Trustee on trust for the Borrower Secured Creditors over all of its partnership property, assets and undertaking (the “**Partnership Charged Property**”):

- (a) first priority fixed charges, mortgages or, as the case may be, assignments by way of security of or over:
 - (i) its interest in the Mortgaged Properties;
 - (ii) its interest in all Rental Income;
 - (iii) any insurances, licences, consents and authorisations (statutory or otherwise) held by the Borrower or the General Partner (on behalf of the Borrower) in connection with the Mortgaged Properties or the use of the Mortgaged Properties and the right to recover and receive all compensation which may be payable in respect of them;
 - (iv) its interest in the Borrower Accounts (other than the Borrower Distribution Account);
 - (v) its interest in any Eligible Investments made from time to time by or on behalf of the Borrower;
 - (vi) the benefit of any rights it has in any of the Borrower Transaction Documents;
 - (vii) its interest in the entire issued share capital of Nominees HoldCo held by it and the Share Related Rights; and
- (b) a floating charge over all its present and future assets and undertaking, including the Borrower Distribution Account, which shall be deferred in point of priority to all fixed security validly and effectively created by it and as described in paragraph (a) above.

Also, under the Borrower Deed of Charge, in addition to the security created by the General Partner in respect of any property, assets and undertaking held by it for and on behalf of the Borrower, as described above, the General Partner, in its own right, will create a floating charge over all its own property, assets and undertaking (the “**GP Charged Property**”) in favour of the Borrower Security Trustee on trust for the Borrower Secured Creditors (such security being the “**GP Security**”).

Nominees Deed of Charge

The obligations of the Obligors under the Intercompany Loan Agreement and the other Borrower Transaction Documents to which they are a party will be secured, *inter alia*, by the assets and undertaking of the Nominees pursuant to the Nominees Deed of Charge to be entered into on the Closing Date (the “**Nominees Deed of Charge**”). Under the Nominees Deed of Charge, each of the Nominees will create, *inter alia*, the following security (the “**Nominees Security**”) in favour of the Borrower Security Trustee on trust for the Borrower Secured Creditors over all of its property, assets and undertaking (the “**Nominees Charged Property**”):

- (a) first priority fixed charges, mortgages or, as the case may be, assignments by way of security of or over:
 - (i) its interest in the Mortgaged Properties;
 - (ii) its interest in all Rental Income;
 - (iii) any insurances, licences, consents and authorisations (statutory or otherwise) held by the Nominees in connection with the Mortgaged Properties or the use of those Mortgaged Properties and the right to recover and receive all compensation which may be payable in respect of them;
 - (iv) the benefit of any rights it has in any of the Borrower Transaction Documents to which it is a party; and
- (b) a floating charge over all of its present and future assets and undertaking, which shall be deferred in point of priority to all fixed security validly and effectively created by it and as described in paragraph (a) above.

Nominees HoldCo Deed of Charge

The obligations of the Obligors under the Intercompany Loan Agreement and the other Borrower Transaction Documents to which they are a party are secured, *inter alia*, by the assets and undertaking of Nominees HoldCo pursuant to the Nominees HoldCo Deed of Charge (the “**Nominees HoldCo Deed of Charge**”). Under the Nominees HoldCo Deed of Charge, Nominees HoldCo has agreed to create the following security (the “**Nominees HoldCo Security**” and, together with the Partnership Security, the GP Security and the Nominees Security, the “**Borrower Security**”) in favour of the Borrower Security Trustee on trust for the Borrower Secured Creditors over all of its property, assets and undertaking (the “**Nominees HoldCo Charged Property**” and, together with the Partnership Charged Property, the GP Charged Property and the Nominees Charged Property, the “**Borrower Charged Property**”):

- (a) first priority fixed charges, mortgages or, as the case may be, assignments by way of security of or over:
 - (i) the entire issued share capital of the Nominees held by it and the Share Related Rights;
 - (ii) the benefit of any rights it has in any Borrower Transaction Documents to which it is a party; and
- (b) a floating charge over all of its present and future assets and undertaking, which shall be deferred in point of priority to all fixed security validly and effectively created by it and as described in paragraph (a) above.

Upon the service of a Loan Enforcement Notice pursuant to the terms of the Borrower Security Documents, the Borrower Security Trustee may enforce its rights in respect of the Borrower Security.

The Borrower Security Documents will be governed by English law.

The Issuer Deed of Charge

The Issuer and, *inter alios*, the Bond Trustee will enter into a deed of charge (the “**Issuer Deed of Charge**”) on the Closing Date.

Under the Issuer Deed of Charge, the Issuer will grant the following security in favour of the Issuer Secured Creditors over all of its property, assets and undertaking (the “**Issuer Charged Property**”):

- (a) first priority fixed charges or, as the case may be, assignments by way of security over:

- (i) the Issuer's rights as a secured party under the Borrower Security Documents and any security granted pursuant thereto (the "**Assigned Rights**");
 - (ii) the Issuer's rights under the Issuer Transaction Documents, and provided that the Swap Agreement shall be subject to any rights of set-off agreed between the parties thereto;
 - (iii) the Issuer's rights in respect of the Issuer Charged Accounts and any Related Rights; and
 - (iv) any Eligible Investments made from time to time by or on behalf of the Issuer;
- (b) a floating charge over all of its present and future assets and undertaking, which shall be deferred in point of priority to all fixed security validly and effectively created by it and as described in paragraph (a) above and

(such security together, the "**Issuer Security**" and such property, assets and undertaking so charged being the "**Issuer Charged Property**").

The proceeds of enforcement of the Issuer Security constituted by the Issuer Deed of Charge will be applied in accordance with the order of application of payments specified in the Issuer Post-Enforcement Priority of Payments.

The Issuer Deed of Charge will be governed by English law.

The Property Pool Management Agreement

On the Closing Date, each of the Nominees, the Operator, the Borrower, the Issuer, the Property Pool Manager, the Borrower Security Trustee and the Cash Manager will enter into the Property Pool Management Agreement pursuant to which Tesco Property Holdings Limited will be appointed in relation to the Mortgaged Properties (the "**Property Pool Manager**") on the Closing Date.

Pursuant to the terms of the Property Pool Management Agreement, the Property Pool Manager will be responsible for, *inter alia*:

- (i) the collection of Rental Income on behalf of the Borrower and the direction to the Occupational Tenants to pay Rental Income directly into the Borrower Transaction Account;
- (ii) monitoring the Occupational Tenants' procurement of operational services, including all requisite repairs and maintenance and monitoring the payment and administration of associated third party costs and expenses;
- (iii) monitoring the Occupational Tenants' procurement and maintenance of insurance (to the extent required) in accordance with the Occupational Leases;
- (iv) assisting in relation to alterations, substitutions and disposals of, and Adjoining Land Developments in respect of, Mortgaged Properties in compliance with the Occupational Leases, the Substitution Agreement and the Intercompany Loan Agreement; and
- (v) providing compliance certificates and otherwise taking steps with a view to procuring that the reporting obligations of the Borrower are complied with in accordance with the Intercompany Loan Agreement.

The appointment of the Property Pool Manager may be terminated by the Operator (with the prior written consent of the Borrower Security Trustee) or by the Borrower Security Trustee in certain circumstances, including following a material breach of certain obligations, certain insolvency-related events concerning the Property Pool Manager or a Loan Enforcement Notice being served. However, the termination of the appointment of the Property Pool Manager will not be effective until a replacement has been appointed by the Operator in accordance with the Property Pool Management Agreement.

The Property Pool Management Agreement will be governed by English law.

The Liquidity Facility Agreement

On or before the Closing Date the Borrower will enter into a liquidity facility agreement with (the Liquidity Facility Provider) pursuant to the Liquidity Facility Agreement. If the Cash Manager (on behalf of the Borrower) determines on the date that is two Business Days prior to any Payment Date (any such determination date being a "**Determination Date**") that there will be a shortfall between the Rental Income actually received by the Borrower in respect of any Rent Payment Date and the Borrower Debt Service Required Amount determined in respect of the related Payment Date (being the "**Liquidity Shortfall**"), the Cash Manager shall (on behalf of the Borrower), on the date that is one Business Day prior to the relevant Payment Date, deliver a drawdown request under the Liquidity Facility requesting a liquidity drawing to be made on the next Payment Date. Any amounts drawn under the Liquidity

Facility shall be repaid in accordance with the relevant Borrower Priorities of Payments, together with interest thereon, on the next Payment Date on which the Borrower has funds available for the purpose (see “*Resources Available to the Borrower and the Issuer — The Liquidity Facility*”).

The Liquidity Facility Agreement will be governed by English Law.

The Swap Agreement

On or before the Closing Date, the Issuer will enter into a fixed/ floating interest rate swap transaction with the Swap Provider under an International Swaps and Derivatives Association Inc. 1992 Master Agreement (Multicurrency-Cross Border) in order to mitigate the risk arising as a result of the Borrower paying to the Issuer a fixed rate of interest on the B2 Loan while the Issuer is required to pay a floating rate of interest on the Class B2 Bonds. The Swap Provider's obligations under the Swap Agreement are unconditionally and irrevocably guaranteed by the Swap Guarantor pursuant to, and subject to the terms of, the Swap Guarantee. In the event that MSCS ceases to be the Swap Provider, Morgan Stanley will cease to be the Swap Guarantor.

The Swap Agreement will be governed by English law and the Swap Guarantee will be governed by New York law.

For a further description of the Swap Provider and the Swap Guarantor, see the Section entitled “*The Parties*” above and the Section entitled “*Morgan Stanley (The Swap Guarantor)*” below. For a further description of the Swap Agreement, see “*Resources Available to the Borrower and the Issuer*” below.

The Occupational Leases

The following is a summary of the principal terms and conditions of each Occupational Lease as at the Closing Date.

Principal terms

The principal terms of each Occupational Lease subject to which the relevant headlease is beneficially held by the Borrower and in respect of which the legal title is held by the Nominees (the Nominees, in their capacity as landlord under the Occupational Leases, being the “**Landlord**”), as at the Closing Date, are as follows:

Guarantee

Tesco Plc guarantees the obligations of the Occupational Tenant under each Occupational Lease (and, in such capacity, is the “**Guarantor**”). The terms of the Guarantee include the following:

- (a) a covenant that the Occupational Tenant will perform and observe all of the obligations on the part of the Occupational Tenant in the Occupational Lease (including payment of rent and all other sums payable under the Occupational Lease);
- (b) provision for the Landlord to proceed against the Guarantor as if it were the sole obligor in respect of the obligations in question; and
- (c) provision enabling the Landlord to require the Guarantor to take a new lease of the property in the event of disclaimer or forfeiture of the Occupational Lease.

Term

A term of years commencing on 24 November 2003 and expiring on 19 February 2029.

Leased property

Each property includes all land and buildings within the site boundary, all landlord's fixed plant and machinery and all conduits (other than those of utility companies) within the site boundary or (where the Landlord has any responsibility for them) serving the property.

The items listed in the Ninth Schedule to each Occupational Lease are agreed to be the Occupational Tenant's fixtures and fittings. These items comprise, in summary, items that would ordinarily form part of a retail tenant's fit-out work, including (for example) the mechanical and electrical installations and shop-front.

Initial rent

The principal rent payable until 25 March 2005 is as set out in the schedule of property values contained in the Valuation Report.

Rent review

The principal rent increases on 25 March 2005 and on each anniversary of that date by an amount equal to 2.5% compounding annually.

Rent intervals

The principal rent is payable without deductions or set-off quarterly in advance on 25 March, 24 June, 29 September and 25 December (the “**Rent Payment Dates**”) in every year of the term.

Interest on late rent

Interest is payable at 4% over the base rate of Barclays Bank plc from time to time (or such other bank being a member of the British Bankers Association as the Landlord may nominate in writing) on any rent which is not paid on the due Rent Payment Date. There is no grace period for the payment of rent.

Rents net of additional charges, costs and expenses

The Occupational Tenant is responsible for the payment of all existing and future rates, taxes, assessments, duties, outgoings, impositions, governmental, local or other third party charges, costs, fees and expenses and obligations of every kind attributable or relating to the property (in the case of costs, fees and expenses, to the extent that they are properly and reasonably incurred) except tax and value added tax for which the Landlord is required to account).

Repairs

The Occupational Tenant is to keep all parts of the structures and buildings on the property in good and substantial repair and condition. The Landlord’s fixtures and fittings and equipment are to be replaced when beyond repair with new, reconditioned or replacement items of similar quality and in good working order. The Occupational Tenant will have the right to remove some or all of these items at the end of the term of the Occupational Lease (effectively assuming that the Mortgaged Property has been leased as a shell finish).

If the property shall be damaged or destroyed, whether by an insured risk or an uninsured risk and whether or not the Occupational Tenant is self-insuring (as to which, see “*Insurance*” below), the Occupational Tenant is to reinstate the property with all reasonable speed.

Alterations

Alterations, internal or external, are prohibited unless:

- (a) expressly permitted under (i) or (ii) below; or
- (b) the Rating Agencies have confirmed in writing to the Landlord and the Borrower Security Trustee that the Ratings Test is satisfied and the Occupational Tenant obtains the prior written consent of the Landlord and the Borrower Security Trustee

provided that the Borrower Security Trustee’s consent will be given if the Ratings Test is satisfied and the Alteration has been approved by a Reserved Matter Resolution of the Class B Bondholders.

The Occupational Tenant may, without the consent of the Landlord and the Borrower Security Trustee:

- (i) carry out internal or external non-structural alterations or the extension of any building which, together with previous extensions carried out during the term, will not generate an increase in gross internal area in excess of 40% of the gross internal area at the date of the Occupational Lease, or other alterations, including structural alterations which do not adversely affect the structural integrity of the building, the aggregate cost of which at the time does not exceed an amount equal to 24 months rent at the relevant time; or
- (ii) carry out alterations not permitted under (i) above if the Occupational Tenant provides a written certificate from the Property Advisor addressed to the Landlord and the Borrower Security Trustee not more than 12 months before the start of the alterations, which identifies the extent and nature of the alterations and certifies that the effect of carrying out the alterations would not

be to reduce the Market Rental Value of the property assuming a lease for a term equal to the then unexpired term of the Occupational Lease and otherwise on the then current market terms generally acceptable to long term institutional investors or to reduce the Vacant Possession Value of the Landlord's interest in the property.

In circumstances where neither the Occupational Tenant nor the Guarantor has a long-term senior unsecured credit rating from the applicable rating agencies of A or better (from S&P and Fitch) and A2 or better (from Moody's) in each case without negative outlook, if the proposed alterations are estimated to cost in excess of 24 months rent or take longer than 18 months to complete, the Occupational Tenant may be required to provide certain security for the completion of the alterations, as more particularly described in the Occupational Lease.

Reinstatement

All Alterations or additions are to be reinstated at the end of the term and all Occupational Tenant's fixtures and fittings removed leaving the property in a safe and secure state, in each case if the Landlord so requires (acting reasonably).

Permitted use

- (a) The permitted use for each Store is as a retail shop or shops with ancillary uses of a petrol filling station (with a kiosk and car wash), customer restaurant, in-store bakery, the provision of financial services, office and storage space, customer and staff car parking and such other uses as are common in shops of the Occupational Tenant in the United Kingdom from time to time and (subject to (c) below) for residential use and not for any other use save with the Landlord's consent, which shall not to be unreasonably withheld or delayed;
- (b) The permitted use under the Occupational Lease for each of the two distribution centres is as a distribution warehouse under Class B8 of the Town & Country Planning (Use Classes) Order 1987 together with ancillary offices and car parking and not for any other use save with the Landlord's consent, which shall not be unreasonably withheld; and
- (c) The Occupational Tenant is not permitted to use the property for residential or sleeping purposes if to do so would materially reduce the GIA of the retail shop or shops forming part of the property (so that the predominant use remains that of a retail shop (save for appropriate access and egress for such residential or sleeping purposes)) or have a materially adverse effect on the operation of the retail shop or shops at the property.

Assignment

Assignment of the whole or any part of a property by the Occupational Tenant is prohibited.

If the Occupational Tenant becomes insolvent, the Landlord may request the Occupational Tenant to assign the Occupational Lease to the Guarantor, the latter as assignee to covenant directly with the Landlord to observe and perform the covenants on the part of the lessee in the Occupational Lease.

The Occupational Tenant may underlet part of the property if any one of the following applies:

- (i) the underlease complies with certain usual requirements as to form and substance and the requirements of either paragraph (a) or (b) below are satisfied and the Property Advisor and Occupational Tenant's legal advisors have confirmed that to be the case to the Landlord and the Borrower Security Trustee; or
- (ii) if the Ratings Test is satisfied and the Occupational Tenant obtains the prior written consent of the Landlord and the Borrower Security Trustee.

The Occupational Tenant may underlet the whole of the property if any one of the following applies:

- (i) the underlease complies with certain usual requirements as to form and substance and the requirements of paragraph (b) below are satisfied and the Property Advisor has confirmed that to be the case to the Landlord and the Borrower Security Trustee; or
- (ii) if the Ratings Test is satisfied and the Occupational Tenant obtains the prior written consent of the Landlord and the Borrower Security Trustee.

Where the Borrower Security Trustee's consent to an underletting of the whole or part of the premises is required, as described above, it will be given if the Ratings Test is satisfied and the underletting has been approved by a Reserved Matter Resolution of the Class B Bondholders. The requirements (a) and (b) referred to above are:

- (a) The Occupational Tenant may underlet a permitted part if:
 - (i) the underletting is for a term of 10 years or less taking into account any option to renew or extend; and
 - (ii) the gross internal area of the permitted part, when aggregated with the gross internal area of any other existing or proposed underlet parts of the premises, does not exceed 30% of the gross internal area of the property at the time of the underletting.
- (b) The Occupational Tenant may underlet the whole of the property or permitted part if:
 - (i) the aggregate gross internal area of those properties or parts of properties then within the Property Portfolio sublet or proposed to be sublet (including subsisting sub lettings) to occupational tenants whose long-term senior unsecured or counterparty credit rating with the rating agencies is lower than BBB- (from S&P or Fitch) or Baa3 (from Moody's) does not exceed 25% of the then gross internal area of the Property Portfolio; and
 - (ii) on the assumption that the proposed subletting is completed, not more than 10% (calculated on the same basis as (i) above) of the then Property Portfolio is sublet to an entity whose long-term senior unsecured or counterparty credit rating with the rating agencies is lower than BBB- (from S&P or Fitch) or Baa3 (from Moody's) or is not rated and/or to group companies of that entity.

The Occupational Tenant may grant licences, concessions or franchises (complimentary to the then current use of the property) of part of the property provided that no relationship of landlord and tenant is created and the Occupational Tenant gives to the Landlord written notice, including details of their material terms, within 28 days of any written request.

The Occupational Tenant may share the whole or any part of the property with a company which is and remains a group company for so long as such occupation does not create the relationship of landlord and tenant.

No security of tenure

Each Occupational Lease has been excluded from the security of tenure protection of the Landlord and Tenant Act 1954.

Insurance

Save where Tesco Plc has a long-term senior unsecured credit rating from one or more of the applicable rating agencies none of whose ratings is lower than A (for S&P and/or Fitch) and/or A2 (for Moody's) in each case without negative outlook (in which case the Occupational Tenant may elect not to insure some or all of the risks or insurable value) the Occupational Tenant is to insure (but the Landlord may do so at the cost of the Occupational Tenant if the Occupational Tenant does not), with any insurance company or entity or pool authorised to carry on insurance business by the Financial Services Authority, or by an equivalent regulatory body with regulatory powers over the insurance industry in the European Union which maintains a long-term senior unsecured credit rating from one of the applicable rating agencies which at the time the policy is placed or renewed is A or better (from S&P and Fitch) or A2 or better (from Moody's) without a negative outlook:

- (a) the property, in its full reinstatement cost against fire, storm, tempest, flood, earthquake, lightning, civil commotion, riot, explosion, malicious damage, aircraft (but not hostile aircraft) and other aerial devices parts thereof and articles dropped from them (not being war damage), burst pipes, overflowing of pipes or other apparatus, impact and terrorism and such other risks as the Landlord may reasonably request, to the extent that insurance cover is ordinarily available at commercially reasonable rates and on such terms as are commonly available for property of a similar type, size and value and subject to such exceptions, conditions and limitations as shall at the relevant time be commonly imposed by insurers in agreeing to provide such insurance;
- (b) explosion of any engineering and/or electrical plant and/or machinery;
- (c) property owner's third party liability; and
- (d) such other insurances as a reasonably prudent company in the business of the occupation and letting of the property would effect.

The Occupational Tenant covenants to use all reasonable endeavours (including payment of any reasonable additional premium) to procure that the Landlord and the Borrower Security Trustee are co-insured with the Occupational Tenant for their own separate interest in each such insurance policy.

Right of Renewal

The Occupational Tenant has the benefit of a right to renew each Occupational Lease at the expiry of the contractual term by giving notice not more than 36 months nor less than 12 months prior to the expiry of the term. The new lease is to be on the same terms as the existing Occupational Lease save that the Occupational Tenant may elect the term of the new lease to be for 10, 15 or 20 years (as notified when the option is exercised), it will not be contracted outside the security of tenure protection of the Landlord and Tenant Act 1954 and the principal rent will be rebased to the then open market rent.

Superior Lease

The Occupational Tenant covenants to perform and observe the Landlord's obligations in any superior lease (including the relevant Headlease) save those relating to the payment of principal rent and other sums due under such superior lease (albeit such sums are recoverable from the Occupational Tenant as additional rent pursuant to the Occupational Lease).

Forfeiture

The Landlord may forfeit the Occupational Lease (subject to the relevant English statutory framework allowing the Occupational Tenant or its mortgagee to claim relief from forfeiture in certain circumstances) on the occurrence of any of the following:

- (a) non-payment of the rent or value added tax in connection with the same for fifteen business days after it becomes payable, whether formally demanded or not;
- (b) breach of covenant;
- (c) on the Occupational Tenant's insolvency (which is restricted to winding-up, the Occupational Tenant making an application to the Court under S.425 Companies Act 1985, submitting to any of its creditors a proposal under Part I of the Insolvency Act 1986, or entering into any arrangement, scheme, compromise or composition with its creditors, or the Occupational Tenant becoming subject to any process which has the effect of imposing a moratorium on indebtedness of the Occupational Tenant or the rights of the landlord under the Occupational Lease or a petition or application is made for an administration order or for the appointment of an administrator); and
- (d) on certain insolvency-related events concerning Tesco Plc.

Withholding Tax

If any withholding or deduction for or on account of tax is required by law to be made from any sum payable by an Occupational Tenant under an Occupational Lease, the amount of the payment due from that Occupational Tenant will be increased to the extent necessary to ensure that, after such withholding or deduction has been made, the Landlord receives a cash amount equal to that which it would have received had that withholding or deduction not been required to be made.

If any deduction or withholding for or on account of tax is required by law to be made from any sum payable to the Issuer under the Intercompany Loan Agreement, the amount of the payment due to the Issuer will be increased to the extent necessary to ensure that, after such withholding or deduction has been made, the Issuer receives a cash amount equal to that which it would have received had that withholding or deduction not been required to be made, and the Occupational Tenant must pay to the Borrower (or to the General Partner on its behalf) such additional amount as is necessary to enable the Borrower (or the General Partner on its behalf) to make that increased payment.

The payment by an Occupational Tenant of such increased amounts and additional amounts is guaranteed under the Guarantee.

Value Added Tax

The Occupational Tenant is required to pay an amount equal to all value added tax chargeable with respect to any taxable supply made to it by the Landlord under the Occupational Lease in addition to any other consideration for such supply.

Indemnity

The Occupational Tenant covenants not to do or omit or permit or suffer any act or thing or omit to do anything in, on or under the property that may subject the Landlord or its mortgagee to any liability or responsibility for injury or damage or to any liability by reason of failing to comply with a legal requirement or a requirement of any governmental authority. The Occupational Tenant further covenants to indemnify the Borrower in respect of a wide range of matters if they occur during the term of the Occupational Lease, including anything done at the property, any use, possession, occupation, alteration, condition, operation or management of the property, any act, omission or negligence by the Occupational Tenant or any sub-tenant or any of its or their respective officers, agents, employees, contractors, invitees or licensees, any injury to third parties or their property, any damage to the environment, any breach by the Occupational Tenant of any covenant, any failure to comply with any statutory obligations (including those relating to hazardous materials), any lien or claim which is alleged to have arisen in relation to the property or created by the Occupational Tenant against any asset and any breach of covenant, restriction, obligation or other provision to be observed and performed by the Occupational Tenant in relation to the property. The indemnity is expressed to extend to any such matters which become apparent during the term or within one month after the expiry or sooner determination of the term.

The Tax Deed of Covenant

The obligations of the Issuer and the Borrower under the Transaction Documents will be supported by a deed of covenant (the “**Tax Deed of Covenant**”) to be entered into on or about the Closing Date under which, *inter alia*, the Issuer will give certain representations, warranties and covenants in relation to its tax affairs, and the Limited Partners, the General Partner, Topland Group Holdings Limited and Tesco Plc will give certain representations, warranties and covenants in relation to the tax affairs of the Borrower and the Tesco Group, for the benefit of the Borrower Security Trustee and the Bond Trustee.

The Deed of Covenant shall be governed by English law.

The Post-Enforcement Call Option Agreement

The Bonds will be issued subject to an option (the “**Post-Enforcement Call Option**”) in favour of Delamare Limited, a limited liability company incorporated in England and Wales on 12 March 2004 with company registration number 5072271 (“**OptionCo**”) (the “**Post-Enforcement Call Option**”) to be contained in a call option agreement dated on or about the Closing Date and made between the Issuer, OptionCo and the Bond Trustee (the “**Post-Enforcement Call Option Agreement**”). This option will entitle OptionCo to acquire all Relevant Bonds (as defined below) for a consideration of £0.01 per Relevant Bond outstanding. The Post-Enforcement Call Option will be exercisable by OptionCo only following enforcement of the Issuer Security and only if the Bond Trustee has determined that the proceeds of such enforcement are insufficient after payment of all other claims ranking in priority to the Relevant Bonds to pay any further amounts due in respect of the Bonds outstanding at that time (the “**Relevant Bonds**”). By virtue of Condition 3(k) (*Acknowledgement of the Post-Enforcement Call Option*”) each Bond will be subject to the terms of the Post-Enforcement Call Option.

SUBSTITUTION, ALTERATION, AND DISPOSAL OF MORTGAGED PROPERTIES

As at the Closing Date, each of the Borrower and the Nominees covenant in the Intercompany Loan Agreement that they will not dispose of, or make Alterations to, the Mortgaged Properties, and the Mortgaged Properties may not be released from the Borrower Security, other than pursuant to the Borrower Transaction Documents and, in particular, the Occupational Leases, the Intercompany Loan Agreement, the Substitution Agreement the Option Agreements and the Reversion Option Agreement.

The principal terms of the Substitution Agreement, the Option Agreements and the Reversion Option Agreement, and the restrictions on disposals contained in the Intercompany Loan Agreement, are described below. The appointment of the Property Advisor may, under certain of the Borrower Transaction Documents, be made jointly with one or more other parties or the appointment may be made by another party on the basis that a duty of care is owed to the Borrower Security Trustee.

Property Advisor

The Borrower will appoint on the Closing Date, and at all times will maintain the appointment of, a Property Advisor, being a suitable company in the business of real estate acting through an individual who shall be a fellow of the Royal Institution of Chartered Surveyors of at least 10 years' experience of retail property in the United Kingdom (a "**Property Advisor**"), to carry out certain functions, including the delivery of reports and certificates regarding the value of properties and, in particular, the delivery of reports and valuations regarding Alterations to and substitutions and disposals of, the Mortgaged Properties. Cushman & Wakefield Healey & Baker are to be appointed on or before the Closing Date as the initial Property Advisor.

Investors should note that, insofar as the Borrower Security Trustee is required to consent to or approve any matter relating to the substitution, disposal or Alteration of a Mortgaged Property it will do so, if applicable, upon receipt of one or more certificates from the Property Advisor, the Occupational Tenant and/or its advisers certifying that any applicable criteria or tests have been satisfied, without the Borrower Security Trustee itself making any independent enquiry or investigation into the relevant matter. This certificate may be supported by a valuation by the Property Advisor.

Disposal of Mortgaged Properties

Pursuant to the terms of the Intercompany Loan Agreement, the Obligor will covenant that they will not dispose of any Mortgaged Property without the consent of the Borrower Security Trustee, which consent shall be provided if:

- (a) the relevant Mortgaged Property is to be substituted by another property in accordance with and pursuant to the Substitution Agreement (as to which, see the description of the principal terms of the Substitution Agreement below) (a "**Substitution Disposal**");
- (b) the relevant Mortgaged Property is to be disposed of pursuant to and in accordance with an Option Agreement (as to which, see the description of the principal terms of the Option Agreements below) (an "**Option Disposal**");
- (c) the whole, or part of, the relevant Mortgaged Property is to be disposed in connection with a compulsory purchase order, in which case a substitution will be required upon the occurrence of a Substitution Event (a "**CPO Disposal**");
- (d) the proposed disposal would be a "**Minor Disposal**", meaning a disposal which:
 - (i) does not adversely affect the Market Value of the remaining Mortgaged Property after such Minor Disposal, as certified by the Property Advisor to the Landlord and the Borrower Security Trustee; and
 - (ii) is effected by the grant of an easement, licence or wayleave necessary to a third party to enable the laying in, under or over such Mortgaged Property(ies) of conduits for gas, electricity, telecommunications, water, drainage and the like;
- (e) the Obligor have voluntarily elected to carry out the proposed disposal for any reason (an "**Elected Disposal**" and, together with a Substitution Disposal, an Option Disposal, a CPO Disposal, a Minor Disposal and an Elected Disposal, "**Permitted Disposals**"),

provided that,

- (g) in the case of any proposed disposal, two directors of the General Partner (on behalf of the Borrower) have certified in writing to the Issuer and the Borrower Security Trustee that the relevant disposal is a Permitted Disposal and the type of Permitted Disposal and in the case of an Elected Disposal or a CPO Disposal, have made such certification at least 35 and no more than 65 days prior to the date of the proposed Permitted Disposal;
- (h) in the case of a Substitution Disposal, a Minor Disposal or an Elected Disposal, no Loan Event of Default or Loan Potential Event of Default has occurred and is continuing (and has not been waived) at the time of the relevant disposal or will occur as a result of such disposal (without prejudice to the fact that the Borrower may prepay the Intercompany Loan if such prepayment, or any disposal giving rise to the prepayment, would cure a Loan Event of Default (but only prior to the service of a Loan Enforcement Notice) or Loan Potential Event of Default);
- (i) the proposed disposal, in the case of an Elected Disposal, is, or is part of a transaction which is on arm's length commercial terms (and, for the avoidance of doubt, a disposal to a member of the Tesco Group would not for the sole reason that it is to a member of the Tesco Group be determined not to be on such terms);
- (j) in the case of a CPO Disposal, where there is no Substitution Event or an Elected Disposal, the Borrower prepays the Loans in accordance with the terms of the Intercompany Loan Agreement (as to which, and for further details concerning the circulation of the prepayment mechanism, see "*Summary of Principal Documents — The Intercompany Loan Agreement*" above); and
- (k) in the case of any Substitution Disposal or Elected Disposal, the Borrower shall have procured in its own favour:
 - (1) an indemnity from the purchaser in respect of the future performance of title covenants; and
 - (2) a release of all the Borrower's liabilities (whether existing or future) arising out of any documentation between it and the Occupational Tenant relating to the relevant Mortgaged Property.

Alterations of the Mortgaged Properties

Pursuant to the terms of the Intercompany Loan Agreement, the Obligor covenant that they shall take the necessary steps to ensure that:

- (a) an Occupational Tenant shall not carry out any alterations, additions, improvements, extensions in or to and demolition of and the rebuilding and creation of any new buildings or structure on any Mortgaged Property or any part of it ("**Alterations**"), other than in accordance with the relevant Occupational Leases (and where the Obligor has a discretion in relation thereto it shall exercise such discretion as a prudent owner of property similar to the Mortgaged Property in question);
- (b) an Occupational Tenant shall not permit any tenant pursuant to any underlease to carry out any Alterations in breach of the provisions contained in the relevant underlease; and
- (c) if a Mortgaged Property is not subject to an Occupational Lease, no Obligor shall carry out any Alterations without the consent of the Borrower Security Trustee, which consent shall be provided if the Ratings Test is satisfied and the Alteration is approved by a Reserved Matter Resolution.

For further details on the terms of the Occupational Leases relating to alterations, see "*Summary of Principal Documents — The Occupational Leases*" above and, for further details on the provisions of the Substitution Agreement relating to the funding of alterations by the Borrower, see "*Funding of Alterations*" below.

The Substitution Agreement

On the Closing Date each of the TSL, TDL, Tesco Plc, Tesco Holdings Limited ("**THL**") the Borrower, the Nominees and the Borrower Security Trustee will enter into an agreement (the "**Substitution Agreement**") under which TSL and TDL and THL as owners of the interests in reversion to the Headleases and TSL and TDL in their capacity as the Occupational Tenants ("**Tesco**") will (a) be entitled to require a substitution of or, in certain circumstances, will be obliged to substitute, a Mortgaged Property and/or, (b) be required to offer the Borrower the opportunity to fund certain works to buildings on a Mortgaged Property or to acquire and fund works to land adjoining the Mortgaged Property.

Tesco Plc will guarantee the obligations of Tesco under the Substitution Agreement.

Substitutions

If Tesco elects or, following a Substitution Event is required to effect a substitution, Tesco must identify three properties which are available to be substituted for the relevant Mortgaged Property and give notice of them to the General Partner and the General Partner (on behalf of the Borrower) shall select one of the properties so identified (an “**Incoming Property**”). If the General Partner fails to make a selection, Tesco will do so.

A “**Substitution Event**” occurs when (a) there is damage or destruction to the buildings on a Mortgaged Property which Tesco has not for any reason lawfully reinstated within 3 years or (b) a competent authority makes an order to purchase the whole or part of a Mortgaged Property or the rights which benefit it by the exercise of compulsory purchase powers and the purchase is likely to reduce the Investment Value of the Mortgaged Property by at least 10%.

A substitution is only permitted if the following criteria are satisfied, as certified to the Issuer and the Borrower Security Trustee:

(a) **Income/Value Criteria**

- (i) The Investment Value of the Incoming Property is at least the same as the Investment Value of the property to be substituted (the “**Outgoing Property**”).
- (ii) The Market Rental Value of, and the rent to be reserved by, the Occupational Lease of the Incoming Property will be respectively at least the same as the Market Rental Value of, and the rent reserved by, the Occupational Lease of the Outgoing Property.
- (iii) The Vacant Possession Value of the Incoming Property is no less than the Vacant Possession Value of the Outgoing Property.
- (iv) The Projected Market Value of the Incoming Property is no less than the Projected Market Value of the Outgoing Property.

All valuations are to be undertaken by the Property Advisor on the basis that it owes a duty of care to the Borrower and the Borrower Security Trustee.

(b) **Qualitative Criteria**

- (i) The Incoming Property is the same type of property as the Outgoing Property – that is to say, a retail store is to be substituted for a retail store and a distribution centre for a distribution centre.
- (ii) The geographical criteria of the Mortgaged Properties, by area will be within the following limits:

	% Vacant Possession Value	
	Current	Limits
London/South East	50.35	45-65
Midlands	27.94	10-30
North	11.30	5-25
South West/Wales	10.41	0-20

- (iii) The performance of retail stores comprising the Mortgaged Properties, as certified by Tesco to the Issuer and the Borrower Security Trustee, measured by sales per square foot will be within the following quartiles of such sales performance within the then current United Kingdom (excluding Northern Ireland) Superstore and Extra stores portfolio of the Tesco Group:

	% Vacant Possession Value	
Quartile	Current	Limits
1	35.85	not less than 30%
1 and 2	67.56	not less than 60%
1, 2 and 3	75.13	not less than 70%

(c) **Legal/technical Criteria**

- (i) The Incoming Property is located in England or Wales.
- (ii) The Incoming Property is owned by a Tesco Group company freehold or leasehold for a term of years exceeding the residue of the term of years of the proposed Head Lease of the Incoming Property.

- (iii) If the Incoming Property is leasehold, the terms of the lease satisfy specified requirements and are suitable for security purposes.
- (iv) The General Partner and the Borrower Security Trustee receive (1) a certificate of title from Tesco's solicitors disclosing no materially adverse matters in respect of the Incoming Property (2) a structural report in respect of the Incoming Property disclosing no materially adverse matters and (3) an environmental report disclosing that the environmental risk with respect to the Incoming Property is considered to be low.
- (v) Certain other conditions precedent set out in the Substitution Agreement are satisfied.

(such criteria being the "**Substitution Criteria**")

If the Substitution Criteria are not met or if the relevant substitution would result in the aggregate gross internal area of substituted properties, excluding any substituted as a result of a Substitution Event, being more than 20% of the aggregate initial gross internal area of the Property Portfolio, then the substitution will require the prior written consent of the Borrower Security Trustee, which consent shall be provided if the Ratings Test is satisfied and the Class B Bondholders approve such substitution by way of a Reserved Matter Resolution.

If the Investment Value of an Incoming Property exceeds the Investment Value of the Outgoing Property, the Borrower (acting by the General Partner) may elect to pay the excess on completion of the substitution (from funds which are subordinated to the claims of the Borrower Secured Creditors in respect of the Borrower Secured Liabilities). If the General Partner (on behalf of the Borrower) does not so elect then the Borrower and Tesco, at the election of the Borrower must either:

- (a) reserve, as additional rent under the Headlease of the Incoming Property, a rent equal to the amount by which the Market Rental Value of the Incoming Property is greater than the rent reserved by the Occupational Lease of the Outgoing Property (which additional rent will then increase in the same manner and at the same times as the rent payable under the Occupational Lease of the Incoming Property (such additional rent being the "**Substitution Adjustment Rent**")); or
- (b) reduce the rent reserved in the Occupational Lease of the Incoming Property so that such rent is equal to the rent reserved by the Occupational Lease of the Outgoing Property.

On a later sale of a Mortgaged Property to which paragraphs (a) or (b) above applies, Tesco must elect either to (1) require the Borrower to make a payment to reduce the Substitution Adjustment Rent to nil or (2) require the Borrower to buy the reversionary title to the Headlease, in each case at a price equal to the attributable "excess" Investment Value. That price will be paid in accordance with the Borrower Priorities of Payments.

Tesco will be responsible for all stamp duty land tax, registration and other taxes and duties which are payable in connection with a substitution. All reasonable legal and other costs and expenses incurred by the parties in connection with a substitution are to be paid by Tesco but each of the Partners is to bear its own liability for any tax arising out of any substitution except as mentioned above.

For the purposes of the Substitution Agreement:

"**Investment Value**" means the Market Value of the applicable property subject to the terms of the relevant Occupational Lease (assumed to exist when valuing an Incoming Property);

"**Market Rental Value**" means market rent within the meaning of the Appraisal Manual issued by the RICS current at the time of the valuation (or, failing that, the nearest equivalent document defining generally accepted valuation terms, requirements and practices) assuming:

- (a) a lease on the terms of the relevant Occupational Lease (other than the amount of rent but including the provisions as rent escalation);
- (b) that no premium passed and that any rent free period is in respect of the time which would have been needed by the incoming tenant to make the property fit for occupation (the benefit of which the incoming tenant has received);
- (c) that the obligations on the part of the tenant in the Occupational Lease have been observed and performed;
- (d) that any building on the property has been constructed to a shell finish (that is to say, excluding

the items set out in the Ninth Schedule to the relevant Occupational Lease) but includes any Alterations funded by the Borrower; and

- (e) if the property has been destroyed or damaged, that the property has been fully reinstated as at the valuation date;

“**Market Value**”, in respect of a property, has the meaning given to that term in the Appraisal Manual issued by the RICS current at the time of the valuation (or, failing that, the nearest equivalent document defining generally accepted valuation terms, requirements and practices):

- (a) assuming that any building on the property has been constructed to a shell finish (that is to say, excluding the items set out in the Ninth Schedule of the relevant Occupational Lease) but includes any Alterations funded by the Borrower);
- (b) assuming that the obligations on the part of the Occupational Tenant in the Occupational Lease have been observed and performed;
- (c) assuming if the property has been destroyed or damaged, it has been fully reinstated as at the valuation date;
- (d) disregarding any effect on the value of the property of any options or pre-emptions affecting the property contained in any of the Option Agreements or the Partnership Agreement; and
- (e) disregarding any discount which might be applied in respect of the property if all or any other of the Mortgaged Properties were placed on the market at the same time;

“**Projected Market Value**” means, in respect of a property, the projection of its Vacant Possession Value as at 19 February 2029;

“**RICS**” means the Royal Institution of Chartered Surveyors; and

“**Vacant Possession Value**” means the Market Value of the applicable property assuming vacant possession of the property and disregarding any Occupational Lease of the property and any actual or potential extension of it.

Funding of Alterations

Tesco is required to offer the Borrower the opportunity to fund certain Alterations.

If the General Partner (on behalf of the Borrower) agrees to fund an Alteration, then (subject to the funding being subordinated to the claims of the Borrower Secured Creditors in respect of the Borrower Secured Liabilities) after practical completion of the Alteration or, if later, after the date on which the gross internal area of the building as altered is measured by the Property Advisor:

- (a) the rent reserved by the relevant Occupational Lease is to be increased by an amount equal to the increase in the gross internal area multiplied by the passing rate of rent (the “**Alteration Adjustment Rent**”); and
- (b) the Borrower is to pay to Tesco, by way of a cash payment, an amount equal to the amount by which the Investment Value of the Mortgaged Property on practical completion of the Alteration exceeds the Investment Value of the Mortgaged Property immediately before the start of the works comprising the Alteration (disregarding, in the latter valuation, the effect on value of any planning permission for the alteration) (the “**Excess Alteration Value**”).

If the General Partner (on behalf of the Borrower) declines to fund the Alteration, then Tesco may fund the Alteration itself and may require an increase in the rent reserved by the Headlease of the Mortgaged Property and the rent reserved by the Occupational Lease of the Mortgaged Property, as from practical completion of the Alteration, by an amount equal to the Alteration Adjustment Rent.

On a sale of a Mortgaged Property which has been subject to an Alteration which has not been funded by the Borrower, Tesco must elect to either (1) require the Borrower to make a payment to reduce the Alteration Adjustment Rent to nil or (2) require the Borrower to buy the reversionary title to the Headlease, in each case at a price equal to the excess Investment Value attributable to the Alteration (or where the sale takes place after 28 February 2029, the excess Vacant Possession Value attributable to the Alteration). Any such payment to Tesco will be made out of the sale proceeds and in accordance with the Borrower Priorities of Payments.

Any stamp duty land tax payable in respect to any variation of a Headlease or an Occupational Lease is to be borne by Tesco. All reasonable legal and other costs and expenses incurred by the other parties in connection with an Alteration are to be borne by Tesco.

Adjoining Land Developments

An “**Adjoining Land Development**” is an alteration, addition to, or extension of, an existing building and the construction of a new building that, in any such case, involves the acquisition of land adjoining the Mortgaged Property and may involve the construction of a new building wholly on the Mortgaged Property or wholly on the adjoining land or partly on both.

Tesco is obliged to offer the Borrower the opportunity to fund any Adjoining Land Development, including the cost of acquisition of the relevant adjoining land. Where the Borrower accepts such an offer, Tesco and the Borrower are to endeavour, in good faith and as soon as reasonably practicable, to agree the terms of the Borrower’s participation in funding the relevant Adjoining Land Development. If terms cannot be agreed with the Borrower, Tesco may either, subject to the approval of the Borrower Security Trustee and the Borrower, carry out the Adjoining Land Development at its own cost or substitute the relevant Mortgaged Property (in accordance with the terms of the Substitution Agreement).

In any event, Tesco Plc has agreed that it will not permit any Tesco Group entity to carry out any Adjoining Land Development without the consent of the Borrower Security Trustee.

On the subsequent sale of a Mortgaged Property which has been the subject of an Adjoining Land Development which has not been funded by the Borrower, Tesco will be entitled to receive, out of the sale proceeds, but subject to the Borrower Priorities of Payments, such proportion of the sale proceeds as reflects the increased Investment Value of the enlarged site and development.

The Property Option Agreement

On or before the Closing Date, each of the Nominees, the Occupational Tenants, the Borrower and the Borrower Security Trustee will enter into an agreement (the “**Property Option Agreement**”) granting each Occupational Tenant the option to acquire each of the Mortgaged Properties leased to it individually at the end of the term of each Occupational Lease.

The options must be exercised between 18 months (and one day) and 36 months before 19 February 2029 (the contractual expiry date of the Occupational Leases and the option payment date). If an option is exercised, the price payable is the Vacant Possession Value of the Mortgaged Property in question determined by the Property Advisor (or if the Property Advisor’s Valuation is disputed, as determined by a further independent valuation) as at 19 October 2028, being 4 months before the option payment date, where Vacant Possession Value has the same meaning as in the Substitution Agreement. When the option is exercised, a deposit equal to 5% of the latest available valuation will be payable by the prospective purchaser, unless a guarantee is given by Tesco Plc and it maintains its existing credit rating.

There will be no obligation on either Occupational Tenant to exercise any of the options granted by the Property Option Agreement. However, if an option is exercised, the Borrower must apply the net proceeds of the disposal of each relevant Mortgaged Property in repaying the Intercompany Loan in accordance with the terms of the Intercompany Loan Agreement (as described in “*Summary of Principal Documents — The Intercompany Loan Agreement*” above) and the Issuer will apply the prepayment proceeds in mandatory redemption of the Bonds pursuant to Condition 6(c) (*Redemption, Purchase and Cancellation — Early Mandatory Redemption in Whole or Part upon Prepayment under the Intercompany Loan Agreement*).

The Topland Option Agreement

The Partnership Agreement provides that, in certain circumstances, the General Partner (on behalf of the Borrower) and the Nominees and the Borrower Security Trustee will enter into an agreement with the Investor Limited Partner (the “**Topland Option Agreement**”) under which the Investor Limited Partner will be granted options to acquire individually each of the Mortgaged Properties on 19 February 2029. It will provide that the options, or any of them, must be exercised between 18 and 12 months before 19 February 2029, but can only be exercised in relation to a Mortgaged Property if the relevant Occupational Tenant has not exercised its option to acquire that Mortgaged Property under the Property Option Agreement. The terms of the Topland Option Agreement will otherwise be in substantially the same terms as those of the Property Option Agreement.

There will be no obligation on the Investor Limited Partner to exercise any of the options pursuant to the Topland Option Agreement. However, if an option is exercised, the Borrower must apply the net

proceeds of the disposal of the Mortgaged Properties in repaying the Intercompany Loan in accordance with the terms of the Intercompany Loan Agreement (as described in “*Summary of Principal Documents — The Intercompany Loan Agreement*” above) and the Issuer will be required to apply the prepayment proceeds to redeem the Bonds pursuant to Condition 6(c) (*Redemption, Purchase and Cancellation — Early Mandatory Redemption in Whole or Part upon Prepayment under the Intercompany Loan Agreement*).

In the event that the Founder Limited Partner exercises its option to purchase the Investor Limited Partner’s partnership interest pursuant to the Partnership Agreement, the Investor Limited Partner will not be granted the options to acquire the Mortgaged Properties.

The Property Option Agreement and the Topland Option Agreement are together the “**Option Agreements**”.

The Reversion Option Agreement

On or before the Closing Date, each of the Occupational Tenants, Tesco Holdings Limited, the Borrower, the Nominees and the Borrower Security Trustee will enter into an agreement (the “**Reversion Option Agreement**”) granting the Borrower the option to purchase the immediate reversions to the Mortgaged Properties on 21 February 2011. The option may only be exercised if either Limited Partner exercises its option to acquire the interest of the other Limited Partner in the Borrower at 21 February 2011.

RISK FACTORS

The following is a summary of certain aspects of the Bonds about which prospective Bondholders should be aware. This summary is not intended to be exhaustive and prospective Bondholders should also read the detailed information set out elsewhere in this document and reach their own views prior to making any investment decision.

Risks Related to the Bonds

Liability under the Bonds

The Bonds will be obligations of the Issuer only and will not be obligations or responsibilities of, or guaranteed by, any other person or entity. In particular, the Bonds will not be obligations or responsibilities of and will not be guaranteed by, the Bond Trustee, the Borrower Security Trustee, the Agents, the Managers, the Cash Manager, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Account Bank, Tesco Plc, or any other member of the Tesco Group, the Borrower, the Partners, the Operator or the Property Pool Manager. Furthermore, no person other than the Issuer will accept any liability whatsoever to Bondholders in respect of any failure by the Issuer to pay any amount due under the Bonds.

Limited Resources

The Issuer is a special purpose company with no business operations other than the issue of the Bonds and the transactions ancillary thereto. The ability of the Issuer to meet its obligations under the Bonds will be principally dependent on the receipt by it of funds from the Borrower under the Intercompany Loan Agreement and the receipt of funds from the Swap Provider. Other than the foregoing, prior to the enforcement of the security created pursuant to the Borrower Security Documents, the Issuer will not have any other significant funds available to it to meet its obligations under the Bonds and in respect of any payment ranking in priority to, or *pari passu* with, the Bonds.

English Limited Partnerships

The Limited Partnerships Act 1907 (the “**Act**”) governs the establishment and operation of limited partnerships in England and Wales and Scotland. A limited partnership under the Act consists of one or more general partners, who are (in the event that the assets of the partnership are inadequate) liable for all debts and obligations of the partnership, and one or more limited partners. Provided that the limited partnership is registered in accordance with the Act, limited partners are not liable for the debts and obligations of the partnership beyond the amount of their capital contribution except (i) as specified in the relevant partnership agreement, and (ii) as provided in sections 4(3) and 6(1) of the Act (see below). Limited partnerships registered in England and Wales do not have a legal personality separate from their partners. Nonetheless, a change in any of the limited partners will not constitute the termination or dissolution of the partnership.

Subject to the requirement that a limited partnership must at all times consist of at least one general partner and one limited partner, either limited partner may, subject to the terms of the Partnership Agreement, retire from the partnership at any time. Further limited partners may only be admitted with the consent of the Limited Partners pursuant to the terms of the Partnership Agreement. For further details on the Partnership Agreement, see the Section entitled “*The Borrower*” below.

Unless released by the other partners and creditors of the partnership, a retiring partner will remain liable for obligations arising under sections 4(3) and 6(1) of the Act. Section 4(3) of the Act provides that a limited partner who either directly or indirectly draws out, or receives back, any part of its capital contribution becomes liable for the debts and obligations of the partnership up to the amount so drawn out or received back. Section 6(1) of the Act provides that a limited partner who has participated in the management of the partnership business is jointly liable for all debts and obligations of the partnership incurred during the period its participation continues. However, the Partnership Agreement provides that the Limited Partners shall not take part in the control or management of the business or the affairs of the Borrower and shall have no right or authority to act for, or on behalf of, or bind the Borrower. Therefore, provided that the Limited Partners comply with the Partnership Agreement, it is unlikely that they will be liable for any debts or obligations of the Borrower.

A limited partnership may be dissolved in accordance with the provisions of the partnership agreement governing the limited partnership. In addition, under English law, the court may, on the

application of any partner and on the satisfaction of certain statutory grounds, order the dissolution of the partnership. Nonetheless, the Partnership Agreement contains provisions restricting the dissolution of the Borrower, as to which, see the section entitled "*The Borrower*" below.

The court may also, under English law, on the petition of a creditor, certain insolvency practitioners, the Secretary of State or a partner, make an order for the winding-up of a limited partnership and/or in certain circumstances one or more, or all of the partners. However, the Operating Agreement contains an undertaking from the Operator, the General Partner and the Limited Partners not to take any steps or action (including the commencement of legal proceedings) for the winding-up, dissolution or administration of the Borrower until such time as the Borrower Secured Obligations have been repaid or discharged in accordance with their terms. In addition, provided that the Borrower complies with the covenants contained in the Borrower Deed of Charge and Intercompany Loan Agreement limiting its activities, the Borrower should not incur liabilities (and thus creditors) beyond the scope of the arrangements envisaged in this document (which are secured in favour of the Borrower Security Trustee on behalf of, *inter alios*, the Issuer, the benefit of which is, in turn, secured by the Issuer in favour of the Bond Trustee on behalf of, *inter alios*, the Bondholders).

Liquidity Facility

In the event that there is a Liquidity Shortfall, as determined on any Determination Date prior to a Payment Date, the Borrower would seek to draw down funds under the Liquidity Facility (in accordance with the terms of the Liquidity Facility Agreement). The maximum amount to be drawn under the Liquidity Facility is initially £38 million and this may not be sufficient to meet the Borrower's payment obligations in full. For further details as to the determination of whether there is a Liquidity Shortfall and the terms of the Liquidity Facility Agreement, see the Section entitled "*Summary of Principal Transaction Documents*" above. For further details as to the Liquidity Facility, and the availability of funds thereunder, please see the Section entitled "*Resources Available to the Issuer and the Borrower*".

Security Enforcement

In the event of a Loan Event of Default, recourse will be available only to the Borrower Charged Property (including the Mortgaged Properties, the benefit of the Borrower Transaction Documents and the Borrower Accounts (provided that the Liquidity Standby Account shall not be available to the Borrower Secured Creditors generally)). Enforcement under the Borrower Security Documents may not result in immediate realisation of the Borrower Charged Property and a significant delay could be experienced in recovery by the Borrower Security Trustee of, *inter alia*, amounts owed under the Intercompany Loan (in particular, please see "*Insolvency Considerations*" below). There can be no assurance that the Borrower Security Trustee would recover all amounts secured upon enforcement of the Borrower Security and, accordingly, sufficient funds may not be realised or available to make all required payments to the Issuer and, accordingly, the Issuer may not have sufficient funds available to make all required payments to the Bondholders.

Monitoring of compliance with representations, warranties and covenants and the occurrence of a Loan Event of Default or Loan Potential Event of Default

The Intercompany Loan Agreement will provide that the Borrower Security Trustee will be entitled to assume, unless it is otherwise disclosed in any investor report or compliance certificate thereunder or the Borrower Security Trustee is expressly informed otherwise by the Borrower, that no Loan Event of Default or Loan Potential Event of Default has occurred which is continuing. The Borrower Security Trustee will not itself monitor whether any such event has occurred but will (unless expressly informed to the contrary by the Borrower) rely on certificates delivered under the Intercompany Loan Agreement to determine whether a Loan Event of Default or Loan Potential Event of Default has occurred. For further details concerning Loan Events of Default or Loan Potential Events of Default, see "*Summary of Principal Documents — The Intercompany Loan Agreement*" above.

Moreover, as the Issuer is a special purpose company, it will not, nor does it possess the resources to, actively monitor whether a Loan Event of Default or a Loan Potential Event of Default has occurred, including, for this purpose, the continued accuracy of the representations and warranties made by the Obligors and compliance by the Obligors with their covenants and undertakings.

The Intercompany Loan Agreement will require the Borrower to inform the Issuer and the Borrower Security Trustee of the occurrence of any Loan Event of Default and Loan Potential Event of Default

promptly upon becoming aware of the same. In addition, the Borrower is required to confirm in each compliance certificate delivered thereunder (each of which will be delivered to, among other recipients, the Borrower Security Trustee) whether or not any Loan Event of Default or Loan Potential Event of Default has occurred (and, if one has, what action is being or proposed to be, taken to remedy it).

The occurrence of a Loan Event of Default under the Intercompany Loan Agreement will entitle the Borrower Security Trustee to pursue any of the courses of action available to it, as set out under the section entitled "*Summary of Principal Documents — The Intercompany Loan Agreement*" above.

Notwithstanding the above, in certain circumstances, the Mortgaged Property held by the Borrower and Nominees will be subject to independent review by the Property Advisor. For further details as to the role of the Property Advisor, see the section entitled "*Substitutions and Disposals of Mortgaged Properties*" above.

Issuer Security

In the event that the Issuer Security is enforced, the proceeds of such enforcement may be insufficient, after payment of all other claims ranking in priority to amounts due under the Bonds under the Issuer Deed of Charge, to pay in full all principal and interest (and any other amounts) due in respect of the Bonds.

Although the Bond Trustee will hold the benefit of the Issuer Security created under the Issuer Deed of Charge on trust for, *inter alios*, the Bondholders, such Issuer Security will also be held on trust for certain other third parties that will rank ahead of the Bondholders including, *inter alios*, the Swap Provider (see "*Summary of Principal Documents — The Issuer Deed of Charge*" below). Also, for restrictions relating to the Bond Trustee's powers of enforcement see further Condition 11 (*Enforcement*) of the Bonds.

Hedging Risks

Under the Intercompany Loan, interest in respect of each loan is payable at a fixed rate, whereas the Class B2 Bonds bear interest at a floating rate. Accordingly, to the extent that the amount of any floating rate interest payments, payable in respect of the Class B2 Bonds exceeds the amount of interest receivable under the B2 Loan, then the Issuer may have insufficient funds to meet its obligations under the Bonds.

In order to mitigate the risk borne by the Issuer in respect of the mismatch between its floating rate interest obligations under the Class B2 Bonds and the fixed rate of interest payable to the Issuer in respect of the B2 Loan, the Issuer will enter into certain fixed/floating interest rate swap transactions pursuant to the Swap Agreement to be entered into with the Swap Provider on the Closing Date.

All payments under the Swap Agreement (including any payments due by the Issuer to the Swap Provider on termination of the Swap Agreement and related costs), other than Swap Subordinated Amounts, will rank in priority to payments due to the Bondholders.

If the Swap Provider fails to pay the Issuer any amounts due from it under the Swap Agreement, or if the Swap Agreement is terminated, then the Issuer may have insufficient funds to make payments due under the Bonds. The risk that the Swap Provider may fail to pay amounts due from it under the Swap Agreement is mitigated by the fact that the Issuer has the benefit of a guarantee of the obligations of the Swap Provider pursuant to the terms of the Swap Guarantee. Also, there are certain obligations imposed on the Swap Provider under the Swap Agreement in the event of the Swap Guarantor being subject to a Ratings Downgrade Event.

Payments due from the Swap Provider under the Swap Agreement are guaranteed only by the Swap Guarantor and are not insured.

Nonetheless, in the event of default by the Swap Provider or the Swap Guarantor or the insolvency of the Swap Provider or the Swap Guarantor or the occurrence of a Ratings Downgrade Event, it may be necessary to terminate the Swap Agreement, in which event it is not certain that any termination sum payable by the Swap Provider would be sufficient to induce a suitable replacement swap provider to enter into a replacement swap, and it is possible that any such sum payable by the Issuer may exceed the sum which such a replacement swap provider may be willing to pay to enter into a replacement swap.

For further details on the Swap Guarantor and the Swap Guarantee, the Swap Provider and the Swap Agreement, please see the Sections entitled "*Summary of Principal Documents*", "*The Parties*" above and the Section entitled "*Resources Available to the Issuer and the Borrower*", below.

Absence of Market and Limited Liquidity

Application has been made to the Stock Exchange to list the Bonds. There can be no assurance that a secondary market in the Bonds will develop or, if developed, will be maintained or will provide Bondholders with liquidity of investment, or that it will continue for the life of the Bonds. The market value of the Bonds may fluctuate with changes in prevailing rates of interest, market perceptions of the risks associated with the Bonds, supply and demand and other market conditions.

Ratings of Class A Bonds

The ratings assigned to the Class A Bonds by the Rating Agencies address the likelihood of full and timely payment to the Class A Bondholders of all payments of interest and principal due on each Payment Date. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies as a result of changes in or unavailability of information or if, in the Rating Agencies' judgement, circumstances so warrant. Rating agencies other than the Rating Agencies could seek to rate the Class A Bonds and if such "unsolicited ratings" are lower than the comparable rating assigned to the Class A Bonds by the Rating Agencies, such "shadow ratings" could have an adverse effect on the value of the Bonds.

For the avoidance of doubt and unless the context otherwise requires any references to "ratings" or "rating" in this document are to ratings assigned by the Rating Agencies only. Future events, including events affecting the Occupational Tenants and/or the Tesco Group and/or circumstances relating to the Mortgaged Properties and/or the property market generally, could have an adverse impact on the ratings of the Class A Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning Rating Agency.

Refinancing Risk at Final Maturity of the Class B Bonds

The Class B Bonds will not be rated.

The ability of the Issuer to redeem the Class B Bonds on the Final Maturity Date will be dependent on the ability of the Borrower to repay the B Loans (the "**Bullet Repayment**") under the Intercompany Loan Agreement. In order to make such a repayment of the B Loans, it will be necessary for the Borrower to raise funds to make the Bullet Repayment by, for example, selling the Mortgaged Properties to a third party or raising new finance in an amount at least equal to the Bullet Repayment. The Nominees, the Occupational Tenants, the Borrower and the Borrower Security Trustee will enter into the Property Option Agreement on or before the Closing Date under which the Occupational Tenants will have the right, but not obligation, to acquire the Borrower's interest in the Mortgaged Properties at Vacant Possession Value at the end of the term of the Occupational Leases. Also, under the Partnership Agreement, in certain circumstances, the General Partner (on behalf of the Borrower) and the Nominees and the Borrower Security Trustee will enter into the Topland Option Agreement with the Investor Limited Partner, under which the Investor Limited Partner will be granted option to acquire each of the Mortgaged Properties at the end of the term of the Occupational Leases. (For further details on the Property Option Agreement and the Topland Option Agreement, see "*Summary of Principal Documents*" above). No assurance can be given that any of the Occupational Tenants or the Investor Limited Partner will choose to exercise its rights under, as the case may be, the Property Option Agreement or the Topland Option Agreement, nor (whether or not any of these options are exercised), that market conditions will be such that the Borrower will be able to sell the Mortgaged Properties (whether under these options or otherwise) or in any other way raise funds sufficient to repay the Bullet Repayment, whether in full and on time or at all and, correspondingly, no assurance can be given that the Issuer will have sufficient funds to meet its obligations under the Class B Bonds on the Final Maturity Date. As at the Closing Date, the ratio of the financial indebtedness represented by the Loans to the aggregate Market Value (as defined in the Valuation Report) of the Mortgaged Properties in the Property Portfolio as at the Closing Date (as set out in the Valuation Report included under "*Property Report and Valuation*"), net of indebtedness, is 93.7%.

Conflicts of Interest

The Trust Deed requires the Bond Trustee to have regard to the interests of all the Bondholders (so long as any of the Bonds remains outstanding) as regards all powers, trusts, authorities, duties and discretions as if they formed a single class, except where expressly required otherwise (as to which, see "*The Bonds*" above and the Conditions).

Subject thereto and for so long as any of the Bonds are outstanding, the Bond Trustee shall not be bound to take any steps, proceeding or other actions to enforce the Issuer Security unless:

- (a) it shall have been indemnified and/or secured to its satisfaction against all liabilities, proceedings, claims and demands to which it may be or become liable and all costs charges and expenses which may be incurred by them in connection therewith; and
- (b) it shall have been directed or requested to do so by an Extraordinary Resolution of the holders of the Bonds then outstanding or in writing by the holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding.

Modification, Waivers and Consents

The Bond Trustee may, without the consent of the Bondholders (other than in respect of a Basic Terms Modification or a Reserved Matter), give its written consent to any amendment to, or grant any waiver under or in respect of, any term of any Issuer Transaction Document to which it is a party or over which it has security or give its written consent to any event, matter or thing or authorise or waive any breach of the Conditions or Trust Documents or the other Transaction Documents in the circumstances described in Condition 12 (*Meetings of Bondholders, Modification and Waiver*) of the Conditions.

Issue of New Bonds

In certain circumstances and subject to certain conditions being met (as to which see Condition 18), the Issuer will be entitled to issue New Bonds which will not form a single series with the existing Class A Bonds, Class B1 Bonds or Class B2 Bonds but which will rank either *pari passu* with or after the applicable class of Bonds.

If any New Bonds are issued, the Issuer Transaction Documents will be amended in such manner as the Bond Trustee considers necessary to reflect such issue and the ranking of such New Bonds in relation to the Class A Bonds, the Class B1 Bonds and the Class B2 Bonds.

Ratings Affirmations and Reserved Matter Resolutions

The Bond Trustee and the Borrower Security Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to the Transaction Documents to which it is a party or over which it has security, that certain events will not be materially prejudicial to the interests of the Bondholders (or any class thereof) or (where the Borrower Security Trustee is exercising its discretion) the Bond Trustee, if the Ratings Test is satisfied and, if applicable, the exercise is approved by a Reserved Matter Resolution.

Where a particular matter involves the satisfaction of the Ratings Test, depending on the timing of the delivery of the request for the ratings affirmations to the Rating Agencies, and any information needed to be provided as part of any such request, it may be the case that the Rating Agencies cannot provide their confirmation in the time available or at all. Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction since the Closing Date. A confirmation of ratings represents only a restatement of the opinions given at the Closing Date and cannot be construed as advice for the benefit of any parties to the transaction.

The written consent of the Borrower Security Trustee is required to be obtained in relation to certain matters, where the Borrower Security Trustee will be obliged to give such consent if the Ratings Test is satisfied in relation to the relevant matter and the matter is approved by a Reserved Matter Resolution.

For further details on Reserved Matter Resolutions and Class B Bondholder meetings, see below and the Conditions. Where a particular matter involves approval by a Reserved Matter Resolution of the Class B Bondholders, there can be no assurance that the matter will be so approved. However, with respect to any matter where the Borrower Security Trustee or Bond Trustee is entitled to grant its authorisation or consent or waiver if the Ratings Test is satisfied and a Reserved Matter Resolution is passed, such authorisation, consent or waiver shall be binding on the Bondholders and the other Issuer Secured Creditors.

Voting Procedures for Class B Bondholders in respect of Reserved Matter Resolutions

Prospective Bondholders' attention is specifically drawn to the procedures for the transaction of meetings relating to Reserved Matter Resolutions, which require a response from the Class B

Bondholders within 25 days of the date of the Reserved Matter Notice, and the importance, therefore, of ensuring timely receipts of Reserved Matter Notices and the giving of responses to the Bond Trustee, as to which see Condition 12 (*Meetings of Bondholders, Modified, and Waiver*).

In particular, but without limitation, the attention of prospective Bondholders is drawn to the fact that the Bond Trustee's only obligation in delivering Reserved Matter Notices, is to deliver a Reserved Matter Notice to Euroclear and Clearstream, Luxembourg. The Bond Trustee has no liability or responsibility whatsoever for the onward transmission of Reserved Matter Notices, to the accountholders or other underlying beneficial owners of the Class B Bonds. Prospective Bondholders would be expected to submit their votes via Euroclear or Clearstream, Luxembourg in accordance with the normal rules and procedures from time to time of Euroclear or Clearstream, Luxembourg (and, as at the Closing Date, such rules would be not less than 24 hours prior to the deadline specified in the Reserved Matter Notice). Accordingly, there can be no assurances that Reserved Matter Notices will reach the ultimate beneficial owners of the Class B Bonds in order for them to vote in the time available. Prospective Class B Bondholders should, therefore, make their own arrangements to ensure timely receipt of Reserved Matter Notices and to ensure that they are able to respond to the Bond Trustee in a timely manner. Furthermore, prospective Bondholders should be aware that, since there can be no assurances that the Reserved Matter Notice will reach the ultimate beneficial owners of the Class B Bonds in order for them to vote in the time available, it is possible that the Bond Trustee will receive no votes in respect of a Reserved Matter. In the event of the Bond Trustee receiving no votes, the Bond Trustee will not give its consent to the relevant Reserved Matter. For further details as to Reserved Matters and Reserved Matter Resolutions, see the Conditions below and the Section entitled "*The Bonds*" above.

Priorities in respect of the Bonds

Both prior to, and following, the delivery of a Bond Enforcement Notice, payments of interest on the Class A Bonds and the Class B Bonds will rank *pari passu* and *pro rata* between themselves and before repayments of principal thereon. Both prior to, and following, the delivery of a Bond Enforcement Notice, repayments of principal on the Class A Bonds and the Class B Bonds will at all times rank *pari passu* and *pro rata* between themselves, provided that (1) Class B Bonds may be prepaid prior to the Final Maturity Date in accordance with the Conditions, and (2) if there is an early redemption of some but not all of the Bonds in accordance with Condition 6(c)(i) or Condition 6(c)(ii), principal on the Class B Bonds shall be repaid in priority to the Class A Bonds. There are no scheduled repayments of principal on the Class B Bonds until the Final Maturity Date. Repayments of principal and payments of interest on the Bonds will rank, both prior to and following enforcement of the Issuer Security, subordinate in rank to, among other things, payments of fees, remuneration and expenses of the Bond Trustee and of any appointee of such person; the fees and expenses of the Agents, the Account Bank and the Cash Manager; and amounts due to the Swap Provider under the Swap Agreement (other than the Swap Subordinated Amounts).

Risks relating to the Occupational Leases

Dependence on Occupational Tenants and Guarantor

The ability of the Issuer to make payments of interest on the Bonds and to redeem the Class A Bonds is dependent on the payments made by the Borrower under the Intercompany Loan Agreement. The Borrower will apply the Rental Income to make payments under the Intercompany Loan Agreement. The payments in respect of the Bonds will, therefore, be primarily dependent on the due performance by the Occupational Tenants of their obligations to pay all Rental Income and, in default of their performance, by the due performance by the Guarantor of its guarantee obligations in respect of, *inter alia*, the Rental Income under the Occupational Leases. The obligations of the Occupational Tenants under the Occupational Leases (including the obligations to make payments of rent) is only guaranteed by the Guarantor.

Market risks on enforcement

In the event of enforcement of the Borrower Security Documents, it may be necessary to offer to re-let or, as appropriate, sell the relevant Mortgaged Property. Amounts received in respect of the Mortgaged Properties by way of rent or sale price following a reletting or sale could be insufficient to pay accrued interest on, and to repay principal of, the Intercompany Loan in full, in which case Bondholders may ultimately suffer a loss.

The rent at which any Mortgaged Property could be re-let or the liquidation value of the Mortgaged Properties may be adversely affected by risks generally incidental to interests in real property, including changes in political and economic conditions or in specific industry segments, declines in property rental or capital values, variations in supply of and demand for retail or (as appropriate) distribution warehouses space, prevailing gilt yields and interest rates, declines in rental or occupancy rates, changes in governmental rules, regulations and fiscal policies, terrorism, acts of God, and other factors which are beyond the control of the Tesco Group and any other party to the transaction.

Terms of Occupational Leases

The obligation to make payments under an Occupational Lease in respect of the Mortgaged Properties is an unconditional obligation on the part of the relevant Occupational Tenant. Each of the Occupational Leases is a “fully repairing and insuring” lease and, accordingly, substantially all of the economic liabilities arising in relation to the upkeep and operation of the relevant leased premises are borne by the Occupational Tenant, including the costs of repairing, maintaining and (subject as mentioned above) insuring the relevant premises.

In each Occupational Lease, the Landlord has covenanted or undertaken, or, as applicable, will covenant or undertake, with the Occupational Tenant, *inter alia*, to allow such Occupational Tenant quiet enjoyment of the Mortgaged Property which is leased to it. A breach by the Landlord of any of these covenants or undertakings could give rise to a dispute with the Occupational Tenant, and the Occupational Tenant might seek to withhold rental payments (notwithstanding any contractual prohibition contained in the relevant Occupational Lease against the Occupational Tenant exercising any such set-off).

Insurance, Self-insurance and Uninsured Loss

The Intercompany Loan Agreement requires the General Partner (on behalf of the Borrower) and the Landlord to procure that insurance, as would be maintained by a prudent and responsible owner of such property assets, is maintained with respect to the Mortgaged Properties in accordance with the terms set out in the Intercompany Loan Agreement and the Occupational Leases. Such terms include an entitlement of the Occupational Tenants to self-insure, provided that certain criteria are met (See “*Summary of Principal Documents — Occupational Leases*”). If at any time the Occupational Tenants are not entitled to self-insure, it should be noted that certain types of losses may not be insurable or economically insurable at that time. Notwithstanding that the Occupational Tenants are obliged, pursuant to the terms of the Occupational Lease, to reinstate the Mortgaged Property following any event of damage or destruction whether or not insured or insurable (and such obligation is guaranteed by the Guarantor), the Borrower’s ability to repay the Intercompany Loan might be affected adversely if such an uninsured or insurable loss were to occur.

Co-insurance

Each Occupational Lease contains an obligation on the Occupational Tenants, subject to their entitlement to self-insure, to use all reasonable endeavours to procure that the General Partner (on behalf of the Borrower), the Landlord and the Borrower Security Trustee are listed as co-insured in respect of any insurance. In parallel, the General Partner (on behalf of the Borrower) and the Nominees will covenant, in the Intercompany Loan Agreement, in cases where the Occupational Tenants are not entitled to self-insure, to use all reasonable endeavours to procure that any insurance with respect to the Mortgaged Properties is obtained in accordance with the Occupational Leases.

Frustration

An Occupational Lease could, in exceptional circumstances, be frustrated under English law. Frustration may occur where a supervening event so radically alters the implications of the continuance of a lease for a party thereto that it would be inequitable for such lease to continue.

Late Payment or Non-Payment of Rent

If the rental payments due under the Occupational Leases on the Rent Payment Date prior to each Payment Date are not paid on the due date or not paid at all and any resultant shortfall is not otherwise compensated for from other resources (for example, the Liquidity Facility or the Guarantee), a Loan

Event of Default may occur in relation to the Intercompany Loan if the Borrower fails to pay amounts due pursuant to the Intercompany Loan Agreement on the next succeeding Payment Date. The occurrence of a Loan Event of Default automatically triggers a Bond Event of Default, entitling the Bond Trustee, in its discretion or if directed by the Bondholders in accordance with Condition 11 (*Enforcement*), to deliver a Bond Enforcement Notice and to enforce the Issuer Security and to take proceedings against the Issuer to enforce the Bonds, the Trust Documents or the other Issuer Transaction Documents. Accordingly, no assurance can be given that a Bond Event of Default will not subsequently occur as a result of the late payment or non-payment of rent.

Risks relating to the Mortgaged Properties

Title

Title to the Mortgaged Properties has been investigated by Berwin Leighton Paisner. Berwin Leighton Paisner has produced the Certificates of Title and the Overview Report. The Certificates of Title address the quality of title of each Mortgaged Property and have been issued by Berwin Leighton Paisner on the basis of a review of the title documents and the usual conveyancing searches and enquiries. The Overview Report has disclosed, *inter alia*, the following matters in relation to specific Mortgaged Properties about which prospective Bondholders should be aware:

- (a) *Beverley and Henley* — the interest superior to the Nominees' interest in the Mortgaged Property at Beverley and Henley is also leasehold. The superior leases contain various material obligations including an obligation to keep the premises in repair; the rent payable is, however, only a peppercorn. While, as would be expected in a lease of its type, there is no provision for forfeiture on lessee insolvency, there is provision for forfeiture of the lease on breach of lessee's covenants. Accordingly there is a risk that the Headlease and Occupational Lease may become vulnerable to forfeiture. However, in the case of remediable breach, the lessee is likely, through equitable and statutory rights available to it, subject to remedying the breach, to obtain relief from forfeiture.
- (b) *Caterham* — the freehold superior interest at the Mortgaged Property at Caterham is subject to an estate rent charge to protect the collection of charges relating to the upkeep of common features at or around the Mortgaged Property. The estate rent charge contains a right of re-entry and provision for forfeiture where the rent charge remains unpaid for a period of 28 days from the date of demand. The proprietor of the rent charge may not exercise its right of re-entry unless it has given any mortgagee of which it has notice 20 working days in which to rectify the breach. There are equitable and statutory rights available in order to obtain relief from such forfeiture.
- (c) *Clitheroe* — the superior freehold interest at the Mortgaged Property at Clitheroe is unregistered land. The freehold was acquired by Tesco Holdings Limited in the late 1980s but the title deeds were subsequently lost. The Tesco Group store at the Mortgaged Property opened in 1989. Tesco Holdings Limited has applied to the Land Registry to become registered with the freehold title to the site, based on the statutory declarations of an employee who has worked at the Mortgaged Property since its opening and by the solicitors who acted on the original acquisition. Tesco Holdings Limited have obtained title insurance (for the benefit also of lessees and mortgagees (i.e. including TSL and the Borrower Security Trustee)) for the sum of £6.5 million against all third party claims in respect of losses incurred through title by the Mortgaged Property not being absolute or as a result of breach of covenant in documents lost, misplaced or destroyed affecting the property but not registered against the title.
- (d) *Daventry* — there is right of first refusal affecting part of the Mortgaged Property at Daventry in favour of a third party. The right falls away on 24 February 2010. The right only affects parts of the Mortgaged Property which are not developed. The Overview Report confirms that the land affected by the right does not affect the operation of the Mortgaged Property as a distribution centre.
- (e) *Great Dunmow* — the Mortgaged Property at Great Dunmow is subject to an option expiring on 4 January 2014 entitling a third party to purchase any part of the Mortgaged Property within 7 metres of its boundaries if the land is required for road construction or associated works. The Overview Report states that the prospects of the affected land being so required is remote.

- (f) *Hook* — there is a restrictive covenant which was imposed in 1904 and which restricts any building (other than houses) on certain parts of the Mortgaged Property. Planning permission for a bulk store to the rear of the store on the Mortgaged Property was granted on 11 July 2003 and the works were practically completed on 21 January 2004. The bulk store is one of the areas to which this restriction applies. There were no objections to the application for planning permission for the bulk store. No complaints were received by Tesco during the course of construction of the works. It is not possible to identify who has the benefit of the restrictive covenant. The land adjoining the extension is used as a depot. The Occupational Tenant will seek to obtain insurance in respect of the breach of the restrictive covenant.
- (g) *Tetbury, Launceston and Macclesfield* — in relation to each of the three Mortgaged Properties at Tetbury, Launceston and Macclesfield land is to be transferred out of each title to the relevant highway authorities (in the case of the Mortgaged Property at Macclesfield, by way of a compulsory purchase order (as to which see “*Compulsory Purchase Risks*” below)). In every case, the Overview Report confirms that the affected land has no operational effect on the store at the Mortgaged Property.

Compulsory purchase risks

Any property in the United Kingdom may at any time be compulsorily acquired by a public authority possessing compulsory purchase powers (for instance, local authorities and statutory undertakers (including electricity, gas, water and railway undertakers) in respect of their statutory functions) if it can demonstrate that the acquisition is required.

Any promoter of a compulsory purchase order would need to demonstrate that the compulsory purchase was necessary or desirable for the promoter’s statutory functions and/or in the public interest.

As a general rule, if an order is made in respect of all or any part of the Mortgaged Property, compensation would be payable on a basis equivalent to the open market value of all the owners’ and Occupational Tenants’ proprietary interests in the Mortgaged Property at the time of the purchase, so far as those interests are included in the order, taking account of diminution in value of any retained land and other adverse impacts of the compulsory purchase.

There is often a delay between the compulsory purchase of a property and payment of the compensation, although advance interim payments of compensation may be available where the acquiring authority takes possession before compensation has been granted.

As at the Closing Date, other than in *de minimis* exception referred to under “*Title*” above in respect of the Mortgaged Property at Macclesfield, no compulsory purchase proposals have been revealed by the Overview Report. Also, pursuant to the terms of the Substitution Agreement, the General Partner (on behalf of the Borrower) will be obliged, in compulsory purchase circumstances to substitute a Mortgaged Property (provided that certain criteria are met). (For further details as to such substitutions, please see “*Summary of Principal Transaction Documents — Substitution Agreement*” and “*Substitution, Alterations and Disposals of Mortgaged Properties*” above).

Nonetheless, it is possible that a compulsory purchase order may be made in respect of one or more of the Mortgaged Properties in the future. In such event, there is no guarantee that the amount of compensation received in connection with any compulsory purchase order or that the substitution of a Mortgaged Property the subject of a compulsory purchase order, would not have an adverse effect on the ability of the Borrower to make payments under the Intercompany Loan. Accordingly, it is possible that a compulsory purchase order may have an effect on the resources available to the Issuer to make payments on the Bonds.

Substitutions and Disposals of Mortgaged Properties

Under the terms of the Substitution Agreement, the Option Agreements and the Intercompany Loan Agreement, the Borrower and the Nominees will be entitled to dispose of and/or substitute Mortgaged Properties in certain circumstances. The risks associated with the effect of the substitution of Mortgaged Properties on the value and rental income generative capacity of the Property Portfolio is mitigated by the Substitution Criteria under the Substitution Agreement and the conditions related to disposal under the Intercompany Loan Agreement (as to which, see “*Summary of Principal Transaction Documents*” and “*Substitution, Alterations and Disposals of Mortgaged Properties*” above).

Reliance on Valuation

There can be no assurance that the valuations given in the Valuation Report for each of the Mortgaged Properties will continue at a level equal to or in excess of such valuations. To the extent that

the value of each of the Mortgaged Properties fluctuates, there is no assurance that the aggregate of the value of the Mortgaged Properties will remain at least equal to or greater than the unpaid principal and accrued interest and any other amounts due under the Intercompany Loan Agreement. If any Mortgaged Property is sold following a Loan Event of Default, there is no assurance that the net proceeds of such sale will be sufficient to pay in full all or any amounts due under the Intercompany Loan Agreement.

Projected Market Value

The future value estimates contained in the Valuation Report do not indicate or imply any expectation that the growth rate will be consistent throughout the term of the Bonds. Estimating the value of property over a period of years is a very uncertain exercise. To the extent that any of the valuation factors used to derive the values do not perform as assumed by the Valuers, the variation in value of all or any of the Mortgaged Properties in the Property Portfolio could be material. There can be no guarantee that the aggregate value of the Mortgaged Properties in the future will not be materially less than the future value estimates contained in the Valuation Report.

In addition, the following factors should be taken into account when considering the potential future value figures referred to in the Valuation Report:

- Economic and property market forecasting is an inherently subjective exercise. The inputs into the forecasting process are highly uncertain. For example, there is a divergence of opinion on the future performance of the economy and on key assumptions regarding inflation and interest rates.
- Econometric models identify underlying relationships between economic variables. The predictions from the models ignore the irregularities in the data. As a consequence, the resulting forecasts tend to follow a more regular pattern than would be expected on the basis of the past.
- Property forecasts for the UK retail property market are based in part on one or more indices. Any such index will not necessarily be representative of the best quality buildings in the best locations.
- The Projected Market Value figures are based on estimates of individual property values rather than regional valuation movements.
- In relation to each of the Mortgaged Properties in the Property Portfolio, no account has been taken of any future change in the assumptions as to title, condition, environmental matters, statutory requirements and planning and other assumptions contained in the Valuation Report reproduced herein. Any change in such assumptions could materially and adversely affect the Projected Market Value of any Mortgaged Property.
- The Projected Market Value has been estimated using the methodology referred to in the Long Form Valuation Report. An estimate using different methodology would be likely to produce a materially different (Projected Market Value), and no assurance can be given that the methodology used is, or will turn out to be, the most appropriate or generally accepted methodology to use for this purpose.
- In arriving at the Projected Market Value, no account has been taken of any factors other than those specifically set out in the Long Form Valuation Report.

Environmental risks

Under the Intercompany Loan Agreement, each of the Borrower and the Nominees represents that it is in compliance in all material respects with environmental laws and regulations applicable to it as at the Closing Date and covenant to comply in all material respects with environmental laws and regulations currently applicable to it. However, there can be no assurance that a breach of environmental laws and/or regulations will not occur in the future. Sanctions for alleged or actual non-compliance with environmental laws and/or regulations and the costs of remedying any such breach and the effect of any unremedied breach could have a material adverse effect on the value of Mortgaged Properties or their rental income generative capacity.

An Environmental Risk Assessment Report was prepared by W A Fairhurst & Partners in respect of each of the Mortgaged Properties, such reports being dated between 24 November 2003 and March 2004 collectively, (the “**Environmental Report**”). The Environmental Report comprises a staged assessment focusing on ground contamination issues to identify Mortgaged Properties where there are potential contamination issues or likely significant contamination-related costs for the owner of any Mortgaged Property.

The Environmental Report has identified that part of the Mortgaged Property at Brigg may be subject to certain risk, classified as moderate or moderate-high, arising from the former use of that part of the Mortgaged Property as a gas works. The part of the Mortgaged Property in question adjoins the site of the existing store on the Mortgaged Property and Tesco intends to construct a new petrol filling station on it. TSL will, pursuant to the Substitution Agreement, covenant to carry out a programme of remediation works, upon the completion of which this property is expected not to constitute any significant risk. If, by 5 April 2007 such remediation works are not carried out and, as a result, the environmental consultant is unable to confirm that the environmental risk is then categorised as low, Tesco will procure that the Mortgaged Property at Brigg is substituted in accordance with the terms of the Substitution Agreement.

Save in respect of the Mortgaged Property located at Brigg, no significant environmental liabilities are identified at the Mortgaged Properties by the Environmental Report, assuming continued use of the Mortgaged Properties as retail stores or (as appropriate) as distribution centres.

Various environmental laws may require a current or previous owner, occupier or operator of property to remediate substances or releases at or from such property that cause or are likely to cause harm to the environment or water pollution. These owners, occupiers or operators may also be obliged to pay damages in legal proceedings for property damage, for investigation and clean-up costs and liabilities to third parties in connection with such substances.

Under the terms of the Occupational Leases, the Occupational Tenants will indemnify the Landlord and its mortgagee for any environmental liability incurred by the Landlord and its mortgagee.

If an environmental liability arises in relation to the Mortgaged Properties and it is not remedied, or is not capable of being remedied, this may result in the Mortgaged Properties either being sold at a reduced sale price or becoming unsaleable.

If any environmental liability were to exist or arise in respect of any Mortgaged Property, neither the Borrower Security Trustee nor the Bond Trustee should incur any such liability, unless it could be established that the Borrower Security Trustee or the Bond Trustee had entered into possession of the relevant Mortgaged Property(ies) or had exercised a significant degree of control or management of either the relevant Mortgaged Property(ies) or the relevant environmental problem(s). The Borrower Security Trustee or the Bond Trustee, if deemed to be a mortgagee in possession, or a receiver appointed by the Borrower Security Trustee or the Bond Trustee, could become responsible for environmental liabilities in respect of a Mortgaged Property and any such liability could ultimately affect the amounts available to the Issuer to make payments under the Bonds. If the Borrower Security Trustee or the Bond Trustee unduly directed or interfered with the actions of the directors or the legal owners of the Mortgaged Properties or directed or interfered with the receiver's actions or if a receiver's indemnity had been given and that indemnity covered environmental liabilities, this could also result in a liability for the Bond Trustee and/or the Borrower Security Trustee. Even if either of them could incur such a liability solely by virtue of being the owner and/or lessor of such Mortgaged Property(ies) they may be able to obtain an indemnity from the relevant Occupational Tenant in possession.

The Obligors will warrant in the Intercompany Loan Agreement on the Closing Date, in respect of each of the Mortgaged Properties as to environmental matters as summarised in "*Summary of Principal Documents — The Intercompany Loan Agreement — Representations and Warranties*" above. A breach of the environmental representation and warranty contained in the Intercompany Loan Agreement will constitute a Loan Event of Default unless the underlying circumstances are remedied within any relevant rectification period and save where the breach is immaterial.

Reports

Apart from the Certificates of Title, the Overview Report, the financial reports of Pricewaterhouse-Coopers LLP reproduced herein, the Environmental Report, the Structural Condition Survey prepared by Fairhursts and dated between 24 November 2003 and 9 January 2004, the Floor Area Data Capture Report prepared by GL Hearn and dated 27 November 2003 and the Valuation Report, no new reports have been prepared specifically for the purpose of this document or the transactions contemplated herein and none of the Issuer, the Lead Manager, the Borrower Security Trustee or the Bond Trustee has made any independent investigation of any of the matters stated therein except as disclosed in this document.

Mortgagee in Possession Liability

The Bond Trustee (with respect to the property secured under the Issuer Security and, where it is directing enforcement of the Borrower Security, with respect to the property secured under the Borrower

Security) or the Borrower Security Trustee (with respect to the property secured under the Borrower Security) may become a mortgagee in possession if it takes possession of the secured property (which, in the case of any Mortgaged Property, may be the case if there is physical entry into possession), or an act of control or influence which may amount, in effect, to possession.

A mortgagee in possession may incur liabilities to third parties in nuisance, equity and negligence and, under certain statutes (including environmental legislation), can incur the liabilities of a property owner. For further details as to potential liabilities under environmental legislation, see “*Environmental Risks*” above.

The Borrower Security Trustee has the absolute discretion, at any time, to refrain from taking any action under the Borrower Security Documents (as defined in “*Summary of Principal Documents — The Borrower Security*” above), including becoming a mortgagee in possession in respect of a Mortgaged Property or other secured property (including the business of the Borrower, Nominees HoldCo or the Nominees), unless it is satisfied at that time that it is adequately indemnified and/or secured to its satisfaction. Under the Borrower Deed of Charge and the Account Bank and Cash Management Agreement, the Borrower Security Trustee ranks in point of priority of payments, both prior to and following enforcement of the Borrower Security, in respect of payment of any amounts owed to it under its indemnity and/or security, *pari passu* with the Bond Trustee but ahead of any payments due under the Loans.

The Bond Trustee has the absolute discretion, at any time, to refrain from taking any action under the Issuer Deed of Charge, including becoming a mortgagee in possession in respect of any secured property, and to direct the Borrower Security Trustee to enforce the Borrower Security unless it is satisfied at that time that it is adequately indemnified and/or secured to its satisfaction. Under the terms of the Issuer Deed of Charge and the Account Bank and Cash Management Agreement, the Bond Trustee ranks first in point of priority of payments, both prior to and following enforcement of the Issuer Security, in respect of payment of any amounts owed to it under its indemnity and/or security.

Property Management

While Tesco Property Holdings Limited, as the Property Pool Manager appointed on the Closing Date, is experienced in managing retail property, there can be no assurance that it will continue to act as Property Pool Manager. Although any successor manager of a Mortgaged Property appointed by the Borrower is required to be experienced in managing retail premises, there can be no assurance that there will not be a delay in appointment of a successor, or variation in the terms of any appointment of a successor or that the appointment of any successor manager of a Mortgaged Property would not have an adverse effect on the Issuer’s ability to make payment on the Bonds.

Delegation

Except to the limited extent described herein, neither the Borrower Security Trustee, the Bond Trustee nor any Bondholder or any other Borrower Secured Creditor or Issuer Secured Creditor has any right to participate in the management or affairs of the Issuer, the Borrower or the Nominees. In particular, such parties cannot supervise the functions relating to the management or operation of the Mortgaged Properties and the leasing and releasing of the space within the Mortgaged Properties or otherwise. The Issuer, the Borrower and the Nominees will each rely upon, *inter alia*, the Cash Manager, the Property Pool Manager and the other service providers for all asset servicing functions. Failure by any such party to perform its obligations could have an adverse effect upon the Issuer’s ability to make payments on the Bonds. There can be no assurance that, were any such party to resign or its appointment be terminated, a suitable replacement service provider could be found or found in a timely manner, and engaged on the same terms applicable to the relevant service provider as at the Closing Date or on terms acceptable to the Borrower Security Trustee and/or the Bond Trustee (as applicable).

Registration of the Headleases

Registration of approximately half of the Headleases of the Mortgaged Properties is still in progress. Applications have, in each case, been lodged with the Land Registry and the applications are being processed. Berwin Leighton Paisner have undertaken to reply to requisitions raised by the Land Registry. The Tesco Group have confirmed that they are not aware of any matter which would prevent the Nominees, becoming registered with title absolute to each of the Mortgaged Properties (save for Clitheroe, in respect of which see the particular risk outlined in “*Risks Relating to the Mortgaged*

Properties — Title” above). Accordingly, the Issuer expects that the prospect of any of the registrations not concluding satisfactorily is remote. However, if ultimately the registration of any of the Headleases were not to be concluded satisfactorily, registration at the Land Registry of the Borrower Security in respect of the Mortgaged Property/ies in question would not be possible.

Risks relating to Taxation

Withholding tax on rents

As the Investor Limited Partner is resident outside the United Kingdom for United Kingdom tax purposes, current United Kingdom tax law imposes an obligation to withhold in respect of or account to the United Kingdom Inland Revenue for United Kingdom income tax in respect of rents payable to the Borrower. The obligation to account to the United Kingdom Inland Revenue for such income tax may be imposed on the Occupational Tenants, or the Obligor unless the Investor Limited Partner has appointed an agent for these purposes in accordance with the requirements of United Kingdom tax legislation (the “**prescribed person**”). However, a direction (the “**Direction**”) has been given by the United Kingdom Inland Revenue in respect of the rent payments payable by the relevant Occupational Tenant pursuant to each Occupational Lease so that all such payments can be made without withholding or deduction for or on account of United Kingdom income tax and no such obligation to account to the United Kingdom Inland Revenue arises. In its application for the Direction the Investor Limited Partner has appointed as its agent a prescribed person who is not an Obligor.

In the event that the Direction is withdrawn and an Occupational Tenant is required to withhold an amount for or on account of United Kingdom income tax from rent payments that it makes and to account to the United Kingdom Inland Revenue for the amounts so withheld, the amount of the payment due from the Occupational Tenant will be increased so that the Borrower will receive a cash amount equal to that which it would have received had no such withholding been required to be made. If an Occupational Tenant does not have sufficient funds to enable it to make such increased payments to the Borrower, the Borrower’s ability to meet the payment obligations under the Intercompany Loan Agreement and consequently the Issuer’s ability to meet its payment obligations under the Bonds could be adversely affected.

In the event that the Direction is withdrawn and an obligation to account for United Kingdom income tax in respect of rent payments is imposed on the Nominees or the General Partner, Investor Limited Partner has given a covenant in the Tax Deed of Covenant that it will take all steps as are required by the Borrower Security Trustee to mitigate the effects of such an obligation being imposed on the Nominees or the General Partner.

Withholding tax in respect of the Bonds, the Intercompany Loan Agreement and the Swap Agreement

In the event that any withholding or deduction for or on account of tax is required to be made from payments due under the Bonds (as to which, in relation to United Kingdom tax, see “*United Kingdom Taxation*” below), neither the Issuer nor any Paying Agent nor any other person will be obliged to pay any additional amounts to Bondholders or, if Definitive Bonds are issued, Couponholders or to otherwise compensate Bondholders or Couponholders for the reduction in the amounts they will receive as a result of such withholding or deduction. If such a withholding or deduction is required to be made, the Issuer will have the option (but not the obligation) of redeeming all outstanding Bonds in full at their Principal Amount Outstanding (together with accrued interest) pursuant to Condition 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption due to Change of Tax Law*). For the avoidance of doubt, neither the Bond Trustee nor Bondholders nor, if Definitive Bonds are issued, Couponholders will have the right to require the Issuer to redeem the Bonds in these circumstances.

Based on advice received, the directors of the Issuer believe that, under current law, all payments made under the Intercompany Loan Agreement can be made without deduction or withholding for or on account of any United Kingdom tax. In the event that any withholding or deduction for or on account of tax is required to be made from any payment due to the Issuer under the Intercompany Loan Agreement, the amount of that payment will be increased so that, after that withholding or deduction has been made, the Issuer will receive a cash amount equal to that which it would have received had no such withholding or deduction been required to be made. In such circumstances, the Borrower will be entitled to claim from the Occupational Tenants under the Occupational Leases such additional amount as is necessary to enable the Borrower to make that increased payment to the Issuer. In addition, the Borrower will have

the option (but not the obligation) to prepay all outstanding Loans made under the Intercompany Loan Agreement in full. If the Borrower chooses to prepay the Loans, the Issuer will then be obliged to redeem the Bonds. If the Borrower does not have sufficient funds to enable it to make such increased payments to the Issuer, the Issuer's ability to meet its payment obligations under the Bonds could be adversely affected.

The directors of the Issuer expect that, under current law, all payments to be made under the Swap Agreement can be made without withholding or deduction for or on account of any United Kingdom tax or any tax imposed in or by the United States of America or any authority therein. If, as a result of a change in law (or the application or official interpretation thereof) any withholding or deduction for or on account of any tax is required to be made from any payment due under the Swap Agreement the party making that payment will not be obliged to pay any additional amounts to the other party in respect of the amounts so required to be withheld or deducted, but the party receiving that reduced payment will have the right to terminate the Swap Agreement (subject to the Swap Provider's obligation to use reasonable efforts to transfer its rights and obligations under the Swap Agreement to another of its offices or affiliates or a suitably rated third party such that payments made by or to that office or affiliate or third party under the Swap Agreement can be made without any withholding or deduction for or on account of tax). In addition, in the event that any withholding or deduction for or on account of any tax is required to be made, the Issuer will have the option (but not the obligation), on the satisfaction of certain conditions, of redeeming all outstanding Class B2 Bonds at their Principal Amount Outstanding (together with accrued interest) pursuant to Condition 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption due to Change of Tax Law*). If the Swap Provider is obliged to withhold or deduct any amount for or on account of any tax from any payment to be made to the Issuer, the amounts available to the Issuer to make payments in respect of the Class B2 Bonds will be reduced by the amount so withheld or deducted and the Issuer may, therefore, have insufficient funds to make payments due on the Class B2 Bonds.

EU Savings Directive

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1 January 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive, each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to commence on the date from which the directive is to be implemented by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

If, following implementation of the directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts to Bondholders or, if Definitive Bonds are issued, Couponholders or to otherwise compensate Bondholders or Couponholders for the reduction in the amounts that they will receive as a result of the imposition of such withholding tax. If a withholding tax is imposed on payments made by a Paying Agent following implementation of the directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the directive (if such a state exists).

Corporation Tax Reform

In December 2003, the Inland Revenue issued a technical note entitled "Corporation tax reform: the next steps". The document contained a number of proposals as to how the current corporation system might be reformed. It is not currently known whether or in precisely what form any changes arising from the consultation on corporation tax reform will be enacted. It is possible that, if these changes are enacted, they may affect the taxation treatment of the Issuer, and consequently could affect the ability of the Issuer to repay amounts under the Bonds.

Insolvency Considerations

Administration

In certain circumstances an administrator may be appointed in relation to a company the effect of which would be that, during the period for which the order is in force, the affairs, business and property of the company will be managed by the administrator. The appointment may be made:

- (i) by the Court, on the application of the company, its directors, any or all of its creditors, or the justices' chief executive for a magistrates court, provided that the Court is satisfied that the company is or is likely to become unable to pay its debts and that the administration order is reasonably likely to achieve the statutory purpose of administrations; or
- (ii) by the holder of a "qualifying floating charge" (as defined in the Insolvency Act) over the whole or substantially the whole of the company's property who gives notice of intention to appoint an administrator to any holder of a prior qualifying floating charge and files with the Court the appointment in prescribed form (including a statutory declaration that the charge was enforceable on the date of the appointment and a statement by the proposed administrator that he believes the statutory purpose of administration is reasonably likely to be achieved) and such other documents as may be provided; or
- (iii) by the company or its directors if it or they give notice of intention to appoint an administrator to any person who may be entitled to appoint an administrative receiver or an administrator of the company, such person declines to appoint an administrative receiver or administrator (as the case may be) and the appointment is filed with the Court in prescribed form (including a statutory declaration that the company is or is likely to become unable to pay its debts and a statement by the proposed administrator that he believes the statutory purpose of administration is reasonably likely to be achieved) along with such other documents as may be provided.

In addition, in certain circumstances an administrator may be appointed in relation to a partnership, the effect of which would be that, during the period for which the order is in force, the affairs and business of the partnership and the partnership property shall be managed by the administrator. The appointment may be made by the Court, on the application of the members of the insolvent partnership in their capacity as such, or by a creditor or creditors (including any contingent or prospective creditor or creditors), provided that the Court is satisfied that the partnership is unable to pay its debts and considers that the making of an administration order is likely to achieve one or more of the statutory purposes.

An interim "moratorium" on enforcement action against the company or partnership, as the case may be, will come into effect on the filing with the Court of the application for making of an administration order by the Court or the notice of intention to appoint an administrator out of court, or on the presentation of a petition for an administration order, as the case may be. During the period for which such moratorium is in force, (among other things) no steps may be taken to enforce any security over the property of the company or partnership except with the leave of the Court (and subject to such terms as the Court may impose). The moratorium remains in force:

- (i) in the case of a company, where an administration application has been made and has not yet been granted or dismissed, or has been granted but the order has not yet taken effect, or where a floating charge holder has filed notice of intention to appoint an administrator with the Court, until the appointment takes effect or until 5 business days expire with no administrator having been appointed, or where the directors of or the company itself have/has filed with the Court notice of intention to appoint an administrator, until the appointment takes effect or until 10 business days expire with no administrator having been appointed; and
- (ii) in the case of a partnership, where a petition for an administration order has been presented until such an order has been made or the petition has been dismissed.

During the period for which a company or partnership is in administration, (among other things) no steps may be taken to enforce any security over the property of the company or partnership except with the leave of the Court (and subject to such terms as the Court may impose) or the consent of the administrator.

Accordingly if an application is made or petition is presented for the making of an administration order by the Court, or notice is filed with the Court of the intention to appoint an administrator, or an administration order is made or an administrator is appointed in respect of the Borrower, the General

Partner, the Nominees, Nominees HoldCo or the Issuer, the enforcement of the Borrower Security by the Borrower Security Trustee or the Issuer Security by the Bond Trustee would not be possible unless the leave of the Court or the consent of the administrator was obtained, and would in any case be delayed by the need to apply to the Court for leave or to the administrator for consent.

Administrative Receivership

The provisions of the Enterprise Act 2002 (the “**Enterprise Act**”) amending the corporate insolvency provisions of the Insolvency Act 1986 (the “**Insolvency Act**”) came into force on 15 September 2003.

As a result of the amendments made to the Insolvency Act by the Enterprise Act, the holder of a qualifying floating charge created on or after 15 September 2003 will be prohibited from appointing an administrative receiver (and consequently be unable to prevent the chargor entering into administration), unless the floating charge falls within one of the exceptions set out in sections 72A to 72G of the Insolvency Act (the “**exceptions**”). As the Issuer Deed of Charge and the Borrower Security Documents will be entered into after 15 September 2003, the Bond Trustee and Borrower Security Trustee, respectively, will not therefore be entitled to appoint an administrative receiver over the assets of the Issuer, the Nominees, the Borrower, the General Partner or Nominees HoldCo unless the floating charges in such documents fall within the exceptions.

The exceptions include an exception (the capital market exception) in respect of, in certain circumstances, the appointment of an administrative receiver pursuant to an agreement which is or forms part of a “capital market arrangement” (which is broadly defined in the Insolvency Act). This exception will apply if a party incurs or, when the agreement in question was entered into was expected to incur, a debt of at least £50 million and if the arrangement involves the issue of a capital market investment (also defined but, generally, a rated, traded or listed bond). Although there is as yet no case law on how this exception will be interpreted, the Issuer considers that the exception will be applicable to the transactions described in this document. However, the Secretary of State may, by secondary legislation, modify the exceptions to the prohibition on appointing an administrative receiver and/or provide that the exception shall cease to have effect. No assurance can be made that any such modification or provisions in respect of the capital market exception will not be detrimental to the interests of the Bondholders.

Moreover (and notwithstanding the charge granted by the Borrower and the General Partner under the Borrower Deed of Charge potentially falling within one of the exceptions described above), it is not legally possible to appoint an administrative receiver to a partnership and thereby prevent it from going into administration.

With a view to mitigating the risk that the Borrower Security Trustee could not block the appointment of an administrator, the Borrower has transferred its legal interest in respect of the Mortgaged Properties to the Nominees who (as joint trustees) will hold the legal interest of the Borrower in the Mortgaged Properties on a trust for land (as defined in the Trusts of Land and Appointment of Trustees Act 1996). Pursuant to the Beneficiary Undertaking, the Borrower has covenanted to the Borrower Security Trustee that it will not call for a return of its legal interest in the Mortgaged Properties or for a dissolution of the trust or for a transfer of the Mortgaged Properties and has covenanted that it will not transfer its beneficial interests in the Mortgaged Properties. The Nominees have granted full fixed and floating security over all of their property, assets and undertaking pursuant to the Nominees Deed of Charge and covenant to pay, guarantee and indemnify the Borrower Security Trustee in respect of, *inter alia*, the obligations of the Borrower under the Borrower Transaction Documents (including the Intercompany Loan Agreement). Accordingly, if the Borrower goes into administration and the Nominees are not insolvent at that time, the Nominees, as trustees of land, may have the right, *inter alia*, to hold and manage the relevant Mortgaged Properties and collect Rental Income in the ordinary course (notwithstanding the appointment of an administrator over the Borrower’s partnership assets). The effectiveness of such arrangements could, however, be challenged by an administrator in the courts of England and Wales and there is no guarantee that any such challenge would not succeed and, accordingly, that the timing, or ultimate recovery, in respect of the enforcement of the Borrower Security would not be affected.

In addition to the security granted by the Borrower, the General Partner and the Nominees under the Borrower Security Documents, Nominees HoldCo grants a first fixed charge and floating charge over the shares that it holds in the Nominees to the Borrower Security Trustee, pursuant to the Nominees HoldCo Deed of Charge. Accordingly, one of the modes of security enforcement that may be pursued by the

Borrower Security Trustee (should the Nominees HoldCo Security become enforceable) is that the Borrower Security Trustee may (but is not required to) enforce its rights under the share charge in respect of the Nominees.

Receiver as Agent

A receiver of a company would generally be the agent of the company until its liquidation and thus, while acting within his powers, only incurs liability on behalf of the company. If, however, the receiver's appointer unduly directed or interfered with or influenced the receiver's actions, a court may decide that the receiver was the agent of his appointer and that his appointer should be responsible for the receiver's acts and omissions.

Payments to, *inter alios*, the Borrower Security Trustee (which is entitled to receive remuneration, reimbursement for its expenses and an indemnity for its potential liabilities) will rank ahead of the interest and principal due to the Issuer under the Intercompany Loan Agreement. Similarly, payments to, *inter alios*, the Bond Trustee (which is entitled to receive remuneration, reimbursement for its expenses and an indemnity for potential liabilities) will rank ahead of the interest and principal due under the Bonds. Accordingly, should the Borrower Security Trustee become liable for the acts of such a receiver, the amount that would otherwise be available for payment to the Bondholders may be reduced.

If any of the Issuer, the Nominees, the Borrower, the General Partner or Nominees HoldCo goes into liquidation, then as noted above the receiver will cease to be its agent. At such time he will then act either as agent of his appointer or as principal according to the facts existing at that time. If he acts as agent of his appointer, then for the reasons set out in the foregoing paragraph, the amount that would otherwise be available for payment to Bondholders may be reduced. If a receiver appointed by the Borrower Security Trustee or the Bond Trustee, as the case may be, incurs a personal liability, he will have a right of indemnity out of the assets in his hands in respect of that liability and the amount that would otherwise have been available for payment to the Issuer or the Bondholders, as the case may be, would be reduced accordingly.

Small Companies and Small Partnerships Moratorium

Certain small companies or small partnerships, as part of the company's or, as applicable, partnership's voluntary arrangement procedure, may seek court protection from their creditors by way of a "moratorium" for a period of up to 28 days, with the option for creditors to extend this protection for up to a further two months (although the Secretary of State for Trade and Industry may, by order, extend or reduce the duration of either period).

The position as to whether or not a company or a partnership is eligible for a moratorium may change from period to period, depending on its financial position and average number of employees during that particular period. The Secretary of State for Trade and Industry may by regulations also modify the qualifications for eligibility of a company (but not for a partnership) for a moratorium and may also modify the present definition of a "small company". Accordingly, the Issuer, the General Partner, the Borrower, Nominees HoldCo or the Nominees, may, at any given time (subject to the exemptions referred to below) be eligible to seek a moratorium, in advance of a company or partnership voluntary arrangement.

A company is eligible for a moratorium if, at the date of filing for moratorium, it meets two or more of the criteria for being a "small company" under Section 247(3) of the Companies Act 1985 which relate to the company's balance sheet, total turnover and average number of employees in a particular period. Analogous provisions for determining whether a partnership is eligible for a moratorium are contained in the Insolvent Partnerships Order 1994 (Schedule 1) and require a "small partnership" to have a turnover of no more than £2.8 million, partnership assets of no more than £1.4 and no more than 50 employees.

During the period for which a moratorium is in force in relation to a company or partnership, amongst other things, no winding up may be commenced or administrator appointed to that company or partnership, no administrative receiver of that company may be appointed, no security created by that company or partnership over its property may be enforced (except with the leave of the Court) and no other proceedings or legal process may be commenced or continued in relation to that company (except with the leave of the Court).

Certain companies which qualify as small companies for the purposes of these provisions may be, nonetheless, excluded from being so eligible for a moratorium, but with no such exclusions for small

partnerships. As at the Closing Date, companies excluded from eligibility for a moratorium include those which, at the time of filing for the moratorium, are party to a “capital market arrangement”, under which a party has incurred, or when the agreement was entered into expected to incur, a debt of at least £10 million is incurred and which involves the issue of a capital market investment. However, the Secretary of State may modify the criteria by reference to which a company otherwise eligible for a moratorium is excluded from being so eligible and/or provide that the exclusion shall cease to have effect.

Accordingly, the provisions described above may limit the Bond Trustee’s ability to enforce the Issuer Security or the Borrower Security Trustee’s ability to enforce the Borrower Security, to the extent that, first, any of the Issuer, Nominees HoldCo, the Borrower, the General Partner or the Nominees, as the case may be, falls within the criteria for eligibility for a moratorium at the time a moratorium is sought, second, if any of the directors of the Issuer, the General Partner, Nominees HoldCo or the Nominees, or the partners of the Borrower, as the case may be, seek a moratorium in advance of a company or partnership voluntary arrangement (as applicable), and, third, any of the Issuer, the General Partner, Nominees HoldCo or the Nominees, as the case may be, is considered not to fall within the capital market exception (as expressed or modified at the relevant time) or any other applicable exception at the relevant time.

Share of Floating Charge Assets for Unsecured Creditors

In addition to the amendments to the Insolvency Act effected by the Enterprise Act described under “*Administrative Receivership*” above, the Enterprise Act also inserted a new Section 176A into the Insolvency Act, which provides that where a company has gone into liquidation or administration, or where there is a provisional liquidator or receiver, a “prescribed part” of the company’s net property is to be applied in satisfaction of unsecured debts in priority over floating charge holders.

By virtue of the relevant prescribing order, the ring fencing of the “prescribed part” applies to floating charges which are created on or after 15 September 2003. The amount available for unsecured creditors will depend upon the value of the chargor’s “**net property**”, being the amount of the chargor’s property which would otherwise be available for satisfaction of the claims of floating charge holders or holders of a debenture secured by a floating charge. As at the date of this document, the “prescribed part” has been set as 50% of the first £10,000 of a company’s net property and 20% of the net property that exceeds £10,000 up to a maximum of £600,000. Where the company’s net property is less than a prescribed minimum of £10,000, the liquidator, administrator or receiver may disapply this rule without application to the Court in respect of a company if it believes that the cost of making a distribution to unsecured creditors would outweigh the benefits. If the company’s net property is more than the prescribed minimum, the liquidator, administrator or receiver may apply to the Court for an order that the rule may be disapplied on the same ground.

Accordingly, as the floating charges granted under the Issuer Deed of Charge and the Borrower Security Documents will be created after 15 September 2003, floating charge realisations upon the enforcement of the Issuer Security and the Borrower Security may be reduced by the operation of the ring fencing provisions.

Recharacterisation of Fixed Security Interest

There is a possibility that a Court could find that the fixed security interests expressed to be created by the security documents governed by English law could take effect as floating charges as the description given to them as fixed charges is not determinative.

Where the chargor is free to deal with the secured assets without the consent of the chargee, the Court would be likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge.

Whether the fixed security interests will be upheld as fixed security interests rather than floating security interests will depend, among other things, on whether the Bond Trustee or Borrower Security Trustee, as the case may be, has the requisite degree of control over the chargors’ ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Bond Trustee or Borrower Security Trustee, as the case may be, in practice.

If the fixed security interests are recharacterised as floating security interests, the claims of (i) the unsecured creditors (if any) of the Issuer, the Borrower, the General Partner, the Nominees or Nominees HoldCo, as the case may be, in respect of that part of the net property of the Issuer, the Borrower, the General Partner, the Nominees or Nominees HoldCo, as the case may be, which is ring fenced as a result

of the Enterprise Act (see the investment consideration entitled “*Share of Floating Charge Assets for Unsecured Creditors*” above) and (ii) certain statutorily defined preferential creditors of the Issuer, the Borrower, the General Partner, the Nominees or Nominees HoldCo, as the case may be, may have priority over the rights of the Bond Trustee or the Borrower Security Trustee, as the case may be, to the proceeds of enforcement of such security.

A receiver appointed by the Bond Trustee or the Borrower Security Trustee, as the case may be, would be obliged to pay preferential creditors out of floating charge realisations in priority to payments to the Issuer Secured Creditors (including the Bondholders) or the Borrower Secured Creditors, respectively. Following the coming into force of the Enterprise Act on 15 September 2003, the only remaining categories of preferential debts are certain amounts payable in respect of occupational pension schemes, employee remuneration and levies on coal and steel production.

Pursuant to the covenants contained in the Intercompany Loan Agreement and the Conditions, respectively, none of the Issuer, the Borrower, the General Partner, the Nominees or Nominees HoldCo is permitted to have any employees and its activities are otherwise restricted. Accordingly, if the Issuer, the Borrower, the General Partner, the Nominees and Nominees HoldCo comply with the covenants contained in, as applicable, the Issuer Deed of Charge or the Intercompany Loan Agreement, it is unlikely that the Issuer, the Borrower, the General Partner, the Nominees and Nominees HoldCo will have preferential creditors or unsecured creditors.

If a company to which a receiver is appointed was subject concurrently to a winding up, the receiver would also be obliged to pay the expenses of the liquidator (which are prescribed in the Insolvency Rules 1986) out of the floating charge realisations in priority to payments to the secured creditors. If the Bond Trustee or the Borrower Security Trustee, as the case may be, was prohibited from appointing an administrative receiver (for, *inter alia*, the reasons outlined above), or failed to exercise its right to appoint an administrative receiver within the relevant notice period and the Issuer, the Nominees, Nominees HoldCo, the Borrower or the General Partner, as the case may be, were to go into administration, the expenses of the administration would rank ahead of the claims of the Bond Trustee or the Borrower Security Trustee, as the case may be, as floating charge holder. Furthermore, in such circumstances, the administrator would be free to dispose of floating charge assets without the leave of the court, although the Bond Trustee or the Borrower Security Trustee, as the case may be, would have the same priority in respect of the property of the company representing the floating charge assets disposed of, as it would have had in respect of such floating charge assets.

Change of law

The structure of the issue of the Bonds and the ratings which have been or are expected to be assigned to the Class A Bonds are based on English law in effect as at the date of this document. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this document.

Proposed changes to the Risk-Weighted Asset Framework

The Basel Committee on Banking Supervision has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline. In parallel, the European Commission has issued proposals for reform of the existing EU Capital Adequacy Directive which is based on the 1988 Capital Accord and applies to banks and investment firms in the European Union. While the European commission has indicated that its proposals are intended to implement the new Basel Capital Accord proposals, it has noted that there will be appropriate modifications where it considers necessary. As at the Closing Date, both sets of proposals are under consultation and are not in final form. However, the proposals are (as the Closing Date) expected to be finalised in the fourth quarter of 2003, allowing for implementation at the end of 2006. If adopted in their current form, the proposals could affect risk weighting of the Bonds in respect of certain investors if those investors are regulated in a manner which will be affected by such proposals and, by imposing a risk weighting on undrawn commitments of less than one year, increase the cost of the Liquidity Facility. Consequently, prospective purchasers should consult their own advisors as to the consequences to and effect on them of the potential application of the proposals. The Issuer cannot predict the precise effects of potential changes which might result if the proposals were adopted in their current form.

European Monetary Union

It is possible that prior to the maturity of the Bonds, the United Kingdom may become a participating member state in the European Economic Monetary Union and therefore the Euro may become the lawful

currency of the United Kingdom. In that event, all amounts payable in respect of the Bonds may become payable in Euro (as to which see Condition 17 (*European Economic and Monetary Union*) of the Bonds). It cannot be said with certainty what effect the adoption of the Euro by the United Kingdom (if it occurs) would have on investors in the Bonds.

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

RESOURCES AVAILABLE TO THE BORROWER AND THE ISSUER

The following is intended only to be a summary of certain provisions of the documents relating to the Bonds:

The Liquidity Facility

The Intercompany Loan Agreement contains a covenant requiring the Borrower to maintain, save as described below, a liquidity facility provided by a bank with the Liquidity Requisite Ratings on terms acceptable to the Rating Agencies.

Under the terms of the Liquidity Facility Agreement entered into on the Closing Date, the Liquidity Facility Provider will provide the Borrower a 364 day committed sterling revolving liquidity facility to permit drawings to be made of up to the lower of (a) £38 million and (b) the aggregate of the rent for the next four quarters under the Occupational Leases for the Property Portfolio (as determined on 5 April of each calendar year, and as reduced or cancelled from time to time under the Liquidity Facility Agreement, the “**Liquidity Facility**”), in circumstances where the Borrower has a Liquidity Shortfall on any Determination Date. Drawings under the Liquidity Facility may be requested for so long as a Bond Enforcement Notice has not been served, certain other events have not occurred in respect of the Borrower and various warranties of the Borrower therein remain true in all material respects .

The Borrower will pay a commitment fee of 0.35 per cent. per annum to the Liquidity Facility Provider.

The interest rate on liquidity drawings under the Liquidity Facility Agreement (other than a Liquidity Standby Drawing, as described below) will be the sum of the London interbank offered rate for sterling deposits for the appropriate period plus 0.70 per cent. per annum (plus, as applicable, any permitted additions to the interest rate to compensate the Liquidity Facility Provider for the cost of regulatory compliance from time to time, pursuant to the terms of the Liquidity Facility Agreement). Interest will accrue on each liquidity drawing under the Liquidity Facility from the date of the drawing to but excluding the next succeeding Payment Date. The Borrower will be obliged to repay the outstanding balance of any drawings on each Payment Date in accordance with the relevant Borrower Priority of Payments. Amounts repaid may, subject to certain conditions, be redrawn.

Provided that the Liquidity Facility Provider meets certain requirements, if any amounts are required to be deducted or withheld for or on account of tax from any payment made by the Borrower to the Liquidity Facility Provider under the Liquidity Facility Agreement, the amount of payment due from the Borrower will be increased to the extent necessary to ensure that, after such deduction or withholding has been made, the amount received by the Liquidity Facility Provider is equal to the amount that it would have received had no such withholding or deduction been required to be made. Such increased amounts will form part of the Liquidity Subordinated Amounts and will rank junior to the payments under the Intercompany Loan in the Borrower Priorities of Payments.

The Liquidity Facility Agreement will provide that (a) if the Liquidity Facility Provider declines to renew the commitment period of the Liquidity Facility and/or (b) the Liquidity Facility Provider's short term unsecured, unsubordinated and unguaranteed debt obligations cease to be rated at least P-1 by Moody's, A-1+ by S&P and F-1+ by Fitch (the “**Liquidity Requisite Ratings**”) (a “**Liquidity Event**”), then, within five days, the Liquidity Facility Provider shall assign, novate or transfer its rights and obligations to another liquidity facility provider that has the Liquidity Requisite Ratings and meets certain other criteria or other arrangements shall be made for the Borrower to enter into a new liquidity facility with a replacement party that, amongst other things, has the Liquidity Requisite Ratings.

If any one of such steps is not completed within the required time, the Liquidity Facility Provider will advance a drawing (a “**Liquidity Standby Drawing**”) of the total commitment under the Liquidity Facility Agreement then available for drawing under the Liquidity Facility and the Liquidity Facility Provider shall pay such Liquidity Standby Drawing into a designated bank account of the Borrower (the “**Liquidity Standby Account**”) maintained with the Liquidity Facility Provider (for so long as it has the Liquidity Requisite Ratings) or, where the Liquidity Facility Provider does not have the Liquidity Requisite Ratings, the Account Bank or any other bank, the short term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least the Liquidity Requisite Ratings and which is a bank for the purposes of section 349 of the Income and Corporation Taxes Act 1988, approved by the Borrower Security Trustee.

The rate of interest applicable to a Liquidity Standby Drawing shall be an amount equal to the interest received by the Borrower on the Liquidity Standby Account. If the Liquidity Standby Account

is opened with the Liquidity Facility Provider, the Liquidity Facility Provider shall pay interest on the funds standing to the credit of the Liquidity Standby Account (the “**Standby Deposit**”) at the normal commercial rate in the ordinary course of its business. Also, the Standby Deposit may be invested in Eligible Investments. If the Liquidity Standby Account is not held with the Liquidity Facility Provider, each of the Borrower and the Cash Manager is under an obligation to use reasonable endeavours to ensure that the interest rate on the Standby Deposit is at an arm’s length commercial rate and that any interest which accrues on the Standby Deposit and any return on Eligible Investments made in respect of the Standby Deposit are paid to the Liquidity Facility Provider (such amounts, the Standby Deposit and the Liquidity Standby Account not to be available to the Borrower Secured Creditors generally).

Amounts standing to the credit of the Liquidity Standby Account which represent a Standby Deposit, will, subject to the terms of the Liquidity Facility Agreement (including the conditions described above as to availability of drawings), be available to the Borrower by way of liquidity drawing in the event of there being a Liquidity Shortfall. Such a liquidity drawing will accrue interest and be repayable as described above, except that, until the Liquidity Facility Provider is replaced or the Liquidity Event that gave rise to the Liquidity Standby Drawing is remedied, repayment will be made into the Liquidity Standby Account. Any costs incurred in obtaining a replacement liquidity facility or in utilising the Liquidity Facility will be borne by the Borrower.

On enforcement of the Borrower Security, all indebtedness outstanding to the Liquidity Facility Provider under the Liquidity Facility Agreement will rank in priority to repayments of principal and payments of interest to the Issuer under the Intercompany Loan Agreement and, accordingly, payment under the Bonds. In the event of the enforcement of the Borrower Security, amounts then standing to the credit of the Liquidity Standby Account, which represent the Standby Deposit will not be available to the Borrower Secured Creditors generally (but only as security in respect of the obligations to the Liquidity Facility Provider).

The Liquidity Facility Agreement will be governed by English law.

While the foregoing is a description of the Liquidity Facility Agreement entered into on the Closing Date, it is possible that in the future it will only be possible to renew or replace it on terms which differ from those described above.

The Swap Transaction

For a further description of the Swap Provider and the Swap Guarantor, see the Section entitled “*The Parties*” above. For a further description of the Swap Agreement and the risks associated with the swap transaction and the interest rate mismatch that is intended to be mitigated by the swap transaction, see the Section entitled “*Summary of the Principal Documents*” above and the Section entitled “*Risk Factors*” above.

The Swap Agreement may be terminated in whole or in part in certain limited circumstances, some of which are more particularly described below. Any such termination may oblige the Issuer or the Swap Provider to make a termination payment.

In the event that the B2 Loan or the corresponding B2 Bonds, are prepaid in part or in full other than in accordance with their stated maturity, a corresponding proportion of the Swap Agreement will terminate.

If the Issuer does not satisfy its payment obligations under the Swap Agreement, this will constitute a default by the Issuer thereunder and will entitle the Swap Provider to terminate the Swap Agreement (and, in the event of termination, the Swap Provider and the Swap Guarantor will not be obliged to make any payments under the Swap Agreement or Swap Guarantee other than any applicable termination payments).

Upon the service of a Bond Enforcement Notice, the Swap Provider will have the right to terminate the Swap Agreement.

The Issuer’s obligations to the Swap Provider under the Swap Agreement will be secured under the Issuer Deed of Charge. In the event of the Issuer Security being enforced thereunder, such obligations will (save for the Swap Subordinated Amounts) rank ahead of the Issuer’s obligations under the Bonds.

The long-term unsecured, unsubordinated, and unguaranteed debt obligations of the Swap Guarantor are currently rated A+ by S&P, AA- by Fitch and Aa3 by Moody’s, respectively. The Swap Guarantor’s short-term unsecured, unsubordinated, and unguaranteed debt obligations are currently rated A-1 by S&P, F1+ by Fitch and P-1 by Moody’s.

Pursuant to the terms of the Swap Agreement, for so long as any of the Class B2 Bonds are outstanding, if the rating of the short term unsecured, unsubordinated, and unguaranteed debt obligations of the Swap Guarantor falls below A-1 by S&P, F-1 by Fitch or P-1 by Moody's, or the rating of the long term unsecured, unsubordinated, and unguaranteed debt obligations of the Swap Guarantor falls below A-1 by Moody's (such ratings being the "**Swap Requisite Ratings**" and such event a "**Swap Downgrade Event**"), then the Swap Provider will be obliged, during the 30 days following the notification to it of such downgrade, to:

- (a) provide collateral in support of its obligations under the Swap Agreement at or above the Swap Requisite Ratings in an amount or value determined in accordance with the terms of the Swap Credit Support Document; or
- (b) transfer all of its rights and obligations with respect to the swap to a third party with ratings at or above the Swap Requisite Ratings; or
- (c) obtain a guarantee, a letter of credit (or equivalent) of its rights and obligations with respect to the Swap Agreement from a third party satisfactory to the Bond Trustee.

Failure by the Swap Provider to comply with the provisions described above will constitute an additional termination event in respect of the Swap Agreement (a "**Downgrade Early Termination Event**") and the Swap Agreement may be terminated by the Issuer on the thirtieth day following the downgrade of the Swap Provider.

All payments to be made by either party under the Swap Agreement are to be made without withholding or deduction for or on account of any tax unless such withholding or deduction is required by applicable law (as modified by the practice of any relevant governmental tax authority). Each of the Issuer and the Swap Provider will represent, on entering into the Swap Agreement, that it is not obliged to make any such deduction or withholding under current taxation law and practice. If, as a result of a change in law (or the application or official interpretation thereof), one party is required to make such a withholding or deduction from any payment to be made to the other party under the Swap Agreement, the party making that payment will not be obliged to pay any additional amounts to the other party in respect of the amounts so required to be withheld or deducted, but the party receiving that reduced payment will have the right to terminate the Swap Agreement (subject to the Swap Provider's obligation to use reasonable efforts (provided that such efforts shall not cause significant economic hardship to the Swap Provider) to transfer its rights and obligations under the Swap Agreement to another of its offices or affiliates or a suitably rated third party such that payments made by or to that office or affiliate or third party under the Swap Agreement can be made without any withholding or deduction for or on account of tax).

The Swap Provider's obligations under the Swap Agreement are guaranteed pursuant to, and subject to the terms of, the Swap Guarantee provided by the Swap Guarantor. In the event that MSCS ceases to be the Swap Provider or it is replaced by a suitably rated third party, Morgan Stanley will cease to be the Swap Guarantor.

Swap Credit Support Document

If at any time the Swap Provider is required to provide collateral in respect of any of its obligations under the Swap Agreement it will also do so under the terms of the 1995 ISDA Credit Support Annex (Bilateral Form — Transfer) entered into on or prior to the Closing Date between the Issuer and the Swap Provider (the "**Swap Credit Support Document**"). The Swap Credit Support Document will provide that, from time to time, subject to the conditions specified in the Swap Credit Support Document, the Swap Provider will make transfers of collateral to the Issuer in support of its obligations under the Swap Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Swap Credit Support Document.

Collateral amounts that may be required to be posted by the Swap Provider pursuant to the Swap Credit Support Document may be delivered in the form of cash or securities. Cash amounts will be paid into, and securities will be transferred to, the Issuer Transaction Account and recorded in the Swap Collateral Ledger.

Any amounts standing to the credit of the Swap Collateral Ledger in the Issuer Transaction Account, which fall to be repaid to the Swap Provider in accordance with the terms of the Swap Credit Support Document, upon enforcement of the Issuer Security, will not be available to the Issuer Secured Creditors generally (but may only be paid to the Swap Provider). The obligation of the Issuer in respect of any

return of securities posted as collateral pursuant to the Swap Credit Support Document is to return collateral of the same type, nominal value, description and amount as the collateral posted to the Issuer by the Swap Provider.

Bank Accounts

The description of the operation of the Borrower Transaction Account, the Disposal Proceeds Account, the Insurance Proceeds Account, the VAT Account and the Borrower Distribution Account (all such accounts, together with the Liquidity Standby Account (described further in “*The Liquidity Facility*” above), being the “**Borrower Accounts**”) in this section will only apply prior to the enforcement of the Borrower Security. Following the enforcement of the Borrower Security, the Borrower Accounts will operate in accordance with the instructions of the Borrower Security Trustee or, as the case may be, any Receiver appointed under the Borrower Security Documents, provided that any amounts standing to the credit of the Liquidity Standby Account will not be available to the Borrower Secured Creditors generally (but only as security in respect of the obligations to the Liquidity Facility Provider) be repaid to the Liquidity Facility Provider (as described in “*The Liquidity Facility*” above).

Similarly, the description of the operation of the Issuer Transaction Account in this section will only apply prior to the enforcement of the Issuer Security. Following the enforcement of the Issuer Security, the Issuer Transaction Account will operate in accordance with the instructions of the Bond Trustee or, as the case may be, any Receiver appointed under the Issuer Deed of Charge, provided that any amounts standing to the credit of the Swap Collateral Ledger will not be available to the Issuer Secured Creditors generally (and may only be applied in returning collateral to, or in satisfaction of amounts owing by, the Swap Provider in accordance with the Swap Agreement and the Swap Credit Support Document.

The Borrower Transaction Account

As at the Closing Date, the Borrower and the Nominees will have directed the Occupational Tenants to pay all Rental Income payable in respect of the relevant premises within the Mortgaged Properties into an account in the name of the Borrower maintained with the Account Bank (the “**Borrower Transaction Account**”). Pursuant to the terms of the Intercompany Loan Agreement and the Account Bank and Cash Management Agreement, the Borrower and the Nominees covenant that they will ensure that, for so long as any Bonds remain outstanding, the Occupational Tenants will pay all Rental Income payable in respect of the Mortgaged Properties into the Borrower Transaction Account.

Pursuant to the Account Bank and Cash Management Agreement, monies standing to the credit of the Borrower Transaction Account may not be used for any purpose other than:

- (i) effecting a transfer into the VAT Account;
- (ii) making Eligible Investments; and
- (iii) making payments due on each Payment Date in accordance with the Account Bank and Cash Management Agreement and the Borrower Security Documents as applicable.

VAT Account

The Borrower will establish an account (the “**VAT Account**”) with the Account Bank to which such part of any amounts paid to the Borrower as represents value added tax chargeable on any supply or supplies made by the Borrower or by the General Partner on behalf of the Borrower for value added tax purposes shall be credited. The Borrower shall use amounts standing to the credit of the VAT Account to pay any value added tax which it or the General Partner on its behalf is required to pay to HM Customs & Excise from time to time. On the basis of a quarterly reconciliation, any amounts standing to the credit of the VAT Account over and above those required to be paid to HM Customs & Excise in respect of the supplies made by the Borrower or the General Partner on its behalf in that quarter shall be transferred to the Borrower Transaction Account for application in accordance with the Borrower Pre-Enforcement Priority of Payments.

Disposal Proceeds Account

Pursuant to the Account Bank and Cash Management Agreement the Borrower will establish and maintain a disposal proceeds account (the “**Disposal Proceeds Account**”) with the Account Bank to which the net proceeds of disposals of Mortgaged Properties will be credited.

Amounts credited to the Disposal Proceeds Account may only be transferred as follows:

- (a) to the Borrower Transaction Account and used in accordance with the Account Bank and Cash Management Agreement, the Borrower Security Documents and the Intercompany Loan Agreement to prepay the Intercompany Loan ; or
- (b) such part of any amounts standing to the credit of the Disposal Proceeds Account as represents value added tax chargeable on any supply or supplies made by the Borrower or by the General Partner (on behalf of the Borrower) for value added tax purposes will be transferred to the VAT Account.

Insurance Proceeds Account

Pursuant to the Account Bank and Cash Management Agreement the Borrower will establish an insurance proceeds account (the “**Insurance Proceeds Account**”) with the Account Bank to which any insurance proceeds in excess of £50,000 (as adjusted on an annual basis by reference to changes in retail prices) paid to the Borrower, the Occupational Tenants, the Nominees and the Borrower Security Trustee in respect of damage to or destruction of a Mortgaged Property (where the proceeds are not used to reinstate the Mortgaged Property) will be credited.

Amounts credited to the Insurance Proceeds Account may only be transferred to the Borrower Transaction Account and used in accordance with the Account Bank and Cash Management Agreement, the Borrower Security Documents and the Intercompany Loan Agreement to prepay the Intercompany Loan.

Borrower Distribution Account

Pursuant to the Account Bank and Cash Management Agreement, all amounts payable to the Borrower under item (n) of the Borrower Pre-Enforcement Priority of Payments or item (k) of the Borrower Post-Enforcement Priority of Payments may be paid by the Borrower directly into the Borrower Distribution Account (the “**Borrower Distribution Account**”). Amounts credited to the Borrower Distribution Account will be under the control of the Borrower and may be transferred to the Partners pursuant to the terms of the Partnership Agreement or otherwise as the Borrower may elect. The Borrower Distribution Account will be subject only to a floating charge under the terms of the Borrower Deed of Charge.

Eligible Investments

Pursuant to the Account Bank and Cash Management Agreement, amounts held in the Issuer Transaction Account and the Borrower Accounts may be invested from time to time in Eligible Investments at the direction of the Cash Manager (or any delegate of the Cash Manager) on behalf of the Borrower or the Issuer, as applicable.

“**Eligible Investments**” mean (a) sterling gilt edged securities; and (b) sterling demand or time deposits, certificates of deposit and short term debt obligations (including commercial paper), provided that in all cases (i) such investments have a maturity date falling no later than the next following Payment Date; and (ii) the short term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised bank under the Financial Services and Markets Act 2000) are rated A-1 by S&P, F-1 by Fitch and P-1 by Moody’s or higher or such other credit rating as may be approved by the Rating Agencies from time to time).

Available Funds and their Priority of Application

On each Determination Date prior to a Bond Enforcement Notice being served, the Cash Manager will determine:

- (a) the amount of cash then standing to the credit of the Borrower Transaction Account (including any interest thereon and any proceeds from any Eligible Investments);
- (b) the aggregate of the payments specified in items (a) to (m) (inclusive) in the Borrower Pre-Enforcement Priority of Payments or items (a) to (j) (inclusive) of the Borrower Post-Enforcement Priority of Payments, as then applicable, required to be made on the next Payment Date (the “**Borrower Debt Service Required Amount**”);

- (c) the extent of any Liquidity Shortfall (in which event the Cash Manager will provide a notice of drawdown to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement); and
- (d) the amount (if any) that will be standing to the credit of the Borrower Transaction Account after the Borrower Debt Service Required Amount is paid, which is to be deposited in the Borrower Distribution Account in satisfaction of the payment due to the Borrower under item (n) of the Borrower Pre-Enforcement Priority of Payments and item (k) of the Borrower Post-Enforcement Priority of Payments.

Prior to the serving of a Loan Enforcement Notice, on each Payment Date, amounts standing to the credit of the Borrower Transaction Account shall be applied in the following order of priorities (the “**Borrower Pre-Enforcement Priority of Payments**”), in each case only to the extent that preceding items have been paid in full and the relevant payment does not cause the Borrower Transaction Account to become overdrawn:

- (a) *first*, in or towards satisfaction of any fees and other remuneration, costs, expenses and indemnity payments (if any) payable by the Borrower to the Borrower Security Trustee and its appointees (if any) under the provisions of the Borrower Security Documents; and
- (b) *second*, in or towards satisfaction of any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement in respect of the fees and other remuneration, costs, expenses and indemnity payments (if any) payable to the Bond Trustee and appointees (if any) under the provisions of the Trust Documents;
- (c) *third*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of:
 - (i) any amounts payable by the Borrower in respect of operating expenses incurred by the Borrower in the course of the Borrower’s business (other than as provided elsewhere in this priority of payments), including, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of any amounts payable by the Borrower:
 - (1) to the Operator in respect of fees and other amounts payable to the Operator pursuant to the Operating Agreement;
 - (2) to the Nominees/Nominees HoldCo Corporate Services Provider in respect of fees and other amounts payable to the Nominees/Corporate Services Provider pursuant to the Nominees/Nominees HoldCo Corporate Services Agreement;
 - (3) to the Nominees in respect of fees and other amounts, payable to the Nominees pursuant to the Nominee Side Letter;
 - (ii) any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement in respect of amounts to be paid by the Issuer pursuant to items (b) (i) and (ii) of the Issuer Pre-Enforcement Priority of Payments; and
 - (iii) in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of:
 - (1) any amounts payable by the Borrower to the Account Bank and the Cash Manager under the terms of the Account Bank and Cash Management Agreement in respect of fees, other remuneration, indemnity payments, costs, charges and expenses of the Account Bank and Cash Manager;
 - (2) any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement in respect of the fees and expenses of the Paying Agents and the Agent Bank incurred by the Issuer under the provisions of the Agency Agreement;
 - (3) any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement in respect of the fees and expenses of the Account Bank and the Cash Manager under the terms of the Account Bank and Cash Management Agreement;
 - (iv) any amounts payable by the General Partner in respect of United Kingdom corporation tax for which the General Partner is primarily liable;
- (d) *fourth*, in or towards satisfaction of any amount due in respect of any ground rent or other sum

due under any Headlease of a Mortgaged Property (including any amounts in respect of VAT) other than any Alteration Adjustment Rent or Substitution Adjustment Rent;

- (e) *fifth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of:
 - (i) any amounts payable to the Liquidity Facility Provider under the Liquidity Facility Agreement other than the aggregate of (a) the amount by which any payment made to the Liquidity Facility Provider under the Liquidity Facility Agreement is increased as a consequence of an amount for or on account of tax being required to be withheld or deducted from that payment, (b) the amount by which interest accruing at the rate calculated in accordance with Schedule 5 (*Calculation of Mandatory Cost*) to the Liquidity Facility Agreement (excluding, for such purposes, any such amounts which are represented by amounts calculated by (d) below) exceeds 0.35 per cent. per annum of the principal amount outstanding under the Liquidity Facility Agreement, (c) the amount by which the total commitment fee, as increased pursuant to Clause 13.4 (*Increase in Commitment Commission*), exceeds 0.70 per cent. per annum of the undrawn Liquidity Facility, and (d) the amount by which the total amount of the margin on the Liquidity Facility, having been increased under the Liquidity Facility Agreement due to any increase in the regulatory capital required to be maintained by the Liquidity Provider (excluding, for such purposes, any such amounts which are represented by amounts calculated by (b) above), exceeds 1.40 per cent. per annum of the principal amount outstanding under the Liquidity Facility Agreement (“**Liquidity Subordinated Amounts**”); and
 - (ii) any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement to satisfy in full all of the Issuer’s obligations in respect of amounts due to a Swap Provider under a Swap Agreement (to the extent not funded by payments of interest in respect of the B2 Loan) including any amounts due from the Issuer to a Swap Provider under a Swap Agreement on termination of such Swap Agreement (“**Swap Termination Payments**”) but excluding any amounts due from the Issuer to a Swap Provider under a Swap Agreement (other than any amounts attributed to the return of collateral to such Swap Provider) due to the occurrence of an event of default or a Downgrade Early Termination Event under such Swap Agreement in respect of which the Swap Provider is the defaulting or affected party (“**Swap Subordinated Amounts**”);
- (f) *sixth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of all interest payable to the Issuer in respect of the A Loan and the B Loans;
- (g) *seventh*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of any principal then payable to the Issuer in respect of the A Loan and the B Loans;
- (h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts due in respect of:
 - (i) any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement in respect of amounts due by the Issuer to the Swap Provider under the Swap Agreement in respect of Swap Subordinated Amounts; and
 - (ii) any amounts payable by the Borrower to the Liquidity Provider under the Liquidity Facility Agreement in respect of Liquidity Subordinated Amounts;
- (i) *ninth*, to pay any stamp duty land tax payable by the Borrower under the Substitution Agreement;
- (j) *tenth*, to pay any Alteration Adjustment Rent and any Substitution Adjustment Rent;
- (k) *eleventh*, any other amounts for which the Borrower is primarily liable;
- (l) *twelfth*, to pay any amounts then due and payable to any creditor in respect of Subordinated Debt;
- (m) *thirteenth*, in or towards satisfaction of any amounts payable to the Property Pool Manager in respect of fees and other amounts due to the Property Pool Manager pursuant to the Property Pool Management Agreement; and

- (n) *fourteenth*, to pay any excess to the Borrower by depositing such excess into the Borrower Distribution Account to be applied, first, to make all payments then payable pursuant to the terms of the Partnership Agreement and, then, otherwise as the Borrower may elect.

All moneys received by the Borrower Security Trustee following a Loan Enforcement Notice, other than amounts standing to the credit of the Liquidity Standby Account (which are to be paid directly and only to the Liquidity Facility Provider), will be applied in accordance with the following priority of payments (the “**Borrower Post-Enforcement Priority of Payments**”), in each case only to the extent that the preceding items have been paid in full and the relevant payment does not cause the relevant Borrower Account to become overdrawn:

- (a) *first*, in or towards satisfaction, of any fees and other remuneration, costs, expenses and indemnity payments (if any) payable by the Borrower to the Borrower Security Trustee and any Receiver and appointees (if any) appointed by the Borrower Security Trustee under the provisions of the Borrower Security Documents;
- (b) *second*, in or towards satisfaction of any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement in respect of the fees and other remuneration, costs, expenses and indemnity payments (if any) payable to the Bond Trustee and any Receiver and appointees (if any) appointed by the Bond Trustee under the provisions of the Trust Documents;
- (c) *third*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of:
- (i) any amounts payable by the Borrower to the Account Bank and the Cash Manager under the terms of the Account Bank and Cash Management Agreement in respect of fees, other remuneration, indemnity payments, costs, charges and expenses of the Account Bank and Cash Manager;
- (ii) any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement in respect of the fees and expenses of the Paying Agents and the Agent Bank incurred by the Issuer under the provisions of the Agency Agreement; and
- (ii) any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement in respect of the fees and expenses of the Account Bank and the Cash Manager under the terms of the Account Bank and Cash Management Agreement;
- (d) *fourth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts due in respect of:
- (i) any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fees under the Intercompany Loan Agreement to satisfy in full all of the Issuer’s obligations in respect of amounts due to the Swap Provider under the Swap Agreement (to the extent not funded by payments of interest in respect of the B2 Loan) including any Swap Termination Payments but excluding any Swap Subordinated Amounts; and
- (ii) any amounts payable to the Liquidity Facility Provider under the Liquidity Facility Agreement other than Liquidity Subordinated Amounts;
- (e) *fifth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of all interest payable to the Issuer in respect of the A Loan and the B Loans;
- (f) *sixth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of any principal payable to the Issuer in respect of the A Loan and the B Loans;
- (g) *seventh*, in or towards satisfaction *pro rata* and *pari passu*, according to the respective amounts due in respect of:
- (i) any amounts payable by the Borrower to the Issuer by way of Ongoing Facility Fee under the Intercompany Loan Agreement in respect of amounts due by the Issuer to the Swap Provider under the Swap Agreement in respect of Swap Subordinated Amounts; and
- (ii) any amounts payable by the Borrower to the Liquidity Facility Provider under the Liquidity Facility Agreement in respect of Liquidity Subordinated Amounts;

- (j) *eighth*, in or towards satisfaction of any amounts payable to the Property Pool Manager in respect of fees and other amounts due to the Property Pool Manager pursuant to the Property Pool Management Agreement; and
- (k) *ninth*, to pay any excess to the Borrower by depositing such excess into the Borrower Distribution Account to be applied, first, to make all payments then payable pursuant to the terms of the Partnership Agreement and, then, otherwise as the Borrower may elect.

Monies available to the Issuer

Prior to a Bond Enforcement Notice being served, monies which the Issuer has available to it to enable it to perform its obligations under or in respect of the Bonds on each Payment Date will comprise:

- (a) amounts received by the Issuer from the Swap Provider;
- (b) amounts received by the Issuer from the Borrower under the Intercompany Loan Agreement;
- (c) the earnings and proceeds from the making of Eligible Investments; and
- (d) all other amounts standing to the credit of the Issuer Transaction Account.

Except where the Issuer has received funds due to the prepayment of the Loans by the Borrower (in which case those funds will be applied as described in Condition 6(c) (*Redemption, Purchase and Cancellation — Early Redemption in Whole or Part*) or Condition 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption due to Change in Tax Law*), prior to service of a Bond Enforcement Notice, amounts standing to the credit of the Issuer Transaction Account, other than any amounts standing to the credit of the Swap Collateral Ledger or representing amounts attributable to assets transferred as collateral by the Swap Provider following the occurrence of a Swap Downgrade Event (which are to be applied in returning collateral to, or in satisfaction of amounts owing by, the Swap Provider in accordance with the Swap Agreement and the Swap Credit Support Document), will be applied by the Issuer in accordance with the following priority of payments (the “**Issuer Pre-Enforcement Priority of Payments**”) on each Payment Date, provided that a payment may be made to satisfy a liability of the type specified in item (b)(ii) on any date, in each case only to the extent that preceding items have been paid in full and the relevant payment does not cause the Issuer Transaction Account to become overdrawn:

- (a) *first*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of the fees and other remuneration, costs, expenses and indemnity payments (if any) payable to the Bond Trustee and its appointees (if any) under the provisions of the Trust Documents;
- (b) *second*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of:
 - (i) any amounts payable by the Issuer in respect of the Issuer’s operating expenses incurred in the course of the Issuer’s business (other than as provided elsewhere in this priority of payments) that have become due and payable, including:
 - (1) any amounts payable by the Issuer to the Issuer Corporate Service Provider in respect of fees, costs and expenses pursuant to the Issuer Corporate Services Agreement;
 - (2) any amounts payable by the Issuer in respect of the establishment, maintenance and good standing of the Issuer;
 - (3) any amounts payable by the Issuer in respect of the fees, costs, expense and liabilities of the Paying Agents and the Agent Bank incurred under the provisions of the Agency Agreement; and
 - (4) any amounts payable by the Issuer in respect of the fees, costs, expenses and liabilities of the Cash Manager and of the Account Bank under the Account Bank and Cash Management Agreement;
 - (ii) any amounts payable by the Issuer in respect of all United Kingdom corporation tax and other Tax for which the Issuer is primarily liable under the laws of any jurisdiction;
- (c) *third*, in or towards satisfaction of any amounts payable by the Issuer to the Swap Provider under the Swap Agreement including any Swap Termination Payments but excluding any Swap Subordinated Amounts;

- (d) *fourth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of any interest payable in respect of the Class A Bonds and the Class B Bonds;
- (e) *fifth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of any principal payable in respect of the Class A Bonds and the Class B Bonds;
- (f) *sixth*, in or towards satisfaction of amounts due by the Issuer to the Swap Provider under the Swap Agreement in respect of Swap Subordinated Amounts;
- (g) *seventh*, in or towards satisfaction of any amounts payable by the Issuer to the Borrower by way of the Borrower Break Amount under the Intercompany Loan Agreement; and
- (h) *eighth*, the surplus (if any) to the Issuer or any other persons entitled thereto.

In addition to the application of funds in accordance with the Issuer Priorities of Payments pursuant to the Account Bank and Cash Management Agreement and the Issuer Deed of Charge, any funds in the Issuer Transaction Account may be invested in Eligible Investments.

All moneys received by the Bond Trustee following the enforcement of the Issuer Security, other than any amounts standing to the credit of the Swap Collateral Ledger or representing amounts attributable to assets transferred as collateral by the Swap Provider following the occurrence of a Swap Downgrade Event (which are to be applied only in returning collateral to, or in satisfaction of amounts owing by, the Swap Provider in accordance with the Swap Agreement and the Swap Credit Support Documents), will be applied in accordance with the Issuer Post-Enforcement Priority of Payments set out in Condition 11 (*Enforcement*).

USE OF PROCEEDS

The proceeds from the issue of the Class A Bonds will be £382,500,000, the proceeds from the issue of the Class B1 Bonds will be £200,000,000 and the proceeds from the issue of the Class B2 Bonds will be £50,000,000.

On the Closing Date, the Issuer will, subject to and in accordance with the Intercompany Loan Agreement as described in the section entitled “*Summary of Principal Documents — The Intercompany Loan Agreement*” above, apply the proceeds from the issue of the Bonds to make the A Loan to the Borrower in an aggregate principal amount of £382,500,000, the B1 Loan to the Borrower in an aggregate principal amount of £200,000,000 and the B2 Loan to the Borrower in an aggregate principal amount of £50,000,000. On the Closing Date, the Borrower will pay the Initial Facility Fee to the Issuer, which will be in an amount equal to all the fees, costs and expenses properly and reasonably incurred by the Issuer on or before the Closing Date in connection with the issue of the Bonds and the negotiation, preparation and execution of each Issuer Transaction Documents.

DELAMARE FINANCE plc
(The Issuer)

Introduction

The Issuer was incorporated in England and Wales on 10 March 2004 (registered number 5069866) as a public limited company under the Companies Act 1985 under the name Worple Road plc. Its name was changed to Delamare Finance plc on 25 March 2004. The registered office of the Issuer is Blackwell House, Guildhall Yard, London EC2V 5AE.

The principal objects of the Issuer are set out in clause 4 of its memorandum of association and are, *inter alia*, to lend money and give credit, secured or unsecured, to borrow or raise money and secure the payment of money, and to grant security over its property for the performance of its obligations or the payment of money. The Issuer was established for the limited purposes of the issue of the Bonds, to enter into the Swap Agreement, to open accounts, to create security and to lend money and receive interest in respect thereof, and to enter into certain related transactions described elsewhere in this document.

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its incorporation and registration as a public company under the Companies Act 1985 and to the proposed issue of the Bonds and the authorisation of the other Issuer Transaction Documents referred to in this document and other matters which are incidental or ancillary to the foregoing.

The Issuer's issued share capital is £50,000 divided into 50,000 ordinary shares of £1 each. Each of the shares is one quarter paid up and 49,999 shares are held by Delamare Group Holdings Limited ("**Issuer HoldCo**"). The entire issued share capital of Issuer HoldCo is held by Stanhope Gate Trustees Limited (the "**Issuer Share Trustee**") under the terms of a trust as nominee for the benefit of charitable institutions. One share in the Issuer is held by Issuer Share Trustee as nominee for the Issuer HoldCo.

There is no intention to accumulate surpluses in the Issuer.

Directors

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

<u>Name</u>	<u>Business Address</u>	<u>Principal activities</u>
SFM Directors Limited	Blackwell House Guildhall Yard London EC2V 5AE	Acting as corporate directors of special purpose companies
SFM Directors (No. 2) Limited .	Blackwell House Guildhall Yard London EC2V 5AE	Acting as corporate directors of special purpose companies

The affairs of SFM Directors Limited and SFM Directors (No. 2) Limited are represented by their sole director, Structured Finance Management Limited, the directors of which are Alexander Ohlsson, James McDonald, Jonathan Keighley, Ryan O'Rourke and Robert Berry, the business address of each of whom is Blackwell House, Guildhall Yard, London EC2V 5AE. The principal activity of each of these individuals is being a director of Structured Finance Management Limited.

The secretary of the Issuer is SFM Corporate Services Limited. The Issuer has no employees.

The activities of the Issuer will be restricted by the Conditions.

Capitalisation and Indebtedness

The unaudited capitalisation and indebtedness of the Issuer as at 31 March 2004, adjusted for the issue of the Bonds is as follows:

	As at 31 March 2004 £
Share capital	
<i>Authorised:</i>	
50,000 ordinary shares of £1.00	£50,000
<i>Issued:</i>	
49,999 one quarter paid up	£12,500
1 share	£1
Borrowings	
Class A Bonds	£382,500,000
Class B1 Bonds	£200,000,000
Class B2 Bonds	£50,000,000
Total capitalisation and indebtedness	<u>£632,512,501</u>

All loan capital is secured over the assets of the Issuer. The loan capital of the Issuer is not guaranteed.

As of the date of this document, the Issuer has no loan capital outstanding or created but unissued, no term loans outstanding and no other borrowings or indebtedness in the nature of borrowings nor any contingent liabilities or guarantees.

The current financial period of the Issuer will end on 28 February 2005.

Accountants' Report

The following is the text of a report received by the directors of the Issuer from Pricewaterhouse-Coopers LLP, the reporting accountants to the Issuer. The financial information contained therein does not comprise the Issuer's statutory accounts. No statutory accounts have been prepared or delivered to the Registrar of Companies in England and Wales since incorporation. The Issuer's accounting reference date is 28 February with the first statutory accounts being drawn up to 28 February 2005.



PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

The Directors
Delamare Finance plc
Blackwell House
Guildhall Yard
London
EC2V 5AE

2 April 2004

Dear Sirs

Delamare Finance plc (the “Issuer”)

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular dated 2 April 2004 (the “Offering Circular”) of the Issuer.

The Issuer was incorporated as a public limited company on 10 March 2004 under the name Worples Road plc. Its name was changed to Delamare Finance plc on 25 March 2004. The Company has not yet commenced to trade, has prepared no financial statements for presentation to its members and has not declared or paid a dividend.

Basis of preparation

The financial information set out below is based on the financial records of the Issuer, to which no adjustment was considered necessary.

Responsibility

The financial records are the responsibility of the Directors of the Issuer.

The directors of the Issuer are responsible for the contents of the Offering Circular in which this report is included.

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

Basis of opinion

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

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

Opinion

In our opinion the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Issuer at the date stated.

Financial information

The balance sheet of the Issuer at 31 March 2004 is as follows:

	Notes	£
Current Assets		
Debtors – called up share capital not paid		37,500
Cash at bank and in hand		<u>12,500</u>
Net Assets		<u>50,000</u>
 Capital and Reserves		
Share capital		
- Called up, paid up share capital	3	12,500
- Called up share capital not paid		<u>37,500</u>
		<u>50,000</u>

Notes to the financial information

1. *Accounting policies*

The financial statements have been prepared in accordance with the historical cost convention and in accordance with accounting standards applicable in the United Kingdom.

2. *Trading activity*

The Issuer did not trade during the period from date of incorporation to 30 March 2004 nor did it receive any income, incur any expenses or pay any dividends. Consequently, no profit and loss account has been prepared.

3. *Share capital*

The Company was incorporated with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each. 50,000 shares were issued on 31 March 2004, called and one quarter have been paid up.

4. *Immediate and ultimate holding company*

The immediate parent undertaking of the Issuer is Delamare Group Holdings Limited. The ultimate parent undertaking is Stanhope Gate Trustees Limited. Stanhope Gate Trustees Limited is the Issuer's ultimate controlling party as defined under Financial Reporting Standard 8 "Related party disclosures".

Yours faithfully

PricewaterhouseCoopers LLP

THE TESCO PROPERTY LIMITED PARTNERSHIP

(The Borrower)

General

The Borrower was established in England and Wales as an English limited partnership under the terms of a short form Partnership Agreement dated 18 November 2003 and amended and restated by a letter of variation dated 24 November 2003. The Borrower was established with two partners, the Founder Limited Partner and the General Partner, of which the first is a limited partner and the second the general partner. As at the Closing Date, the Investor Limited Partner will become a limited partner of the Borrower and the Partnership Agreement will be further amended and restated. Founder Limited Partner and Investor Limited Partner will then, as of the Closing Date, have an equal 49.95% partnership interest in the Borrower and General Partner will then, as of the Closing Date, have a nominal 0.1% participation. The Founder Limited Partner is wholly owned by Tesco Plc. As at the Closing Date, the General Partner will be equally owned by Tesco Plc and Bellevalle. The Borrower (through the General Partner) owns 100% of the issued share capital of Nominees Holdco.

Summary of the Partnership Agreement

Purpose

The purpose of the Borrower is to hold the Property Portfolio as an investment pursuant to clause 2.2 of the Limited Partnership Agreement. The purpose of the Borrower may only be changed with the consent of all Limited Partners.

Partnership interests

As at the Closing Date each Partner will hold a participation in the Borrower comprising a contribution of £1,000 to the capital of the Borrower and (except in the case of the General Partner) broadly equal interests in interest free loans to the Borrower totalling £42,457,500. The total number of participations may only be increased with the consent of all Limited Partners.

Subject to obtaining the consent of all Limited Partners and to complying with the provisions of the Substitution Agreement, the Operator may, for the purposes of financing Alterations or Substitutions and/or Adjoining Land Developments in respect of the Mortgaged Properties, request each Limited Partner to make additional capital contributions and/or loans to the Borrower.

Profits and distributions

Distributions of amounts standing to the credit of the Borrower Distribution Account after the Borrower Debt Service Required Amount is paid on each Payment Date, will be made to the Partners quarterly. Distributions will first be applied in repayment of any default loan (see below) and secondly in payment to the Partners as follows:

To each Limited Partner: 49.95%

To the General Partner: 0.1%

Where a Mortgaged Property is sold during the term of the Partnership Agreement (other than in connection with a substitution), the net realisation proceeds (after application of the disposal proceeds in accordance with the Transaction Documents) may, at the discretion of the Operator and subject to approval by the General Partner, not be distributed and may be retained by the Borrower for investment purposes.

Management and Operation

The Borrower has appointed Mourant & Co. Capital Trustees Limited as the Operator to operate the partnership and its assets, in accordance with the terms of the Operating Agreement and as described below. The Operator is not a partner and will not be entitled to any share in the profits nor be liable for any losses, of the Borrower.

As at the Closing Date, the Borrower, acting by the Operator, has appointed Tesco Property Holdings Limited as the Property Pool Manager, to provide advice in relation to the management of the Property

Portfolio. The Property Pool Manager is not a partner and will not it be entitled to any share in the profits nor be liable for any losses, of the Borrower.

The Borrower, acting by the General Partner, has also appointed Cushman & Wakefield Healey & Baker as Property Advisor. The Property Advisor is not a partner and will not it be entitled to any share in the profits nor be liable for any losses, of the Borrower.

The Borrower, acting by the Operator, has also appointed HSBC Bank plc as the Cash Manager to provide cash management services in respect of the Borrower Accounts and the determinations and payments to be made on each Determination Date and the related Payment Date.

The Operator has the power and authority to monitor and enforce performance of all rights and obligations of the Borrower, pursuant to the Borrower Transaction Documents. In addition, the Operator has all customary powers, where appropriate, to execute documents, pay fees, maintain bank accounts and delegate powers where appropriate, as specified in more detail in the Operating Agreement.

The operation of the Borrower's day-to-day business is delegated to the Operator, the Cash Manager and the Property Pool Manager. The consent of the Borrower, the Rating Agencies and the Borrower Security Trustee will be required for the removal of the existing Operator and the appointment of a new Operator, the appointment or removal of the Property Pool Manager or the Property Advisor, the Operator's proposed appointment of any professional advisors and the approval of any additional funding commitments which the Borrower is to undertake.

Transfer of partnership interests

The Limited Partners are entitled to transfer all, but not part only, of their interests in the Borrower to a third party subject to, *inter alia*, obtaining the consent of the Borrower Security Trustee and the Rating Agencies and, in the case of a transfer by the Investor Limited Partner, provided that the transferee is not a competitor of Tesco Plc or related in any way to a competitor of Tesco Plc.

The General Partner may not transfer its interest in the Borrower.

Term of the Partnership and Option to Acquire Partnership Interests

Pursuant to the terms of the Partnership Agreement, the Limited Partnership may not be dissolved until the Borrower Secured Obligations are discharged in full.

Under the Partnership Agreement, the Founder Limited Partner has an option to purchase Investor Limited Partner's partnership interest on 21 February 2011 (the "**Option Date**"). The consideration for the purchase will be 50 per cent. of the net asset value of the Borrower determined, *inter alia*, by reference to the Investment Value of the Property Portfolio, assuming that the Reversion Option Agreement is exercised (determined by the Property Advisor) less all of the Borrower's debt obligations secured on the Mortgaged Properties (excluding any partners' loans) on a going concern basis and in accordance with agreed accounting policies. The value of any Alterations, Substitutions or Adjoining Land Developments which have not been funded by the Borrower will be excluded from the net assets.

If the Founder Limited Partner does not exercise the option referred to above, the Investor Limited Partner has a broadly reciprocal option to purchase the Founder Limited Partner's partnership interest in the Borrower. However, if the Investor Limited Partner exercises that option, the Founder Limited Partner has a further option to acquire the Investor Limited Partner's interest, again on much the same terms.

Under the Partnership Agreement, the Founder Limited Partner may also acquire the Investor Limited Partner's partnership interest as at 28 February 2029 by serving notice not more than 36 months and not less than 18 months prior to that date. The consideration for the purchase will be calculated in broadly the same manner as for the above options except that the value of the Mortgaged Properties will be by reference to their Vacant Possession Value and it will be assumed that the Intercompany Loan has been discharged. If the Founder Limited Partner does not exercise its option, the Investor Limited Partner has a broadly reciprocal right to purchase the Founder Limited Partner's partnership interest.

In each case the acquisition of a partnership interest in the Borrower will involve an assignment of the relevant Limited Partner's capital contribution and any outstanding partner's loans together with a corresponding 50 per cent. interest in the General Partner.

Limited Partner default

If a Limited Partner fails for any reason to provide a cash advance when required to do so under the Partnership Agreement, the other Limited Partner is entitled to provide, by way of loan to the Borrower,

the outstanding amount. Any partnership distribution subsequently due to the non-paying party shall be used first to pay any such loan together with interest on it at an annual rate of 2% above LIBOR.

In addition to the above remedy, if a Limited Partner commits an event of default (as defined in the Partnership Agreement and including, *inter alia*, becoming insolvent, committing a material breach of the Partnership Agreement or relevant members of that Limited Partner's corporate group committing a material breach of the shareholders' agreement which regulates the operation of the General Partner (see below)), the other Limited Partner has the right to acquire the defaulting Limited Partner's partnership interest for an amount calculated in a similar manner as the option consideration referred to above.

Indebtedness

The Borrower will enter into the Liquidity Facility Agreement and the Intercompany Loan Agreement described under "*Summary of Principal Documents*" on the Closing Date, to enable the Borrower to borrow monies in order to fund Liquidity Shortfalls. As at the date of this document, no amount had been drawn under the Liquidity Facility.

Accountants' Report

The following is the text of a report received by the directors of the Borrower from PricewaterhouseCoopers, the reporting accountants to the Borrower. The financial information contained therein does not comprise the Borrower's audited accounts. No statutory accounts are required to be prepared or delivered to the Registrar of Companies in England and Wales. The Borrower's accounting reference date is 28 February.



PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

The Directors
Delamare Finance plc
Blackwell House
Guildhall Yard
London
EC2V 5AE
2 April 2004

Dear Sirs

Tesco Property Limited Partnership

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular dated 2 April 2004 (the “Offering Circular”) of the issuer Delamare Finance plc (the “Issuer”).

Tesco Property Limited Partnership (the “Partnership”) was formed under the terms of a short form Partnership Agreement dated 18 November 2003 and amended and restated by a letter of variation dated 24 November 2003. The Partnership has not yet prepared financial statements for presentation to its members and has not declared or paid a distribution.

Basis of preparation

The financial information set out below is based on the financial records of the Partnership, to which no adjustment was considered necessary.

Responsibility

The financial records are the responsibility of the members of the Partnership who approved their issue.

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

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

Basis of opinion

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

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

Opinion

In our opinion the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Partnership as at the date stated and of its profits and cash flow for the period then ended.

Financial information

The profit and loss account of the Partnership for the period ended 28 February 2004 is set out below:

	Notes	£
Rental income	2	10,034,362
Administration expenses		<u>(4,054,047)</u>
Operating profit		5,980,315
Interest payable	4	<u>(2,831,482)</u>
Profit for the period available for division among members		<u>3,148,833</u>

The balance sheet of the Partnership at 28 February 2004 is as follows:

	Notes	£	£
Fixed Assets			
Short leasehold properties	7		618,988,953
Current Assets			
Debtors	8	14,721,607	
Cash		<u>3,000</u>	
			14,724,607
Current Liabilities	9		<u>(630,561,727)</u>
Net Current Assets			<u>(615,837,120)</u>
Net Assets			<u>3,151,833</u>
Represented by:			
Members' capital	10		3,000
Members' current account			<u>3,148,833</u>
Members' interests			<u>3,151,833</u>

The cash flow statement for the Partnership for the period ended 28 February 2004 is set out below:

	Notes	£
Net cash flow from operating activities		—
Returns on investments and servicing of finance		
Interest paid		—
Taxation		—
Capital expenditure and financial investment		
Purchase of head leases	6	(623,043,000)
Transactions with members		
Capital contributions by members		3,000
Management of liquid resources		—
Financing		
Increase in borrowings	9	<u>623,043,000</u>
Increase in cash		<u>3,000</u>

Notes to the financial information

1. Basis of preparation

Pursuant to an agreement for sale (the "Agreement") entered into by, *inter alia*, Tesco Property Partner (No. 1) Limited, and Tesco Property Partner (GP) Limited on 24 November 2003, the Partnership acquired 33 leasehold retail stores and 2 leasehold distribution centres (the "Mortgaged Property") leased by Tesco Stores Limited ("TSL") and Tesco Distribution Limited ("TDL"), respectively, which were transferred by Tesco Property Partner (No. 1) Limited to Tesco Property (Nominees) (No. 1) Limited and Tesco Property (Nominees) (No. 2) Limited on trust for the Partnership for a total consideration of £623 million, financed by an inter-company interest-free loan provided by Tesco Plc and re-financed by way of an inter-company interest bearing loan provided to the Partnership by Tesco Capital No. 1 Limited (the "First Tesco Loan").

On 1 March 2004 the value of the Mortgaged Property was revalued to £675 million on the basis of a valuation prepared by Cushman & Wakefield Healy and Baker. On 29 March 2004 the First Tesco Loan was refinanced by way of inter-company loans (the "Second Tesco loans") from Tesco Plc in the aggregate amount of £675 million including £52 million to fund the distribution of the revaluation reserve to the members of the Partnership. It is expected that a substantial proportion of the Second Tesco Loans will be refinanced by a loan to be provided by the Issuer to the Partnership on the closing date of the transaction (the "Issuer Loan") comprised of three loans, the A loan (the "A loan") of £623m and the B1 and B2 loans of £52m in aggregate (the "B1 and B2 loans") and the balance will be transferred to partners in the Partnership.

In accordance with the terms of the original leases granted by Tesco Property Partner (No. 1) Limited, TSL and TDL are the occupational tenants of the Mortgaged Property. Pursuant to the terms of those leases the Partnership receives rental income from TSL and TDL. These rental payments will be used to repay the principal and interest on the A loan and the interest on the B1 and B2 loans. The proceeds of sale of the Mortgaged Property will provide the primary source of funds to repay the principal on the B1 and B2 loans.

This financial information has been prepared on a going concern basis on the assumption that sufficient funding will be raised from the Issuer Loan to be entered into by the Partnership and the Issuer, to enable the Partnership to repay a substantial proportion of the Second Tesco Loans leaving the balance owing to Tesco Plc or partners in the Partnership, and operate on a going concern basis. The financial information does not include any adjustments that would be necessary if sufficient funds are not raised under the Issuer Loan agreement and the going concern assumption proves to have been inappropriate.

2. *Accounting policies*

The financial information has been prepared in accordance with the historical cost convention and in accordance with accounting standards applicable in the United Kingdom.

Leases

The properties are being leased out under 25-year operating leases. Rental income is credited to the profit and loss account on a straight-line basis over the life of the lease. Annual increases in rental income are fixed at 2.5%.

Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the following estimated useful lives:

Short leasehold property	40 years or shorter leasehold term
--------------------------	------------------------------------

Allocation of profits and drawings

The net profits of the Partnership incurred in each year are divided between the partners in the following proportions:

Founder limited partner (Tesco Property Partner (No. 1) Limited)	99.9%
General partner (Tesco Property Partner (GP) Limited)	0.1%

The net losses of the Partnership in each year are borne by the partners in the same proportion that they share the net profits of the Partnership provided that the Founder limited partner shall not be obliged to make any payment to the Partnership beyond the amount of its capital contribution.

Unallocated profits are included in the Members' current accounts within Members' interests.

3. *Operating profit*

	£
Operating profit is stated after charging/(crediting):	
Operating income – lease rental income	(10,034,362)
Depreciation	4,054,047

4. *Employees*

The Partnership has no employees.

5. *Interest*

	£
Interest payable on loan from Tesco Capital No.1 Limited	2,831,482
	<u>2,831,482</u>

Interest is being charged at a rate of LIBOR plus a 0.35 per cent. margin per annum.

6. *Taxation*

The financial information does not incorporate any charge or liability for taxation on the results of the Partnership, as the relevant income tax or tax on capital gains is the responsibility of the individual members.

7. *Fixed assets*

	Short leasehold Properties
	£
Cost	
On formation	—
Additions	<u>623,043,000</u>
As at 28 February 2004	<u>623,043,000</u>
Depreciation	
On formation	—
Charge for the period	<u>(4,054,047)</u>
As at 28 February 2004	<u>(4,054,047)</u>
Net book amount as at 28 February 2004	<u>618,988,953</u>

8. *Debtors*

	£
Amounts owed by group undertakings	14,721,607
	<u>14,721,607</u>

The amounts owed by group undertakings represent rent receivable by the Partnership from TSL and TDL pursuant to the lease agreements with respect to the Mortgaged Property.

9. *Current liabilities*

	£
Amounts owed to Tesco Capital No. 1 Limited	625,874,482
Other taxes	2,192,579
Accruals and deferred income	<u>2,494,666</u>
	<u>630,561,727</u>

The loan is repayable within one year and bears an interest rate of LIBOR plus 0.35 per cent.

10. *Member's capital*

The Partnership was formed on 18 November 2003, as amended and restated by a letter of variation dated 24 November 2003, with capital injections totalling £3,000. There have been no distributions in the period.

11. *Member's interests*

Tesco Property Partner (No.1) Limited owns a 99.9% interest in the profits and capital of the Partnership. Tesco Property Partner (GP) Limited owns a 0.1% interest in the profits and capital of the Partnership.

12. Related party transactions

During the period the company received a loan from Tesco Capital No.1 Limited totalling £623,043,000. Interest has accrued on this loan and £2,831,482 is outstanding at the period end. The Partnership also purchased short leasehold properties for a cost of £623,043,000 from Tesco Property Partner (No.1) Limited during the period. These transactions were all at arms length.

13. Ultimate controlling party

The immediate parent undertaking of the Partnership is Tesco Property Partner (No.1) Limited. The ultimate parent undertaking is Tesco Plc. Tesco Plc is the Partnership's ultimate controlling party as defined under Financial Reporting Standard 8 "Related Party disclosures".

14. Post balance sheet events

a) On 1 March 2004 the Partnership assets were revalued to a market value of £675m on the basis of a valuation performed by external valuers Cushman & Wakefield Healy & Baker. This valuation was carried out on an open market basis in accordance with the relevant provisions of chapter 18 of the Listing Rules issued by the London Stock Exchange and the RICS Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors in May 2003. The increase in value has been credited to the members' current accounts.

b) On 29 March 2004 £675m was loaned to the Partnership by Tesco Plc. £623m of this loan was used to repay the loan from Tesco Capital No. 1 Limited. A further £52m was used to fund the distribution of the majority of the balance in the members' current account resulting from the revaluation of the Partnership assets to Tesco Property Partner (No.1) Limited.

(c) On 31 March 2004 a conditional sale and purchase agreement was entered into between Tesco Plc, Tesco Property Partner (GP) Limited, Tesco Property Partner (No. 1) Limited and Dawberry Properties Limited by which Dawberry Properties Limited agreed to purchase 49.95% of Tesco Property Partner (No. 1) Limited's interest in the Partnership and approximately £21m of the second Tesco loans subject to the satisfaction of certain conditions relating to the issue by Delamare Finance Plc of certain A and B bonds and the proposed loan by Delamare Finance Plc to the Partnership.

(d) On 31 March a conditional sale and purchase agreement was entered into between Tesco Plc and Bellevalle Properties Limited by which Bellevalle Properties agreed to purchase from Tesco Plc 500 shares of £1 each in Tesco Property Partner (GP) Limited at par subject to the satisfaction of the conditions described in paragraph (c) above.

Yours faithfully

PricewaterhouseCoopers LLP

TESCO PROPERTY PARTNER (GP) LIMITED
(The General Partner)

General

Tesco Property Partner (GP) Limited is a limited liability company incorporated in England and Wales on 28 October 2003 with company registration number 04945955. The registered office of the General Partner is Tesco House, Delamare Road, Cheshunt, Hertfordshire EN8 9SL.

Principal Activity

The principal objects of the General Partner are set out in clause 3 of its Memorandum of Association and include to act as the general partner of the Borrower and to conduct the business, affairs and management of the Borrower in accordance with the Partnership Agreement.

Ownership

The authorised share capital of the General Partner is 1,000 ordinary shares of £1 each. As at the Closing Date, the issued share capital of the General Partner will be 500 A ordinary shares held by Tesco Plc and 500 B ordinary shares held by Bellevalle.

Management

The operation and management of the General Partner will be regulated by a Shareholders Agreement between Tesco Plc the General Partner and Bellevalle dated on the Closing Date.

Each shareholder is entitled to appoint and remove two directors to the board of the General Partner.

All matters to be decided by the General Partner will be by unanimous decision of the board of directors, which, to be quorate, must have at least one director appointed by each shareholder present. As referred to above, although the operation of the Borrower's day-to-day business is delegated to the Operator, the Property Pool Manager and the Cash Manager certain matters will require the consent of the General Partner.

If a shareholder is subject to a material conflict of interest in respect of a matter to be decided by the board of the General Partner such matter will be referred to a suitable conflict expert for determination.

Capitalisation and Indebtedness

The capitalisation of the General Partner as at the date of this document is as follows:

Share Capital

Authorised and issued:	<u><u> </u></u>
1,000 ordinary shares of £1.00 each all of which have been issued fully paid.	<u><u>£1,000.00</u></u>
Uncalled Capital:	<u><u>£000.00</u></u>
Total Capitalisation	<u><u>£1000.00</u></u>

The issued share capital will be redesignated as, respectively, 500A ordinary shares and 500B ordinary shares on or before the Closing Date.

Save for the foregoing, at the date of this document, the General Partner has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

TESCO PROPERTY PARTNER (NO. 1) LIMITED
(The Founder Limited Partner)

General

Tesco Property Partner (No.1) Limited is a limited liability company incorporated in England and Wales on 28 October 2003 with company registration number 04945945. The registered office of the Founder Limited Partner is Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL. The Founder Limited Partner is a wholly-owned subsidiary of Tesco Plc.

Principal Activity

The business of the Founder Limited Partner is to act as a limited partner of the Borrower.

Management

The Founder Limited Partner is managed by a board consisting of 3 directors. The directors of the Founder Limited Partner are:

Martin John Field

Andrew Thomas Higginson

Nicholas Claud Mourant

Capitalisation and Indebtedness

The capitalisation of the Founder Limited Partner as at the date of this document is as follows:

Share Capital

Authorised and issued:	<u> </u>
2000 ordinary shares of £1.00 each of which 2000 shares have been issued fully paid	<u>£2000.00</u>
Uncalled Capital:	<u>£000.00</u>
Total Capitalisation	<u>£2000.00</u>

Save for the foregoing, at the date of this document, the Limited Partner has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

DAWBERRY PROPERTIES LIMITED
(The Investor Limited Partner)

General

Dawberry Properties Limited is a limited liability company incorporated in the British Virgin Islands on 2 January 2002 with company registration number 476065. The registered office of the Investor Limited Partner is Beaufort House, PO Box 438, Road Town, Tortola, British Virgin Islands. The Investor Limited Partner is a wholly-owned subsidiary of Topland Group Holdings Limited.

Principal Activity

The business of the Investor Limited Partner is to act as an investor limited partner of the Borrower.

Management

The Investor Limited Partner is managed by a board consisting of 5 directors. The directors of the Investor Limited Partner are:

- Haim Judah Michael Levy
- Fabian Raymond Picardo
- John Brian Francis
- Christopher George White
- Moshe Jaacov Anahory

The alternate directors of the Investor Limited Partner are:

- Steve Marsden
- Ian Felice
- Vikram Nagrani
- Dino Chincotta
- Nadine Marie Collado

Capitalisation and Indebtedness

The capitalisation of the Limited Partner as at the date of this document is as follows:

Share Capital

Authorised and issued:

50,000 ordinary shares of US\$1.00 each of which 2,000 shares has been issued fully paid.....	US\$2,000
Uncalled Capital:.....	<u>US\$48,000</u>
Total Capitalisation.....	<u>US\$50,000</u>

As at the date of this document, the Investor Limited Partner had borrowings of £22 million and a corresponding cash balance of £22 million. Save for the foregoing, at the date of this document, the Investor Limited Partner has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

MOURANT & CO. CAPITAL TRUSTEES LIMITED
(The Operator)

General

Mourant & Co. Capital Trustees Limited (Operator) is a limited liability company incorporated in England and Wales on 8 November 1996 with company registration number 03275677. The registered office of the Operator is at 4 Royal Mint Court, London EC3N 4HJ. The Operator is authorised and regulated by the Financial Services Authority.

Principal Activity

The Operator was incorporated for the purposes of, *inter alia*, establishing and operating unregulated collective investment schemes to enable compliance with regulatory requirements in relation to collective schemes under the FSMA.

The Operator has been appointed pursuant to the terms of the Operating Agreement to operate the Borrower, including its operation for the purposes of the FSMA, and will enter into the arrangements contemplated by this document in its capacity as Operator of the Borrower.

The Operator's Scope of Permission Notice from the FSA is dated as at 5 March 2004.

Management

The Operator is managed by a board consisting of 8 directors. The Operator has been appointed for the purposes of considering and undertaking all actions required in connection with the Partnership Agreement.

The directors of the Operator are:

- Rupert Walker — CEO — MIFA
- Richard Jeune — CEO — MECS
- Robert Bridson — FD
- Kevin Brennan — MECS
- Dominic Jones — MECS
- Robert Short — MIFA
- Nicola Davies — Non Executive Director
- Julia Chapman — Non Executive Director

The principal place of business of the Operator is 4 Royal Mint Court, London EC3N 4HJ.

Appointment as Operator of the Borrower

The Operator has been appointed by the Borrower to be the Operator of the partnership with full power and authority to act as Operator of the partnership and to exercise all of the powers expressed to be granted to the Operator pursuant to the Partnership Agreement and the Operating Agreement.

Pursuant to the Partnership Agreement and the Operating Agreement, the day to day management of the Borrower has been delegated to the Operator provided that certain matters must be approved by the General Partner and, where relevant the Borrower Security Trustee.

The Operator has agreed, *inter alia*, to procure the provision of property management services to the Borrower and, in order to assist it in discharging its responsibilities and duties in this regard, the Operator has appointed the Property Pool Manager pursuant to the Property Pool Management Agreement. The Operator has also agreed to procure the provision of cash management services to the Borrower and, in order to assist it in discharging its responsibilities and duties in this regard, the Operator has appointed the Cash Manager pursuant to the Account Bank and Cash Management Agreement.

Capitalisation and Indebtedness

As at 30 September 2003, the Operator has an authorised share capital of £4,500,000 as follows, £1,000,000 comprising of 1,000,000 ordinary shares of £1.00 each of which 500,000 shares have been issued and £3,500,000 comprising of 3,500,000 preference shares of £1.00 all of which have been issued.

TESCO PROPERTY (NOMINEES) LIMITED
(Nominees HoldCo)

General

Tesco Property (Nominees) Limited is a limited liability company incorporated in England and Wales on 28 October 2003 with company registration number 04945975. The registered office of Nominees HoldCo is Blackwell House, Guildhall Yard, London EC2V 5AE. Nominees HoldCo is a wholly-owned subsidiary of the General Partner (who holds the shares in Nominees HoldCo on behalf of the Borrower).

Principal Activity

The business of Nominees HoldCo is to hold the share capital of Nominee (No.1) and Nominee (No.2).

Management

Nominees HoldCo is managed by a board consisting of 2 directors. As at the Closing Date, the directors and secretary of Nominees HoldCo will be:

- SFM Directors Limited
- SFM Directors (No.2) Limited
- SFM Corporate Services Limited

Capitalisation and Indebtedness

The capitalisation of Nominees HoldCo as at the date of this document is as follows:

Share Capital

Authorised and issued:	<u> </u>
1000 ordinary shares of £1.00 each of which 1 share has been issued fully paid.	<u> </u> £1.00
Uncalled Capital:	<u> </u> £999.00
Total Capitalisation.	<u> </u> £1000.00

Save for the foregoing, at the date of this document, Nominees HoldCo has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

TESCO PROPERTY (NOMINEES) (NO. 1) LIMITED
(Nominee No.1)

General

Tesco Property (Nominees) (No.1) Limited is a limited liability company incorporated in England and Wales on 17 November 2003 with company registration number 04966637. The registered office of Nominee No.1 is Blackwell House, Guildhall Yard, London EC2V 5AE. Nominee No.1 is a wholly-owned subsidiary of Nominees HoldCo.

Principal Activity

The business of Nominee No.1 is to hold the legal title to the Mortgaged Properties jointly with Nominee No.2.

Management

Nominee No.1 is managed by a board consisting of 2 directors. As at the Closing Date, the directors and secretary of Nominee No.1 will be:

- SFM Directors Limited
- SFM Directors (No.2) Limited
- SFM Corporate Services Limited

Capitalisation and Indebtedness

The capitalisation of Nominee No.1 as at the date of this document is as follows:

Share Capital

Authorised and issued:	<u> </u>
1000 ordinary shares of £1.00 each of which 1 share has been issued fully paid.	<u> </u> £1.00
Uncalled Capital:	<u> </u> £999.00
Total Capitalisation.	<u> </u> £1000.00

Save for the foregoing, at the date of this document, Nominee No.1 has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

TESCO PROPERTY (NOMINEES) (NO. 2) LIMITED
(Nominee No.2)

General

Tesco Property (Nominees) (No.2) Limited is a limited liability company incorporated in England and Wales on 17 November 2003 with company registration number 04966635. The registered office of Nominee No.2 is Blackwell House, Guildhall Yard, London EC2V 5AE. Nominee No.2 is a wholly-owned subsidiary of Nominees HoldCo.

Principal Activity

The business of Nominee No.2 is to hold the legal title to the Mortgaged Properties jointly with Nominee No.1.

Management

Nominee No.2 is managed by a board consisting of 2 directors. As at the Closing Date, the directors of Nominee No.2 are:

- SFM Directors Limited
- SFM Directors (No.2) Limited
- SFM Corporate Services Limited

Capitalisation and Indebtedness

The capitalisation of Nominee No.2 as at the date of this document is as follows:

Share Capital

Authorised and issued:	<u> </u>
1000 ordinary shares of £1.00 each of which 1 share has been issued fully paid.	<u> </u> £1.00
Uncalled Capital:	<u> </u> £999.00
Total Capitalisation.	<u> </u> £1000.00

Save for the foregoing, at the date of this document, Nominee No.2 has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

TESCO PLC

Introduction

Tesco Plc and its consolidated subsidiaries (the “Group”) is the leading food retailer in the United Kingdom. The Group also has operations in the Republic of Ireland, Central Europe and Asia. Over the past six years the Group has expanded its traditional supermarket base in the United Kingdom into eleven overseas markets and also into non-food business and retailing services as part of its strategy for growth. Tesco Plc is the overall holding company of the Group.

The market capitalisation of Tesco Plc on the London Stock Exchange at the close of business on 9 March 2004 was £19.6 billion, ranking it, as at that date, the largest quoted food retailer in the United Kingdom and one of Europe’s 100 largest companies in terms of market capitalisation.

As at 22 February 2003 (the date to which the last published annual accounts were made up), the Group operated 2,291 stores with a total sales area of 39.9 million sq.ft.

For the financial year ended 22 February 2003, Group sales were £28.613 billion, an increase of 11.5 per cent. over the previous year, and underlying profit before taxation was £1,401 million, an increase of 14.7 per cent. over the previous year. This was the third consecutive year of double digit profit growth.

United Kingdom Core Business

As at 22 February 2003, the Group operated 1,982 stores in the United Kingdom. These range in format from the Tesco Express convenience store through to the Tesco Extra Hypermarket (over 60,000 sq.ft.). Including acquisitions, 1,265 new stores were opened in the United Kingdom during the financial year ended 22 February 2003, due mainly to the purchase of T&S Stores Plc, a convenience retailer.

The Group has recently made a successful bid for Administore Limited, thereby acquiring a group of 54 convenience stores in London.

United Kingdom sales were £23,407 million in the financial year ended 22 February, 2003, an increase of 7.9 per cent. over the previous year. The United Kingdom business contributed £1,297 million profit before taxation in that financial year, an increase of 6.9 per cent. over the previous year.

International Business

As at 22 February 2003, the international business represented 45.4 per cent. of the Group selling space and comprised 309 stores with a total sales area of 18.1 million sq.ft., throughout nine countries. The Group is the market leader in five countries and profitable in nine of its international businesses.

In the financial year ended 22 February 2003, sales in Europe (excluding the United Kingdom) were £3,032 million, an increase of 22.5 per cent. over the previous year, and contributed underlying operating profit of £141 million. As at 22 February 2003, the Group had 77 stores in the Republic of Ireland, 53 in Hungary, 66 in Poland, 17 in the Czech Republic and 17 in Slovakia.

During the financial year ended 22 February 2003, sales in Asia were £2,174 million, up 45.5 per cent. on the previous year. As at 22 February 2003, the Group’s Asian business comprised 52 stores in Thailand, 21 in South Korea, 3 in Malaysia and 3 in Taiwan.

During the financial year 2003/04 a further 40 stores were planned to open overseas, including 6 stores in Thailand, 8 in South Korea, 1 in Taiwan, 5 in Hungary, 5 in Poland, 4 in Slovakia, 4 in the Czech Republic, 6 in the Republic of Ireland and 1 in Malaysia.

In 2003/4, the Group purchased a chain of convenience stores in Japan and a small chain of hypermarkets in Turkey. The Group is also currently researching the Chinese market.

Retailing Services

As at 22 February, 2003, Tesco Personal Finance, a joint venture formed in 1997 with the Royal Bank of Scotland to offer personal financial services to customers, had approximately 3.4 million customers on a wide range of products, including over 1.5 million credit card holders. During the year ended 22 February 2003, the Group’s share of profit from Tesco Personal Finance was £48 million.

Tesco.com is the largest grocery retailer in the world, now delivering over 110,000 weekly orders. Sales during the year ended 22 February 2003 were £447 million. Tesco.com now operates in the United

Kingdom, the Republic of Ireland and South Korea and, in the United States of America, operates a joint venture with Safeway Inc. in Portland, Oregon and the San Francisco Bay area.

Capital Expenditure

During the financial year ended 22 February 2003, Group capital expenditure was £2,134 billion (compared to £2,027 billion in the financial year ended 23 February 2002). UK capital expenditure amounted to £1,228 million, including £558 million on new stores and £335 million on extensions and refits in that financial year. Total international capital expenditure was £906 million, including £527 million in Asia and £379 million in Europe in that financial year. In the financial year 2003/04, Group capital expenditure was expected to be approximately £2.2 billion.

Listing and Financial Information

Tesco Plc is listed on the London Stock Exchange.

Further information on Tesco Plc is contained in its latest financial statements, copies of which are available on request from Tesco Plc. The Group's preliminary results for 2003/04 are due to be announced on 20 April 2004.

PROPERTY REPORT AND VALUATION

**Report and Regulated
Valuation for**

**THE TESCO PROPERTY
LIMITED PARTNERSHIP**

of

**33 TESCO FOOD STORES
AND 2 DISTRIBUTION
CENTRES**

AS AT 1 MARCH 2004

PREPARED BY:

**Cushman & Wakefield
Healey & Baker
43/45 Portman Square
London
W1A 3BG**

**Tel: 020 7935 5000
Fax: 020 7152 5502**

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A INTRODUCTION AND VALUATION

Tesco Property (Nominees)(No.1) Limited and
Tesco Property (Nominees)(No. 2) Limited (together the "Nominees")
Blackwell House
Guildhall Yard
London
EC2V 5AE

Real Estate Consultants

43/45 Portman Square
London
W1A 3BG
Tel 020 7935 5000
Fax 020 7152 5360
www.cushmanwakefield.com

Morgan Stanley & Co. International Limited (the Lead Manager on behalf of
itself and the Co-Managers)
25 Cabot Square
Canary Wharf
London
E14 4QA

The Tesco Property Limited Partnership (the "Partnership")
Tesco House
Delamare Road
Cheshunt
Hertfordshire
EN8 9SL

HSBC Trustee (C.I.) Limited (the "Borrower Security Trustee" and "Bond Trustee")
1 Grenville Street
St. Helier
Jersey
JE4 9PF
Channel Islands

Delamare Finance Plc (the "Issuer")
Blackwell House
Guildhall Yard
London
EC2V 5AE

Our Ref: DVT/MJL/PSV6

2 April 2004

Dear Sirs

**THE TESCO PROPERTY LIMITED PARTNERSHIP ("PARTNERSHIP")
PORTFOLIO OF 33 FOOD STORES AND 2 DISTRIBUTION CENTRES AS DESCRIBED IN APPENDIX II
("PROPERTIES")**

1 INSTRUCTIONS

In accordance with instructions received from the Partnership, we have considered the Properties, as set out in the appendices in Schedule B, which we understand are held by the Partnership.



Argentina • Australia • Austria • Belgium • Brazil • Canada • Channel Islands • Chile • China • Czech Republic • Denmark • Finland
France • Germany • Great Britain • Greece • Hong Kong • Hungary • India • Ireland • Israel • Italy • Japan • Korea • Kuwait • Latvia
Lebanon • Lithuania • Luxembourg • Malaysia • Mexico • The Netherlands • New Zealand • Northern Ireland • Norway • Poland • Portugal • Romania
Russia • Singapore • Slovakia • South Africa • Spain • Sweden • Switzerland • Thailand • Turkey • United Arab Emirates • United States

A LIST OF PARTNERS' NAMES IS AVAILABLE AT THE FIRM'S PRINCIPAL OFFICE 43/45 PORTMAN SQUARE LONDON W1A 3BG TELEPHONE 020 7935 5000

We are instructed to prepare this valuation of the Properties by the Partnership for inclusion in the Offering Circular to be published in connection with an issue of Bonds by the Issuer and the making of a secured loan by the Issuer to the Partnership (the “Transaction”).

The effective date of the valuation is 1 March 2004.

The valuation has been prepared in accordance with the relevant provisions of chapter 18 of the Listing Rules issued by the London Stock Exchange and the Practice Statements contained in the RICS Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors (“Red Book”) in May 2003.

We have not measured the Properties and as instructed have relied on the floor areas supplied G L Hearn who have been instructed by the Partnership to reference each property. Should these areas prove to be incorrect or incomplete then the accuracy of our valuation may be affected. The valuation has been prepared by an appropriate valuer who conforms to the requirements as set out in the Red Book, acting in the capacity of independent valuer as defined in Practice Statement 5.3.2 of the Red Book qualified for the purpose of this valuation.

We confirm that this valuation is a Regulated Purpose Valuation as defined in the Red Book.

1.1 Special Assumptions

When valuing on the basis of Market Value, you have instructed us to value on the special assumption that the Properties would be sold as a portfolio by way of a corporate transaction and accordingly we have allowed for purchaser’s costs at 1.175% of the consideration when assessing Market Value. This also includes a quantum allowance to reflect the size of the portfolio.

When valuing on the basis of Market Rent, you have instructed us to value on the special assumption that the Properties are finished as a bare shell with all necessary services laid to the property. In particular this special assumption specifically takes into account the exclusion of the value of the fixtures and fittings listed in the 9th Schedule to each of the leases of the Properties to Tesco Stores Limited and Tesco Distribution Limited as detailed under paragraph 15 of Section D of this report.

2 BASIS OF VALUATION

Valuations have been prepared of the Properties on four different bases as follows:

2.1 Market Value

As instructed, and in accordance with the requirements of the Red Book, we have prepared a valuation of the 125 year leasehold interests in the Properties in their existing state subject to the existing 25 year leases to Tesco Stores Limited (in the case of the stores) and Tesco Distribution Limited (in the case of the distribution centres) each guaranteed by Tesco Plc, on the basis of Market Value as defined in the Red Book as:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

2.2 Market Value on the Special Assumption of Vacant Possession

The Market Value (as defined under heading 2.1 above) of the 125 year leasehold interests in the Properties on the special assumption that the Properties are held with full vacant possession.

2.3 Market Rent

As instructed, and in accordance with the requirements of the Red Book, we have prepared a valuation of the Properties on the basis of Market Rent. This is defined in the Red Book as:

“The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and willing lessee on appropriate lease terms in an arm’s length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion”

2.4 Projected Market Value on the Special Assumption of Vacant Possession

The Partnership have instructed us to provide figures for the Market Value on the Special Assumption of Vacant Possession (as defined under heading 2.2 above) of the leasehold interests in the Properties with the following further assumptions.

- a) The date of the valuation is 20th February 2029 being the day after the expiry of the existing 25 year leases to Tesco Stores Limited (in the case of the stores) and Tesco Distribution Limited (in the case of the distribution centres) and that there are 99 years and 9 months unexpired on the head leases.

- b) The Market Rent grows at 2.5% per annum for each of the 25 years preceding 20th February 2029 such that the Market Rent on each property as at 20th February 2029 is 85.39% higher than the Market Rent stated under heading 2.3 above.
- c) The Properties have not been materially altered from their current state.
- d) The physical condition of the Properties reflects that the tenant on each of the leases has observed their repairing covenants and that they are in a good state of repair and condition.
- e) The market conditions for the sale of retail food stores and distribution centres are the same as currently pertains.

3 GENERAL COMMENTS

Our valuation has been carried out in accordance with the definitions, assumptions and comments as detailed in the attached General Principles Adopted in the Preparation of Valuations and Reports set out in Section E.

No allowances have been made for any expenses of realisation or any taxation liability arising from a sale or development of any property.

Our valuation is exclusive of any Value Added Tax.

A purchaser of the Properties is likely to obtain further advice or verification relating to certain matters referred to above before proceeding with a purchase. You should therefore note the conditions on which this valuation has been prepared.

We strongly recommend that no disposal of the Properties should be undertaken without proper exposure to the market.

We have not been instructed to value the benefit or detriment of any contractual arrangements or the benefit in any options held in respect of any of the properties.

We have been informed by the Partnership that no director or promoter of the Tesco Plc or the Partnership has had any interest in any disposals or acquisitions of any of the properties during the two years preceding the valuation

None of the Properties is in the course of development.

The Properties were inspected during November and December 2003.

The valuation of the Properties has been undertaken by Mr D V Tittle, FRICS and Mr M J Lemin, MRICS.

4 SOURCES OF INFORMATION

We have based our valuation on our inspection of the Properties and the information which either the Partnership or its advisors have supplied to us or which we have obtained from our enquiries. We have relied on this being correct and complete and on there being no undisclosed matters which would affect our valuation.

We set out in Section C a summary of information regarding tenure, tenancies, planning consents, structural surveys, environmental reports, plans, floor areas etc supplied to us and taken into account in preparing this valuation.

5 DISCLOSURE

Cushman & Wakefield Healey & Baker, from time to time, provide other professional or agency services to the client and has done so for a period of more than 5 years.

In relation to the preceding financial year of Cushman & Wakefield Healey & Baker, the proportion of the total fees payable by the client to the total fee income of the firm is less than 5%.

6 VALUATION

Market Value

Subject to the foregoing, and based on values current as at the valuation date, we are of the opinion that the Market Value of the long leasehold interests in the Properties, as set out in Appendix 1, is the total sum of:

£675,000,000

(Six Hundred and Seventy Five Million Pounds)

We set out the value ascribed to each property in Appendix 1

Market Value on the Special Assumption of Vacant Possession

Subject to the foregoing, and based on values current as at the valuation date, we are of the opinion that the Market Value of the long leasehold interests in the Properties on the Special Assumption of Vacant Possession as set out in Appendix 1, is the total sum of:

£677,950,000

(Six Hundred and Seventy Seven Million Nine Hundred and Fifty Thousand Pounds)

We set out the value ascribed to each property in Appendix 1 under the heading Vacant Possession Value.

Market Rent

Subject to the foregoing, and based on values current as at the valuation date, we are of the opinion that the Market Rent of the long leasehold interests in the Properties, as set out in Appendix 1, is the total sum of:

£37,420,000

(Thirty Seven Million Four Hundred and Twenty Thousand Pounds)

We set out the Market Rent ascribed to each property in Appendix 1.

Projected Market Value on the Special Assumption of Vacant Possession

Subject to the foregoing, and based on the assumptions in paragraph 2.4 above, we are of the opinion that the Projected Market Value of the long leasehold interests in the Properties on the Special Assumption of Vacant Possession as set out in Appendix 1, is the total sum of:

£1,024,320,000

(One Thousand and Twenty Four Million Three Hundred and Twenty Thousand Pounds)

We set out the value ascribed to each property in Appendix 1 under the heading Projected Vacant Possession Value.

7 CONFIDENTIALITY

The contents of this Valuation Report are intended to be confidential to the addressees and for the specific purpose stated. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of its contents.

Before the Valuation Report or any part of its contents are reproduced or referred to in any document, circular or statement or disclosed orally to a third party, our written approval as to the form and content of such publication or disclosure must first be obtained. Such publication or disclosure will not be permitted unless, where relevant, it incorporates the special assumptions referred to herein. For avoidance of doubt, such approval is required whether or not this firm is referred to by name and whether or not our Valuation Report is combined with others. Notwithstanding the foregoing this Valuation Report may be disclosed on a non-reliance basis to professional advisers of the addressees, to the rating agencies and any other party connected with the transaction.

Yours faithfully,

For and on behalf of Cushman & Wakefield Healey & Baker

RUPERT DODSON FRICS
Partner

DAVID TITTLE FRICS
Partner

B APPENDICES

APPENDIX I

SCHEDULE OF VALUES

Address	Market Rent £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
AXMINSTER Shand Park, West Street	£490,000	£9,380,000	£8,720,000	£12,830,000
BALDOCK 58 High Street	£1,960,000	£32,290,000	£35,560,000	£55,250,000
BEVERLEY Morton Lane	£1,020,000	£18,200,000	£18,150,000	£26,700,000
BICESTER Pingle Drive	£1,070,000	£24,930,000	£20,050,000	£31,370,000
BRACKLEY Oxford Road	£600,000	£10,040,000	£10,780,000	£16,290,000
BRIGG Barnard Avenue	£330,000	£7,010,000	£5,870,000	£8,640,000
CATERHAM Guards Avenue, Coulsdon Road	£550,000	£11,990,000	£9,980,000	£15,510,000
CHELTENHAM Colletts Drive	£1,230,000	£25,720,000	£22,490,000	£34,670,000
CLITHEROE Duck Street	£350,000	£7,400,000	£6,170,000	£8,850,000
DAVENTRY Parklands, Daventry Rail Freight Terminal	£1,500,000	£17,440,000	£25,200,000	£30,540,000
DEREHAM Kingston Road	£1,290,000	£20,400,000	£23,170,000	£35,020,000
DRIFFIELD George Street	£380,000	£6,910,000	£6,700,000	£9,600,000
ENFIELD Savoy Parade, Southbury Road	£640,000	£16,090,000	£12,000,000	£18,040,000
GREAT DUNMOW Stortford Road	£980,000	£15,500,000	£17,600,000	£26,600,000
HENLEY-ON-THAMES 359 Reading Road	£800,000	£17,730,000	£14,720,000	£23,450,000
HOOK Station Road	£390,000	£8,910,000	£7,220,000	£10,990,000
KIDDERMINSTER Castle Road	£1,500,000	£24,710,000	£27,210,000	£42,290,000
LAUNCESTON Tavistock Road	£810,000	£14,010,000	£14,410,000	£21,200,000

Report and Regulated Valuation for The Tesco Property Limited Partnership

Address	Market Rent £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
MACCLESFIELD Hibel Road	£1,240,000	£21,430,000	£22,500,000	£34,960,000
MIDSOMER NORTON Old Mills, Paulton	£770,000	£12,180,000	£13,830,000	£20,900,000
MILTON KEYNES Pitfield, Kiln Farm	£1,200,000	£11,860,000	£19,570,000	£20,940,000
NEW MILTON Caird Avenue	£800,000	£14,520,000	£14,510,000	£22,550,000
NORWICH Ipswich Road, Harford Bridge	£1,580,000	£29,100,000	£28,670,000	£44,540,000
READING Napier Road	£2,200,000	£39,180,000	£40,350,000	£64,500,000
SAFFRON WALDEN Radwinter Road	£970,000	£18,010,000	£17,600,000	£27,350,000
SOLIHULL 1505 Stratford Road, Shirley	£1,600,000	£32,470,000	£29,350,000	£46,910,000
SOUTHAMPTON Tebouba Way	£1,340,000	£25,420,000	£24,310,000	£37,780,000
STOWMARKET Cedars Link Road	£800,000	£14,380,000	£14,230,000	£20,940,000
TETBURY Priory Road Industrial Estate, London Road	£470,000	£9,270,000	£8,360,000	£12,300,000
TOTON Swiney Way	£1,840,000	£29,500,000	£32,740,000	£48,170,000
TOWCESTER Old Tiffield Road	£390,000	£8,660,000	£7,080,000	£10,210,000
TWICKENHAM Mogden Lane, Isleworth	£1,810,000	£40,030,000	£33,590,000	£55,280,000
UCKFIELD Bell Farm Road	£740,000	£15,580,000	£13,430,000	£20,860,000
WINCHESTER Easton Lane	£1,530,000	£30,640,000	£28,060,000	£44,860,000
YORK Askham Bar, Tadcaster Road	£2,250,000	£37,060,000	£40,820,000	£63,430,000
Total	£37,420,000	£677,950,000	£675,000,000	£1,024,320,000

APPENDIX II

PROPERTY SCHEDULES

Report and Regulated Valuation for The Tesco Property Limited Partnership

Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
AXMINSTER Shand Park West Street	Town centre superstore with a gross internal floor area of 2,599 m ² (27,973 ft ²) with 297 parking spaces and a petrol filling station. Site area 2.02 hectares (5.0 acres). Built in 1998. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £490,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£490,000	£9,380,000	£8,720,000	£12,830,000
BALDOCK 58 High Street	Town centre hypermarket (Tesco Extra format) with a gross internal floor area of 9,655 m ² (103,926 ft ²) with 989 parking spaces and a petrol filling station. Site area 5.67 hectares (14 acres). Built in 1986 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,960,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,960,000	£32,290,000	£35,560,000	£55,250,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
BEVERLEY Morton Lane	<p>Edge of town centre superstore with a gross internal floor area of 6,155 m² (66,248 ft²) with 470 parking spaces. Site area 2.53 hectares (6.25 acres). Built in 2002</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £1,020,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£1,020,000	£18,200,000	£18,150,000	£26,700,000
BICESTER Pingle Drive	<p>Out of town superstore with a gross internal floor area of 4,768 m² (51,323 ft²) with 408 parking spaces and a petrol filling station. Site area of 3.04 hectares (7.50 acres). Built in 1991.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £1,070,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£1,070,000	£24,930,000	£20,050,000	£31,370,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
BRACKLEY Oxford Road	<p>Out of town superstore with a gross internal floor area of 2,879 m² (30,985 ft²) with 196 parking spaces and a petrol filling station. Site area of 1.82 hectares (4.50 acres). Built in 1995.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £600,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£600,000	£10,040,000	£10,780,000	£16,290,000
BRIGG Barnard Avenue	<p>Edge of town centre superstore with a gross internal floor area of 2,168 m² (23,336 ft²) with 202 parking spaces and a petrol filling station. Site area of 1.62 hectares (4 acres). Built in 1999.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £330,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£330,000	£7,010,000	£5,870,000	£8,640,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
CATERHAM Guards Avenue Coulston Road	Edge of town superstore with a gross internal floor area of 2,920 m ² (31,432 ft ²) with 203 parking spaces. Site area of 1.21 hectares (3 acres). Built in 2002. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £550,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£550,000	£111,990,000	£9,980,000	£15,510,000
CHELTENHAM Colletts Drive	Town centre superstore with a gross internal floor area of 6,367 m ² (68,531 ft ²) with 495 parking spaces and a petrol filling station. Site area of 3.69 hectares (9.12 acres). Built in 1993. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,230,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,230,000	£25,720,000	£22,490,000	£34,670,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
CLITHEROE Duck Street	Town centre superstore with a gross internal floor area of 2,639 m ² (28,410 ft ²) with 108 parking spaces. Site area of 0.76 hectares (1.87 acres). Built in 1989. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £350,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£350,000	£7,400,000	£6,170,000	£8,850,000
DAVENTRY Parklands Daventry Rail Freight Terminal	Distribution warehouse with a gross internal floor area of 27,902 m ² (300,334 ft ²) with 300 parking spaces. Site area of 9.91 hect ares (24.49 acres). Built in 2001. 125 years from 25th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Distribution Limited, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,500,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,500,000	£17,440,000	£25,200,000	£30,540,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
DEREHAM Kingston Road	<p>Out of town superstore with a gross internal floor area of 7,320 m² (78,791 ft²) with 410 parking spaces and a petrol filling station. Site area of 2.43 hectares (6 acres). Built in 1994.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £1,290,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£1,290,000	£20,400,000	£23,170,000	£35,020,000
DRIFFIELD George Street	<p>Town centre superstore with a gross internal floor area of 2,526 m² (27,193 ft²) with 130 parking spaces. Site area of 0.81 hectares (2 acres). Built in 1994.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £380,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£380,000	£6,910,000	£6,700,000	£9,600,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
ENFIELD Savoy Parade Southbury Road	<p>Town centre superstore with a gross internal floor area of 3,726 m² (40,111 ft²) with 280 parking spaces. Site area of 1.82 hectares (4.5 acres). Built in 1998.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £640,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£640,000	£16,090,000	£12,000,000	£18,040,000
GREAT DUNMOW Stortford Road	<p>Out of town superstore with a gross internal floor area of 4,419 m² (47,566 ft²) with 378 parking spaces and a petrol filling station. Site area of 2.23 hectares (5.5 acres). Built in 1995.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £980,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£980,000	£15,500,000	£17,600,000	£26,600,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
HENLEY-ON-THAMES 359 Reading Road	<p>Out of town superstore with a gross internal floor area of 4,075 m² (43,860 ft²) with 393 parking spaces. Site area of 2.43 hectares (6 acres). Built in 1995.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £800,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£800,000	£17,730,000	£14,720,000	£23,450,000
HOOK Station Road	<p>Edge of town centre superstore with a gross internal floor area of 2,154 m² (23,184 ft²) with 172 parking spaces. Site area of 1.21 hectares (3 acres). Built in 1997.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £390,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£390,000	£8,910,000	£7,220,000	£10,990,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
KIDDERMINSTER Castle Road	Edge of town centre superstore with a gross internal floor area of 7,887 m ² (84,890 ft ²) with 546 parking spaces and a petrol filling station. Site area of 3.2 hectares (7.9 acres). Built in 2002. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,500,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,500,000	£24,710,000	£27,210,000	£42,290,000
LAUNCESTON Tavistock Road	Out of town superstore with a gross internal floor area of 4,659m ² (50,146 ft ²) with 217 parking spaces and a petrol filling station. Site area of 1.86 hectares (4.60 acres). Built in 1995. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £810,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£810,000	£14,010,000	£14,410,000	£21,200,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
MACCLESFIELD Hibel Road	Edge of town centre superstore with a gross internal floor area of 68,428 m ² (6,357 ft ²) with 420 parking spaces and a petrol filling station. Site area of 3.06 hectares (7.57 acres). Built in 1991. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,240,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,240,000	£21,430,000	£22,500,000	£34,960,000
MIDSOMER NORTON Old Mills Paulton	Out of town superstore with a gross internal floor area of 4,106 m ² (44,198 ft ²) with 332 parking spaces and a petrol filling station. Site area of 2.83 hectares (7 acres). Built in 1995. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £770,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£770,000	£12,180,000	£13,830,000	£20,900,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
MILTON KEYNES Pitfield Kiln Farm	Distribution warehouse with a gross internal floor area of 29,663 m ² (319,290 ft ²) with 130 parking spaces. Site area of 5.53 hectares (13.66 acres). Built in 1974. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Distribution Limited, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,200,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,200,000	£11,860,000	£19,570,000	£20,940,000
NEW MILTON Caird Avenue	Out of town superstore with a gross internal floor area of 4,361 m ² (46,944 ft ²) with 416 parking spaces and a petrol filling station. Site area of 4.05 hectares (10 acres). Built in 1994. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £800,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£800,000	£14,520,000	£14,510,000	£22,550,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
NORWICH Ipswich Road Harford Bridge	Out of town superstore with a gross internal floor area of 7,329 m ² (78,891 ft ²) with 530 parking spaces and a petrol filling station. Site area of 3.44 hectares (8.50 acres). Built in 1996 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,580,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,580,000	£29,100,000	£28,670,000	£44,540,000
READING Napier Road	Edge of town centre hypermarket (Tesco Extra format) with a gross internal floor area of 11,008 m ² (118,490 ft ²) with 796 parking spaces and a petrol filling station. Site area of 6.27 hectares (15.5 acres). Built in 1992 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £2,200,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£2,200,000	£39,180,000	£40,350,000	£64,500,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
SAFFRON WALDEN Radwinter Road	<p>Out of town superstore with a gross internal floor area of 4,709 m² (50,682 ft²) with 389 parking spaces and a petrol filling station. Site area of 3.24 hectares (8 acres). Built in 1993. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £970,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£970,000	£18,010,000	£17,600,000	£27,350,000
SOLIHULL 1505 Stratford Road Shirley	<p>Out of town hypermarket (Tesco Extra format) with a gross internal floor area of 7,458 m² (80,277 ft²) with 800 parking spaces and a petrol filling station. Site area of 7.35 hectares (18.17 acres). Built in 1988. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,600,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£1,600,000	£32,470,000	£29,350,000	£46,910,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
SOUTHAMPTON Tebouba Way	Edge of town centre superstore with a gross internal floor area of 6,711 m ² (72,237 ft ²) with 580 parking spaces and a petrol filling station. Site area of 3.44 hectares (8.50 acres). Built in 1994. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,340,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,340,000	£25,420,000	£24,310,000	£37,780,000
STOWMARKET Cedars Link Road	Out of town superstore with a gross internal floor area of 4,187 m ² (45,070 ft ²) with 388 parking spaces and a petrol filling station. Site area of 2.55 hectares (6.3 acres). Built in 1994. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £800,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£800,000	£14,380,000	£14,230,000	£20,940,000

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Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
TETBURY Priory Road Industrial Estate London Road	Edge of town centre superstore with a gross internal floor area of 29,324 m ² (2,724 ft ²) with 234 parking spaces. Site area of 1.51 hectares (3.72 acres). Built in 2002. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £470,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£470,000	£9,270,000	£8,360,000	£12,300,000
TOTON Swiney Way	Edge of town centre hypermarket (Tesco Extra format) with a gross internal floor area of 9,543 m ² (102,717 ft ²) with 621 parking spaces and a petrol filling station. Site area of 3.52 hectares (8.70 acres). Built in the 1970's. Acquired and refitted by Tesco in 2003. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,840,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,840,000	£29,500,000	£32,740,000	£48,170,000

Report and Regulated Valuation for The Tesco Property Limited Partnership

Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
TOWCESTER Old Tiffield Road	<p>Out of town superstore with a gross internal floor area of 2,295 m² (24,698 ft²) with 237 parking spaces. Site area of 1.34 hectares (3.3 acres). Built in 1999.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £390,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£390,000	£8,660,000	£7,080,000	£10,210,000
TWICKENHAM Mogden Lane Isleworth	<p>Suburban superstore with a gross internal floor area of 8,024 m² (86,367 ft²) with 685 parking spaces and a petrol filling station. Site area of 3.24 hectares (8 acres). Built in 1993.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £1,810,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£1,810,000	£40,030,000	£33,590,000	£55,280,000

Report and Regulated Valuation for The Tesco Property Limited Partnership

Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
UCKFIELD Bell Farm Road	Town centre superstore with a gross internal floor area of 4,112 m ² (44,257 ft ²) with 292 parking spaces. Site area of 2.00 hectares (4.93 acres). Built in 1991. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £740,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£740,000	£15,580,000	£13,430,000	£20,860,000
WINCHESTER Easton Lane	Out of town superstore with a gross internal floor area of 6,545 m ² (70,448 ft ²) with 652 parking spaces and a petrol filling station. Site area of 1.25 hectares (3.10 acres). Built in 1996. 125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.	Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954. The commencing rent is £1,530,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.	£1,530,000	£30,640,000	£28,060,000	£44,860,000

Report and Regulated Valuation for The Tesco Property Limited Partnership

Property	Description, Age and Tenure	Tenancy	Current Income £ per annum	Vacant Possession Value £	Market Value £	Projected Vacant Possession Value £
YORK Askham Bar Tadcaster Road	<p>Out of town hypermarket (Tesco Extra format) with a gross internal floor area of 11,997 m² (129,138 ft²) with 800 parking spaces and a petrol filling station. Site area of 3.90 hectares (9.64 acres). Built in 1990.</p> <p>125 years from 24th November 2003 at a peppercorn rent, fixed throughout the term.</p>	<p>Entirely sublet to Tesco Stores Ltd, guaranteed by Tesco Plc on full repairing and insuring terms expiring 19th February 2029, with a tenant's option to renew for up to 20 years. The lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995 and is outside the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954.</p> <p>The commencing rent is £2,250,000 per annum exclusive subject to annual reviews on 25th March. The rent is to be increased annually by 2.5%.</p>	£2,250,000	£37,060,000	£40,820,000	£63,430,000

C INFORMATION SUPPLIED

We have been supplied with the following information:

Source	Document	Date
Tesco Plc	Form of the underlease (Version 11)	20/11/2003
Tesco Plc	List of site areas of the superstores (computer file in Microsoft Excel format)	8/12/2003
Tesco Plc	Schedules of town planning decisions and restrictions (where available)	Various
Tesco Plc	Details of superstore configuration (where available)	Various
Ernst & Young	Property Supplement to the Information Memorandum	12/11/2003
G L Hearn	Floor Area Data Capture Reports	27/11/2003
Berwin Leighton Paisner	Copy Headleases and copy underleases.	27/02/2004
Berwin Leighton Paisner	Title Summary Report for the Properties	10/03/2003
Berwin Leighton Paisner	Certificates of Title for the Properties	12/03/2003
Berwin Leighton Paisner	Deeds of variation to rent review clauses of underleases.	16/03/2003
W.A. Fairhurst & Partners	Report on Condition Survey for each of the Properties. Each report includes the following sections; A. Structural Condition Survey B. Environmental Assessment C. Condition Survey of Mechanical & Electrical Installations	December 2003

D GENERAL PRINCIPLES ADOPTED IN THE PREPARATION OF VALUATIONS AND REPORTS

We list below the general principles upon which valuations and reports are normally prepared and they shall apply unless specifically mentioned otherwise in the foregoing.

1 RICS APPRAISAL AND VALUATION STANDARDS

All valuations are carried out in accordance with the Red Book and are undertaken by appropriately qualified valuers as defined therein.

2 VALUATION BASIS

All valuations are made on the appropriate basis as agreed with the client in accordance with the provisions and definitions of the Red Book unless otherwise specifically agreed and stated.

The specific basis of valuation adopted in relation to a particular instruction and the definition thereof is detailed in Section C of this Report.

No allowances are made in our valuations for any expenses of realisation, or to reflect the balance of any outstanding mortgages, either in respect of capital or interest accrued thereon.

It should be noted that our valuations are based upon the facts and evidence available at the date of valuation. It is therefore recommended that valuations be periodically reviewed.

3 INFORMATION SUPPLIED

We accept as being complete and correct the information provided to us by the sources detailed in our Report, relating to items such as tenure, tenancies, tenants' improvements and other relevant matters. We have relied on this information and on there being no undisclosed matters, which would affect our valuation.

4 DOCUMENTATION AND TITLE

We do not normally read documents of title. Where title documentation or leases are provided to us, we recommend that reliance should not be placed on our interpretation thereof without verification by your legal advisors.

We have specifically taken into account the Certificates of Title but save as disclosed therein or otherwise notified to the contrary, we assume that each property has a good and marketable title,

free from any unusually onerous restrictions, covenants or other encumbrances and is free from any pending litigation.

5 TENANCIES

We have relied on the information provided in the Certificates of Title and taken the disclosures concerning occupational tenancies therein into account in providing this valuation.

6 TENANT'S COVENANT STRENGTH

Unless specifically requested, we do not make detailed enquiries into the covenant strength of occupational tenants but rely on our judgement of the market's perception of them. Any comments on covenant strength should therefore read in this context. Furthermore, we assume, unless otherwise advised, that the tenant is capable of meeting its financial obligations under the lease and that there are no material arrears or undisclosed breaches of covenant.

7 INSPECTIONS

We undertake such inspections and conduct investigations as are, in our opinion, correct in our professional judgement, appropriate and possible in the particular circumstances.

External inspections are carried out from ground level only.

8 MEASUREMENTS

All property measurement is carried out in accordance with the Code of Measuring Practice (Fifth Edition) issued by the Royal Institution of Chartered Surveyors, unless we specifically state that we have relied upon another source of information or method.

All property measurement is carried out in accordance with the Code of Measuring Practice (Fifth Edition) issued by the Royal Institution of Chartered Surveyors, unless we specifically state that we have relied upon another source of information or method.

Unless specifically requested, we do not undertake a measured site survey but calculate areas with reference to identified boundaries of the property and the appropriate Ordnance Survey extract.

9 TOWN PLANNING AND OTHER STATUTORY REGULATIONS

We have not made formal searches but whenever possible, we undertake direct enquiries to obtain town planning and highway information from the relevant Local Authority.

Unless notified to the contrary in the Certificate of Title or otherwise, our valuations are prepared on the assumption that the premises comply with all relevant statutory enactments and Building Regulations, that a valid and up-to-date Fire Certificate has been issued, that all necessary consents and authorisations for the use of the property and the process carried out therein have been obtained and will continue to subsist and are not subject to any onerous conditions.

Unless notified to the contrary in the Certificate of Title or otherwise we further assume that there are no outstanding obligations or liabilities arising out of the provisions of the Defective Premises Act 1972.

10 STRUCTURAL SURVEYS

Unless expressly instructed, we do not undertake structural surveys, nor do we inspect those parts that are covered, unexposed or inaccessible, or test any of the electrical, heating, or other services. Any readily apparent defects or items of disrepair noted during our inspection will be reflected in our valuations, but no assurance is given that any property is free from defect. We assume that those parts which have not been inspected would not reveal material defects which would cause us to alter our report and valuations.

Where we have been supplied with information on the condition of the structure and services our valuation reflects this. Otherwise, our valuation is on the basis that there are no latent defects, wants of repair or other matters which would materially effect our valuation.

11 HAZARDOUS & DELETERIOUS MATERIALS

Unless expressly instructed, we do not carry out investigations to ascertain whether any building has been constructed or altered using deleterious materials or methods. Unless specifically notified, our valuations assume that no such materials or methods have been used. Common examples include high alumina cement concrete, calcium chloride, asbestos and wood wool used as permanent shuttering.

12 SITE CONDITIONS

Unless specifically requested, we do not carry out investigations on site in order to determine the suitability of ground conditions and services, nor do we undertake environmental, archaeological, or

geo-technical surveys. Unless notified to the contrary, our valuations are on the basis that these aspects are satisfactory and also that the site is clear of underground mineral or other workings, methane gas, or other noxious substances.

In the case of properties, which have redevelopment potential, we assume that the site has the load bearing capacity suitable for the anticipated form of redevelopment without the need for additional and expensive foundations or drainage systems. Furthermore we assume in such circumstances that no unusual costs will be incurred in the demolition and removal of any existing structure on the property.

13 CONTAMINATION

In preparing our valuations we have assumed that no contaminative or potentially contaminative use is, or has been, carried out at the property unless disclosed in the Environmental Audit or otherwise notified to the contrary.

Unless specifically instructed, we do not undertake any investigation into the past or present uses of either the property or any adjoining or nearby land, to establish whether there is any potential for contamination from these uses and assume that none exist.

Should it, however, be subsequently established that such contamination exists at any of the properties or on any adjoining land or that any premises have been or are being put to contaminative use, this may be found to have a detrimental effect on the value reported.

In preparing our valuations, we have assumed that all necessary consents and authorisations for the use of the property and the processes carried out at the property are in existence, will continue to subsist and are not subject to any onerous conditions.

14 HIGH VOLTAGE ELECTRICITY SUPPLY APPARATUS

Where there is high voltage electrical supply equipment close to the property. The possible effects of electromagnetic fields have been the subject of media coverage. The National Radiological Protection Board (NRPB), an independent body with responsibility for advising on electromagnetic fields, has (advised) that, following studies in 2000 and 2001, there may be a risk, in specified circumstances, to the health of certain categories of people. Public perception may, therefore, affect marketability and future value of the property.

15 PLANT & MACHINERY

In our valuation we have specifically excluded the value of the fixtures and fittings listed in the 9th Schedule to each of the leases of the properties to Tesco Stores Limited and Tesco Distribution Limited as follows;

1. HV/AC installation including control panels, roof top units;
2. electrical installations and light fittings;
4. shop front;
5. suspended ceilings;
6. external and internal signs;
7. staff kitchen equipment;
8. compactor;
9. Tenant's display shelving, fixtures and fittings and all general, loose and bakery equipment;
10. internal shop fitting;
11. refrigeration, display cabinets and cold stores;
12. security/burglar alarm;
13. warehouse storage racking;
14. fire fighting equipment;
15. all internal partitions and walls to form offices, preparation rooms, staff accommodation;
16. all in-situ ceiling finishes over and above the concrete slab on all floors;
17. all in-situ wall finishes and decoration above a plaster finish;
18. all final floor finishes over and above a concrete screed finish; and
19. all internal decorations

16 TAXATION

In preparing our valuations, no allowances are made for any liability which may arise for payment of Corporation Tax or Capital Gains Tax, or any other property related tax, whether existing or which may arise on development or disposal, deemed or otherwise. We also specifically draw your attention to the fact that our valuations are exclusive of any VAT liability, which may be incurred.

17 STAMP DUTY

In carrying out this valuation and as a consequence of the Stamp Duty (Disadvantaged Areas) (Application of Exemptions) Regulations 2003, where appropriate and stated within our report, we have not allowed an amount for stamp duty.

18 MORTGAGES

No allowance is made for the existence of any mortgage, or similar financial encumbrance on or over the Property and no account taken of any leases between subsidiaries.

19 GOVERNMENT GRANTS

All valuations are given without any adjustment for capital based Government grants received or potentially receivable at the date of valuation.

20 SPECIAL PURCHASER VALUE

Unless otherwise stated, our valuations do not reflect any element of marriage value or special purchaser value which could possibly be realised by a merger of interests or by a sale to an owner occupier of an adjoining property, other than in so far as would be reflected in offers made in the open market by prospective purchasers apart from the purchaser with a special interest.

21 AGGREGATION

When valuing on the basis of Market Value, you have instructed us to value on the special assumption that the Properties would be sold as a portfolio by way of a corporate transaction and accordingly we have allowed for purchaser's costs at 1.175% of the consideration when assessing Market Value. This also includes a quantum allowance to reflect the size of the portfolio.

22 OVERSEAS PROPERTIES

Our valuations of overseas properties will be reported in the appropriate local currency and represent our opinion of the realisable value in the country of origin, computed in accordance with local practices, with no allowance made for the transfer of funds to the UK.

23 CONFIDENTIALITY

Our valuations and reports are strictly confidential to the party to whom they are addressed, or their other professional advisors, for the specific purpose to which they refer and no responsibility whatsoever is accepted to any third parties for the whole or part of their contents.

Cushman & Wakefield Healey & Baker

PROVISIONS RELATING TO BONDS WHILE IN GLOBAL FORM

Each class of Bonds will initially be in the form of a Temporary Global Bond which will be deposited on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg. Each Temporary Global Bond will be exchangeable in whole or in part for interests in a Permanent Global Bond on a date not earlier than 40 days after the Closing Date (the “**Exchange Date**”) upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bonds unless exchange for interests in the relevant Permanent Global Bond is improperly withheld or refused. In addition, interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Each Permanent Global Bond will become exchangeable in whole, but not in part, for Bonds in definitive form (“**Definitive Bonds**”) in the denomination of £10,000 each at the request of the bearer of the relevant Permanent Global Bond against presentation and surrender of such Permanent Global Bond to the Principal Paying Agent if either of the following events (each, an “**Exchange Event**”) occurs (i) either Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no other clearing system acceptable to the Bond Trustee is then in existence, or (ii) by reason of a change in Tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will on the next Payment Date be required to make any withholding or deduction from any payment in respect of the Bonds for or on account of any Taxes imposed, levied, collected, withheld or assessed by or on behalf of any United Kingdom Tax Authority (other than by reason of the relevant holder having some connection with the United Kingdom, other than the holding of the Bonds or the related Coupons) or the Issuer suffers or will suffer any other disadvantage as a result of such change, which withholding or deduction would not be required or other disadvantage would not be suffered (as the case may be) if the Bonds were in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Bond Trustee.

Whenever a Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the relevant Permanent Global Bond to the bearer of such Permanent Global Bond against the surrender of such Permanent Global Bond at the Specified Office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Bonds and the Permanent Global Bonds will contain provisions which modify the Conditions as they apply to the Temporary Global Bonds and the Permanent Global Bonds. The following is a summary of certain of those provisions:

Payments: All payments in respect of each Permanent Global Bond will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the relevant Permanent Global Bond at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Bonds.

Notices: Notwithstanding Condition 15 (*Notices to Bondholders*), while all the Bonds are represented by Permanent Global Bonds (or by Permanent Global Bonds and/or Temporary Global Bonds) and the Permanent Global Bonds (or each Permanent Global Bond and/or each Temporary Global Bond) are deposited with a common depository for Euroclear and Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg rather than by publication in accordance with Condition 15 (*Notices to Bondholders*), for so long as the Bonds are listed on the Stock Exchange, and the rules of the Stock Exchange so permit. Such notices shall be deemed to have been given to the Bondholders in accordance with Condition 15 (*Notices to Bondholders*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

Meetings: The holder of a Global Bond will be deemed to be two persons for the purpose of forming a quorum at a meeting of Bondholders.

TERMS AND CONDITIONS OF THE BONDS

The following are the Terms and Conditions of the Bonds in the form (subject to amendment) in which they will be set out in the Trust Deed (the “Conditions” and any reference to a “Condition” shall be construed accordingly). The Conditions will apply to the Bonds whether they are in definitive or in global form.

The £382,500,000 Class A Secured 5.5457 per cent. Bonds due 19 February 2029 (including any Further Class A Bonds, the “**Class A Bonds**”), the £200,000,000 Class B1 Secured 6.0670 per cent. Bonds due 19 February 2029 (including any Further Class B1 Bonds, the “**Class B1 Bonds**”), the Class B2 Secured Floating Rate Bonds (including any Further Class B2 Bonds, the “**Class B2 Bonds**” and, together with the Class B1 Bonds, the “**Class B Bonds**” and, the Class A Bonds together with the Class B Bonds, and any New Bonds, the “**Bonds**”) of Delamare Finance plc (the “**Issuer**”), issued on or about 7 April 2004 (the “**Closing Date**”) are constituted in accordance with the Trust Deed which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified made between the Issuer and the Bond Trustee, which expression includes its successor or any further or other trustee under the Trust Deed as trustee for the holders for the time being of the Bonds (the “**Bondholders**”).

Any reference to “**Bonds**” in these Conditions shall include the Global Bonds and the Definitive Bonds (each as defined below). The expressions “**Class A Bonds**”, “**Class B1 Bonds**”, “**Class B2 Bonds**” and “**Class B Bonds**” shall in these Conditions, unless the context otherwise requires, include any Further Bonds issued pursuant to Condition 18 (*Further Issues and New Issues*). In addition, any reference in these Conditions to a “**class**” or “**Bondholders**” shall be a reference to the Class A Bonds, the Class B1 Bonds and the Class B2 Bonds and, to the extent any New Bonds are issued, the relevant class of New Bonds issued or, as the case may be, the respective holders thereof.

The security for the Bonds is created pursuant to, and on terms set out in the Issuer Deed of Charge and made between, *inter alios*, the Issuer and the Bond Trustee. By an agency agreement to be dated the Closing Date (the “**Agency Agreement**”, which expression includes such agency agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) and made between the Issuer, the Bond Trustee, HSBC Bank plc as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed in respect of the Bonds), HSBC Global Investor Services (Ireland) Limited as Irish paying agent (the “**Irish Paying Agent**”, which expression includes any successor Irish paying agent appointed in respect of the Bonds and, together with the Principal Paying Agent and any such additional or other paying agents, if any, appointed from time to time in respect of the Bonds pursuant to the Agency Agreement, the “**Paying Agents**”) and HSBC Bank plc as agent bank (the “**Agent Bank**”, which expression shall include any other agent bank appointed in respect of the Bonds), provision is made for, *inter alia*, the payment of principal and interest in respect of the Bonds of each class.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Issuer Deed of Charge.

Copies of the Trust Deed, the Agency Agreement, the Issuer Deed of Charge and the other Issuer Transaction Documents (as defined below) are available for inspection by the Bondholders at the specified offices of the Paying Agents. The Bondholders and the holders for the time being of the Interest Coupons and, in the case of the Class A Bonds, the holders for the time being of the Principal Receipts are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Issuer Deed of Charge, the Agency Agreement and the other Issuer Transaction Documents.

1. Definitions

In these Conditions, the following defined terms have the meanings set out below:

“**A Loan**” means the Initial A Loan together with any Further A Loans;

“**Account Bank**” means HSBC Bank plc in its capacity as account bank, acting through its office at 8 Canada Square, London E14 5HQ, or such other substitute Account Bank appointed as the account bank of the Issuer and the Borrower from time to time, subject to and in accordance with the terms of the Account Bank and Cash Management Agreement;

“**Account Bank and Cash Management Agreement**” means the agreement so named dated on or about the Closing Date between the Issuer, the Borrower, the Account Bank, the Cash Manager, the Borrower Security Trustee and the Bond Trustee;

“**Additional Loan**” means a Further Loan or a New Loan, as the context may require;

“**Agency Agreement**” means the agreement so named dated on or about the Closing Date between the Issuer, the Agents and the Bond Trustee;

“**Agent Bank**” means HSBC Bank plc in its capacity as agent bank acting through its office at 8 Canada Square, London E14 5HQ in accordance with the terms of the Agency Agreement or such other entity or entities appointed as agent bank from time to time subject to and in accordance with the Agency Agreement;

“**Agents**” means the Agent Bank and the Paying Agents and “**Agent**” means any one of them;

“**Agreement for Sale**” means, an agreement for sale dated 24 November 2003 and made between the General Partner, Tesco Property Partner (No. 1) Limited and the Nominees;

“**Amortisation Amount**” has the meaning given to it in Condition 6(b) (*Redemption, Purchase and Cancellation — Scheduled Mandatory Redemption in Part of Class A Bonds*);

“**Ancillary Rights**” means in relation to an Interest, all ancillary rights, accretions and supplements to such Interest, including any guarantees or indemnities in respect of such Interest;

“**Assigned Rights**” means the Issuer’s rights as a secured party under the Borrower Security Documents and the Borrower Security granted pursuant thereto;

“**Auditors**” means the auditors for the time being of Tesco Plc or, in the event of their being unable or unwilling to carry out any action requested of them, such other firm of accountants as may be selected by Tesco Plc;

“**B Loan**” means the Initial B Loans together with any Further B Loans;

“**Basic Terms Modification**” has the meaning ascribed to it in Condition 12 (*Meetings of Bondholders, Modification and Waiver*);

“**Beneficiary Undertaking**” means a beneficiary undertaking given by, the Borrower in favour of the Borrower Security Trustee dated on or about the Closing Date;

“**Benefit**” in respect of any Interest held, assigned, conveyed, transferred, charged, sold or disposed of by any person means:

- (a) all right, title, interest and benefit, present and future, actual or contingent (and interests arising in respect thereof) of such person in, to, under and in respect of such Interest and all Ancillary Rights in respect of such Interest;
- (b) all monies and proceeds payable or to become payable under, in respect of, or pursuant to such Interest or its Ancillary Rights and the right to receive payment of such monies and proceeds and all payments made including, in respect of any bank account, all sums of money which may at any time be credited to such bank account together with all interest accruing from time to time on such money and the debts represented by such bank account;
- (c) the benefit of all covenants, undertakings, representations, warranties and indemnities in favour of such person contained in or relating to such Interest or its Ancillary Rights;
- (d) the benefit of all powers of and remedies for enforcing or protecting such person’s right, title, interest and benefit in, to, under and in respect of such Interest or its Ancillary Rights, including the right to demand, sue for, recover, receive and give receipts for proceeds of and amounts due under or in respect of or relating to such Interest or its Ancillary Rights; and
- (e) all items expressed to be held on trust for such person under or comprised in any such Interest or its Ancillary Rights, all rights to deliver notices and/or take such steps as are required to cause payment to become due and payable in respect of such Interest and its Ancillary Rights, all rights of action in respect of any breach of or in connection with any such Interest and its Ancillary Rights and all rights to receive damages or obtain other relief in respect of such breach;

“**Bond Enforcement Notice**” means a notice delivered by the Bond Trustee to the Issuer in accordance with Condition 10(a) (*Bond Events of Default — Default Events*);

“**Bond Event of Default**” means any one of the events specified in Condition 10(a) (*Bond Events of Default — Default Events*);

“**Bond Principal Payment**” has the meaning given to it in Condition 6(a) (*Redemption, Purchase and Cancellation — Final Redemption*);

“**Bond Trustee**” means HSBC Trustee (C.I.) Limited in its capacity as Bond Trustee under the Trust Deed or such other entity or entities appointed as bond trustee from time to time subject to and in accordance with the Trust Deed;

“**Bondholders**” means the Class A Bondholders and the Class B Bondholders and, if and to the extent that any New Bonds are issued, includes the holders of any New Bonds;

“**Borrower**” means The Tesco Property Limited Partnership, a limited partnership established in England and Wales with registered number LP9052;

“**Borrower Break Amount**” means any amount required to be paid by the Issuer to the Borrower on a Payment Date, pursuant to the Intercompany Loan Agreement, equal to any payments received by the Issuer from the Swap Provider in connection with the termination of the swap and/or reduction of the notional amount of the swap as a result of the early redemption of any Class B2 Bonds;

“**Borrower Charged Property**” means the Partnership Charged Property, the GP Charged Property, the Nominees Charged Property and the Nominees HoldCo Charged Property;

“**Borrower Deed of Charge**” means the deed so named dated on or about the Closing Date between, *inter alios*, the Borrower, the General Partner and the Borrower Security Trustee and includes, where the context so admits, any further or supplemental deed, charge or security granted pursuant thereto;

“**Borrower Secured Creditors**” means the secured parties under the Borrower Security Documents, namely:

- (a) the Borrower Security Trustee (for itself and for and on behalf of the Borrower Secured Creditors);
- (b) the Issuer;
- (c) the Cash Manager;
- (d) the Account Bank;
- (e) the Liquidity Facility Provider;
- (f) the Nominees/ Nominees HoldCo Corporate Services Provider;
- (g) the Operator;
- (h) the Nominees;
- (i) the Property Pool Manager;
- (j) any Receiver appointed under the Borrower Security Documents; and
- (k) any other creditor who accedes to the Borrower Deed of Charge from time to time in accordance with its terms and is designated a Borrower Secured Creditor;

“**Borrower Secured Obligations**” means the aggregate of:

- (a) all present and future monies, obligations and Liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) which from time to time are or may become due, owing or payable by the Borrower to each, some or any of the Borrower Secured Creditors under the Borrower Transaction Documents;
- (b) all present and future monies, obligations and Liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) which from time to time are or may become due, owing or payable by the Nominees to each, some or any of the Borrower Secured Creditors under the Borrower Transaction Documents;
- (c) all present and future monies, obligations and Liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) which from time to time are or may become due, owing or payable by Nominees HoldCo to each, some or any of the Borrower Secured Creditors under the Borrower Transaction Documents; and

- (d) all present and future monies, obligations and Liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) which from time to time are or may become due, owing or payable by the General Partner to each, some or any of the Borrower Secured Creditors under the Borrower Transaction Documents;

“**Borrower Security**” means the Partnership Security, the GP Security, the Nominees Security and the Nominees HoldCo Security;

“**Borrower Security Documents**” means:

- (a) the Borrower Deed of Charge;
- (b) the Nominees Deed of Charge;
- (c) the Nominees HoldCo Deed of Charge;
- (d) any power of attorney executed and delivered by the Borrower, the Nominees and Nominees HoldCo respectively pursuant to the terms of any Borrower Security Document; and
- (e) any other document or instrument granted in favour of the Borrower Security Trustee (on behalf of the Borrower Secured Creditors) creating or evidencing the security for all or any part of the Borrower Secured Obligations);

“**Borrower Security Trustee**” means HSBC Trustee (C.I.) Limited a limited liability company incorporated in Jersey with registered number **2535** and having its registered office at 1 Grenville Street, St. Helier, Jersey JE4 9PF, Channel Islands in its capacity as security trustee for the Borrower Secured Creditors or such other entity appointed as borrower security trustee from time to time, subject to and in accordance with the terms of the Borrower Security Documents;

“**Borrower Transaction Documents**” means the Common Terms and Definitions Deed, the Inter-company Loan Agreement, the Borrower Security Documents, the Option Agreements, the Reversion Option Agreement, the Account Bank and Cash Management Agreement, the Liquidity Facility Agreement, the Occupational Leases, the Deed of Variation, the Agreement for Sale, the Transfers, the Property Pool Management Agreement, the Beneficiary Undertaking, the Tax Deed of Covenant, the Substitution Agreement, the Partnership Agreement, the Declaration of Trust, the Nominees/Nominees HoldCo Corporate Services Agreement, the Property Advisor Engagement Letter, the Nominees Side Letter, the Subscription Agreement or any other document designated as such from time to time by the Borrower and the Borrower Security Trustee, and “**Borrower Transaction Document**” means each or any of them;

“**business day**” means a Business Day or, in the case of Condition 7(f) (*Payments*), a day on which commercial banks settle payments and are open for general business in the place where any Coupon or Bond is presented for payment;

“**Business Day**” means, unless the context otherwise requires, a day (other than a Saturday or Sunday) on which commercial banks settle payments and are open for general business in London;

“**Cash Manager**” means HSBC Bank plc, in its capacity as cash manager for the Borrower and the Issuer, acting through its registered office at 8 Canada Square, London E14 5HQ, or such other entity or entities appointed as cash manager from time to time, subject to and in accordance with the terms of the Account Bank and Cash Management Agreement;

“**Class A Bondholders**” means the persons who are for the time being bearers of the Class A Bonds;

“**Class A Coupons**” means the interest coupons in respect of any Class A Definitive Bonds in, or substantially in, the form set out in Part 2 of Schedule 3 of the Trust Deed, or, as the context may require, a specific number of such coupons;

“**Class A Definitive Bonds**” means any Class A Bonds issued in definitive bearer form in, or substantially in, the form set out in Part 1 of Schedule 3 of the Trust Deed;

“**Class A Permanent Global Bond**” means any permanent global bond representing the Class A Bonds in, or substantially in, the form set out in Schedule 2 of the Trust Deed;

“**Class A Temporary Global Bond**” means any temporary global bond representing the Class A Bonds in, or substantially in, the form set out in Schedule 1 of the Trust Deed;

“**Class B Bondholders**” means the persons who are for the time being bearers of the Class B Bonds;

“**Class B Coupons**” means the interest coupons related to any Class B Definitive Bonds in, or substantially in, the form set out in Part 2 of Schedule 3 of the Trust Deed or, as the context may require, a specific number of such coupons;

“**Class B Definitive Bonds**” means any Class B Bonds issued in definitive bearer form in, or substantially in, the form set out in Part 1 of Schedule 3 of the Trust Deed;

“**Class B Permanent Global Bond**” means any permanent global bond representing the Class B Bonds in, or substantially in, the form set out in Schedule 2 of the Trust Deed;

“**Class B Temporary Global Bond**” means any temporary global bond representing the Class B Bonds in, or substantially in, the form set out in Schedule 1 of the Trust Deed;

“**Clearstream, Luxembourg**” means Clearstream Banking, *société anonyme*;

“**Common Terms and Definitions Deed**” means the deed so named dated on or about the Closing Date and signed by each of the Transaction Parties as a deed;

“**Couponholders**” means the persons who for the time being are holders of the Coupons;

“**Coupons**” means the Interest Coupons and the Principal Receipts;

“**Declaration of Trust**” means a declaration of trust made on 24th November 2003 and as amended, varied and supplemented, in which the Nominees declared that they hold the Mortgaged Properties on trust for the Borrower;

“**Deed of Variation**” means the deed so named dated on or about the 16 March 2004 between the Nominees, the Occupational Tenants, the Borrower Security Trustee and Tesco Plc to vary the Occupational Leases;

“**Definitive Bonds**” means any Class A Bonds, Class B Bonds or New Bonds issued in definitive form;

“**Determination Date**” means the date falling two Business Days prior to each Payment Date and, in relation to any Payment Date, the “**Related Determination Date**” means, unless the context otherwise requires, the Determination Date immediately preceding such Payment Date;

“**Eligible Bank**” means an authorised institution under the Financial Services and Markets Act 2000, the short term unsecured, unsubordinated and unguaranteed debt obligations of which are rated by S&P, Fitch and Moody’s to be at least A-1 by S&P, F-1 by Fitch and P-1 by Moody’s or the long term unsecured, unsubordinated and unguaranteed debt obligations of which are rated by S&P, Fitch and Moody’s to be at least AA by S&P, AA by Fitch and Aa2 by Moody’s;

“**Eligible Investments**” means:

- (a) sterling gilt-edged securities; and
- (b) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper), provided that in all cases (i) such investments have a maturity date falling no later than the next following Payment Date, and (ii) the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised bank under the Financial Services and Markets Act 2000) are rated A-1 by S&P, F-1 by Fitch and P-1 by Moody’s or higher (or such other credit rating as may be approved by the Rating Agencies from time to time);

“**Euro Commencement Date**” means the date (if any) on which the United Kingdom becomes a Participating Member State;

“**Euroclear**” means Euroclear Bank S.A./N.V., as operator of the Euroclear system;

“**Extraordinary Resolution**” means a resolution passed at a Meeting of the Bondholders, duly convened and held in accordance with the provisions contained in the Trust Deed by a majority constituting of not less than three-fourths of the persons voting thereat upon a show of hands, or if a poll is duly demanded, then by a majority constituting not less than three-fourths of the votes given on such poll;

“**Final Discharge Date**” means the date on which the Bond Trustee notifies the Issuer that it is satisfied, in accordance with the Issuer Deed of Charge, that all the Issuer Secured Obligations have been unconditionally and irrevocably paid or discharged in full;

“**Final Maturity Date**” means the Payment Date falling in February 2029;

“**Final Payment Date**” means 19 February 2029;

“**Fitch**” means Fitch Ratings Limited or any successor to its ratings business;

“**Founder Limited Partner**” means Tesco Property Partner (No.1) Limited;

“**Further A Loan**” means any Further Loan designated as such made available to the Borrower pursuant to Clause 2.2 of the Intercompany Loan Agreement;

“**Further B Loan**” means any Further B1 Loan and any Further B2 Loan made available to the Borrower pursuant to Clause 2.2 of the Intercompany Loan Agreement;

“**Further B1 Loan**” means any Further Loan designated as such made available to the Borrower pursuant to Clause 2.2 of the Intercompany Loan Agreement;

“**Further B2 Loan**” means any Further Loan designated as such made available to the Borrower pursuant to Clause 2.2 of the Intercompany Loan Agreement;

“**Further Class A Bonds**” has the meaning given to it in Condition 18 (*Further Issues and New Issues*);

“**Further Class B Bonds**” means any Further Class B1 Bonds and any Further Class B2 Bonds;

“**Further Class B1 Bonds**” has the meaning given to it in Condition 18 (*Further Issues and New Issues*);

“**Further Class B2 Bonds**” has the meaning given to it in Condition 18 (*Further Issues and New Issues*);

“**Further Loan**” means a further loan which may be requested by the Borrower at any time by written notice to the Issuer (with a copy to the Borrower Security Trustee and the Rating Agencies) ranking *pari passu* with the relevant Initial Loan and on the same terms and conditions as the relevant Initial Loan pursuant to Clause 2.2 (*Request for Further Facilities or New Facilities*) of the Intercompany Loan Agreement and is made available to the Borrower by the Issuer in accordance with and subject to Clause 2.2 of the Intercompany Loan Agreement;

“**General Partner**” means Tesco Property Partner (GP) Limited, a limited liability company incorporated in England and Wales with registered number 494955;

“**Global Bonds**” means the Permanent Global Bonds and/or the Temporary Global Bonds, as the context may require;

“**GP Charged Property**” means all Interests of the General Partner the subject of any GP Security created by the General Partner under the Borrower Deed of Charge in favour of the Borrower Security Trustee;

“**GP Security**” means the Security Interests created by the General Partner by or pursuant to the Borrower Deed of Charge;

“**Gross Redemption Yield**” means a yield calculated on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section One: Price/Yield Formulae “Conventional Gilts; Doubledated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998, as supplemented, amended or replaced from time to time (the “**DMO Notice**”));

“**Guarantee**” means the guarantee and indemnity given by the Guarantor to the Landlord under each Occupational Lease as a guarantee of, and an indemnity for, the performance by each Occupational Tenant of all covenants, undertakings and obligations contained in, and payment of all rents and other sums due to the Borrower pursuant to, the Occupational Leases;

“**Guarantor**” means Tesco Plc in its capacity as guarantor pursuant to the Guarantee of each Occupational Lease;

“**Headleases**” means the headleases of the Mortgaged Properties under which the Nominees hold their interest in the Mortgaged Properties, being, as at the Closing Date, the headleases listed in Schedule 3 to the Substitution Agreement, and includes the headlease of any Incoming Property and “**Headlease**” means any, or all of them;

“**Incoming Property**” means a property which has been substituted for an Outgoing Property in accordance with the terms of the Substitution Agreement;

“**Initial A Loan**” means the loan made available by the Issuer to the Borrower on the Closing Date pursuant to Clause 2.1 (*Facilities*) of the Intercompany Loan Agreement;

“**Initial B Loans**” means the Initial B1 Loan and the Initial B2 Loan and “**Initial B Loan**” means either of them;

“**Initial B1 Loan**” means the loan designated as such and made available by the Issuer to the Borrower on the Closing Date pursuant to Clause 2.1 (*Facilities*) of the Intercompany Loan Agreement;

“**Initial B2 Loan**” means the loan designated as such and made available by the Issuer to the Borrower on the Closing Date pursuant to Clause 2.1 (*Facilities*) of the Intercompany Loan Agreement;

“**Initial Loans**” means the Initial A Loan and the Initial B Loans;

“**Insolvency Official**” means a liquidator, provisional liquidator, administrator, administrative receiver, receiver, receiver or manager, compulsory or interim manager, nominee, supervisor, trustee, conservator, guardian or other similar officer or analogous officer under the law of any jurisdiction;

“**Intercompany Loan**”, means the Initial Loans, any Further Loans and any New Loans, as the context may require;

“**Intercompany Loan Agreement**” means the Intercompany Loan Agreement dated on or about the Closing Date between the Issuer, the Borrower, the General Partner, the Nominees, the Borrower Security Trustee, Nominees HoldCo and the Cash Manager;

“**Interest**” means any asset including any agreement, bank account, property or right;

“**Interest Amount**” has the meaning given to it in Condition 5(d) (*Interest — Calculation of Interest Amount for Bonds*);

“**Interest Coupons**” means the Class A Coupons, the Class B Coupons and any New Bond Coupons;

“**Interest Determination Date**” means:

- (a) prior to the Redenomination Date (if any), each Payment Date or, in the case of the first Interest Period, the Closing Date; and
- (b) on or after the Redenomination Date (if any), each day which is two Business Days prior to a Payment Date,

and, in relation to a Interest Period, the “**related Interest Determination Date**” means, on or prior to the Redenomination Date (if any), the Interest Determination Date which falls on the first day of such Interest Period and, after the Redenomination Date (if any), the Interest Determination Date immediately preceding the commencement of such Interest Period;

“**Interest Period**” means each period from (and including) a Payment Date (or, in the case of the first Interest Period, the Closing Date) to (but excluding) the next Payment Date, provided that the final interest period will commence on (and include) 5 October 2028 and end on (but exclude) the Final Payment Date, and, in relation to a Payment Date, the “**related Interest Period**” means the Interest Period immediately preceding such Payment Date and in relation to a Determination Date, the “**Related Interest Period**” means the Interest Period in which such Determination Date falls;

“**Investor Limited Partner**” means Dawberry Properties Limited;

“**Irish Paying Agent**” means HSBC Global Investor Services (Ireland) Limited, in its capacity as Irish paying agent in accordance with the Agency Agreement or such other entity or entities appointed as Irish paying agent from time to time subject to, and in accordance with, the Agency Agreement;

“**Issuer**” means Delamare Finance plc , a public limited company incorporated in the Issuer Jurisdiction with registered number 5069866 as issuer of the Bonds;

“**Issuer Corporate Services Agreement**” means the agreement so named on or about the Closing Date between the Issuer, the Bond Trustee and the Issuer Corporate Services Provider;

“**Issuer Deed of Charge**” means the deed so named dated on or about the Closing Date between the Issuer, the Bond Trustee, the Account Bank, the Swap Provider, the Agents, the Cash Manager, the Issuer Corporate Services Provider and includes, where the context so admits, any further or supplemental deed, charge or security granted pursuant thereto;

“**Issuer Insolvency Event**” means, in respect of the Issuer:

- (a) it is or is deemed to be unable or admits its inability to pay its debts as they fall due, or suspends making payments on any of its debts; or
- (b) the value of the its assets is less than the amount of its liabilities (taking into account its contingent and prospective liabilities); or
- (c) it is or is deemed to be unable to pay its debts within the meaning of section 123 of the Insolvency Act; or
- (d) it ceases or threatens to cease to carry on its business; or
- (e) a moratorium is declared in respect of any indebtedness of the Issuer; or
- (f) any corporate action, legal proceedings or other formal procedure or step is taken in relation to:
 - (i) the appointment of an Insolvency Official in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer; or
 - (ii) an encumbrancer (excluding the Bond Trustee or any Receiver of the Issuer appointed by the Bond Trustee taking possession of the whole or any material part of the undertaking or assets of the Issuer and such possession not being discharged or ceasing to apply within 30 days; or
 - (iii) the making of an arrangement, composition, or compromise, (whether by way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of the Issuer, a reorganisation or winding-up of the company or partnership, a conveyance to or assignment for the creditors of the company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of the Issuer or partnership generally other than for the purposes of or pursuant to a solvent amalgamation or reconstruction; or
 - (iv) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any material part of the undertaking or assets of the Issuer (excluding by the Bond Trustee or any Receiver of the Issuer appointed by the Bond Trustee) and the same not be discharged or otherwise ceasing to apply within 30 days; or
 - (v) any procedure or step is taken, or any event occurs, analogous to those set out in (i)- (iv) above, in any jurisdiction; and

“Issuer Jurisdiction” means England and Wales or such other jurisdiction in which the Issuer or any substitute for the Issuer (as contemplated by Condition 6(d) (*Redemption Purchase and Cancellation — Optional Redemption due to Change in Tax Law*)) is incorporated and/or subject to taxation;

“Issuer Post-Enforcement Priority of Payments” means the provisions relating to the order of priority of payment set out in Condition 11 (*Enforcement*) and Schedule 2 of the Issuer Deed of Charge;

“Issuer Pre-Enforcement Priority of Payments” means the provisions relating to the order of priority of payment set out in Schedule 4 of the Account Bank and Cash Management Agreement;

“Issuer Secured Creditors” means:

- (a) the Bond Trustee (for itself and for and on behalf of the other Issuer Secured Creditors and the Bondholders);
- (b) the Swap Provider;
- (c) the Cash Manager;
- (d) the Account Bank;
- (e) the Agents;
- (f) the Issuer Corporate Services Provider;
- (g) the Borrower
- (h) any Receiver appointed under the Issuer Deed of Charge; and
- (i) any other creditor who accedes to the Issuer Deed of Charge from time to time in accordance with its terms and is designated an Issuer Secured Creditor;

“Issuer Secured Obligations” means the aggregate of all monies and Liabilities which from time to time are or may become due, owing or payable by the Issuer to each, some or any of the Issuer Secured Creditors under the Bonds or the Issuer Transaction Documents;

“**Issuer Security**” means the Security Interests created by the Issuer in favour of the Bond Trustee (for itself and for and on behalf of the other Issuer Secured Creditors and Bondholders) by or pursuant to the Issuer Deed of Charge;

“**Issuer Transaction Account**” means an account known as the “Issuer Transaction Account”, held in the name of the Issuer and maintained by the Account Bank pursuant to the terms of the Account Bank and Cash Management Agreement, or such other account as may be opened, with the consent of the Bond Trustee, at any branch of the Account Bank or at an Eligible Bank in replacement of such account;

“**Issuer Transaction Documents**” means the Intercompany Loan Agreement, the Swap Agreement, the Swap Guarantee, the Agency Agreement, the Account Bank and Cash Management Agreement, the Issuer Deed of Charge, the Trust Deed, the Tax Deed of Covenant, the Issuer Corporate Services Agreement, the Common Terms and Definitions Deed and the Subscription Agreement and any other document, assignment or deed designated as such by the Issuer and the Bond Trustee and “**Issuer Transaction Document**” means each or any of them;

“**Lead Manager**” means Morgan Stanley & Co International Limited;

“**Liabilities**” means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses or other liabilities whatsoever (including legal fees and penalties and any part of such item as represents any VAT but excluding Tax imposed on, or calculated by reference to, that person’s net income, profits or gains) incurred by that person or for which that person is legally liable and any awards, claims, demands, judgments, actions or proceedings made or taken against that person;

“**LIBOR**” means the rate that is the offered quotation to leading banks in the London interbank market determined in accordance with the methodology described in Condition 5(c)(ii)(B);

“**Limited Partners**” means the Founder Limited Partner and the Investor Limited Partner;

“**Liquidity Facility Agreement**” means the agreement so named dated on or about the Closing Date between the Borrower, the Liquidity Facility Provider and the Borrower Security Trustee;

“**Liquidity Facility Provider**” means Lloyds TSB Bank plc in its capacity as liquidity facility provider, acting through its office at 25 Monument Street, London EC3R 8BQ, or such other entity appointed as liquidity facility provider from time to time, subject to and in accordance with the terms of the Liquidity Facility Agreement;

“**Loan Enforcement Notice**” means the notice delivered by the Borrower Security Trustee pursuant to Clause 16.19 (*Acceleration*) of the Intercompany Loan Agreement;

“**Loans**” means the Initial Loans and any Additional Loans, each a “**Loan**”;

“**Managers**” means the Lead Manager and The Royal Bank of Scotland acting through its office at 135 Bishopsgate, London EC2M 3UR, Royal Bank of Canada acting through its office at 71 Queen Victoria Street, London EC4V 4DE and BNP Paribas acting through its office at 10 Harwood Avenue, London NW1 6AA;

“**Market Value**”, in respect of a property, has the meaning given to that term in the Appraisal Manual issued by the RICS current at the time of the valuation (or, failing that, the nearest equivalent document defining generally accepted valuation terms, requirements and practices:

- (a) assuming that any building on the property has been constructed to a shell finish (that is to say, excluding the items set out in the Ninth Schedule of the relevant Occupational Lease) but includes any alterations funded by the Borrower);
- (b) assuming that the obligations on the part of the Occupational Tenant in the Occupational Lease have been observed and performed;
- (c) assuming if the Property has been destroyed or damaged, it has been fully reinstated as at the valuation date;
- (d) disregarding any effect on the value of the property of any options or pre-emptions affecting the Property contained in any of the Borrower Transaction Documents; and
- (e) disregarding any discount which might be applied in respect of the property if all or any other of the Mortgaged Properties were placed on the market at the same time;

“**Meeting**” means a meeting of Bondholders of any class or classes (whether originally convened or resumed following an adjournment);

“**Moody’s**” means Moody’s Investors Service Limited and any successor to its ratings business;

“**Mortgaged Properties**” means, at any time, an interest in any property over which the Borrower and the Nominees have granted a mortgage or fixed charge pursuant to the terms of the Borrower Deed of Charge or the Nominees Deed of Charge and “**Mortgaged Property**” means each or any of them;

“**New Bonds**” has the meaning given to it in Condition 18 (*Further Issues and New Issues*);

“**New Bond Coupons**” means the interest coupons in respect of any New Bonds;

“**New Loan**” means a new loan which may be requested by the Borrower at any time by written notice to the Issuer (with a copy to the Borrower Security Trustee and the Rating Agencies) and which will rank no higher than the Initial Loans but which may rank *pari passu* with the Initial Loans or below the Initial Loans pursuant to Clause 2.2 (*Request for Further Facilities or New Facilities*) of the Intercompany Loan Agreement;

“**Nominees**” means Tesco Property Nominees (No.1) Limited and Tesco Property Nominees (No. 2) Limited established for the principal purposes of holding the legal title of the Mortgaged properties on trust for the Borrower and “**Nominee**” means each of them;

“**Nominees Charged Property**” means all Interests of the Nominees which are subject to the Security Interests created by the Nominees Deed of Charge;

“**Nominees Deed of Charge**” means the deed so named dated on or about the Closing Date between the Nominees and the Borrower Security Trustee and includes, where the context so admits, any further or supplemental deed, charge or security granted pursuant thereto;

“**Nominees HoldCo**” means Tesco Property (Nominees) Limited, a limited liability company incorporated in England and Wales with registered number 4945975;

“**Nominees HoldCo Charged Property**” means all Interests of Nominees HoldCo the subject of any Nominees HoldCo Security;

“**Nominees/Nominees HoldCo Corporate Services Agreement**” means the agreement so named dated on or about the Closing Date between the Nominees, Nominees HoldCo, the Borrower Security Trustee and the Nominees/Nominees HoldCo Corporate Services Provider;

“**Nominees HoldCo Deed of Charge**” means the deed so named dated on or about the Closing Date between Nominees HoldCo and the Borrower Security Trustee and includes, where the context so admits, any further or supplemental deed, charge or security granted pursuant thereto;

“**Nominees HoldCo Security**” means the Security Interests created by Nominees HoldCo by or pursuant to the Nominees HoldCo Deed of Charge;

“**Nominee Side Letter**” means the letter entered into between the Borrower and the Nominees whereby the Borrower agrees to pay the Nominees a fee in respect of services provided by the Nominees in holding bare legal title to the Mortgaged Properties;

“**Nominees Security**” means the Security Interests created by the Nominees by or pursuant to the Nominees Deed of Charge;

“**Notices Details**” means the provisions set out in Schedule 5 (*Notices Details*) of the Common Terms and Definitions Deed;

“**Occupational Leases**” means the underleases of the Mortgaged Properties to which the Headleases are subject, granted to the Occupational Tenants and guaranteed by the Guarantor being, as at the Closing Date, the underleases detailed in Schedule 4 to the Substitution Agreement, and includes any underlease of any Incoming Property and “**Occupational Lease**” means, any, or all, of them;

“**Occupational Tenants**” means the tenants under the Occupational Leases being, as at the Closing Date, Tesco Stores Limited (with company number 519500) and Tesco Distribution Limited (with company number 2972724);

“**Option Agreements**” means the Property Option Agreement together with the Topland Option Agreement;

“**OptionCo**” means Delamare Limited, a limited liability company incorporated in England and Wales with registered number 5072271 as holder of the option granted pursuant to the Post-Enforcement Call Option Agreement;

“**Outgoing Property**” means a property which has been or is to be substituted by an Incoming Property in accordance with the Substitution Agreement;

“**outstanding**” means in relation to the Bonds, all of the Bonds issued other than:

- (a) those Bonds which have been redeemed in full or purchased, and cancelled, in accordance with Condition 6 (*Redemption, Purchase and Cancellation*) or otherwise under the Trust Deed;
- (b) those Bonds in respect of which the date for redemption in full in accordance with the Conditions has occurred and the redemption moneys for which (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and, where appropriate, notice to that effect has been provided or published in accordance with Condition 15 (*Notices to Bondholders*)) and remain available for payment against presentation of the relevant Bonds and/or Coupons;
- (c) those Bonds which have become void under Condition 9 (*Prescription*);
- (d) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds and Coupons*);
- (e) for the purpose only of ascertaining the Principal Amount Outstanding of the Bonds and without prejudice to the status, for any other purpose, of the relevant Bonds, those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds and Coupons*);
- (f) the Temporary Global Bonds to the extent that they have been exchanged for Permanent Global Bonds pursuant to the provisions contained therein and in Clause 10 of the Trust Deed;
- (g) the Permanent Global Bonds that remain in escrow pending exchange of the Temporary Global Bonds therefor, pursuant to the provisions contained therein and in Clause 10 of the Trust Deed; and
- (h) the Permanent Global Bonds to the extent that they have been exchanged for Definitive Bonds, pursuant to the provisions contained therein and in Clause 10 of the Trust Deed,

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the Bondholders;
- (ii) the determination of how many and which Bonds are for the time being outstanding for the purposes of Clause 16 (*Modifications, Consents and Waivers*), Clause 19 (*Proceedings and Actions by the Bond Trustee*), Clause 30 (*Appointment of Bond Trustee*) and Clause 31 (*Notice of a New Bond Trustee*) of the Trust Deed, Condition 10 (*Bond Events of Default*), 11 (*Enforcement*), 12 (*Meetings of Bondholders, Modification and Waiver*) and Provisions for Meetings of Bondholders;
- (iii) any discretion, power or authority contained in the Trust Deed which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of any of the Bondholders; and
- (iv) the determination by the Bond Trustee whether any of the events specified in Condition 10 (*Bond Events of Default*) is materially prejudicial to the interests of the Bondholders,

those Bonds (if any) which for the time being are held by the Issuer, the Borrower, any member of the Tesco Group or of the Topland Group or for the benefit of the Issuer, the Borrower, any member of the Tesco Group or of the Topland Group shall (unless and until ceasing to be so held) be deemed not to remain outstanding;

“**Partners**” means the General Partner and the Limited Partners and a “**Partner**” means any of them;

“**Partnership Agreement**” means the agreement between the Partners dated 18 November 2003, as amended and restated by a letter of variation dated 24 November 2003 as further amended and restated on or prior to Closing Date;

“**Partnership Charged Property**” means all Interests of the Borrower which are subject to the Partnership Security;

“**Partnership Security**” means the Security Interests created by the Borrower by or pursuant to the Borrower Deed of Charge;

“**Participating Member State**” means at any time any member state of the European Union that has adopted the euro as its lawful currency in accordance with the Treaty;

“**Paying Agents**” means the paying agents named in the Agency Agreement together with any successor or additional paying agents appointed from time to time in connection with the Bonds under the Agency Agreement;

“**Payment Date**” means the 5 January, 5 April, 5 July and 5 October in each year commencing on the Payment Date falling in July 2004, provided that the final payment date shall be the Final Payment Date, and provided that if any such day is not a Business Day, the Payment Date shall be the immediately succeeding Business Day, and, in relation to any Determination Date, the “**related Payment Date**” means, unless the context otherwise requires, the Payment Date immediately succeeding such Determination Date;

“**Permanent Global Bonds**” means each Class A Permanent Global Bond, each Class B Permanent Global Bond and any Permanent Global Bond in respect of an issue of New Bonds;

“**Post-Enforcement Call Option Agreement**” means an agreement dated on or about the Closing Date between the Issuer, OptionCo and the Bond Trustee granting an option in favour of OptionCo to acquire Bonds in the circumstances specified therein;

“**Principal Amount Outstanding**” means, on any date:

- (a) in relation to a Bond, the principal amount of that Bond upon issue less the aggregate amount of any principal payments in respect of that Bond which have become due and payable, and have been paid on or prior to that date;
- (b) and in relation to a class, the aggregate of the amount in respect of all Bonds outstanding in such class; and
- (c) in relation to the Bonds outstanding at any time, the aggregate of the amount in respect of all Bonds outstanding, regardless of class;

“**Principal Paying Agent**” means HSBC Bank plc in its capacity as principal paying agent acting through its office at 8 Canada Square, London E14 5HQ or such other entity or entities appointed as principal paying agent from time to time subject to and in accordance with the terms of the Agency Agreement;

“**Principal Receipts**” means receipts for payments of principal in respect of any Class A Definitive Bonds for the time being outstanding, or, as the context may require, a specific number of such receipts;

“**Property Advisor**” means Cushman & Wakefield Healey & Baker in its capacity as property advisor acting through its office at 43-45 Portman Square, London W1A 3BG or such other entity or entities appointed as property advisor from time to time;

“**Property Advisor Engagement Letter**” means the property advisor engagement letter dated on or about the Closing Date addressed by the Property Advisor to the Borrower;

“**Property Option Agreement**” means an agreement dated on or before the Closing Date granting each Occupational Tenant the option to acquire each of the Mortgaged Properties leased to it individually at the end of the term of each Occupational Lease;

“**Property Pool Management Agreement**” means the agreement so named dated on or about the Closing Date between the Operator, the Borrower, the Nominees, the Issuer, the Borrower Security Trustee, the Cash Manager and the Property Pool Manager;

“**Property Pool Manager**” means Tesco Property Holdings Limited in its capacity as such under the Property Pool Management Agreement, or any substitute property pool manager appointed pursuant to the Property Pool Management Agreement from time to time;

“**Provisions for Meetings of Bondholders**” means the provisions contained in Schedule 5 of the Trust Deed;

“**Rating Agencies**” means Fitch, Moody’s and S&P and “**Rating Agency**” means each or any of them;

“**Ratings Downgrade**” means written notification from the Rating Agencies that a matter or event would result in the then current rating of the Bonds being downgraded;

“**Ratings Test**” means written confirmation from the Rating Agencies to the Bond Trustee and the Borrower Security Trustee, confirming that the then current ratings of the Class A Bonds will not be adversely affected by the relevant event or matter;

“**Receiver**” means any receiver, manager, receiver and manager or administrative receiver who (in the case of an administrative receiver) is a qualified person in accordance with the Insolvency Act 1986 and who is appointed:

- (a) by the Borrower Security Trustee under Clause 14 (*Appointment and Removal of Administrator and Receiver*) of the Borrower Deed of Charge in respect of the whole or any part of the Borrower Charged Property under any Borrower Security Document; or
- (b) by the Bond Trustee under Clause 17 (*Appointment and Removal of Administrator and Receiver*) of the Issuer Deed of Charge in respect of the whole or any part of the Issuer Charged Property;

“**Redemption Amount**” has the meaning given to it in Condition 6(c)(i) or Condition 6(c)(ii), as applicable;

“**Redenomination Date**” means a Payment Date falling on or after the Euro Commencement Date on which the Issuer redenominates the currency of the Bonds into euro;

“**Reference Market Makers**” means three brokers and/or London gilt-edged market makers selected by the Agent Bank and approved in writing by the Bond Trustee or such other three persons operating in the gilt-edged market as are selected by the Agent Bank and so approved by the Bond Trustee;

“**Related Rights**” means, in relation to any asset:

- (a) the proceeds of sale of any part of that asset;
- (b) all rights under any licence, agreement for sale or agreement for lease in respect of that asset;
- (c) all rights, benefits, claims, contracts, warranties, remedies, security, indemnities or covenants for title in respect of that asset; and
- (d) any moneys and proceeds paid or payable in respect of that asset;

“**Relevant Coupon**” has the meaning given to it in Condition 7(h) (*Payments*);

“**Relevant Date**” means the date which is the second dealing day in the London gilt edged market prior to the date of despatch of the notice of redemption referred to in Condition 6(c) (*Redemption, Purchase and Cancellation*);

“**relevant date**” has the meaning given to it in Condition 9 (*Prescription*);

“**Relevant Treasury Stock**” means such United Kingdom government stock as the Agent Bank shall determine to be a benchmark gilt the modified duration of which most closely matches the duration of the relevant Bonds as calculated by the Agent Bank;

“**Reserved Matter**” means any matter in respect of which the Bond Trustee is required or entitled to consent to, or grant a waiver or authorisation to, pursuant to the Transaction Documents, where the Ratings Test is satisfied and the matter is approved by a Reserved Matter Resolution;

“**Reserved Matter Notice**” means any notice to the Class B Bondholders in respect of a Reserved Matter sent by the Bond Trustee in accordance with Condition 12(m) and the Trust Deed;

“**Reserved Matter Resolution**” means a resolution passed by a majority constituting more than 50 per cent. of the principal amount of the Class B Bonds then outstanding and held by those Class B Bondholders who vote in respect of a Reserved Matter within 25 days of the date of the Reserved Matter Notice;

“**RICS**” means the Royal Institution of Chartered Surveyors;

“**S&P**” means Standard & Poor’s Ratings Group, a division of The McGraw-Hill Companies Limited or any successor to its ratings business;

“**Security Interest**” means any mortgage, standard security, charge, pledge, lien, assignment, assignation, hypothecation or security interest or any other agreement or arrangement having the effect, in any jurisdiction, of conferring security;

“**Shares**” means, (a) in respect of the General Partner and the Borrower, all the shares specified against the name of the General Partner and the Borrower in Schedule 5 (*Details of Shares*) to the Borrower Deed of Charge, and (b) in respect of Nominees HoldCo, all the shares specified against the name of Nominees HoldCo in Schedule 2 (*Details of Shares*) to the Nominees HoldCo Deed of Charge;

“**Share Related Rights**” means any dividend or interest paid or payable in relation to any Share and any rights, money or property accruing or offered at any time in relation to any Share by way of redemption, substitution, exchange, bonus or preference, under option rights or otherwise;

“**Specified Office**” means, in relation to any Agent or the Account Bank:

- (a) the office specified against its name in the Notices Details; or
- (b) such other office as such Agent may specify in accordance with Clause 14.8 (*Changes in Specified Offices*) of the Agency Agreement;
- (c) such other office as the Account Bank may specify in accordance with the Account Bank and Cash Management Agreement;

“**Stock Exchange**” means the Irish Stock Exchange Limited;

“**Subscription Agreement**” means the Subscription Agreement dated on or about the Closing Date between the Issuer, the Managers, Tesco Plc and the Obligors;

“**Substitute Cash Manager**” means any person appointed as substitute cash manager upon the resignation or removal of a Cash Manager, pursuant to Clause 23(*Termination and Resignation of the Account Bank and Cash Manager*) of the Account Bank and Cash Management Agreement;

“**Substitution Agreement**” means the substitution agreement dated on or about the Closing Date between each of the Nominees, the Occupational Tenants, Tesco Plc, Tesco Holdings Limited, the General Partner (on behalf of the Borrower) and the Borrower Security Trustee for the substitution of the Mortgaged Properties in certain circumstances and for the funding of major works to the Mortgaged Properties;

“**Swap Agreement**” means the swap agreement entered into by the Issuer with the Swap Provider on or about the Closing Date or any other interest rate swap agreement or other agreement evidencing a Treasury Transaction (together with any related or ancillary documentation) between the Issuer and a Swap Provider in connection with the issue of Further B2 Bonds or New Bonds, and “**Swap Agreements**” means all such agreements entered into by the Issuer with any Swap Provider;

“**Swap Collateral Ledger**” means the ledger the Issuer Transaction Account maintained by the Cash Manager to which will be credited all cash collateral transferred by the Swap Provider and all other amounts attributable to assets transferred as collateral by the Swap Provider following the occurrence of a Swap Downgrade Event;

“**Swap Downgrade Event**” means, where the rating of the short term unsecured, unsubordinated, and unguaranteed debt obligations of the Swap Guarantor falls below A-1 by S&P, F-1 by Fitch or P-1 by Moody’s, or the rating of the long term unsecured, unsubordinated, and unguaranteed debt obligations of the Swap Guarantor falls below A-1 by Moody’s;

“**Swap Guarantee**” means the swap guarantee executed by the Swap Guarantor dated on or about the Closing Date;

“**Swap Provider**” means Morgan Stanley Capital Services Inc. or any other counterparty to a Swap Agreement which accedes to the Issuer Deed of Charge in accordance therewith, and “**Swap Providers**” means any or all such parties;

“**Swap Subordinated Amounts**” means amounts due from the Issuer to a Swap Provider under a Swap Agreement (other than any amounts attributable to the return of collateral to such Swap Provider) due to the occurrence of an event of default or a Downgrade Early Termination Event under such Swap Agreement in respect of which the Swap Provider is the defaulting or affected party;

“**Swap Termination Payments**” means amounts due from the Issuer to a Swap Provider under a Swap Agreement on termination of such Swap Agreement;

“**Talons**” means the talons for further Interest Coupons attached to any Definitive Bonds on issue and “**Talon**” means each or any of them;

“**Tax**” means any present or future tax, levy, impost, duty or other charge or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and “**Taxes**”, “**taxation**”, “**taxable**” and comparable expressions shall be construed accordingly;

“**Tax Authority**” means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world including the United Kingdom Inland Revenue and H.M. Customs & Excise;

“**Tax Deed of Covenant**” means the deed of covenant dated on or about the Closing Date and made between, *inter alios*, the Issuer, the General Partner, Tesco Plc, the Limited Partners, the Bond Trustee and the Borrower Security Trustee, as the same may be amended or supplemented from time to time;

“**Temporary Global Bonds**” means each Class A Temporary Global Bond, each Class B Temporary Global Bond and any Temporary Global Bond in respect of an issue of New Bonds;

“**Tesco Material Subsidiary**” means:

- (i) a Subsidiary of Tesco Plc whose profits before tax and extraordinary items or whose net assets (in each case attributable to Tesco Plc) calculated by reference to any of its latest three years’ audited accounts represent ten per cent. or more of the consolidated profits before tax and extraordinary items or net assets (in each case attributable to Tesco Plc), as the case may be, of Tesco Plc and its Subsidiaries similarly calculated; and/or
- (ii) a Subsidiary which has outstanding any notes, bonds or other like securities of which Royal Exchange Trust Company Limited (or any successor trustee to Tesco Plc’s £5,000,000,000 Euro Note Programme) is trustee,

where a report by the Auditors that in their opinion a Subsidiary is or is not or was or was not at any particular time a Tesco Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“**Tesco Moneys Borrowed**” means:

- (i) borrowed moneys; and
- (ii) liabilities under any note, bond, bill, debenture, loan stock or other security in each case issued for cash or in respect of acceptance credit facilities or as consideration for assets or services but excluding such liabilities incurred in relation to the acquisition of goods or services in the ordinary course of trading;

“**Topland Group**” means, the group of companies being direct or indirect subsidiaries (as defined in Section 736 of the Companies Act 1985) of Topland Group Holdings Limited;

“**Topland Option Agreement**” means an agreement dated on or about the Closing Date between the General Partner, the Nominees, the Borrower Security Trustee and the Investor Limited Partner under which the Investor Limited Partner will be granted options to acquire individually each of the Mortgaged Properties on 19 February 2029;

“**Transaction Documents**” means the Issuer Transaction Documents and the Borrower Transaction Documents and a “**Transaction Document**” means each or any of them;

“**Transaction Party**” means any person who is a party to a Transaction Document and “**Transaction Parties**” means some or all of them;

“**Transfers**” means the transfers of the Mortgaged Properties by Tesco Property Partner (No.1) Limited to the Nominees (at the direction of the Borrower) before the Closing Date, in each case in accordance with an agreed form of transfer;

“**Treasury Transaction**” means any currency or interest rate purchase cap or collar agreement, forward rate agreement, interest rate or currency future or option contract, foreign exchange or currency purchase or sale agreement, interest rate swap currency swap or combined interest rate and currency swap agreement and any other similar agreement;

“**Treaty**” means the Treaty establishing the European Community, as amended;

“**Trust Deed**” means the deed so named on or about the Closing Date between the Issuer and the Bond Trustee and any document expressed to be supplemented to the Trust Deed;

“**Trust Documents**” means the Trust Deed and the Issuer Deed of Charge and (unless the context requires otherwise) includes any deed or other document expressed to be supplemental to the Trust Deed or the Issuer Deed of Charge (as applicable);

“**VAT**” or “**value added tax**” means the tax imposed in conformity with the Sixth Directive of the Council of the European Economic Communities (77/388/EEC) (including, in relation to the United Kingdom, value added tax imposed by the Value Added Tax Act 1994 and legislation and regulations supplemental thereto) and any other tax of a similar fiscal nature substituted for, or levied in addition to, such tax whether imposed in a member state of the European Union or elsewhere; and

“**Written Resolution**” means, in relation to any class of Bonds, a resolution in writing signed by or on behalf of the holders of 100% per cent. of the aggregate principal amount of the Bonds of such class

for the time being outstanding who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Trust Deed whether contained in one document or several documents in like form, each signed by or on behalf of one or more such Bondholders.

2. Form, Denomination and Title

(a) Each class of Bonds is initially represented by a Temporary Global Bond in bearer form, without Coupons in the initial principal amount of £382,500,000 for the Class A Bonds, £200,000,000 for the Class B1 Bonds and £50,000,000 for the Class B2 Bonds. Each Temporary Global Bond will be deposited on behalf of the subscribers of each class of the Bonds with a common depository (the “**Common Depository**”) for Clearstream, Luxembourg and Euroclear on or about the Closing Date. Upon deposit of the Temporary Global Bonds, Clearstream, Luxembourg or Euroclear (as the case may be) will credit each subscriber of the Bonds with the principal amount of Bonds of the relevant class equal to the aggregate principal amount thereof for which it had subscribed and paid. Interests in each Temporary Global Bond are exchangeable 40 days after the Closing Date (the “**Exchange Date**”), provided certification of non-U.S. beneficial ownership by the relevant Bondholders has been received, for interests in a Permanent Global Bond in bearer form (which will also be deposited with the Common Depository) representing the same class of Bonds, without Coupons. The expressions “**Global Bonds**” and “**Global Bond**” mean, respectively (i) all the Temporary Global Bonds and the Permanent Global Bonds or the Temporary Global Bond and the Permanent Global Bond of a particular class or (ii) any Temporary Global Bonds or Permanent Global Bonds, as the context may require. On the exchange of the Temporary Global Bond for the Permanent Global Bond of the relevant class, the Permanent Global Bonds will remain deposited with the Common Depository. Title to the Global Bonds will pass by delivery. The Permanent Global Bonds will only be exchangeable for Definitive Bonds in certain limited circumstances described below.

For so long as any Bonds are represented by a Global Bond, interests in such Bonds will be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or Euroclear, as appropriate.

- (b) If, while any of the Bonds are represented by a Permanent Global Bond, (i) either Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no other clearing system acceptable to the Bond Trustee is then in existence, or (ii) by reason of a change in Tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will on the next Payment Date be required to make any withholding or deduction from any payment in respect of the Bonds for or on account of any Taxes imposed, levied, collected, withheld or assessed by or on behalf of any United Kingdom Tax Authority (other than by reason of the relevant holder having some connection with the United Kingdom, other than the holding of the Bonds or the related Coupons) or the Issuer suffers or will suffer any other disadvantage as a result of such change, which withholding or deduction would not be required or other disadvantage would not be suffered (as the case may be) if the Bonds were in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Bond Trustee then the Issuer will issue Definitive Bonds in respect of the Bonds in exchange for the whole outstanding interest in the Permanent Global Bond of each class on the later of the Exchange Date and the day falling 30 days after the occurrence of the relevant event.
- (c) Definitive Bonds of each class (which, if issued, will be in the denomination of £10,000) will be serially numbered and will be issued in bearer form with (at the date of issue) Interest Coupons and, in the case of Class A Bonds, Principal Receipts and Talons for further Interest Coupons, and, in the case of Class A Bonds, Principal Receipts attached at the time of issue. Title to the Definitive Bonds, Coupons and Talons shall pass by delivery.
- (d) The bearer of any Bond, Coupon or Talon shall (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Bond, Coupon or Talon, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon and no person shall be liable for so treating such bearer.

3. Status, Security and Priority

(a) Status and Ranking of the Class A Bonds

The Class A Bonds constitute direct, secured and unconditional obligations of the Issuer and are secured by the same security which secures the Class B Bonds as more fully described in paragraph (i) below. The Class A Bonds rank *pari passu* and *pro rata* without preference or priority amongst themselves.

(b) Status and Ranking of the Class B Bonds

The Class B Bonds constitute direct, secured and unconditional obligations of the Issuer and are secured by the same security which secures the Class A Bonds as more fully described in paragraph (i) below. The Class B Bonds rank *pari passu* without preference or priority amongst themselves.

(c) Priority of Interest Payments

Payments of interest on the Class A Bonds and the Class B Bonds will at all times rank *pari passu* and *pro rata* without preference or priority amongst themselves in accordance with the Issuer Priorities of Payments.

(d) Priority of Principal Payments

Subject to Condition 6(c)(i) and (ii) (*Redemption, Purchase and Cancellation — Early Redemption in Whole or Part*) payments of principal on the Class A Bonds and payments of principal on the Class B Bonds will at all times rank *pari passu* without preference or priority amongst themselves in accordance with the Issuer Priorities of Payments.

(e) Priority of Payments

Prior to the delivery of a Bond Enforcement Notice, the Issuer is required to apply amounts standing to the credit of the Issuer Transaction Account in accordance with the Issuer Pre-Enforcement Priority of Payments and, following the delivery of a Bond Enforcement Notice, in accordance with the Issuer Post-Enforcement Priority of Payments.

(f) Status and Relationship between the Classes of Bonds

The Trust Deed contains provisions requiring the Bond Trustee to have regard to the interests of the Bondholders equally, as a single class as regards all rights, powers, trusts, authorities, duties and discretions of the Bond Trustee. The Trust Deed does not provide for the transaction of separate meetings in respect of different classes of Bondholders, other than in specific circumstances, namely:

- (i) where there is, in the Bond Trustee's sole opinion, a conflict between the interests of the Class A Bondholders and the Class B Bondholders, the Trust Deed provides for the transaction of separate meetings of the Class A Bondholders and the Class B Bondholders and the Bond Trustee shall not approve the matter unless it is approved by both an Extraordinary Resolution of the Class A Bondholders and an Extraordinary Resolution of the Class B Bondholders;
- (ii) the Trust Deed provides for meetings of the Class B Bondholders only when the Issuer wishes to create and issue New Bonds and/or Further Bonds (and such New Bonds and/or Further Bonds may only be created and issued if, *inter alia*, their creation and issuance is approved by a Reserved Matter Resolution in accordance with Condition 18 (*Further Bonds and New Bonds*) and the Trust Documents);
- (iii) where the Bond Trustee may direct the Borrower Security Trustee to agree with the Borrower, without the consent of all of the Borrower Secured Creditors, to any modification or waiver, or to the authorisation of any breach, of the Borrower Transaction Documents, in respect of which the Ratings Test is satisfied, the Trust Deed provides for the transaction of a separate meeting of the Class B Bondholders (and the Borrower Security Trustee may be directed to consent to the modification, waiver, or authorisation of a breach only if both the Ratings Test is satisfied and the modification, waiver or authorisation is approved by a Reserved Matter Resolution);
- (iv) where the Bond Trustee is entitled to agree with the Issuer, without the consent of all the Bondholders, to any modification or waiver, or is entitled to authorise any breach, of the Conditions or the Issuer Transaction Documents, in respect of which the Ratings Test is satisfied, the Trust Deed provides in certain circumstances for the transaction of separate meetings of the Class B Bondholders (and the modification, waiver, or authorisation of a breach

may only be consented to if both the Ratings Test is satisfied and the modification, waiver, or authorisation is approved by a Reserved Matter Resolution in accordance with Condition 12(1)); and

- (v) where, under the Borrower Transaction Documents, the Borrower Security Trustee is required to consent to certain disposals, alterations and substitutions of the Mortgaged Properties, where the Ratings Test is satisfied, the Trust Deed provides for the transaction of a separate meeting of the Class B Bondholders (and the Borrower Security Trustee may only consent to the disposal, alteration and substitution if both the Ratings Test is satisfied and the disposal, alteration and substitution is approved by a Reserved Matter Resolution).

So long as any Bond remains outstanding, the Bond Trustee is not required to have regard to the interests of any Issuer Secured Creditors other than the Bondholders.

(g) Relationship between Bond Trustee and Borrower Security Trustee

Subject to the terms of the Borrower Security Documents and the Issuer Deed of Charge, the Bond Trustee (as assignee of the Assigned Rights under the Borrower Security Documents) has the exclusive right, power and authority to direct, or to refrain from directing, the Borrower Security Trustee in the exercise of the Borrower Security Trustee's rights to enforce the Borrower Security Documents and the Intercompany Loan Agreement following the service of a Loan Enforcement Notice and in the exercise of certain other of its rights in respect of the Intercompany Loan Agreement and the other Borrower Transaction Documents.

(h) Status, Ranking and Relationship between the Bonds and any New Bonds

In the event of an issue of New Bonds, the provisions of the Issuer Transaction Documents and the Conditions, including those concerning the order of priority of payments both prior to, and upon, enforcement of the Issuer Security, will be modified in such manner as the Bond Trustee considers necessary to reflect the issue of such New Bonds and the ranking thereof in relation to the Bonds.

If any New Bonds are issued, the Issuer will immediately advise the Stock Exchange accordingly, lodge a supplementary offering circular with the Stock Exchange and make the supplementary offering circular and any related supplementary agreements available at the Specified Office of the Paying Agents.

(i) Security

As continuing security for the payment of all monies payable in respect of the Bonds and the payment of the other Issuer Secured Obligations and otherwise under the Trust Deed (including the remuneration, costs, fees and expenses and any other claims of the Bond Trustee and any Receiver and its appointees (if any) appointed thereunder), the Issuer has entered into the Issuer Deed of Charge creating the following security (the "**Issuer Security**") in favour of the Bond Trustee for itself and on trust for the other Issuer Secured Creditors:

- (a) first ranking security interests over, *inter alia*:

- (i) the Assigned Rights;
- (ii) the Issuer's rights under the Issuer Transaction Documents and provided that the Swap Agreement so assigned shall be subject to any rights of set-off agreed between the parties therein;
- (iii) the Issuer's rights in respect of the Issuer Charged Accounts and any Related Rights; and
- (iv) any Eligible Investments made from time to time by or on behalf of the Issuer; and

- (b) a first floating charge over all the assets and undertaking of the Issuer, which are not expressed to be subject to, or are not effectively charged by, the security referred to in (a) above,

(such Issuer Security and such property, assets and undertaking so charged being the "**Issuer Charged Property**").

(j) Restriction on Enforcement of Issuer Security and No Petition

Each of the Bondholders agrees with the Issuer that:

- (i) (i) only the Bond Trustee is entitled to enforce the Issuer Security or to take proceedings against the Issuer to enforce the Issuer Security;

- (ii) no Bondholder shall have the right to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due from the Issuer to such Bondholder;
- (iii) neither it nor any party on its behalf (including the Bond Trustee) shall initiate or join any person in initiating an Insolvency Event until the expiry of two years and a day after the Final Discharge Date; and
- (iv) it shall not be entitled to take any steps or proceedings which would result in the Issuer Priorities of Payments not being observed.

(k) Acknowledgement of the Post-Enforcement Call Option

All of the Bondholders will, at the request of OptionCo, sell all (but not some only) of their holdings of the Bonds to OptionCo pursuant to the option granted to it by the Bond Trustee (on behalf of the Bondholders) to acquire all (but not some only) of the Bonds (plus accrued interest thereon), for the consideration of £0.01 per Bond outstanding in the event that the Issuer Security is enforced, at any time after the date on which the Bond Trustee determines that the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to the Bonds and after the application of any such proceeds to the Bonds under the Issuer Deed of Charge, to pay any principal and interest and any other amounts due in respect of the Bonds. Furthermore, each of the Bondholders acknowledges that the Bond Trustee has the authority and the power to bind the Bondholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Agreement and each Bondholder, by subscribing for or purchasing the relevant Bond(s), agrees to be so bound.

4. Covenants

(a) Restrictions

Save with the prior written consent of the Bond Trustee or unless otherwise provided in or envisaged by these Conditions or any of the Issuer Transaction Documents, the Issuer shall not, so long as any Bond remains outstanding:

(i) Negative Pledge

create or permit to subsist any Security Interest whatsoever (unless rising by operation of law) over any of its assets or undertaking, present or future (including any uncalled capital);

(ii) Restrictions on Activities

- (A) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the Issuer Transaction Documents provide or envisage that the Issuer will engage;
- (B) have any subsidiaries, any subsidiary undertaking (as defined in the Companies Act 1985) or any employees or premises; or
- (C) amend, supplement or otherwise modify its Memorandum and Articles of Association or the Issuer Transaction Documents;
- (D) acquire any leasehold, freehold or heritable property;

(iii) Disposal of Assets

use, invest, transfer, convey, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire, any of its assets or undertaking (including any uncalled capital) or any interest, estate, right, title or benefit therein, present or future other than as contemplated under the Issuer Transaction Documents;

(iv) Dividends or Distributions

pay any dividend or make any other distribution to its shareholders or issue any further shares;

(v) Borrowings

incur or permit to subsist any indebtedness in respect of borrowed money whatsoever, except in respect of the Bonds, or give any guarantee or indemnity in respect of any indebtedness or of any obligation of any person;

(vi) **Merger**

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

(vii) **No variation or waiver**

permit the validity or effectiveness of any of the Issuer Transaction Documents, or the priority of the Security Interests created thereby, to be amended, terminated, postponed or discharged, or consent to any variation of, or exercise, any powers of consent or waiver pursuant to the terms of, these Conditions, the Trust Documents or any of the other Issuer Transaction Documents, or permit any party to any of the Issuer Transaction Documents or the Issuer Security or any other person whose obligations form part of the Issuer Security to be released from such obligations, or dispose of any part of the Issuer Security, save as envisaged in the Issuer Transaction Documents;

(viii) **VAT**

apply to form or become part of any group of companies for VAT purposes (including any group of companies for the purposes of sections 43 to 43C (inclusive) of the Value Added Tax Act 1994) with any other company or group of companies unless required to do so by applicable law or regulations;

(ix) **Bank accounts**

have an interest in any bank account other than the Issuer Transaction Account, unless such account or interest therein is charged to the Bond Trustee on terms acceptable to it;

(x) **Surrender of group relief**

offer or consent to surrender to any company any amounts which are available:

(A) for surrender under Chapter IV of Part X of the Income and Corporation Taxes Act 1988;
or

(B) to be treated pursuant to section 102 Finance Act 1989 as amounts of corporation tax or interest paid by another company;

(xi) **Tax Residence**

do any act or thing, the effect of which would be to make the Issuer resident for Tax purposes in any jurisdiction other than the United Kingdom;

(xii) **Group Payment Arrangements**

enter into arrangements with any other company or companies and/or any Tax Authority providing for the discharge of any other company's Tax liability by it;

(xiii) **UK Withholding Tax**

do any act or thing, or fail to do any act or thing, the effect of which would be that an amount for or on account of any Taxes imposed, levied, collected, withheld or assessed by any United Kingdom Tax Authority would be required to be withheld or deducted from any payment due to the Issuer under the Intercompany Loan Agreement; or

(xiv) **Notional transfer of capital gains disposals**

enter into an election or other arrangements with any company and/or the Inland Revenue for the deemed transfer to it and/or deemed disposal by it of any asset or part of an asset for the purposes of corporation tax on chargeable gains.

In giving any consent to the foregoing, the Bond Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Issuer Transaction Documents or may impose such other conditions or requirements as the Bond Trustee may deem expedient (in its absolute discretion) in the interests of the Bondholders.

5. Interest

(a) **Period of Accrual**

The Bonds bear interest on their Principal Amount Outstanding from (and including) the Closing

Date. Each Bond (or in the case of the redemption of part only of a Bond, that part only of such Bond) shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal or any part thereof is improperly withheld or refused. In such event, interest will continue to accrue thereon (as well after as before any judgment or decree) at the rate applicable to such Bond up to (but excluding) the date on which, on presentation of such Bond, payment in full of the relevant amount of principal is made or (if earlier) the seventh day after notice is duly given to the holder thereof (in accordance with Condition 15 (*Notices to Bondholders*)) that, upon presentation thereof being duly made, such payment will be made, provided that upon presentation thereof being duly made, payment is in fact made.

(b) **Payment Dates and Interest Periods**

Interest on the Bonds is payable quarterly in arrear on 5 January, 5 April, 5 July and 5 October in each year, provided that the final interest payment date will be 19 February 2029 (or, if such day is not a Business Day, the next succeeding Business Day) (each, including the final interest payment date, a “**Payment Date**”), in respect of the Interest Period ending immediately prior thereto. In these Conditions, “**Interest Period**” means the period from (and including) the Closing Date to (but excluding) the Payment Date falling in July 2004 and, thereafter, each successive period from (and including) each Payment Date to (but excluding) the immediately succeeding Payment Date, provided, however that, the final Interest Period will commence on (and include) 5 October 2028 and end on (but exclude) the Payment Date falling on 19 February 2029 (or, if such day is not a Business Day, the next succeeding Business Day).

(c) **Rates of Interest**

(i) **Fixed Rate Bonds**

The rate of interest applicable to each Class A Bond shall be 5.5457 per cent. per annum.

The rate of interest applicable to each Class B1 Bond shall be 6.0670 per cent. per annum.

(ii) **Class B2 Floating Rate Bonds**

The rate of interest applicable to each Class B2 Bond shall be determined by the Agent Bank on each Interest Determination Date and shall be, for the related Interest Period the aggregate of:

(A) a margin of 1.2 per cent. per annum, and

(B) (1) LIBOR for three month or, in the case of the final Interest Period, the linear interpolation between four and five month and, in the case of the first Interest Period, the linear interpolation between two and three month sterling deposits by reference to the display designated as the British Bankers’ Association’s Interest Settlement Rate as quoted on the Moneyline Telerate Monitor Screen, Moneyline Telerate Screen Page No. 3750 (the “**Screen Rate**”) (or (i) such other page as may replace Moneyline Telerate Screen Page No. 3750 on that service for the purpose of displaying such information, or (ii) if that service ceases to display such information, such page as displays such information on such equivalent service as may replace the Moneyline Telerate Monitor Screen) at or about 11.00 a.m. (London time) on the relevant Determination Date; or

(2) if the Screen Rate is not then available, the arithmetic mean (rounded to five decimal places with the mid-point rounded up) of the rates notified to the Agent Bank at its request by the principal London office of each of Lloyds TSB Bank plc, The Royal Bank of Scotland plc, HSBC Bank plc and Barclays Bank PLC or any duly appointed substitute reference bank(s) as may be approved in writing by the Bond Trustee (the “**Reference Banks**”) as the rate at which three month sterling deposits are offered for the same period as that Interest Period by that Reference Bank to leading banks in the London interbank market at or about 11.00 a.m. (London time) on that date. If on any such Interest Determination Date, three of four only of the Reference Banks provide such offered quotations to the Agent Bank, the relevant rate shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, two or fewer than two quotations are provided as requested, the rate for that Interest Determination Date will be the arithmetic mean

(rounded to five decimal places with the mid-point rounded up) of the rates quoted by leading banks in London selected by the Agent Bank (which bank or banks is or are in the opinion of the Bond Trustee suitable for such purpose).

There will be no minimum or maximum rate of interest for the Class B2 Bonds.

(d) Calculation of Interest Amounts for Bonds

The Agent Bank shall, on or as soon as practicable after each Interest Determination Date, determine and notify the Issuer, the Bond Trustee and the Paying Agents of:

- (i) the interest rate applicable to the related Interest Period commencing on or immediately after that Interest Determination Date in respect of the Class B2 Bonds;
- (ii) the sterling amounts (the “**Floating Rate Interest Amount**”) payable in respect of such Interest Period in respect of the Class B2 Bonds; and
- (iii) the sterling amounts payable in respect of the relevant Interest Period in respect of the Class A Bonds and the Class B1 Bonds (the “**Fixed Rate Interest Amounts**” and, together with the Floating Rate Interest Amount, the “**Interest Amounts**”).

The Interest Amounts shall be calculated by applying the relevant interest rate to the then Principal Amount Outstanding of the relevant Bond and multiplying such sum by the actual number of days in the Interest Period, divided by 365.

(e) Publication of Interest Amounts and other Notices

As soon as practicable after receiving notification thereof, the Issuer will cause the interest rate in respect of the Class B2 Bonds and each Interest Amount applicable to each class of Bonds for each Interest Period and the immediately succeeding Payment Date to be notified to the Stock Exchange (for so long as the Bonds are admitted to listing on the Stock Exchange) and will cause notice thereof to be given to the Bondholders in accordance with Condition (n) (*Notices to Bondholders*). The Interest Amounts and Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the Interest Period.

(f) Determination or Calculation by the Bond Trustee

If the Issuer or the Agent Bank does not at any time for any reason calculate the interest rate for the Class B2 Bonds and the Interest Amounts for the Bonds of each class in accordance with the foregoing Condition, the Bond Trustee may (but without any liability accruing to the Bond Trustee as a result) calculate the interest rate for the Class B2 Bonds and the Interest Amount for each class of the Bonds in the manner specified in this Condition, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

(g) Notifications to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition, whether by the Agent Bank or the Bond Trustee shall, subject to paragraph (f) above, (in the absence of wilful default, negligence, fraud or manifest error) be binding on the Issuer, the Agent Bank, the Bond Trustee, the Cash Manager, all Bondholders and Couponholders and (in such absences as aforesaid) no liability to the Bondholders or Couponholders shall attach to the Issuer, the Agent Bank or the Bond Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

(h) Agent Bank

The Issuer shall ensure that, so long as any of the Bonds remains outstanding, there shall at all times be an Agent Bank approved in writing by the Bond Trustee. The Agent Bank may not resign until a successor so approved by the Bond Trustee has been appointed.

6. Redemption, Purchase and Cancellation

(a) Final Redemption

Unless previously redeemed in full as provided in this Condition, the Issuer shall redeem the Class A Bonds and the Class B Bonds at their Principal Amount Outstanding on the Final Maturity Date, together with accrued but unpaid interest on their Principal Amount Outstanding up to but excluding the Final Maturity Date.

The Issuer may not redeem the Bonds in whole or in part prior to the relevant Final Maturity Date except as provided below in Condition 6(b) (*Redemption, Purchase and Cancellation — Scheduled Mandatory Redemption in Part of Class A Bonds*), Condition 6(c) (*Redemption, Purchase and Cancellation — Early Redemption in Whole or Part*), Condition 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption for Tax and Other Reasons*) but without prejudice to Condition 10 (*Bond Events of Default*).

The principal amount (if any) to be redeemed in respect of each Bond on any Payment Date under this Condition shall, in relation to the Bonds of a particular class, be a *pro rata* share of the aggregate amount required to be applied in redemption of the Bonds of that class on such Payment Date under this Condition (rounded down to the nearest penny), provided always that no such Bond Principal Payment may exceed the Principal Amount Outstanding of the relevant Bond.

(b) Scheduled Mandatory Redemption in Part of Class A Bonds

Prior to the service of a Bond Enforcement Notice, the Class A Bonds shall, subject to Conditions 6(c) (*Redemption, Purchase and Cancellation — Early Redemption in Whole or Part*) and 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption for Tax and Other Reasons*), be repaid in instalments on each relevant Payment Date in the amortisation amount set out opposite the relevant Payment Date below (each an “**Amortisation Amount**”). If any partial redemption of the Class A Bonds is made at any time otherwise than in accordance with this Condition 6(b) (*Redemption, Purchase and Cancellation — Scheduled Mandatory Redemption in part of Class A Bonds*), then each Amortisation Amount which falls to be paid after the date of such partial redemption shall be reduced by a proportion of such Amortisation Amount which is the same proportion as the partial redemption so made bore to the Principal Amount Outstanding of such class of Bonds immediately prior to such partial redemption being made but after deducting any redemption made in accordance with this Condition 6(b) (*Redemption, Purchase and Cancellation — Scheduled Mandatory Redemption in part of Class A Bonds*) on the date such partial redemption is made.

Amortisation Schedule

Payment Date falling in	Class A Amortisation Amount (per £10,000 Bond)
Apr 2004	0
Jul 2004	0
Oct 2004	0
Jan 2005	0
Apr 2005	0
Jul 2005	0
Oct 2005	0
Jan 2006	0
Apr 2006	0
Jul 2006	0
Oct 2006	0
Jan 2007	0
Apr 2007	0
Jul 2007	0
Oct 2007	0
Jan 2008	0
Apr 2008	0
Jul 2008	0
Oct 2008	0
Jan 2009	0
Apr 2009	0
Jul 2009	0
Oct 2009	0
Jan 2010	0
Apr 2010	0
Jul 2010	0

Payment Date falling in	Class A
Oct 2010	0
Jan 2011	0
Apr 2011	0
Jul 2011	0
Oct 2011	0
Jan 2012	0
Apr 2012	0
Jul 2012	0
Oct 2012	0
Jan 2013	0
Apr 2013	0
Jul 2013	0
Oct 2013	0
Jan 2014	0
Apr 2014	0
Jul 2014	0
Oct 2014	0
Jan 2015	0
Apr 2015	0
Jul 2015	0
Oct 2015	0
Jan 2016	2,939,027
Apr 2016	3,387,142
Jul 2016	3,431,918
Oct 2016	3,380,394
Jan 2017	3,427,730
Apr 2017	3,986,308
Jul 2017	3,941,307
Oct 2017	3,899,081
Jan 2018	3,953,680
Apr 2018	4,522,682
Jul 2018	4,487,458
Oct 2018	4,455,364
Jan 2019	4,517,752
Apr 2019	5,097,239
Jul 2019	5,072,653
Oct 2019	5,051,578
Jan 2020	5,122,315
Apr 2020	5,622,550
Jul 2020	5,698,065
Oct 2020	5,688,924
Jan 2021	5,768,586
Apr 2021	6,369,191
Jul 2021	6,368,669
Oct 2021	6,372,499
Jan 2022	6,461,733
Apr 2022	7,072,939
Jul 2022	7,085,997
Oct 2022	7,103,871
Jan 2023	7,203,347
Apr 2023	7,825,169
Jul 2023	7,852,916
Oct 2023	7,885,977
Jan 2024	7,996,404
Apr 2024	8,555,552
Jul 2024	8,671,446
Oct 2024	8,720,884
Jan 2025	8,843,002

Payment Date falling in	Class A
Apr 2025	9,486,052
Jul 2025	9,546,774
Oct 2025	9,613,906
Jan 2026	9,748,529
Apr 2026	10,402,152
Jul 2026	10,481,340
Oct 2026	10,567,542
Jan 2027	10,715,519
Apr 2027	11,379,667
Jul 2027	11,478,744
Oct 2027	11,585,479
Jan 2028	11,747,710
Apr 2028	12,373,613
Jul 2028	12,542,120
Oct 2028	12,670,928
Feb 2029	4,318,579

(c) **Early Redemption in Whole or Part**

- (i) On the receipt by the Issuer of a notice of prepayment from the Borrower under the Intercompany Loan Agreement of its intention to make a prepayment in whole or in part of any of the A Loan or the B Loans in accordance with Clause 7.4 (*Requirement to Prepay the Loans in Part*) of the Intercompany Loan Agreement, the Issuer shall give not less than 30 days and not more than 60 days prior written notice to the Bondholders, the Bond Trustee, the Paying Agents and the Agent Bank that it will, to the extent it receives such prepayment proceeds, apply the same to redeem the Bonds in accordance with Condition 6(c)(iii). On receipt of such prepayment proceeds on a Payment Date, the Issuer shall apply such proceeds to redeem the Bonds at the relevant Redemption Amount, together with accrued but unpaid interest on their Principal Amount Outstanding up to (but excluding) the Payment Date on which such redemption occurs, in accordance with Condition 6(c)(iv).

For the purposes of this Condition 6(c)(i), “**Redemption Amount**” means:

- (A) in the case of the Class B2 Bonds, the Principal Amount Outstanding; and
- (B) in the case of the Class A Bonds and the Class B1 Bonds, whichever is the higher of:
- (1) the Principal Amount Outstanding of the Bond; and
 - (2) that price (as reported in writing to the Issuer and the Bond Trustee by a financial advisor approved in writing by the Bond Trustee) expressed as a percentage (and rounded, if necessary, to the third decimal place (with 0.0005 being rounded upwards)) at which the Gross Redemption Yield on the Class A Bonds or the Class B1 Bonds, as applicable, on the Relevant Date is equal to the Gross Redemption Yield at 3.00 p.m. (London time) on the Relevant Date of the Relevant Treasury Stock on the basis of the arithmetic mean (rounded, if necessary as aforesaid) of the offered prices of the Relevant Treasury Stock quoted by the Reference Market Makers (on a dealing basis for settlement on the next following dealing day in London) at or about 3.00 p.m. (London time) on the Relevant Date.
- (ii) On the receipt by the Issuer of a notice of prepayment from the Borrower under the Intercompany Loan Agreement of its intention to make a prepayment in whole of the B Loans in accordance with Clause 7.5 (*Option to Prepay the B Loans in Whole in 2013*) of the Intercompany Loan Agreement, the Issuer shall give not less than 30 days and not more than 60 days prior written notice to the Class B Bondholders, the Bond Trustee, the Paying Agents and the Agent Bank that it will, to the extent it receives such prepayment proceeds, apply the same to redeem the Class B Bonds in accordance with Condition 6(c)(iv). On receipt of such prepayment proceeds on a Payment Date, the Issuer shall apply such proceeds to redeem the relevant Class B Bonds at the relevant Redemption Amount, together with accrued but unpaid interest on their Principal Amount Outstanding up to (but excluding) the Payment Date on which such redemption occurs in accordance with Condition 6(c)(v).

For purposes of this Condition 6(c)(ii), “**Redemption Amount**” means:

- (A) in the case of the Class B2 Bonds, the Principal Amount Outstanding; and
- (B) in the case of the Class B1 Bonds, whichever is the higher of:
 - (1) the Principal Amount Outstanding of the Bond; and
 - (2) that price (as reported in writing to the Issuer and the Bond Trustee by a financial advisor approved in writing by the Bond Trustee) expressed as a percentage (and rounded, if necessary, to the third decimal place (with 0.0005 being rounded upwards)) at which the Gross Redemption Yield on the Class B1 Bonds on the Relevant Date is equal to the rate which is the sum of 0.725 basis points and the Gross Redemption Yield at 3.00 p.m. (London time) on the Relevant Date of the Relevant Treasury Stock on the basis of the arithmetic mean (rounded, if necessary as aforesaid) of the offered prices of the Relevant Treasury Stock quoted by the Reference Market Makers (on a dealing basis for settlement on the next following dealing day in London) at or about 3.00 p.m. (London time) on the Relevant Date.
- (iii) In the event that a notice is given requiring prepayment of the Intercompany Loan pursuant to Clause 12 (*Illegality and Change of Currency*) or Clause 11 (*Taxes*) of the Intercompany Loan Agreement, the Issuer shall give not less than 30 days' and not more than 60 days' prior written notice to the Bondholders, the Bond Trustee and the Paying Agents that it will, to the extent it receives such prepayment proceeds, apply the same in redemption of all (but not some only) of the Bonds, in each case at their Principal Amount Outstanding together with accrued but unpaid interest on the Principal Amount Outstanding of the relevant Bonds up to and excluding the date on which such redemption occurs.
- (iv) In the case of any redemption pursuant to Condition 6(c)(i), the Issuer shall redeem the Bonds in the following order:
 - (1) *first*, the Class B2 Bonds;
 - (2) *second*, the Class B1 Bonds; and
 - (3) *third*, the Class A Bonds,at their relevant Redemption Amount, together with accrued but unpaid interest on their Principal Amount Outstanding up to but excluding the Payment Date on which such redemption occurs.
- (v) In the case of any redemption pursuant to Condition 6(c)(ii), the Issuer shall redeem the Class B Bonds in whole at their relevant Redemption Amount, together with accrued but unpaid interest on their Principal Amount Outstanding up to but excluding the Payment Date on which such redemption occurs.

(d) Optional Redemption due to Change of Tax Law

If:

- (i) by reason of a change in Tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, the Issuer would, on the next Payment Date, be required to withhold or deduct an amount for or on account of any Taxes imposed, levied, collected, withheld or assessed by any United Kingdom Tax Authority from any payment of principal or interest in respect of any Bond (other than by reason of the relevant holder or beneficial owner having some connection with the United Kingdom other than the holding of Bonds or related Coupons); or
- (ii) by reason of a change in Tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, the Issuer or the Swap Provider would be required to deduct or withhold from any payment under the Swap Agreement any amount for or on account of any Taxes imposed, levied, collected, withheld or assessed by any Tax Authority; or
- (iii) by reason of a change in Tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, the Issuer would not be entitled to relief for United Kingdom tax purposes for any material amount which it is obliged to pay, or would be treated as receiving for United Kingdom tax purposes an amount which it is not entitled to receive, under the Issuer Transaction Documents to which it is a party; or

- (iv) by reason of a change in law which change becomes effective on or after the Closing Date, it would be unlawful for the Issuer to make, fund or allow to remain outstanding, advances made or to be made under the Intercompany Loan Agreement and such event is materially prejudicial to the Bondholders,

then the Issuer shall inform the Bond Trustee promptly upon becoming aware of the same and shall use its reasonable endeavours to mitigate the effects of the occurrence of the relevant event described in (i), (ii) or (iii) or (iv) above, including, without limitation and where appropriate, by way of arranging for the substitution of another company (approved in writing by the Bond Trustee) as principal debtor under the Bonds and as lender under the Intercompany Loan Agreement.

If:

- (i) the Issuer is unable to arrange a substitution as described above or otherwise to mitigate the effects of the occurrence of the relevant event, or to do so would not avoid the relevant event described in (i) or (iii) or (iv) above then the Issuer may, on any Payment Date on which the relevant event described in (i) or (iii) or (iv), is continuing, and having given not more than 60 days nor less than 30 days notice to the Bond Trustee and to the Bondholders in accordance with Condition 15 (*Notice to Bondholders*), redeem all, but not some only, of the Bonds; and
- (ii) the Issuer is unable to arrange a substitution as described above or otherwise to mitigate the effects of the occurrence of the relevant event, or to do so would not avoid the relevant event described in (ii) above, then the Issuer may, on any Payment Date on which the relevant event described in (ii) is continuing, and having given not more that 60 days nor less than 30 days notice to the Bond Trustee and the Class B2 Bondholders in accordance with Condition 15 (*Notice to Bondholders*), redeem all, but not some only, of the Class B2 Bonds,

in each case, at their Principal Amount Outstanding *pro rata* and *pari passu*, together with any accrued but unpaid interest on their Principal Amount Outstanding up to but excluding the Payment Date on which such redemption occurs, provided that, prior to the publication of each notice of redemption the Issuer has provided to the Bond Trustee:

- (iii) evidence satisfactory to the Bond Trustee that the optional redemption may be exercised under this Condition 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption for Tax and Other Reasons*) (including such legal opinions, and certificates of the directors or other authorised persons of each relevant entity, if any, as the Bond Trustee may require); and
- (iv) a certificate signed by two directors of the Issuer to the effect that it has or will have the funds on the relevant Payment Date, not subject to the interest of any other person, required to redeem the Bonds pursuant to this Condition 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption in Whole for Tax and Other Reasons*) and meet its payment obligations of a higher priority under the Issuer Pre-Enforcement Priority of Payments.

(e) Calculation of Bond Principal Payments and Principal Amount Outstanding

On each Determination Date, the Issuer shall determine or shall cause to be determined:

- (i) if there is to be a partial redemption of the Bonds or any class thereof pursuant to Condition 6(b) (*Redemption, Purchase and Cancellation — Scheduled Mandatory Redemption in Part of Class A Bonds*) or Condition 6(c) (*Redemption, Purchase and Cancellation — Early Redemption in Whole or Part*), the amount of any principal payment due on the immediately succeeding Payment Date in respect of the Bonds; and
- (ii) the Principal Amount Outstanding of each Bond on such Payment Date (after deducting any principal that will be paid on that Payment Date in respect of the relevant Bond).

Each determination by or on behalf of the Issuer of any principal payment and the Principal Amount Outstanding of a Bond shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

If the Issuer (or the Cash Manager on its behalf) does not at any time for any reason determine a principal payment in respect of a Bond and/or the Principal Amount Outstanding in accordance with the preceding provisions of this paragraph, such principal payment and/or the Principal Amount Outstanding may be determined by the Bond Trustee in accordance with this Condition 6 (*Redemption, Purchase and Cancellation*) and each such determination shall be deemed to have been made by the Issuer. Within five Business Days after each Payment Date, the Issuer will notify the Stock Exchange of the aggregate Principal Amount Outstanding of each class of Bonds.

(f) Notice of Redemption

Any such notice given by the Issuer, as is referred to in Condition 6(c) (*Redemption, Purchase and Cancellation — Early Redemption in Whole or Part*) or Condition 6(d) (*Redemption, Purchase and Cancellation — Optional Redemption for Tax and Other Reasons*) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Bonds in the amounts specified in such notice.

(g) No Purchase by Issuer

The Issuer may not purchase Bonds.

(h) Cancellation

All Bonds redeemed in full pursuant to the foregoing provisions will be cancelled forthwith, together with any unmatured and unused Coupons and Talons appertaining thereto and attached thereto or surrendered therewith, and may not be resold or re-issued.

7. Payments

- (a) Payments of principal will be made against presentation and surrender of the relevant Principal Receipts (except where, after such surrender, the unpaid principal amount of a Bond would be reduced to zero (including as a result of any other payment of principal due in respect of such Bond) in which case each payment of principal will be made against presentation and surrender of such Bond) at the Specified Office of any Paying Agent. Payments of interest in respect of Bonds will (subject as provided in Conditions 7(c) and (d) below) be made only against presentation and, provided that payment is made in full, surrender of the relevant Interest Coupons at the Specified Office of any Paying Agent. Such payment will be made in sterling at the Specified Office of any Paying Agent by transfer to a sterling account maintained by the payee with, a bank in London. No payment with respect to any Bond will be made at an office of any Paying Agent in the United States or by mail to an address in the United States or by transfer to an account in the United States.
- (b) Payments of principal, interest and premium (if any) in respect of the Bonds are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c) Upon the date upon which any Bond becomes due and payable in full, unmatured Coupons appertaining thereto (whether or not attached to such Bond) shall become void and no payment shall be made in respect thereof. If the due date for redemption of any Bond is not a Payment Date, accrued interest will be paid only against presentation and surrender of such Bond. As used herein, “unmatured” Coupons include any Talon insofar as it relates entirely to unmatured Coupons.
- (d) If payment of principal is improperly withheld or refused on or in respect of any Bond or part thereof, the interest which continues to accrue in respect of such Bond or part thereof in accordance with Condition 5(a) (*Interest — Period of Accrual*) will be paid against presentation of such Bond at the specified office of any Paying Agent.
- (e) The Principal Paying Agent and its initial specified office are listed at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Bond Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain a Paying Agent with a specified office in London. If European Union Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is brought into force, the Issuer will maintain a Paying Agent in an EU member state that will not be obliged to withhold or deduct any amount for or on account of any Tax pursuant to that Directive or any law implementing or complying with, or introduced in order to conform to, that Directive (if such an EU member state exists). The Issuer will cause at least 30 days’ notice of any change in or addition to the Paying Agents or their specified offices to be given in accordance with Condition 15 (*Notice to Bondholders*).
- (f) If the due date for payment of any amount in respect of any Bond or Coupon is not a business day in the place of presentation, payment shall not be made on such day but on the next succeeding business day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Coupon or, as the case may be, such Bond.
- (g) On or after the Payment Date specified on each final Coupon forming part of any Coupon sheet, the Talon may be surrendered at any specified office of any Paying Agent in exchange for a further

Coupon sheet (including a further Talon but excluding any Coupon which shall have become void). Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Payment Date on which the final Coupon comprised in the relevant Coupon sheet matures.

- (h) If interest is not paid in respect of a Bond of any class on the date when due and payable (other than because the due date is not a business day or by reason of non-compliance with Condition 7(a) (*Payments*)), then such unpaid interest shall itself bear interest at the relevant rate of interest specified in Condition 5(c) (*Interest — Rates of Interest*) from time to time until such interest and interest thereon is available for payment and notice thereof has been duly given in accordance with Condition 15 (*Notices to Bondholders*).
- (i) If a Bond is presented without all unmatured Coupons and Talons (if any) relating thereto:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment, provided however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment; and
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of the principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment, provided however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if greater, the amount of principal due for payment) will be deducted from the amount of principal due for payment, provided however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum so deducted shall be paid in the manner provided in Condition 7(a) (*Payments*) above against presentation and surrender of the relevant missing Coupons.

8. Taxation

All payments in respect of the Bonds will be made without withholding or deduction for or on account of any Tax unless the Issuer or any Paying Agent is required by applicable law to make any payment in respect of the Bonds subject to any such withholding or deduction. In that event, the Issuer or such 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 amount so required to be withheld or deducted. Neither the Issuer nor any Paying Agent nor any other person will be obliged to make any additional payments to Bondholders or Couponholders in respect of any amounts so withheld or deducted.

9. Prescription

Claims for principal shall become void unless the relevant Bonds and Principal Receipts are presented for payment within a period of 10 years from the relevant date in respect thereof. Claims for interest shall become void unless the relevant Interest Coupons are presented for payment within a period of five years from the relevant date in respect thereof. After the date on which a Bond or a Coupon becomes void in its entirety, no claim may be made in respect thereof. In this Condition, the “**relevant date**” is the date on which the payment in question first becomes due or (if the full amount of the monies payable has not been duly received by the Principal Paying Agent or the Bond Trustee on or prior to such date) the date on which, the full amount of such monies having been so received, notice to that effect is duly given to the Bondholders in accordance with Condition 15 (*Notice to Bondholders*).

10. Bond Events of Default

(a) Default Events

For so long as any Class A Bonds and/or Class B Bonds are outstanding, the Bond Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25% of the aggregate principal amount of the Bonds then outstanding or if so directed by or pursuant to an Extraordinary Resolution of the Bondholders, shall (subject, in each case, to being indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing) give notice (a “**Bond Enforcement Notice**”) to the Issuer and the Bondholders declaring the Bonds to be immediately due and repayable at any time after the happening of any of the following events (each, a “**Bond Event of Default**”):

- (i) default is made for a period of three Business Days in the payment of principal in respect of, or in the payment of interest on, the Bonds then outstanding as and when the same ought to be paid in accordance with these Conditions;
- (ii) default or misrepresentation is made by the Issuer in the performance or observance of any other obligation, representation or warranty binding upon or made by it under the Bonds, the Trust Documents or any other Issuer Transaction Document and such default or misrepresentation continues for a period of 30 days following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied, save where the Bond Trustee certifies that in its opinion such default is incapable of remedy when no such period shall be allowed;
- (iii) an Issuer Insolvency Event;
- (iv) the occurrence of a Loan Event of Default; and
- (v)
 - (1) any indebtedness for Tesco Moneys Borrowed, having an aggregate outstanding principal amount of at least £5,000,000 (or its equivalent in any other currency or currencies at the date declared due), of Tesco Plc or any Tesco Material Subsidiary is, or is declared, due and payable prior to the date on which the same would otherwise become due and payable by reason of the occurrence of an event of default (however described) in relation thereto;
 - (2) Tesco Plc or any Tesco Material Subsidiary defaults in the repayment of any indebtedness for Tesco Moneys Borrowed having an aggregate outstanding principal amount of at least £5,000,000 (or its equivalent in any other currency or currencies at the date of maturity) at the maturity thereof or at the expiry of any applicable grace period;
 - (3) any guarantee of any such indebtedness given by Tesco Plc or any Tesco Material Subsidiary shall not be paid when due and called upon, save in any such case where there is a *bona fide* dispute as to whether payment or repayment is due; and/or
 - (4) any event of default occurs under Tesco Plc’s £5,000,000,000 Euro Note Programme (as amended, supplemented and/or replaced from time to time by any other public debt obligations of Tesco Plc under any programme or facility which is the principal debt issuance programme or facility of Tesco Plc),

provided that, in the case of the event described in paragraph (ii) of this Condition 10(a) (*Bond Events of Default — Default Events*), the Bond Trustee shall have certified to the Issuer in writing that such event is, in its opinion, materially prejudicial to the interests of the Bondholders.

(b) Consequences of Bonds becoming Due and Payable and Delivery of Bond Enforcement Notice

Upon the delivery of a Bond Enforcement Notice in accordance with Condition 10(a) (*Bond Events of Default — Default Events*) above, all classes of the Bonds then outstanding shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed and the Issuer Security shall become enforceable by the Bond Trustee in accordance with the Issuer Deed of Charge.

11. Enforcement

The Bond Trustee may, at any time after the occurrence of a Bond Event of Default, at its discretion and without notice, deliver a Bond Enforcement Notice and take proceedings against the Issuer to enforce the provisions of the Bonds or the Trust Documents and the other Issuer Transaction Documents and the whole of the Issuer Security shall become enforceable. The Bond Trustee shall not be bound to take any such proceedings or steps or enforce the Issuer Security unless:

- (a) the Bond Trustee shall have been so directed by an Extraordinary Resolution of the Bondholders or

so requested in writing by the holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding to instruct the Bond Trustee to enforce the Issuer Security; and

- (b) in all cases, the Bond Trustee shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

In the event that the Issuer Security becomes enforceable following delivery of a Bond Enforcement Notice, all amounts standing to the credit of the Issuer Transaction Account, other than any amounts standing to the credit of the Swap Collateral Ledger or representing amounts attributable to assets transferred as collateral by the Swap Provider following the occurrence of a Swap Downgrade Event (which are to be applied in returning collateral to, or in satisfaction of amounts owing by, the Swap Provider in accordance with the Swap Agreement and the Swap Credit Support Documents), and all proceeds of enforcement of the Issuer Security will be applied in accordance with the following priority of payments (the “**Issuer Post-Enforcement Priority of Payments**”):

- (a) *first*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of the fees and other remuneration and indemnity payments (if any) payable to the Bond Trustee and any Receiver and its appointees (if any) and any costs, charges, liabilities and expenses incurred by the Bond Trustee and any Receiver (as the case may be) and any other amounts payable to either of them under the provisions of the Trust Documents together with interest thereon as provided for therein;
- (b) *second*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts due in respect of:
 - (i) any amounts payable by the Issuer in respect of the fees, costs, expenses and liabilities of the Paying Agents and the Agent Bank incurred under the provisions of the Agency Agreement; and
 - (ii) any amounts payable by the Issuer in respect of the fees, costs, expenses and liabilities of the Cash Manager and of the Account Bank under the Account Bank and Cash Management Agreement;
- (c) *third*, in or towards satisfaction of any amounts payable by the Issuer to the Swap Provider under the Swap Agreement including any Swap Termination Payments but excluding any Swap Subordinated Amounts;
- (d) *fourth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of any interest payable in respect of the Class A Bonds and the Class B Bonds;
- (e) *fifth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of any principal payable in respect of the Class A Bonds and the Class B Bonds;
- (f) *sixth*, in or towards satisfaction of amounts due by the Issuer to the Swap Provider under the Swap Agreement in respect of Swap Subordinated Amounts;
- (g) *seventh*, in or towards satisfaction of any amounts payable by the Issuer to the Borrower by way of the Borrower Break Amount under the Intercompany Loan Agreement; and
- (h) *eighth*, the surplus (if any) to the Issuer or any other persons entitled thereto.

12. Meetings of Bondholders, Modification and Waiver

- (a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests including the sanctioning by Extraordinary Resolution of a Basic Terms Modification or any breach of these Conditions or the provisions of any of the Transaction Documents.
- (b) The Issuer or the Bond Trustee may, at any time, and the Issuer shall, upon a request in writing signed by the holders, in the aggregate, of not less than one-tenth of the aggregate principal amount of a class of Bonds for the time being outstanding, convene a meeting of all of the Bondholders or a particular class of Bondholders (in accordance with the Conditions and the Trust Deed) and, if the Issuer makes default for a period of seven days in convening such a meeting the same may be convened by the Bond Trustee or the requesting class of Bondholders. Every such meeting shall be held at such place as the Bond Trustee may appoint or approve.

- (c) The Trust Deed does not provide for the transaction of separate meetings in respect of different classes of Bondholders, other than in the circumstances specified in Condition 12(h) or if, in the opinion of the Bond Trustee, a matter affects the Bondholders of more than one class and gives rise to an actual, or potential, conflict between the Class A Bondholders and Class B Bondholders.
- (d) Subject to paragraph (f) below, the quorum at any meeting of the Bondholders of any class for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent. in principal amount of the Bonds of such class then outstanding or, at any adjourned meeting, two or more persons being or representing Bondholders of such class whatever the principal amount of the Bonds of such class then outstanding so held or represented.
- (e) At any meeting, the business of which includes any of the following matters, each of which shall only be capable of being effected after having been approved by Extraordinary Resolution, namely:
- (1) modification of the date fixed for final maturity of the Bonds (or any of them);
 - (2) reduction or cancellation of the principal payable on the Bonds (or any of them) or modification of the method of calculating the amount of principal payable on the Bonds (or any of them) on any Payment Date;
 - (3) reduction or cancellation of the interest payable on the Bonds (or any of them) or modification of the method of calculating the interest payable on the Bonds or modification of the date of payment of any interest payable on the Bonds (or any of them);
 - (4) (other than pursuant to Condition 17 (*European Economic and Monetary Union*)) alteration of the currency in which payments under the Bonds (or any of them) or Coupons (or any of them) are to be made;
 - (5) alteration of the majority required to pass an Extraordinary Resolution;
 - (6) alteration of the date, or the priority (other than in respect of the issue of any New Bonds), of the redemption of Bonds; and
 - (7) alteration of this paragraph;
- (any such matter being a “**Basic Terms Modification**”), the quorum shall be two or more persons holding or representing not less than 66 per cent. or, at any adjourned meeting, two or more persons holding or representing not less than 25 per cent. in aggregate principal amount of the Bonds of such class for the time being outstanding.
- (f) There will be no quorum requirement or minimum number of Class B Bondholders required to vote in respect of a Reserved Matter.
- (g) The Bond Trustee will only grant its approval in respect of a Reserved Matter if the Reserved Matter is approved by a Reserved Matter Resolution. If no votes at all are received from any Class B Bondholders in response to a Reserved Matter Notice, the Bond Trustee will not grant its consent to the relevant Reserved Matter.
- (h) The Bond Trustee may agree with the Issuer, without the consent of the Bondholders (subject to (iii) below) or Couponholders to any modification (except a Basic Terms Modification) or to any waiver or authorisation of any breach or proposed breach of these Conditions or any of the Issuer Transaction Documents:
- (i) which in the opinion of the Bond Trustee, is not materially prejudicial to the interests of the Bondholders; or
 - (ii) which, in the opinion of the Bond Trustee, is to correct a manifest error or is of a formal, minor or technical nature; or
 - (iii) in respect of which the Ratings Test is satisfied and the matter is approved by a Reserved Matter Resolution.
- (i) The Bond Trustee may also, without the consent of the Bondholders, or the Couponholders, determine that a Bond Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, abrogation, waiver, authorisation or determination shall be binding on the Bondholders and the Couponholders and the Issuer Secured Creditors and, unless the Bond Trustee agrees otherwise, any such modification, abrogation, waiver, authorisation or determination shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 15 (*Notice to Bondholders*).

- (j) Where the Bond Trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions, to have regard to the interests of the Bondholders, it shall have regard to the interests of the Bondholders as a class and, in particular but without prejudice to the generality of the foregoing, the Bond Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Bond Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.
- (k) The Bond Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Issuer Transaction Documents, that such exercise will not be materially prejudicial to the interests of the Bondholders if the Ratings Test is satisfied and, if the matter would not have a material adverse effect on the aggregate Market Value of the Mortgaged Properties relative to the Principal Amount Outstanding in respect of the Class B Bonds then outstanding, (failing which the matter is approved by a Reserved Matter Resolution).
- (l) An Extraordinary Resolution passed at any meeting of Bondholders or a Reserved Matter Resolution of the Class B Bondholders will be binding on all Bondholders of the relevant class, whether or not they are present at the meeting or voted, and on all Couponholders.
- (m) The Trust Deed contains provisions under which any company may, without the consent of the Bondholders or Couponholders assume the obligations of the Issuer as principal debtor under the Trust Deed and the Bonds provided that certain conditions specified in the Trust Deed are fulfilled. No Bondholder or Couponholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Bondholder or (as the case may be) Couponholder.

13. Indemnification and Exoneration of the Bond Trustee

- (a) The Trust Deed and certain of the Issuer Transaction Documents contain provisions governing the responsibility (and relief from responsibility) of the Bond Trustee and for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings or enforcing the Issuer Security or directing the Borrower Security Trustee to enforce the Borrower Security unless indemnified and/or secured to its satisfaction. The Bond Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Security or Borrower Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of other parties to the Issuer Transaction Documents, clearing organizations or their operators or by intermediaries such as banks, depositories, warehousemen or other similar persons on behalf of the Bond Trustee.
- (b) The Trust Deed contains provisions pursuant to which the Bond Trustee or any of its related companies is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or any other person who is party to the Issuer Transaction Documents or whose obligations are comprised in the Issuer Security and/or any of their subsidiary or associated companies and to act as trustee for the holders of any other securities issued by or relating to the Issuer and/or any of their subsidiary or associated companies, (i) to exercise and enforce its rights, comply with its obligations and perform its duties, under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of the Bondholders and (ii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.
- (c) The Trust Deed also relieves the Bond Trustee of liability for not having made or not having caused to be made on its behalf the searches, investigations and enquiries which a prudent chargee would normally have been likely to make in entering into the Issuer Deed of Charge or the Borrower Deed of Charge. The Bond Trustee has no responsibility in relation to the validity, sufficiency and enforceability of the Issuer Security or the Borrower Security. The Bond Trustee will not be obliged to take any action which might result in its incurring personal liabilities unless indemnified and/or secured to its satisfaction or to supervise the performance by the Cash Manager, the Swap Provider or any other person of their obligations under the Transaction Documents and the Bond Trustee shall assume, until it has written notice to the contrary, that all such persons are properly performing their duties, notwithstanding that the Issuer Security (or any part thereof) may, as a consequence, be treated as floating rather than fixed security.

(d) ***Appointment and Removal of Trustees***

The power of appointing a new trustee of the Trust Deed and the Issuer Deed of Charge shall be vested in the Issuer, but no person shall be appointed who shall not previously have been approved by an Extraordinary Resolution of the Bondholders in accordance with the Trust Deed. One or more persons may hold office as trustee or trustees of the Trust Documents, provided that such trustee or trustees shall be (if there is only one) or include (if there is more than one) a trust corporation. Any appointment of a new trustee of the Trust Documents shall as soon as practicable thereafter be notified by the Issuer to the Paying Agents, the Rating Agencies and the Bondholders. The Bondholders shall together have the power, exercisable by Extraordinary Resolution to remove any trustee or trustees for the time being of the Trust Documents. The removal of any trustee shall not become effective unless there remains a trustee of the Trust Documents (being a trust corporation) in office after such removal.

14. Replacement of Bonds and Coupons

If any Bond, Coupon or Talon is mutilated, defaced, lost or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Bond, Coupon or Talon will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and/or the Paying Agents may reasonably require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before new ones will be issued.

15. Notices to Bondholders

Any notice to the Bondholders shall be validly given if published in the Financial Times and (for so long as the Bonds are listed on the Stock Exchange and the rules of the Stock Exchange so require) the Irish Times or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Bond Trustee shall approve having a general circulation in Ireland. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required.

A copy of each notice given in accordance with this Condition 15 (*Notice to Bondholders*) shall be provided to each of Moody's, S&P and Fitch (together, the "**Rating Agencies**" which reference in these Conditions shall include any additional or replacement rating agency appointed by the Issuer, with prior written approval of the Bond Trustee, to provide a credit rating in respect of the Class A Bonds) if they are then rating the Bonds and, for so long as the Bonds of any class are admitted to listing on the Stock Exchange, to the Stock Exchange. For the avoidance of doubt, and unless the context otherwise requires, all references to "**rating**" and "**ratings**" in these Conditions shall be deemed to be references to the ratings assigned by the Rating Agencies.

The Bond Trustee shall be at liberty to sanction some other method of giving notice to the Bondholders or to a class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Bonds are then listed and provided that notice of such other method is given to the Bondholders in such manner as the Bond Trustee shall require.

Couponholders will be deemed for all purposes to have notices of the contents of any notice given to the Bondholders in accordance with this Condition.

16. Contracts (Rights of Third Parties) Act 1999

Neither any Bond nor any Coupon confers any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of any Bond or any Coupon, but this does not affect any right or remedy of a third party which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

17. European Economic and Monetary Union

(a) **Notice of Redenomination**

The Issuer may, after the Euro Commencement Date, without the consent of the Bondholders and Couponholders, on giving at least 30 days' prior notice to the Bondholders and the Paying Agents, designate a Payment Date as the Redenomination Date.

(b) Redenomination

With effect from the Redenomination Date:

- (i) the Bonds in each class shall be deemed to be redenominated into euro with the Principal Amount Outstanding of each Bond in each class being equal to the Principal Amount Outstanding of that Bond in such class in sterling, converted into euro at the rate for conversion of sterling into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Union regulations); and
- (ii) notwithstanding Condition 17(b)(i), if the Issuer determines, with the agreement of the Bond Trustee, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from that specified above, such provision shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Bondholders and the Couponholders, the Stock Exchange, the Paying Agents and the Agent Bank of such deemed amendments in accordance with Condition 15 (*Notices to Bondholders*).

(c) Notice of Redenomination Date

The Issuer will notify the Bondholders and Couponholders of the intended Redenomination Date in accordance with Condition 15 (*Notices to Bondholders*).

(d) Effect of Redenomination

With effect from the Redenomination Date:

- (i) all unmatured Coupons denominated in sterling (whether or not attached to the Bonds) will become void and no payments will be made in respect of such Coupons;
- (ii) the payment obligations contained in all Bonds denominated in sterling will become void but all other obligations of the Issuer thereunder (including the obligation to exchange such Bonds in accordance with this Condition 17 (*European Economic and Monetary Union*)) shall remain in full force and effect;
- (iii) new Bonds and Coupons denominated in euro will be issued in exchange for Bonds and Coupons denominated in sterling in such manner as the Principal Paying Agent may specify and as shall be notified to the Bondholders in accordance with Condition 15 (*Notices to Bondholders*); and
- (iv) all payments in respect of the Bonds (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State.

18. Further Issues and New Issues

The Issuer shall be at liberty, subject always to the provisions of these Conditions and the Trust Deed (a summary of which appears below), to raise further funds, from time to time, on any date by the creation and issue of further Class A Bonds (the "**Further Class A Bonds**") and/or further Class B1 Bonds (the "**Further Class B1 Bonds**") and/or further Class B2 Bonds (the "**Further Class B2 Bonds**", together with any Further Class B1 Bonds, the "**Further Class B Bonds**" and, the Further Class B Bonds together with the Further Class A Bonds, the "**Further Bonds**"), in each case in bearer form carrying the same terms and conditions in all respects (except in relation to the issue date, the first Interest Period, the first Payment Date, the first Interest Coupon and the first Principal Receipt) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Class A Bonds and/or the Class B1 Bonds and/or the Class B2 Bonds, as the case may be, and/or the creation and issue of new bonds (the "**New Bonds**") in bearer form which may rank *pari passu* with or below the Class A Bonds or the Class B1 Bonds or the Class B2 Bonds, carrying terms which differ from the Bonds and which do not form a single series with the Class A Bonds or the Class B1 Bonds or the Class B2 Bonds, provided that:

- (a) such New Bonds or Further Bonds may only be issued in connection with the financing or refinancing of alterations to the Mortgaged Properties;
- (b) the aggregate principal amount of all Further Bonds and/or New Bonds to be issued on such date is not less than £100 million; and
- (c) any Further Class A Bonds are assigned the same ratings as are then applicable to the Class A Bonds;
- (d) the creation and issue of any Further Bonds and/or the creation and issue of any New Bonds is approved by Reserved Matter Resolution;
- (e) the then current ratings of the Class A Bonds at that time outstanding are not adversely affected by such issue of Further Bonds and/or New Bonds;
- (f) an amount equal to the aggregate principal amount of such Further Bonds and/or New Bonds (less an amount in respect of any issue expenses or commissions agreed to be deducted) is applied by the Issuer to make a loan to the Borrower pursuant to the Intercompany Loan Agreement and the conditions precedent therein for an advance under any Additional Loan are satisfied;
- (g) the Bond Trustee has received tax/legal opinions satisfactory to it in relation to the issue of such Further Bonds and/or New Bonds from a reputable law firm; and
- (h) no Bond Event of Default has occurred or would occur as a result of such issue.

Any such Further Bond and/or New Bond shall be secured by the Issuer Security.

Any such Further Bonds or New Bonds will be constituted by a further deed or deeds supplemental to the Trust Deed and have the benefit of the Issuer Security pursuant to the Issuer Deed of Charge as described above in Condition 3(i) (*Status, Security and Priority — Security*).

19. Governing Law

The Trust Deed, the Issuer Deed of Charge, the Agency Agreement, the other Issuer Transaction Documents, the Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

UNITED KINGDOM TAXATION

The following is a summary of the Issuer's understanding of the law and published practice in the United Kingdom as at the date of this document in relation to certain aspects of the United Kingdom taxation of payments in respect of, and of the issue and transfers of, the Bonds. The comments do not deal with all United Kingdom tax aspects of acquiring, holding or disposing of the Bonds and relate only to the position of persons who are absolute beneficial owners of the Bonds and may not apply to certain classes of taxpayers (such as dealers). The comments are made on the assumption that there will be no substitution of the Issuer pursuant to the Trust Deed or Condition 6(e) and do not consider the tax consequences of any such substitution.

The following is a general guide and should be treated with appropriate caution. Bondholders who are in any doubt as to their tax position should consult their own professional advisors. Bondholders who may be liable to taxation in jurisdictions other than the United Kingdom are particularly advised to consult their professional advisors as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Bonds. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

United Kingdom Withholding Tax on payments of interest on the Bonds

The Bonds issued by the Issuer which carry a right to interest (“**UK Bonds**”) will constitute “quoted Eurobonds” provided they are and continue to be listed on a recognised stock exchange. On the basis of the United Kingdom Inland Revenue’s published interpretation of the relevant legislation, securities which are to be listed on a stock exchange in a country which is a member state of the European Union or which is part of the European Economic Area will satisfy this requirement if they are listed by a competent authority in that country and are admitted to trading on a recognised stock exchange in that country; securities which are to be listed on a stock exchange in any other country will satisfy this requirement if they are admitted to trading on a recognised stock exchange in that country. The Stock Exchange is a recognised stock exchange for these purposes. While the UK Bonds are and continue to be quoted Eurobonds, payments of interest on the UK Bonds may be made without withholding or deduction for or on account of United Kingdom income tax.

In all other cases, interest on the UK Bonds may fall to be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty.

Provision of Information

Bondholders should note that where any interest on Bonds is paid to them (or to any person acting on their behalf) by any person in the United Kingdom acting on behalf of the Issuer (a “**paying agent**”), or is received by any person in the United Kingdom acting on behalf of the relevant Bondholder (other than solely by clearing or arranging the clearing of a cheque) (a “**collecting agent**”), then the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the United Kingdom Inland Revenue details of the payment and certain details relating to the Bondholder (including the Bondholder’s name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Bondholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Bondholder is not so resident, the details provided to the United Kingdom Inland Revenue may, in certain cases, be passed by the United Kingdom Inland Revenue to the tax authorities of the jurisdiction in which the Bondholder is resident for taxation purposes.

Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Bonds or on the transfer by delivery of a Bond.

EU Savings Directive

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be implemented by Member States

from 1 January 2005, provided that certain non-EU countries and territories adopt similar measures from the same date. Under the directive, each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to commence on the date from which the directive is to be implemented by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

SUBSCRIPTION AND SALE

Morgan Stanley & Co. International Limited, in its capacity as the Lead Manager and the other Managers have, pursuant to a subscription agreement dated 2 April 2004, between the Managers, the Issuer, Tesco Plc, the Borrower and the Nominees (the “**Subscription Agreement**”), agreed, jointly and severally, subject to certain conditions, to procure subscribers and failing which themselves to subscribe and pay for:

- (a) the Class A Bonds at an issue price of 100 per cent. of the principal amount thereof; and
- (b) the Class B1 Bonds at an issue price of 100 per cent. of the principal amount thereof; and
- (c) the Class B2 Bonds at an issue price of 100 per cent. of the principal amount thereof.

The Issuer, failing whom Tesco Plc, has agreed to pay to the Lead Manager a selling commission of 0.225 per cent. of the aggregate principal amount of the Class A Bonds and a combined management and underwriting fee of 0.4 per cent. of the aggregate principal amount of the Class A Bonds, a selling commission of 0.225 per cent. of the aggregate principal amount of the Class B1 Bonds and a combined management and underwriting fee of 0.4 per cent. of the aggregate principal amount of the Class B1 Bonds and a selling commission of 0.225 per cent. of the aggregate principal amount of the Class B2 Bonds and a combined management and underwriting fee of 0.4 per cent. of the aggregate principal amount of the Class B2 Bonds. On the Closing Date, pursuant to the terms of the Intercompany Loan Agreement, the Borrower will pay the Initial Facility Fee to the Issuer, which will be in an amount equal to all the fees, costs and expenses properly and reasonably incurred by the Issuer on or before the Closing Date in connection with the issue of the Bonds, including the selling commissions and combined management and underwriting fees referred to above.

The Subscription Agreement is subject to a number of conditions and may be terminated by the Lead Manager (on behalf of the Managers) in certain circumstances prior to payment to the Issuer. The Issuer, failing which Tesco Plc, has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Bonds.

Each of the Managers has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to the expiry of a period of 6 months from the issue date of such Bonds 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 which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the financial Services and Markets Act 2000 (“**FSMA**”);
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom; and
- (c) it has only communicated or caused to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of such Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or in certain transactions exempt from the registration requirements of the Securities Act. Each of the Managers has agreed that, except as permitted by the Subscription Agreement it will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (i) otherwise until 40 days after the latest of the commencement of the offering of the Bonds and the Closing Date (for the purpose only of this section “*Subscription and Sale*”, the “**Restricted Period**”) (except in accordance with Rule 903 of Regulation S) within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each distributor, dealer or other person receiving a selling commission fee or other remuneration who purchases Bonds from it during the Restricted Period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possession or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 (as amended) and regulations thereunder.

The Bonds will have on their face a statement to the effect that any United States person who holds such Bonds will be subject to limitations under the United States income tax laws including the limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code.

Except for listing on the Bonds on the Irish Stock Exchange Daily Official List, the admission of the Bonds to trading on the Stock Exchange and the delivery of copies of this document for registration to the Registrar of Companies in England and Wales, no action has been or is being taken by the Issuer or the Lead Manager in any jurisdiction which would or is intended to permit a public offering of the Bonds, or the possession, circulation or distribution of this document or any other material relating to the Issuer of the Bonds in any country or jurisdiction where action for that purpose is required.

This document does not constitute, and may not be used for the purposes of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this document nor any other circular prospectus, form of application, advertisement or other material in connection with the Bonds may be distributed in or from or published in any country or jurisdiction, except under circumstances which will result in compliance with applicable laws and regulations of any such country or jurisdiction.

Each of the Managers has undertaken that it will not, directly or indirectly, offer or sell any Bonds, or distribute this document or any other material relating to the Bonds in or from any country or jurisdiction except in circumstances that will result in compliance with applicable law and regulation.

GENERAL INFORMATION

1. The issue of the Bonds will be authorised by resolution of the Board of Directors of the Issuer passed on the Closing Date.
2. It is expected that the admission of the Bonds to listing on the Stock Exchange's market for listed securities will be granted on or about the Closing Date, subject only to issue of the Temporary Global Bonds. The listing of the Bonds will be cancelled if the Temporary Global Bonds are not issued. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction. Prior to official listing and admission to trading, however, dealings in the Bonds will be permitted by the Stock Exchange in accordance with its rules.
3. It is expected that the Bonds will be accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Class A Bonds is 019004252 and the ISIN is XS0190042522. The Common Code for the Class B1 Bonds is 019004309 and the ISIN is XS0190043090. The Common Code for the Class B2 Bonds is 019004376 and the ISIN is XS0190043769.
4. So long as the Bonds are admitted to listing on the Stock Exchange's market for listed securities, the most recently published audited annual accounts of the Issuer from time to time will be available at the specified office of the Principal Paying Agent. The Issuer does not publish interim accounts.
5. Neither the Issuer, the Borrower and the General Partner is not nor has been involved in any legal or arbitration proceedings which may have, or have had, since the date of its incorporation a significant effect on its financial position, nor is the Issuer, the Borrower or the General Partner aware that any such proceedings are pending or threatened.
6. Since the date of its incorporation, other than entering into the Subscription Agreement, the Issuer has not commenced operations and no statutory or non-statutory accounts in respect of the Issuer have been prepared.
7. Since the date of its constitution, the only operating activities of the Borrower have been the purchase of the Mortgaged Properties from Tesco Property Partners (No.1) Limited, the receipt of Rental Income pursuant to the Occupational Leases. No statutory accounts are required to be prepared in respect of the Borrower.
8. Since the date of its incorporation, other than the entering into the Partnership Agreement, the only operating activities of the General Partner have been to act as the general partner of the Borrower and no statutory or non-statutory accounts in respect of the General Partner have been prepared.
9. Cushman & Wakefield Healey & Baker, PricewaterhouseCoopers LLP, Berwin Leighton Paisner, GL Hearn and Fairhursts have given and not withdrawn their written consent to, as the case may be, the inclusion in this document of their reports, reference to their reports in this document and references to their respective names in the form and context in which they are included and have authorised the contents of those parts of the listing particulars.
10. Save as disclosed herein, since 31 March 2004, there has been no material adverse change in the financial position or prospects of the Issuer, the Borrower or the General Partner.
11. Save as disclosed herein, since 28 February 2004, there has been no material adverse change in the financial position or prospects of the Borrower.
12. Save as disclosed herein, since 28 October 2003, there has been no material adverse change in the financial position or prospects of the General Partner.
13. Save as disclosed in this document, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities, nor has the Issuer created any mortgages, charges or given any guarantees.
14. Save as disclosed in this document, the Borrower has no partnership contributions, borrowings or indebtedness or contingent liabilities, nor has the Borrower created any mortgages, charges or given any guarantees.

15. Save as disclosed in this document, the General Partner has no outstanding loan capital, borrowings or indebtedness or contingent liabilities, nor has the Borrower created any mortgages, charges or given any guarantees.
16. Copies of the following documents may be inspected during usual business hours on any week day (excluding Saturdays and public holidays) at the registered offices of the Issuer and the Paying Agent located in Ireland during the period of 14 days from the date of this document:
 - (i) the Memorandum and Articles of Association of the Issuer;
 - (ii) the Memorandum and Articles of Association of the General Partner;
 - (iii) the Subscription Agreement;
 - (iv) the Trust Deed;
 - (v) the Issuer Deed of Charge;
 - (vi) the Account Bank and Cash Management Agreement;
 - (vii) the Borrower Deed of Charge;
 - (viii) the Nominees Deed of Charge;
 - (ix) the Nominees HoldCo Deed of Charge;
 - (x) the Swap Agreement;
 - (xi) the Swap Guarantee;
 - (xii) the Liquidity Facility Agreement;
 - (xiii) the Tax Deed of Covenant;
 - (xiv) the Intercompany Loan Agreement;
 - (xv) the Property Pool Management Agreement;
 - (xvi) the Property Advisor Engagement Letter;
 - (xvii) the Nominees Side Letter;
 - (xviii) the Agency Agreement;
 - (xix) the Occupational Leases;
 - (xx) the Deed of Variation;
 - (xxi) the Declaration of Trust in respect of the Properties;
 - (xxii) the Substitution Agreement;
 - (xxiii) the Property Option Agreement;
 - (xxiv) the Issuer Corporate Services Agreement;
 - (xxv) the Nominees/Nominees HoldCo Corporate Services Agreement;
 - (xxvi) the Beneficiary Undertaking;
 - (xxvii) the Agreement for Sale;
 - (xxviii) the Reversion Option Agreement
 - (xxix) the Partnership Agreement;
 - (xxx) the Operating Agreement; and
 - (xxxi) the Common Terms and Definitions Deed.
17. A copy of this document will be delivered to the Registrar of Companies in Ireland.

INDEX OF DEFINED TERMS

The following terms apply throughout this document unless the context otherwise requires:

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