

PACIFIC QUAY FINANCE PLC

(incorporated with limited liability in England and Wales)

£129,250,000 5.5653 per cent. Commercial Mortgage Backed Fixed Rate Notes due 2034

Issue Price: 100.017 per cent.

Admission to Listing

Application has been made to the Irish Stock Exchange Limited (the "Irish Stock Exchange") for the £129,250,000 5.5653 per cent. Commercial Mortgage Backed Fixed Rate Notes due 2034 (the "Notes") of Pacific Quay Finance PLC (the "Issuer") to be admitted to the Official List of the Irish Stock Exchange. A copy of this offering circular (this "Offering Circular"), which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with the requirements of the European Communities (Stock Exchange) Regulations, 1984 (as amended) of Ireland (the "Regulations"), has been delivered to the Registrar of Companies in Ireland in accordance with the Regulations.

Form of Notes

The Notes will initially be represented by a temporary global note in bearer form (the "Temporary Global Note"), without coupons, which is expected to be deposited with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear system ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 14 July 2004 (the "Closing Date"). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note in bearer form (the "Permanent Global Note"), without coupons, which will be deposited with the common depository on or after the first day following the expiry of 40 days after the Closing Date upon certification as to non-US beneficial ownership. Notes in definitive bearer form ("Definitive Notes") will only be issued in the limited circumstances specified in the Permanent Global Note.

Interest on the Notes

Interest on the Notes will be payable quarterly in arrear in pounds sterling on the 25th day of January, April, July and October in each year, subject to adjustment for non-business days as described herein (each a "Note Payment Date"). The first Note Payment Date will be the Note Payment Date falling in October, 2004. The Notes will bear interest at a fixed rate of 5.5653 per cent. per annum.

Obligation of Issuer Only and Investment in the Notes

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, Barclays Bank PLC ("Barclays") or any other affiliate of Barclays, or of or by the Borrower, the Managers, the Borrower Manager, the Issuer Manager, the Loan Servicer, the Note Trustee, the Issuer Security Trustee, the Borrower Security Trustee, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, any other Paying Agent, the Agent Bank, the Swap Provider, the BBC, the Issuer Operating Bank or the Borrower Operating Bank (each as defined herein) or any of their respective affiliates and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

The Notes will be issued on the Closing Date. The Notes will all be secured by the same security, and will all rank pari passu with and without priority over other Notes. Prior to redemption on the Note Payment Date falling in 25 July, 2034 (the "Maturity Date"), the Notes will be subject to mandatory redemption in certain circumstances. See "Terms and Conditions of the Notes — Redemption and Cancellation".

Ratings and Main Terms of Notes

The Notes are expected on issue to be assigned the ratings set out in the table below by Fitch Ratings Limited ("Fitch"), Moody's Investors Service Inc. ("Moody's"), and Standard and Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P" and, together with Fitch and Moody's, the "Rating Agencies"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by one or more of the assigning rating organisations. The ratings from the Rating Agencies address the likelihood of timely receipt by any Noteholder of interest and the likelihood of timely receipt by any Noteholder of principal of the Notes.

<u>Expected Ratings</u>			<u>Initial Principal Amount</u>	<u>Rate of Interest</u>	<u>Estimated Average Life</u>	<u>Maturity Date</u>	<u>Issue Price</u>
Fitch	Moody's	S&P					
AA	Aa2	AA-	129,250,000	5.5653 per cent.	22.9 years	25 July 2034	100.017 per cent.

No Gross Up

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

Risk Factors

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

Lead Manager
BARCLAYS CAPITAL

Co-Manager
ABN AMRO

The date of this Offering Circular is 12 July 2004.

IMPORTANT NOTICE

The Notes will be sold in offshore transactions in reliance on Regulation S under the Securities Act ("**Regulation S**"). The Notes will be in bearer form and in denominations of £50,000 and integral multiples of £1000 in excess thereof. The Notes will initially be represented by a temporary global note in bearer form (the "**Temporary Global Note**") without coupons or talons attached.

On or about the Closing Date, the Temporary Global Note will be deposited with HSBC Bank plc (the "**Common Depository**") as common depository for the account of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable for interests in a permanent global note (the "**Permanent Global Note**" and, with the Temporary Global Note, the "**Global Notes**") without coupons or talons attached, 40 days after the Closing Date upon customary certification of non-U.S. beneficial ownership, which will also be deposited with the Common Depository for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Notes will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Interests in the Permanent Global Note will be exchangeable for definitive Notes in bearer form ("**Definitive Notes**") only in the limited circumstances described in "*Description of the Notes - Issuance of Definitive Notes*" at page 112. Definitive Notes will be issued in bearer form only in the denominations of £50,000 and integral multiples of £1,000 in excess thereof with coupons and talons attached. See also "*Description of the Notes*" at page 111.

The Issuer accepts responsibility for all information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. In addition to the Issuer, Pacific Quay Trustees No. 1 Limited (the "**Borrower**") accepts responsibility for all information relating to it in "*The Borrower*" at pages 50 to 51. The information relating to the British Broadcasting Corporation (the "**BBC**") in "*The Background and Business of the BBC*" at pages 82 to 90 and in Appendices 2 and 3 is based upon publicly available information.

No person is or has been authorised in connection with the issue and sale of the Notes to give any information or to make any representation not contained in this Offering Circular in connection with the Issuer, the Borrower or the sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Borrower, Barclays or any affiliate of Barclays, the BBC, the Managers, the Borrower Manager, the Issuer Manager, the Loan Servicer, the Note Trustee, the Issuer Security Trustee, the Borrower Security Trustee, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, any other Paying Agent, the Agent Bank, the Swap Provider, the Borrower Operating Bank, the Issuer Operating Bank or any of their respective affiliates. Neither the delivery of this Offering Circular nor any offering, sale or allotment made in connection with the offering of any of the Notes or delivery of any Note shall, under any circumstances, constitute a representation or create any implication that there has been no change in the information contained herein since the date hereof or that the information contained herein is correct as of any time subsequent to its date or that there has been no adverse change or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date hereof. Unless otherwise indicated herein, all information in this Offering Circular is given as of the date of this Offering Circular.

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

Other than the approval by the Irish Stock Exchange of this Offering Circular as listing particulars in accordance with the requirements of the Regulations and the delivery of a copy of this Offering Circular to the Registrar of Companies in Ireland for registration in accordance with the Regulations, no action has been or will be taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession

this Offering Circular (or any part hereof) comes are required by the Issuer and the Managers to inform themselves about, and to observe, any such restrictions. Neither this Offering Circular nor any part hereof constitutes an offer of, or an invitation by or on behalf of the Issuer or the Managers to subscribe for or purchase any of, the Notes and neither this Offering Circular, nor any part hereof, may be used for or in connection with an offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. For a further description of certain restrictions on offers and sales of the Notes and distribution of this Offering Circular (or any part hereof) see "*Subscription and Sale*" below.

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

In connection with this issue, Barclays Bank PLC or any person acting for it may for a limited period over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on Barclays Bank PLC or any person acting for it to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation must be conducted in accordance with all applicable rules and regulations.

TABLE OF CONTENTS

TRANSACTION OVERVIEW	5
SUMMARY	12
RISK FACTORS	30
THE ISSUER.....	46
THE BORR OWER.....	50
THE UNIT TRUST STRUCTURE	52
LEASE DETERMINATION.....	55
THE LOAN, THE RELATED SECURITY AND BORROWER CASHFLOWS	56
THE PROPERTY AND THE LEASES	69
THE BACKGROUND AND BUSINESS OF THE BBC	82
CREDIT STRUCTURE AND ISSUER CASHFLOWS	91
THE ACCOUNTS STRUCTURE.....	98
LOAN SERVICING.....	101
ISSUER CASH AND CORPORATE MANAGEMENT	103
BORROWER CASH AND CORPORATE MANAGEMENT	106
ESTIMATED AVERAGE LIVES OF THE NOTES AND ASSUMPTIONS.....	109
DESCRIPTION OF THE NOTES.....	111
TERMS AND CONDITIONS OF THE NOTES	113
USE OF NET PROCEEDS.....	132
UNITED KINGDOM TAXATION.....	133
SUBSCRIPTION AND SALE	135
GENERAL INFORMATION.....	137
APPENDIX 1 VALUATION REPORT	139
APPENDIX 2 FINANCIAL STATEMENTS OF THE BBC FOR THE YEAR ENDED 31 MARCH 2002	132
APPENDIX 3 FINANCIAL STATEMENTS OF THE BBC FOR THE YEAR ENDED 31 MARCH 2003	133
APPENDIX 4 INDEX OF PRINCIPAL DEFINED TERMS	134

TRANSACTION OVERVIEW

(d) credit £16,137,278 of such proceeds to a further account in the name of the Issuer (the "**Interest Account**").

(e) to reflect interest due on the Loan that is capitalised; and

(f) to meet its payment obligations to the Inland Revenue in respect of United Kingdom income tax (each a "**DSA Liquidity Advance**") to be funded by amounts received by the Issuer under the DSA Swap Transaction.

The availability of each type of Advance will be subject to certain conditions. These conditions are summarised in *The Loan, the Related Security and Borrower Cashflows - Terms of the Credit Agreement - Conditions Precedent to Drawdown* on page 48.

The Borrower will enter into the Credit Agreement and the Headlease in its capacity as trustee of the Pacific Quay Unit Trust (the "**Unit Trust**"). The assets of the Unit Trust will be held by the Borrower, in its capacity as trustee of the Unit Trust (the "**Unit Trustee**"), on trust for a number of tax exempt Self Invested Pension Plans ("**SIPPs**") (the "**Unitholders**") which are members of the European Pensions Management Self Invested Pension Scheme (the "**EPM Scheme**"). Under the terms of the Unit Trust, the Borrower will receive, from time to time, Deferred Subscription Amounts from the Unitholders (equal to tax refunds received by the Unitholders from time to time) which will be utilised to repay DSA Liquidity Advances.

On or around the Closing Date, the BBC will grant the Headlease jointly to the Borrower and the Nominee (each a "**Headlessee**" and together, the "**Headlessees**"). The Nominee will hold its interest in the Headlease on trust for the Borrower (as Unit Trustee).

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

The BBC will also, on the same date, grant the Car Park Headlease to the Headlessees and the Headlessees will grant to the tenant a lease in respect of the adjacent car parking (the "**Car Park Underlease**"), in each case, for the same term as the relative Headlease and Underlease, terminable as referred to in *The Property and the Leases – Car Parking Leases* at page 75.

The Tenant will make rental payments (the "**Rent Payments**") to an account in the name of the Borrower (the "**Borrower Rent Account**").

Between the Closing Date and 5 July 2007 (the "**Rent-Free Period**"), the Tenant will make no Rent Payments. On each payment date under the Credit Agreement (each a "**Loan Payment Date**") up to and including the Loan Payment Date falling in July 2007, an amount equal to the aggregate interest payment due on the Notes on the next following Note Payment Date and an amount to be available to meet expected Issuer expenses (the "**Note Interest Transfer Amount**") will be deducted from the Interest Account and paid into the Issuer Operating Account. The payment of such amount into the Issuer Operating Account will satisfy the obligation of the Borrower, under the terms of the Credit Agreement, to make a payment on the Loan in an amount equal to the instalment amount (the "**Interest Instalment Amount**") specified for the relevant Loan Payment Date in a schedule to the Credit Agreement (the "**Interest Instalment Schedule**"). That part of each Note Interest Transfer Amount that constitutes the Interest Instalment Amount will, upon payment of the Note Interest Transfer Amount into the Issuer Operating Account, constitute the making of an Advance to the Borrower applied in discharge of its obligations to pay interest on the Loan and, in certain circumstances as described below, in part repayment of the Loan.

On the Loan Payment Date falling in October 2007 (and following the payments and provisions to be made on that date), the remaining funds standing to the credit of the Interest Account will be paid into the Borrower Rent Account and will constitute an Advance to the Borrower ("**Excess Borrower Interest**"). On each of the seven Loan Payment Dates from and including the Loan Payment Date falling in October 2007, such funds will be transferred to the Issuer Operating Account (in part satisfaction of the obligation of the Borrower to make payments of interest under the Credit Agreement) in accordance with the relevant Interest Instalment Amounts set out in the Interest Instalment Schedule.

Between 5 July 2007 and 5 July 2034 (the "**Rental Period**") and subject to the rent review process described below, the Tenant will make Rent Payments payable quarterly in arrear based on (a) a notional amount of £6,373,244.13 and (b) an amount equal to expected expenses of the Borrower and the Issuer.

each subject to adjustments, and on 5 July 2034 will make a final Rent Payment, subject to adjustments, as described below.

During the Rental Period, the due dates for Rent Payments will occur on the 5th day of January, April, July and October of each calendar year.

During the Rental Period the Borrower will use the proceeds of Rent Payments and Deferred Subscription Amounts to pay interest on and make repayments of principal of the Loan.

The amount of the Rent Payments will be subject to annual adjustments related to the rate of inflation prevailing in the United Kingdom. The process of adjusting the Rent Payments is referred to hereinafter as **Indexation**". Such adjustments will be made by reference to an index entitled the limited price index (the **LPI**"). The LPI, which is not an official price index, is based upon the annual rate of inflation prevailing in the United Kingdom from time to time, subject to a cap of 5 per cent. and a floor of 0 per cent. and is derived from the United Kingdom General Index of Retail Prices (for all items) published by the Office of National Statistics (the **Index**").

From (and including) 5 July 2031, the Rent Payments payable by the Tenant will be reviewed to the greater of (a) the Rent Payment amounts which would have been due if such review had not taken place adjusted for Indexation) and (b) the lesser of £105 per square foot of the net internal area of the Property and the then open market rent.

In relation to the Rent-Free Period, each Interest Instalment Amount set out in the Interest Instalment Schedule will be calculated on the assumption that, during the Rent-Free Period, LPI will be 2.5 per cent. per annum (the **Assumed LPI**"). In respect of each Loan Payment Date up to and including the Loan Payment Date falling in July 2007:

(a) if LPI is greater than Assumed LPI, the amount of interest due and payable will be greater than the applicable Interest Instalment Amount which is payable on such Loan Payment Date. In such case, the difference will be capitalised and will constitute an Advance under the Credit Agreement; and

(b) if LPI is less than Assumed LPI, the amount of interest due and payable will be less than the applicable Interest Instalment Amount which is payable on such Loan Payment Date. In such case, the difference will reduce the principal amount of the Loan.

On or before the first Business Day falling in October in or after October 2007, interest on the Loan will be calculated in respect of the twelve months ending on the Loan Payment Date falling in October of the following year by multiplying the Outstanding Loan Balance by LPI (the **Annual Interest Calculation**"). Such amount of interest will be capitalised and will constitute an Advance under the Credit Agreement and will form part of the Outstanding Loan Balance.

In addition, the amount of interest due and payable on each Loan Payment Date following the Loan Payment Date falling in July 2007 over the term of the Loan will be calculated by reference to (a) the product of the Outstanding Loan Balance and a fixed rate of 2.8407 per cent. per annum and (b) an amount equal to expected Issuer Expenses (such calculation being the **Actual Interest Calculation**").

The principal amount of the Notes will not be subject to Indexation, though the rate of interest applicable to the Notes is set on the basis that LPI will equal Assumed LPI over the term of the Notes. Thus, the Issuer is exposed to a mismatch between receiving payments which are adjusted for Indexation and having to make payments which are not adjusted for Indexation. This mismatch may have an adverse effect on the ability of the Issuer to make payments of interest on and repayment of principal of the Notes if LPI were to be less than Assumed LPI. In order to protect the Issuer against this risk (the **Indexation Risk**") the Issuer will enter into a swap transaction (the **Indexation Swap Transaction**") with the Swap Provider pursuant to the Swap Agreement.

The scheduled maturity date of the Loan (excluding DSA Liquidity Advances) will be 5 July 2034 (the **Loan Maturity Date**"). The principal amount of the Loan (other than amounts representing DSA Liquidity Advances) will be repayable in accordance with an amortisation schedule (each repayment being a **Repayment Instalment**" and such schedule, the **Loan Amortisation Schedule**"), which will provide for the principal amount outstanding on the Loan to amortise to zero on the Loan Maturity Date, which

will occur shortly before the Maturity Date in respect of the Notes. The first date on which a Repayment Instalment will be due and payable will be the Loan Payment Date falling in October 2007. The amount of each Repayment Instalment will, on its due date, be adjusted to reflect the amount of interest payable as a result of the cumulative increase in LPI since the Closing Date and the consequential impact on the principal amount outstanding of the Loan. The amounts available to the Borrower by way of Rent Payments and Deferred Subscription Amounts to pay interest on and repay the principal of the Loan will be structured so as to enable the Borrower to pay interest on the Loan as it falls due for payment and to make principal repayments on the Loan in accordance with the Loan Amortisation Schedule.

Each DSA Liquidity Advance will be interest free and will be repayable by the Borrower from the Deferred Subscription Amount received by the Borrower in respect of such DSA Liquidity Advance. The final payment date in respect of DSA Liquidity Advances under the Credit Agreement is scheduled to fall in January, 2036.

On each Loan Payment Date the Borrower Manager, acting upon the instructions of the Borrower, will, to the extent that funds are available for such purpose, transfer to an account in the name of the Issuer with the Issuer Operating Bank (the "**Issuer Operating Account**") all amounts then due to the Issuer under the Credit Agreement. On the Loan Payment Dates up to (and including) the Loan Payment Date falling in July 2007, Note Interest Transfer Amounts will be transferred from the Interest Account to the Issuer Operating Account to provide for interest due and payable on the Notes on each Note Payment Date up to and including the Note Payment Date falling in July 2007, the expected expenses of the Issuer and (in respect of Interest Instalment Amounts) in satisfaction of the amounts then due under the Credit Agreement, each such Interest Instalment Amount constituting an Advance to the Borrower of the amount thereof. On each payment date under the Notes (each a "**Note Payment Date**"), the Issuer Manager will, after payment of those obligations of the Issuer having a higher priority and to the extent that funds are available for such purposes, apply the relevant funds standing to the credit of the Issuer Operating Account in payment of interest due on the Notes and in payment of the relevant principal amount outstanding of the Notes.

During the Rental Period the Issuer will not be required to accumulate surplus assets as security for any future payments of interest and principal on the Notes; however there will be amounts standing to the credit of the various accounts of the Issuer from time to time.

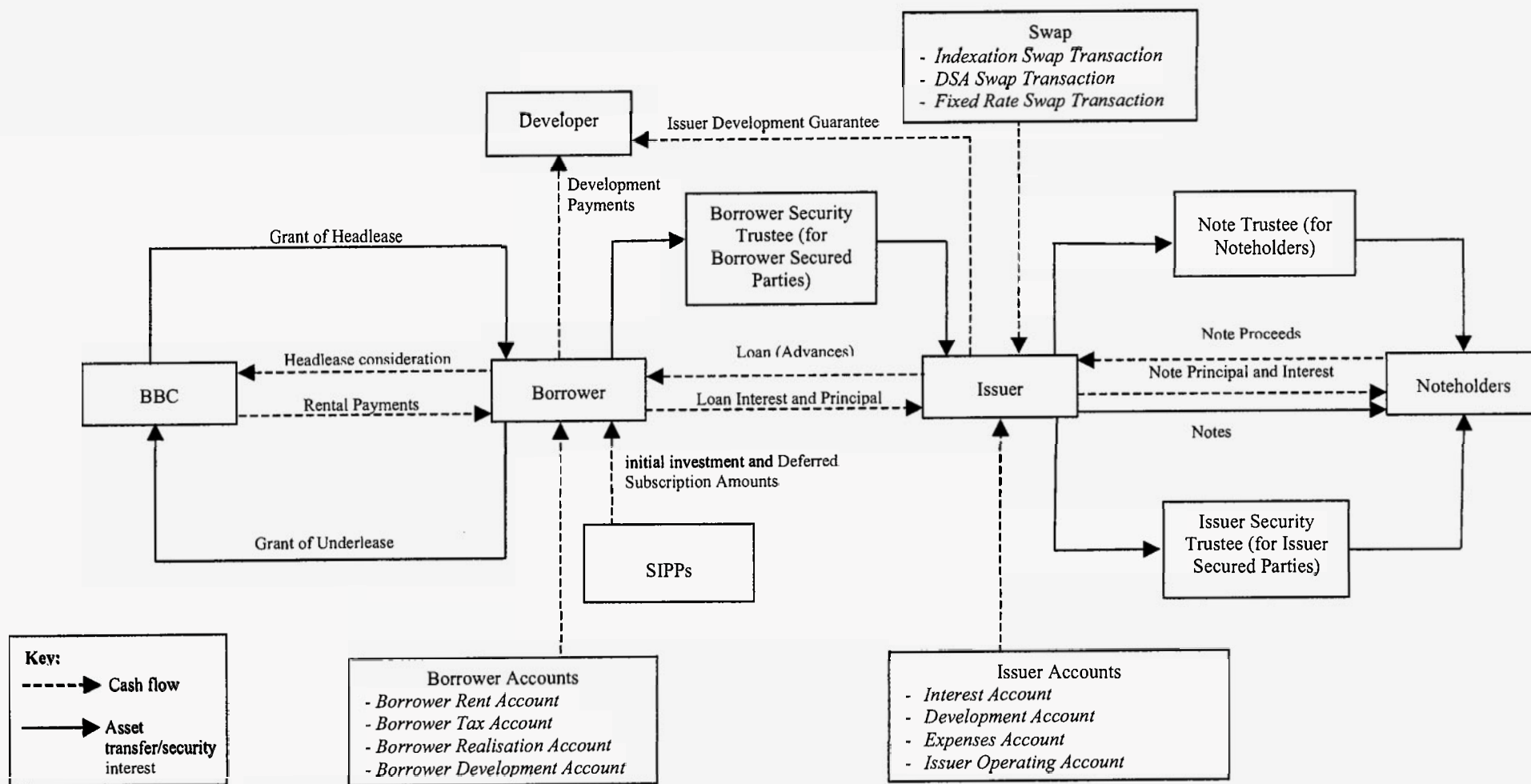
The obligations of the Issuer to the Noteholders in respect of the Notes and to other secured parties will be secured pursuant to a deed of charge and assignment (the "**Deed of Charge and Assignment**") governed by English law. The Issuer will create, pursuant to the Deed of Charge and Assignment, among other things, (a) an assignment by way of security of the Loan and the Issuer's rights under the Credit Agreement, (b) an assignment by way of security of the Issuer's beneficial interest in the Borrower Security Trust, (c) an assignment by way of security of the Issuer's rights under certain contracts entered into in connection with the issuance of the Notes including, without limitation, those relating to the Issuer Swap Transaction, (d) a first ranking charge over the Issuer's interests in the Issuer Operating Account, the Expenses Account, the Interest Account and certain other bank accounts in which the Issuer may place and hold cash, and (e) a floating charge over the whole of the undertaking and assets of the Issuer other than those assets that are otherwise secured by way of an effective fixed security interest (but extending over all of the Issuer's Scottish assets).

The obligations of the Borrower to the Issuer as lender under the Credit Agreement (the "**Lender**") and to other secured parties will be secured pursuant to a debenture (the "**Borrower Debenture**") granted by the Borrower and governed by English law, a security agreement (the "**Borrower Security Agreement**") granted by the Borrower and the Nominee and governed principally by Scots law, a share charge (the "**Borrower Share Charge**") granted by the Borrower Shareholder and governed by English law, a standard security (the "**Borrower Standard Security**") granted by the Borrower and the Nominee and governed by Scots law and an assignation of rents (the "**Borrower Assignation of Rents**") granted by the Borrower and the Nominee and governed by Scots law. The security will create, among other things, (a) a first ranking charge over the Borrower Rent Account, the Borrower Tax Account and the Borrower Realisation Account, (b) an assignment by way of security of the Borrower's interest in the Direct Agreements, (c) a floating charge (governed by English law) over the whole of the undertaking and assets of the Borrower other than those assets that are otherwise secured by way of an effective fixed security interest (but extending over all of the Borrower's Scottish assets), (d) an assignment of rights under insurance policies, (e) an assignation of Rent Payments and rights under the Collateral Deed, (f) a first

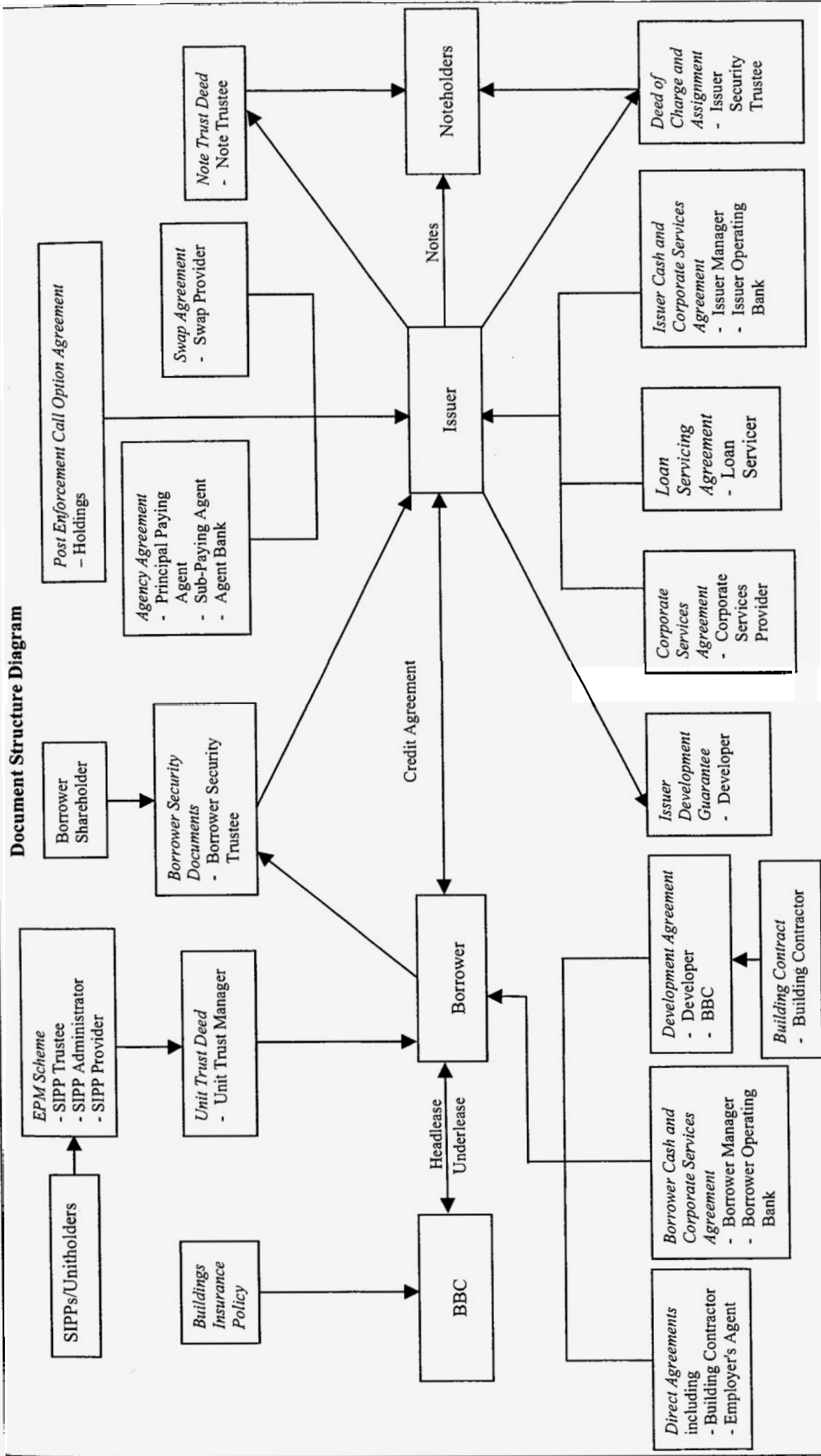
anking security over the Headlease and the Car Park Headlease and (g) further floating charges (governed by Scots law) over the interests of the Borrower and the Nominee in the Headlease, the Rent Payments, rights under the Collateral Deed and certain other Scottish assets.

15.

Structure Diagram



Document Structure Diagram



SUMMARY

The following information is a summary of the principal features of the issue of the Notes. This summary should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Offering Circular. Certain terms used in this summary are defined elsewhere in this Offering Circular. A list of the pages on which these terms are defined is found in the "Index of Principal Defined Terms" in Appendix 4 at the end of this Offering Circular.

The Parties

The major transaction parties are as follows:

The Issuer..... Pacific Quay Finance PLC (the "**Issuer**").

The Issuer is a public company incorporated in England and Wales with limited liability. The activities of the Issuer are restricted to issuing the Notes, making the Loan and entering into transactions incidental to these activities. The issued share capital of the Issuer is owned by or on behalf of Holdings. For further information about the Issuer, see "*The Issuer*" at page 46.

The Borrower..... Pacific Quay Trustees No. 1 Limited (the "**Borrower**").

The Borrower is a private company incorporated in England and Wales with limited liability. The activities of the Borrower are restricted to procuring the grant of the Headlease and granting the Underlease, funding the Development of the Property, borrowing under the Credit Agreement, declaring the Unit Trust and acting as the Unit Trustee and entering into transactions incidental to these activities. The issued share capital of the Borrower is owned by Capita Trust Company Limited. For further information about the Borrower, see "*The Borrower*" at page 50.

The Nominee..... Pacific Quay Nominees No. 1 Limited (the "**Nominee**").

The Nominee is a private limited company incorporated in England and Wales with limited liability. The activities of the Nominee are limited to procuring the grant of the Headlease and granting the Underlease and entering into transactions incidental to those activities. The issued share capital of the Nominee is owned by Capita Trust Company Limited.

The Nominee will hold its interests in the Headlease and the Underlease on trust for the Borrower (the "**Nominee Trust**") pursuant to the terms of a declaration of trust to be entered into on or around the Closing Date (the "**Nominee Declaration of Trust**").

Holdings..... Pacific Quay Holdings Limited ("**Holdings**").

Holdings is a private limited company incorporated in England and Wales with limited liability. The activities of Holdings are limited to holding the shares of the Issuer, entering into the Post-Enforcement Call Option Agreement and entering into transactions incidental to those activities. The issued share capital of Holdings is owned by SFM Corporate Services

Limited (the "**Share Trustee**") pursuant to a declaration of trust to be declared by the Share Trustee on or around 12 July 2004 (the "**Declaration of Trust**") as trustee for certain specified charities.

The Note Trustee.....HSBC Trustee (C.I.) Limited (in such capacity, the "**Note Trustee**").

HSBC Trustee (C.I.) Limited is incorporated in Jersey and has its principal place of business at 1 Grenville Street, St. Helier, Jersey JE4 9PF.

The activities of HSBC Trustee (C.I.) Limited include acting as trustee for the holders of capital market debt instruments similar to the Notes and holding and enforcing security interests granted in respect of capital market debt instruments similar to the Notes. The Note Trustee will act as trustee for the holders of the Notes pursuant to a trust deed (the "**Note Trust Deed**") to be entered into on or around the Closing Date between the Note Trustee and the Issuer.

The Issuer Security Trustee.....HSBC Trustee (C.I.) Limited (in such capacity, the "**Issuer Security Trustee**").

The Issuer Security Trustee will act as trustee for the Noteholders, the Note Trustee, the Issuer Security Trustee, the Corporate Services Provider, the Developer, the Share Trustee, the Issuer Manager, the Loan Servicer, the Swap Provider, the Paying Agents, the Agent Bank and the Issuer Operating Bank (all of such persons or entities being, collectively, the "**Issuer Secured Parties**") pursuant to the Deed of Charge and Assignment.

The Borrower Security TrusteeHSBC Trustee (C.I.) Limited (in such capacity, the "**Borrower Security Trustee**").

The Borrower Security Trustee will act as trustee for the Issuer the Borrower Manager, the Borrower Operating Bank, the Developer, the BBC and the Borrower Security Trustee (all of such persons or entities being, collectively, the "**Borrower Secured Parties**") pursuant to a security trust deed (the "**Borrower Security Trust Deed**") to be entered into on or around the Closing Date between the Borrower Security Trustee, the Borrower and the Borrower Secured Parties.

The Borrower Manager.....Consortium Investment Management Limited (in such capacity the "**Borrower Manager**").

Consortium Investment Management Limited ("**CIML**") is authorised and regulated by the Financial Services Authority and is wholly owned by the partners of Allsop & Co. CIML is incorporated in England and Wales (registered number 2169665) and has its registered office at 27 Soho Square, London W1D 3AY.

The Loan Servicer.....HSBC Bank plc will act as loan servicer (in such capacity, the "**Loan Servicer**") in respect of the Loan and the Related Security pursuant to the Loan Servicing Agreement.

The Issuer Manager.....HSBC Bank plc (in such capacity, the "**Issuer Manager**").

The Swap Provider Barclays Bank PLC (in such capacity, the **"Swap Provider"**).

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

In the event of the rating of the long-term unsecured and unsubordinated debt obligations of the Swap Provider falling below "A1" by Moody's or in the event of the rating of the short-term unsecured and unsubordinated debt obligations of the Swap Provider falling below "A1+" by S&P, "F1" by Fitch or "P-1" by Moody's, the Swap Provider may be required to make transfers to the Issuer of collateral in support of its obligations under the Swap Agreement, pursuant to the terms of the 1995 ISDA Credit Support Annex to be entered into on or around the Closing Date between the Issuer and the Swap Provider (the **"Swap Agreement Credit Support Document"**).

Furthermore, in the event of the rating of the long-term unsecured and unsubordinated debt obligations of the Swap Provider falling below "A3" by Moody's or "BBB-" by S&P or in the event of the rating of the short-term unsecured and unsubordinated debt obligations of the Swap Provider falling below "F2" by Fitch or "P-2" by Moody's, the Swap Provider will be required to make transfers to the Issuer of collateral in support of its obligations under the Swap Agreement pursuant to the terms of the Swap Agreement Credit Support Document and to take steps to transfer its obligations to a replacement swap provider with the ratings required by the relevant Rating Agencies, procure the appointment of a co-obligor with the applicable required ratings or take such other actions as may be agreed with the relevant Rating Agency.

For further information about the Swap Agreement, see *"Credit Structure and Issuer Cashflows - The Swap Agreement"* at page 94.

The short term unsecured obligations of Barclays Bank PLC are rated "A-1+" by S&P, "P-1" by Moody's and "F1+" by Fitch and the long term obligations of Barclays Bank PLC are rated "Aa1" by Moody's, "AA" by S&P and "AA+" by Fitch. Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered and head office at 54 Lombard Street, London EC3P 3AH.

The Corporate Services Provider Structured Finance Management Limited (in such capacity, the **"Corporate Services Provider"**).

Structured Finance Management Limited is incorporated in England and Wales and has its registered office at Blackhall House, Guildhall Yard, London EC2V 5AE.

The Corporate Services Provider will, pursuant to a corporate services agreement to be entered into on or around the Closing Date between the Corporate Services Provider, Holdings, the

Issuer and the Note Trustee (the "**Corporate Services Agreement**"), provide certain administrative services to the Issuer and to Holdings.

The Issuer Operating Bank..... HSBC Bank plc will act as the operating bank for the Issuer (in such capacity, the "**Issuer Operating Bank**") through its branch at 8 Canada Square, Level 24, London E14 5HQ.

The Issuer will maintain its bank accounts, including the Issuer Operating Account, the Development Account, the Expenses Account and the Interest Account, with the Issuer Operating Bank.

The short term unsecured and unsubordinated debt obligations of HSBC Bank plc are rated "A-1+" by S&P, "P-1" by Moody's and "F1+" by Fitch and the long term unsecured and unsubordinated debt obligations of HSBC Bank plc are rated "Aa2" by Moody's, "AA-" by S&P and "AA" by Fitch. HSBC Bank PLC is incorporated in England and Wales and has its registered office at 8 Canada Square, London E14 5HQ.

The Borrower Operating Bank..... Barclays Bank PLC will act as operating bank for the Borrower (in such capacity, the "**Borrower Operating Bank**") through its branch at 54 Lombard Street, London EC3V 9EX.

The Borrower will maintain its bank accounts, including the Borrower Rent Account, the Borrower Tax Account, the Borrower Development Account and the Borrower Realisation Account with the Borrower Operating Bank.

The Principal Paying Agent and the Agent Bank..... HSBC Bank plc will act as principal paying agent and agent bank (in such capacities, the "**Principal Paying Agent**" and the "**Agent Bank**" respectively) pursuant to an agency agreement to be entered into on or around the Closing Date between among others, the Issuer, the Note Trustee, the Agent Bank, the Principal Paying Agent and the Sub-Paying Agent (the "**Agency Agreement**").

The Sub-Paying Agent HSBC Global Investor Services (Ireland) Limited will act as Sub-Paying Agent (in such capacity, the "**Sub-Paying Agent**" and together with the Principal Paying Agent and any other paying agents that may be appointed pursuant to the Agency Agreement, the "**Paying Agents**") pursuant to the Agency Agreement. The Sub-Paying Agent is incorporated in Ireland and has its registered office and principal office at Europe House, Harcourt Centre, Harcourt Street, Dublin 2, Ireland.

The Unit Trust

Background..... The Unit Trust will be a collective investment scheme, a defined in the Financial Services and Markets Act 2000 ("**FSMA**"). The Unit Trust will not be authorised or otherwise regulated by the Financial Services Authority.

The Unitholders of the Unit Trust will be able to recover, by way of tax refunds, amounts which should equal the tax paid by the Unit Trust. The Unitholders will agree to reinvest such tax recoveries into the Unit Trust.

For further information about the Unit Trust, see "*The Unit Trust Structure*" at page 52.

The Unit Trust..... Pacific Quay Unit Trust is the Unit Trust.

The Borrower will act as trustee of the Unit Trust pursuant to a trust deed (the "**Unit Trust Deed**") to be entered into on or around the Closing Date between the Borrower (in its capacity as Unit Trustee) and the Unit Trust Manager.

The Unit Trust will be established for the purposes of procuring the grant of the Headlease and granting the Underlease, and funding certain expenses incurred in connection with the Development Programme.

The units in the Unit Trust (the "**Units**") will be held by the SIPP Trustee, as scheme trustee, for a number of Unitholders.

The Unit Trust Manager..... CIML (in such capacity, the "**Unit Trust Manager**").

The Unitholders The Unit Trust will only accept investment from SIPPs.

For further information about the Unitholders, see "*The Unit Trust Structure - The Unitholders*" at page 52.

SIPP Entities..... European Pension Management Limited ("**EPML**") (in its capacity as scheme trustee (the "**SIPP Trustee**") and as scheme administrator (the "**SIPP Administrator**")) and Church House Trust plc (a company authorised by the Financial Services Authority) as scheme provider (the "**SIPP Provider**"). EPML will co-ordinate and represent the Unitholders pursuant to the Unit Trust Deed under the terms of the EPM Scheme, a scheme approved by the Inland Revenue under Chapter IV Part XIV of the Income and Corporation Taxes Act 1988.

The Loan and the Related Security

The Loan At the end of the Rent-Free Period, the principal amount of the Loan (the "**Loan**") is expected to be £129,250,000.

Under the terms of the Credit Agreement, on each Loan Payment Date up to and including the Loan Payment Date falling in July 2007, the obligations of the Borrower to make payments in respect of the Loan will be satisfied by the application of monies standing to the credit of the Interest Account. On each Loan Payment Date falling after July 2007 the Borrower will be required to make the applicable payments of interest (calculated in accordance with the Actual Interest Calculation) and repayments of principal on each Loan Payment Date such that on the Loan Maturity Date, the Outstanding Loan Balance of the Loan will have been fully amortised.

Loan Payment Dates will occur on the 8th day of January, April July and October of each calendar year.

For further information about the Loan, see "*The Loan, the Related Security and Borrower Cashflows*" at page 56. For further information about the sources of funds available to the Borrower to make payments due in respect of the Loan, see "*The Accounts Structure*" at page 98.

Purpose of the Loan..... The purposes for which the Loan will be made are described at page 5 and page 56.

As a result of undertaking the Development Programme, the Property will be developed as offices, broadcasting studios and production facilities. The Property will be the headquarters in Scotland of the BBC.

For further information about the Development Programme, see "*The Property and the Leases*" at page 69.

The Loan Security..... The obligations of the Borrower to the Borrower Secured Parties (all of such obligations being the "**Borrower Secured Obligations**") will be secured by various security interests to be granted by the Borrower in favour of the Borrower Security Trustee as described below (the "**Related Security**").

On or around the Closing Date, the Borrower will enter into the Borrower Debenture in favour of the Borrower Security Trustee. The security interests created pursuant to the Borrower Debenture will include:

- (a) a first ranking charge over the Borrower Rent Account, the Borrower Tax Account, the Borrower Development Account and the Borrower Realisation Account (the "**Borrower Account Charges**");
- (b) an assignment by way of security of the Borrower's rights under the Direct Agreements (the "**Direct Agreements Assignment**"); and
- (c) a floating charge over all the other assets of the Borrower not effectively secured by way of fixed security interest (but extending over all of the Borrower's Scottish assets) (the "**Borrower Floating Charge**").

The Borrower and the Nominee will, on or around the Closing Date, enter into the Borrower Security Agreement in favour of the Borrower Security Trustee. The security interests created pursuant to the Borrower Security Agreement will include:

- (a) (in the case of the Borrower, to the extent not secured pursuant to the Borrower Debenture) a first ranking charge over all benefits in respect of contracts and policies of insurance governed by English law taken out by the Borrower and the Nominee or in which they have an interest, to the extent of such interest (the "**Insurances Charge**"); and
- (b) floating charges over the interests of the Borrower and the Nominee in the Headlease, the Car Park Headlease the Rent Payments, the Collateral Deed, contracts and policies of insurance governed by Scots law and certain other assets situated in Scotland or governed by Scot law (the "**Scottish Floating Charges**").

Pursuant to the Borrower Security Agreement, the Borrower and the Nominee will also, on or around the Closing Date, enter into the Borrower Standard Security in favour of the Borrower

Security Trustee which will provide first ranking security over the Headlease and the Car Park Headlease and the Borrower Assignment of Rents in respect of the Rent Payments payable pursuant to the Underlease and the rights of the Borrower and the Nominee under the Collateral Deed.

Security for the Loan will also be provided by a number of direct agreements (the "**Direct Agreements**") entered into by, among others, the Developer, the Contractor and the Employer's Agent relating to the Development Programme, which will allow the Borrower and the Borrower Security Trustee to exercise rights against such entities under certain circumstances.

Further, should a managing agent be appointed by the Borrower Manager in respect of the Property (the "**Managing Agent**"), such Managing Agent will be required to enter into a duty of care agreement with the Borrower and the Borrower Security Trustee (a "**Duty of Care Agreement**") which will also constitute security for the Loan.

The security granted and the obligations entered into by the Nominee will be limited in recourse to the assets, property, rights and undertakings of the Nominee that are the subject of the Related Security and no action may be taken in respect of any other assets of the Nominee.

The shareholder of the Borrower, being Capita Trust Company Limited (the "**Borrower Shareholder**") will, on or around the Closing Date, enter into the Borrower Share Charge in respect of its shareholdings in the Borrower in favour of the Borrower Security Trustee as security for the Borrower Secured Obligations, creating a first ranking charge over such shares.

All of the security interests described above will be governed by English law, save for the security interests granted in respect of the Borrower Standard Security, the Borrower Assignment of Rents and the Scottish Floating Charges, which will be governed by Scots law.

The Related Security to be granted and the obligations to be entered into by the Unit Trustee will be limited in recourse to the assets of the Unit Trust.

Insurance As required by the terms of the Underlease, the Property will, from completion of the Development Programme, be covered by an insurance policy (the "**Buildings Insurance Policy**") to be maintained by the Tenant and provided by an approved insurer which is an insurer with whom a reasonably prudent company in the business of the development, construction management, ownership or letting of property would effect insurance for a property such as the Property and which is regulated by the Financial Services Authority or an equivalent regulatory body. The Tenant, the Headlessees and the Borrower Security Trustee will be joint-insured under the Building Insurance Policy.

Until completion of the Development Programme, under the terms of the Development Agreement, the Developer will be required to effect a construction "all risks" insurance policy and public liability and third party indemnity insurance.

For a more detailed description of the insurance arrangements in respect of the Property and the risks in relation thereto, see "*Risk Factors - Factors relating to the Loan and the Property - Insurance*" at page 32 and "*The Property and the Leases - The Underlease - Tenant's Obligations - Insurance*" at page 76.

The Property

The Property..... An area of land comprising approximately 4.42 acres forming part of Pacific Quay, Glasgow.

For further information about the Property, see "*The Property and the Leases*" at page 69.

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

Under the terms of the Headlease, the Headlessees will be required to pay an annual rent of one peppercorn (if demanded) and to abide by certain undertakings. The Borrower (in its capacity as Unit Trustee) will pay a premium for the grant of the Headlease using part of the proceeds of the Loan and may be obliged in due course to make a further payment to the BBC by way of deferred consideration. Such deferred consideration, if payable, will not however be payable prior to the payment of amounts due from the Borrower under the Credit Agreement.

For further information about the Headlease, see "*The Property and the Leases - The Headlease*" at page 72.

Headlease Break Option..... The ability of the Issuer to make payments of interest on and repayments of principal of the Notes will be dependent, during the Rental Period, on the BBC making the required Rent Payments.

On the occurrence of a Trigger Event (each of which will relate principally to the financial status of the BBC and its ability to make necessary rental payments under the Underlease), the Borrower will, under the terms of the Headlease, have the option (the "**Headlease Break Option**") to determine the Headlease in which case the BBC will pay to the Borrower compensation equal to the greater of:

- (a) the aggregate of the amount the Borrower is required to pay to repay and discharge all principal, interest and other monies due and payable pursuant to the Finance Documents and to pay the Lump Sum Compensation Payment; and
- (b) the then market value of the Headlease (reduced to take account of the residual share of the BBC in relation to such market value),

less, in either case, the amounts standing to the credit of the Borrower Accounts as at the date of termination.

The proceeds of exercising the Headlease Break Option will be used by the Borrower to prepay the Loan, as well as any other amounts due from the Borrower under the Credit Agreement.

(which will, in turn, be applied to redeem the Notes in full) and the other Finance Documents and to pay the Lump Sum Compensation Payment.

For further information about the Headlease Break Option, including a description of the Trigger Events and details of the procedure to be followed by the Headlessees and the Borrower Security Trustee, see "*The Property and the Leases - The Headlease - Term and Break Clause - Headlease Tenant Break Clause*" at page 72.

The BBC, under the terms of a separate deed (the "**Collateral Deed**") to be entered into on or around the Closing Date between the Borrower, the Nominee, the Borrower Security Trustee and the BBC, agrees that if compulsory purchase proceedings are instituted in respect of an area comprising less than 10% of the initial gross area of the Property, it will undertake to continue to pay an annual sum equivalent to any rent apportioned to any part of the Property compulsorily acquired in such way.

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

Under the terms of the Underlease, the Tenant will, during the Rental Period, be under an unconditional obligation to pay the Rent Payments reserved under the Underlease, regardless of the status of the Development Programme or whether the Tenant is able to occupy and use the Property.

The Tenant will make Rental Payments (adjusted for Indexation) for the first 27 years of the term of the Underlease (save for the Rent-Free Period) and a revised rental from 5 July 2031 calculated as described in "*Transaction Overview*" or page 5 and "*The Property and the Leases*" on page 69.

Car Park Headlease and Car Park Underlease..... On or around the Closing Date, the BBC will grant the Car Park Headlease to the Headlessees in respect of a car parking area adjacent to the Property (comprising approximately 3.008 acres) for a term of 150 years. The Headlessees will grant the Car Park Underlease in respect of the car parking area to the BBC for a term of 30 years. In each case, no rent will be payable and both leasing arrangements will be terminable in certain circumstances.

For further information about the Car Park Headlease and the Car Park Underlease, see "*The Property and the Leases - Car Parking Leases*" at page 69.

Development Programme The BBC, the Borrower and the Developer will, on or around the Closing Date, enter into a development agreement (the "**Development Agreement**") pursuant to which the Developer has agreed to undertake a programme of development in relation to the Property (the "**Development Programme**"), the costs of which will be funded by the Borrower.

The Borrower will fund its contribution to the costs of the Development Programme by borrowing monies under the

Credit Agreement. Such amounts will be advanced to the Borrower by the Lender on scheduled dates specified in the Credit Agreement and will be available to be utilised by the Borrower in making payments to (i) the Contractor subject to the satisfactory completion of stages in the Development Programme and upon receipt of appropriate building contract certificates from the Employer's Agent (the "**Building Certificates**") and (ii) the Developer, the BBC and certain third parties sums comprising budgeted development fees and expenses against delivery of appropriate invoices approved by the BBC.

The Borrower will meet the costs of the contemplated Development Programme. In the event that there are any variations in the terms of the Development Programme the BBC will, under the terms of the Development Agreement, be required to meet the additional costs incurred in respect of any such variations in excess of the original budget for the Development. The payment obligations of the Borrower to the Developer and any rights the Developer may have against the Borrower in respect of such payment obligations under the Development Agreement and certain payment obligations of the Borrower to the BBC under the Development Agreement in respect of certain reciprocal arrangements as to VAT (as to which, see "*The Property and the Leases – The Development Programme – Development Agreement*" at page 79 will be limited to the amounts, from time to time, standing to the credit of the Borrower Development Account.

The Issuer will, on or around the Closing Date, provide a guarantee in favour of the Developer in respect of the payment obligations of the Borrower under the Development Agreement (the "**Issuer Development Guarantee**"). The obligations of the Issuer and any rights the Developer may have against the Issuer under the Issuer Development Guarantee will be limited to the amounts from time to time standing to the credit of the Development Account.

The planning sub-committee of Glasgow City Council has resolved to approve the Planning Consents for the Development subject to delivery of the appropriate documents dealing with planning gain. The BBC intends to commence development works on the Property at the end of June 2004 (subject to securing the relevant works licences from Scottish Enterprise, the current owners of the Property, where such works are carried out prior to completion of the Sale and Purchase Agreement).

For further information about the Development Programme, see "*The Property and the Leases – The Development Programme*" at page 79.

The BBC

Background of the BBC..... The BBC is a public corporation which exists pursuant to a Royal Charter (the "**BBC Charter**") and which is engaged in providing, as a public service, sound and television programmes of information, education and entertainment. The BBC is therefore, a public broadcasting organisation and, in some respects, different from a normal commercial broadcasting

company, the principal difference is that the bulk of its revenue is obtained by way of a licence fee, which is payable by law, rather than by subscription payments from its customers or from advertising revenue.

For further information about the BBC, see "*The Background and Business of the BBC*" at page 82 and "*Risk Factors - Factors Relating to the BBC*" at page 36.

The Notes

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

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

Interest..... The Notes will bear interest at a fixed rate of 5.5653 per cent. per annum on their Principal Amount Outstanding from, and including, the Closing Date and will not be subject to Indexation. Interest will be payable in respect of the Notes in pounds sterling quarterly in arrear on the 25th day of January, April, July and October in each year (each a "**Note Payment Date**"), provided that if, but for this proviso, any payment would be required to be made on a day other than a Business Day (as defined in Condition 4(b) at page 116), such payment will be due on the next succeeding Business Day (provided that if the next succeeding Business Day falls in the next calendar month, such payment will be due on the immediately preceding Business Day) and no further payments of additional amounts by way of interest, principal or otherwise will be due in relation thereto. The first Note Payment Date will be the Note Payment Date falling in October 2004.

Interest payments will be made subject to any applicable withholding or deduction for or on account of tax (if any) without the Issuer being obliged to pay additional amounts in respect of any such withholding or deduction.

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

Failure by the Issuer to pay interest on any of the Notes which is outstanding at any time when such interest is due and payable will (unless the Note Trustee is satisfied the default has arisen by reason of technical default or error and the Issuer has the funds available to make payment and payment is made within three Business Days of the due date) result in the occurrence of an Event of Default (as defined in Condition 9 at page 123) following which, the Note Trustee will be permitted, by service of a Note Enforcement Notice, to declare the Notes immediately due and payable and/or the Issuer Security enforceable.

Principal Amount Outstanding The "**Principal Amount Outstanding**" of a Note on any date will be calculated as described in Condition 5(e) at page 120.

Principal Scheduled Redemption Subject to "**Mandatory Redemption in Full**" as described below, the Principal Amount Outstanding of the Notes will amortise, in accordance with the schedule to the Conditions set out at page 129.

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

Mandatory Redemption in Full Unless a Note Enforcement Notice has been served, the Notes will be subject to mandatory redemption in full on any Note Payment Date following prepayment of the Loan in full made by the Borrower pursuant to the terms of the Credit Agreement in the manner described in Condition 5(b) at page 118.

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

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

- (a) if the Issuer satisfies the Note Trustee that (i) by virtue of a change in tax law from that in effect on the Closing Date the Issuer will be obliged to make any withholding or deduction from payments in respect of the Notes and such obligation to make withholding or deduction cannot be avoided by the Issuer taking reasonable measures available to it, or the Issuer is subject to any other Tax Shortfall, or (ii) by virtue of a change in law from that in effect on the Closing Date any amount payable by the Borrower in relation to the Loan is reduced or ceases to be receivable (whether or not actually received); or
- (b) if (i) a Tax Event occurs under the Swap Agreement (and the Issuer cannot avoid such Tax Event by taking reasonable measures available to it); (ii) the Swap Provider is unable to cure the Tax Event by transferring

its rights and obligations thereunder to another branch, office or affiliate, and (iii) the Issuer is unable to find a replacement swap provider which would result in the curing of such Tax Event (the Issuer being obliged to use reasonable efforts to find a replacement swap provider),

and provided further that, in either case, the Issuer has certified to the Note Trustee that it will have sufficient funds available to it on the relevant Note Payment Date to discharge all of its liabilities in respect of the Notes in full and any amounts required under the Deed of Charge and Assignment to be paid in priority to, or *pari passu* with, the Notes on such Note Payment Date, all in accordance with "*Credit Structure and Issuer Cashflows — Payments out of the Issuer Operating Account Prior to Enforcement of the Issuer Security*" below at page 91. See further "*Terms and Conditions of the Notes*", Conditions 5(c) and 5(d) at page 118 and page 119 respectively.

Ratings..... The Notes are, upon issue, expected to be rated AA by Fitch, Aa2 by Moody's and AA- by S&P.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by one or more of the assigning rating agencies. The ratings address the likelihood of timely receipt by any Noteholder of interest on and principal of the Notes and the expected loss posed to investors by the Maturity Date. The structure allows for timely payment of interest and ultimate payment of principal on or before the Maturity Date.

The ratings on the Notes only address the credit risks associated with the underlying transaction and do not address the non-credit risks which may have a significant effect on the receipt by Noteholders of interest and principal.

Sales Restrictions..... The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities law and unless so registered may not be offered or sold within the United States or to, or for the benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and the applicable state securities laws. Accordingly, the Notes are being offered and sold only to persons (other than U.S. persons) outside the United States pursuant to Regulation S under the Securities Act.

For further information regarding certain restrictions on resales or transfers of the Notes, see "*Subscription and Sale*" at page 135.

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

Settlement..... Euroclear and Clearstream, Luxembourg.

Note Trust Deed The Note Trustee will be appointed pursuant to the Note Trust Deed to represent the interests of the Noteholders. The Note Trustee will agree to hold the benefit of the covenants made by the Issuer contained in the Note Trust Deed on trust for the Noteholders.

Among other things, the Note Trust Deed:

- (a) will set out when, and the terms upon which, the Note Trustee will be entitled or obliged, as the case may be, to take steps to enforce the Issuer's obligations under the Notes (or certain other relevant documents);
- (b) will contain various covenants of the Issuer relating to repayment of principal and payment of interest in respect of the Notes, to the conduct of its affairs generally and to certain ongoing obligations connected with its issuance of the Notes;
- (c) will provide for the remuneration of the Note Trustee, the payment of expenses incurred by it in the exercise of its powers and performance of its duties and provides for the indemnification of the Note Trustee against liabilities, losses and costs arising out of the Note Trustee's exercise of its powers and performance of its duties;
- (d) will provide that the determination of the Note Trustee will be conclusive and binding on the Noteholders;
- (e) will set out the extent of the Note Trustee's powers and discretions, including its rights to delegate the exercise of its powers or duties or agents, to seek and act upon the advice of certain experts and to rely upon certain documents without further investigation;
- (f) will set out the scope of the Note Trustee's liability for any breach of duty or breach of trust, negligence or default in connection with the exercise of its duties;
- (g) will set out the basis on which the Note Trustee will exercise its discretions in connection with the Notes, the Issuer, the Transaction Documents, the Issuer Security, the Loan or the Related Security;
- (h) will set out the terms upon which the Note Trustee may, without the consent of the Noteholders, make or sanction any modification to the Conditions or to the terms of the Note Trust Deed or certain other relevant documents; and
- (i) will set out the requirements for and organisation of Noteholder meetings.

The Note Trust Deed will also contain provisions governing the retirement or removal of the Note Trustee and the appointment of a successor Note Trustee. The Note Trustee will be able at any time and for any reason resign as Note Trustee upon giving not less than three months' prior written notice to the Issuer. The holders of the Notes, acting by Extraordinary Resolution of

Noteholders, will be able together to remove the Note Trustee from office. No retirement or removal of the Note Trustee (or any successor Note Trustee) will be effective until a trust corporation has been appointed to act as successor Note Trustee.

The appointment of a successor Note Trustee will be made by the Issuer or, where the Note Trustee has given notice of its resignation and the Issuer has failed to make any such appointment by the expiry of the applicable notice period, by the Note Trustee itself. No person may be appointed to act as a successor Note Trustee unless that person has been previously approved by an Extraordinary Resolution of Noteholders.

**Post Enforcement Call
Option Agreement**.....

On or around the Closing Date, the Issuer, Holdings and the Note Trustee (as agent for the Noteholders) will enter into an agreement (the "Post Enforcement Call Option Agreement") pursuant to which the Note Trustee (as agent for the Noteholders) will be required, upon the exercise of the option granted to Holdings by the Note Trustee, to transfer to Holdings, all (but not some only) of the Notes.

The option may be exercised by Holdings (in its absolute discretion) following the enforcement of the Issuer Security and the determination by the Note Trustee (in its absolute discretion) that there are no further assets to pay amounts due and owing to the Noteholders. The Noteholders will be bound by the Conditions to transfer the Notes to the Holdings in these circumstances. The Noteholders will not be paid more than a nominal amount for the transfer of the Notes.

Governing Law.....

The Notes and the Note Trust Deed will be governed by English law.

Available Funds and their Priority of Application

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

Borrower Cashflows.....

The terms of the Borrower Cash and Corporate Management Agreement will provide that, prior to the enforcement of the Related Security, on each Loan Payment Date, amounts standing to the credit of the Borrower Rent Account (excluding Excess Borrower Interest not available for application pursuant to the terms of the Credit Agreement) will be applied by the Borrower Manager in accordance with the priority of payments set out in "The Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Pre-Enforcement Priority of Payments (Borrower)" at page 66.

Up to and including the Loan Payment Date falling in July 2007, and in satisfaction of the Borrower's liability to make payments on the Loan, amounts calculated by reference to the Interest Instalment Schedule will be transferred by the Issuer Manager from the Interest Account to the Issuer Operating

Account. Following the Loan Payment Date falling in July 2007, amounts due and payable in respect of the Loan (other than repayment of DSA Liquidity Advances) will be transferred from the Borrower Rent Account, into which the relevant Rent Payments will have been paid, into the Issuer Operating Account. Amounts due and payable in respect of repayments of DSA Liquidity Advances will be transferred by the Borrower Manager from the Borrower Tax Account, into which the relevant Deferred Subscription Amounts will have been paid, into the Issuer Operating Account.

Up to and including the Rent Payment Date falling in October 2007, the Expenses of the Borrower will be funded from the Expenses Account in accordance with the terms of the Credit Agreement as set out in "*The Loan, the Related Security and Borrower Cashflows*" at page 56.

The payment obligations of the Borrower under the Development Programme will be funded from the Borrower Development Account in accordance with the terms of the Credit Agreement as set out in "*The Loan, the Related Security and Borrower Cashflows*" at page 56.

The terms of the Credit Agreement will require the Borrower to ensure that, prior to the enforcement of the Related Security, upon the termination, sale or disposal of the Headlease, the net proceeds thereof are promptly deposited into the Borrower Realisation Account and thereafter applied, together with the amounts standing to the order of the Borrower Rent Account and the Borrower Tax Account, by the Borrower Manager in accordance with the priority of payments set out in "*The Loan, the Related Security and the Borrower Cashflows - Borrower Cashflows - Pre-Enforcement Priority of Payments (Borrower Realisation Account)*" at page 66.

Following enforcement of the Related Security, the Borrower Security Trustee will be required to apply all funds received or recovered by it in accordance with the priority of payments set out in "*The Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Post-Enforcement Priority of Payments (Borrower)*" at page 67.

Issuer Cashflows The terms of the Issuer Cash and Corporate Management Agreement will provide that, prior to the enforcement of the Issuer Security, on each Swap Payment Date, the Issuer Manager, on behalf of the Issuer will, to the extent that the Issuer is a net payer in respect of the Indexation Swap Transaction and to the extent that TLS Repayments are due and payable by the Issuer under the DSA Swap Transaction, pay the amounts due from the Issuer to the Swap Provider. Thereafter, on each Note Payment Date, amounts standing to the credit of the Issuer Operating Account (including amounts paid into the Issuer Operating Account by the Swap Provider and the amounts transferred from the Interest Account into the Issuer Operating Account) will be applied by the Issuer Manager in accordance with the priority of payments set out in "*Credit Structure and Issuer Cashflows - Issuer Cashflows - Pre-Enforcement Priority of Payments (Issuer)*" at page 92.

The terms of the Credit Agreement will provide for the application of amounts standing to the credit of the Development Account, the Expenses Account and the Interest Account as described in "*The Loan, the Related Security, and Borrower Cashflows*" at page 56.

Following enforcement of the Issuer Security, the Issuer Security Trustee will be required to apply all funds received or recovered by it in accordance with the priority of payments set out in "*Credit Structure and Issuer Cashflows - Issuer Cashflows - Post-Enforcement Priority of Payments (Issuer)*" at page 93.

To the extent that either the Issuer (after accounting for the payments to be made under items (a) to (e) in "*Credit Structure and Issuer Cashflow - Cashflows - Pre Enforcement Priority of Payments (Issuer)*" at page 91, on the next following Note Payment Date) or the Borrower (after accounting for the payments to be made under items (a) to (d) in "*The Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Pre-Enforcement Priority of Payments (Borrower)*" on page 66 or the payments to be made under items (a) to (f) in "*The Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Post Enforcement Priority of Payments (Borrower)*" at page 67, on the next following Loan Payment Date) have excess funds available in the Issuer Operating Account or the Borrower Rent Account, as applicable, then under the terms of an agreement (the "**Issuer/Borrower Expenses Loan Agreement**") to be entered into on or around the Closing Date, the Issuer will be permitted to lend to the Borrower, and the Borrower will be permitted to lend to the Issuer, an amount (not to exceed such excess) to be applied by the Borrower or the Issuer (as applicable) in meeting expenses incurred by it. Advances made by the Issuer or the Borrower pursuant to the Issuer/Borrower Expenses Loan Agreement will be interest-free.

***Security for the Notes and Payments
out of the Issuer Operating Account
Post Enforcement of the Notes***

The Issuer Security will become enforceable upon the Note Trustee giving a Note Enforcement Notice. Following enforcement of the Issuer Security, the Issuer Security Trustee will be required to apply all funds received or recovered by it in accordance with the order of priority described under "*Credit Structure and Issuer Cashflows - Post-Enforcement Priority of Payments (Issuer)*" at page 93.

The obligations of the Issuer to the Issuer Secured Parties (all of such obligations being, collectively, the "**Issuer Secured Obligations**") will be secured by and pursuant to the Deed of Charge and Assignment, to be governed by English law, which will be entered into on or around the Closing Date.

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

- (a) an assignment by way of security over the Loan and the Issuer's rights under the Credit Agreement;

- (b) an assignment by way of security over the Issuer's beneficial interests in the Borrower Security Trust created over the Related Security;
- (c) an assignment by way of security in respect of the Issuer's rights under, among other things, the Loan Servicing Agreement, the Corporate Services Agreement, the Issuer Cash and Corporate Management Agreement, the Agency Agreement, the Swap Agreement (including the Swap Agreement Credit Support Document) (subject to netting and set-off provisions contained therein), the Note Trust Deed and the Master Definitions Agreement;
- (d) a first ranking charge over the Issuer Operating Account, the Development Account, the Expenses Account, the Interest Account, the Issuer Swap Collateral Cash Account, the Issuer Swap Collateral Custody Account, and any other bank account in which the Issuer may place and hold its cash resources (the "Issuer Accounts"), and of the funds from time to time standing to the credit of such accounts and any other Eligible Investments from time to time held by or on behalf of the Issuer; and
- (e) a floating charge over the whole of the undertaking and assets of the Issuer (other than any property or assets of the Issuer subject to an effective fixed security set out in paragraphs (a) to (d) above, but extending over all of the Issuer's Scottish assets).

Upon enforcement of the Issuer Security, the amounts payable to certain Issuer Secured Parties (other than the Noteholders) will rank higher in priority to payments of interest or principal on the Notes and, in the case of the Swap Provider, any amounts due to it as described in item (c) of the "*Credit Structure and Cashflows - Post-Enforcement Priority of Payments (Issuer)*" at page 93.

Subject to certain conditions, only the Issuer Security Trustee may pursue the remedies available to the Issuer Secured Parties for the purposes of recovering amounts owed in respect of the Notes. The proceeds of the enforcement of such remedies may, after paying or providing for all prior ranking claims, be less than the sums due in respect of the Notes and other claims ranking *pari passu* therewith.

RISK FACTORS

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

Factors Relating to the Loan and the Property

Concentration of Risk

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

The Property will be wholly let to the BBC as the single Tenant under the Underlease. The Underlease will not be assignable. During the Rent-Free Period, payments due in respect of the Loan (and payments of interest due in respect of the Notes) will be satisfied exclusively from sums withdrawn from the Interest Account and paid into the Issuer Operating Account. Such sums (to the extent they comprise Interest Instalment Amounts) will constitute an Advance to the Borrower applied in satisfaction of the obligation to make payments due in respect of the Loan. During the Rental Period payments due in respect of the Loan (excluding repayment of DSA Liquidity Advances) will be made from Rent Payments received by the Borrower into the Borrower Rent Account and repayments of DSA Liquidity Advances will be made from Deferred Subscription Amounts paid into the Borrower Tax Account. Thus, during the Rental Period, failure by the Tenant to make Rent Payments in whole or in part or failure by EPML to account for Deferred Subscription Amounts, in whole or in part, will adversely affect the ability of the Borrower to make the necessary payments in respect of the Loan and consequently the Issuer to make the necessary payments in respect of the Notes. In addition, various other enhancements to the structure of the transaction described in this Offering Circular, such as the Headlease Break Option, will be dependent on the ability of the BBC to make payments thereunder and failure by the BBC to make payments pursuant to these obligations may adversely affect the Borrower's ability to make payments due in respect of the Loan and consequently the Issuer's ability to make payments due in respect of the Notes. For further information regarding matters which could adversely affect the ability of the Tenant to make payments due under the Underlease and other potential consequences of events that may be adverse to the BBC, see "*Risk Factors - Factors Relating to the BBC*" at page 36.

Limitations on Ability of Property to Generate Income and Sale Proceeds

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

To mitigate this risk, the Borrower will have the benefit of the Headlease Break Option, as further described in "*Property and the Leases - The Headlease - Term and Break Clause*" at page 72, and pursuant thereto, may require, on the occurrence of a Trigger Event, that the BBC pay to the Borrower an amount sufficient to repay the Loan (including any Prepayment Fees) and the Lump Sum Compensation Payment. However, the occurrence of a significant and sudden adverse event in relation to the BBC may result in the BBC, in its capacity as the obligor under the Headlease Break Option, being unable to pay the full amount due to be paid in consideration for the determination of the Headlease or there being no opportunity for the Borrower or the Borrower Security Trustee to exercise the Headlease Break Option prior to the winding up of the BBC.

In such circumstances, and assuming the Tenant defaulted in its obligations under the Underlease, the Headlessees would be entitled to irritate (i.e. forfeit) the Underlease (subject to the Headlessees obtaining a decree of irritancy or recovery of possession, which the Headlessees would be entitled to obtain, provided

they have given notice of such breach to the Tenant and the Tenant failed to remedy the breach within the period specified in such notice, being (i) not less than 14 days in the case of non-payment (provided that the last day of such period is a Business Day) and (ii) not less than three months in any other case, and provided that before the decree of irritancy or recovery of possession is obtained it would always be open to the Tenant to remedy the breach and prevent irritancy or (in the case of any non-monetary breach) to contest the irritancy on the grounds that in the circumstances of the case, a fair and reasonable landlord would not seek termination) and to require the Tenant to vacate the Property, whereupon the Headlessees would seek to find an alternative tenant or tenants to occupy the Property in order to attempt to generate a sufficient income to enable the Borrower to meet its obligations in respect of the Loan. If replacement tenants could not be secured and the Borrower were to default in its obligations in respect of the Loan, the Borrower Security Trustee would, subject to any limitations described under "*Factors Relating to the Notes - Provisions of the Insolvency Act 2000*" at page 43, be entitled to enforce the Related Security. For further details regarding the Borrower Security Trustee's enforcement procedures, see "*Factors relating to the Loan and the Property - Creditor in Possession Liability*" at page 34.

The Headlessees' or, following the enforcement of the Loan and the Related Security, a receiver's ability to generate an alternative income from the Property after the forfeiture of the Underlease may be adversely affected by a large number of factors. These factors may also affect the ability of a receiver to generate sufficient proceeds from the sale of the Property to repay the Loan in full, particularly if the sale were to take place before a significant amount of the outstanding principal of the Loan had been repaid. If insufficient income or sale proceeds were generated in these circumstances, only limited other sources would be available to the Borrower or the receiver to make good any shortfalls in the amounts recovered and the Issuer would not be able to pay or repay the full amount due in respect of the Notes. For information regarding the valuation of the Property, see "*Valuation Report*" in Appendix 1.

Some of the factors which may adversely affect the ability to generate income from the Property and, ultimately, to achieve a satisfactory sale price relate specifically to the Property itself, such as (a) the bespoke technical specifications of the Property which, following the completion of the Development Programme, will result in a significant portion of the Property being suitable only for use as broadcasting studios and associated uses; (b) the use of the Property permitted under the planning consents which, subject to the delivery of appropriate documentation, have been approved for the Development (the "**Planning Consents**") is limited to broadcasting studios, office space and associated activities and the title conditions to be imposed pursuant to the Sale and Purchase Agreement which will state that for a minimum of five years after the completion of the Development Programme, at least a part of the site is to be used as the headquarters of the BBC in Scotland and therefore limit the ability to redeploy the Property for alternative uses such as retail uses; (c) the lack of alternative tenants or willing purchasers of the Property whose business needs would make them suitable tenants or purchasers of premises such as the Property; (d) perceptions which alternate users of the Property may have regarding its safety, convenience and attractiveness; (e) the adequacy of the Property's management and maintenance; and (f) any capital expenditure needed to maintain the Property or make improvements to it or to convert its use.

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

Limited Enforcement Rights during Rent-Free Period

The Credit Agreement and the Related Security will both limit the rights and powers of the Lender and the Borrower Security Trustee and any receiver appointed by the Borrower Security Trustee to interrupt or delay the completion of the Development Programme in accordance with the Development Agreement during the Rent-Free Period. In particular, the ability of the Borrower to request and borrow Development Advances and Advances from the Expenses Account will be conditional only upon:

- (i) the Acquisition Tranche having been fully drawn (and therefore on the initial conditions precedent to utilisation in the Credit Agreement having been fulfilled in accordance with the terms thereof); and
- (ii) no Trigger Event or Insolvency Event having occurred.

It is therefore possible that Development Advances and Advances from the Expenses Account might continue to be made and applied towards completion of the Development and towards payment of Expenses of the Borrower whilst certain Loan Events of Default are continuing and in circumstances where the Borrower Security has been enforced and a receiver appointed or other enforcement rights exercised by the Borrower Security Trustee.

The Credit Agreement will also provide that demand may not be made for repayment of the Loan upon the occurrence of a Loan Event of Default during the Rent-Free Period unless an Insolvency Event has occurred.

The Related Security will also limit the rights and powers of any receiver appointed thereunder during the Rent-Free Period by requiring that such receiver and the Borrower Security Trustee are not entitled to exercise any power of sale or leasing in relation to the Property or the Development or exercise any powers that are inconsistent with the completion of the Development and are required to exercise enforcement powers so as to progress the Development, in each case provided no Trigger Event or Insolvency Event has occurred.

Insurance

Under the terms of the Credit Agreement, the Borrower will be obliged to effect or procure that there are effected the insurances described in "*The Property and the Leases - The Underlease - Insurance*" at page 76. These obligations will in practice be fulfilled through the provisions of the Underlease which require the Tenant, from completion of the Development Programme, to assume full responsibility for the insurance of the Property against, among other things, the risks against which the Credit Agreement requires the Borrower to insure. The Borrower, the Tenant and the Borrower Security Trustee will be joint insured under the buildings insurance policy maintained by the Tenant.

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

For the period between the Closing Date and the completion of the Development Programme, the Developer, under the terms of the Development Agreement, will be required to effect a construction "all risks" insurance policy, in the full reinstatement cost, against loss or damage caused by specified insured risks. The Developer will also be required to effect public liability and third party indemnity insurance in the minimum sum of £50 million for each and every loss.

For further information regarding the insurance of the property and the application of insurance proceeds, see "*The Property and the Leases - The Underlease - Insurance*" at page 75.

Compulsory Purchase

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

If a compulsory purchase order were made in respect of the Property, compensation would be payable on the basis of the market value of the Headlease at the time of the relevant purchase. Under such circumstances, the BBC's title to the Property, the Headlease and the Underlease would be acquired by the

relevant local or public authority or a government department and the Tenant would cease to be obliged to make all or a portion of any further Rent Payments under the Underlease. However, the amount received by the Borrower as compensation may not be sufficient for it to pay all amounts due from it in respect of the Loan and hence the amounts received by the Issuer from the Borrower may not be sufficient for it to pay all amounts due in respect of the Notes.

In order to mitigate this risk, in circumstances where the whole or a material part (meaning at least 10 per cent. of the initial gross area of buildings) is subject to a compulsory purchase order, the Headlessees will be entitled, by notice to the BBC, to determine the Headlease, in which case the BBC must pay compensation equal to the greater of (a) the aggregate of the amount the Borrower is required to pay in order to repay and discharge all principal interest and other monies due and payable pursuant to the Finance Documents and to pay the Lump Sum Compensation Payment and (b) the market value of the Headlease (reduced to take account of the residual value share of the BBC in relation to such market value) less (in either case) the amounts standing to the credit of the Borrower Accounts as at the date of termination.

In relation to the compulsory purchase of small areas of the Property the terms of the Collateral Deed will apply. For further information regarding the Collateral Deed, see "*Summary - Property - Headlease Break Option*" at page 19.

For further information regarding the valuation of the Property, see "*Valuation Report*" in Appendix 1. For further information regarding the Headlease Break Option, see "*The Property and the Leases - The Headlease*" at page 72.

Leasehold Interest

The Loan will be secured by, among other things, a first ranking standard security over the Headlease (entered into by both the Borrower and the Nominee). The Headlease will permit the BBC as landlord to irritate (i.e. forfeit) the Headlease if the Headlessees breach any of their obligations under the Headlease and fail to remedy the same within a reasonable period. The BBC's right of irritancy, however, will not be exercisable whilst all or part of the principal, interest and other sums due under the Credit Agreement remain outstanding, or where the breach arises solely from a breach of obligation on the part of the BBC as tenant under the Underlease. For further details of the obligations of the Borrower and Nominee as tenants under the Headlease, see "*The Property and the Leases - The Headlease*" at page 72.

Under Scots law there are provisions whereby, in pursuing a right of irritancy (i.e. forfeiture) under a lease, the landlord must generally (and in all cases where the ground of irritancy is the breach of any monetary obligation) serve notice of intention to terminate upon the tenant. In the case of any monetary breach, provided the appropriate period of notice is given, the landlord's right to terminate is absolute if the breach is not remedied within the specified notice period. In the case of any non-monetary breach the tenant may contest the irritancy on the grounds that in the circumstances of the case a fair and reasonable landlord would not seek termination, and in such cases whether such relief is granted is at the court's absolute discretion. The Headlease, accordingly, will provide that the BBC will give the Headlessees notice of any breach and a reasonable period to remedy the breach being (i) not less than 14 days (provided that the last day of such period is a Business Day) in the case of a non-payment and (ii) not less than three months in any other case before the BBC will be entitled to terminate. By way of further protection, the Headlease requires the BBC then to obtain a decree of irritancy or recovery of possession and at any time before the grant of decree, the Headlessees will be entitled to remedy the breach to prevent termination.

Environmental Risks

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

If any environmental liability were to exist in respect of the Property, the Borrower Security Trustee should incur no responsibility for such liability prior to enforcement of the Related Security unless it could be established that the Borrower Security Trustee had entered into possession of the Property or could be

said to be in control of the Property. After enforcement of the Related Security, the Borrower Security Trustee, if deemed to be a heritable creditor in possession, could become responsible for environmental liabilities in respect of the Property. The Borrower Security Trustee would, in priority to any payments due to Noteholders, be entitled to be indemnified in respect of any such liabilities by the Issuer as the beneficiary of the Borrower Security Trust the payment of which amounts could result in the Issuer having insufficient funds to make payments on the Notes. For further details of the circumstances in which the Borrower Security Trustee could be deemed to be a heritable creditor in possession of the Property, see "*Factors relating to the Loan and the Property - Creditor in Possession Liability*" at page 34.

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

Legal Title

The legal title to the Property, which comprises registered land, will, following its acquisition, be owned by the BBC. The Headlease and the Underlease will be subject to compulsory registration at the Land Register of Scotland although neither the Headlessees nor the BBC has yet been registered as legal proprietor of their respective leasehold interests. Consequently, the Borrower Security Trustee is not yet registered as heritable creditor under the Borrower Standard Security.

The Lender has confirmed, following consultation with its external legal advisers, that it is not aware of any reason why the Headlessees should not in due course be registered, following the grant of the Headlease, as legal proprietors of the Headlease nor why the Borrower Security Trustee should not in due course be registered as heritable creditor of the Borrower Standard Security.

The Borrower will undertake that the Headlease and the Underlease will be completed and thereafter an appropriate application will be made to the Land Register of Scotland for registration of both leasehold titles and the Borrower Standard Security over the Headlease. The Property is within a disadvantaged area for stamp duty land tax ("SDLT") purposes and therefore, for so long as the relief remains in place and the area remains so designated, no SDLT is payable on any sale or lease of the Property. Arrangements have been made to ensure that all Land Register fees will be paid out of monies retained by the Lender's solicitors for this purpose and it is expected that the registrations will be completed within twelve months of the Closing Date.

Due Diligence

The only due diligence that has been undertaken in relation to the Borrower, the BBC, the Loan and the Property is described below in "*The Property and the Leases - Property Due Diligence*" at page 69. None of the Borrower, the Lender, the Issuer Manager, the Borrower Manager, the Issuer Security, the Note Trustee nor the Borrower Security Trustee has undertaken or will undertake any independent investigations, searches or other diligence regarding the status of the Property, the Borrower, the BBC or the terms of the Loan and the Related Security and the Issuer and the Note Trustee each will instead rely for comfort in relation to such matters on warranties given by the Borrower to the Lender under the Credit Agreement.

Creditor in Possession Liability

In the event of a default under the Loan or the Related Security, the Borrower Security Trustee will be entitled to enforce the Borrower Standard Security in its capacity as grantee thereof (the "**heritable creditor**") in accordance with the provisions of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the "**Act**"). The exercise of the enforcement remedies provided by the Act generally requires the service of an appropriate statutory notice. Firstly, the heritable creditor may serve a "calling up notice", in which event the chargor has two months to comply and in default the heritable creditor may enforce its rights under the standard security (court application only being necessary in this case if vacant possession of the property is sought). Alternatively, in the case of remediable breaches, the heritable creditor may serve a "notice of default", in which event the chargor has only one month in which to comply, but also has the

right to object to the notice by court application within fourteen days of the date of service. In addition, the lender may in certain circumstances (including the insolvency of the chargor) make direct application to the court without the requirement of a preliminary notice.

Subject to compliance with these procedures, the principal remedy of the heritable creditor under the Act is to sell the secured property (in this case, the Headlease). In this event the heritable creditor is obliged to take all reasonable steps to ensure that the sale price is the best that can reasonably be obtained. The Act also provides additional remedies which may be exercised by the heritable creditor as an alternative or prior to sale, including entering into possession of the property (and receiving rents), leasing the property (for a period not exceeding seven years except with the consent of the court) and carrying out repairs. If a heritable creditor has attempted but failed to sell the secured property it can apply to the court for a decree of foreclosure, in terms of which the heritable creditor acquires the legal title to the secured asset (in this case, the Headlease).

A receiver cannot be appointed under a standard security, and there is no equivalent under the law of Scotland to a "Law of Property Act Receiver" under English law. The Borrower Security Trustee may however, following the occurrence of a Loan Event of Default and the service of a Loan Enforcement Notice, enforce the Related Security by means of the appointment of a receiver under the Scottish Floating Charges (in relation to the assets thereby secured) or alternatively by the appointment of an administrative receiver of the whole assets of the Borrower pursuant to the Borrower Debenture.

The Borrower Security Trustee may be deemed to be a heritable creditor in possession if (pursuant to the Borrower Standard Security) it physically enters into possession of the Property or performs an act of control or influence which may amount to possession. If determined to be a heritable creditor in possession, the Borrower Security Trustee would be obliged to account to the Headlessees for any income obtained from the Property (subject to its rights as a chargee of the remainder of the Related Security) and would be liable to any tenants for the mismanagement of the Property. A heritable creditor in possession may also incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), can incur the liabilities of a property owner. The Borrower Security Trustee would be entitled to be indemnified by the Issuer, in priority to payments due to the Noteholders, in respect of any liabilities incurred by it as a heritable creditor in possession. For further details of the risks associated with environmental liabilities at the Property, see "*Factors relating to the Loan and the Property - Environmental Risks*" at page 33.

Borrower Accounts

In order to ensure that Rent Payments are applied towards the payment of the amount due from the Borrower in respect of the Loan, the Loan has been structured so that Rent Payments are made directly to the Borrower Rent Account which will be charged to the Borrower Security Trustee and controlled by the Borrower Manager. The Borrower will agree, under the terms of the Credit Agreement or related documentation, not to countermand or vary the instructions as to such payments. The Tenant will agree to make Rent Payments directly to the Borrower Rent Account. The Borrower Tax Account, the Borrower Development Account and the Borrower Realisation Account will also be charged to the Borrower Security Trustee and, prior to enforcement of the Related Security, controlled by the Borrower Manager.

The charges over the Borrower Rent Account, the Borrower Tax Account, the Borrower Development Account and the Borrower Realisation Account (together, the "**Borrower Accounts**") in favour of the Borrower Security Trustee will be expressed to be fixed charges in order to ensure that, following enforcement of the Related Security, funds standing to their credit may be applied by the Borrower Security Trustee towards repayment of the Loan (or, in the case of the Borrower Development Account, towards the discharge of the payment obligations of the Borrower under the Development Programme). However, under English law, whether or not a charge over book debts, such as monies standing to the credit of these accounts, is fixed or floating will depend on the circumstances of the case, and it is possible that such charges will take effect only as floating charges. For further information regarding the operation of the Borrower Accounts, see "*The Accounts Structure*" at page 98.

Factors Relating to the BBC

Nature of the BBC

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

The Constitutional Nature of the BBC

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

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

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

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

The BBC Charter

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

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

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

Potential investors in the Notes should be aware that the BBC, in its current form, is a creature of the BBC Charter. The BBC Charter is subject to periodic review and renewal there can be no assurance that the BBC Charter would be renewed in the future. Should the BBC Charter not be renewed, the BBC would be dissolved. Further, should the current or any subsequent government seek to alter the nature of the BBC's operations it may do so through amending the terms of the BBC Charter at the time of renewal. Amendments to the BBC Charter are periodically considered. Indeed, the current Secretary of State for Culture, Media and Sport has stated that the process of reviewing the BBC Charter provides an opportunity

to assess the role of the BBC in the provision of public broadcasting services. No assurance can be given that amendments to the BBC Charter will not be made in the future which would have an adverse effect on Noteholders, particularly if amendments relate to the means by which the BBC is funded. In order to mitigate this risk, however, the Borrower has entered into the Headlease Break Option which may be exercisable under such circumstances.

The BBC Agreement

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

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

Funding of the BBC

The BBC has three principal sources of funding:

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

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

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

Licence Revenue - Entitlement

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

The BBC Charter authorises, empowers and requires the BBC to collect the Licence Revenue. The BBC collects the Licence Revenue from owners of television sets in the United Kingdom through an independent contractor, Capita Business Services Limited. The BBC pays the amounts collected into the Treasury's Consolidated Fund. Under the terms of the BBC Agreement, the government is required to provide to the BBC out of monies made available by Parliament an amount which is approximately equal to the Licence Revenue collected and by way of a deed of variation to the BBC Agreement, the Department for Work and Pensions is obliged to reimburse the BBC for revenue lost as a result of persons aged 75 and over not having to pay for licences and the administration relating thereto. The licence fee will increase annually at the rate of 1.5 per cent. above the prevailing rate of inflation until the BBC Charter is due for renewal on 31 December 2006.

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

In addition to actions which may be taken under or in connection with the BBC Charter under the BBC Agreement, the current or any subsequent government may at any time during the currency of the BBC Agreement conduct a review of the way the BBC is funded and may make changes in the way the BBC is funded, including, without limitation, its entitlement to Licence Revenue.

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

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

Licence Revenue - Collection

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

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

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

Commercial Revenue

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

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

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

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

For further information about the commercial operations of the BBC and the subsidiaries which underlease these operations, see "*The Background and Business of the BBC*" at page 82.

Limitations of ability to broadcast advertising

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

The broadcasting of advertising is a key source of revenue for commercial broadcasting organisations. Through the restrictions on broadcasting advertising, the BBC is precluded from generating this stream of revenue. There can be no assurance that the BBC will be entitled to broadcast advertising at any time in the future and it seems unlikely that it will be permitted to do so while it remains a public service broadcasting organisation.

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

Vulnerability to Competition

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

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

Restrictions on Borrowing

Unlike commercial broadcasting organisations, the BBC is restricted in its ability to borrow funds. Thus, under the terms of the BBC Charter, the amount of money which the public broadcasting elements of BBC may borrow is restricted to £200 million. The transactions described in this Offering Circular are

expected, on the basis of professional advice to be confirmed to the BBC, not to cause this borrowing limit to be breached. There is a further limit of £350 million available to the BBC's commercial subsidiaries.

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

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

Restriction on applying Grant-in-Aid

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

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

Potential Intervention by the Government

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

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

Other Assets and Liabilities

The BBC accounts for itself as a corporate entity and as such has assets and liabilities in addition to those specifically addressed in this Offering Circular. Noteholders should bear in mind that the liabilities of the BBC may affect its ability to make Rental Payments. For further information on the assets and liabilities of the BBC, see "*Financial Statements of the BBC for the year ended 31 March, 2002*" in Appendix 2 and "*Financial Statements of the BBC for the year ended 31 March, 2003*" in Appendix 3.

Factors Relating to the Unit Trust

Unit Trustee Indemnity

Pursuant to Section 31(1) of the Trustee Act 2001, the Borrower, in its capacity as Unit Trustee, is entitled to be reimbursed from trust assets for expenses properly incurred by it in acting as trustee of the Unit Trust. Such reimbursement will rank senior to any payments to be made under the Loan both before and after enforcement of the Related Security.

Deferred Subscription Amounts

A failure by EPML to account for Deferred Subscription Amounts on a timely basis (for any reason) may result in the Borrower being unable to meet its payment obligation in respect of the Loan.

Where such failure to account is as a result of a Material Adverse Tax Event, such failure will, subject to certain timing thresholds, constitute a Loan Event of Default which will entitle the Borrower Security Trustee, following the service of a Loan Enforcement Notice, to enforce the Related Security (but it will not be permitted to demand immediate repayment of the Loan). In such circumstances, payments of principal and interest to the Issuer (as a Borrower Secured Party) by the Borrower in respect of the Loan will be made in priority to payments of tax due to the Inland Revenue (save for a ring fenced fund of up to £600,000 for all unsecured creditors, as to which see "*Factors relating to the Notes – The Enterprise Act 2002*" at page 44).

Loss of Tax Exempt Status

Should a SIPP lose its tax exempt status, it would be unable to reclaim United Kingdom income tax from Deemed Unit Trust Distributions and would therefore be unable to make payments of Deferred Subscription Amounts in respect thereof to the Borrower.

To mitigate this risk, the Unit Trust Deed provides that Units may only be held by or on behalf of tax exempt SIPPs. If this condition cannot be met by a particular Unitholder for any reason (for example, if a SIPP loses its tax exempt status), the Unit Trust Deed will provide that the Unitholder's Units must be transferred to an eligible Unitholder.

Should a SIPP lose its tax exempt status by reason of a Material Adverse Tax Event, such event will, subject to certain timing thresholds, constitute a Loan Event of Default and will entitle the Borrower Security Trustee, following the service of a Loan Enforcement Notice, to enforce the Related Security (but it will not be permitted to demand immediate repayment of the Loan). In such circumstances, payments of principal and interest to the Issuer (as a Borrower Secured Party) in respect of the Loan will be made in priority to payments of tax due to the Inland Revenue (save for a ring fenced fund of up to £600,000 for all unsecured creditors, as to which see "*Factors relating to the Notes – The Enterprise Act 2002*" at page 44).

Servicing of the Unit Trust and the Unitholders

Under certain circumstances, the appointment of the Unit Trust Manager under the Unit Trust Deed may be terminated. For a termination of the appointment of the Unit Trust Manager to be effective, however, a substitute manager must have been appointed. There can be no assurance that a substitute manager could be found who would be willing to manage the Unit Trust for a commercially reasonable fee, or at all, on the terms of the Unit Trust Deed. In any event, the ability of such substitute manager to perform such services fully would depend on the information and records then available to it. The fees and expenses of a substitute manager performing services in this way would be payable in priority to payment of interest under the Notes.

The Unit Trust Manager will be permitted to exercise the rights of the Unitholders in respect of the EPM Scheme relating to the replacement of the SIPP Trustee and/or the SIPP Administrator. Where, for any reason, it will be necessary to appoint a replacement SIPP Trustee or SIPP Administrator (as applicable), there can be no assurance that a suitable replacement could be found who would be willing to provide trustee or administrative services to the EPM Scheme. This may have an effect on the recovery of United Kingdom income tax on behalf of the Unitholders and payment of Deferred Subscription Amounts to the Borrower (as described in "*The Unit Trust Structure - Discharge of the Unit Trustee Obligations*" at page 53) and, as a result, on the ability of the Issuer to pay TLS Repayments.

Factors Relating to the Notes

Liability under the Notes

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by Barclays Capital or any affiliate of Barclays, or of or by the Managers, the Borrower, the Borrower Manager, the Loan Servicer, the Issuer Manager, the Note Trustee, the Borrower Security Trustee, the Issuer Security Trustee, the Corporate Services Provider, the Share Trustee, the Paying Agents, the Agent Bank, the Swap Provider, the BBC or the Issuer Operating Bank or the Borrower Operating Bank or any of their respective affiliates and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

Enforcement of the Issuer Security

Subject to certain conditions, only the Issuer Security Trustee may pursue the remedies available to the Issuer Secured Parties for the purpose of recovering amounts owed in respect of the Notes. The proceeds of such enforcement may be insufficient (after payment of all other claims ranking higher in priority to or *pari passu* with amounts due under the Notes) to pay all amounts due in respect of the Notes.

Absence of Liquidity Facility

The Issuer has not entered into a liquidity facility which would provide it with an alternative source of revenue in the event that it did not receive payments of interest on and repayments of principal of the Loan from the Borrower, at the times and in the amounts contemplated or at all.

Ratings of Notes and Confirmations of Ratings

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

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

Servicing of the Notes, the Loan and the Related Security

Under certain circumstances, the appointment of the Issuer Manager, the Borrower Manager or the Loan Servicer under the Issuer Cash and Corporate Management Agreement, the Borrower Cash and Corporate Management Agreement or the Loan Servicing Agreement, as applicable, may be terminated. There can be no assurance that a substitute cash manager or servicer could be found who would be willing to service the Notes or the Loan (and the Related Security) for a commercially reasonable fee, or at all, on the terms of the applicable agreement (even though the agreements provide for the fees payable to a substitute cash manager or servicer to be consistent with those payable generally at that time for the provision of commercial mortgage administration services). In any event, the ability of such cash manager or substitute servicer to perform such services fully would depend on the information and records then available to it. The fees and expenses of a cash manager or substitute servicer performing services in this way would be payable in priority to payment of interest under the Notes. Any delay or inability to appoint a substitute cash manager or servicer may affect the realisable value of the Loan and the Related Security and/or the making of payments under the Loan and/or the Notes.

Absence of Secondary Market; Limited Liquidity

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

European Union Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

Withholdings and Deductions

In the event that any withholding or deduction for or on account of tax is applicable to payments under the Notes, the Credit Agreement or the Swap Agreement (as applicable), the Issuer will not be obliged to gross-up or otherwise compensate Noteholders or the Swap Provider, and neither the Borrower nor the Swap Provider (as applicable) will be obliged to gross up or otherwise compensate the Issuer, for the lesser amounts which each applicable entity will receive as a result of the applicable withholding or deductions.

Tax Opinion

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

While no legal opinion can, by its nature, provide complete certainty on all matters to which it relates, this legal opinion is expected to provide comfort to the lead manager to a standard that has been provided in the context of similar transactions involving the issuance of similarly rated notes that, on the basis of United Kingdom tax law in effect at the Closing Date, the Issuer can make payments under the Notes, the Borrower can make payments under the Credit Agreement and the Swap Provider can make payments under the Swap Agreement, each without any withholding or deduction for or on account of tax.

Change of currency

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

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

Change of Law

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

Provisions of The Insolvency Act 2000

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

the definition of "small company" depending on their financial position and number of employees during the financial year immediately prior to the filing.

However, even if the Issuer or the Borrower were to meet the definition of a "small company" for these purposes, there are exceptions which may make a moratorium unavailable to either the Issuer or the Borrower. These exceptions provide that a company which is, on the date of filing for a CVA, party to an agreement which forms part of a capital market arrangement, under which a party incurs a debt of at least £10 million and which involves the issue of a capital market investment, is excluded from being eligible for the moratorium. The definitions of "capital market arrangement" and "capital market investment" are such that, in general terms, any company which is a party to an agreement which forms part of an arrangement under which (a) security is granted to a trustee on behalf of a person that holds a rated, listed or traded debt instrument issued by a party to that arrangement, and (b) a party has incurred, or after the agreement was entered into, was expected to incur, a debt of at least £10 million, may be ineligible to seek the benefit of a small companies moratorium. Both the Issuer and the Borrower should fall within this exception.

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

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

The Enterprise Act 2002

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 qualifying floating charge falls within one of the exceptions set out in section 72A to 72GA of the Insolvency Act.

As the Borrower Debenture and the Deed of Charge and Assignment will be entered into after 15 September 2003, the Issuer Security Trustee and the Borrower Security Trustee will not be entitled to appoint an administrative receiver over the assets of the Issuer and the Borrower, respectively, unless the floating charges in such documents fall within one of the exceptions.

One such exception is 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 £50,000,000 and if the arrangement involved the issue of a "capital market investment" (also defined in the Insolvency Act but, generally, a rated, traded or listed debt instrument). Although there is as yet no case law on how this exception will be interpreted, the Issuer considers that the exemption will be applicable to the transactions described in this Offering Circular.

The provisions of the Enterprise Act also provide for (a) the ring fencing, on the commencement of insolvency proceedings in respect of a company, of a certain percentage of the realisations from assets secured by a floating charge (after the payment of preferential creditors), such realisations to be applied to satisfy unsecured debts; (b) the abolition of the categories of preferential debt payable to the Crown, including debt due to the Inland Revenue in respect of PAYE, debts due to HM Customs & Excise in respect of VAT and social security contributions; and (c) the replacement of the existing administration regime in its entirety with a new, streamlined administration procedure.

By virtue of the relevant prescribing order, the ring fencing of a percentage of certain floating charge realisations for the benefit of unsecured creditors applied to floating charges which are created on or after 15 September 2003. The amount available for unsecured creditors will depend on the value of the chargor's "net property", being the amount of the chargor's property which could be available for satisfaction of debts due to the holder(s) of any debenture secured by a floating charge. The prescribing order provides for 50 per cent. of the net property under £10,000 and 20 per cent. of the net property over £10,000 to be made available for the satisfaction of the chargor's unsecured debts, subject to an overall cap on the ring-fenced fund of £600,000.

Hedging risks

The Issuer will enter into the Indexation Swap Transaction in order to mitigate its exposure to Indexation Risk, will enter into the DSA Swap Transaction to provide for its obligation to make DSA Liquidity Advances to the Borrower and will enter into the Fixed Rate Swap Transaction to provide for investment of funds to be credited to the Development Account and the Interest Account. The obligation of the Swap Provider to make Tax Liquidity Support Payments to fund the obligation of the Issuer to make DSA Liquidity Advances is subject to a cap calculated by reference to the amount of the DSA Liquidity Advances requested and the expected tax liability of the Borrower (adjusted annually). If the DSA Liquidity Advance requested by the Borrower exceeds the cap, the Borrower may not receive the full amount required by it to make, at such time, the payment of United Kingdom income tax for which it is liable. However, there can be no assurance that the Issuer Swap Transaction will adequately address unforeseen hedging risks. Moreover, in certain circumstances, the Swap Agreement may be terminated by the Issuer or by the Swap Provider and as a result the Issuer may be unhedged with respect to Indexation Risk and unable to comply with its obligation to make DSA Liquidity Advances if one or more appropriate replacement swap transactions cannot be entered into. In addition, the Fixed Rate Swap Transaction may need to be transferred to another entity which may not offer terms as favourable as those provided by the Swap Provider. In particular, Noteholders may suffer a loss if the Swap Agreement is terminated and the Issuer is, as a result of such termination, required to pay amounts to the Swap Provider. Certain of such amounts payable on an early termination rank senior to any payments to be made to the Noteholders both before enforcement of the Issuer Security and after enforcement of the Issuer Security. See "*Credit Structure and Issuer Cashflows - Pre-Enforcement Priority of Payments (Issuer)*" and "*Credit Structure and Issuer Cashflows - Post-Enforcement Priority of Payments (Issuer)*" at page 92 and page 93 respectively.

For a more detailed description of the Swap Agreement see "*Credit Structure and Issuer Cashflows - The Swap Agreement*", below at page 94.

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

THE ISSUER

The Issuer, Pacific Quay Finance PLC, was incorporated in England and Wales on 30 April 2004 (registered number 5117181), as a public company with limited liability under the Companies Act 1985. The registered office of the Issuer is at Blackwell House, Guildhall Yard, London EC2V 5AE. The Issuer has no subsidiaries.

Principal Activities

The principal objects of the Issuer are set out in its Memorandum of Association and are, among other things, to invest in mortgage loans secured on commercial or other properties in the British Isles or elsewhere (Clause 4.1), to manage and administer mortgage loan portfolios (Clause 4.2), to issue securities in payment or part payment for any real or personal property purchased (Clause 4.19), to borrow, raise and secure the payment of money by the creation and issue of bonds, debentures, notes or other securities (Clause 4.3) and to charge or grant security over the Issuer's property or assets to secure its obligations (Clause 4.12).

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

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

Directors and Secretary

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

The company secretary of the Issuer is SFM Corporate Services Limited, a company incorporated in England and Wales (registered number 3920255), whose business address is Blackwell House, Guildhall Yard, London EC2V 5AE. The directors of SFM Directors Limited (registered number 3920254), SFM Corporate Services Limited and SFM Directors (No. 2) Limited (registered number 4017430) are Jonathan Eden Keighley, James Garner Smith Macdonald and Robert William Berry (together with their alternate directors, Helena Paivi Whitaker, Annika Ida Louise Aman-Goodwille and (excluding SFM Corporate Services Limited) Claudia Wallace), whose business addresses are Blackwell House, Guildhall Yard, London EC2V 5AE each of whose principal activities are as directors of special purpose companies, or as providers of corporate secretarial and/or administration services to the same.

Capitalisation and Indebtedness

The capitalisation and indebtedness of the Issuer as at the date of this Offering Circular, is as follows:

Share Capital

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

49,999 of the issued shares (being 49,998 shares of £1 each, each of which is paid up as to 25 pence and one share of £1 which is fully paid) in the Issuer are held by Holdings. The remaining one share in the Issuer (which is fully paid) is held by Structured Finance Management Limited (registered number 3853947) as trustee for Holdings. The shares of Holdings are held by the Share Trustee pursuant to the Declaration of Trust. The Issuer will, in accordance with the Declaration of Trust and associated fee letter, pay the fees and expenses of the Share Trustee.

Except as set out above and any liability under pre-hedging arrangements in relation to the Indexation Swap Transaction, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities and the Issuer has not created any mortgages or charges nor has it given any guarantees as at the date hereof.

Accountants' Report

The following is the text of a report, extracted without material adjustment, received by the directors of the Issuer from BDO Stoy Hayward LLP, who have been appointed as auditors and reporting accountants to the Issuer. BDO Stoy Hayward LLP are chartered accountants and registered auditors. The balance sheet contained in the report does not comprise the Issuer's statutory accounts. No statutory accounts have been prepared or delivered to the Registrar of Companies in England and Wales since the Issuer's incorporation. The Issuer's accounting reference date will be 30 April and the first statutory accounts will be drawn up to 30 April, 2005.



BDO Stoy Hayward
Chartered Accountants

BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL

The Directors
Pacific Quay Finance PLC
Blackwall House
Guildhall Yard
London EC2V 5AE

12 July 2004

(the "Issuer")

Dear Sirs

Pacific Quay Finance PLC ("Pacific" or the "Company")

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular dated 12 July 2004 of Pacific Quay Finance PLC relating to the issue of commercial mortgage backed fixed rate notes due 2034 (the "**Offering Circular**").

The Company was incorporated on 30 April 2004. Since incorporation, the Company has not traded (other than entering into pre-hedging arrangements in relation to the Indexation Swap Transaction), nor has it received any income, incurred any expenses or paid any dividends. Consequently no profit and loss account is presented. No financial statements have been drawn up.

Basis of preparation

The financial information set out below is based on the balance sheet of the Company as at 12 July 2004 (the "**Balance Sheet**") to which no adjustments were considered necessary.

Responsibility

The Balance Sheet is the responsibility of the directors of the Company (the "**Directors**") and has been approved by them.

The Directors 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 Balance Sheet, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at 12 July 2004.

Balance sheet as at 12 July 2004

	As at 12 July 2004 £
Current assets	
Cash	12,501.50
	<hr/>
Shareholders' funds – equity	
Called up share capital	12,501.50
	<hr/>

Financial Information

1. Accounting policies

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

2. Share capital

The Company was incorporated with authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each.

On 30 April 2004, one ordinary share of £1 was issued fully paid to SFM Corporate Services Limited and one ordinary share of £1 was issued to Structured Finance Management Limited. On 5 May 2004, 49,998 ordinary shares of £1 each were issued to SFM Corporate Services Limited and partially called up for cash consideration of £12,499.50.

On 9 July 2004, the 49,999 shares held by SFM Corporate Services Limited were transferred to Pacific Quay Holdings Limited for consideration of £12,500.50.

3. Profit and Loss Account

The Directors have represented that the Company has been dormant throughout the period since incorporation on 30 April 2004 to 12 July 2004, consequently no profit and loss account, and no statement of total recognised gains and losses have been prepared.

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

THE BORROWER

The Borrower, Pacific Quay Trustees No.1 Limited, was incorporated in England and Wales on 2 June 2004 (registered number 5143700), as a private company with limited liability under the Companies Act 1985. The registered office of the Borrower is at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The Borrower has no subsidiaries.

Principal Activities

The principal objects of the Borrower are set out in clause 3 of its Memorandum of Association and allow the Borrower to procure the grant of the Headlease, to grant the Underlease (giving rise to a right to Rent Payments), to enter into the Credit Agreement, to enter into the Development Agreement, to declare the Unit Trust, to act as Unit Trustee and to undertake matters incidental to these activities.

From the date of its incorporation to the Closing Date, the Borrower has not engaged in, and will not, from the Closing Date onwards, engage in any activities apart from procuring the grant of the Headlease, granting the Underlease, entering into the Unit Trust Deed, the Credit Agreement and the Development Agreement and other matters incidental to such activities, including entering into a management agreement with the Unit Trust Manager.

The Borrower is not and has not been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Borrower is aware) which may have, or have had, since the date of its incorporation, a significant effect on the Borrower's financial position.

Directors and Secretary

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

Name	Business Address	Business Occupation
Beverley Michael Douglas	The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU	Trust Administrator
Peter Michael Hills	The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU	Trust Administrator
Kenneth Alexander Graham	The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU	Trust Administrator

The company secretary of the Borrower is Capita IRG Trustees Limited whose business address is The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The directors of the Borrower and their business addresses and business occupations are set out in the table above.

Capitalisation and Indebtedness

The capitalisation and indebtedness of the Borrower as at the date of this Offering Circular is as follows:

The Borrower has issued 1 ordinary share of £1 (which is fully paid) to Capita Trust Company Limited.

Holders of each class of ordinary shares have certain rights as contained in the Borrower's articles of association. These include the usual rights to attend and vote at general meetings as well as the right to participate in distributions.

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

THE UNIT TRUST STRUCTURE

The Unit Trust

The Unit Trust will be a collective investment scheme as defined in FSMA. Any such collective investment scheme must be established, operated and marketed by a person authorised under FSMA (and in particular authorised to operate collective investment schemes). The Unit Trust Manager is so authorised. The Unit Trust will not be an authorised scheme for the purposes of the rules made by the Financial Services Authority, and the Financial Services Authority will not regulate its constitution or investment powers, and as such, Units cannot be marketed directly to the general public in the United Kingdom. Units in the Unit Trust will therefore be sold to the public through financial intermediaries authorised under FSMA, or under other applicable exemptions, as permitted by The Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001.

The Unit Trust will be exempt from tax on chargeable gains pursuant to section 100(2) of the Taxation of Chargeable Gains Act 1992. The Borrower (in its capacity as the Unit Trustee) will declare a trust over its assets in favour of the Unitholders, and the Unit Trust Manager will issue Units to them in consideration of the Unitholders paying an aggregate subscription price comprising a total initial investment of £250,000 plus a total further investment equal to certain tax repayments and income distributions from the Unit Trust received by Unitholders (if any) described under "*Discharge of the Unit Trustee Obligations*" (the "**Deferred Subscription Amounts**") at page 53.

The Unit Trust will be constituted by the Unit Trust Deed, which will be governed by English law.

The Unitholders

The ultimate, beneficial Unitholders will be a number of tax exempt Self Invested Pension Plans ("**SIPPs**") which qualify for exemption from United Kingdom income tax pursuant to section 643(2) of the Income and Corporation Taxes Act 1988 and from United Kingdom capital gains tax pursuant to section 271(1)(h) of the Taxation of Chargeable Gains Act 1992 and each of which is a member of the EPM Scheme.

The Unit Trust Deed will provide that Units may only be held by or on behalf of tax exempt SIPPs. If this condition cannot be met by a particular Unitholder for any reason (for example, if a SIPP loses its tax exempt status), the Unit Trust Deed will provide that that Unitholder's Units must be transferred to an eligible Unitholder.

EPML

The Units will be held by EPML, in its capacity as SIPP Trustee, pursuant to the EPM Scheme which is an approved scheme (reference SF87/254/1) under Chapter IV Part XIV of the Income and Corporation Taxes Act 1988 for the Unitholders. The SIPP Trustee is responsible for the assets of the EPM Scheme which it holds as legal owner until benefits are paid out. EPML, in its capacity as SIPP Administrator, is responsible to the Inland Revenue for the operation of the EPM Scheme in accordance with the scheme rules and Inland Revenue regulations. The SIPP Administrator is also responsible for the scheme administration and for the provision of information to relevant parties.

EPML is an independent SIPP trustee and scheme administrator. It has over 1,400 SIPPs under management with scheme assets of over £100 million and has a diversified distribution with half of its business derived from a discrete number of co-branded SIPPs run for wealth management independent financial advisers and the other half representing low cost SIPPs wrapping on-line stockbroker execution accounts.

Church House Trust Plc, an authorised person for the purposes of FSMA, is the SIPP Provider in respect of the EPM Scheme.

The Assets of the Unit Trust

The Borrower (in its capacity as the Unit Trustee) will use the proceeds of the issue of Units and drawings under the Credit Agreement, among other things, to:

- (a) fund the premia for the grant of the Headlease and the Car Park Headlease; and
- (b) fund the Development Programme.

The principal assets of the Borrower (in its capacity as the Unit Trustee) are as follows:

- (a) the Headlease and the Car Park Headlease;
- (b) the Unit Trustee's right to receive Rent Payments from the Tenant under the Underlease;
- (c) the Borrower's right to receive the initial investment and the Deferred Subscription Amounts under the Unit Trust Deed; and
- (d) the Borrower Accounts and the amounts from time to time standing to the credit thereof,

such assets being referred to hereinafter as the "**Borrower Assets**".

The Obligations of the Unit Trustee

The principal financial obligations of the Borrower (in its capacity as the Unit Trustee) will be as follows:

- (a) the obligation to pay the consideration for the grant of the Headlease and the Car Park Headlease;
- (b) the obligation to fund the Development Programme; and
- (c) the obligation to pay interest on and repay the principal of the Loan and other amounts due to the Issuer under the terms of the Credit Agreement,

such obligations being referred to hereinafter as the "**Borrower Obligations**".

Discharge of the Unit Trustee Obligations

The Borrower (in its capacity as the Unit Trustee) will discharge its obligation to fund the Development Programme by instructing the Borrower Manager to make payment of amounts out of borrowings under the Credit Agreement and the initial investment provided by the Unit Holders.

The amounts payable by the Borrower (in its capacity as the Unit Trustee) to the BBC in relation to the grant of the Headlease and the Car Park Headlease and to the Developer under the Development Agreement will include an element of value added tax ("VAT"). VAT recovered by the Borrower (in its capacity as the Unit Trustee) will be credited to the Borrower Development Account.

The Borrower (in its capacity as the Unit Trustee) will be subject to United Kingdom income tax at the basic rate (currently 22 per cent.) in respect of income arising in the Unit Trust, after deducting allowable costs and expenses and allowable losses carried forward, for the year of assessment in which such income arises. The Unit Trust Deed will provide that the accounts of the Unit Trust will show income and revenue expenses in line with United Kingdom income tax principles and, accordingly, the taxable profit of the Unit Trust, net of income tax thereon, for each year of assessment is intended to be equal to the aggregate of the "income available for payment to unit holders or for investment" in respect of the trust distribution periods which fall within that year of assessment.

The Borrower (in its capacity as Unit Trustee) will, where it is required to make a payment of United Kingdom income tax (other than income tax on interest which shall be funded out of such interest), be entitled to request and, subject to certain conditions, to receive from the Lender a DSA Liquidity Advance,

to be applied in the discharge of the Borrower's obligation to make such payment (see *"The Loan, the Related Security and Borrower Cashflows"* at page 56). The Lender will fund its obligation to make such DSA Liquidity Advances from amounts ("**Tax Liquidity Support Payments**") received from the Swap Provider under the DSA Swap Transaction. Each DSA Liquidity Advance will be interest free and will be repayable by the Borrower from applicable Deferred Subscription Amounts received by the Borrower.

In accordance with the Unit Trust Deed, subject to the applicable restrictions whilst the Loan is outstanding (as described below), each Unitholder will be entitled to have distributions made to it in an amount equal to its proportionate share of the income available for payment to Unitholders or for investment on 5 April and 5 October in each year (each a "**Trust Distribution Date**"). The Unit Trust Manager, on behalf of the Borrower (in its capacity as the Unit Trustee), will not be obliged to make actual distributions to the Unitholders while the Loan is outstanding. Should the Unit Trust Manager make such a distribution to the Unitholders out of the income of the Unit Trust while the Loan is outstanding, the Unitholders undertake to pay an amount equal to the distribution so received to the Unit Trust as Deferred Subscription Amounts.

For United Kingdom income tax purposes the Borrower (in its capacity as the Unit Trustee) will be treated as distributing aggregate annual payments in an amount which, after deducting income tax at the basic rate in force for the relevant year of assessment, will be equal to the aggregate amount shown in the accounts of the Unit Trust as "income available for payment to unit holders or for investment" on each Trust Distribution Date whether or not an actual distribution of such income is made ("**Deemed Unit Trust Distributions**"). Deemed Unit Trust Distributions will be treated as made in proportion to each Unitholder's interest in the Unit Trust.

In accordance with section 469 of the Income and Corporation Taxes Act 1988, the Borrower (in its capacity as the Unit Trustee) will be deemed to have withheld United Kingdom income tax at the basic rate (currently 22 per cent.) from Deemed Unit Trust Distributions. The tax exempt status of each Unitholder will mean that it will, for so long as it retains such tax exempt status, be entitled to reclaim such tax from the Inland Revenue. The Unit Trust Deed will provide that they are required to do so in a timely manner. EPML will, as SIPP Administrator and on behalf of the Unitholders, recover such tax from the Inland Revenue and will pay such amounts to the Unit Trust as Deferred Subscription Amounts.

LEASE DETERMINATION

Determination of the Headlease

During the term of the Underlease, the Headlease Landlord will not be able to transfer, lease or charge its reversionary interest in the Property. The Borrower will be entitled to determine and surrender the Headlease on the occurrence of a Trigger Event. This right is only exercisable for so long as principal and interest under the Loan is outstanding. If the BBC causes a Trigger Event, the BBC will pay a termination amount to the Borrower which is obliged to use such funds to repay the Loan and any related early termination fees. The Trigger Events are described in "*The Property and the Leases - The Headlease - Term and Break Clause - Headlease Tenant Break Clause*" at page 72.

Should a Trigger Event occur, then a break option in the Headlease will be triggered upon service of the relevant notice by the Borrower and the BBC will be obliged to pay to the Borrower an amount equal to the greater of (i) the aggregate of an amount sufficient to make all payments of interest and repayments of principal and other fees and amounts due under the Finance Documents plus an amount payable to the Borrower, calculated by applying an interest rate of 15.9% compounded annually to the Unitholders' initial investment of £250,000, from the Closing Date to the date of the occurrence of the Trigger Event (less the aggregate amount of any outstanding DSA Liquidity Advances) (the "**Lump Sum Compensation Payment**"); and (ii) the then market value of the Headlease as at the date of termination (reduced to take account of the residual value share of the BBC in relation to such market value), less (in either case) the amounts standing to the credit of the Borrower Accounts as at the date of termination. Such payment made by the BBC will be used by the Borrower to make payments of interest and repayments of principal and other fees and amounts due under the Credit Agreement in priority to the distribution of any amounts to the Unitholders.

For further information about the Headlease Break Option, see "*The Property and the Leases - The Headlease*" at page 72.

THE LOAN, THE RELATED SECURITY AND BORROWER CASHFLOWS

Purpose of the Loan

On the Closing Date, the aggregate amount of the Loan to be advanced (or available to be advanced) to the Borrower pursuant to the Credit Agreement is expected to be £129,250,000. The Borrower will be, subject to the terms of the Credit Agreement, entitled to request and/or receive Advances for the following purposes:

- (a) to fund the premium for the grant of the Headlease and the Car Park Headlease;
- (b) to fund the payment obligations of the Borrower under the Development Programme;
- (c) to enable the Borrower to pay certain expenses from time to time;
- (d) to fund the payments due on the Loan on each Loan Payment Date up to and including the Loan Payment Date falling in July 2007;
- (e) to capitalise certain interest obligations that accrue on the Loan;
- (f) to meet its payment obligations to the Inland Revenue in respect of United Kingdom Income Tax; and
- (g) to reimburse the BBC for certain expenditure related to the Development Programme incurred prior to the Closing Date.

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

At the end of the Rent-Free Period, the principal amount of the Loan is expected to be £129,250,000.

For further information regarding the Headlease and the Borrower's interests therein, see "*The Property and the Leases - The Headlease*" at page 72.

Terms of the Credit Agreement

The Loan will be documented pursuant to the Credit Agreement which will be governed by English law. Any assignment by the Issuer (other than pursuant to the Deed of Charge and Assignment) of all or any part of its rights under the Credit Agreement will require the prior consent of the Borrower and the BBC (not to be unreasonably withheld or delayed).

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

The loan facility available under the Credit Agreement will be divided into four Tranches:

- (a) an acquisition tranche in the amount of £1,762,500 (the "**Acquisition Tranche**");
- (b) a development tranche in the amount of £108,237,500 (the "**Development Tranche**");
- (c) an expenses tranche in the amount of £3,112,722 (the "**Expenses Tranche**"); and
- (d) a tranche in respect of DSA Liquidity Advances (the "**DSA Liquidity Tranche**"), to be funded from Tax Liquidity Support Payments only,

together with a facility for the making of Advances for the payment of Interest Instalment Amounts and the Excess Borrower Interest from the Interest Account.

On the Closing Date, an Advance in the amount of the Acquisition Tranche will be made to the Borrower to be applied solely in financing the costs of the acquisition of the Headlease and the Car Park Headlease.

Development Advances to be made under the Development Tranche will be withdrawn by the Issuer Manager from the Development Account in the amounts and at the times set out in the Development Advance Schedule and paid into the Borrower Development Account, for application by the Borrower towards payment of duly approved payments related to the Development (see "*Conditions Precedent to Drawdown*").

Advances to be made under the Expenses Tranche will be withdrawn by the Issuer Manager from the Expenses Account and applied in paying Expenses incurred by the Borrower before the Rent Payment Date in October 2007. "**Expenses**" are fees, charges, costs and other expenses incurred by the Borrower in connection with the Property or otherwise in connection with its business or operations including any amount payable by way of indemnity by the Borrower and corporate service fees, rating maintenance fees and other indemnity and payment obligations of the Borrower (and exclude tax liabilities and principal and interest payments under the Credit Agreement).

Where the Borrower (in its capacity as Unit Trustee) is required to make a payment of United Kingdom income tax to the Inland Revenue (other than income tax on interest which shall be funded out of such interest), the Lender will, subject to the terms of the Credit Agreement, make a DSA Liquidity Advance under the DSA Liquidity Tranche in an amount equal to such tax payment (less any available Deferred Subscription Amounts), to be applied in the discharge of the Borrower's obligation to make such tax payment. The Lender will fund its obligation to make DSA Liquidity Advances from Tax Liquidity Support Payments received from the Swap Provider under the DSA Swap Transaction (see "*Credit Structure and Issuer Cashflows - The Swap Agreement*" at page 94).

Conditions Precedent to Drawdown

The Lender's obligation to make the Advances in respect of the Loan on the Closing Date is contingent upon receipt by the Lender of, among other things, the following:

- (a) certified copies of the memorandum and articles of association and certificate of incorporation of the Borrower, the Nominee and the Borrower Shareholder together with appropriate resolutions of the relevant boards of directors in each case authorising the transactions to be entered into by the relevant company and various other certificates;
- (b) a copy of the Valuation;
- (c) a schedule giving details of all insurance cover in respect of the Development Programme which satisfies the requirements of the Development Agreement relating to insurance;
- (d) the Certificate of Title;
- (e) the duly executed Project Documents and a report on the Development Programme prepared by the Funder Representative;
- (f) the duly executed Finance Documents and bank mandates in respect of the Borrower Accounts;
- (g) the duly executed Headlease, Underlease, Car Park Headlease and Car Park Underlease;
- (h) evidence that the Unit Trust has duly elected to waive exemption from VAT in relation to the Property, the site and any buildings constructed thereon;
- (i) relevant legal opinions (including an opinion as to the capacity of the BBC to enter into the transaction documents to which it is a party);
- (j) a true and certified copy of the BBC Charter and certain accounts of the BBC;
- (k) a credit rating by the Rating Agencies which is satisfactory to the Lender; and

- (l) notices in connection with the payment of rental income and charging of bank accounts.

The Lender's obligation to make Advances under the Acquisition Tranche is contingent upon the representations and warranties (as described under "- *Representations and Warranties*" below) being correct at the Closing Date and no Loan Event of Default or Potential Loan Event of Default having occurred or likely to occur from the making of the Loan.

The Lender's obligation to make Advances under the Development Tranche and the Expenses Tranche is contingent upon the Acquisition Tranche having been fully drawn and no Trigger Event under the Headlease or Insolvency Event having occurred. Advances under the Development Tranche are also contingent on no demand having been made on the Issuer by the Developer pursuant to the Issuer Development Guarantee.

If a request is received for an Advance under the Development Tranche, the Issuer Manager will debit the Development Account in accordance with the Development Advance Schedule. If a request is received for an Advance under the Expenses Tranche, the Issuer Manager will debit the Expenses Account.

Advances under the Development Tranche may be utilised by the Borrower to make payments relating to the Development provided that it has received:

- (a) a request to enable building contract payments to be made under the Development Agreement which must be accompanied by a certificate prepared by the Employer's Agent;
- (b) a request to enable payment of a development fee pursuant to the terms of the Development Agreement which must be accompanied by an invoice; or
- (c) a request to enable payment of miscellaneous expenses, within the budget for the Development Programme, to the Developer, the Contractor, the BBC or a third party accompanied by invoices countersigned and/or approved by the BBC.

The Lender's obligation to make DSA Liquidity Advances will be contingent upon the representations and warranties (as described under "- *Representations and Warranties*" on page 61) deemed to be repeated being correct at the date of the request for such DSA Liquidity Advances and the date of the making thereof, there being no Material Adverse Tax Event outstanding on the making of the DSA Liquidity Advance and no order for the winding up of the Borrower having been made. Advances to be made in respect of the DSA Liquidity Tranche will be withdrawn from the Issuer Operating Account and paid into the Borrower Tax Account.

Any monies standing to the credit of the Interest Account on the Loan Payment Date falling in October 2007 shall, subject to certain conditions, be promptly advanced to the Borrower for credit to the Borrower Rent Account. Any monies standing to the credit of the Expenses Account after notification to the Loan Servicer that the Employer's Agent has confirmed that all monies due and payable to the Developer by the Borrower pursuant to the Development Agreement have been paid (the date of such confirmation being the "**Surplus Calculation Date**") shall, subject to certain conditions, be promptly advanced to the Borrower for credit to the Borrower Rent Account. Any monies standing to the credit of the Borrower Development Account after notification to the Loan Servicer of the Surplus Calculation Date (excluding any sums payable pursuant to the Issuer Development Guarantee) shall be promptly transferred to the Borrower Rent Account.

For the purposes of Advances under the Development Tranche and the Expenses Tranche, "**Insolvency Event**" means:

- (a) the BBC is, or is deemed for the purposes of any law to be, unable to pay its debts as they fall due or to be insolvent, or admits inability to pay its debts as they fall due;
- (b) the BBC suspends making payments on all or any class of its debts or announces an intention to do so, or a moratorium is declared in respect of any of its indebtedness;
- (c) the BBC, by reason of financial difficulties, begins negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of any of its indebtedness;

- (d) any step (including a petition, proposal or convening a meeting) is taken with a view to a composition, assignment or arrangement with any creditors of the BBC;
- (e) a meeting of the BBC is convened for the purpose of considering any resolution for (or to petition for) its winding-up or for its administration or any such resolution is passed;
- (f) any person presents a petition for the winding-up or for the administration or for the bankruptcy of the BBC;
- (g) an order for the administration or bankruptcy of the BBC is made or an administrator is appointed to the BBC;
- (h) an order for the winding up of the Borrower or the BBC is made;
- (i) any other step (including petition, proposal or convening a meeting) is taken with a view to the rehabilitation, administration, custodianship, liquidation, winding-up, dissolution or bankruptcy of the BBC or any other insolvency proceedings involving the BBC;
- (j) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or the like is appointed in respect of the BBC or any material part of its assets;
- (k) the directors of the BBC request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or the like in respect of itself or any material part of its assets; or
- (l) any other steps are taken to enforce any security interest over any material part of the assets of the BBC,

provided that, in the case of any matter referred to in items (d), (f) and (i) above (other than a petition for administration), the same shall not constitute an Insolvency Event if the BBC can demonstrate to the satisfaction of the Borrower Security Trustee that such proceedings are frivolous, vexatious or an abuse of process of the court or if judicial proceedings are stayed and dismissed or removed within 14 days of the commencement of such proceedings and in any event before any petition is advertised.

Interest and Repayments

Save for interest calculated by reference to the Annual Interest Calculation (which is capitalised annually), interest will be payable quarterly in arrear on each Loan Payment Date (subject to applicable grace periods) or, in certain circumstances, capitalised on a quarterly basis, in respect of successive interest periods (each a "**Loan Interest Period**"), each of which will commence on (and include) a Loan Payment Date (or, in respect of the first Loan Interest Period, the Closing Date) and will end on (but exclude) the next following (or first) Loan Payment Date.

In relation to the Rent-Free Period, each Interest Instalment Amount set out in the Interest Instalment Schedule will be calculated on the assumption that, during the Rent-Free Period, LPI will be 2.5 per cent. per annum (the "**Assumed LPI**"). In respect of each Loan Payment Date up to and including the Loan Payment Date falling in July 2007:

(a) if LPI is greater than Assumed LPI, the amount of interest due and payable will be greater than the applicable Interest Instalment Amount which is payable on such Loan Payment Date. In such case, the difference will be capitalised and will constitute an Advance under the Credit Agreement; and

(b) if LPI is less than Assumed LPI, the amount of interest due and payable will be less than the applicable Interest Instalment Amount which is payable on such Loan Payment Date. In such case, the difference will reduce the principal amount of the Loan.

On each Loan Payment Date falling in October in or after October 2007, interest on the Loan will be calculated in respect of the twelve months ending on each such Loan Payment Date by reference to the

Annual Interest Calculation. Such amount of interest will be capitalised and will constitute an Advance under the Credit Agreement and will form part of the Outstanding Loan Balance.

"Outstanding Loan Balance" means, on any date, the principal amount drawdown and outstanding in respect of the Loan (excluding the amount of any DSA Liquidity Advances) less:

- (a) payments of Repayment Instalments made on or before such date and;
- (b) the amount in aggregate by which Interest Instalment Amounts paid on Loan Payment Dates falling on or before such date exceeds the aggregate interest payable on such Loan Payment Dates because LPI in respect of such Loan Payment Dates was less than Assumed LPI;

plus:

- (c) interest which is capitalised as a consequence of the Annual Interest Calculation; and
- (d) the amount in aggregate by which Interest Instalment Amounts paid on Loan Payment Dates falling on or before such date is less than the aggregate interest payable on such Loan Payment Dates because Assumed LPI was less than LPI in respect of such Loan Payment Dates.

The amount of interest due and payable on each Loan Payment Date following the Loan Payment Date falling in July 2007 will be calculated by reference to the Actual Interest Calculation.

Repayments of the Outstanding Loan Balance (and adjustments to such repayments as a consequence of Indexation) will be made on each Loan Payment Date (subject to applicable grace periods) in accordance with the Loan Amortisation Schedule using funds standing to the credit of the Borrower Rent Account. It is expected that by the Borrower making repayments in respect of the Loan on Loan Payment Dates in accordance with the Loan Amortisation Schedule, the Outstanding Loan Balance will have fully amortised on the Loan Maturity Date.

Each DSA Liquidity Advance will be interest free and will be repayable by the Borrower from the Deferred Subscription Amount received by the Borrower in respect of such DSA Liquidity Advance.

Prepayments

The Borrower will not be permitted to prepay the Loan in part. The Borrower will be required to prepay the Loan on the termination, sale or disposal of the Headlease, including, without limitation, as a result of the exercise of the Headlease Break Option.

Upon a prepayment of the Loan (for whatever reason) the Borrower will be required to pay a fee (the "**Prepayment Fee**") plus all interest payable in respect of the whole of the Loan Interest Period during which the prepayment occurs (including such amount of interest that has accrued to the date on which the Loan is prepaid plus such amount of interest as would have been payable during the period from the date on which the Loan is prepaid to the next Loan Payment Date) to the Lender. The Prepayment Fee will have the following constituent elements:

- (a) if the Notes are repayable at their Redemption Amount the difference (if any) between the Principal Amount Outstanding of the Notes and the Redemption Amount of the Notes (as such terms are defined in Condition 5(e));
- (b) the amount that the Lender has been notified by the Swap Provider that it is legally obliged to pay to the Swap Provider on early termination of the Swap Agreement (for the avoidance of doubt, excluding TLS Repayments);
- (c) any other costs and expenses which have been notified to the Loan Servicer as incurred or amounts payable by the Lender and/or the Borrower Security Trustee and/or the Issuer Manager in connection with such prepayment or otherwise payable and due to either of them pursuant to any of the Finance Documents together with any other amounts due and payable by the Borrower to the Borrower Secured Parties under the Finance Documents; and

- (d) any amount by which the Outstanding Loan Balance plus the amount standing to the credit of the Issuer Accounts on the date of prepayment is less than the Principal Amount Outstanding of the Notes,

provided that the fee shall be reduced by (i) such amount (after making allowance for any taxes (excluding interest and penalties and after taking into account the benefit of any related deductions) or other costs and expenses which the Lender incurs or which it may incur in relation to the same) as the Lender recovers by way of a breakage gain (if any) from the Swap Provider on early termination of the Swap Agreement and (ii) any amount by which the Outstanding Loan Balance plus the amounts standing to the credit of the Issuer Accounts on the date of prepayment is more than the Principal Amount Outstanding of the Notes and provided further that the fees calculated in accordance with the above shall not be less than zero, but, if the amounts in items (i) and (ii) exceed the amounts referred to in paragraphs (a) to (d) above, such excess shall reduce the Borrower's obligation to repay the Loan.

Accounts

The Borrower will be required to procure that the Borrower Accounts are established in its name. The Borrower Accounts will be operated in accordance with the Borrower Cash and Corporate Management Agreement and the Borrower Operating Bank will be required to have a rating of at least "A1+" by S&P, "P-1" by Moody's and "F1+" by Fitch. The Borrower Manager will at all times be the sole signatory on the Borrower Accounts.

For further information regarding the Borrower Accounts and the application of funds from such accounts by the Borrower Manager, see "*The Accounts Structure*" at page 98. For further information regarding the Borrower Cash and Corporate Management Agreement, see "*Borrower Cash and Corporate Management*" at page 106.

Representations and Warranties

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

The representations and warranties to be set forth in the Credit Agreement will be made by the Borrower on the date of the Credit Agreement and certain representations and warranties will be repeated on the date of each request for a DSA Liquidity Advance and the making of each DSA Liquidity Advance and (with certain exceptions) on each Loan Payment Date with reference to the facts and circumstances then existing. A Loan Event of Default will occur if a warranty made by the Borrower is incorrect in any material respect when made or deemed repeated, unless the circumstances underlying the relevant breach are, if capable of remedy, remedied to the satisfaction of the Lender within 15 Business Days of the earlier of the Borrower becoming aware of the breach and the Borrower receiving notice from the Lender requiring the same to be remedied.

Undertakings

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

- (a) the Borrower will, subject to certain qualifications, undertake to provide certain information to the Loan Servicer, the Borrower Security Trustee and/or the Lender, as applicable, including: (i) financial information regarding the Unit Trust; (ii) information regarding the progress of the Development Programme; (iii) upon it becoming aware of the same, information regarding any amendments or waivers of the Development Programme that would reasonably be expected to

have a Material Adverse Effect or adversely affect the open market value of the Property; (iv) details of any Loan Event of Default or potential Loan Event of Default; (v) details of any material litigation and (vi) details of any proposed capital expenditure at the Property and of any occupational tenant at the Property (other than affiliates of the BBC). In addition, immediately upon becoming aware thereof, the Borrower must notify the Borrower Security Trustee of its right to terminate the Headlease, any action being taken by the BBC to terminate the Development Agreement following a breach by the Developer, and any change in the Planning Consents and the use assigned to the Property.

For the purposes of the Credit Agreement, "**Material Adverse Effect**" means a material adverse effect (other than a Material Adverse Tax Event) on: (a) the ability of the Borrower to comply with any of its payment obligations under any Loan Transaction Document to which it is a party; or (b) the financial condition of the Borrower; or (c) the validity or enforceability of the Finance Documents in a manner and to an extent which is materially adverse to the interests of the Lender.

- (b) the Borrower will, subject to certain qualifications, undertake, among other things, to take all action necessary to maintain and exercise its rights in respect of the Underlease and not to permit the assignment or determination of the Underlease or to seek to irritate (i.e. forfeit) the Underlease, and that it will not appoint or permit a change in the Managing Agent (if any) of the Property. The Borrower also undertakes not to create any other security interests on its assets and to ensure that its obligations under all the Finance Documents rank at all times ahead of all its other present and future obligations, other than those mandatorily preferred by law. The Borrower must also (subject to certain limitations) grant the Borrower Security Trustee access to the Property. A number of covenants and undertakings are given by the Borrower in relation to the Development Programme and insurance in respect of the Property; and
- (c) the Borrower will, subject to certain qualifications, undertake not to carry on any business other than fulfilling its obligations as the Unit Trustee, carrying out its obligations under the Development Agreement, being joint tenant of the Headlease and joint lessor of the Underlease and managing the Property and the Development or as contemplated by the Loan Transaction Documents; not to have any subsidiaries or employees; not to enter into any partnership or other arrangement other than as contemplated by the Loan Transaction Documents; not to incur any indebtedness other than in connection with the Finance Documents; not to amend or terminate any of the terms of any of the Loan Transaction Documents or its memorandum and articles of association; not to declare any dividend, issue further shares, repay any principal or pay interest on any other borrowings or repay or redeem any share capital; not to assume any obligations other than in connection with the Loan Transaction Documents; not to acquire any assets other than the Property (other than its rights under the Loan Transaction Documents and its bank accounts) and not to enter into any hedging agreements.

Loan Events of Default

The Credit Agreement will contain events of default (each a "**Loan Event of Default**") entitling the Borrower Security Trustee to enforce the Related Security. Such events include (but are not limited to): (a) non-payment of interest or principal due under the Credit Agreement and any other Finance Document; (b) breach of covenant; (c) failure to determine the Headlease; (d) a representation or warranty or statement made in a Loan Transaction Document or in a document delivered by or on behalf of the Borrower in connection with a Loan Transaction Document being incorrect in any material respect when made; (e) the occurrence of certain insolvency events in relation to the Borrower or, before the Loan Payment Date in August 2007, the BBC; (f) the unenforceability or unlawfulness of material obligations of the Borrower under any of the Finance Documents; (g) the Borrower ceasing to be beneficially wholly-owned by the Borrower Shareholder without the Borrower Security Trustee's consent; (h) irritancy (i.e. forfeiture) of the Headlease; (i) any events or series of events which have or which would reasonably be expected (in the reasonable opinion of the Borrower Security Trustee after becoming aware of such events) to have a Material Adverse Effect; (j) irritancy or surrender of the Underlease or non-payment of rent or other amounts due from the Tenant for a period longer than 10 Business Days; (k) displacement of the management as a whole of the Borrower and effective control of the Borrower being transferred or its business curtailed to a material extent; (l) the seizure, nationalisation, expropriation or compulsory purchase of all or a majority of the issued shares of the Borrower; (m) the occurrence of a Material

Adverse Tax Event; and (n) the repudiation by any other party to a Loan Transaction Document of such document.

Grace periods and materiality thresholds will apply to certain Loan Events of Default and will include a grace period for payment defaults (where the failure to pay is due solely to administrative or technical delays in the transmission of funds which are not the fault of the Borrower) provided the relevant amount is paid within three Business Days after its due date for payment.

For the purposes of the Credit Agreement, "**Material Adverse Tax Event**" means:

(a) any change or proposed change in, or in the interpretation, administration or application of, any law (including a change in the rate of tax) or change in the practice of the Inland Revenue or any other relevant UK tax authority or change in generally accepted accounting practice or other accounting practice or principles (if any) which the Borrower is required from time to time to follow in the preparation of its accounts or tax computations in each case after the Closing Date which would result in, or would be reasonably likely to result in, the inability of the Borrower to comply with its payment obligations under the Finance Documents on the Loan Payment Date immediately preceding the next date upon which a payment of tax by the Borrower falls due (and for the purposes of making such determination of the ability of the Borrower to comply with its payment obligations, the amount of tax due shall be treated as falling due on such Loan Payment Date and to be payable *pari passu* with amounts of interest payable in respect of the Loan on such date) including any change or proposed change in relation to the manner in which Self Invested Pension Plans or unauthorised unit trusts are taxed or exempted from taxation (whether wholly or partly) or which adversely impacts upon the ability of a Self Invested Pension Plan to recover (in whole or in part) the tax deducted or treated as deducted from any payment made or treated as made by the trustee of any unauthorised unit trust to such Self Invested Pension Plan which directly or indirectly holds units in such unauthorised unit trust; or

(b) a failure by the Borrower to repay to the Issuer a DSA Liquidity Advance within six months of the date of the advance of such DSA Liquidity Advance to the Borrower.

An increase in the rate at which basic rate tax is levied will not be a Material Adverse Tax Event to the extent that the Borrower has funds available to it to enable it to meet its payment obligations under the Finance Documents notwithstanding such increase.

A Material Adverse Tax Event shall not occur in relation to any proposed change in law or practice until such time as a commencement date for such change has been announced or embodied in legislation.

For the avoidance of doubt a tax event which would otherwise constitute a Material Adverse Tax Event shall not be a Material Adverse Tax Event if the Borrower has been able to enter into arrangements with one or more persons which, in the reasonable opinion of the Borrower Security Trustee, will ensure that the Borrower will be able to continue to comply with its payment obligations under the Finance Documents.

Upon the occurrence of any Loan Event of Default (or, if applicable, on the expiry of the grace period applicable thereto), except where such Loan Event of Default is a Material Adverse Tax Event, the Borrower Security Trustee may demand the immediate repayment of the Loan in full provided that during the period commencing on the Closing Date and expiring on the Surplus Calculation Date such demand may only be made if an Insolvency Event has occurred. The only remedy available to the Borrower Security Trustee following the occurrence of a Material Adverse Tax Event will be the enforcement of the security interests granted under the Related Security following the delivery of a Loan Enforcement Notice (see "*The Related Security - Enforcement of the Related Security*" at page 65).

The Related Security

The obligations of the Borrower under the Credit Agreement will be secured pursuant to the Security Documents.

The security to be created by the Security Documents will be granted in favour of HSBC Trustee (C.I.) Limited as Borrower Security Trustee and will be drafted on a security trust basis so that the Borrower

Security Trustee will hold the security created pursuant thereto on trust (the "**Borrower Security Trust**") for the Borrower Secured Parties pursuant to the Borrower Security Trust Deed.

The Borrower Debenture

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

Pursuant to the Borrower Debenture, the Borrower will grant the Borrower Account Charges, the Direct Agreements Assignment and the Borrower Floating Charge.

Each of the security interests to be granted under the Borrower Debenture will secure all Borrower Secured Obligations owed to the Lender and the other Borrower Secured Parties.

The Borrower Security Agreement

The Borrower Security Agreement will be entered into on or around the Closing Date between the Borrower, the Nominee and the Borrower Security Trustee.

Pursuant to the Borrower Security Agreement, the Borrower and the Nominee will each grant the Insurances Charge and the Scottish Floating Charges, and will undertake to grant to the Borrower Security Trustee the Borrower Standard Security and the Borrower Assignment of Rents.

Each of the security interests to be granted under the Borrower Security Agreement will secure all Borrower Secured Obligations owed to the Lender and the other Borrower Secured Parties. The Borrower Security Agreement will contain various undertakings relating to the Property and the car parking facilities, which include:

- (a) to maintain the Property in good and substantial repair following practical completion of the Development Programme;
- (b) to comply with the terms of the Headlease and the Car Park Headlease;
- (c) to comply with all laws relating to the Property;
- (d) to deposit with the Borrower Security Trustee all deeds and documents of title relating to the Property and the car parking facilities;
- (e) to allow the Borrower Security Trustee and any person nominated by it to enter upon any part of the Property at all reasonable times to view the state;
- (f) to procure that insurance is maintained in respect of the Property; and
- (g) to provide to the Borrower Security Trustee information about any proposed capital expenditure and certain other matters.

The Borrower Share Charge

The Borrower Share Charge will be entered into on or around the Closing Date between the Borrower Security Trustee and the Borrower Shareholder.

The Borrower Shareholder will execute the Borrower Share Charge in favour of the Borrower Security Trustee to secure the Borrower Secured Obligations owed to the Lender and the other Borrower Secured Parties under each Finance Document. The Borrower Share Charge will create a first fixed charge of all shares in the Borrower held by the Borrower Shareholder and will contain a covenant on the part of the Borrower Shareholder to pay or discharge the liabilities of the Borrower, provided that liability of the Borrower Shareholder is limited to the amount realised by the disposal of the charged shares and related rights.

The Borrower Standard Security

Pursuant to the Borrower Security Agreement, the Borrower and the Nominee will execute the Borrower Standard Security in favour of the Borrower Security Trustee on or around the Closing Date, to secure all Borrower Secured Obligations owed to the Borrower Secured Parties. Subject to the registration of the Borrower Standard Security in the Land Register of Scotland and registration of a certified copy of the Borrower Standard Security in the Register of Charges, the Borrower Standard Security will create a first ranking fixed security over the Headlease and the Car Park Headlease and the interests of the Headlessees thereunder.

The Borrower Assignment of Rents

Pursuant to the Borrower Security Agreement, the Borrower and the Nominee will execute the Borrower Assignment of Rents in favour of the Borrower Security Trustee on or around the Closing Date, to secure all Borrower Secured Obligations owed to the Borrower Secured Parties. Subject to the intimation of the Borrower Assignment of Rents to the BBC, the Borrower Assignment of Rents will create a first ranking fixed security over all Rent Payments payable pursuant to the Underlease and over the rights of the Borrower and the Nominee under the Collateral Deed.

Enforcement of the Related Security

The security interests to be granted under the Related Security will become enforceable following the service of a Loan Enforcement Notice. However, if no Trigger Event or Insolvency Event has occurred, then during the period commencing on the Closing Date and expiring on the Surplus Calculation Date, on the occurrence of a Loan Event of Default the rights and powers of any receiver and of the Borrower Security Trustee under the Related Security will be limited and it will not be entitled to exercise any power of sale or leasing in relation to the Property or the Development or exercise powers that are inconsistent with the completion of the Development.

Borrower Cashflows

Payments out of the Borrower Rent Account prior to Enforcement of the Related Security

On each Business Day (other than a Loan Payment Date) the Borrower Manager may withdraw from the Borrower Rent Account (and, in respect of item (c), from the Borrower Tax Account (utilising any DSA Liquidity Advance paid into such account and Deferred Subscription Amounts available for such purpose)) such amount or amounts as may be necessary to pay on such date the following items in any order:

- (a) those amounts (if any) (together with any value added or similar taxes charged thereon) payable by the Borrower by way of insurance premiums, insurance valuation costs and service charges where the Borrower has the obligation to pay such amounts in providing services to tenants of the Property;
- (b) property management fees payable to the Managing Agent (together with any value added or similar taxes charged thereon);
- (c) any liability of the Borrower for United Kingdom income tax then due and payable; and
- (d) any costs properly incurred by the Lender, the Borrower Security Trustee and the Loan Servicer in connection with the enforcement of, or the preservation of any rights under, any Finance Document or investigating any Loan Event of Default or potential Loan Event of Default, any stamp duties incurred by the Lender, the Borrower Security Trustee and the Loan Servicer in respect of the Finance Documents and/or certain other costs incurred by the Lender including (but not limited to) costs as a result of a Loan Event of Default or potential Loan Event of Default, in respect of each of which, demand has been made on the Borrower.

Pre-Enforcement Priority of Payments (Borrower)

The terms of the Credit Agreement and of the Borrower Cash and Corporate Management Agreement will provide that, prior to the enforcement of the Related Security and prior to the sale or disposal of the Headlessees' rights under the Headlease, on each Loan Payment Date amounts standing to the credit of the Borrower Rent Account and, in respect of the Borrower's liability to pay income tax, from the Borrower Tax Account (utilising any DSA Liquidity Advance paid into such account and Deferred Subscription Amounts available for such purpose) (after deducting sums paid in addition to any principal amount into the Borrower Rent Account in respect of VAT paid or payable on such principal amount ("VAT Amounts") and Excess Borrower Interest not available for such application pursuant to the terms of the Credit Agreement) shall be applied by the Borrower Manager in the following order of priority (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full):

- (a) first, *pro rata and pari passu*, in or towards payment or discharge of any amounts due to (A) the Borrower Security Trustee (B) the Unit Trustee under section 31(1) of the Trustee Act 2000 (C) the Borrower Manager under the Borrower Cash and Corporate Management Agreement and (D) the Borrower Operating Bank under the Borrower Cash and Corporate Management Agreement;
 - (b) second, *pro rata and pari passu*, in or towards payment and discharge of sums due to third parties (other than sums described in items (a), (c), (d) and (e)) under obligations incurred in the course of the Borrower's business, including provision for any such obligations expected to become due in the following Loan Interest Period and the payment of the Borrower's liability to income tax;
 - (c) third, in or towards payment of interest on the Loan;
 - (d) fourth, in or towards payment of principal on the Loan;
 - (e) fifth, any amounts due to the Issuer under the Issuer/Borrower Expenses Loan Agreement
- and any surplus shall be retained in the Borrower Rent Account.

Sums standing to the credit of the Borrower Rent Account representing VAT Amounts shall be applied in or towards liabilities of the Borrower for VAT.

On each Loan Payment Date up to and including the Loan Payment Date falling in July 2007, and in satisfaction of the Borrower's liability to make payments on the Loan, amounts equal to the payment amount then due and payable on the Loan (as specified in the Interest Instalment Schedule) will be transferred by the Issuer Manager from the Interest Account to the Issuer Operating Account. On each Loan Payment Date after July 2007 such amounts due and payable in respect of the Loan (excluding the repayment of any DSA Liquidity Advances) will be transferred by the Borrower Manager from the Borrower Rent Account to the Issuer Operating Account. Amounts due and payable in respect of the repayment of DSA Liquidity Advances will be transferred by the Borrower Manager from the Borrower Tax Account to the Issuer Operating Account on the third Business Day following receipt by it of the Deferred Subscription Amounts allocable to such DSA Liquidity Advance.

All such amounts payable under the Loan or otherwise to the Issuer will be paid into the Issuer Operating Account.

Pre-Enforcement Priority of Payments (Borrower Realisation Account)

The terms of the Credit Agreement will require the Borrower and the Borrower Security Trustee to ensure that, prior to the enforcement of the Related Security, upon the sale or disposal of the Headlease the net proceeds thereof are promptly deposited into the Borrower Realisation Account and thereafter, together with amounts standing to the credit of the Borrower Rent Account and the Borrower Tax Account (if any), applied in the following order in payment:-

- (a) first, *pro rata and pari passu*, in or towards payment or discharge of any amounts due to (A) the Borrower Security Trustee and any receiver appointed by or on behalf of the Borrower Security

Trustee (B) the Unit Trustee under section 31(1) of the Trustee Act 2000 (C) the Borrower Manager under the Borrower Cash and Corporate Management Agreement and (D) the Borrower Operating Bank under the Borrower Cash and Corporate Management Agreement;

- (b) second, in or towards payment of interest on the Loan;
- (c) third, in or towards payment of the Outstanding Loan Balance, outstanding DSA Liquidity Advances and Prepayment Fees;
- (d) fourth, in or towards payment of the Deferred Payment to the BBC;
- (e) fifth, in or towards payment of the amounts due to Unitholders, in accordance with the terms of the Unit Trust up to a maximum of the Lump Sum Compensation Payment if the Borrower has exercised the Headlease Break Option;
- (f) sixth, in or towards payment and discharge of sums due to third parties (other than sums described in items (a) to (e) (inclusive) and item (g)), including liability of the Borrower for United Kingdom income tax and VAT, under obligations incurred in the course of the Borrower's business;
- (g) seventh, in or towards payment of any amounts due to the Issuer under the Issuer/Borrower Expenses Loan Agreement;
- (h) eighth, the surplus, if any, to be paid to the Issuer.

For further information regarding deposits and transfers to and from the Borrower Accounts, see "*The Accounts Structure*" at page 98.

Post-Enforcement Priority of Payments (Borrower)

The Related Security will become enforceable following the occurrence of a Loan Event of Default and the delivery by the Loan Servicer (on behalf of the Lender) of a notice (a "**Loan Enforcement Notice**") to the Borrower and the Borrower Security Trustee. In the event that any of the Related Security becomes enforceable prior to the Surplus Calculation Date (and provided that neither a Trigger Event nor an Insolvency Event has occurred) then the Borrower Security Trustee and any receiver appointed under the Security Documents shall not be entitled to exercise its power of sale or leasing in relation to the Borrower Security or exercise any of its powers that are inconsistent with the completion of the Development and shall exercise its rights of enforcement in relation to the assets secured under the Related Security so as to progress the Development and shall apply sums credited to the Borrower Accounts for their designated purpose in accordance with the Credit Agreement. Subject thereto, following the Related Security becoming enforceable, the Borrower Security Trustee will be required to apply all funds received or recovered by it (other than amounts standing to the credit of the Borrower Development Account, which are to be applied for specific purposes under the Development Agreement) in the following order of priority (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full):

- (a) first, *pro rata and pari passu*, in or towards payment or discharge of any amounts then due and payable by the Borrower to the Borrower Security Trustee or any receiver appointed by or on behalf of the Borrower Security Trustee;
- (b) second, *pro rata and pari passu*, in or towards payment or discharge of any amounts due to (i) the Borrower Manager under the Borrower Cash and Corporate Management Agreement and (ii) the Borrower Operating Bank under the Borrower Cash and Corporate Management Agreement;
- (c) third, in or towards payment or discharge of all amounts due and payable under the Loan;
- (d) fourth, in or towards in payment (when due and payable) of the Deferred Payment to the BBC;

- (e) fifth, in or towards payment (when due and payable) of the amounts due to the Unitholders, in accordance with the terms of the Unit Trust, up to a maximum of the Lump Sum Compensation Payment if the Borrower has exercised the Headlease Break Option;
- (f) sixth, in or towards payment of any liability of the Borrower for United Kingdom income tax and VAT then due;
- (g) seventh, in or towards payment of any amount due to the Issuer under the Issuer/Borrower Expenses Loan Agreement; and
- (h) eighth, in payment of the surplus (if any) to the Issuer.

Notwithstanding the above, prior to the application of funds on any date in accordance with items (a) to (g) above, the Borrower will be entitled to receive amounts then due to it by way of indemnity under the terms of the Unit Trust Deed.

Upon enforcement of the Related Security, the Borrower Security Trustee will have recourse only to the assets constituting the Related Security.

In relation to all the payment obligations of the Borrower under the Development Agreement, if there is a shortfall in the amount standing to the credit of the Borrower Development Account available to pay amounts due to the Developer under the Development Agreement, the other assets (if any) of the Borrower will not be available for payment of any shortfall arising therefrom and the liability of the Borrower to make such payment shall cease and all claims against the Borrower in respect of such shortfall will be extinguished.

THE PROPERTY AND THE LEASES

Overview of the Property

The Loan will be secured primarily by a first ranking charge by way of a standard security over the Borrower's and the Nominee's legal interests in the Headlease of the Property and, for so long as the same exists, the Car Park Headlease. The Property, situated at Pacific Quay, is a development site on the south side of the River Clyde close to Glasgow city centre and overlooking the Scottish Exhibition and Conference Centre. Pacific Quay, an area of 67 acres in total, was formerly the site of the 1988 Garden Festival and is now in the process of comprehensive redevelopment. The area of the Property itself is approximately 4.42 acres and is currently owned by Scottish Enterprise, see " - *Property Purchase Agreement*" below. The new building at the Property will, following completion of the Development Programme, comprise 31,693 square metres of offices, studios, production units and other facilities and will be the new headquarters in Scotland of the BBC.

Property Purchase Agreement

The feudal title to the Property (the Scots equivalent of freehold) will be the subject of a sale and purchase agreement (the "**Sale and Purchase Agreement**") to be made between Scottish Enterprise; BBC; and Scottish Enterprise Glasgow. The agreed purchase price is to be £1.79 million (plus VAT) of which £1.5 million (plus VAT) will be paid at completion and the balance retained pending agreement of the amount of certain abnormal site development costs (as detailed in the Sale and Purchase Agreement) which will affect the amount of the retention to be paid by the BBC.

Completion of the purchase is conditional upon the BBC obtaining satisfactory detailed planning permission for the development of the Property.

Development Obligations

Under the terms of the Sale and Purchase Agreement, the BBC will be obliged to make a material start to the Development within 9 months of completion (subject to force majeure extensions of time) of the Sale and Purchase agreement and if they have failed to do so then Scottish Enterprise, following service of notice (the "**Scottish Enterprise Notice**"), will be entitled to repurchase the site at a price of £1.5 million (plus VAT).

Contribution Agreements

At the date of signing the Sale and Purchase Agreement, Scottish Enterprise Glasgow and the BBC will enter into two contribution agreements (the "**Contribution Agreements**"). The first Contribution Agreement will provide that Scottish Enterprise Glasgow will contribute towards certain environmental works to be undertaken at the Property by or for the BBC (subject to a maximum contribution of £500,000), subject to certain conditions, including that the Property be used as the BBC Scottish headquarters for at least 5 years after completion of the Development Programme. The second Contribution Agreement concerns a contribution by Scottish Enterprise Glasgow towards demolition and remediation costs in relation to the BBC's headquarters property at Queen Margaret Drive, Glasgow if sold for less than a specified sum. The benefit of this Agreement is retained by the BBC.

Property Due Diligence

The Lender's external legal advisers will have, prior to conclusion of the Sale and Purchase Agreement and the grant of the Headlease, undertaken a legal due diligence exercise (by reference to the Certificate of Title referred to below) to determine that each of the Headlessees will obtain good legal title to the Headlease of the Property, free from any encumbrances or other matters which would be considered to be of a material adverse nature.

The BBC's external Scottish legal advisers, instructed in connection with their acquisition of the feudal title to the Property, will have prepared and issued a certificate of title in relation to the feudal title of the Property (the "**Certificate of Title**").

The Certificate of Title save for amendments to take account of the fact that the Property is situated in Scotland, follows the City of London Law Society form and covers the following principal matters:

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

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

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

(d) details of any encumbrances affecting the Property, including securities or charges and any obligations which might bind the owner of the Property (and any heritable creditor) from time to time;

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

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

The Lender's external legal advisors will have reviewed the draft form of the Certificate of Title to ensure that it covers all matters that they would expect to be covered in a certificate of title and raise requisitions where omissions, ambiguities or material disclosures arose in the draft Certificate of Title. On the basis of their review, the external legal advisers to the Lender will prepare a summary report for the Lender (also addressed to the Borrower Security Trustee, for the benefit of the Borrower Secured Creditors) in relation to the Property confirming (as appropriate) approval of the form and content of the Certificate of Title and highlighting any matters contained therein which the external legal advisers considers should be drawn to the attention of the Lender and its valuers, DTZ Debenham Tie Leung.

The external legal advisers to the Lender will check that DTZ Debenham Tie Leung has a copy of the Certificate of Title and they will cross-check and verify basic details relating to the Property set out in the valuation of the Property.

Property Reports

The Lenders have commissioned the preparation of a property valuation report by DTZ Debenham Tie Leung (the "**Valuation Report**") in respect of the Property which will be addressed to the Borrower, the Borrower Manager and the Borrower Security Trustee. A copy of the Valuation Report is annexed as Appendix 1.

The BBC has commissioned the preparation of an environmental report by Faber Maunsell which contains certain recommendations concerning the immobilisation of certain contaminants on the site and the breakage of pollutant linkages with controlled waters. Under the terms of the Development Agreement the Developer has assumed responsibility for actioning Faber Maunsell's recommendations. The documents appointing the design consultants require them to take Faber Maunsell's recommendations into account in developing their respective designs. The Borrower and the Borrower Security Trustee will have the benefit of Direct Agreements containing collateral undertakings from each of the design consultants (including Faber Maunsell) regarding compliance with Faber Maunsell's recommendations.

Capacity of Parties

The external legal advisers to the Lenders have satisfied themselves that each of the Headlessees is validly incorporated, has sufficient power and capacity to enter into the transactions connected with the origination of the Loan and the grant of security in respect thereof, that they have not granted any existing

securities or charges other than those granted as security for the Loan or their other obligations arising in connection with the Loan Transaction Documents, that neither Headlessee is the subject of any insolvency proceedings, and generally that any formalities required to enter into the relevant Loan Transaction Documents and the transactions contemplated thereby have been completed. For further information regarding restrictions on the future activities of the Borrower, see "*Undertakings*" below.

As part of the legal due diligence undertaken in connection with originating the Loan, the Lender will obtain a legal opinion relating to the BBC. The opinion, to be provided by the BBC's in-house general counsel will cover the power, capacity and authority of the BBC to enter into certain of those Loan Transaction Documents to which it is a party and the non-contravention of any English law applicable to the BBC.

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

(a) the "**Finance Documents**", being the Borrower Debenture, the Borrower Security Agreement, the Borrower Share Charge, the Borrower Standard Security, the Borrower Assignment of Rents, the Borrower Security Trust Deed and the Direct Agreements (together the "**Security Documents**"), the Credit Agreement and the Borrower Cash and Corporate Management Agreement;

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

(c) the "**Miscellaneous Documents**", being the Headlease, the Underlease, the Car Park Headlease, the Car Park Underlease, the Residual Value Agreement, the Unit Trust Deed and the Collateral Deed.

Reliance on Legal Due Diligence

The summary report prepared by the external legal advisers and referred to above will be addressed to the Borrower and the Borrower Security Trustee. It will not be addressed either to the Lender or the Note Trustee or the Issuer Security Trustee and the Borrower's rights in respect of the summary report will not be assigned to the Lender on the Closing Date. The Lender will instead rely solely on the representations and warranties of the Borrower contained in the Credit Agreement and will assign by way of security the rights under that agreement to the Issuer Security Trustee. For further information regarding the representations and warranties to be made by the Borrower in the Credit Agreement and the Lender's remedies in respect of a breach thereof, see "*The Loan and the Related Security - Terms of the Credit Agreement - Representations and Warranties*" at page 61.

Drawdown and Post-Completion Formalities

Confirmation will be required from the Lender's external Scottish legal advisers that all registrations at the Companies Registry and at the Land Register of Scotland and all other notifications which are necessary to protect the interest of the Borrower Security Trustee in the Related Security have been made or will be made within the appropriate period. For further information regarding the status of the registration of title to the Property, see "*Risk Factors - Factors Relating to the Loan and the Property - Legal Title*" at page 34.

Feudal Title

The BBC will acquire from Scottish Enterprise the feudal title to the Property before granting the Headlease referred to below to the Borrower and the Nominee.

The due diligence undertaken in connection with the acquisition, as referred to in the preceding section, highlighted certain material matters relating to the Property details of which are set out below.

(a) The title will be subject to a condition that at least part of the Property must be used as the BBC's Scottish Headquarters for a period of five years from practical completion.

(b) The main vehicular and pedestrian access into the Property is via an access road shared with the proprietors of the Glasgow Science Centre; it is anticipated that that access road will be adopted by the local authority and pending adoption Scottish Enterprise Glasgow will maintain that access road.

(c) The proprietors of the Property will be liable to pay a 50% share of the costs of maintenance of Bells Bridge Square (to be formed by the adjoining proprietor adjacent to the Property) which provides an access route between Bells Bridge and the Property.

(d) The proprietor of the Property will be liable to contribute towards the costs of maintenance of the emergency vehicular access over the adjoining Glasgow Science Centre.

The Headlease

On or around the Closing Date, and immediately following acquisition of the Property from Scottish Enterprise, the BBC (referred to below as the "**Headlease Landlord**") will grant the Headlease to the Headlessees (referred to below as the "**Headlease Tenant**") the consideration for which will be a premium of £1.4 million plus VAT, together with, in certain circumstances, an amount in respect of the Deferred Payment plus VAT (see below). The Nominee will hold its legal title to the Headlease as trustee on behalf of the Borrower, as Unit Trustee.

Any deferred consideration payable to the BBC in 2034 at the end of the contractual term of the Underlease (the "**Deferred Payment**") will be calculated, pursuant to an agreement to be entered into on or around the Closing Date between the Headlease Landlord and the Headlessees (the "**Residual Value Agreement**"), on the basis that the BBC and the Borrower will share the benefit of the residual value of the Headlease as at that date. The BBC's share of such residual value will only be paid following payment of all amounts outstanding in respect of the Loan.

The main terms of the Headlease are as follows:

Term and Break clause

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

Headlease Tenant Break Clause

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

The events (each a "**Trigger Event**") that will entitle (but not oblige) the Headlease Tenant to determine the Headlease are as follows:

- (a) the BBC (as the Tenant) fails to pay in full any rent or other sum due and payable pursuant to the Underlease and/or the Collateral Deed within 10 Business Days of the due date;
- (b) in relation to the BBC:
 - (i) there is any material change or material action made public by HM Government certain to take place within the next 3 months; or
 - (ii) any material actual change occurs or material actual action is taken,

in relation to the BBC Charter or the BBC Agreement and as a result of (i) or (ii) above:

- (A) any downgrade (a "**Trigger Downgrade**") of the Rating of the Notes to lower than BBB-/Baa3 (or its equivalent) by two Rating Agencies occurs; and
- (B) the BBC does not satisfy such Rating Agencies that the Rating for the Notes is or should remain at BBB-/Baa3 (or equivalent) or above by any appropriate method within (in the case of (i)) the lesser of (x) a period of three months from the date of the occurrence of the Trigger Downgrade and (y) a period beginning on the date of the occurrence of the Trigger Downgrade and ending on the date that the relevant material change or material

action takes place provided that such period shall not be less than 30 days from the date of the occurrence of the Trigger Downgrade or (in the case of (ii)) 30 days from the occurrence of a Trigger Downgrade,

and the Borrower Security Trustee (acting reasonably) determines that such change or action referred to in (i) or (ii) above has a material adverse effect on the ability of the BBC to meet its obligations under the Underlease.

- (c) the whole of the Property or a material part (being not less than 10% (in aggregate by reference to any area previously compulsorily acquired) of the initial gross area of the buildings erected at the Property (or in the course of being erected) is acquired compulsorily;
- (d) the Property (or any material part (defined as not less than 10 per cent.)) is damaged or destroyed and not rebuilt or reinstated within 5 years (or 8 years if the destruction or damage occurs prior to practical completion of the whole of the works pursuant to the Development Programme); or
- (e) Scottish Enterprise serves a Scottish Enterprise Notice requiring the reconveyance to it of the Property following a failure by the BBC to make a material start to the Development within 9 months of the completion of the acquisition of the Property (subject to certain force majeure events).

The Borrower (acting on its own behalf and as agent for the Nominee) will be entitled, at any time following a Trigger Event, to give 14 days written notice (a "**Termination Notice**") to the BBC to determine the Headlease. Such notice will only be valid if given by the Borrower and the Borrower Security Trustee. The Borrower Security Trustee will be entitled to require the Borrower to serve such notice and if it does not do so the Borrower Security Trustee will have the power to serve such notice itself on their behalf. In the event of service of a Scottish Enterprise Notice then a Termination Notice shall be deemed to have been served on the date the Scottish Enterprise Notice was served on the BBC and the notice period of the Termination Notice will be that of the Scottish Enterprise Notice less one business day.

The consideration payable by the BBC for the determination of the Headlease (the "**Termination Sum**") following a Trigger Event shall be the greater of (a) the aggregate of an amount equivalent to the aggregate of the amount the Borrower is required to pay, to repay and discharge all principal, interest and other monies due and payable pursuant to the Finance Documents and the Lump Sum Compensation Payment; and (b) the then market value of the Headlease (reduced to take account of the residual value share of the BBC in relation to such market value) less (in either case) amounts standing to the credit of the Borrower Accounts as at the date of termination.

For further information regarding the manner in which the Borrower Security Trustee has control over the exercise of the Headlease Tenant's ability in certain circumstances to determine the Headlease, see "*The Loan and the Related Security - Terms of the Credit Agreement*" at page 56 and for further information about factors which could have an adverse effect on the financial condition of the BBC, see "*Risk Factors - Factors Relating to the BBC*" at page 36.

Rent

The annual rent is one peppercorn.

Tenant's obligations

The Headlease Tenant's obligations in the Headlease will be more limited than those in the Underlease. The main tenant's obligations are referred to below. The Headlease Tenant will not, however, incur any liability to the Headlease Landlord in respect of such obligations so long as such matters remain the responsibility of the BBC pursuant to the Underlease.

Insurance

There will be no obligation upon the Headlease Tenant to insure the Property under the terms of the Headlease. The BBC will, however, be obliged to insure, under its obligations as tenant under the

Underlease. For further information about the obligations of the BBC to obtain insurance under the Underlease, see "*The Underlease - Insurance*" at page 75.

Alterations

The Headlease Tenant will be required to give the Headlease Landlord details upon request of any alterations or proposed alterations affecting the exterior or structure of the premises, but the Headlease Landlord's consent will not be required to such alterations or proposed alterations.

Alienation/Charging

There will be no restrictions on any form of alienation or charging of the whole of the Property, subject to any successor undertaking to implement the options in the Underlease and the consent of the holders of security being obtained. Subject as aforesaid, the Headlease Tenant may freely assign or charge its interest in the Property. So long as the Underlease is in effect, the Headlease Tenant will be restricted from subletting so as to prevent any fettering of the BBC's option rights at the end of the Underlease term.

Use of the Property and Planning and statutory requirements

The Property may be used for such use or uses for which the necessary statutory consents have been obtained and which does not cause or constitute a breach of any title conditions or any matters affecting the title to the Property. The Headlease Tenant will undertake not to breach the terms of any notices served by public, local or statutory bodies and European Union directives or regulations which affect the Property. The Headlease Tenant will also undertake not to cause any breach of any provisions of any relevant planning legislation. In practice undertakings to comply with such matters are given by the tenant under the Underlease (as described below).

Headlease Landlord's Obligations

The Headlease Landlord will give the usual undertaking for quiet enjoyment. It will also undertake (whilst sums due under the Credit Agreement remain outstanding) to pay all costs properly incurred by the tenant in complying with the Headlease (except where such costs result from wilful breach or negligence on the part of the tenant) and it will undertake not to transfer, lease, charge or otherwise dispose of its reversionary interest in the Property during the Underlease period.

Irritancy

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

The Headlease Landlord's right to irritate, however, will not be exercisable whilst all or part of the principal, interest and other sums due under the Credit Agreement remain outstanding or where the breach arises solely from a breach of the tenant's obligations under the Underlease.

In addition, prior to exercising any right of irritancy in relation to a breach which is capable of being remedied (i) the Headlease Landlord will be required to give the Headlease Tenant and Borrower Security Trustee written notice of its intention to do so and provide details of the breach or breaches and give the Headlease Tenant and Borrower Security Trustee a reasonable period (in the case of non-payment of rent or other sums not less than 14 days (provided that the last day of such period is a Business Day) and in other cases not less than three months) to remedy the breach or breaches; and (ii) the Headlease Landlord must have obtained an extract decree for irritancy of the Headlease or recovery of possession.

Limited Recourse and Non-Petition

For so long as all or part of the principal, interest and other sums due under the Credit Agreement remain outstanding:

- (a) the Headlease Landlord will agree that the Headlease Tenant shall only be obliged to pay any sum due under the Headlease to the extent that it has funds available to do so, and all sums required to

be paid or provided for by the Headlease Tenant in priority to such sums have been paid, provided for or discharged in full; and

- (b) the Headlease Landlord will undertake not to take any action or proceedings against the Headlease Tenant to recover amounts due and payable until the Headlease Tenant has sufficient assets to meet the claim (taking account of other liabilities ranking ahead of or equal to the Headlease Landlord's claim). Further, the Headlease Landlord will agree not to set-off any amount claimed against any amount which the Headlease Landlord is obliged to pay to the Headlease Tenant and will not use the failure of the Headlease Tenant to perform an obligation as the basis of any counterclaim. The Headlease Landlord will not petition or commence proceedings for the administration, winding-up, or bankruptcy of the Headlease Tenant.

Headlessee's Interests

The Nominee will hold its interest in the Headlease on trust for the Borrower pursuant to the Nominee Trust. The Borrower will hold its interest in the Headlease and in the Nominee Trust as Unit Trustee on behalf of the Unitholders.

Valuation of Headlease

DTZ Debenham Tie Leung has provided the Valuation Report, a copy of which is attached as Appendix 1 to this Offering Circular.

Car Parking Leases

Separate from the area to be leased by the Headlease, an area of land adjoining the Property and which is to be permitted to be used for car parking for the benefit of the Property is to be the subject of the Car Park Headlease for a term of 150 years granted by the BBC to the Headlease Tenant (in consideration of a premium of £100,000 plus VAT) who, in turn, will grant the Car Park Underlease back to the BBC as tenant under the Underlease. No rent (other than a nominal sum) will be payable and the leases will be terminable if the Headlease or Underlease (as applicable) is terminated or on 12 months written notice by either party provided that, in each case, they may only be determined if either (a) certain conditions relating to the adequate provision of alternative parking are met or (b) the absence of such leasing arrangements would not diminish the rental value of the Property below a specified level.

The Underlease

On or around the Closing Date, the Headlessees will grant the Underlease to the BBC (referred to below as the "Tenant").

The main terms of the Underlease are detailed below:

Term and Break clause

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

Rent and rent review

Under the terms of the Underlease, the Tenant will not be required to make any Rent Payments during the Rent-Free Period.

Following the end of the Rent-Free Period, the Tenant will be required to make Rent Payments, payable quarterly in arrear, on the 5th day of January, April, July and October of each calendar year (subject to grace periods).

The base rent reserved under the Underlease is equal to a base principal rent of £6,373,244.13 per annum and an amount equal to expected expenses of the Issuer and the Borrower. However, this base rent will be reviewed annually in October of each year following the end of the Rent-Free Period by reference to the cumulative increase in the LPI since July 2003.

From 5 July 2031, the rent under the Underlease will be reviewed to the greater of (a) the Rent Payment amounts which would have been payable if such review had not taken place (adjusted for Indexation) and (b) the lesser of £105 per square foot of the net internal area of the Property and the then open market rent.

The terms of the Underlease will be such that from the date when the rent becomes payable, the Tenant is expressed to be under an absolute and unconditional obligation to pay the rent (and additional rent reserved).

Tenant's obligations

The main tenant's obligations in the Underlease will be as follows:

Repair/Decoration

To accept the property as at the commencement of the term in its present condition and from the date of practical completion of the Development, to put, keep and maintain the Property in good substantial repair decoration and condition and when necessary, to replace, rebuild, renew or reinstate the Property irrespective of the cause of damage or decay (free from defects in design or construction or any latent defects) and to make good any disrepair for which the Tenant is liable within a reasonable period after the date of written notice from the Headlessees.

Insurance

From the date of practical completion of the Development, to insure the Property, unless the insurance is invalidated in whole or part by any act or default of the Headlessees, in the full reinstatement cost, with an approved insurer against loss or damage by specified insured risks and subject to such excesses as may be imposed by the insurers (provided such insurance requirements remain reasonably and economically available in the market).

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

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

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

Following a Trigger Event, as described above, determination of the Headlease, and payment in full of the Termination Sum, then all insurance monies pursuant to the insurance of the Property shall belong to the Tenant.

It should be noted that there is no rent suspension in the event of damage to the Property. For further information, see "*The Underlease - Rent and Rent Review*" at page 75.

Alterations

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

Alienation

Assignment or charging of the whole or part of the Property will be prohibited. Sublettings or parting with possession of the whole or any part will be permitted provided they do not contain terms inconsistent with the provisions of the Underlease other than in relation to rent or licence fee, assignment and repairing and they are not for a duration or period expiring after the date of the expiry of the term of the Underlease. The Tenant will be permitted to grant occupational licences to any one or more of its Group Companies or any third party without Headlessees' consent.

Use of the Property and Planning and statutory requirements

The permitted use under the Underlease will be such use or uses for which the necessary statutory consents have been obtained and which does not cause or constitute a breach of any title conditions or any matters affecting the title to the Property. The Tenant will undertake to comply promptly with any notices served by public, local or statutory bodies and European union directives or regulations which affect the Property. The Tenant will also undertake to comply with any relevant planning legislation and to obtain the Headlessees' prior written consent to planning applications for works that would require Headlessees' consent under the terms of the Underlease.

Yielding Up

To yield up the Property at the end of the term (or sooner determination) in accordance with the Tenant's obligations under the Underlease.

Indemnity

Not to do or omit to do anything in relation to the Property that may subject the Headlessees to any liability and to exercise control of the Property so as to fully protect the Headlessees against any such liability. The Tenant will indemnify the Headlessees against costs arising directly or indirectly from, among other things, any breach by the Tenant of the terms of the Underlease. If a claim is brought against the Headlessees against which the Headlessees are indemnified by the Tenant, then the Tenant will, at its cost and expense and in the Headlessees' name, be required to defend such claim and the Headlessees will not be permitted to take any step to settle or compromise any such claim without the consent of the Tenant.

Headlease

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

Landlord's obligations

In addition to the usual undertaking for quiet enjoyment the Headlessees under the Underlease will undertake, among other things, to perform and observe their obligations under the Headlease save insofar as they are the responsibility of the Tenant under the Underlease and to use reasonable endeavours to enforce the obligations of the Headlease Landlord under the Headlease.

Irritancy

The Underlease may be irritated in the event of non-payment of any rent (within 10 Business Days of the due date), or breach of Tenant's obligations in the Underlease (not remedied within a reasonable period).

Prior to exercising any right of irritancy the Headlessees must (i) give written notice to the Tenant and any heritable creditor of the Tenant or creditor under any floating charge of the Tenant (provided written notice has been given to the Headlessees of such "**Security Creditor**") requiring the breach or failure to be remedied and the Tenant or Security Creditor shall have failed to remedy the breach within a reasonable period of time (in the case of rent and other sums being not less than 14 days (provided that the last day of such period is a Business Day) and in other cases not less than three months); and (ii) have obtained an extract decree of irritancy of the Underlease or recovery of possession.

VAT

The Tenant will be obliged to pay VAT on any payment made to the Headlessees under the Underlease.

Limited Recourse and Non-Petition

For so long as all or part of the principal, interest and other sums due under the Credit Agreement remain outstanding:

- (a) the Tenant will agree that the Headlessees shall only be obliged to pay any sum due under the Underlease to the extent that it has funds available to do so and all sums required to be paid or provided for by the Headlessees in priority to such sums have been paid, provided for or discharged in full; and
- (b) the Tenant will agree not to take any action or proceedings against the Headlessees to recover amounts due and payable until the Headlessees have sufficient assets to meet the claim (taking account of other liabilities ranking ahead of or equal to the Tenant's claim). Further, the Tenant will agree not to set-off any amount claimed against any amount which the Tenant is obliged to pay to the Headlessees. The Tenant will not be permitted to petition or commence proceedings for the administration, winding-up, or bankruptcy of the Headlessees.

Options

Not less than 24 months prior to the expiry of the Underlease, the Tenant shall serve on the Headlease Tenant a non-binding notice indicating which of the options, if any, as set out below the Tenant intends to exercise.

Option to purchase

On the expiry of the term, the Tenant will have an option to require the assignation of the Headlease to the Tenant's nominee. In order to exercise the option the Tenant must serve a notice on the Headlease Tenant not more than twelve nor less than six months prior to the expiry of the contractual term. The purchase price for the Headlease is to be the lesser of (a) the market value of the Headlease Tenant's interest in the Property as at the date of the exercise of the option (the "**Market Value**") and (b) the current estimate of the market value of the premises at the expiry of the term being £28 million as increased annually in line with the Index together, in either case, with VAT but reduced, in either case, (if the BBC so elects) by an amount equal to the residual share of the BBC in relation to such Market Value. In the event that the parties cannot agree the Market Value then this will be determined by an independent surveyor. The option may only be exercised if the Tenant has paid and continues to pay the principal rent and additional rent up to the date of expiry of the term.

Option to renew

The Tenant alternatively will have an option to require the renewal of the Underlease at the expiry of the term. The new lease will be for a further thirty year term (subject to any statutory security of tenure then available to business tenants), the first annual rent being the lesser of the then market rent (the "**Market Rent**") and the current estimate of the Market Rent at the expiry of the term of the Underlease, being £20.70 per net lettable square foot per annum as increased annually in line with the Index, and subject to an initial rent free period commensurate with the Market Rent agreed and a further rent free period (if the BBC so elects) potentially equal to the value of the BBC's residual share in the Headlease. The lease will be on fully repairing and insuring terms, subject to upwards only 5 year rent reviews and otherwise on standard investment grade and arm's length terms and, subject to these specified and certain other provisions, on the same terms and conditions as the Underlease.

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

Option to vacate

The Tenant will also have a further option simply to vacate the Property at the expiry of the term without liability for dilapidations.

The Development Programme

The Development Programme consists of development of the Property, currently a vacant site at Pacific Quay, so as to provide 31,693 square metres of offices, studios, production units and other facilities for use by the BBC as their Scottish Headquarters.

In addition to the works to be undertaken in connection with the Development Programme, the BBC, at its own cost, is to undertake its own technical fit out in relation to the production and broadcasting facilities, costing approximately £45 million.

Development Agreement

In accordance with the terms of a Development Agreement, Land Securities Trillium (Media Services) PQ Limited (the "**Developer**") will be appointed to carry out the Development Programme. The Developer is a newly formed and wholly owned subsidiary of Land Securities Trillium (Media Services) Limited. As conditions precedent to the effectiveness of the Development Agreement, the Building Contract, the contract of appointment for the Employer's Agent and related Direct Agreements will be required to be executed and completed. In addition, the Developer will procure the issue of a parent company guarantee in favour of the BBC, guaranteeing the Developer's obligations under the Development Agreement (which can be required to be assigned to the Borrower in certain circumstances of the Developer's default in its obligations under the Development Agreement). The Developer's obligations under the Development Agreement will be subject to a general liability cap of £15 million and other specific caps for defined categories of liability. The Developer will be required to provide information to the BBC to enable it to monitor the progress of the Development Programme and the Development Agreement will provide for certain procedures to be followed by the parties in relation to their obligations under the Development Agreement.

The Borrower will have limited rights under the Development Agreement and its primary rights will derive from the Direct Agreement with the Developer. The only obligation of the Borrower under the Development Agreement is the assumption of payment obligations in respect of sums due under the Development Agreement, comprising payments made by the Developer under the Building Contract, plus fees owed to the Developer by way of a development fee and certain payment obligations to the BBC as part of reciprocal arrangements between the Borrower and the BBC in relation to VAT. Payments by the Borrower to the Developer in respect of sums due under the Building Contract will only be made on receipt of appropriate invoices and in accordance with the certification procedures set out in the Development Agreement including, in particular, the approval and confirmation by, amongst others, Mackenzie Partnership Services Limited (the "**Employer's Agent**") that such costs are properly payable in accordance with the Building Contract. In reaching such a conclusion and issuing a written payment notice, the Employer's Agent shall meet with, amongst others, Currie & Brown who shall act as Funder Representative on behalf of the Borrower.

If the parties do not agree on the amount of the payments due and payable under the Building Contract being applied for, then to the extent that the Employer's Agent's assessment exceeds the Funder Representative's assessment by 5 per cent. or more, the Employer's Agent's written payment notice will be based on the Funder Representative's assessment plus 5 per cent.

The Development Agreement provides for a dispute resolution process in relation to the disagreement as to payments due and payable under the Building Contract and for reassessment of further payments following the resolution of the same.

It should be noted that the Borrower will not be required to pay amounts due under the Development Agreement to the extent that they exceed the anticipated cost of construction as provided for within the sum borrowed and available against an agreed cashflow under the Credit Agreement as specified in a schedule to the Development Agreement. Such excess costs (for example, relating to any variation or "loss and expense" claims) will be borne by the BBC.

The BBC may terminate the Development Agreement in the event of the Developer's insolvency or a "Developer's Default" which shall include, among other things, a breach of the agreement which materially and adversely affects the performance of the works or the progress of the Development Programme. The Developer may terminate the Development Agreement when a "BBC/Funder Default" has occurred, meaning a failure of the Borrower to make payments under the agreement; a breach by the BBC of the obligations under the Development Agreement which makes it impossible for the Developer to continue to perform its obligations for a period of three months; or expiry of the BBC Charter where it is not renewed or renewed in such a way which does not assume that the BBC will continue in operation.

The funding of costs payable by the Borrower under the Development Agreement (which will include sums payable to the Developer in respect of payments due to be made under the Building Contract) will be met from the proceeds of Development Advances made in accordance with the Credit Agreement. It should be noted that these arrangements are designed to continue after a Loan Event of Default (unless a Trigger Event or Insolvency Event has occurred).

The Developer's rights to obtain payment from the Borrower under the Development Agreement will be secured pursuant to the Related Security but will be limited to recourse against amounts standing to the credit of the Borrower Development Account. If there is a shortfall in the amount standing to the credit of the Borrower Development Account available to pay amounts payable to the Developer under the Development Agreement, the liability of the Borrower to make payment in respect of any such shortfall shall cease and all claims against the Borrower in respect of such shortfall will be extinguished.

Issuer Development Guarantee

The Issuer will, on or around the Closing Date, provide the Issuer Development Guarantee in favour of the Developer.

The Developer will be entitled to make a demand under the Issuer Development Guarantee following the failure of the Borrower to make payments to the Developer under the Development Agreement for a period of 30 days from the applicable due date subject to the condition that none of an Insolvency Event in relation to the BBC, a Trigger Event or certain insolvency events in relation to the Developer shall have occurred.

The amount of any payment to the Developer by the Issuer under the terms of the Issuer Development Guarantee will be funded from amounts standing to the credit of the Development Account. Each payment will, under the terms of the Credit Agreement, constitute the making of a Development Advance by the Issuer to the Borrower.

The Developer's rights to obtain payment under the Issuer Development Guarantee will be secured pursuant to the Deed of Charge and Assignment but will be limited to recourse against amounts standing to the credit of the Development Account. If there is a shortfall in the amount standing to the credit of the Development Account available to pay amounts payable to the Developer under the Issuer Development Guarantee, the liability of the Issuer to make payment in respect of any such shortfall shall cease and all claims against the Issuer in respect of such shortfall will be extinguished.

Building Contract

The Developer will enter into a building contract in the industry standard form contract JCT with Contractor's Design 1998 Edition (incorporating a schedule of amendments to the standard form) with Bovis Lend Lease (Scotland) Limited (the "**Contractor**") (the "**Building Contract**"). Save for the sufficiency of certain technical specifications supplied by the BBC in relation to the electromagnetic shielding, technical earthing, Cat 5 cabling and security (bomb blast protection), the Contractor will be responsible (pursuant to the Building Contract) for the design and the construction of the proposed works under the Building Contract but will appoint a number of other professionals whose appointments effectively take effect as subcontracts see "*Direct Agreements*" below. These include, Keppie Associates (architect), Faber Maunsell Limited (structural engineer), Ove Arup & Partners Scotland Limited (services engineer) and Arup Acoustics Limited (acoustic consultant). The obligations of the Contractor under the building contract are subject to specific caps for defined categories of liability.

Direct Agreements

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

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

Similar Direct Agreements will be obtained from, amongst others, the Developer, the Employer's Agent, the architect and various other consultants.

Quantity Surveyors, Employer's Agent and Funder Representative

Gardiner & Theobald will act as quantity surveyors to the Developer. Mackenzie Partnership Services Limited will act as Employer's Agent for the Developer and Currie and Brown will perform the role of funder representative (the "**Funder Representative**") for the Borrower and the Borrower Security Trustee. The Funder Representative will advise as to matters in relation to the progress of the construction works in accordance with the Building Contract.

THE BACKGROUND AND BUSINESS OF THE BBC

BBC's Corporate Structure

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

The BBC's core purpose is that of public service broadcasting. Its objects include the provision of television and radio services within the UK (the "**Home Services**") and abroad (the "**World Service**"), and certain ancillary services such as online services.

History of the BBC

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

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

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

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

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

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

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

- (a) a range of new policies were introduced with the aim of increasing efficiency, to reducing staff and operating costs and making the BBC more competitive in the tougher broadcasting environment of the 1990's;
- (b) the Broadcasting Act 1990 (the "**Broadcasting Act**") established the Independent Television Commission ("**ITC**") to regulate all terrestrial TV services in the UK, with the exception of the BBC. The Government confirmed the BBC as "the cornerstone of British broadcasting", but the Broadcasting Act heralded universal changes, including, for example, a requirement that a quarter of programmes in certain genres had to be produced by independent production companies and that programme schedules should no longer be exclusive to TV Times and Radio Times; and
- (c) the arrival of digital technology and the internet in the 1990's.

1996 Charter Renewal

The BBC was granted a 10 year Royal Charter in 1981 which continued in force until the end of 1996.

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

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

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

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

		Extension
First Charter	1 January 1927 - end 1936	
Second Charter	1937 - end 1946	
Third Charter	1947-1951	-> mid 1952
Fourth Charter	mid 1952 - mid 1961	-> mid 1964
Fifth Charter	mid 1964 - 1976	-> mid 1979 -> mid 1981
Sixth Charter	July 1981 - end April 1996	
Current (Seventh) Charter	1 May 1996 - 31 December 2006	

2006 Charter Review

The Secretary of State for Culture, Media and Sport, Tessa Jowell launched the Charter Review process with a public consultation document, "The Review of the BBC's Royal Charter" on 11 December 2003. In doing so, the Secretary of State stressed the importance of the BBC to both the world of broadcasting and the wider public - in particular she said it set a "gold standard" in its news coverage that people trusted.

The Secretary of State said:

"Rapid change means that we must consider how the BBC should be adapted for the future. The one certain outcome of the review will be a strong BBC, with the courage to be editorially autonomous and independent from Government."

The consultation document set out a list of key questions to prompt discussion about the BBC's role, structure and function. They are:

- What do you value most about the BBC?
- What do you think of the television, radio and online services the BBC provides?
- Should the BBC run commercial services?
- How should we pay for the BBC?
- Is the BBC organised in the most effective and efficient way?
- How should the BBC be governed and regulated?

- How do we ensure that the BBC is properly accountable to the public and Parliament?

Members of the public and other stakeholders were invited to send in their views on these issues, and any others, to the Department for Culture, Media and Sport by 31 March 2004 and the consultation has been accompanied by a programme of direct engagement with the public, through survey research and public meetings.

The BBC responded to these questions on 29 June 2004 and published a paper outlining the BBC's vision for its future (internet link www.bbc.co.uk/thefuture). The aforementioned website does not form part of this Offering Circular.

As to the BBC's funding, support for the Licence Fee remains strong but the Review will examine alternative sources of funding, whether or not public funding should also be available for other broadcasters, the level of the Licence Fee, and whether there should be further concessions for the elderly and/or those with disabilities. The BBC's views on these issues are set out in the paper referred to above.

Following the current consultation period, the Government's intentions towards the BBC are likely to be announced in a Green Paper towards the end of 2004 or early in 2005. Final decisions will be published in a subsequent White Paper.

Consequences of non-renewal of the Charter

Although the Secretary of State has made clear that the Government intends that the outcome of Charter Review should be the continuation of the BBC as a strong and independent broadcaster, if the Charter were not renewed and no alternative legal framework was established for the BBC, the BBC would be dissolved. Articles 22 and 23 of the Charter deal with the occurrence of voluntary or compulsory dissolution. Assets of the BBC would be disposed of "in satisfaction of the debts and liabilities of the Corporation" in accordance with the directions of the Secretary of State for Culture, Media and Sport.

The legal framework of the BBC

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

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

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

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

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

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

Following the resignations of Gavyn Davies and Greg Dyke, Michael Grade was appointed as Chairman of the Governors and took office on 17 May 2004. Mark Thompson (previously chief executive of Channel 4) was appointed by the Governors as the new Director General and took office on 22 June 2004.

Changes to BBC Governance

The way in which the BBC is governed and regulated also forms part of the Charter Review discussions and the views of the BBC are set out in the publication referred to in " - 2006 Charter Review" published by the BBC on 29 June 2004 (internet link www.bbc.co.uk/thefuture). The section in the publication on the reform of the Board of Governors is the only section that comes solely from the Board of Governors. The aforementioned website does not form part of this Offering Circular.

OFCOM and the BBC

The Communications Act 2003 established a new regulator for the UK communications industry, the Office of Communications, known as OFCOM. The BBC's relationship with OFCOM is set out in the Communications Act 2003 and in a revised BBC Agreement issued by the Government in December 2003 (Cm 6075). In brief, the BBC Agreement requires that the BBC should face similar obligations to other broadcasters with respect to matters such as standards of taste and decency, the proportion of original, regional and independent productions, levels of provision of news and current affairs programming and of access services for people with sensory impairments, while making clear that the Governors retain the responsibility for setting the BBC's strategy and ensuring that the BBC delivers its public service remit.

OFCOM are however examining the output of the BBC as part of its current review of public service television broadcasting and the outcome of that review will form part of the Secretary of State's review of the Charter.

BBC Audience Rating

As at the date of this Offering Circular, the BBC has approximately 38 per cent. share of the television audiences within the United Kingdom with its joint venture channels having a further 4 per cent. share within the United Kingdom. The BBC also enjoys approximately 50 per cent. share of the radio audiences within the United Kingdom.

Licence Fee funding

The Licence Fee is used to fund public service television and radio broadcasting by the BBC throughout the United Kingdom (which is known as the Home Service) and the BBC's online service (www.bbc.co.uk). The aforementioned website does not form part of this Offering Circular.

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

The Government, through legislation and regulations, determines the types of apparatus that need to be licensed, the types of licence (for instance, colour and monochrome), determines concessionary fees for groups such as blind people and sets the level of the Licence Fee in accordance with an uprating formula which is usually determined on a multi-annual basis.

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

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

Current level of Licence Fee

As at the date of this Offering Circular a colour licence costs £121 and a black and white licence costs £40.50. In 2001/2002 the BBC issued 23.8 million licences, receiving £2,533 million in licence fee income and in 2002/2003 the BBC issued 24.1 million licences, receiving £2,658.5 million in licence fee income.

Each year regulations are laid before Parliament setting the level of the Licence Fee as payable from April following. The rate of increase is currently set according to the formula announced by the Government in February 2000. Under this formula, licence fee increases for each year from 2000/2001 to 2006/2007 are set at the Retail Price Index level plus 1.5 per cent.

World Service Funding

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

Aims, Objectives and Performance Assessments of the World Service

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

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

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

Commercial Subsidiaries

Since the launch of the Radio Times in 1923, the BBC has also been engaged in commercial activities, with the explicit aim of supporting the BBC's core public purpose. Commercial activities include those where the BBC sells products, services or rights it owns, which are not used directly in its public services, to third parties. Such commercial activities will normally be carried out through subsidiaries ("**Commercial Subsidiaries**") specifically established for this purpose.

The commercial activities of the BBC are separated from the public service remit. In order to ensure that public funds (i.e. Licence Fee) are not used in commercial activities and that there is clarity in their respective objectives, clear boundaries are drawn between the BBC's public services (the Home Service and the World Service) and commercial activities. Each Commercial Subsidiary maintains separate, audited accounts and a clear and separate management structure.

The principal Commercial Subsidiaries of the BBC are as follows:

- (a) BBC Commercial Holdings Limited is the holding company for the BBC's principal commercial interests. It is the 100% shareholder of BBC Worldwide Limited, BBC World Limited and BBC Ventures Group Limited, and is in turn 100% owned by the BBC.
- (b) BBC Worldwide Limited is the subsidiary which is the BBC's commercial consumer arm and which exists to maximise the value of the BBC's programme intellectual property.
- (c) BBC World Limited's business is a commercial 24-hour, English-language, international news channel. It provides news, business and weather 24 hours a day, plus news documentaries and lifestyle programming.
- (d) BBC Ventures Group Limited was incorporated on 18 June 2002 to bring together the BBC's four business-to-business commercial companies under one holding company. BBC Ventures

Group Limited's subsidiaries comprise BBC Resources Limited, BBC Broadcast Limited, BBC Technology Limited and BBC Vecta Limited. The activities of each of the subsidiaries are as follows:

- (i) BBC Resources Limited - provides services in outside broadcast studios, post-production, design and special effects sectors of media production;
- (ii) BBC Technology Limited - provides design and build of solutions for the creation, management and distribution of content across multiple platforms, including digital media, telecoms broadcast and interactive television;
- (iii) BBC Broadcast Limited - offers services required to launch, promote, play-out and manage television channels; and
- (iv) BBC Vecta Limited - exploits the developments in research and development as carried out by the BBC's in-house research and development team.

The BBC is currently in the process of selling BBC Technology Limited. From the sale of BBC Technology Limited the BBC intends to make savings both in its future overhead costs on technology and receive a one-off cash sum from the company share sale. It is expected that this sale will complete in September 2004.

The Charter does not allow the BBC to use Licence Fee funds in relation to the activities of its subsidiaries nor can the BBC guarantee or indemnify the activities of its Commercial Subsidiaries.

Taxation

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

The BBC cannot claim relief from UK tax in respect of losses from its public sector broadcasting activities, but losses incurred by subsidiaries of the BBC are relievably under normal rules which apply to companies. The BBC is treated as a "company" for group purposes, and may claim tax losses under normal rules which apply to companies or receive assets intra-group without crystallising UK corporation tax on capital gains.

Overseas, the BBC is required to account for tax in accordance with the domestic legislation of the country in question.

BBC's Borrowing Powers

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

Existing Facilities

The BBC has a revolving credit facility of up to £100 million provided by Lloyds TSB Bank plc ("**Lloyds TSB**"). The facility provides for this credit limit to be used either as an overdraft or as a multi currency LIBOR facility, and there is a term out option which, if exercised, extends final maturity by one year to May 2006. Lloyds TSB has renewed its facilities with the BBC on an annual basis. The facility currently expires in May 2005 and the amount drawn under the facility was nil (as at 31 March 2003).

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

Borrowing Facilities of the Commercial Subsidiaries

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

Relationship with the Commercial Subsidiaries

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

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

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

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

BBC Auditing

Internal Auditing

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

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

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

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

The BBC's accounting systems have been consolidated across the group on to one platform, "SAP". This is intended to enable consistent management information to be produced and controls to be applied

across the whole group. It has enabled internal trading balances to be monitored at group level on a monthly basis. The process for internal charging is also reviewed during both internal and external audit reviews throughout the year. All internal processes are audited by either KPMG or joint reviews with internal audit throughout the year and final reviews form part of their assurance for the year end audit. KPMG also do a financial interim audit around October in each year.

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

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

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

External Auditing

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

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

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

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

Digital switch over

The Government recognises that the BBC has a vital role in the change over process from analogue to digital broadcasting both through its offering of new digital services and its involvement in the Freeview DTT platform. The BBC believes that the option of subscription free digital television will be vital in driving digital take up further which is why the BBC has taken part in the Freeview platform and is now broadcast without encryption via digital satellite - a change which has also resulted in costs savings for the BBC. Digital switch over is likely to be region by region and the BBC has offered some suggestions as to how this might be achieved to the Government and Ofcom. There are likely to be no significant cost savings for the BBC from the switch over, however, because the creation of analogue transmission system set up has been fully depreciated. The launch of the Freeview platform has enabled the BBC to protect its audience share as conversion to digital broadcasting takes place.

BBC Scotland

BBC Scotland, along with BBC Wales, BBC Northern Ireland and the BBC English Regions, is part of the Nations and Regions Directorate (a division of the BBC Home Service). BBC Scotland is headed by the Controller Scotland, Ken McQuarry, who is a member of the BBC's Leadership Group. It is supervised by the Broadcasting Council of Scotland, which is chaired by the National Governor for Scotland.

Pacific Quay, as BBC Scotland's headquarters, will house:

- (a) Scottish Services: responsible for radio and television services for Scotland and those production areas primarily focused on serving audiences in Scotland;
- (b) Programmes: responsible for the production areas that serve the UK networks to a significant degree (but also provide programmes for Scotland only).
- (c) Services: the professional functions that service all areas of BBC Scotland.

The BBC, in Scotland, employs approximately 1,500 full-time and contract staff across 10 centres. The existing headquarters of BBC Scotland in Glasgow employs approximately 1200 staff.

BBC Scotland's share of the television audiences in Scotland in 2002/3 was approximately 30 per cent. and its share of the radio audiences was approximately 42 per cent.

Property and Developments

Overall Strategy

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

Realising the vision for the property portfolio is a very challenging ambition and the BBC recognised that it needed the assistance of an established property partner to help it realise those ambitions. That partnership was formed in 2001 with Land Securities Trillium.

The BBC is now implementing its property strategy across the UK, with a number of developments both completed and under way. The development of the Property forms an integral part of the BBC property strategy.

The Property was designed by David Chipperfield Associates. It is intended to incorporate 31,693 square metres of production and news studios, broadcast and catering facilities, the outside broadcast garage and scenery, dock and decked visitor and staff car parking. It is also intended to realise the BBC's vision for its buildings open to the audience and welcoming visitors, enhancing creativity, and responding to changing circumstances as BBC Scotland's business develops.

CREDIT STRUCTURE AND ISSUER CASHFLOWS

Issuer Cashflows

Funds Available to the Issuer

The funds available to the Issuer for the repayment of the Notes, after deduction of items ranking in priority, will comprise the following:

- (a) **"Borrower Receipts"** comprising all payments received from the Borrower, whether by way of:
 - (i) interest (excluding Interest Amount Receipts), fees (other than Prepayment Fees), expenses, commission and other similar sums paid by the Borrower in respect of the Loan and the Related Security including recoveries in respect of such amounts in respect of the Loan and the Related Security on enforcement; and
 - (ii) principal, whether by way of repayment or prepayment, including recoveries in respect of such amounts in respect of the Loan and the Related Security on enforcement;
- (b) **"Interest Amount Receipts"** comprising Note Interest Transfer Amounts (incorporating Interest Instalment Amounts) to be deducted from the Interest Account on Loan Payment Dates up to and including the Loan Payment Date falling in July 2007 to be applied in making interest payments on the Notes on Note Payment Dates;
- (c) **"Prepayment Fees"** comprising all fees and costs received as a result of any prepayment in full of the Loan, including any such fees arising from a prepayment following the enforcement of the Loan or the Related Security;
- (d) **"Swap Receipts"** comprising all payments (excluding Tax Liquidity Support Payments and payments under the Fixed Rate Swap Transaction) received by the Issuer from the Swap Provider under the Swap Agreement; and
- (e) interest on the credit balance standing to the credit of the Issuer Operating Account from time to time and proceeds of Eligible Investments,

together the **"Available Receipts"**.

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

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

Payments out of the Issuer Operating Account prior to Enforcement of the Issuer Security

On any Business Day other than a Note Payment Date or a Swap Payment Date, the Issuer Manager shall, subject as provided below, prior to the service of a Note Enforcement Notice, apply funds standing to the credit of the Issuer Operating Account (excluding, in the case of amounts due under items (a) below, the aggregate amount of any Tax Liquidity Support Payments paid into the Issuer Operating Account and which are required for the making of DSA Liquidity Advances to the Borrower) in paying or providing for Priority Amounts (see *"Issuer and Corporate Management - Calculation of Amounts and Payments"* at page 103).

"Priority Amounts" means:

- (a) amounts due or to become due to third parties incurred in the course of the Issuer's business (other than amounts due to the Loan Servicer, the Swap Provider, the Issuer Manager, the Corporate Services Provider, the Note Trustee, the Share Trustee, the Issuer Security Trustee, the Principal Paying Agent, the Paying Agents, the Agent Bank or the Issuer Operating Bank), including the Issuer's liability, if any, to corporation tax and/or VAT, and including costs, expenses, fees and indemnity claims due and payable to any receiver appointed by or on behalf of the Issuer Security Trustee in respect of the Loan or the Related Security; and
- (b) DSA Liquidity Advances to be made to the Borrower.

Pre-Enforcement Priority of Payments (Issuer)

On each Swap Payment Date, the Issuer Manager, on behalf of the Issuer, will apply Available Receipts then standing to the credit of the Issuer Operating Account:

- (i) to the extent that the Issuer has received repayment of a DSA Liquidity Advance from the Borrower (and in an amount equal to such repayment), in payment of the TLS Repayments due from the Issuer to the Swap Provider and/or any payments due from the Issuer to the Swap Provider in respect of an early termination of the DSA Swap Transaction; and
- (ii) to the extent that the Issuer is a net payer under the Indexation Swap Transaction, in payment of the amount due from the Issuer to the Swap Provider.

In addition to amounts constituting repayments of DSA Liquidity Advances, other funds standing to the credit of the Issuer Operating Account may be applied in making the payments referred to in item (i) above to the extent that there are sufficient funds available to make in full all payments required to be made on the next succeeding Note Payment Date under items (a) to (e) (inclusive) below.

Thereafter on each Note Payment Date, the Available Receipts then standing to the credit of the Issuer Operating Account will be applied by the Issuer Manager in the following order of priority (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Deed of Charge and Assignment:

- (a) first, (i) *pro rata and pari passu*, in or towards payment or discharge of any amounts due and payable to the Note Trustee, the Issuer Security Trustee or any receiver appointed by or on behalf of the Borrower Security Trustee in respect of the Loan or the Related Security; then (ii) *pro rata and pari passu*, in or towards payment or discharge of any amounts due and payable to the Paying Agents and the Agent Bank under the Agency Agreement; then (iii) *pro rata and pari passu*, in or towards payment or discharge of any amounts due and payable to the Loan Servicer under the Loan Servicing Agreement and the Issuer Manager under the Issuer Cash and Corporate Management Agreement; then (iv) in or towards payment or discharge of any amounts due and payable to the Corporate Services Provider under the Corporate Services Agreement; then (v) in or towards payment or discharge of any amounts due and payable to the Share Trustee under the Declaration of Trust; then (vi) in or towards payment or discharge of any amounts due and payable to the Issuer Operating Bank under the Issuer Cash and Corporate Management Agreement;
- (b) second, *pro rata and pari passu*, in or towards payment or discharge of any amounts due to third parties (other than Priority Amounts and amounts described in items (a), (c), (d) and (e)) under obligations incurred in the course of the Issuer's business, including provision for any such obligations expected to become due in the following Interest Period (as defined in Condition 4(b)) and the payment of the Issuer's liability (if any) to VAT and to corporation tax;
- (c) third, *pro rata and pari passu*, in or towards payment or discharge of (i) interest due or overdue (and any interest due on such overdue interest) on the Notes and (ii) any payments due to be made by the Issuer to the Swap Provider under the Swap Agreement following an early termination of the Swap Agreement (other than payments to be made by the Issuer referred to in (e) below and payments in respect of an early termination of the DSA Swap Transaction);

- (d) fourth, in or towards payment or discharge of principal due and overdue on the Notes;
 - (e) fifth, in or towards payment or discharge of any amounts due and payable to the Swap Provider under the Swap Agreement in respect of all termination payments owed by the Issuer to the Swap Provider following an early termination of the Swap Agreement as a result of an event of default under the Swap Agreement in respect of which the Swap Provider is the Defaulting Party (as defined in the Swap Agreement) (other than payments to be made by the Issuer in respect of the early termination of the DSA Swap Transaction);
 - (f) sixth, any amount outstanding under the Issuer/Borrower Expenses Loan Agreement,
- and any surplus shall be retained in the Issuer Operating Account.

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

For further information regarding deposits and transfers to and from the Issuer Accounts, see "*The Accounts Structure*" at page 98.

Post-Enforcement Priority of Payments (Issuer)

The Issuer Security will become enforceable upon the occurrence of an Event of Default and the delivery by the Note Trustee of a Note Enforcement Notice to the Issuer. Following enforcement of the Issuer Security, the Issuer Security Trustee will be required to apply all funds (other than (a) amounts received from the Swap Provider in respect of the Development Tranche under the Fixed Rate Swap Transaction which shall be paid into the Development Account, (b) amounts standing to the credit of the Development Account and the Expenses Account, which are to be applied for specific purposes under the terms of the Credit Agreement and/or the Issuer Development Guarantee, (c) amounts standing to the credit of the Issuer Accounts received in repayment of DSA Liquidity Advances, which shall be paid to the Swap Provider (unless and until satisfaction of all amounts due and payable in respect of TLS Repayments) and (d) amounts standing to the credit of the Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account, which shall be distributed in accordance with the terms of the Swap Agreement) received or recovered by it in accordance with the following order of priority (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Deed of Charge and Assignment:

- (a) first, (i) *pro rata and pari passu*, in or towards payment or discharge of any amounts due and payable to the Note Trustee, the Issuer Security Trustee and any receiver appointed by or on behalf of the Issuer Security Trustee in respect of the Deed of Charge and Assignment and any amounts due and payable to any receiver appointed by or on behalf of the Borrower Security Trustee in respect of the Loan and/or the Related Security; then (ii) in or towards payment or discharge of any amounts due and payable to the Swap Provider in respect of amounts owed to it under the Swap Agreement including payments due to be made by the Issuer following an early termination of the Swap Agreement (other than payments to be made by the Issuer referred to in (c) below); then (iii) *pro rata and pari passu*, in or towards payment or discharge of any amounts due and payable to the Paying Agents and the Agent Bank under the Agency Agreement; then (iv) in or towards payment or discharge of any amounts due and payable to the Loan Servicer under the Loan Servicing Agreement; then (v) in or towards payment or discharge of any amount due and payable to the Issuer Manager under the Issuer Cash and Corporate Management Agreement, then (vi) in or towards payment or discharge of any amounts due and payable to the Corporate Services Provider under the Corporate Services Agreement; then (vii) in or towards payment or discharge of any amounts due and payable to

the Share Trustee under the Declaration of Trust; and then (viii) in or towards payment or discharge of any amounts due and payable to the Issuer Operating Bank under the Issuer Cash and Corporate Management Agreement;

- (b) second, in or towards payment or discharge of interest due or overdue (and all interest due on such overdue interest) on the Notes;
- (c) third, all amounts of principal due or overdue on the Notes and all other amounts due in respect of the Notes until the outstanding principal balance of the Notes is reduced to zero;
- (d) fourth, in or towards payment or discharge of any amounts due and payable to the Swap Provider under the Swap Agreement in respect of all termination payments owed by the Issuer to the Swap Provider following an early termination of the Swap Agreement as a result of an event of default under the Swap Agreement in respect of which the Swap Provider is the Defaulting Party (as defined in the Swap Agreement);
- (e) any surplus to the Issuer or other persons entitled thereto,

provided that if at the time a payment is proposed to be made to an Issuer Secured Party (other than the Noteholders) following an enforcement of the Issuer Security, that Issuer Secured Party is in default under any of its obligations under any of the transaction documents under the terms of which it is required to make any payments to the Issuer, the amount of the payment which may be made to the Issuer Secured Party shall be reduced by an amount equal to such defaulted payment.

Enforcement of the security created by the Deed of Charge and Assignment is the only remedy available for the purposes of recovering amounts due in respect of the Notes.

In relation to the obligations of the Issuer under the Issuer Development Guarantee, if there is a shortfall in the amount standing to the credit of the Development Account available to pay amounts payable to the Developer under the Issuer Development Guarantee, the other assets (if any) of the Issuer will not be available for payment of any shortfall arising therefrom and the liability of the Issuer to make payment in respect of any such shortfall shall cease and all claims against the Issuer in respect of such shortfall will be extinguished.

The Swap Agreement

On or around the Closing Date, the Issuer will enter into the Swap Agreement with the Swap Provider.

Pursuant to the Swap Agreement, the Issuer will enter into three swap transactions with the Swap Provider in order to protect itself against Indexation Risk arising in respect of the Loan (the "**Indexation Swap Transaction**"), to provide for its obligation to make DSA Liquidity Advances to the Borrower (the "**DSA Swap Transaction**") and to provide for the investment of funds standing to the credit of the Development Account and the Interest Account, pending their application in accordance with the terms of the Credit Agreement (the "**Fixed Rate Swap Transaction**" and, together with the Indexation Swap Transaction and the DSA Swap Transaction, the "**Issuer Swap Transaction**").

Under the terms of the Indexation Swap Transaction, the Swap Provider, in its capacity as the calculation agent under the Swap Agreement, will calculate, in respect of each Swap Payment Date:

- (a) the "**Swap Provider Amount**", being the Notional Amount, increased at a fixed annual percentage rate from the Closing Date (compounded on a quarterly basis); and
- (b) the "**Issuer Amount**" being the Notional Amount, increased at the rate of LPI from the Closing Date (compounded on an annual basis).

The "**Notional Amount**" will be £1,593,311.03 which represents the estimated quarterly payment that would be payable by the Borrower to the Issuer under the Loan (to be funded from rental payments by the Tenant), based on the assumption that LPI is equal to Assumed LPI over the term of the Notes, so as to ensure that the Issuer could pay all amounts outstanding under the Notes by the Maturity Date.

After the Swap Provider Amount and the Issuer Amount are calculated in relation to a Swap Payment Date, the following payments will be made on that Swap Payment Date:

- (i) if the Swap Provider Amount is greater than the Issuer Amount, then the Swap Provider will pay the difference to the Issuer;
- (ii) if the Issuer Amount is greater than the Swap Provider Amount, then the Issuer will pay the difference to the Swap Provider; and
- (iii) if the Swap Provider Amount is equal to the Issuer Amount, neither party will make any payment to the other party.

"Swap Payment Dates" will fall two Business Days before (a) the 25th day of January, April, July and October in each year, or (b) if such 25th day is not a Business Day, then the immediately preceding Business Day. The first Swap Payment Date will be the Swap Payment Date falling in October 2007.

Under the terms of the DSA Swap Transaction, the Swap Provider, in its capacity as the calculation agent under the Swap Agreement, will calculate in respect of each Swap Payment Date falling in January and July of each year:

(a) the Tax Liquidity Support Payment, being the lesser of (i) the amount of the applicable DSA Liquidity Advance requested by the Borrower and (ii) an amount set by reference to a schedule (updated annually) to the confirmation relating to the DSA Swap Transaction which is based upon the expected tax liability, subject to adjustment for LPI, of the Borrower for each year; and

(b) the **"TLS Repayment"** being an amount equal to the Tax Liquidity Support Payment paid by the Swap Provider on the previous Swap Payment Date falling in January or July (as applicable).

After the Tax Liquidity Support Payment and the TLS Repayment are calculated in relation to a Swap Payment Date, the Swap Provider will pay the Tax Liquidity Support Payment due to the Issuer and the Issuer will pay the TLS Repayment due to the Swap Provider. Prior to the enforcement of the Issuer Security, the TLS Repayment payable on any Swap Payment Date by the Issuer is to be funded only from repayments of DSA Liquidity Advances made by the Borrower to the Issuer.

Under the terms of the Fixed Rate Swap Transaction, on or around the Closing Date, approximately £104 million of the proceeds of the Notes shall be paid by the Issuer to the Swap Provider. The Swap Provider will, on set monthly dates thereafter make payments (together with a fixed yield amount) according to a pre-determined schedule and deposit them into the Interest Account for allocation between the Development Account and the Issuer Operating Account, according to the terms of the Credit Agreement and the Issuer Cash and Corporate Agreement, to enable the Lender to make Development Advances and to satisfy the Borrower's payment obligations under the Credit Agreement and the obligations of the Issuer to pay interest on the Notes and other expenses of the Issuer during the period ending on the Note Payment Date in July 2007.

The Issuer Swap Transaction may be terminated in accordance with certain termination events and events of default, certain of which are more particularly described below.

The Issuer Swap Transaction will be deemed to be terminated if a Note Enforcement Notice is given by the Note Trustee to the Issuer pursuant to Condition 9 of the Notes or the Loan is prepaid, repaid or sold in full. In any of these circumstances, either the Issuer or the Swap Provider may be required to pay a termination payment to the other as a result of such a termination.

A failure by the Issuer to make timely payment of amounts due from it under the Indexation Swap Transaction will constitute a default thereunder and entitle the Swap Provider to terminate the Issuer Swap Transaction.

The failure by the Issuer to make a TLS Repayment in full on the Swap Payment Date on which it is due (for any reason) will permit the Swap Provider to terminate the DSA Swap Transaction.

On early termination of the DSA Swap Transaction, the only termination amount payable to the Swap Provider in respect of the DSA Swap Transaction shall be the aggregate of the TLS Repayments outstanding as at that date.

On early termination of the Fixed Rate Swap Transaction, the termination amounts payable by the Swap Provider to the Issuer will be credited to the Interest Account and amounts comprising the Development Tranche will be paid from that account to the Development Account.

The Swap Provider will be obliged to make payments under the Swap Agreement without any withholding or deduction of taxes unless required by law. The Swap Provider shall not be under any obligation to pay any additional sum to the Issuer if it is required by law to withhold or deduct tax from payments to the Issuer.

If due to action taken by a taxing authority or brought in a court of competent jurisdiction or any change in tax law on or after the Closing Date, either the Issuer or the Swap Provider (as applicable) will, or there is a substantial likelihood that either the Issuer or the Swap Provider (as applicable) will, on the next Swap Payment Date, receive a payment from which an amount is required to be deducted or withheld for or on account of any tax (except in respect of any default interest or interest payable on a termination payment) (a "Tax Event"), then the Swap Provider will use its reasonable efforts to transfer, prior to the time on the date on which such payment is required to be made, all of its rights and obligations under the Issuer Swap Transaction to another of its offices or affiliates in order to cure the relevant Tax Event. The Issuer will reimburse the Swap Provider for the cost associated with any transfer where the Issuer is the "Affected Party" (as defined in the Swap Agreement).

If any withholding or deduction on any payment to be made by the Issuer to the Swap Provider is required by law, the Issuer will have no obligation to pay any additional amount to the Swap Provider.

If a Tax Event occurs and the Swap Provider is unable to transfer its rights and obligations thereunder to another office or affiliate to cure the Tax Event, then the Swap Agreement and the Issuer Swap Transaction may be terminated by the Issuer, with a related termination payment due to be made or received by the Issuer, if either it is able to find a replacement swap provider (in which case it shall be obliged on early termination of the Issuer Swap Transaction to enter into a replacement swap transaction with such replacement swap provider) or is able to redeem all of the Notes in full. See "*Terms and Conditions of the Notes — Condition 5(d)*" at page 119.

The Swap Agreement will contain certain other limited termination events and events of default which will entitle either party to terminate the Swap Agreement.

Swap Agreement Credit Support Document

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

Collateral amounts that may be required to be posted by the Swap Provider pursuant to the Swap Agreement Credit Support Document may be delivered in the form of cash or securities. Cash amounts will be paid into the Issuer Swap Collateral Cash Account and securities will be transferred to the Issuer Swap Collateral Custody Account. References in this Offering Circular to the Issuer Swap Collateral Cash Account and to the Issuer Swap Collateral Custody Account and to payments from such accounts are deemed to be a reference to such accounts and to payments from such accounts as and when opened by the Issuer.

If the Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account are opened, amounts equal to any amounts of interest on the credit balance of the Issuer Swap Collateral Cash

Account, or amounts equivalent to distributions received on securities held in the Issuer Swap Collateral Custody Account, are required to be paid to the Swap Provider in accordance with the terms of the Swap Agreement Credit Support Document and the Deed of Charge and Assignment in priority to any other payment obligations of the Issuer. The obligation of the Issuer in respect of any return of securities posted as collateral pursuant to the Swap Agreement Credit Support Document is to return collateral of the same type, nominal value, description and amount as the collateral posted to the Issuer by the Swap Provider.

THE ACCOUNTS STRUCTURE

The Borrower Accounts

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

(a) the "**Borrower Rent Account**". The Credit Agreement and the Borrower Cash and Corporate Management Agreement will require the Borrower to direct the Tenant to pay all Rent Payments and (on or after the Surplus Calculation Date) any amount refunded or repaid by HM Customs and Excise, whether by way of actual payment or as a credit to the Borrower (a "**VAT Refund**") in relation to any amount paid by the Borrower in relation to the grant of the Headlease or the Car Park Headlease or under the Development Agreement, the Borrower Excess Interest and any relevant Deferred Subscription Amounts directly into the Borrower Rent Account. Under the terms of the Borrower Cash and Corporate Management Agreement and provided no Loan Enforcement Notice has been served, on each Loan Payment Date (subject to applicable grace periods), sums standing to the credit of the Borrower Rent Account (excluding Borrower Excess Interest then unavailable for such application pursuant to the terms of the Credit Agreement) will be applied by the Borrower Manager in accordance with the priority of payments set out in the "*Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Pre-Enforcement Priority of Payments (Borrower)*" at page 66.

Following the service of a Loan Enforcement Notice, the Borrower Security Trustee may instead transfer all or part of the monies standing to the credit of the Borrower Rent Account in or towards payment of the Loan or may retain them in the Borrower Rent Account pending their application as described above or towards prepayment or repayment of the Loan.

(b) the "**Borrower Tax Account**". The Credit Agreement will require the Borrower to ensure that all Deferred Subscription Amounts relating to tax repayments and DSA Liquidity Advances paid to it are promptly paid into the Borrower Tax Account. Under the terms of the Borrower Cash and Corporate Management Agreement, the DSA Liquidity Advances paid into the Borrower Tax Account are to be applied in the payment by the Borrower of United Kingdom income tax and the amount of any Deferred Subscription Amounts received by the Borrower in respect of any DSA Liquidity Advances are to be applied in repayment of such DSA Liquidity Advances.

(c) the "**Borrower Development Account**". The Credit Agreement will require the Borrower to ensure that all Development Advances and (prior to the Surplus Calculation Date) VAT Refunds in relation to any amount paid by the Borrower in relation to the grant of the Headlease and the grant of the Car Park Headlease or under the Development Agreement are promptly paid into the Borrower Development Account in accordance with the terms of the Credit Agreement. Under the terms of the Borrower Cash and Corporate Management Agreement, amounts standing to the credit of the Borrower Development Account may be used by the Borrower to make payments in relation to the Development Programme. On or around the Surplus Calculation Date, any amount standing to the credit of the Borrower Development Account will be paid to the Borrower Rent Account. For further information regarding the basis which payments will be made to the Developer, see "*The Property and the Leases — The Development Programme*" at page 79.

(d) the "**Borrower Realisation Account**". The Credit Agreement will require the Borrower and the Borrower Security Trustee to ensure that, prior to the occurrence of a Loan Event of Default, upon the sale or disposal of the Headlease, the net proceeds thereof are promptly deposited into the Borrower Realisation Account and thereafter applied by the Borrower Manager in accordance with the priority of payment set out in "*The Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Pre-Enforcement Priority of Payments (Borrower Realisation Account)*" at page 66.

Under the Borrower Debenture, each of the Borrower Accounts is expressed to be subject to a first fixed charge in favour of the Borrower Security Trustee, the benefit of which is held by the Borrower Security Trustee on trust for the benefit of itself, the Lender and the other Borrower Secured Parties.

The Borrower Manager, as of the Closing Date, will be the sole signatory on the Borrower Accounts. Under the Borrower Cash and Corporate Management Agreement the Borrower Manager will give instructions with respect to the amount of all withdrawals and payments from the Borrower Accounts to the Borrower Operating Bank (based on amounts calculated by it or information provided to it in accordance with the terms of the Transaction Documents) which will make the relevant withdrawals and transfers on the dates and in the amounts required.

Following receipt by the Borrower Operating Bank of a copy of a Loan Enforcement Notice, all authority of the Borrower Manager in respect of the Borrower Accounts will be terminated and the Borrower Operating Bank will thereafter be required to comply with the directions of the Borrower Security Trustee.

All of the Borrower Accounts will be held with the Borrower Operating Bank. In the event that the Borrower Operating Bank ceases to be an Authorised Entity, the Borrower Cash and Corporate Management Agreement will require that the Borrower Accounts (save in certain limited circumstances) be transferred to a bank which is an Authorised Entity.

The Issuer Accounts

In accordance with the terms of the Credit Agreement and the Issuer Cash and Corporate Management Agreement the Issuer will be required to establish or procure that there are established the following accounts:

(a) the **"Interest Account"**. On each Loan Payment Date up to and including the Loan Payment Date in July 2007, the Swap Provider shall, pursuant to the terms of the Fixed Rate Swap Transaction, transfer to the Interest Account an amount which will be used to fund the interest payment due on the Notes on the next following Note Payment Date and other expenses of the Issuer and, provided that no Loan Event of Default has occurred and is continuing, the amounts so deposited (to the extent they comprise Interest Instalment Amounts), following their transfer to the Issuer Operating Account, will constitute an Advance to the Borrower applied in satisfaction of its obligation to make payments on the Loan. On the Loan Payment Date falling in October 2007, the Issuer shall (subject to certain conditions) advance the Excess Borrower Interest to the Borrower.

(b) the **"Development Account"**. Prior to each date on which a Development Advance under the Development Tranche is to be made, pursuant to the terms of the Fixed Rate Swap Transaction and the Issuer Cash and Corporate Management Agreement, amounts shall be transferred to the Development Account and (subject to the satisfaction of certain conditions) will be applied by the Issuer in making Development Advances to the Borrower so that it may make payments relating to the Development Programme or be used by the Issuer to discharge the obligations of the Issuer under the Issuer Development Guarantee. For further information regarding the basis on which Development Advances will be made to the Borrower, see *"The Loan, the Related Security and Borrower Cashflows - Terms of the Credit Agreement"* at page 56.

(c) the **"Expenses Account"**. The Borrower will incur certain expenses in connection with the normal operations of its business from time to time. The Expenses Account will have an initial deposit of £3,112,722 which shall (subject to the satisfaction of certain conditions) be applied in making Advances to the Borrower to pay Expenses incurred by the Borrower during the Rent-Free Period.

(d) the **"Issuer Operating Account"**. All amounts due from the Borrower under the Credit Agreement and from the Swap Provider under the Swap Agreement (other than amounts due under the Fixed Rate Swap Transaction) and all amounts credited by the Issuer Manager from the Interest Account from time to time will be paid into the Issuer Operating Account. The Issuer Manager will make payments of all Priority Amounts and all payments described under *"Credit Structure and Issuer Cashflows - Pre-Enforcement Priority of Payments (Issuer)"* on page 92 required to be made on behalf of the Issuer (but, for the avoidance of doubt, excluding Advances under the Credit Agreement) from the Issuer Operating Account.

(e) the **"Issuer Swap Collateral Cash Account"** (if and when required under the terms of the Credit Agreement, the Issuer Cash and Corporate Management Agreement and the Swap Agreement); and

(f) the "Issuer Swap Collateral Custody Account" (if and when required under the terms of the Credit Agreement, the Issuer Cash and Corporate Management Agreement and the Swap Agreement).

Under the Deed of Charge and Assignment, each of the Issuer Accounts is expressed to be subject to a first fixed charge in favour of the Issuer Security Trustee, the benefit of which is held by the Issuer Security Trustee on trust for the benefit of itself, the Noteholders and the other Issuer Secured Parties.

The Issuer Manager, as of the Closing Date, will be the sole signatory on the Issuer Accounts. Under the Issuer Cash and Corporate Management Agreement the Issuer Manager will give instructions with respect to the amount of all withdrawals and payments from the Issuer Accounts to the Issuer Operating Bank (based on amounts calculated by it or information provided to it in accordance with the terms of the Transaction Documents) which will make the relevant withdrawals and transfers on the dates and in the amounts required.

Following receipt by the Issuer Operating Bank of a copy of a Note Enforcement Notice, all authority of the Issuer Manager in respect of the Issuer Accounts will be terminated and the Issuer Operating Bank will thereafter be required to comply with the directions of the Issuer Security Trustee.

All of the Issuer Accounts will be held with the Issuer Operating Bank. In the event that the Issuer Operating Bank ceases to be an Authorised Entity, the Issuer Cash and Corporate Management Agreement will require that the Issuer Accounts (save in certain limited circumstances) be transferred to a bank which is an Authorised Entity.

LOAN SERVICING

Introduction

Pursuant to an agreement to be entered into on or around to the Closing Date between the Issuer, the Issuer Security Trustee and the Loan Servicer (the "**Loan Servicing Agreement**"), HSBC Bank plc will be **appointed** as Loan Servicer to the Issuer and in certain circumstances, the Issuer Security Trustee to provide certain services in relation to the Loan and the Related Security.

In performing its obligations under the Loan Servicing Agreement, the Loan Servicer must act in accordance with the "**Servicing Standard**", which requires the Loan Servicer to act in accordance with the standard it would be reasonable to expect a reasonably prudent lender of money secured on commercial property to apply in servicing mortgages over commercial property which is beneficially owned by it, with a view to the timely collection of all sums due in respect of the Loan. In so acting, the Loan Servicer may not have any regard to any fees or other compensation to which the Loan Servicer may be entitled, any relationship the Loan Servicer may have with the Borrower or any other party to the transaction or the ownership of any Note by the Loan Servicer or any affiliate thereof providing the services required of it. If, in the course of providing the services under the Loan Servicing Agreement required of it, a conflict arises between the interests of the Loan Servicer or any of its affiliates on the one hand and/or the Noteholders (as such interests may be properly determined by the Note Trustee) on the other, the interests of the Noteholders shall prevail.

The Loan Servicer may become the owner or otherwise hold an interest in the Notes with the same rights as it would have if it were not the Loan Servicer. Any such interest of the Loan Servicer in the Notes will not be taken into account by any person when evaluating whether actions of the Loan Servicer were consistent with the Servicing Standard.

Calculation of Amounts and Payments

On or before the first Business Day in October of each year, the Loan Servicer will (based, in part, on statistical information to be supplied by the calculation agent under the Swap Agreement) be required to calculate LPI for the twelve month period ending in October the following year.

On each "**Loan Calculation Date**" (being the second Business Day prior to a Loan Payment Date) the Loan Servicer or the Issuer Manager, as applicable, will be required to determine (based on the information available to it at the time) the amount of the Repayment Instalment, the amount of interest due and payable and the amount by which the Loan will reduce or increase (and the amount of any deemed Advance), each in accordance with the terms of the Credit Agreement and will notify the same to the Borrower Manager.

Annual Review Procedure

The Loan Servicer is required to undertake an annual review in respect of the Borrower and the Loan in accordance with the Servicing Standard. The Loan Servicer is authorised to conduct this review process more frequently if the Loan Servicer, acting in accordance with the Servicing Standard, has cause for concern as to the ability of the Borrower to meet its financial obligations under the Credit Agreement.

Quarterly Report

Within 10 Business Days after each Loan Calculation Date, the Loan Servicer will deliver a report (the "**Quarterly Servicing Report**") to the Issuer, the Note Trustee, the Issuer Manager, the Issuer Security Trustee and the Rating Agencies in which it will notify such parties of, among other things, payments made in respect of the Loan during the period ending on but excluding the immediately preceding Loan Calculation Date and beginning on and including the Loan Calculation Date immediately prior to that one, any breaches of the Loan Transaction Documents of which it is aware, any arrears in respect of the Loan and certain information regarding payments made under the Underlease.

Delegation by the Loan Servicer

The Loan Servicer may, in certain circumstances, without the consent of the Issuer or the Issuer Security Trustee, sub-contract or delegate its obligations under the Loan Servicing Agreement. Notwithstanding any sub-contracting or delegation of the performance of any of its obligations under the Loan Servicing Agreement, the Loan Servicer will not be released or discharged from any liability thereunder and will remain responsible for the performance of its obligations under the Loan Servicing Agreement save where it can demonstrate that it took reasonable care in appointing such sub-contractor.

Servicing Fee

Pursuant to the Loan Servicing Agreement, the Issuer will pay to the Loan Servicer on each Note Payment Date the fees as agreed between the Issuer and the Loan Servicer and will reimburse the Loan Servicer for all out-of-pocket costs and expenses properly incurred by it in the performance of the services to be provided by it under the Loan Servicing Agreement. Any successor Loan Servicer will receive remuneration on the same basis.

Both before enforcement of the Notes and thereafter (subject to certain exceptions), amounts payable by the Issuer to the Loan Servicer will be payable in priority to payments on the Notes. This order of priority has been agreed with a view to procuring the continuing performance by the Loan Servicer of its duties in relation to the Issuer, the Issuer Security Trustee, the Loan, the Related Security and the Notes.

Termination of Appointment of Loan Servicer

The appointment of the Loan Servicer under the Loan Servicing Agreement may be terminated by the Issuer Security Trustee following a termination event, by voluntary termination or by automatic termination.

The Issuer Security Trustee may terminate the Loan Servicer's appointment under the Loan Servicing Agreement upon the occurrence of a termination event, including, among other things, (a) in certain circumstances, a default in performance of any of its material covenants or obligations under the Loan Servicing Agreement which continues unremedied for a period of 30 Business Days after the earlier of the Loan Servicer becoming aware of such default or receipt by the Loan Servicer of written notice from the Issuer (with the consent of the Issuer Security Trustee) or the Issuer Security Trustee requiring the same to be remedied, (b) in the event that an order is made or an effective resolution passed for its winding up, or if it becomes insolvent, or (c) following an Extraordinary Resolution by the Noteholders which requires the Issuer Security Trustee to terminate the Loan Servicer's appointment. On the termination of the appointment of the Loan Servicer by the Issuer Security Trustee, the Issuer Security Trustee may, subject to certain conditions appoint a substitute Loan Servicer.

The Loan Servicer may terminate its appointment upon not less than three months' prior written notice to each of the Issuer, the Issuer Security Trustee and the Note Trustee provided that a suitably qualified substitute Loan Servicer shall have been appointed.

ISSUER CASH AND CORPORATE MANAGEMENT

Issuer Manager

Pursuant to an agreement to be entered into on or around to the Closing Date between the Issuer, the Note Trustee, the Issuer Manager, the Issuer Security Trustee and the Issuer Operating Bank (the "**Issuer Cash and Corporate Management Agreement**"), HSBC Bank plc will be appointed as Issuer Manager to the Issuer and, in certain circumstances, to the Issuer Security Trustee to provide certain cash and corporate management services in relation to, among other things, the Issuer Accounts, as are more particularly described below.

The Issuer Manager will undertake in the Issuer Cash and Corporate Management Agreement that in performing the services to be performed and in exercising its discretion thereunder, the Issuer Manager will exercise the same level of skill, care and diligence as it would apply if it were the beneficial owner of the property to which the services relate and that it will comply with any directions, orders and instructions which the Issuer or the Issuer Security Trustee may from time to time give it in accordance with the provisions of the Issuer Cash and Corporate Management Agreement.

Issuer Operating Bank and Issuer's Accounts

Pursuant to the Issuer Cash and Corporate Management Agreement, the Issuer Operating Bank will open and maintain the Issuer Operating Account, the Development Account, the Expenses Account and the Interest Account and, if required, open and maintain the Issuer Swap Collateral Cash Account and the Issuer Swap Collateral Custody Account in the name of the Issuer. The Issuer Operating Bank will agree to comply with any direction of the Issuer Manager or the Issuer Security Trustee to effect payments or transfers from the Issuer Accounts if such direction is made in writing and in accordance with the mandate governing the applicable account.

Calculation of Amounts and Payments

Under the Issuer Cash and Corporate Management Agreement, the Issuer Manager is required to transfer all Available Receipts into the Issuer Operating Account. All payments required to be made by the Issuer to the Swap Provider under the Swap Agreement will be paid from the Issuer Operating Account. The Issuer Manager will transfer amounts from the Interest Account to the Issuer Operating Account on Loan Payment Dates in accordance with the Credit Agreement and the Issuer Cash and Corporate Management Agreement. In addition, all payments made by the Swap Provider (other than those contemplated by the Swap Agreement Credit Support Document and by the Issuer Fixed Rate Swap Transaction) will be paid into the Issuer Operating Account. Once such funds have been credited to the Issuer Operating Account, the Issuer Manager shall invest such sums in Eligible Investments and is required to apply such funds in accordance with the Deed of Charge and Assignment and the Issuer Cash and Corporate Management Agreement, as described below.

On or as soon as reasonably practicable after each "**Swap Calculation Date**" (being the Business Day following the relevant Loan Payment Date), the Issuer Manager will be required (based on the information available to it at the time) to determine various amounts required to pay interest and principal due on the Notes and various other amounts then payable by the Issuer on the forthcoming Swap Payment Date and Note Payment Date, and the Available Receipts available to make such payments.

On each "**Note Calculation Date**" (being the Business Day immediately preceding each Note Payment Date) the Issuer Manager will calculate the Principal Amount Outstanding (as defined in Condition 5(e)) for the Notes for the Interest Period commencing on the forthcoming Note Payment Date and the amount of each Note Principal Payment due on the next following Note Payment Date, in each case pursuant to Condition 5(e) and will confirm the Available Receipts available to make payments on the next following Note Payment Date.

On each Swap Payment Date, the Issuer Manager will instruct the Issuer Operating Bank to pay, on behalf of the Issuer, out of the Available Receipts determined by the Issuer Manager to be available for such purpose, any payment required to be made by the Issuer on such Swap Payment Date under the Issuer

Swap Transaction. On each Note Payment Date the Issuer Manager will instruct the Issuer Operating Bank to pay on behalf of the Issuer out of the Available Receipts determined by the Issuer Manager to be available for such purposes as described above, each of the payments required to be paid pursuant to and in the priority set forth in the Deed of Charge and Assignment. In addition, the Issuer Manager will, from time to time, determine and instruct the Issuer Operating Bank to pay on behalf of the Issuer all Priority Amounts required to be paid by the Issuer. Priority Amounts shall be paid from funds standing to the credit of the Issuer Operating Account to the extent that there are sufficient funds standing to the credit thereof, except that Priority Amounts to be paid on or after the Loan Payment Date prior to the next succeeding Note Payment Date shall be paid from funds standing to the credit of the Issuer Operating Account, to the extent that there are sufficient funds standing to the credit thereof to make such payments and to make in full all payments required to be made by the Issuer under the Issuer Swap Transaction on the next succeeding Swap Payment Date and all payments of interest and principal due on the Notes on the next succeeding Note Payment Date, as applicable.

The Issuer Manager will instruct the Issuer Operating Bank to make all payments required to carry out a redemption of Notes pursuant to Condition 5(c), in each case according to the provisions of the relevant Condition. See further "*Terms and Conditions of the Notes*" at page 113.

Ledgers

The Issuer Manager will, if required by the Issuer and the Issuer Security Trustee, maintain a ledger to record amounts paid into the Issuer Operating Account and amounts paid therefrom (the "**Receipts Ledger**").

In addition, the Issuer Manager will maintain such other ledgers as the Issuer or the Issuer Security Trustee may, from time to time, reasonably request.

The Issuer Manager will from time to time in accordance with the payments made credit the Receipts Ledger with all amounts transferred and credited to the Issuer Operating Account and debit the Receipts Ledger with all payments made out of amounts standing to the credit of the Issuer Operating Account.

Issuer Manager Quarterly Report

Pursuant to the Issuer Cash and Corporate Management Agreement, the Issuer Manager will deliver to the Issuer, the Loan Servicer, the Issuer Security Trustee and the Rating Agencies a report in respect of each Note Calculation Date in which it will notify the recipients of, among other things, all amounts received in the Issuer Accounts and payments made with respect thereto and all entries made in the relevant ledgers since the preceding Note Calculation Date.

Delegation by the Issuer Manager

The Issuer Manager may, in certain circumstances, without the consent of the Issuer, the Borrower Security Trustee or the Issuer Security Trustee, sub-contract or delegate its obligations under the Issuer Cash and Corporate Management Agreement. Notwithstanding any sub-contracting or delegation of the performance of any of its obligations under the Issuer Cash and Corporate Management Agreement, the Issuer Manager will not be released or discharged from any liability thereunder and will remain responsible for the performance of its obligations under the Issuer Cash and Corporate Management Agreement save where it can demonstrate that it took reasonable care in appointing such sub-contractor.

Cash Management Fee

Pursuant to the Issuer Cash and Corporate Management Agreement, the Issuer will pay to each of the Issuer Manager and the Issuer Operating Bank on each Note Payment Date the fees as agreed between each of them and the Issuer and will reimburse the Issuer Manager and the Issuer Operating Bank for all out-of-pocket costs and expenses properly incurred by them in the performance of the services to be provided by them under the Issuer Cash and Corporate Management Agreement as Issuer Manager and Issuer Operating Bank, respectively. Any successor Issuer Manager and Issuer Operating Bank may receive remuneration on the same basis.

Both before enforcement of the Notes and thereafter (subject to certain exceptions), amounts payable by the Issuer to the Issuer Manager and the Issuer Operating Bank will be payable in priority to payments due on the Notes. This order of priority has been agreed with a view to procuring the continuing performance by each of the Issuer Manager and the Issuer Operating Bank of their duties in relation to the Issuer, the Issuer Security Trustee and the Borrower Security Trustee, the Loan, the Related Security and the Notes.

Termination of Appointment of the Issuer Manager

The appointment of the Issuer Manager under the Issuer Cash and Corporate Management Agreement may be terminated by virtue of its resignation or its removal by the Issuer or the Issuer Security Trustee. The Issuer (with the prior written consent of the Issuer Security Trustee) or the Issuer Security Trustee may terminate the Issuer Manager's appointment upon not less than three months' written notice or immediately upon the occurrence of a termination event, including, among other things, (a) a failure by the Issuer Manager to give instructions for the making of, when due, any payment required to be made by it under the Issuer Cash and Corporate Management Agreement and such default continues unremedied for a period of three Business Days after the earlier of the Issuer Manager becoming aware of the default and receipt by the Issuer Manager of written notice from the Issuer Security Trustee requiring the same to be remedied, or (b) a default in the performance of any of its other duties under the Issuer Cash and Corporate Management Agreement which continues unremedied for a period of 15 Business Days after the earlier of the Issuer Manager becoming aware of such default or receipt by the Issuer Manager of written notice from the Issuer Security Trustee requiring the same to be remedied, or (c) a petition is presented or an effective resolution passed for its winding up or the appointment of an administrator, examiner or similar official. On the termination of the appointment of the Issuer Manager, the Issuer Security Trustee may, subject to certain conditions, appoint a successor Issuer Manager.

The Issuer Manager may resign as Issuer Manager upon not less than three months' written notice of resignation to each of the Issuer, the Loan Servicer, the Issuer Operating Bank, the Borrower Security Trustee and the Issuer Security Trustee provided that a suitably qualified successor Issuer Manager shall have been appointed.

Termination of Appointment of the Issuer Operating Bank

The Issuer Cash and Corporate Management Agreement requires that the Issuer Operating Bank be, except in certain limited circumstances, a bank which is an Authorised Entity. If the Issuer Operating Bank ceases to be an Authorised Entity, the Issuer Operating Bank will give written notice of such event to the Loan Servicer, the Issuer Manager, the Issuer Security Trustee, the Note Trustee and the Issuer and will, as soon as possible, procure the transfer of the Issuer Accounts and each other account held by the Issuer with the Issuer Operating Bank to another bank which is an Authorised Entity. If at the time when a transfer of such account or accounts would otherwise have to be made, there is no other bank which is an Authorised Entity or if no Authorised Entity agrees to such a transfer, the accounts need not be transferred until such time as there is a bank which is an Authorised Entity or an Authorised Entity which so agrees, as the case may be.

If, other than in the circumstances specified above, the Issuer Manager and/or the Loan Servicer wishes the bank or branch at which any account of the Issuer is maintained to be changed, the Issuer Manager or the Loan Servicer, as applicable, is required to obtain the prior written consent of the Issuer Security Trustee, such consent not to be unreasonably withheld, and the transfer of such account will be subject to the same directions and arrangements as are provided for above.

An "**Authorised Entity**" means an entity the short-term unsecured, unguaranteed and unsubordinated debt obligations of which are rated at least a "A-1+" rating (or its equivalent) by S&P, a "P-1" rating (or its equivalent) by Moody's and a "F1+" rating (or its equivalent) by Fitch or, if at the relevant time there is no such entity, any entity approved in writing by the Issuer Security Trustee;

BORROWER CASH AND CORPORATE MANAGEMENT

Borrower Manager

Pursuant to an agreement to be entered into on or around to the Closing Date between the Borrower, the Loan Servicer, the Borrower Security Trustee, the Borrower Manager and the Borrower Operating Bank (the "**Borrower Cash and Corporate Management Agreement**"), Consortium Investment Management Limited will be appointed as Borrower Manager and as agent of the Borrower and, in certain circumstances, of the Borrower Security Trustee to provide certain cash and corporate management services in relation to, among other things, the Borrower Rent Account, the Borrower Tax Account, the Borrower Development Account and the Borrower Realisation Account, as are more particularly described below and in "*Accounts Structure - Borrower Accounts*" on page 98.

The Borrower Manager will undertake with the Borrower and the Borrower Security Trustee in the Borrower Cash and Corporate Management Agreement that in performing the services to be performed and in exercising its discretion thereunder, the Borrower Manager will exercise the same level of skill, care and diligence as it would apply if it were the beneficial owner of the property to which the services relate and that it will comply with any directions, orders and instructions which the Borrower or the Borrower Security Trustee may from time to time give to it in accordance with the provisions of the Borrower Cash and Corporate Management Agreement.

Borrower Accounts

Pursuant to the Borrower Cash and Corporate Management Agreement, the Borrower Operating Bank will open and maintain the Borrower Rent Account, the Borrower Tax Account, the Borrower Development Account and the Borrower Realisation Account. The Borrower Operating Bank will agree to comply with any direction of the Borrower Manager or the Borrower Security Trustee to effect payments from the Borrower Rent Account, the Borrower Tax Account, the Borrower Development Account and the Borrower Realisation Account, if such direction is made in writing and in accordance with the mandate governing the applicable account.

Operation of Accounts

On or as soon as reasonably practicable after each Loan Calculation Date, the Borrower Manager will be required (based upon the information available to it at the time) to determine the various amounts payable by the Borrower on the forthcoming Loan Payment Date and the amounts available to make such payments.

Under the Borrower Cash and Corporate Management Agreement and the Credit Agreement, the Borrower Manager undertakes to make credits to and transfer from each of the Borrower Accounts in the manner and at the times specified therein, and as described in "*Accounts Structure - Borrower Accounts*" on page 98.

On each Loan Payment Date, the Borrower Manager will instruct the Borrower Operating Bank to pay on behalf of the Borrower out of amounts standing to the credit of the Borrower Accounts each of the payments required to be paid pursuant to and in the priority set forth in the Borrower Cash and Corporate Management Agreement.

Borrower Manager Interest Period Report

Pursuant to the Borrower Cash and Corporate Management Agreement, the Borrower Manager will agree to deliver to the Borrower, the Borrower Security Trustee, the Loan Servicer and the Rating Agencies a report in respect of each Loan Calculation Date in which it will notify the recipients of, among other things, all amounts of rental received from the BBC since the preceding Loan Calculation Date.

Borrower Manager Annual Report

Pursuant to the Borrower Cash and Corporate Management Agreement, the Borrower Manager has agreed within 10 Business Days of each anniversary of the first Loan Payment Date to provide an annual manager's report for the Borrower.

Borrower Manager Annual Budget

Pursuant to the Borrower Cash and Corporate Management Agreement, the Borrower Manager has agreed to prepare an annual budget in respect of the Borrower, divided into quarterly periods, containing estimates of expenses and revenue.

Certificate of Compliance and Notice of Breach

On each Loan Payment Date the Borrower Manager will deliver to the Lender and the Borrower Security Trustee, copied to the Loan Servicer, a certificate to the effect that a review of the activities of the Borrower and the Borrower Manager during the previous Loan Interest Period discloses no default or breach of warranty by the Borrower to the best of the Borrower Manager's knowledge, or detailing any such breach. The Borrower Manager also undertakes to notify the Lender and the Borrower Security Trustee upon becoming aware of the occurrence of a Trigger Event, any breach by the Borrower Manager of its obligations under the Borrower Cash and Corporate Management Agreement, a Loan Event of Default or a breach by a sub-contractor.

Tax and VAT Management

Pursuant to the Borrower Cash and Corporate Management Agreement, the Borrower Manager undertakes to manage the tax and VAT affairs of the Borrower and to make any necessary returns in timely fashion.

Statutory Accounts and Corporate Secretarial Services

Pursuant to the Borrower Cash and Corporate Management Agreement, the Borrower Manager agrees to prepare statutory accounts for the Borrower and to provide corporate secretarial services for the Borrower.

Delegation by the Borrower Manager

The Borrower Manager may, in certain circumstances, with the consent of the Borrower Security Trustee, sub-contract or delegate its obligations under the Borrower Cash and Corporate Management Agreement. Notwithstanding any sub-contracting or delegation of the performance of any of its obligations under the Borrower Cash and Corporate Management Agreement, the Borrower Manager will not be released or discharged from any liability thereunder and will remain responsible for the performance of its obligations under the Borrower Cash and Corporate Management Agreement save where it can demonstrate that it took reasonable care in appointing such sub-contractor.

Borrower Management Fee

Pursuant to the Borrower Cash and Corporate Management Agreement, the Borrower will pay to each of the Borrower Manager and the Borrower Operating Bank on each Loan Payment Date fees as agreed between each of them and the Borrower and will reimburse the Borrower Manager and the Borrower Operating Bank for all out-of-pocket costs and expenses properly incurred by them in the performance of the services to be provided by them under the Borrower Cash and Corporate Management Agreement as Borrower Manager and Borrower Operating Bank, respectively. Any successor Borrower Manager will receive remuneration on the same basis.

Both before enforcement of the Loan and thereafter (subject to certain exceptions), amounts payable by the Borrower to the Borrower Manager and the Borrower Operating Bank will be payable in priority to payments due on the Loan. This order of priority has been agreed with a view to procuring the continuing performance by each of the Borrower Manager and the Borrower Operating Bank of their duties in relation to the Borrower, the Loan and the Related Security.

Termination of Appointment of the Borrower Manager

The appointment of the Borrower Manager under the Borrower Cash and Corporate Management Agreement may be terminated by virtue of its resignation or its removal by the Borrower or the Borrower Security Trustee. The Borrower (with the prior written consent of the Borrower Security Trustee) or the Borrower Security Trustee may terminate the Borrower Manager's appointment immediately upon the occurrence of a termination event, including, among other things, (a) a failure by the Borrower Manager to give instructions for the making of, when due, any payment required to be made under the Borrower Cash and Corporate Management Agreement, the Credit Agreement, the Development Agreement or the Building Contract which continues unremedied for a period of three Business Days after the earlier of the Borrower Manager becoming aware of such default or receipt by the Borrower Manager of written notice from the Borrower or the Borrower Security Trustee requiring the same to be remedied; or (b) a default in the performance of any of its other duties under the Borrower Cash and Corporate Management Agreement which continues unremedied for a period of 15 Business Days after the earlier of the Borrower Manager becoming aware of such default or receipt by the Borrower Manager of written notice from the Borrower (with the consent of the Borrower Security Trustee) or the Borrower Security Trustee requiring the same to be remedied, or (c) a petition is presented or an effective resolution passed for its winding up or the appointment of an administrator, examiner or similar official. On the termination of the appointment of the Borrower Manager, the Borrower may, subject to certain conditions, appoint a successor Borrower Manager.

The Borrower Manager may resign as Borrower Manager upon not less than six months' written notice of resignation to each of the Borrower, the Loan Servicer, the Borrower Operating Bank and the Borrower Security Trustee provided that a suitably qualified successor Borrower Manager shall have been appointed.

Termination of Appointment of the Borrower Operating Bank

The Borrower Cash and Corporate Management Agreement requires that the Borrower Operating Bank be, except in certain limited circumstances, a bank which is an Authorised Entity. If the Borrower Operating Bank ceases to be an Authorised Entity, the Borrower Operating Bank will give written notice of such event to the Loan Servicer, the Borrower Manager, the Borrower Security Trustee and the Borrower and the Borrower Manager will, as soon as reasonably practicable, procure the transfer of the Borrower Rent Account and each other account held by the Borrower with the Borrower Operating Bank to another bank which is an Authorised Entity. If at the time when a transfer of such account or accounts would otherwise have to be made, there is no other bank which is an Authorised Entity or if no Authorised Entity agrees to such a transfer, the accounts need not be transferred until such time as there is a bank which is an Authorised Entity or an Authorised Entity which so agrees, as the case may be.

If, other than in the circumstances specified above, the Borrower Manager wishes the bank or branch at which any account of the Borrower is maintained to be changed, the Borrower Manager is required to obtain the prior written consent of the Borrower Security Trustee, such consent not to be unreasonably withheld, and the transfer of such account will be subject to the same directions and arrangements as are provided for above.

ESTIMATED AVERAGE LIVES OF THE NOTES AND ASSUMPTIONS

The average lives of the Notes cannot be predicted as the actual rate at which the Loan will be repaid or prepaid and a number of other relevant factors are unknown.

Calculations of possible average lives of the Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Loan does not default or prepay, is not enforced and no loss arises;
- (b) the Swap Agreement will not be terminated; and
- (c) the Closing Date is 14 July 2004,

then the approximate percentage of the initial principal amount outstanding of the Notes on each payment date of the Notes and the approximate average lives of the Notes would be as follows:

Payment Date of Notes	Notes (per cent.)
Closing Date	100.0%
25 July 2005	100.0%
25 July 2006	100.0%
25 July 2007	100.0%
25 July 2008	100.0%
25 July 2009	99.9%
25 July 2010	99.7%
25 July 2011	99.3%
25 July 2012	98.7%
25 July 2013	97.9%
25 July 2014	96.9%
25 July 2015	95.7%
25 July 2016	94.3%
25 July 2017	92.6%
25 July 2018	90.6%
25 July 2019	88.3%
25 July 2020	85.8%
25 July 2021	82.8%
25 July 2022	79.5%
25 July 2023	75.8%
25 July 2024	71.7%
25 July 2025	67.1%
25 July 2026	62.1%
25 July 2027	56.5%
25 July 2028	50.4%
25 July 2029	43.7%
25 July 2030	36.4%
25 July 2031	28.4%
25 July 2032	19.7%
25 July 2033	10.3%
25 July 2034	0.0%
Average Life (years)	22.9 years
First Principal Payment Date	25 July 2008
Last Principal Payment Date	25 July 2034

Assumptions (a) and (b) relate to circumstances which are not predictable.

The average lives of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that any of the estimates above will in fact be realised and they must therefore be viewed with considerable caution.

The day count fraction used for the above was "Actual/Actual (ISMA)"

For a more detailed description of the amortisation of the Notes, see the schedule to the Conditions at page 129.

DESCRIPTION OF THE NOTES

General

The Notes will initially be represented by the Temporary Global Note. The Temporary Global Note will be deposited on behalf of the subscribers to the Notes with the Common Depositary for the account of Euroclear and Clearstream, Luxembourg on or about the Closing Date. Upon the deposit of the Temporary Global Note, Euroclear or Clearstream, Luxembourg, as the case may be, will credit, by means of book entries, each subscriber of the Notes with the principal amount of the Notes for which it has subscribed and paid.

Interests in the Temporary Global Note will be exchangeable not earlier than 40 days after the Closing Date (provided customary certification of non-U.S. beneficial ownership by the Noteholders has been received) for an interest in the Permanent Global Note in bearer form without coupons or talons attached in a principal amount equal to the Principal Amount Outstanding of the Temporary Global Note.

On the exchange of the Temporary Global Note for the Permanent Global Note, the Permanent Global Note will remain deposited with the Common Depositary.

Title to the Global Notes will be transferable by delivery. Definitive Notes will not be available except in the limited circumstances described below and not in any event before the Exchange Date. While any Global Note is outstanding, payments on the Notes represented by such Global Note will be made to, or to the order of, the Common Depositary as the holder thereof. In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note (each, an "Accountholder") will be entitled to receive any payment made in respect of that Note, provided, however, that if any payment of principal and/or interest in respect of any of the Notes falls due whilst such Notes are represented by the Temporary Global Note, payment of principal and/or interest in respect of such Notes will be made only to the extent that customary certification of non-U.S. beneficial ownership has been received by the Common Depositary for Euroclear or Clearstream, Luxembourg.

Each Accountholder must, for as long as the Notes remain represented by a Global Note, look solely to Euroclear or, as the case may be, Clearstream, Luxembourg for its share of each payment made by the Issuer to the bearer of such Global Note, subject to and in accordance with the rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate.

Whilst the Notes are represented by a Global Note, the relevant Accountholders shall have no claim directly against the Issuer in respect of payments due on the relevant Notes and the Issuer will discharge its obligations by payment to the bearer of such Global Note in respect of each amount so paid.

To the extent permitted by applicable law, the Issuer, the Note Trustee, the Principal Paying Agent and any other Paying Agents may treat the holder of a Note represented by a Global Note as the absolute owner thereof (notwithstanding any notice of ownership or writing thereon or of trust or other interest therein, including that of the Noteholders) for the purpose of making payments on the Notes represented thereby, and the expression "Noteholders" shall be construed accordingly.

For so long as the Notes are represented by Global Notes, the Notes will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

Payments on Global Note

Payment of principal of and interest on the Global Notes will be made to the Common Depositary as the holder thereof. All such amounts will, subject as provided below, be payable by a paying agent, in pounds sterling.

Transfer and Transfer Restrictions

All transfers of interests in any Global Note will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its participants. For further information, see "*General*" above.

Issuance of Definitive Notes

Holders of interests in the Permanent Global Note will be entitled to receive Definitive Notes representing Notes in bearer form in exchange for their respective holdings of interests in the Permanent Global Note only if after the Exchange Date:

- (a) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Note Trustee is in existence; or
- (b) the Issuer would suffer a material disadvantage in respect of the Notes as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof or of any authority therein or thereof having power to tax) or in the interpretation or administration by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Closing Date, or the Issuer or any Paying Agent is or will be required to make a deduction or withholding from any payment in or in respect of the Notes which would not be required were the Notes in definitive form,

in which case the Issuer will, at its sole cost and expense, issue Notes in definitive form.

If any such event referred to above occurs while any Notes are represented by the Temporary Global Note, then Definitive Notes will not be issued until the Temporary Global Note has been exchanged for the Permanent Global Note, which exchange shall not, in any event, occur before the Exchange Date. Definitive Notes, if issued, will be available at the offices of any Paying Agent.

If the Issuer fails to meet its obligations to issue Notes in definitive form in exchange for the Permanent Global Note, then the Permanent Global Note shall remain in full force and effect.

Reports

All notices regarding the Global Notes will be sent to Euroclear and Clearstream, Luxembourg. In addition (so long as the Notes are admitted to trading on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require), notices regarding the Notes will be published in a leading newspaper having a general circulation in Ireland, which is expected to be *The Irish Times* and (for so long as the Notes are admitted to the Official List and the rules of the Irish Stock Exchange require) notices regarding the Notes will be notified to the Company Announcement Office.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes in the form (subject to amendment) in which they will be set out in the Note Trust Deed.

The £129,250,000 5.5653 per cent. Commercial Mortgage Backed Fixed Rate Notes due 2034 (the "**Notes**") (as more fully defined below) of Pacific Quay Finance PLC (the "**Issuer**") are constituted by a trust deed dated on or about the Closing Date (the "**Note Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) and made between the Issuer and HSBC Trustee (C.I.) Limited (the "**Note Trustee**", which expression includes its successors or any further or other trustee under the Note Trust Deed) as trustee for the holders for the time being of the Notes (the "**Noteholders**").

The security for, among other things, the Notes (the "**Issuer Security**") is created pursuant to, and on terms set out in, a deed of charge and assignment dated on or about the Closing Date (the "**Deed of Charge and Assignment**", which expression includes such deed of charge and assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) and made between, among others, the Issuer, the Note Trustee and HSBC Trustee (C.I.) Limited (the "**Issuer Security Trustee**", which expression includes its successors or any further or other security trustee under the Deed of Charge and Assignment). By an Agency Agreement dated on or about the Closing Date (the "**Agency Agreement**", which expression includes such Agency Agreement as from time to time modified in accordance with the provisions therein contained and any agreement, deed or other document expressed to be supplemental thereto as from time to time so modified) and made between, among others, the Issuer, the Note Trustee, HSBC Bank plc in its separate capacities under the same agreement as principal paying agent (the "**Principal Paying Agent**", which expression shall include any other principal paying agent appointed in respect of the Notes), agent bank (the "**Agent Bank**", which expression shall include any other agent bank appointed in respect of the Notes), and HSBC Global Investor Services (Ireland) Limited as paying agent in Ireland (the "**Sub-Paying Agent**", which expression shall include any other paying agent appointed in Ireland in respect of the Notes) (the Principal Paying Agent being, together with the Sub-Paying Agent and any further or other paying agents for the time being appointed in respect of the Notes, the "**Paying Agents**" and, together with the Agent Bank, the "**Agents**"), provision is made for, among other things, the payment of principal and interest in respect of the Notes.

The statements in these Terms and Conditions (the "**Conditions**" and any reference to a "**Condition**" shall be construed accordingly) include summaries of, and are subject to, the detailed provisions of the Note Trust Deed, the Agency Agreement, the Deed of Charge and Assignment, the Post Enforcement Call Option Agreement and the Master Definitions Agreement (each as defined herein). Copies of the Note Trust Deed, the Agency Agreement, the Deed of Charge and Assignment, the Post Enforcement Call Option Agreement and the Master Definitions Agreement (each as defined herein) are available for inspection by the Noteholders at the principal office for the time being of the Note Trustee, being at the date hereof at 1 Grenville Street, St. Helier, Jersey JE4 9PF and at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of and definitions contained in the Note Trust Deed, the Agency Agreement, the Deed of Charge and Assignment, the Post Enforcement Call Option Agreement and a Master Definitions Agreement dated on or about the Closing Date made between, among others, the Issuer and the Note Trustee (the "**Master Definitions Agreement**", which expression includes such Master Definitions Agreement as from time to time modified in accordance with the provisions therein contained and any agreement, deed or other document expressed to be supplemental thereto as from time to time so modified).

The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on or about 8 July 2004.

1. Form, Denomination and Title

- (a) The Notes, which are serially numbered, are issued in bearer form in denominations of £50,000 and integral multiples of £1,000 in excess thereof. The Global Notes are issued without coupons or talons. Any Definitive Notes will be issued with coupons and talons attached. Title to the Notes shall pass by delivery.
- (b) The holder of any Note may (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.

2. Status, Security and Priority

(A) Status and relationship between the Notes

- (a) The Notes constitute direct, secured and unconditional obligations of the Issuer. The Notes rank *pari passu* and rateably without preference or priority among themselves and will rank in priority to all unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (b) The Note Trust Deed and the Deed of Charge and Assignment each contain provisions requiring the Note Trustee and the Issuer Security Trustee to have regard to the interests of all the Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Note Trustee and the Issuer Security Trustee.
- (c) Except where expressly provided otherwise, so long as any of the Notes remain outstanding, the Note Trustee and the Issuer Security Trustee are not required to have regard to the interests of any other persons entitled to the benefit of the Issuer Security.

(B) Security and Priority of Payments

The security in respect of the Notes is set out in the Deed of Charge and Assignment. The Deed of Charge and Assignment also contains provisions regulating the priority of application of the Available Receipts (as defined in the Master Definitions Agreement) among the persons entitled thereto prior to the service of a Note Enforcement Notice (as defined in Condition 9(a)), and of the Available Receipts and the proceeds of enforcement or realisation of the Issuer Security by the Issuer Security Trustee after the service of a Note Enforcement Notice.

The Issuer Security may be enforced by the Issuer Security Trustee following the service of a Note Enforcement Notice in accordance with Condition 9(a).

3. Covenants

(A) Restrictions

Subject as provided below, unless the Note Trustee gives its prior written consent or unless otherwise provided in or envisaged by these Conditions or the Relevant Documents (as defined in the Master Definitions Agreement), the Issuer shall not, so long as any Note remains outstanding:

(a) Negative Pledge

create or permit to subsist any mortgage, standard security, sub-mortgage, sub-standard security, assignment, assignation, charge, sub-charge, pledge, lien (unless arising by operation of law), hypothecation, assignation or other security interest whatsoever over any of its assets, present or future (including any uncalled capital);

(b) Restrictions on Activities

- (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities which the Relevant Documents provide or envisage that the Issuer will engage in;
- (ii) have any subsidiaries or any employees or own, rent, lease or be in possession of any buildings or equipment; or
- (iii) amend, supplement or otherwise modify its Memorandum or Articles of Association or other constitutive documents;

(c) Disposal of Assets

transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertaking or any interest, estate, right, title or benefit therein;

(d) Dividends or Distributions

pay any dividend or make any other distribution to its shareholders or issue any further shares, other than in accordance with the Deed of Charge and Assignment;

(e) Borrowings

incur or permit to subsist any indebtedness in respect of borrowed money whatsoever, except in respect of the Notes or the Issuer Swap Transaction or the Borrower/Issuer Expenses Loan Agreement (each as defined in the Master Definitions Agreement) or give any guarantee or indemnity (except for the Issuer Development Guarantee) in respect of any indebtedness or of any obligation of any person;

(f) Merger

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

(g) Variation

permit the validity or effectiveness of any of the Relevant Documents, or the priority of the security interests created thereby, to be amended, terminated, postponed or discharged, or consent to any variation of, or exercise any powers of consent or waiver pursuant to the terms of, the Note Trust Deed, these Conditions, the Deed of Charge and Assignment or any of the other Relevant Documents, or permit any party to any of the Relevant Documents or the Issuer Security or any other person whose obligations form part of the Issuer Security to be released from such obligations or dispose of all or any part of the Issuer Security;

(h) Bank Accounts

have an interest in any bank account other than the Issuer's Accounts (as defined in the Master Definitions Agreement), unless such account or interest therein is charged to the Issuer Security Trustee on terms acceptable to it;

(i) *Assets*

own assets other than those representing its share capital, the funds arising from the issue of the Notes, the property, rights and assets secured by the Issuer Security and associated and ancillary rights and interests thereto, the benefit of the Relevant Documents and any investments and other rights or interests created or acquired thereunder, as all of the same may vary from time to time as permitted by the Relevant Documents; and

(j) *VAT*

apply to become part of any group for the purposes of section 43 of the Value Added Tax Act 1994 with any other company or group of companies, or any such act, regulation, order, statutory instrument or directive which may from time to time re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994.

In giving any consent to the foregoing, the Note Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Relevant Documents or may impose such other conditions or requirements as it may deem expedient (in its absolute discretion) in the interests of Noteholders.

(B) *Issuer Manager and Loan Servicer*

So long as any of the Notes remains outstanding, the Issuer will procure that there will be at all times be a Issuer Manager in respect of the monies from time to time standing to the credit of the Issuer Operating Account, the Development Account, the Expenses Account and the Interest Account (each as defined in the Master Definitions Agreement) and any other account of the Issuer from time to time and a Loan Servicer. Neither the Issuer Manager nor the Loan Servicer (each as defined in the Master Definitions Agreement) will be permitted to terminate its appointment unless a replacement Issuer Manager or Loan Servicer, as the case may be, acceptable to the Issuer and the Issuer Security Trustee has been appointed. The appointment of the Issuer Manager and the Loan Servicer may be terminated by the Issuer Security Trustee if, among other things, the Issuer Manager or the Loan Servicer, as applicable, defaults in any material respect in the observance and performance of any obligation imposed on it under the Loan Servicing Agreement or the Issuer Cash and Corporate Management Agreement, which default is not remedied (i) in the case of the Issuer Cash and Corporate Management Agreement (as defined in the Master Definitions Agreement), within 15 Business Days after the earlier of the Issuer Manager becoming aware of such default and written notice of such default being served on the Issuer Manager by the Issuer Security Trustee (except in respect of a failure by the Issuer Manager to give instructions for making of, when due, a payment required to be made under the Issuer Cash and Corporate Management Agreement, where such cure period is three Business Days), or (ii) in the case of the Loan Servicing Agreement (as defined in the Master Definitions Agreement), within 30 Business Days after the earlier of the Loan Servicer becoming aware of such default and written notice of such default being served on the Loan Servicer by the Issuer Security Trustee.

4. Interest

(a) *Period of Accrual*

Each Note will bear interest on its Principal Amount Outstanding from (and including) the date on which it was issued (the "**Closing Date**") at the Rate of Interest. Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal or any part thereof is improperly withheld or refused. In such event, interest will continue to accrue thereon (both before and after any judgment) ("**Default Interest**") at the Rate of Interest applicable to such Note up to (but excluding) the date on which, on presentation of such Note, payment in full of the relevant amount of principal, together with the interest accrued thereon, is made or (if earlier) the seventh day after notice is duly given to the holder thereof (either in accordance with Condition 14 or individually) that,

upon presentation thereof being duly made, such payment will be made, provided that upon presentation thereof being duly made, payment is in fact made.

(b) Note Payment Dates and Interest Periods

Interest on the Notes is payable quarterly in arrear on the 25th day of January, April, July and October in each year or if such day is not a Business Day, the next succeeding Business Day provided that if the next succeeding Business Day falls in the next calendar month, the Note Payment Date will fall on the immediately preceding Business Day (each a "**Note Payment Date**") in respect of the Interest Period ending immediately prior thereto. The first Note Payment Date will be the Note Payment Date falling in October 2004.

In these Conditions, "**Interest Period**" means the period from (and including) the 25th day of January, April, July and October in each year (each an "**Interest Period Date**") (or, in respect of the payment of the first Interest Amount (as defined in Condition 4(d) below), the Closing Date) to (but excluding) the next following Interest Period Date (or, in respect of the payment of the first Interest Amount, the Interest Period Date falling in October 2004) and "**Business Day**" in these Conditions means a day (other than a Saturday or a Sunday) which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Dublin.

(c) Rate of Interest

The rate of interest payable from time to time in respect of the Notes (the "**Rate of Interest**") will be 5.5653 per cent. per annum.

(d) Calculation of Interest Amounts for Notes

The Agent Bank shall, on or as soon as practicable after each Swap Calculation Date, determine and notify the Issuer, the Note Trustee, the Issuer Manager and the Paying Agents in writing of the sterling amount of interest (the "**Interest Amount**") payable in respect of such Interest Period in respect of the Notes. Each Interest Amount in respect of the Notes shall be determined on the basis of Rule 251 of the statutes, by-laws, rules and recommendations of the International Securities Markets Association as published in April 1999, rounding the resultant figure downward to the nearest penny. If interest is required to be calculated for a period which is not an Interest Period, the amount of interest shall be determined on the basis of actual number of days elapsed and a year of 360 days.

(e) Publication of Interest Amounts and other Notices

As soon as practicable after receiving notification thereof, the Issuer shall cause the Interest Amount applicable to the Notes for each Interest Period and the Note Payment Date in respect thereof to be notified in writing to Irish Stock Exchange Limited (the "**Irish Stock Exchange**") (for so long as the Notes are listed on the Irish Stock Exchange) and shall cause notice thereof to be given to the Noteholders in accordance with Condition 14. The Interest Amounts and Note Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the Interest Period for the Notes.

(f) Determination or Calculation by the Note Trustee

If the Agent Bank does not at any time for any reason determine the Interest Amount for the Notes in accordance with the foregoing Conditions, the Note Trustee shall calculate the Interest Amount for the Notes in the manner specified in Condition 4(d) above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

(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 Note Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Note Trustee, the Issuer Security Trustee, the Loan Servicer, the Issuer Manager, the Paying Agents and all Noteholders and (in such absence as aforesaid) no liability to the Noteholders shall attach to the Issuer, the Issuer Security Trustee, the Agent Bank or the Note Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

(h) Agent Bank

The Issuer shall ensure that, so long as any of the Notes remains outstanding, there is, at all times, an Agent Bank. Any purported resignation by the Agent Bank shall not take effect until a successor so approved by the Note Trustee has been appointed.

5. Redemption and Cancellation

(a) Scheduled Redemption

Principal repayments in respect of the Notes shall be due and payable on the Note Payment Dates and in the amounts set out in the table in the schedule to these Conditions (the "**Scheduled Note Principal Repayments**").

Unless previously redeemed in full and cancelled as provided in this Condition 5, the Issuer shall redeem the Notes at their Principal Amount Outstanding together with accrued interest on the Note Payment Date falling in 25 July 2034 (the "**Final Note Repayment Date**").

The Issuer may not redeem Notes in whole or in part prior to that date except as provided in this Condition but without prejudice to Condition 9.

(b) Mandatory Redemption in Whole

Subject as provided in Conditions 5(c) and 5(d), prior to the service of a Note Enforcement Notice and subject as provided below, each Note shall be subject to mandatory redemption in whole at the Redemption Amount plus accrued and unpaid interest on any Note Payment Date following prepayment of the Loan in full made by the Borrower pursuant to the terms of the Credit Agreement.

(c) Mandatory Redemption for Tax or Other Reasons

If the Issuer at any time satisfies the Note Trustee immediately prior to giving the notice referred to below that either (i) by virtue of a change in the tax law of the United Kingdom or any other jurisdiction (or the application or official interpretation thereof) from that in effect on the Closing Date, on the next Note Payment Date the Issuer or any Paying Agent on its behalf would be required to deduct or withhold from any payment of principal or interest in respect of any Note (other than (x) where the relevant holder or beneficial owner has some connection with the relevant jurisdiction other than the holding of Notes, or (y) in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the relevant jurisdiction (or any political sub-division thereof or authority thereof or therein having power to tax) and such requirement cannot be avoided by the Issuer taking reasonable measures available to it, or the Issuer is subject to any other Tax Shortfall, or (ii) by virtue of a change in law from that in effect on the Closing Date any amount payable by the Borrower in relation to the Loan is reduced or ceases to be receivable (whether or not actually received) by the Issuer during the Interest Period preceding the next Note Payment Date and, in either case, the Issuer has, prior to giving the notice referred to below, certified to the satisfaction of the Note Trustee that it will have the necessary funds on such Note Payment Date to redeem all the Notes each in an amount equal to the Principal Amount

Outstanding and accrued and unpaid and discharge all of its other liabilities in respect of the Notes to be redeemed under this Condition 5(c) and any amounts required under the Deed of Charge and Assignment to be paid in priority to, or *pari passu* with, the Notes to be so redeemed, which certificate shall be conclusive and binding, and provided that, on the Note Payment Date on which such notice expires, no Note Enforcement Notice has been served, then the Issuer shall on such Note Payment Date, provided that the relevant event described above is continuing, having given not more than 60 nor less than 30 days' written notice ending on such Note Payment Date to the Note Trustee, the Paying Agents and to the Noteholders in accordance with Condition 14, redeem all the Notes each in an amount equal to the Principal Amount Outstanding and accrued and unpaid plus interest accrued and unpaid on the Notes.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any Note other than by way of redemption pursuant to this Condition 5(c). Once redeemed to the full extent provided in this Condition 5(c), the Notes shall cease to bear interest.

"**Tax Shortfall**" means, a reduction in the funds available to the Issuer as a result of:

- (i) the Issuer being liable for, or
- (ii) any payment due to the Issuer being subject to,

any tax, duty, assessment or governmental charge of whatever nature (including any related interest and penalties) imposed, levied, collected, withheld or assessed by any jurisdiction (or any political sub-division thereof or therein having power to tax) (excluding corporation tax on (i) the Issuer's expected profit of 0.01 per cent. of the Issuer's expected interest income and (ii) any interest received as a result of the Issuer receiving sums prior to the related payment obligation).

(d) *Mandatory Redemption in Full — Issuer Swap Transaction*

If a Tax Event (as defined below) occurs under the Swap Agreement (as defined in the Master Definitions Agreement) and (i) the Issuer cannot avoid such Tax Event by taking reasonable measures available to it, and (ii) the Swap Provider is unable to cure such Tax Event by transferring its rights and obligations thereunder to another branch, office or affiliate, the Issuer Swap Transaction may be terminated in accordance with its terms.

If the Issuer satisfies the Note Trustee that it cannot avoid such Tax Event in accordance with item (i) above, that the Swap Provider is unable to cure the Tax Event in accordance with item (ii) above and that the Issuer is unable to find a replacement swap provider which would result in the curing of such Tax Event (the Issuer being obliged to use its reasonable efforts to find a replacement swap provider) then, on giving not more than 60 nor less than 30 days' written notice to the Note Trustee and the Noteholders in accordance with Condition 14 and provided that, on the Note Payment Date on which such notice expires, no Note Enforcement Event in relation to the Notes has been served and further provided that the Issuer has, prior to giving such notice, certified to the satisfaction of the Note Trustee that it will have the necessary funds to redeem all the Notes each in an amount equal to the Principal Amount Outstanding plus interest accrued and unpaid on the Notes and discharge on such Note Payment Date all of its other liabilities in respect of the Notes to be redeemed under this Condition 5(d) and any amounts required under the Deed of Charge and Assignment to be paid on such Note Payment Date which rank higher in priority to, or *pari passu* with, the Notes, which certificate will be conclusive and binding, the Issuer shall redeem on such Note Payment Date all the Notes each in an amount equal to the Principal Amount Outstanding plus interest accrued and unpaid on the Notes.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any Note other than by way of redemption pursuant to this Condition 5(d). Once redeemed to the full extent provided in this sub-paragraph, the Notes shall cease to bear interest.

For these purposes, a "**Tax Event**" means:

- (i) any action taken by a taxing authority, or brought in a court of competent jurisdiction on or after the Closing Date (regardless of whether such action is taken or brought with respect to a party to the Swap Agreement); or
- (ii) the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law),

as a result of which, either the Issuer or the Swap Provider (as applicable) will, or there is a substantial likelihood that, on the next Swap Payment Date, it will receive a payment from which an amount is required to be deducted or withheld for or on account of any tax (except in respect of any default interest or interest payable on a termination payment).

(e) Note Principal Payments and Principal Amount Outstanding

On each Note Calculation Date, the Issuer Manager shall determine (i) the amount of any Scheduled Note Principal Repayment (if any) due on the next following Note Payment Date, (ii) the Principal Amount Outstanding of each Note on the next following Note Payment Date (after deducting any Scheduled Note Principal Repayment to be paid on that Note Payment Date). Each determination by the Issuer Manager of any Scheduled Note Principal Repayment and the Principal Amount Outstanding of a Note shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The "**Principal Amount Outstanding**" of a Note on any date shall be the nominal amount thereof on the date of issuance thereof less the aggregate amount of principal in respect of the Note that has been paid since the Closing Date and on or prior to the date of calculation.

"**Redemption Amount**" means, in respect of each Note, the higher of (a) the Principal Amount Outstanding of such Note and (b) the product of the Principal Amount Outstanding of such Note and the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded downwards), at which the Gross Redemption Yield on such Note on the Reference Date (on the assumption that such Note is redeemed in accordance with Condition 5(a)) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 a.m. on the Reference Date of the Reference Gilt.

"**Reference Date**" means the date which is two Business Days prior to the Note Payment Date on which the relevant Note is to be redeemed, or such other date as the Redemption Amount may be due and payable.

"**Reference Gilt**" means the 6 per cent. Treasury Stock due 2028 for so long as such stock is in issue, and thereafter such sterling obligation of the UK Government listed on the Official List maintained by the Financial Services Authority in its capacity as the UK Listing Authority and traded on the London Stock Exchange's market for listed securities whose remaining term to maturity most closely matches that of the then average life of the Notes as calculated by the Agent Bank on the date which is two Business Days prior to the Reference Date as the Agent Bank shall determine.

"**Gross Redemption Yield**" means, with respect to a security, the gross redemption yield on such security as calculated by the Agent Bank on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" on page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated

Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8 June, 1998 and updated on 21 January, 2002) on a semi-annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places).

(f) Notice of Redemption

Any such notice as is referred to in Condition 5(c) or 5(d) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes in the amounts specified in these Conditions.

(g) Cancellation

All Notes redeemed in full pursuant to the foregoing provisions shall be cancelled forthwith and may not be resold or re-issued.

6. Payments

(a) Principal and Interest

Payments of principal and interest in respect of any Note will be made only against presentation (and, in the case of final redemption of a Note or in circumstances where the unpaid principal amount of the relevant Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Note), surrender) of such Note at the specified office of any Paying Agent. A record of each payment so made, distinguishing between payments of principal and payments of interest and, in the case of partial payments, of the amount of each partial payment, will be endorsed on the schedule to the relevant Note by or on behalf of the relevant Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made.

Payments in respect of the Global Notes will be paid in sterling to the Common Depository.

(b) Laws and Regulations

Payments of principal, interest and premium (if any) in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.

(c) Overdue Principal Payments

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note or part thereof in accordance with Condition 4(a) will be paid against presentation of such Note at the specified office of any Paying Agent and in accordance with Condition 6(a).

(d) Change of Agents

The Principal Paying Agent is HSBC Bank plc at its offices at 8 Canada Square, Level 24, London E14 5HQ. The Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent and the Agent Bank and to appoint additional or other Agents. The Issuer will at all times maintain a Paying Agent with a specified office in Dublin, for so long as the Notes are listed on the Irish Stock Exchange. The Issuer shall cause at least 30 days' notice of any change in or addition to the Paying Agents or their specified offices to be given to the Noteholders in accordance with Condition 14.

(e) Presentation on Non-Business Days

If any Note is presented (if required) for payment on a day which is not a Business Day payment will be made on the next succeeding day that is a Business Day and no further

payments of additional amounts by way of interest, principal or otherwise will be due in respect of such Note.

(f) Accrual of Interest on Late Payments

If interest is not paid in respect of a Note on the date when due and payable (other than by reason of non-compliance with Condition 6(a)), then such unpaid interest shall itself bear interest at the applicable Rate of Interest ("**Default Interest on Interest**") until such interest and interest thereon is available for payment and notice thereof has been duly given to the Noteholders in accordance with Condition 14, provided that such interest and interest thereon are, in fact, paid.

(g) Change of currency

- (i) If at any time there is a change in the currency of the United Kingdom such that the Bank of England recognises a different currency or currency unit or more than one currency or currency unit as the lawful currency of the United Kingdom, then references in, and obligations arising under, the Notes outstanding at the time of any such change and which are expressed in sterling will be converted into, and/or any amount becoming payable under the Notes thereafter as specified in these Conditions will be paid in, the currency or currency unit of the United Kingdom, and in the manner designated by the Principal Paying Agent.

Any such conversion will be made at the official rate of exchange recognised for that purpose by the Bank of England.

- (ii) Where such a change in currency occurs, the Global Notes in respect of the Notes then outstanding and these Conditions will be amended in the manner determined by the Issuer (with the prior written consent of the Note Trustee) so as to reflect that change and, so far as practicable, to place the Issuer, the Note Trustee and the Noteholders in the same position each would have been in had no change in currency occurred (such amendments to include, without limitation, changes required to reflect any modification to business day or other conventions arising in connection with such change in currency). All amendments made pursuant to this Condition 6(g) will be binding upon holders of such Notes.
- (iii) Notification of the amendments made to Notes pursuant to this Condition 6(g) will be made to the Noteholders in accordance with Condition 14 which will state, among other things, the date on which such amendments are to take or took effect, as the case may be.

7. Taxation

All payments in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent is required by applicable law in any jurisdiction to make any payment in respect of the Notes subject to any such withholding or deduction. In that event, the Issuer or such Paying Agent (as the case may be) will make such payment after such withholding or deduction has been made and will account to the relevant authorities for the amount so required to be withheld or deducted. **Neither the Issuer nor any Paying Agent will be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction.**

8. Prescription

Claims for principal in respect of the Global Notes will become void unless the relevant Global Note is presented for payment within ten years of the appropriate relevant date. Claims for interest in respect of the Global Notes will become void unless the relevant Global Note is presented for payment within five years of the appropriate relevant date.

Claims for principal and interest in respect of Definitive Notes will become void unless made within ten years, in the case of principal, and five years, in the case of interest, of the appropriate relevant date.

In this Condition 8, the "**relevant date**" means the date on which a payment in respect thereof first becomes due, but if the full amount of the moneys payable has not been received by the Principal Paying Agent or the Note Trustee on or prior to such date, it means the date on which the full amount of such moneys shall have been so received, and notice to that effect shall have been duly given to the Noteholders in accordance with Condition 14.

9. Events of Default

(a) Eligible Noteholders

If any of the events mentioned in sub-paragraphs (i) to (v) inclusive below occurs and is continuing (each such event being an "**Event of Default**") then the Note Trustee may, and if so requested in writing by the "**Eligible Noteholders**", being the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes then outstanding, or if so directed by or pursuant to an Extraordinary Resolution (as defined in Condition 11) of the Noteholders shall, and in any case aforesaid, subject to the Note Trustee being indemnified and/or secured to its satisfaction, declare by written notice (a "**Note Enforcement Notice**") to the Issuer and the Issuer Security Trustee that each Note is immediately due and payable and/or the Issuer Security enforceable.

- (i) default is made in the payment of the principal of, or in the payment of interest on, any Note, in each case when and as the same becomes due and payable in accordance with these Conditions unless the Note Trustee is satisfied that the default has arisen by reason of technical default or error and the Issuer has the funds available to make payment and payment is made within three Business Days of the due date thereof; or
- (ii) default is made by the Issuer in the performance or observance of any other obligation binding upon it under any of the Notes, the Note Trust Deed, the Deed of Charge and Assignment or the other Relevant Documents to which it is party and, in any such case (except where the Note Trustee certifies that, in its opinion, such default is incapable of remedy, when no notice will be required), such default continues for a period of 14 days following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (iii) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in Condition 9(a)(iv) below, ceases or, consequent upon a resolution of the board of directors of the Issuer, threatens to cease to carry on business or a substantial part of its business or the Issuer is or is deemed unable to pay its debts within the meaning of Section 123(1) and (2) of the Insolvency Act 1986 (as that section may be amended from time to time); or
- (iv) an order is made or an effective resolution is passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Note Trustee in writing or by an Extraordinary Resolution of the Noteholders; or
- (v) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order) and such proceedings are not, in the opinion of the Note Trustee, being disputed in good faith with a reasonable prospect of success, or an administration order is granted or an administrator, administrative receiver or other receiver, liquidator or other similar official is appointed in relation to the Issuer or any part of its undertaking, property or assets, or an encumbrancer takes possession of all or any part of the undertaking, property or assets of the Issuer, or a

distress, execution, diligence or other process is levied or enforced upon or sued against all or any part of the undertaking, property or assets of the Issuer and such possession or process is not discharged or does not otherwise cease to apply within 15 days, or the Issuer initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally,

provided that, in the case of each of the events described in Condition 9(a)(ii), the Note Trustee, shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders.

(b) Effect of Declaration by Note Trustee

Upon any declaration being made in accordance with Condition 9(a) above, all the Notes then outstanding shall immediately become due and repayable each at its Redemption Amount together with accrued interest and the Issuer Security shall become enforceable, all in accordance with the Note Trust Deed and the Deed of Charge and Assignment.

10. Enforcement

As more particularly provided in the Note Trust Deed, the Note Trustee will, in certain circumstances, be obliged to take action to exercise or enforce its rights under the Note Trust Deed or the Deed of Charge and Assignment or in respect of the Notes (provided that the Note Trustee has been indemnified or furnished with security to its satisfaction).

Subject as aforesaid, the Note Trustee may, without notice, instruct the Issuer Security Trustee to take such proceedings against the Issuer or any other person as are appropriate to enforce the provisions of the Notes and the Relevant Documents and may, at any time after the Issuer Security has become enforceable, without notice, instruct the Issuer Security Trustee to take possession of the Issuer Security or any part thereof and may in its discretion instruct the Issuer Security Trustee to sell, call in, collect and convert into money the Issuer Security or any part thereof in such manner and upon such terms as the Note Trustee may think fit to enforce the Issuer Security, but it will not be bound as against the Noteholders to take any such steps unless:

- (a) subject to the proviso below, it is directed to do so by an Extraordinary Resolution of the Noteholders, or by a notice in writing signed by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes; and
- (b) it shall be indemnified and/or secured to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all liabilities, losses, costs, charges, damages and expenses (including any VAT thereon) which it may incur by so doing.

Only the Issuer Security Trustee may pursue the remedies available to the Issuer Secured Parties for the repayment of the Issuer Secured Obligations. No Noteholder shall be entitled to proceed directly against the Issuer or any other party to the Relevant Documents or to enforce the Issuer Security unless the Note Trustee or the Issuer Security Trustee, having become bound to do so, fails to do so within 90 days from the date it becomes so bound and such failure shall be continuing. The Issuer Security Trustee cannot, while any of the Notes are outstanding, be required to enforce the Issuer Security at the request of any other Issuer Secured Party under the Deed of Charge and Assignment. No Noteholder will be entitled to directly take proceedings for the winding up or administration of the Issuer.

In the event that the Issuer Security is enforced and:

- (a) the Issuer Security Trustee determines that all amounts sufficient to justify a distribution to Noteholders that can reasonably be expected to be realised from such enforcement by readily available means within a reasonable period have been realised;

- (b) the Issuer Security Trustee determines that all such proceeds of such realisation and the other assets (if any) of the Issuer to which persons ranking prior to the Noteholders have been distributed to such persons entitled thereto;
- (c) the Note Trustee determines that all such proceeds and such other assets to which the Noteholders are entitled have been distributed to them; and
- (d) any principal, interest or other amount whatsoever due in respect of the Notes remains unpaid,

the Note Trustee will, at the request of Holdings, for the consideration of one penny per Note, procure the transfer of all (but not some only) of the Notes to Holdings pursuant to the option granted to it by the Note Trustee (as agent for the Noteholders) under the terms of the Post Enforcement Call Option Agreement. Immediately upon such transfer, no such former Noteholder shall have any further interest in the Notes. Each of the Noteholders acknowledges that the Note Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post Enforcement Call Option Agreement and each Noteholder, by subscribing for or purchasing the Notes, agrees to be so bound. The Note Trustee shall give notice of the exercise of such option to the Noteholders in accordance with Condition 14.

11. Meetings of Noteholders, Modification and Waiver

- (a) The Note Trust Deed contains provisions for convening meetings of the Noteholders to consider, in certain circumstances, any matter affecting their interests including the sanctioning by Extraordinary Resolution of, among other things, the removal of the Note Trustee, a modification of the Notes (including these Conditions) or the provisions of any of the Relevant Documents.
- (b) The term "**Extraordinary Resolution**" means (a) a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions contained in the Note Trust Deed by a majority consisting of not less than 75 per cent. of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-fourths of the votes given on such poll or (b) a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting under the Note Trust Deed, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more Noteholders.
- (c) Subject as provided below, the quorum at any meeting of the Noteholders for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. in Principal Amount Outstanding of the Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the Principal Amount Outstanding of the Notes so held or represented. For so long as all the Notes (whether being Definitive Notes or represented by Global Notes) are held by one person, such person will constitute two persons for the purposes of forming a quorum for meetings. Furthermore, a proxy for the holder of a Global Note will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders.
- (d) The quorum at any meeting of the Noteholders for passing an Extraordinary Resolution in respect of a Basic Terms Modification (as defined in the Note Trust Deed) will be two or more persons holding or representing not less than 75 per cent. or, at any adjourned such meeting, 33 $\frac{1}{3}$ per cent. in Principal Amount Outstanding of the Notes for the time being outstanding.
- (e) The majority required for an Extraordinary Resolution shall be not less than 75 per cent. of the votes cast on the resolution. An Extraordinary Resolution passed at any meeting of Noteholders and/or signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting under the Note Trust Deed shall be binding on all Noteholders.

- (f) The Note Trustee may agree without the consent of the Noteholders (i) to any modification of, or to any waiver or authorisation of any breach or proposed breach of, the Notes (including these Conditions) or any of the Relevant Documents which, in the opinion of the Note Trustee, is not materially prejudicial to the interests of the Noteholders, or (ii) to any modification of the Notes (including these Conditions) or any of the Relevant Documents which, in the opinion of the Note Trustee, is to correct a manifest error or is of a formal, minor or technical nature. The Note Trustee may also, without the consent of the Noteholders, determine that an Event of Default will not, subject to specified conditions, be treated as such. The Note Trustee will not exercise such powers of waiver, authorisation or determination in contravention of any express direction given by the Eligible Noteholders or by an Extraordinary Resolution of the Noteholders (provided that no such direction shall affect any authorisation, waiver or determination previously made or given). Any such modification, waiver, authorisation or determination will be binding on the Noteholders and shall be notified in writing to the Irish Stock Exchange and, unless the Note Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.
- (g) Where the Note Trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions, to have regard to the interests of the Noteholders, it shall have regard to the interests of the Noteholders as a class and, in particular, but without prejudice to the generality of the foregoing, the Note Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Note Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Note Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.
- (h) The Note Trustee shall be entitled to assume without further enquiry, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Relevant Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders if the Rating Agencies have provided written confirmation that the then current ratings of the Notes will not be qualified, downgraded or withdrawn as a result of such exercise.
- (i) If the Note Trustee is called upon to exercise any discretions in relation to the Loan, the Related Security, the Issuer Security, the Notes or any of the Relevant Documents in accordance with the provisions of the Note Trust Deed, the Note Trustee may convene a meeting of the Noteholders in order to seek the sanctioning by Extraordinary Resolution of the exercise of such discretion in a particular way by the Note Trustee.

12. Indemnification and Exoneration of the Note Trustee and the Issuer Security Trustee

The Note Trust Deed and the Deed of Charge and Assignment contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee and the Issuer Security Trustee and for their indemnification in certain circumstances, including provisions relieving them from taking enforcement proceedings unless indemnified to their satisfaction. Neither the Note Trustee nor the Issuer Security Trustee will be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of other parties to the Relevant Documents, clearing organisations or their operators or by intermediaries such as banks, brokers, depositories, warehousemen or other similar persons whether or not on behalf of the Note Trustee and/or the Issuer Security Trustee.

The Note Trust Deed and the Deed of Charge and Assignment contain provisions pursuant to which the Note Trustee and the Issuer Security Trustee or any of their related companies are entitled, among other things, (i) to enter into business transactions with the Issuer and/or any other person who

is a party to the Relevant Documents or whose obligations are comprised in the Issuer Security and/or any of their subsidiary or associated companies and to act as trustee for the holders of any other securities issued by or relating to the Issuer and/or any other person who is a party to the Relevant Documents or whose obligations are comprised in the Issuer Security and/or any of their subsidiary or associated companies, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties, under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Note Trust Deed and the Deed of Charge and Assignment also relieve the Note Trustee and the Issuer Security Trustee of liability for, among other things, not having made or not having caused to be made on their behalf the searches, investigations and enquiries which a prudent chargee would normally have been likely to make in entering into the Deed of Charge and Assignment. The Note Trustee and the Issuer Security Trustee has no responsibility in relation to the validity, sufficiency and enforceability of the Issuer Security. Each of the Note Trustee and the Issuer Security Trustee will not be obliged to take any action which might result in its incurring personal liabilities unless indemnified to its satisfaction or to supervise the performance by the Loan Servicer, the Issuer, the Borrower Manager, the Swap Provider or any other person of their obligations under the Relevant Documents and the each of Note Trustee and the Issuer Security Trustee will assume, until it has actual knowledge to the contrary, that all such persons are properly performing their duties.

13. Replacement of the Global Notes and Definitive Notes

If any Global Note or Definitive Note is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer or the Note Trustee may reasonably require. Mutilated or defaced Global Notes or Definitive Notes must be surrendered before replacements will be issued.

14. Notice to Noteholders

- (a) All notices, other than notices given in accordance with the following paragraphs of this Condition 14, to Noteholders shall be deemed to have been validly given if published in a leading daily newspaper printed in the English language with general circulation in Dublin (which is expected to be *The Irish Times*) or, if that is not practicable, in such English language newspaper or newspapers as the Note Trustee approves having a general circulation in Ireland and the rest of Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required. For so long as the Notes are represented by a Global Note, notices to Noteholders will be validly given if published as described above or, for so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so allow, at the option of the Issuer, if delivered to the Common Depository for communication by it to Euroclear and/or Clearstream, Luxembourg for communication by them to their Accountholders and for communication by such Accountholders to entitled participants. Any notice delivered to Euroclear and/or Clearstream, Luxembourg as aforesaid shall be deemed to have been given on the day on which it is delivered to the Common Depository.
- (b) Any notice specifying a Note Payment Date, an Interest Amount or a Principal Amount Outstanding shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen or such other medium for the electronic display of data as may be previously approved in writing by the Note Trustee pursuant to Condition 14(a). Any such notice shall be deemed to have been given on the first date on which such information appeared on the relevant screen. If it is impossible or impractical to give notice in accordance with this paragraph then notice of the matters referred to in this paragraph shall be given in accordance with Condition 14(a).

- (c) A copy of each notice given in accordance with this Condition 14 shall be provided to (for so long as the Notes are listed on the Irish Stock Exchange) the Company Announcements Office of the Irish Stock Exchange and at all times to Fitch Ratings Limited ("**Fitch**"), Moody's Investor Service Inc. ("**Moody's**" and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("**S&P**" and together with Moody's and Fitch, the "**Rating Agencies**"), which reference in these Conditions shall include any additional or replacement rating agency appointed by the Issuer, with the prior written approval of the Note Trustee, to provide a credit rating in respect of the Notes). For the avoidance of doubt, and unless the context otherwise requires, all references to "rating" and "ratings" in these Conditions shall be deemed to be references to the ratings assigned by the Rating Agencies.
- (d) The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

15. Substitution

As more fully set out in the Note Trust Deed, the Note Trustee may, without the consent of the Noteholders, agree or instruct the substitution of the Issuer (or of any previous substitute) by another single purpose entity (the "**New Issuer**") as principal debtor under the Note Trust Deed and the Notes, provided that certain conditions set forth in the Note Trust Deed are fulfilled.

Upon fulfilment of those condition, the New Issuer shall in every respect substitute the Issuer and the Issuer shall be released from all its obligations to the Noteholders as issuer of the Notes. However, the Issuer will unconditionally and irrevocably guarantee the obligations of the New Issuer in respect of the Note Trust Deed and the Notes; provided that recourse against the Issuer in respect of such guarantee shall be limited to the assets of the Issuer comprised in the Issuer Security.

No Noteholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder.

The New Issuer shall give notice of any substitution to the Noteholders (with a copy to the Note Trustee and the rating agencies granting a rating on the Notes) in accordance with Condition 14.

16. Privity of Contract

No person shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of a third party which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

17. Governing Law

The Note Trust Deed, the Deed of Charge and Assignment, Agency Agreement, the other Relevant Documents and the Notes are governed by, and shall be construed in accordance with, English law other than the Headlease, the Underlease, the Borrower Security Agreement, the Borrower Standard Security, the Borrower Assignment of Rents and the Collateral Deed (each as defined in the Master Definitions Agreement) which are governed by Scots law.

SCHEDULE TO THE CONDITIONS

Note Amortisation Schedule

Period	Note Payment Date in	Note Balance (beginning of period)	Scheduled Principal Repayments
1	October 2004	129,250,000.00	-
2	January 2005	129,250,000.00	-
3	April 2005	129,250,000.00	-
4	July 2005	129,250,000.00	-
5	October 2005	129,250,000.00	-
6	January 2006	129,250,000.00	-
7	April 2006	129,250,000.00	-
8	July 2006	129,250,000.00	-
9	October 2006	129,250,000.00	-
10	January 2007	129,250,000.00	-
11	April 2007	129,250,000.00	-
12	July 2007	129,250,000.00	-
13	October 2007	129,250,000.00	-
14	January 2008	129,250,000.00	-
15	April 2008	129,250,000.00	-
16	July 2008	129,250,000.00	8,117.33
17	October 2008	129,241,882.67	-
18	January 2009	129,241,882.67	6,474.92
19	April 2009	129,235,407.75	57,510.02
20	July 2009	129,177,897.73	50,210.26
21	October 2009	129,127,687.47	42,899.23
22	January 2010	129,084,788.24	55,255.96
23	April 2010	129,029,532.28	107,207.84
24	July 2010	128,922,324.44	100,926.18
25	October 2010	128,821,398.26	94,664.57
26	January 2011	128,726,733.69	108,048.37
27	April 2011	128,618,685.32	160,918.35
28	July 2011	128,457,766.97	155,749.33
29	October 2011	128,302,017.64	150,634.28
30	January 2012	128,151,383.36	165,111.83
31	April 2012	127,986,271.53	204,237.41
32	July 2012	127,782,034.12	219,585.27
33	October 2012	127,562,448.85	215,828.07
34	January 2013	127,346,620.78	226,647.61
35	April 2013	127,119,973.17	281,353.34
36	July 2013	126,838,619.83	278,717.01
37	October 2013	126,559,902.82	276,210.90
38	January 2014	126,283,691.92	293,091.16
39	April 2014	125,990,600.76	348,711.23
40	July 2014	125,641,889.53	347,510.46
41	October 2014	125,294,379.07	346,482.68
42	January 2015	124,947,896.39	364,681.62
43	April 2015	124,583,214.77	421,211.81
44	July 2015	124,162,002.96	421,568.77
45	October 2015	123,740,434.19	422,144.81
46	January 2016	123,318,289.38	441,746.59
47	April 2016	122,876,542.79	485,103.80
48	July 2016	122,391,438.99	505,670.38
49	October 2016	121,885,768.61	508,075.74
50	January 2017	121,377,692.87	524,561.64
51	April 2017	120,853,131.23	582,893.15
52	July 2017	120,270,238.08	586,762.67

Period	Note Payment Date in	Note Balance (beginning of period)	Scheduled Principal Repayments
53	October 2017	119,683,475.41	590,954.30
54	January 2018	119,092,521.11	613,633.45
55	April 2018	118,478,887.66	672,851.86
56	July 2018	117,806,035.80	678,695.32
57	October 2018	117,127,340.48	684,918.32
58	January 2019	116,442,422.16	709,283.93
59	April 2019	115,733,138.23	769,377.48
60	July 2019	114,963,760.75	777,351.96
61	October 2019	114,186,408.79	785,767.67
62	January 2020	113,400,641.12	811,925.76
63	April 2020	112,588,715.36	859,981.85
64	July 2020	111,728,733.51	887,209.77
65	October 2020	110,841,523.74	898,057.35
66	January 2021	109,943,466.39	921,929.87
67	April 2021	109,021,536.52	983,729.77
68	July 2021	108,037,806.75	996,476.77
69	October 2021	107,041,329.98	1,009,802.22
70	January 2022	106,031,527.76	1,039,887.85
71	April 2022	104,991,639.91	1,102,513.41
72	July 2022	103,889,126.50	1,117,925.45
73	October 2022	102,771,201.05	1,133,992.10
74	January 2023	101,637,208.95	1,166,227.38
75	April 2023	100,470,981.57	1,229,656.77
76	July 2023	99,241,324.80	1,247,934.97
77	October 2023	97,993,389.83	1,266,949.38
78	January 2024	96,726,440.45	1,301,467.72
79	April 2024	95,424,972.73	1,354,743.85
80	July 2024	94,070,228.88	1,390,448.81
81	October 2024	92,679,780.07	1,412,662.70
82	January 2025	91,267,117.37	1,446,101.64
83	April 2025	89,821,015.73	1,511,061.38
84	July 2025	88,309,954.35	1,535,725.41
85	October 2025	86,774,228.94	1,561,306.49
86	January 2026	85,212,922.45	1,600,822.33
87	April 2026	83,612,100.12	1,666,501.50
88	July 2026	81,945,598.62	1,694,714.25
89	October 2026	80,250,884.37	1,723,944.04
90	January 2027	78,526,940.33	1,766,192.24
91	April 2027	76,760,748.09	1,832,555.63
92	July 2027	74,928,192.46	1,864,573.72
93	October 2027	73,063,618.74	1,897,715.77
94	January 2028	71,165,902.97	1,942,864.04
95	April 2028	69,223,038.93	2,001,942.05
96	July 2028	67,221,096.88	2,048,406.88
97	October 2028	65,172,690.00	2,085,723.62
98	January 2029	63,086,966.38	2,131,485.64
99	April 2029	60,955,480.74	2,199,096.17
100	July 2029	58,756,384.57	2,239,558.65
101	October 2029	56,516,825.92	2,281,381.34
102	January 2030	54,235,444.58	2,332,872.28
103	April 2030	51,902,572.30	2,401,036.65
104	July 2030	49,501,535.65	2,446,174.07
105	October 2030	47,055,361.58	2,492,801.96
106	January 2031	44,562,559.62	2,547,757.54
107	April 2031	42,014,802.08	2,616,423.05
108	July 2031	39,398,379.03	2,666,561.86

Period	Note Payment Date in	Note Balance (beginning of period)	Scheduled Principal Repayments
109	October 2031	36,731,817.17	2,718,330.20
110	January 2032	34,013,486.97	2,776,961.08
111	April 2032	31,236,525.89	2,842,491.30
112	July 2032	28,394,034.59	2,902,583.43
113	October 2032	25,491,451.16	2,959,762.52
114	January 2033	22,531,688.64	3,021,327.89
115	April 2033	19,510,360.75	3,090,816.81
116	July 2033	16,419,543.94	3,152,018.88
117	October 2033	13,267,525.06	3,215,156.98
118	January 2034	10,052,368.08	3,281,820.15
119	April 2034	6,770,547.93	3,351,619.80
120	July 2034	3,418,928.13	3,418,928.13
121	October 2034		

USE OF NET PROCEEDS

The net proceeds from the issuance of the Notes will be approximately £129,250,000 and this sum will be applied by the Issuer towards:

(a) funding the Acquisition Tranche and the making therefrom of an Advance to the Borrower in an amount equal to the premium (together with VAT) to be paid by the Borrower to the BBC in relation to the grant of the Headlease and the Car Park Headlease;

(b) funding the Development Tranche and the making therefrom of an Advance to the Borrower in an amount equal to certain design and other pre-commencement costs and fees relating to the Development;

(c) funding the Expenses Tranche and the making therefrom of an Advance to the Borrower in an amount equal to certain costs and fees due to the Issuer and third parties relating to the arranging of the Loan and the registration costs incurred in connection with the grant of the Headlease and the Car Park Headlease; and

(d) funding the Interest Account.

Fees, commissions and expenses incurred by the Issuer in connection with the issue of the Notes will be met from the fees and costs paid to it by the Borrower relating to the arranging of the Loan.

Other United Kingdom tax payers

1. Taxation of chargeable gains

It is expected that the Notes will not be regarded by the Inland Revenue as constituting "qualifying corporate bonds" within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal of the Notes may give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains. There are provisions to prevent any particular gain (or loss) from being charged (or relieved) at the same time under these provisions and also under the provisions of the "accrued income scheme" described in 2 below.

2. Accrued income scheme

On a disposal of Notes by a Noteholder, any interest which has accrued since the last Note Payment Date may be chargeable to tax as income under the rules of the "accrued income scheme" if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

Stamp Duty and SDRT

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Note or of a Definitive Note.

European Union Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

SUBSCRIPTION AND SALE

Barclays Bank PLC and ABN AMRO Bank N.V. (London Branch) (together, the "**Managers**"), pursuant to a subscription agreement dated 12 July 2004 (the "**Subscription Agreement**"), between the Managers and the Issuer, agreed, severally, subject to certain conditions, to subscribe and pay for the Notes at 100 per cent. of the principal amount of such Notes.

The Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

United States of America

Each of the Managers has represented and agreed with the Issuer that the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 41 days after the later of the commencement of the offering of the Notes and the Closing Date (for the purposes only of this section "**Subscription and Sale**", the "**Distribution Compliance Period**") within the United States or to, or for the account or benefit of, U.S. Persons and that it will have sent to each distributor, dealer or other person to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act.

In addition, 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act.

The Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

United Kingdom

Each of the Managers has further represented and agreed that:

- (a) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 ("**FSMA**"), with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

General

Except for listing the Notes on the Official List of the Irish Stock Exchange and delivery of this document to the Registrar of Companies in Ireland, no action is being taken in any jurisdiction that would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisement in connection with the Notes may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each of the Managers has undertaken not to offer or sell any of the Notes, or to distribute this document or any other material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with applicable law and regulations.

Attention is drawn to the information set out under "*Important Notice*" at page 2.

GENERAL INFORMATION

1. The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 8 July 2004.
2. It is expected that listing of the Notes on the Official List of the Irish Stock Exchange will be granted on or about 14 July 2004 subject only to the issue of the Global Notes. The listing of the Notes will be cancelled if the Global Notes are not issued. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction.
3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Notes is 019606597 and the ISIN is XS0196065972.
4. No statutory or non-statutory accounts in respect of any financial year of the Issuer have been prepared. So long as the Notes are listed on the Official List of the Irish Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time will be available at the specified offices of the Paying Agent in Dublin. The Issuer does not publish interim accounts.
5. The Issuer is not, and has not been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had, since the date of its incorporation, a significant effect on the Issuer's financial position.
6. The Borrower is not, and has not been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had, since the date of its incorporation a significant effect on the Borrower's financial position.
7. Since the date of its incorporation, the Issuer has entered into the Subscription Agreement and certain pre-hedging arrangements in relation to the Indexation Swap Transaction being contracts entered into other than in its ordinary course of business.
8. BDO Stoy Hayward, auditors of the Issuer, has given and not withdrawn its written consent to the issue of this Offering Circular with the inclusion of its report and references to its name in the form and context in which they are included and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).
9. DTZ Debenham Tie Leung external valuers, has given and not withdrawn its written consent to the issue of this Offering Circular with the inclusion of its valuation report and references to its name in the form and context in which they are included and has authorised the content of that part of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).
10. Save as disclosed herein, since 30 April 2004 (being the date of incorporation of the Issuer), there has been (i) no material adverse change in the financial position or prospects of the Issuer and (ii) no significant change in the trading or financial position of the Issuer.
11. Save as disclosed herein, since 2 June, 2004 (being the date of incorporation of the Borrower), there has been (i) no material adverse change in the financial position or prospects of the Borrower and (ii) no significant change in the trading or financial position of the Borrower.
12. Copies of the following documents may be inspected during usual business hours on any week day (excluding Saturdays, Sundays, and public holidays) at the offices of the Issuer at Blackwell House, Guildhall Yard, London EC2V 5AE and at the specified offices of the Sub-Paying Agent in Dublin during the period of 14 days from the date of this document:
 - (i) the Memorandum and Articles of Association of the Issuer;
 - (ii) the balance sheet of the Issuer as at 12 July 2004 and the auditors report thereon;
 - (iii) the Subscription Agreement; and

(iv) drafts (subject to modification) of the following documents:

- (a) the Note Trust Deed;
- (b) the Deed of Charge and Assignment;
- (c) the Declaration of Trust;
- (d) the Loan Servicing Agreement;
- (e) the Issuer Cash and Corporate Management Agreement;
- (f) the Swap Agreement (including the Swap Agreement Credit Support Document);
- (g) the Post Enforcement Call Option Agreement;
- (h) the Issuer Development Guarantee;
- (i) the Corporate Services Agreement;
- (j) the Agency Agreement;
- (k) the Credit Agreement;
- (l) the Development Agreement;
- (m) the Unit Trust Deed;
- (n) the Borrower Debenture;
- (o) the Borrower Security Agreement;
- (p) the Borrower Standard Security;
- (q) the Borrower Assignment of Rents;
- (r) the Borrower Share Charge;
- (s) **the Borrower Security Trust Deed;**
- (t) **the Borrower Cash and Corporate Management Agreement;**
- (u) the Direct Agreements;
- (v) the Headlease and the Car Park Headlease;
- (w) the Underlease and the Car Park Underlease;
- (x) the Residual Value Agreement;
- (y) the Collateral Deed;
- (z) the Borrower/Issuer Expenses Loan Agreement;
- (aa) the Nominee Declaration of Trust; and
- (bb) the Master Definitions Agreement.

APPENDIX 1
VALUATION REPORT

Report and Valuation for
Pacific Quay Trustees No. 1 Limited
Consortation Investment Management Limited
HSBC Trustee (C.I.) Limited

**Headquarters Broadcasting
Centre for BBC Scotland at
Pacific Quay, Pacific Drive
Glasgow**

12 July 2004

Private and Confidential

**DTZ Debenham Tie Leung
One Curzon St
LONDON W1A 5PZ**

Contents

	Page	
1	Terms of instruction, confidentiality and disclosure	1-1
1.1	Loan proposition	1-1
1.2	Our appointment	1-1
1.3	Inspections	1-2
1.4	Compliance with appraisal and valuation standards	1-2
1.5	Status of valuer and conflicts of interest	1-2
1.6	Bases of valuation	1-3
1.7	Confidentiality and disclosure	1-3
2	Headquarters Broadcasting Centre for BBC Scotland at Pacific Quay, Pacific Drive, Glasgow	2-1
2.1	Location and situation	2-1
2.2	Description and construction	2-1
2.3	Accommodation	2-1
2.4	Planning	2-1
2.5	Timetable for development	2-1
2.6	Tenure	2-1
2.7	Tenancy	2-1
2.8	Car Park Licence	2-2
2.9	Initial Income on Completion of the Proposed Development	2-2
2.10	Market Value Assuming A Cleared Site	2-2
2.11	Market Value on Completion of Development Works	2-2
2.12	Estimated Cost of Completion of Development	2-3

Appendices

- A Definition of bases of valuation, taxation and costs
- B Valuation terms, conditions and assumptions

Your ref:
Our ref: ao.jg.0155.0504.rep
Direct tel: 020 7643 6246
Direct fax: 020 7643 6303
E-mail: alistair.oates@dtz.com

12 July 2004

Pacific Quay Trustees No. 1 Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Consortation Investment Management Limited
27 Soho Square
London
W1D 3AY

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

Dear Sirs

**Property: Headquarters Broadcasting Centre for BBC Scotland at Pacific Quay,
Pacific Drive, Glasgow**

1 Terms of instruction, confidentiality and disclosure

1.1 Loan proposition

We understand that Pacific Quay Trustees No. 1 Limited ("the Applicant") intends to finance the redevelopment of the above property. We understand that our Report and valuation is required to assist you in considering the suitability of the property as security for a commercial mortgage advance secured by way of a fixed first legal charge over the interest valued in this Report. We have not been made familiar with the details of the loan proposal, but understand that it will be for a period of 30 years with 100% amortisation over the term of the loan. We further understand that this Report will be included in an Offering Circular related to the securitisation transaction that will be filed with the Irish Stock Exchange and distributed to investors.

1.2 Our appointment

In accordance with your instructions, we have valued the long leasehold interest in the above property, as at 12 July 2004, in connection with the proposed loan facility. The property is described in the Property Summary attached at Section Two of this Report, which forms an integral part hereof.

1.3 Inspections

The site was inspected by Alistair Oates MRICS and Alistair Wood MRICS on numerous occasions over the past year in connection with advice being provided to the BBC in respect of this site. We were able to inspect all of the site. We have been provided with plans of the proposed building and schedules of floor areas by the BBC and their advisors.

1.4 Compliance with appraisal and valuation standards

We confirm that the valuations have been prepared in accordance with the appropriate sections of the Practice Statements (“PS”) and United Kingdom Practice Statements (“UKPS”) contained within the RICS Appraisal and Valuation Standards, 5th Edition (the “Red Book”). In addition we have complied with The Listing Rules issued by the Financial Services Authority

1.5 Status of valuer and conflicts of interest

As you are aware, DTZ Debenham Tie Leung are retained by the BBC to provide strategic advice in respect of their property portfolio, including the subject property. We confirm that we do have other fee earning relationships with the BBC in respect of this and other properties. We do not however have any fee agreements with the BBC which are dependent on the financial structuring which is now being discussed. We do not therefore consider that any conflict of interest arises in respect of this instruction. For clarity we have detailed below all previous and on-going fee earning relationships we have or have had with the BBC or the subject property over the past three years. In respect of the subject property we have the following involvement in addition to the provision of this report:

- a. We are providing valuation advice to the BBC on a number of scenarios to meet their accounting requirements.
- b. We are providing a valuation report to Pacific Quay Trustees No. 1 Limited, Consortium Investment Management Limited and HSBC Trustee (C.I.) Limited for inclusion in an Offering Circular to prospective bond holders.

In addition we have advised the BBC in respect of the following other properties over the past three years:

- a. We have provided development contingency advice in respect of a development the BBC is undertaking at White City.
- b. We are acting as commercial agents at the scheme at White City.
- c. We have advised in respect of contract negotiations for the White City Partnership between BBC and Land Securities.
- d. We have provided valuation advice to the BBC and Land Securities Trillium in respect of properties they are developing in partnership at White City.
- e. We are providing development consultancy and valuation advice in respect of Broadcasting House in London.
- f. We advised the BBC/Land Securities Trillium Partnership in respect of the acquisition of Forest House in Wood Green.
- g. We are providing ongoing development advice in respect of the aforementioned Forest House and the adjacent Centre House and BBC Woodlands.

We confirm that we have undertaken the valuations acting as an External Valuer, qualified for the purpose of the valuation.

We confirm that we discussed our previous involvement with the borrower with you and you confirmed that you were happy for us to act on your behalf in this regard. We confirm that we do not consider that any conflict of interest arises in providing the advice you have requested. We also confirm that total fees earned from the BBC over the last year did not exceed 5% of Group turnover.

1.6 Bases of valuation

In accordance with your instructions, and the requirements of the Financial Services Authority we have undertaken our valuations on the following bases:-

- a. Market Value assuming a cleared vacant site
- b. Market Value assuming the proposed development has been completed and let

In preparing our valuations on this basis it is necessary for us to prepare a valuation on "Special Assumption". A Special Assumption is referred to in the Glossary in the Red Book as an "Assumption that either:

- requires the valuation to be based on facts that differ materially from those that exist at the date of valuation; or
- is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances."

In the circumstances of this instruction, we consider the Special Assumption upon which we have been asked to value may be regarded as realistic, relevant and valid.

We have set out the definitions of the above bases of valuation in Appendix A.

Our valuation is subject to our standard Valuation Terms, Conditions and Assumptions which are included in Appendix B. In the event that any of our assumptions prove to be incorrect then our valuations should be reviewed.

1.7 Confidentiality and disclosure

The contents of this Report and Appendices are confidential to the parties to whom they are addressed for the specific purpose to which they refer and are for their use only. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of their contents. Before this Report, or any part thereof, is reproduced or referred to, in any document, circular or statement, and before its contents, or any part thereof, are disclosed orally or otherwise to a third party, the valuer's written approval as to the form and context of such publication or disclosure must first be obtained. For the avoidance of doubt such approval is required whether or not DTZ Debenham Tie Leung Limited are referred to by name and whether or not the contents of our Report are combined with others.

In relation to each of the Lenders, as that term is defined in the Credit Agreement dated 14 July 2004 between, amongst others, Pacific Quay Trustees No. 1 Limited, Consortium Investment Management Ltd and HSBC Trustee (C.I.) Limited, no reliance may be placed on this Valuation Report until such time as the identities of all such parties are notified to us in writing. In addition we will require further confirmation in writing that all such parties have seen the entirety of this Valuation Report and the letter of instruction.

Yours faithfully

Alistair Oates MRICS
Director
For and on behalf of
DTZ Debenham Tie Leung Limited

2 Headquarters Broadcasting Centre for BBC Scotland at Pacific Quay, Pacific Drive, Glasgow

2.1 Location and situation

The property is situated on the southern side of the River Clyde, close to Glasgow City Centre and adjacent to the new Glasgow Science Centre. The property is strategically located seven minutes drive from Glasgow City Centre and 15 minutes drive from Glasgow Airport.

2.2 Description and construction

The subject property comprises a site of 4.42 acres. The site is to be developed for the BBC to provide a state of the art broadcasting centre for the BBC Scotland. The building will provide accommodation on ground, mezzanine and five upper floors.

An adjacent surface car park extending to 3.008 acres will separately be made available to occupiers of the property under a separate lease.

2.3 Accommodation

The building will provide a range of administrative, technical and production facilities including 60 meeting rooms or offices, 15 digital radio workstations, 20 edit suites, a presentation suite and up to 1,100 workstations. The building will provide a total gross internal area of 31,693 sq m (341,140 sq ft).

2.4 Planning

A planning application was submitted for the development of Pacific Quay on 19 December 2003. It was initially anticipated that this would be determined by April 2004. Planning permission was granted at the end of June for the development detailed above. Planning permission is subject to the BBC entering into a section 69 agreement with Glasgow City Council. We understand that the terms of this agreement have been agreed in outline.

2.5 Timetable for development

Work commenced at the end of June 2004, subject to obtaining a works licence from the Scottish Executive, with completion due in mid to late July 2006. There will then be a twelve month period for the BBC to fit out the building before they take occupation in July 2007.

2.6 Tenure

The property is to be held on for a lease for a term of 150 years from and including the 14 July 2004 at a fixed rent of one peppercorn.

2.7 Tenancy

The property will be let in its entirety to the British Broadcasting Corporation for a term of 30 years from and including the 14 July 2004. The lease is on full repairing and insuring terms (from practical completion of the Development) and is subject to annual rental uplifts in line with the Retail Price Index, subject to maximum and minimum uplifts of 5% and 0% per annum, respectively.

From Year 27 the rent will be the greater of (a) the rate which would have been payable in the absence of the rent review at Year 27 and (b) the lesser of £105 per square foot of the net internal area of the Property and the then open market rent.

2.8 Car Park Lease

Separate from the area to be leased by the Headlease, an area of land adjoining the Property is to be used for car parking for the benefit of the Property. This land is to be the subject of a lease, granted by the BBC to the Headlease Tenant who, in turn, will grant a sub-lease back to the BBC as tenant under the Underlease. No rent fee will be payable and the lease will be terminable on 12 months written notice by either party provided that the lessor, in each case, may only determine the lease if either (a) certain conditions relating to the adequate provision of parking are met or (b) the absence of such car parking lease would not diminish the rental value of the Property below a specified level.

2.9 Initial Income on Completion of the Proposed Development

£6,509,739 per annum exclusive
(Six Million Five Hundred and Nine Thousand Seven Hundred and Thirty Nine pounds)
per annum exclusive

This is the rent payable for the completed building calculated at the date of valuation. This figure will be increased annually in line with the Retail Price Index, subject to maximum and minimum uplifts of 5% and 0% per annum, respectively (see also comments under 2.6).

2.10 Market Value Assuming A Cleared Site

This valuation has been prepared on the following Special Assumptions:-

- i. The entire property which is the subject of the head leasehold interest has been cleared of all existing buildings.
- ii. The property is available with full vacant possession.

We are of the opinion that the Market Value of the long leasehold interest in the above property, subject to the Special Assumptions detailed above and the general assumptions and comments in this Report and appendices, as at 12 July 2004, is: -

£1,600,000
(One Million Six Hundred Thousand pounds)

2.11 Market Value on Completion of Development Works

This valuation has been prepared on the following Special Assumptions:-

- i. The entire property has been constructed in accordance with the plans and specification provided to us and in compliance with all statutory requirements.
- ii. The property has been let in accordance with the details set out in this Report.
- iii. The rent passing is £6,509,739 per annum (adjusted by LPI) which is the current value of the rent on completion of all parts of the building.

We are of the opinion that the Market Value of the long leasehold interest in the above property, subject to the Special Assumptions detailed above and the general assumptions and comments in this Report and appendices, as at 12 July 2004, is: -

£98,390,000
(Ninety Eight Million Three Hundred and Ninety Thousand pounds)

2.12 Estimated Cost of Completion of Development

£110,000,000
(One Hundred and Ten Million pounds)

APPENDIX A

DEFINITIONS OF THE BASES OF VALUATION

TAXATION AND COSTS

1. DEFINITIONS

The property has been valued in accordance with the relevant parts of the current RICS Appraisal and Valuation Manual. In particular, the bases of valuation are as follows:

1.1. MARKET VALUE

We have assessed Market Value in accordance with Practice Statement 4.1. Under these provisions, the term "Market Value" means "The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

In undertaking our valuation on the basis of Market Value we have applied the interpretative commentary which has been settled by the International Valuation Standards Committee (IVSC). The commentary is included in PS 4.1.2 - PS 4.1.12. The commentary is reproduced below:-

"PS 4.1.2

The term 'asset' is used because of the focus of these Standards. However, the term 'property' may be substituted for general application of the definition. Each element of the definition has its own conceptual framework.

PS 4.1.3

'The estimated amount ...' refers to a price expressed in terms of money (normally in the local currency) payable for the asset in an arm's-length market transaction. *Market Value* is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the *Market Value* definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of *Special Value* (defined in IVSC Standard 2 in the following terms:

Special Value. A term relating to an extraordinary element of value over and above *Market Value*. Special value could arise, for example, by the physical, functional, or economic association of a property with some other property such as the adjoining property. It is an increment of value which could be applicable to a particular owner or user, or prospective owner or user, of the property rather than to the market at large; that is, to a purchaser with a special interest. *Special Value* could be associated with elements of *Going Concern Value*. The Valuer must ensure that such criteria are distinguished from *Market Value*, making clear any special assumptions made.)

PS 4.1.4

'... an asset should exchange ...' refers to the fact that the value of an asset is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the Market Value definition should be completed on the date of valuation.

PS 4.1.5

'... on the date of valuation ...' requires that the estimated Market Value is time-specific as of a given date. As markets and market conditions may change, the estimated value may be incorrect

or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made in a *Market Value* transaction.

PS 4.1.6

'... *between a willing buyer ...*' refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present asset owner is included among those who constitute 'the market'. A Valuer must not make unrealistic assumptions about market conditions or assume a level of Market Value above that which is reasonably obtainable. In some countries an explicit reference to a willing buyer is omitted from the definition of Market Value to emphasise this responsibility.

PS 4.1.7

'... *a willing seller ...*' is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the asset at market terms for the best price attainable in the open market after proper marketing, whatever that price may be. The factual circumstances of the actual asset owner are not a part of this consideration because the 'willing seller' is a hypothetical owner.

PS 4.1.8

'... *in an arm's-length transaction ...*' is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of special value. The Market Value transaction is presumed to be between unrelated parties each acting independently.

PS 4.1.9

'... *after proper marketing ...*' means that the asset would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the asset to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

PS 4.1.10

'...*wherein the parties had each acted knowledgeably and prudently ...*' presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the asset, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

PS 4.1.11

'... *and without compulsion*' establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

PS 4.1.12

Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase and without offset of any associated taxes.”

The RICS considers that the application of the Market Value definition, results in the same valuation figure as the application of Open Market Value.

2. TAXATION AND COSTS

In no case have we made any adjustment to reflect any liability to taxation that may arise on disposal, nor for any costs associated with disposal incurred by the owner.

No allowance has been made to reflect any liability to repay any government or other grants, taxation allowance or lottery funding that may arise on disposal.

We have made deductions to reflect purchaser’s normal acquisition costs where appropriate.

APPENDIX B

VALUATION TERMS, CONDITIONS AND ASSUMPTIONS

These are the general terms, conditions and assumptions upon which our valuations and reports are normally prepared. They apply to the valuations contained in this Report unless we have specifically mentioned otherwise elsewhere in this Report. In the event that any of these assumptions prove to be incorrect then our valuations should be reviewed.

1. Title

We have not had access to the title deeds of the property. Where a Certificate of Title has been made available, we have reflected its contents in our valuation. Save as disclosed either in any such Certificate of Title or as referred to in our Report, we have assumed that there is good and marketable title and that the property is free from rights of way or easements, restrictive covenants, disputes or onerous or unusual outgoing. We have also assumed that the property is free from mortgages, charges or other encumbrances.

2. Condition of structure and services, deleterious materials, plant and machinery and goodwill

Due regard has been paid to the apparent state of repair and condition of the property, but a condition survey has not been undertaken, nor have woodwork or other parts of the structure which are covered, unexposed or inaccessible, been inspected. Therefore, we are unable to report that the property is structurally sound or is free from any defects. We have assumed the property is free from any rot, infestation, adverse toxic chemical treatments, and structural or design defects other than such as may have been mentioned in the body of our Report and the appendices.

We have not arranged for investigations to be made to determine whether high alumina cement concrete, calcium chloride additive or any other deleterious material have been used in the construction or any alterations, and therefore we cannot confirm that the property is free from risk in this regard. For the purposes of this valuation, it has been assumed that any such investigation would not reveal the presence of such materials in any adverse condition.

No mining, geological or other investigations have been undertaken to certify that the site is free from any defect as to foundations. Where relevant, we have assumed that the load bearing qualities of the site of the property are sufficient to support the buildings constructed, or to be constructed thereon. We have also assumed that there are no abnormal ground conditions, nor archaeological remains present, which might adversely affect the present or future occupation, development or value of the property.

No tests have been carried out as to electrical, electronic, heating, or any other services nor have the drains been tested. However, we have assumed all services to be functioning satisfactorily.

No allowance has been made in this valuation for any items of plant or machinery not forming part of the service installations of the building. We have specifically excluded all items of plant, machinery and equipment installed wholly or primarily in connection with any of the occupants' businesses. We have also excluded furniture and furnishings, fixtures, fittings, vehicles, stock and loose tools. Further, no account has been taken in our valuation of any goodwill that may arise from the present occupation of the property.

It is a condition of DTZ Debenham Tie Leung Limited or any related company, or any qualified employee, providing advice and opinions as to value, that the client and/or third parties (whether notified to us or not) accept that the valuation report in no way relates to, or gives warranties as to, the condition of the structure, foundations, soil and services.

3. Environmental matters

We have made enquiries of the local authority and considered the advice provided by Whitby Bird & Partners in this regard.

4. Statutory requirements and planning

Verbal or written enquiries have been made of the relevant planning authority in whose area the property lies as to the possibility of highway proposals, comprehensive development schemes and other ancillary planning matters that could affect property values. The results of our enquiries have been included within our Report where relevant.

It has been assumed that the building has been constructed in full compliance with valid town planning and building regulations approvals, that where necessary it has the benefit of a current Fire Certificate, and that the property is not subject to any outstanding statutory notices as to its construction, use or occupation. Unless our enquiries have revealed the contrary, it has been further assumed that the existing use of the property is duly authorised or established and that no adverse planning condition or restriction applies.

No allowance has been made for rights, obligations or liabilities arising under the Defective Premises Act 1972 and we have assumed that the property complies with all relevant statutory requirements.

We would draw your attention to the fact that employees of town planning departments now always give information on the basis that it should not be relied upon and that formal searches should be made if more certain information is required. We assume that, if you should need to rely upon the information given about town planning matters, your solicitors would be instructed to institute such formal searches.

5. Leasing

We have read all the leases and related documents provided to us. We have assumed that copies of all relevant documents have been sent to us and that they are complete and up to date.

We have not undertaken investigations into the financial strength of the tenant(s). Unless we have become aware by general knowledge, or we have been specifically advised to the contrary, we have assumed that the tenant(s) is/are financially in a position to meet its/their obligations. Unless otherwise advised, we have also assumed that there are no material arrears of rent or service charges or breaches of covenants, current or anticipated tenant disputes.

However, our valuation reflects the type of tenant(s) actually in occupation or responsible for meeting lease commitments, or likely to be in occupation, and the market's general perception of their creditworthiness.

We have also assumed that wherever rent reviews or lease renewals are pending or impending, with anticipated reversionary increases, all notices have been served validly within the appropriate time limits.

6. Legal Issues

Legal issues, and in particular the interpretation of matters relating to title and leases, may have a significant bearing on the value of an interest in property. Where we have expressed an opinion upon legal issues affecting the valuation, then such opinion should be subject to verification by the client with a suitable qualified lawyer. In these circumstances, we accept no responsibility or liability for the true interpretation of the legal position of the client or other parties in respect of the valuation of the property.

APPENDIX 2

**FINANCIAL STATEMENTS OF THE BBC
FOR THE YEAR ENDED 31 MARCH 2002**



Consolidated statement of income and expenditure

for the year ended 31 March

	Note	2002 £m	2001 as restated £m
Income	1	3,382.9	3,164.5
Operating expenditure	2	(3,556.3)	(3,294.3)
Group operating deficit*		(173.4)	(129.8)
Share of operating surplus of associates and joint ventures		1.4	0.9
Operating deficit	3	(172.0)	(128.9)
Profits and losses on sale and termination of operations	5	7.7	18.2
Profit on disposal of fixed assets	6	11.7	-
Deficit before interest and taxation		(152.6)	(110.7)
Net interest receivable	7	21.6	25.8
Other finance income (from defined benefit pension scheme)	8	133.9	169.5
Surplus before taxation		2.9	84.6
Taxation	9	(17.7)	(9.6)
Minority interest		(1.1)	0.5
(Deficit)/surplus for the financial year	19	(15.9)	75.5

The income and expenditure account for 2001 has been restated for the adoption of FRS 17 (see Note 26a).

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of their cumulative operating losses (see Note 14d).

The above results are derived from continuing operations in both the current and previous financial periods.

The BBC does not aim to make a profit. Surpluses or deficits represent timing differences between income and expenditure in each accounting period.

* After charging £179.5million (2001 £156.8million) in respect of pension costs under FRS 17 (see Notes 4 and 8).

Balance sheets

at 31 March

	Note	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
Fixed assets					
Intangible fixed assets	10	15.4	0.5	–	–
Tangible fixed assets	12	760.8	817.0	520.8	466.4
Investment in programmes for future sale	13	111.8	117.2	–	–
Other investments	14	16.8	1.8	299.2	339.5
		904.8	936.5	820.0	805.9
Current assets					
Stocks	15	449.4	397.6	425.3	378.0
Current debtors	16	663.6	648.2	542.8	544.7
Long-term debtors	16	137.2	47.8	113.8	44.8
Total debtors		800.8	696.0	656.6	589.5
Short-term investments	21	356.8	253.4	356.8	253.4
Cash at bank and in hand	21	0.3	117.9	–	80.3
		1,607.3	1,464.9	1,438.7	1,301.2
Creditors – amounts falling due within one year					
	17	(871.2)	(844.6)	(767.9)	(657.7)
Net current assets		736.1	620.3	670.8	643.5
Total assets less current liabilities					
		1,640.9	1,556.8	1,490.8	1,449.4
Creditors – amounts falling due after more than one year					
	17	(102.5)	(51.3)	(46.1)	(21.7)
Provisions for liabilities and charges					
	18	(82.6)	(53.2)	(74.6)	(48.3)
Net assets excluding pension asset and liability		1,455.8	1,452.3	1,370.1	1,379.4
Pension asset	8	965.0	1,708.0	–	–
Pension liability	8	(3.9)	(3.7)	–	–
Net assets		2,416.9	3,156.6	1,370.1	1,379.4
Represented by					
Operating reserve excluding pension asset and liability	19	646.2	654.5	561.1	581.1
Pension reserve	19	961.1	1,704.3	–	–
Operating reserve		1,607.3	2,358.8	561.1	581.1
Capital reserve	19	802.6	791.1	802.6	791.1
Revaluation reserve	19	6.4	7.2	6.4	7.2
		2,416.3	3,157.1	1,370.1	1,379.4
Minority interest		0.6	(0.5)	–	–
		2,416.9	3,156.6	1,370.1	1,379.4

The balance sheets have been restated for the adoption of FRS 17 (see Note 26a).

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of the net liabilities which at 31 March 2002 amounted to £82.5million (2001: £89.2million). These liabilities have not been included in the financial statements (see Note 14d).

The financial statements were approved by the Governors and Executive Committee on 20 June 2002 and signed on their behalf by:

Gavyn Davies *Chairman*

Greg Dyke *Director-General*

John Smith *Director of Finance, Property & Business Affairs*

Statement of total recognised gains and losses

for the year ended 31 March

	Note	2002 £m	2001 as restated £m
Group (deficit)/surplus for the financial year		(15.9)	75.5
Exchange differences on retranslation of overseas subsidiaries		0.5	2.4
Actuarial loss on defined benefit pension schemes	8b	(725.4)	(708.2)
Total recognised gains and losses relating to the year		(740.8)	(630.3)
Prior year adjustment for the adoption of FRS 17	26a	1,751.5	
Total recognised gains and losses since the previous financial year		1,010.7	

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a)

Reconciliation of movement in reserves

for the year ended 31 March

	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
(Deficit)/surplus for the financial year	(15.9)	75.5	(9.3)	32.5
Other recognised gains and losses relating to the year (net)	(724.9)	(705.8)	—	—
(Decrease)/increase in reserves during the year	(740.8)	(630.3)	(9.3)	32.5
Opening reserves as previously stated	1,405.6	1,395.6	1,344.6	1,335.6
Prior year adjustment for the adoption of FRS 17	1,751.5	2,391.8	34.8	11.3
Opening reserves as restated	3,157.1	3,787.4	1,379.4	1,346.9
Closing reserves	2,416.3	3,157.1	1,370.1	1,379.4

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

Consolidated cash flow statement

for the year ended 31 March

	Note	2002 £m	2001 £m
Net cash inflow from operating activities	20	217.5	129.0
Dividends received from joint ventures and associates		1.1	–
Return on investments and servicing of finance			
Interest received		24.9	26.3
Interest paid		(2.8)	(2.1)
Net cash inflow from return on investments and servicing of finance		22.1	24.2
Taxation			
Taxation paid		(13.9)	(14.8)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(194.2)	(140.8)
Investment in programmes for future sale		(83.2)	(76.3)
Investment in intangible fixed assets		(8.7)	–
Proceeds from the sale of investments		0.6	–
Proceeds from sale of investment in programmes		5.9	–
Proceeds from the sale of tangible fixed assets		46.8	2.3
Net cash outflow from capital expenditure		(232.8)	(214.8)
Acquisitions and disposals			
Purchase of a subsidiary net of overdrafts acquired	11	(9.1)	(0.6)
Investments in joint ventures		(11.4)	–
Proceeds from sale of operations	5	9.0	18.7
Net cash (outflow)/inflow from acquisitions and disposals		(11.5)	18.1
Net cash outflow before use of liquid resources and financing		(17.5)	(58.3)
Management of liquid resources			
Net cash withdrawn from deposit	21	15.0	2.5
(Purchase)/sale of other liquid resources	21	(103.4)	4.2
Net cash (outflow)/inflow from management of liquid resources		(88.4)	6.7
Financing			
Increase in loans	21	10.3	–
Repayment of loans	21	–	–
Net cash inflow from financing		10.3	–
Decrease in cash	21, 22	(95.6)	(51.6)

The decrease in cash shown here is due to the BBC policy of investing surplus cash in short-term liquid investments. Taking cash and short-term investments together, the BBC's funds at 31 March 2002 remain at a similar level to 31 March 2001 (see Note 21).

Statement of accounting policies

This section explains the BBC's main accounting policies, which have been applied consistently, throughout the year, and with the preceding year except where stated. A footnote in italics follows some policies below to explain the technical aspects of the accounting treatment in plain English.

The financial statements have been prepared in accordance with the provisions of the BBC's Charter and Agreement. Although not mandatory, the BBC has chosen to follow the accounting and disclosure provisions of the Companies Act 1985, applicable UK accounting standards and the rules of the UK Listing Authority to ensure that its financial statements are prepared on a basis which is consistent with that of UK public limited companies.

Basis of accounting

The financial statements are presented under the historical cost accounting convention as modified by the revaluation of certain plant, machinery, furniture and fittings.

The Group has also fully adopted FRS 17, *Retirement benefits*, early. FRS 17 requires a different accounting policy for the recognition of pension costs in the financial statements compared with its predecessor, SSAP 24. Accordingly the 2001 financial statements have been restated onto a comparable basis. Note 26a provides more details of the effect of this change in accounting policy.

The BBC chooses to adopt all accounting standards early.

Basis of consolidation

The BBC Group comprises the Home Services and those subsidiaries incorporated to act solely on behalf of, and for the benefit of, the Home Services (notably Centre House Productions Limited and BBC Property Limited), BBC World Service, and the BBC's commercial subsidiary companies, BBC Worldwide Limited (BBC Worldwide), BBC Resources Limited (BBC Resources) and BBC Technology Holdings Limited (BBC Technology). The acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term interest, usually between 20% and 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of profits less losses of associates and joint ventures is included in the consolidated statement of income and expenditure and its interest in their net assets is included in the consolidated balance sheet.

A separate statement of income and expenditure reflecting the results of the Home Services has not been presented, as permitted by Section 230 of the Companies Act 1985.

These accounts of the BBC Group include the results of the Home Services, BBC World Service and all businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses where we influence their policies (associates) and those which we jointly control (joint ventures).

Investments

Investments are recorded on the balance sheet of the Home Services at cost less provision for any impairment in value. The funding of the Home Services and BBC World Service is legally separate and cross-subsidisation is not permissible. Accordingly, for the purposes of preparing the Home Services' balance sheet, the Home Services are considered to have an investment in BBC World Service equal to the net assets of BBC World Service.

Intangible fixed assets

Goodwill

Purchased goodwill (representing the excess of the fair value of the purchase consideration plus any related costs of acquisition over the fair value attributable to the separable net assets acquired) arising on acquisition of a subsidiary or business, is capitalised and amortised over its useful economic life. On the subsequent disposal or termination of a business, the surplus or deficit is calculated after charging the unamortised amount of any related goodwill. As is permitted by FRS 10, *Goodwill and intangible assets*, goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve. On disposal, goodwill previously written off against reserves is transferred to the statement of income and expenditure for the year.

Intellectual property rights

Purchased intellectual property rights are capitalised and amortised on a straight line basis over the expected useful life of the assets.

Income

Income derived from television licences, receivable from the Department of Culture, Media and Sport, represents the value of licences issued in the year. The amount which can be paid in cash to the BBC for any year cannot exceed the total amount voted by Parliament for that year. Any difference between the value of licences issued and the amount voted is adjusted in the amount of cash received in the following year. Any amounts which have not been paid to the BBC are included within debtors.

BBC Worldwide Limited income is shown net of value added tax and trade discounts and predominantly represents: licence fees from the distribution of joint productions; agency income and commission from the distribution of programmes on behalf of the BBC and other producers; income from joint venture TV channels; and income from the sale of magazines, books, videos, compact discs, tapes, DVDs and character merchandise.

BBC Resources Limited and BBC Technology Holdings Limited income is shown net of value added tax and trade discounts and predominantly represents income from the provision of equipment, facilities and services to the BBC and external customers.

BBC World Service income, primarily derived from a Grant-in-Aid from the Foreign and Commonwealth Office, is intended to meet estimated expenditure in the year but unexpended receipts for the year, within predetermined limits, are not liable to surrender.

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial and public service activities or Home and World Service activities. More information on these BBC fair trading requirements and policies can be found on pages 60 to 62 of this Report.

Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 31 March or at forward rates where related hedging contracts are in place.

Surpluses and deficits arising from the translation of assets and liabilities at these rates of exchange, together with exchange differences arising from trading, are included in the statement of income and expenditure.

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates for the year. Exchange differences arising on consolidation from the retranslation of the opening net assets of overseas subsidiaries and any related long-term foreign currency borrowings are taken directly to the operating reserve, together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end. Other exchange differences are taken to the statement of income and expenditure.

As these financial statements are prepared in sterling, the BBC's foreign currency transactions and balances must be translated, at appropriate exchange rates, into sterling. This policy states how those retranslations are included in the financial statements and is consistent with the methods used by many companies.

Pension costs

The BBC operates both defined benefit and defined contribution pension schemes for the benefit of employees.

The amounts charged as expenditure for the defined contribution scheme represent the contributions payable by the BBC for the accounting periods in respect of this scheme.

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final pensionable pay. Amounts are charged to expenditure so as to spread the cost of pensions over employees' working lives with the BBC. The assets of the BBC's main scheme are held separately from those of the Group.

As noted above, the BBC has adopted FRS 17, *Retirement benefits*, early and now recognises the position of the scheme at the balance sheet date. The impact on the results and the financial position of the Group is disclosed in Note 26a. The main difference between the figures provided under FRS 17 and SSAP 24 is that the valuation of assets in the scheme is based on market valuation rather than longer-term actuarial valuation. This means that there will be greater volatility in the pension scheme surplus as the valuation must reflect market conditions at a particular point in time. For the BBC this is 31 March each year.

The Home Services have taken advantage of the provisions included within FRS 17 and account for the scheme as if it were a defined contribution scheme. This is because it is unable to identify its share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge under FRS 17 for the Home Services therefore represents the contributions payable in the year.

On retirement, members of the BBC's main pension scheme are paid their pensions from a fund which is kept separate from the BBC Group. The BBC makes cash contributions to that fund in advance of members' retirement.

Research and development

Research and development expenditure is written off as incurred.

Tangible fixed assets

Expenditure on fixed assets is capitalised together with incremental and internal direct labour costs incurred on capital projects.

Depreciation is calculated so as to write off the cost or valuation, less estimated residual value, of fixed assets on a straight line basis over their expected useful lives. Depreciation commences from the date an asset is brought into service.

The BBC's useful lives for depreciation purposes for the principal categories of assets are:

Land and buildings

Freehold land – not depreciated

Freehold and long-leasehold buildings – **fifty years**

Short-leasehold land and buildings – **unexpired lease term**

Plant and machinery

Computer equipment – three to five years

Electrical and mechanical infrastructure – ten to twenty-five years

Other – three to ten years

Furniture and fittings

– three to ten years

Home Services' plant and machinery is stated at the estimated current replacement cost of the assets, adjusted for remaining service potential, as at 31 March 1993, or cost if acquired later, less accumulated depreciation.

BBC World Service's plant and machinery and furniture and fittings are stated at the estimated current replacement cost of the assets, as adjusted for remaining service potential, as at 1 April 1996, or cost if acquired later, less accumulated depreciation.

The BBC has revalued its assets once, when the internal market was introduced, but has chosen not to revalue its tangible assets on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. Assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

Investment in programmes for future sale

Investment in programmes for future sale is stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation of investment in programmes for future sale is charged to the income and expenditure account over the estimated average marketable life of the programme genre which is generally between five and ten years. The cost and accumulated amortisation of investment in programmes for future sale are reduced by programmes which are fully written off.

The cost of programmes for sale is charged to the income and expenditure account to match the expected timing of income from future sales.

Originated programme stocks and work in progress

Originated programme stocks and work in progress, including those commissioned from independent producers, are stated at the lower of cost and net realisable value. With the exception of the costs of

Statement of accounting policies

prepaid repeats of independent programmes, the full stock value is written off on first transmission.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads.

Net realisable value is based upon arm's length contract prices negotiated between the channel controllers and programme makers.

Acquired programmes and film stocks

The costs of acquired programmes and film stocks are written off on first transmission except to the extent that further showings are likely in the foreseeable future, when they are written off according to their expected transmission profile.

Assets and liabilities relating to acquired programmes are recognised at the point of payment or commencement of the licence period; whichever is earlier. Agreements for the future purchase of programmes whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

Other stocks

Raw materials and other physical stocks are stated at the lower of cost and net realisable value.

Operating leases

Operating lease rentals are written off on a straight line basis over the term of the lease.

An operating lease is a lease in which the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee – the BBC – has not acquired an asset but is hiring it, so the hire charge is included in the BBC's costs.

Finance leases

Assets acquired under finance leases are included within fixed assets at the total of the lease payments due over the life of the lease discounted at the rate of interest inherent in the lease. The same amount is included in creditors. Rental payments are apportioned between the finance element, which is charged against the income and expenditure account, and the capital element, which reduces the lease creditor.

A finance lease is a lease that transfers substantially all the risks and rewards of owning and operating an asset to the lessee. Effectively the lessee owns the asset and has financed it by borrowing, so the asset and borrowing are included separately in the balance sheet.

Deferred tax

Deferred tax is computed under the liability method. Full provision, without discounting, is made in respect of timing differences between certain items in the financial statements and their treatment for taxation purposes at the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is corporation tax which is not payable at a specific time but which is expected to become payable in the future.

Reserves

The value of the capital reserve is equal to the combined net book value of fixed assets of the Home Services and BBC World Service at historic cost.

The revaluation reserve reflects the difference between the net book value of fixed assets of the Home Services and BBC World Service at historic cost compared with their revalued amount.

The operating reserve is the accumulated surplus of the income and expenditure account to date.

The BBC is careful not to mix Home Services and BBC World Service reserves. Hence BBC World Service reserves are shown separately in the notes to the financial statements.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise bank deposits not repayable on demand and other short-term investments which include gilts, certificates of deposit and commercial paper.

Financial instruments

The Group does not enter into speculative derivative contracts. Some hedging contracts are undertaken in order to limit the Group's exposure to foreign exchange fluctuations. (The accounting treatment for these contracts is explained in the foreign currency translation accounting policy).

Disclosure of the Group's loans and other financial assets and liabilities is provided within the notes to the financial statements covering debtors, creditors and cash and debt balances.

Notes to the financial statements

for the year ended 31 March

Note 1 provides analysis of the different business areas within the BBC.

The Home Services Group comprises the UK public service broadcasting operation, the Home Services and those subsidiary companies incorporated to act solely on behalf of the Home Services.

BBC Worldwide Limited (BBC Worldwide) generates income from the BBC's programme assets through the distribution of television programmes, the operation of commercial channels and the publishing of magazines, books, videos and other licensed products.

BBC Resources Limited (BBC Resources) and BBC Technology Holdings Limited (BBC Technology) and their subsidiaries provide equipment, facilities and services to the BBC and external customers.

I Analysis of income, (deficit)/surplus and net assets

Ia Analysis of income, (deficit)/surplus and net assets by activity

	Note	Public services		Commercial businesses		Total £m
		Home Services Group £m	BBC World Service £m	BBC Worldwide £m	BBC Technology and BBC Resources £m	
2002						
Total income		2,698.2	211.1	659.8	357.4	3,926.5
Less:						
Intra Group income		(130.3)	(0.4)	–	(331.3)	(462.0)
Less:						
Share of joint ventures		–	–	(81.6)	–	(81.6)
Group external income	<i>ib,f</i>	2,567.9	210.7	578.2	26.1	3,382.9
(Deficit)/surplus before interest and taxation	<i>ld</i>	(30.8)	9.4	25.7	(5.4)	(1.1)
Defined benefit pension scheme						
– additional operating costs*†						(151.5)
– other finance income*						133.9
Net interest receivable*						21.6
Surplus before taxation and minority interest						2.9
Net assets (excluding pension asset and liability)		1,083.7	134.3	113.0	124.8	1,455.8
Pension asset (net)*†						961.1
Net assets						2,416.9
2001 as restated						
Total income		2,734.7	204.5	587.2	324.7	3,851.1
Less: Intra Group income		(328.4)	–	–	(290.6)	(619.0)
Less: Share of joint ventures		–	–	(67.6)	–	(67.6)
Group external income	<i>ib,f</i>	2,406.3	204.5	519.6	34.1	3,164.5
(Deficit)/surplus before interest and taxation	<i>ld</i>	(4.2)	11.2	24.7	(9.3)	22.4
Defined benefit pension scheme						
– additional operating costs*†						(133.1)
– other finance income*						169.5
Net interest receivable*						25.8
Surplus before taxation and minority interest						84.6
Net assets (excluding pension asset and liability)		1,162.9	124.5	95.4	69.5	1,452.3
Pension asset (net)*						1,704.3
Net assets						3,156.6

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

* As permitted by FRS 17 these items are not split between business classes because they are managed centrally across the whole Group and it is not possible to allocate them on a reasonable and consistent basis.

† The actual employer cash contribution to the defined benefit pension scheme is included in the (deficit)/surplus before interest and tax of each entity. The additional operating cost is the cost to the Group over and above these cash contributions.

Notes to the financial statements

Ib Analysis of public services' income

	Note	Home Services Group £m	BBC World Service £m	Total public services £m
2002				
Licence fee	Ic	2,533.0	–	2,533.0
Grant-in-Aid		–	187.9	187.9
Open University		7.7	–	7.7
Subscriptions		–	15.6	15.6
Other income		27.2	7.2	34.4
Total external income		2,567.9	210.7	2,778.6
2001				
Licence fee		2,370.8	–	2,370.8
Grant-in-Aid		–	181.8	181.8
Open University		9.1	–	9.1
Subscriptions		–	15.3	15.3
Other income		26.1	7.1	33.8
Total external income		2,406.3	204.5	2,610.8

Other income includes the provision of content and services to overseas broadcasters, concert ticket sales and exploitation of our programme archive.

Ic Licence fee

Licence fee income	2002 £m	2001 £m
Colour	2,164.3	2,052.3
Monochrome	3.4	4.2
Concessionary	0.8	2.3
Over 75s	350.0	307.7
Quarterly payment scheme premium	16.3	16.5
Other licence fee income and adjustments	(1.8)	(12.2)
	2,533.0	2,370.8

Other licence fee income and adjustments include the year-on-year impact of licences issued in the year but not in force at 31 March either through late or early renewals or through refunds.

During the year 3.3 million (2001 3.3 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2001 £5).

Licences in force are those which are still valid as at 31 March each year.

Licences in force	2002 Number m	2001 Number m
Colour	19.9	19.7
Monochrome	0.1	0.1
Over 75s	3.6	3.1
Concessionary	0.2	0.5
	23.8	23.4

Households in which one or more persons over the age of 75 reside, as their primary residence, are entitled to a free licence. The BBC is reimbursed for these free licences by the Department of Work and Pensions.

Licence fees are set by the Department of Culture, Media and Sport

Licence fees	2002 £	2001 £
Colour	109.00	104.00
Monochrome	36.50	34.50
Concessionary	5.00	5.00

From 1 April 2002 the colour and monochrome licence fees were increased to £112 and £37.50 respectively. The concessionary licence remained at £5.

Id Analysis of public services' surplus/(deficit) before interest and taxation by activity

The Home Services have one principal activity which is the provision of public service broadcasting in the UK

BBC World Service's surplus before interest and taxation is analysed as follows:

	2002 £m	2001 as restated £m
Broadcasting	8.6	10.1
BBC Monitoring	0.8	1.1
Total surplus before interest and taxation	9.4	11.2

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a)

Ie Geographical analysis of activity of public services

The public services income and surplus or deficit arises in the UK. The net assets used by the public services are located in the UK with the exception of BBC World Service net assets of £84.1 million (2001 £77.6 million) located overseas.

If Analysis of commercial businesses' income by activity

	2002	2001
Publishing and new media	331.7	300.2
Programme distribution	172.3	150.0
Channels	46.3	41.7
BBC World	25.5	25.6
beeb Ventures Limited	2.4	2.1
Provision of programme making facilities and services	148.9	324.7
Provision of technology services	208.5	–
Less intra-Group income	(331.3)	(290.6)
Total external income	604.3	553.7
Share of joint ventures	81.6	67.6
	685.9	621.3

The reduction in commercial income from the provision of programme making facilities and services is due to the re-integration of a significant part of BBC Resources into the Home Services in April 2001.

Technology services were provided by a division of the Home Services in 2001. These services are now provided by BBC Technology.

This table shows where the customers of our commercial businesses are based. All commercial income arises in the UK as this is where BBC Worldwide acquires the rights it exploits and where the skills and services of BBC Technology and BBC Resources are developed.

Ig Geographical analysis of activity of commercial businesses

	United Kingdom £m	Americas £m	Rest of the world £m	Total £m
2002				
Income by destination	348.6	110.5	145.2	604.3
Surplus before interest and taxation	6.9	0.7	12.7	20.3
Net assets	195.4	42.4	–	237.8
2001 as restated				
Income by destination	330.3	85.7	137.7	553.7
Surplus before interest and taxation	6.9	5.1	3.4	15.4
Net assets	126.9	38.0	–	164.9

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

2 Operating expenditure

2a Analysis of operating expenditure by activity

	Note	Total 2002 £m	Total 2001 as restated £m
Home Services Group	2b	2,602.1	2,410.5
BBC World Service	2c	204.6	193.3
BBC Worldwide	2d	568.9	514.0
BBC Technology and BBC Resources	2d	29.2	43.4
Additional defined benefit pension scheme operating costs		151.5	133.1
		3,556.3	3,294.3

The 2001 figures have been restated to reflect the adoption of FRS 17 (see Note 26a).

As permitted by FRS 17 the non-cash operating costs are not split between the business activities as it is not possible to do this on a reasonable and consistent basis.

BBC World Service expenditure of £201.6million excludes £0.1million of expenditure on intra-Group activities.

2b Home Services Group expenditure

	2002 £m	2001 as restated £m
Analogue services		
BBC One	961.7	919.7
BBC Two	410.5	397.9
National and Regional Television	252.3	199.7
National, Regional and Local Radio	164.3	160.0
BBC Radio 1	38.1	41.1
BBC Radio 2	42.7	39.2
BBC Radio 3	52.6	53.3
BBC Radio 4	89.6	84.4
BBC Radio Five Live	77.0	68.9
Asian Network	1.5	1.2
	2,090.3	1,965.4
Digital services		
CBBC, CBeebies	19.7	2.2
BBC Choice	52.6	43.3
BBC News 24	50.3	47.6
BBC Parliament	3.9	3.3
BBC Four (previously BBC Knowledge)	32.4	18.6
Digital text and interactive television	11.2	10.2
Digital Radio	7.8	4.4
BBCi on the internet	100.4	54.2
	278.3	183.8
Licence fee collection costs	95.4	131.9
Transmission costs	127.2	118.3
Home Services – broadcasting expenditure	2,591.2	2,399.4
– non-broadcasting expenditure	10.9	11.1
Total	2,602.1	2,410.5

The figures for 2001 have been restated to reflect the adoption of FRS 17 (see Note 26a).

£0.7million (2001 £2.2million) relating to the block of children's programmes previously shown on BBC Choice have been removed from the costs of BBC Choice and restated against the new children's channels launched in February 2002.

2b Home Services Group expenditure *continued*

In addition £2.4million (2001 £10.1million) of BBC One and BBC Two Digital costs previously reported within Digital Services have been included with the analogue service costs for 2001 and 2002. This represents the cost of playout and special equipment which has become standard for all services.

There was increased investment in national and regional television to deliver a richer mix of drama, entertainment and popular factual output.

The expenditure on Radio 1 in 2000/2001 includes the cost of a significant marketing campaign which was not repeated in 2001/2002. Investment in programme output is consistent across the two years.

BBC Choice output has included a higher level of original drama and entertainment in 2002.

BBC Four was launched in March 2002. Costs are significantly higher than those of BBC Knowledge due to high levels of original programming as well as one-off launch costs.

Investment increased in BBCi on the internet (formerly BBC Online) to improve websites which support and enhance other programme output and to develop the BBC digital curriculum.

Licence fee collection costs have been significantly reduced in 2002 by a rebate from Consignia for non-performance of contractual obligations. The BBC expects to spend this amount in 2003 on a new database. **Savings have also been made in the costs associated with the change in the licence fee collection contractor which we anticipated and set aside in 2001. Further savings have been achieved through more focused marketing activity.**

Of the transmission costs, £52.5million relate to digital services and £74.7million to analogue services.

The principal elements of the non-broadcasting expenditure are Open University Production Centre, BBC Property Limited and Centre House Productions Limited costs.

2c BBC World Service expenditure

	2002 £m	2001 as restated £m
Radio	142.1	136.7
Monitoring	22.6	21.3
Transmission costs	30.6	30.2
Internet activity	9.3	5.1
Total	204.6	193.3

The figures for 2001 have been restated to reflect the adoption of FRS 17 (see Note 26a).

The expenditure shown for commercial businesses relates only to commercial income and excludes expenditure relating to sales within the BBC.

2d Commercial businesses' expenditure

	Note	BBC Worldwide		BBC Technology and BBC Resources	
		2002 £m	2001 as restated £m	2002 £m	2001 as restated £m
Cost of sales		299.4	270.6	24.0	27.9
Distribution costs		147.0	135.7	-	-
Administrative and other costs		36.1	32.9	5.2	15.5
Amortisation of programme investment	13	86.4	74.8	-	-
		568.9	514.0	29.2	43.4

The figures for 2001 have been restated to reflect the adoption of FRS 17 (see Note 26a).

3 Operating deficit

The operating deficit is stated after charging the following items:

	2002 £m	2001 £m
Payments under operating leases:		
– land and buildings	26.4	22.9
– plant and machinery	9.6	8.7
– other	18.4	22.8
Research and development	15.2	14.6
Programme development	23.7	21.4
Depreciation		
– owned assets	121.8	114.8
– leased assets	10.9	–
Loss on disposal of tangible fixed assets	1.4	6.5
Amortisation of investment in programmes for future sale	86.4	74.8
Amortisation of intangible fixed assets	1.4	–
Auditors' remuneration:		
– financial audit – Home Services	0.4	0.4
– other	0.5	0.5
– consultancy and advisory	0.7	0.5
Fair trading auditors' remuneration	0.3	0.3

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2002 Number	2001 Number
Home Services Group	18,606	16,808
BBC World Service	1,797	1,696
BBC Worldwide	2,170	1,958
BBC Technology and BBC Resources	2,995	3,667
Group total	25,568	24,129

Within the averages above, 2,166 (2001 2,015) part-time employees have been included at their full-time equivalent of 1,238 (2001 1,176).

In addition to the above, the Group employed an average full-time equivalent of 1,043 (2001 1,113) persons on a casual basis and the BBC Orchestra and Singers, employed on programme contracts, numbered 382 (2001 374) full-time equivalent.

On 31 March 2001 the equivalent of 387 full-time employees transferred to BBC Technology from the Home Services. This transfer is not reflected in the average for 2001.

A further 1,035 employees (1,012 full-time equivalent) transferred from BBC Resources to the Home Services on 1 April 2001. This transfer is reflected in the average for 2002.

4b Staff costs

	Note	2002 £m	2001 as restated £m
Salaries and wages		895.1	823.4
Social security costs		77.9	73.2
Pension costs			
– main scheme (defined benefit)	8	177.2	154.0
– other schemes	8	2.3	2.8
Redundancy costs		29.6	34.6
		1,182.1	1,088.0
Comprising:			
Home Services Group		758.3	672.5
BBC World Service		65.4	61.5
BBC Worldwide		92.1	83.3
BBC Technology and BBC Resources		114.8	137.6
Main pension scheme additional operational cost (defined benefit)		151.5	133.1
		1,182.1	1,088.0

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

The actual employer cash contributions to the defined benefit pension scheme are borne by each business. The additional operating cost is the cost to the Group over and above these contributions. It is not possible to allocate this to each business on a reasonable and consistent basis.

4c Remuneration of the Board of Governors and Executive Committee

The emoluments of the Governors and of the Executive Committee members are disclosed on pages 66 to 69 in the Governors' remuneration report.

5 Profit and losses on sale and termination of operations

	2002 £m	2001 £m
beeb Ventures Limited		
– partial disposal	9.0	17.1
– termination cost	(1.3)	–
BBC for Business	–	1.1
	7.7	18.2

During 2002 the Group made a further partial disposal of shares in beeb Ventures Limited, the subsidiary owning its internet retail site beeb.com and the internet service provider beeb.net. The transaction gave rise to income totalling £9.0million in the year (2001 £20.2million) against which a cost of £nil was incurred (2001 £3.1million).

Profits on these partial disposals of beeb Ventures Limited were part of a linked arrangement with a third party, under which profits on a partial disposal were structured to offset start-up operating losses of this company.

Subsequently, on 22 April 2002 BBC Worldwide announced its intention to terminate the beeb.com business and exit the internet shopping sector. Certain beeb.com websites will be integrated into BBC Worldwide's core operations, operating as marketing rather than transactional websites. Following this decision, termination costs of £1.3million have been provided for in the income and expenditure account in the year ended 31 March 2002.

6 Profit on disposal of fixed assets

6a Profit on disposal of intangible fixed assets

During 2002 the Group disposed of its remaining rights in the *Noddy* and *Wallace and Gromit* brands, together with trademarks associated with *The Clothes Show*. These intangible fixed asset disposals gave rise to net profits totalling £7.3million.

6b Profit/loss on disposal of tangible fixed assets

During 2002 BBC World Service sold a property in Singapore which had been fully depreciated. This transaction realised a profit of £3.3million. The sales proceeds were reinvested in the new transmitter site in Oman, with the agreement of the Foreign and Commonwealth Office.

BBC Technology disposed of various fixed assets resulting in a loss of £2.3million during the year.

6c Profit on disposal of investments

During 2002 the Eurosport Consortium, in which the BBC holds an interest, disposed of its 50% shareholding in SETS (which owns the Eurosport trademark) to TFI, a French broadcasting company, resulting in a net profit to the Group of £3.4million.

7 Net interest receivable

	2002 £m	2001 £m
Interest receivable	24.6	27.9
Interest payable on bank and other loans	(2.8)	(2.1)
Finance charges payable in respect of finance leases	(0.2)	–
Net interest receivable	21.6	25.8

8 Pensions

8a Pension charge

The Group operates several pension schemes. The BBC Pension Scheme and a small unfunded pension scheme, which is closed to new members, are contributory defined benefit schemes. Additionally a Group personal pension scheme and other small schemes provide staff with a defined contribution scheme. The total pension charge included within operating costs for the year under all schemes is £179.5million (2001 £156.8million).

8b Principal scheme

The BBC Pension Scheme is the main pension scheme of the BBC Group and covers the majority of employees. This scheme provides salary-related pension benefits on a defined benefit basis from assets held in separate, trustee-administered, funds.

The scheme is subject to independent valuation by a professionally qualified actuary at least every three years, on the basis of which the actuary certifies the rate of employer's contributions. These, together with the specified contributions payable by employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme. The most recent full actuarial valuation of the scheme was prepared as at 1 April 1999 by Watson Wyatt, consulting actuaries, using the projected unit method. An interim valuation has been produced by Watson Wyatt as at 31 March each year. The major assumptions used by the actuary at each valuation were:

	2002	2001	2000
Rate of increase in salaries	4.7%	4.5%	5.0%
Rate of increase in pension payments	2.7%	2.5%	3.0%
Inflation assumption	2.7%	2.5%	3.0%
Discount rate	6.0%	6.0%	6.2%

Under this scheme the employees receive a pension based on their final salary. The BBC must ensure that the pension fund is adequately funded to meet future pension payments.

An estimate of future inflation and salary increases is used to forecast the cost of funding future pensions of pension scheme members.

This table shows the value of the assets owned by the pension scheme and the rate of growth the trustees expect in the following year.

8b Pensions *continued*

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31 March 2002	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2001	Value at 31 March 2001 £m	Long-term rate of return expected at 31 March 2000	Value at 31 March 2000 £m
Equities	7.5%	4,421	7.0%	4,655	7.0%	5,291
Bonds and gilts	5.2%	908	4.7%	939	5.0%	969
Property	6.3%	606	6.0%	606	6.0%	548
Cash	4.7%	284	4.5%	279	5.0%	299
Total market value of assets		6,219		6,479		7,107
Present value of scheme liabilities		(5,254)		(4,771)		(4,730)
Surplus in the scheme		965		1,708		2,377
Related deferred tax liability		-		-		-
Net pension asset		965		1,708		2,377

A deferred tax asset will not arise for the Group, mainly due to the fact that most of the Group's public service activity is not subject to taxation.

The current service cost is the cost to the BBC of pension rights earned by employees in the year.

The amounts here are estimates based on predictions of future performance and economic conditions.

The actuarial gains and losses are those resulting from actual performance being different from that predicted – for example from changes in economic conditions or the demographic profile of BBC employees.

	2002 £m	2001 £m
Analysis of amount charged to operating expenditure		
Current service cost	132.3	138.3
Past service cost	44.9	15.7
Total operating charge	177.2	154.0
Analysis of amount credited to other finance income		
Expected return on pension scheme assets	416.4	457.9
Interest on pension scheme liabilities	(282.5)	(288.4)
Net return	133.9	169.5
Analysis of amount recognised in statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	(532.0)	(950.9)
Experience gains and losses arising on the scheme's liabilities	26.6	35.7
Changes in assumptions underlying the present value of the scheme liabilities	(220.0)	207.0
Actuarial loss recognised in the statement of total recognised gains and losses	(725.4)	(708.2)
Movement in surplus during the year		
Surplus in scheme at beginning of year	1,708.0	2,377.0
Movement in year:		
– current service cost	(132.3)	(138.3)
– contributions	25.7	23.7
– past service costs	(44.9)	(15.7)
– other finance income	133.9	169.5
– actuarial loss	(725.4)	(708.2)
Surplus in scheme at end of year	965.0	1,708.0

The full actuarial valuation at 31 March 1999 showed the market value of the assets of the scheme to be £6,294million, sufficient to cover 114% of the benefits due to members. There have been no significant changes to members' benefits since that time. Contributions have remained steady at 4.5% of pensionable pay. It has been agreed with the trustees that contributions will remain at that level for the next year.

This note is designed to show trends over several years. Only two years are currently available since the adoption of FRS 17.

8b Pensions *continued*

History of experience gains and losses	2002	2001
Difference between the expected and actual return on scheme assets:		
Amount (£million)	532.0	950.9
Percentage of scheme assets	8.6%	14.7%
Experience gains and losses on scheme liabilities:		
Amount (£million)	(26.6)	(35.7)
Percentage of the present value of the scheme liabilities	0.5%	0.7%
Total amount recognised in the statement of total recognised gains and losses:		
Amount (£million)	725.4	708.2
Percentage of the present value of the scheme liabilities	13.8%	14.8%

Home Services

The Home Services have taken advantage of the provisions within FRS 17 and account for the scheme as if it were a defined contribution scheme. This is because it is not possible to identify their share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge for Home Services therefore represents the contributions payable in the year. These contributions benefit from the surplus in the scheme and are lower than the regular cost.

8c Other schemes

The small unfunded pension scheme is valued using assumptions which are the same as those for the main scheme. At 31 March 2002 the obligation was £3.9million (2001 £3.7million) which is fully provided for in the accounts. The current cost for the year for this scheme was £0.2million (2001 £0.8million).

The total charge for the Group personal pension scheme and other defined contribution schemes totalled £2.1million (2001 £2.0million).

9 Taxation

9a Analysis of charges for the period

The charge for the year, based on a rate of corporation tax of 30% (2001 30%), comprised:

Note	2002 £m	2001 £m
Current tax		
UK corporation tax	9.8	9.2
Adjustments in respect of previous years	-	(5.9)
	9.8	3.3
Foreign tax	7.6	6.3
Share of associates tax	0.3	0.3
Total current tax	17.7	9.9
Deferred tax		
Origination and reversal of timing differences	2.8	1.8
Adjustments in respect of previous years	(2.8)	(2.1)
Total deferred tax	-	(0.3)
Charge for the year	17.7	9.6

9b Factors affecting the tax charge

The Group is only liable to taxation on those activities carried out with a view to making a profit and on rent, royalties and interest receivable. The BBC does not therefore receive relief for all its expenditure, and the tax assessed for the year consequently differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Note	2002 £m	2002 £m	2001 £m	2001 as restated £m
Surplus before tax			2.9		84.6
Surplus before tax multiplied by standard rate of corporation tax in the UK of 30% (2001 30%)			0.9		25.4
Effects of					
Public services taxable external income			6.5		7.5
FRS 17 net Group pension charge/(credit)			5.2		(10.9)
Prior year adjustment for adoption of FRS 17	26a		-		(9.5)
<i>Commercial activities</i>					
Non-taxable income		(3.9)		(4.5)	
Disallowed expenditure		1.6		1.6	
Depreciation in excess of capital allowances		1.8		1.5	
Non-taxable profit on sale of shares		-		(1.5)	
Tax losses not Group relieved		1.4		3.4	
Tax differential re overseas earnings		4.4		2.1	
Other		(0.2)		0.7	
Adjustments in respect of previous periods			-	(5.9)	
			5.1		(2.6)
Current tax charge for the year	9a		17.7		9.9

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a)

9c Factors that may affect future tax charges

The Group anticipates that the future tax charge will not alter materially since all licence fee income is free of tax.

9d Deferred tax analysis

In accordance with FRS 19, *Deferred tax*, the Group provides for all deferred tax liabilities in full but does not recognise deferred tax assets.

	Note	2002 £m	2001 £m
Deferred tax provision			
Provision at start of year		-	0.5
Exchange adjustment		-	(0.2)
Deferred tax (credit)/charge	9a	-	(0.3)
Provision at end of year		-	-
Deferred tax asset/(liability) not provided			
Accelerated capital allowances		1.5	0.2
Pension accruals		-	(1.0)
Other timing differences		0.8	-
US timing differences		1.8	0.8
		4.1	-

Goodwill is the difference between the value paid for a business and the fair value of its net assets. It represents the amount the purchaser is prepared to pay for the name and reputation of the business and its expected future profit streams.

10 Intangible fixed assets

	Intellectual property rights £m	Goodwill £m	Total £m
Cost			
At 1 April 2001	–	0.5	0.5
Additions	8.7	7.6	16.3
At 31 March 2002	8.7	8.1	16.8
Amortisation			
At 1 April 2001	–	–	–
Charge for the year	1.1	0.3	1.4
At 31 March 2002	1.1	0.3	1.4
Net book value			
At 31 March 2002	7.6	7.8	15.4
At 31 March 2001	–	0.5	0.5

Goodwill of £6.8million has arisen on the acquisition of Chivers Communications Limited (see Note 11).

An adjustment has been made to goodwill on Cover to Cover Cassettes Limited to reflect increased loan note obligations of £0.8million. The adjustment is included within additions for the year.

Goodwill is amortised on a straight line basis over 20 years reflecting the useful economic life, subject to reviews for impairment.

BBC Technology acquired the intellectual property rights to use software licences for £8.7million during the year. These are amortised on a straight line basis over three years reflecting the life of the licence.

11 Acquisitions

On 2 July 2001 the Group acquired 100% of the share capital of Chivers Communications Limited for £9.1million. In addition, further deferred consideration of £0.8million has been provided in respect of the acquisition of Cover to Cover Cassettes Limited, acquired on 1 December 2000.

	Fair value £m
Tangible fixed assets	0.6
Current assets	1.7
	2.3
Goodwill	7.6
Fair value of net assets acquired	9.9
Satisfied by:	
Cash consideration	9.1
Deferred consideration	0.8
Total consideration	9.9
The net outflow of cash in respect of the purchase of subsidiary undertakings is as follows:	
Cash consideration	9.1
Overdrafts of subsidiary undertakings purchased	0.9
	10.0

Chivers Communications contributed turnover of £10.3million and operating profit of £1.1million to the results for the year ended 31 March 2002. The company made an operating profit of £0.3million from the beginning of the financial year, 1 February 2001, to the date of acquisition. In its previous financial year the operating profit was £0.4million. There is no difference between the book value, as recorded in the records of Chivers Communications prior to the acquisition, and the fair value of the assets acquired.

12 Tangible fixed assets

12a The Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2001	533.1	790.5	119.9	91.1	1,534.6
Reclassification	–	0.7	(0.7)	–	–
Acquisitions	0.4	0.1	0.1	–	0.6
Additions	4.3	74.9	9.6	96.0	184.8
Brought into service	10.0	49.4	3.7	(63.1)	–
Disposals	(89.9)	(39.3)	(10.2)	(17.6)	(157.0)
At 31 March 2002	457.9	876.3	122.4	106.4	1,563.0
Depreciation					
At 1 April 2001	192.8	465.9	58.9	–	717.6
Reclassification	–	0.5	(0.5)	–	–
Charge for the year	14.3	104.3	14.1	–	132.7
Elimination in respect of disposals	(8.1)	(30.6)	(9.4)	–	(48.1)
At 31 March 2002	199.0	540.1	63.1	–	802.2
Net book value					
At 31 March 2002	258.9	336.2	59.3	106.4	760.8
At 31 March 2001	340.3	324.6	61.0	91.1	817.0

Home Services' plant and machinery was revalued at 31 March 1993, prior to the introduction of the internal market. The valuation was based on the estimated current replacement cost of the assets, adjusted for service potential.

BBC World Service's plant and machinery and furniture and fittings were revalued at 1 April 1996 on the same basis.

Following the introduction of FRS 15, *Tangible fixed assets*, the assets were retained at their valuation as adjusted for depreciation. The Group does not plan to revalue assets on an ongoing basis. There is no material difference between the net book value of tangible fixed assets included in the previous table and their value as determined on a historical cost basis.

Included within plant and machinery are £19.6million (2001 £nil) of assets held under finance leases.

Included within fixed assets is £24million at cost relating to a relay station in Thailand used by BBC World Service. These assets are transferable to the Royal Thai Government in return for the payment of a nominal sum. BBC World Service will retain the right to repurchase the assets, should the operation cease, for a similar nominal sum. The use of these assets is not affected by this transaction and therefore they will continue to be carried at cost less attributable depreciation in the balance sheet.

12b Home Services

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2001	386.8	313.8	68.8	44.5	813.9
Additions	3.0	16.6	7.3	57.3	84.2
Brought into service	7.0	22.9	3.1	(33.0)	-
Transfers from subsidiaries	7.0	94.2	17.9	1.7	120.8
Disposals	(3.8)	(18.1)	(3.8)	(15.4)	(41.1)
At 31 March 2002	400.0	429.4	93.3	55.1	977.8
Depreciation					
At 1 April 2001	155.4	174.0	18.1	-	347.5
Charge for the year	10.8	43.9	10.0	-	64.7
Transfers from subsidiaries	2.8	45.3	16.2	-	64.3
Elimination in respect of disposals	(0.8)	(15.7)	(3.0)	-	(19.5)
At 31 March 2002	168.2	247.5	41.3	-	457.0
Net book value					
At 31 March 2002	231.8	181.9	52.0	55.1	520.8
At 31 March 2001	231.4	139.8	50.7	44.5	466.4

Transfers from subsidiaries represents assets transferred from BBC Resources on the re-integration of a significant part of BBC Resources into the Home Services in April 2001.

Included within plant and machinery are £19.8million (2001 £nil) of assets held under finance leases with another Group company.

12c Land and buildings at net book value comprise:

	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
Freeholds	226.0	307.9	210.1	211.8
Long leaseholds	9.9	10.2	9.9	10.2
Short leaseholds	23.0	22.2	11.8	9.4
	258.9	340.3	231.8	231.4

During the year a review of all long and short leasehold buildings was carried out which resulted in some reclassifications. The prior year comparatives have been restated in accordance with this review.

There has been no impairment in the carrying values of freehold properties at the balance sheet date.

Land and buildings in the Group include freehold land at a cost of £34.8million (2001 £64.7million) and in the Home Services £30.6million (2001 £30.4million), none of which is depreciated.

13 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2001	289.2
Exchange adjustment	1.3
Additions	83.2
Disposals	(3.1)
Financing benefit	(0.6)
Elimination of programmes fully amortised	(46.2)
At 31 March 2002	323.8
Amortisation	
At 1 April 2001	172.0
Exchange adjustment	1.0
Charge for the year	86.4
Disposals	(1.2)
Elimination of programmes fully amortised	(46.2)
At 31 March 2002	212.0
Net book value	
At 31 March 2002	111.8
At 31 March 2001	117.2

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £80.5million direct investment in BBC programmes.

Included in the net book value is £4.2million relating to investments held under a licence agreement (2001 £3.7million). The financing benefit relates to monies received for tax credits on investments in sale and leaseback programmes.

14 Other investments (including BBC World Service net assets)

14a Movements in the year for the Group

	Interests in joint ventures Note 14d £m	Interests in associates Note 14e £m	Other investments £m	Total Group £m
At 1 April 2001	0.4	1.0	0.4	1.8
Additions	2.2	3.6	-	5.8
Goodwill	9.2	-	-	9.2
Share of retained profits/(losses)	4.7	(28.2)	-	(23.5)
Dividend received	(0.5)	(0.6)	-	(1.1)
Adjustment to reflect effective obligations	(4.5)	29.1	-	24.6
At 31 March 2002	11.5	4.9	0.4	16.8

In October 2001, the BBC formed a joint venture with Land Securities Trillium (LST), the Insight Property Partnership, which will provide a range of property and development services to the BBC. The BBC contributed partnership capital of £100 to the Insight Property Partnership, giving rise to goodwill of £9.2million. In addition, the BBC entered into a related partnership with LST which will develop part of the White City site, the White City Development Partnership. The cost of the BBC's investment in this associate was £3.6million and no goodwill arose.

In March 2002, the BBC and LST acquired an additional property in the White City area through a separate joint venture. The BBC contributed £2.2million cash to the joint venture to purchase the property. No goodwill arose on the creation of this joint venture.

14b Movements in the year for Home Services

	Interest in BBC World Service net assets as restated £m	Shares in subsidiaries £m	Interests in joint ventures £m	Other investments £m	Total £m
At 1 April 2001	124.5	92.3	–	122.7	339.5
Accumulated surplus	9.8	–	–	–	9.8
Additions	–	63.0	9.2	–	72.2
Disposals	–	–	–	(122.3)	(122.3)
At 31 March 2002	134.3	155.3	9.2	0.4	299.2

The new figure has been restated for the adoption of FRS 17 (see Note 26a).

Additions to shares in subsidiaries represent 63,000,000 ordinary shares issued at £1 each on 29 June 2001 to enable BBC Technology to finance the acquisition of the business from the BBC.

Disposals in other investments comprised £122.3million in loans paid back by the subsidiary undertakings following the transfer of fixed assets from Home Services in 2001.

Subsidiary undertakings are businesses we control.

14c Subsidiary undertakings

The Home Services own 100% of the issued ordinary share capital of the following companies which are incorporated in Great Britain:

Cost	2002 £m	2001 £m
BBC Worldwide Limited	0.3	0.3
BBC Subscription Television Limited (dormant)	–	–
BBC Investments Limited (dormant)	–	–
BBC News Limited	–	–
BBC Property Limited	1.0	1.0
BBC Property Investments Limited	–	–
BBC Property Development Limited (dormant)	–	–
BBC Resources Limited	91.0	91.0
BBC Technology Holdings Limited	63.0	–
Centre House Productions Limited	–	–
BBC Digital Programming Services Limited	–	–
BBC Broadcast Limited	–	–
	155.3	92.3

Others

The Group also holds the controlling interest in the following principal subsidiary undertakings which, except where otherwise stated, are incorporated in Great Britain:

	Holding of issued ordinary shares %
Held by BBC World Service:	
BBC East Asia Relay Company Limited (incorporated in Hong Kong)	100
BBC Radiocom (Bulgaria) EOOD (incorporated in Bulgaria)	100
BBC Radiocom (Hungary) KFT (incorporated in Hungary)	100
BBC Radiocom (Praha) s.r.o. (incorporated in the Czech Republic)	100
BBC Radiocom (Slovakia) s.r.o. (incorporated in the Slovak Republic)	100
BBC Romania SRL (incorporated in Romania)	100
BBC Polska Sp. z o.o. (incorporated in Poland)	100
BBC do Brazil Limitada (incorporated in Brazil)	100
BBC Radiocom Deutschland GmbH (incorporated in Germany)	100
BBC Croatia d.o.o. (incorporated in Croatia)	100
BBC World Service Trust*	

* The BBC World Service Trust is a charitable company limited by guarantee, of which the BBC is the sole member.

14c Subsidiary undertakings *continued*

	Holding of issued ordinary shares %
Held by BBC Technology Holdings Limited:	
BBC Technology Limited	100
BBC Technology Services Limited	100
BBC Technology Supply Limited	100
Kingswood Warren Ventures Limited	100
BBC Technology Holdings LLC (incorporated in the USA)	100
BBC Technology Consultancy LLC (incorporated in the USA)	100
Held by BBC Worldwide Limited:	
Publishing	
BBC Magazines Inc. (incorporated in the USA)	100
Galleon Limited	100
Broadcasting Dataservices Limited	75
Cover to Cover Cassettes Limited	100
Chivers Communications Limited	100
Programme distribution	
BBC Worldwide Americas Inc. (incorporated in the USA)	100
BBC Worldwide Music Limited	100
UK Programme Distribution Limited	95
BBC Worldwide Japan KK Limited (incorporated in Japan)	100
BBC Worldwide (France) SARL (incorporated in France)	100
BBC Worldwide (Germany) GMBH (incorporated in Germany)	100
BBC Worldwide (India) Private Limited (incorporated in India)	100
BBC Worldwide (Singapore) Private Limited (incorporated in Singapore)	100
BBC Worldwide Canada Limited (incorporated in Canada)	100
Channels	
New Video Channel America LLC (incorporated in the USA)	100
European Channel Broadcasting Limited	100
European Channel Management Limited	100
Investment companies	
Worldwide Americas Investments Inc. (incorporated in the USA)	100
BBC Worldwide Investments Limited	100
BBC World Service Television Limited	100
Worldwide Channel Investments Limited	100
Worldwide Channel Investments (Europe) Limited	100
Worldwide Channel Investments (Australia) Pty Limited (incorporated in Australia)	100
Worldwide Channel Investments (Ontario) Limited (incorporated in Canada)	100
Internet	
beeb Ventures Limited	86.9

Joint ventures are businesses we jointly control with other parties

14d Interests in joint ventures

The Group, through its subsidiary BBC Worldwide, has major partnership deals with Flextech, the content division of Telewest Communications plc, for the production and marketing of subscription channels in the UK, and with Discovery Communications Inc. (Discovery) for incorporating new channels around the world and providing new co-production funding for programmes. These alliances operate joint ventures, listed below:

Name of entity	Nature of entity	Partner	Date entered
UK Channel Management Limited	Joint venture	Flextech	April 1997
UK Gold Holdings Limited	Joint venture	Flextech	April 1997
UKTV New Ventures Limited	Joint venture	Flextech	October 2001
JV Programmes LLC	Joint venture	Discovery	March 1998

In addition to the arrangements with Flextech and Discovery, BBC Haymarket Exhibitions Limited is included in the joint venture total and is accounted for separately from the Flextech and Discovery joint ventures, as are the LST joint ventures (see Note 14a).

The Group share of turnover for Haymarket was £6.4million (2001 £6.4million) and operating surplus was £0.3million (2001 £0.6million).

The following disclosures are based on results for the year ended 31 December 2001 for the Flextech, Discovery and Haymarket joint ventures and 31 March 2002 for the LST joint ventures. The amounts disclosed represent the Group's equity shares of the assets and liabilities of the entities.

BBC Group share of:	UK Gold Holdings Limited* £m	UK Channel Management Limited* £m	Other joint ventures £m	Total joint ventures £m
2002				
Turnover	34.8	28.4	18.4	81.6
Profit/(loss) before tax	13.2	(3.0)	(1.9)	8.3
Taxation	(3.4)	–	(0.2)	(3.6)
Profit/(loss) after tax	9.8	(3.0)	(2.1)	4.7
Fixed assets	–	0.1	2.2	2.3
Goodwill	–	–	9.2	9.2
Current assets	14.2	14.0	19.6	47.8
Liabilities less than one year	(9.4)	(7.1)	(11.6)	(28.1)
Liabilities more than one year	(46.0)	(44.6)	(11.6)	(102.2)
Adjustment to reflect effective obligations	41.2	37.6	3.7	82.5
Net book value	–	–	11.5	11.5
2001				
Turnover	31.7	20.6	15.3	67.6
Profit/(loss) before tax	7.2	(8.8)	0.6	(1.0)
Taxation	(2.4)	–	(0.2)	(2.6)
Profit/(loss) after tax	4.8	(8.8)	0.4	(3.6)
Fixed assets	–	0.1	–	0.1
Current assets	27.7	13.2	15.7	56.6
Liabilities less than one year	(9.5)	(7.7)	(5.2)	(22.4)
Liabilities more than one year	(71.5)	(40.1)	(10.5)	(122.1)
Adjustment to reflect effective obligations	53.3	34.5	0.4	88.2
Net book value	–	–	0.4	0.4

* The figures for 2002 are based on unaudited financial statements (2001 unaudited).

Under the terms of the agreements with Flextech and Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2002 (2001 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation.

Associates are businesses over which we exert significant influence but do not have overall control.

14e Interests in associates

The Group holds significant interests in the following principal associates which, except where otherwise stated, are incorporated in Great Britain:

	Holding of issued ordinary shares %
Held by Home Services:	
Parliamentary Broadcasting Unit Limited	33
Broadcasters Audience Research Board Limited	*
The Commonwealth Broadcasting Association	
Radio Joint Audience Research Limited (RAJAR)	50
Delta Ventures Limited	20
Held by BBC World Service:	
Caribbean Relay Company Limited (incorporated in Antigua)	45
Multimedia Ventures Limited	50
WRG-FM SA (incorporated in Switzerland)	40
Held by BBC Worldwide Limited:	
<i>Publishing</i>	
Frontline Limited	23
<i>Programme distribution</i>	
The Sales Consortium Limited	25
Tele Alliance Limited	25
Channels	
UK TV Pty Limited (incorporated in Australia)	20
Animal Planet (Latin America) LLC (incorporated in the USA)†	50
People and Arts (Latin America) LLC (incorporated in the USA)†	50
Animal Planet LLC (incorporated in the USA)†	20
JV Network LLC (incorporated in the USA)†	50
Animal Planet (Asia) LLC (incorporated in the USA)†	50
Animal Planet Europe Partnership†	50
Animal Planet Japan KK (incorporated in Japan)†	33
Animal Planet Japan LLP (incorporated in the USA)†	50
Jasper Broadcasting Limited (incorporated in Canada)	20
Jasper Junior Broadcasting Inc (incorporated in Canada)	20
Animal Planet Canada Company ULC (incorporated in Canada)†	23
Held by BBC Resources Limited:	
3sixtymedia Limited	10
Held by BBC Property Limited:	
White City Development Partnership	**

* Broadcasters Audience Research Board Limited and The Commonwealth Broadcasting Association are companies limited by guarantee, of which the BBC is a joint member with other broadcasters.

† Discovery associates.

** 50% partnership share.

14e Interests in associates *continued*

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2001 and the remaining associates' disclosures are based on the results at the date of their individual financial statements. These additional disclosures represent the Group's equity share of assets and liabilities of those entities.

	2002 £m	2001 £m
BBC Group interests in associates		
Share of turnover	39.1	32.5
Share of fixed assets	61.4	45.6
Share of current assets	23.9	28.6
Share of liabilities due within one year	(22.3)	(19.5)
Share of liabilities due after more than one year	(104.9)	(85.7)
Adjustment to reflect effective obligation	46.8	32.0
Net interests in associates	4.9	1.0

The results include the Group share of the operating profit of UK TV Pty Limited of £0.1million (2001 £0.1million) and Frontline Limited of £1.0million (2001 £0.2million). Both are accounted for separately from the Discovery associates.

Under the terms of the agreements with Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2002 (2001 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation, with the exception of JV Network LLC. JV Network LLC was formed for the purpose of providing debt funding from Discovery to the other Discovery joint ventures and BBC Worldwide is not entitled to any profits arising within this entity.

15 Stocks

	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
Raw materials	2.4	3.0	–	–
Work in progress:				
– originated programmes	254.5	235.6	254.5	235.5
– other	6.6	5.6	0.1	–
Finished programmes:				
– acquired programmes and films	89.0	92.5	89.0	92.5
– originated programmes	80.7	49.1	80.7	49.1
Other	16.2	11.8	1.0	0.9
Total	449.4	397.6	425.3	378.0

The 2001 figures have been restated to reclassify programme loss provisions of £8.5million, previously reported within other provisions, against originated programme work in progress (see Note 26b).

The increased levels of originated programme work in progress and finished programme stock reflect the launch of new television channels.

16 Debtors

	Group 2002 £m	Group 2001 £m	Home Services 2002 £m	Home Services 2001 £m
Receivable within one year				
Trade debtors	146.4	163.7	27.5	22.3
Department of Culture, Media and Sport – licence fee debtors	255.5	272.9	255.5	272.9
Amounts owed by subsidiaries	–	–	58.1	98.5
Amounts owed by associates and joint ventures	9.2	5.8	–	–
VAT recoverable	39.6	28.1	30.7	26.3
Other debtors	36.4	31.8	14.2	21.3
Corporation tax	0.6	3.6	0.7	1.2
Prepayments	175.9	142.3	156.1	102.2
	663.6	648.2	542.8	544.7
Receivable after more than one year				
Trade debtors	0.2	–	0.2	–
Amounts owed by subsidiaries	–	–	–	17.6
Prepayments	137.0	47.8	113.6	27.2
	137.2	47.8	113.8	44.8
Total	800.8	696.0	656.6	589.5

The increase in prepayments reflects a build-up in rights to broadcast major sporting events and key acquired programmes (see also Note 23). In addition, the sale of the White City building to Land Securities Trillium in the year ended 31 March 2002 was settled in part by future reductions in the cost to the BBC of occupying the building. The net present value of this reduction is held as a prepayment to be released over the term of the lease.

BBC Resources has an unsecured loan facility of £30million with the BBC that is repayable on 30 March 2004. Interest on this facility is charged at 0.8% over bank base rates and appropriate covenants exist to protect the Home Services from financial risk. At 31 March 2002 none of the facility was drawn down.

BBC Worldwide has an unsecured loan facility of £125million with the BBC that is repayable on 1 April 2003. Interest on this facility is charged at 0.6% over bank base rates and appropriate covenants exist to protect the Home Services from financial risk. At 31 March 2002, £0.6million of the loan was drawn down.

BBC Technology Services (the principal trading company of the BBC Technology Group) has a loan facility of £25million with the BBC secured by a floating charge over all assets and undertakings that is repayable on 30 March 2004. Interest on this facility is charged at 1% over bank base rates and appropriate covenants exist to protect the Home Services from financial risk. At 31 March 2002 none of the facility was drawn down.

17 Creditors

17a Prompt payment policy

It is the BBC's policy to comply with the CBI prompt payment code in relation to the payment of suppliers, provided that the supplier is complying with the relevant terms and conditions of their contracts. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The BBC Group's number of creditor days outstanding in respect of other trade creditors at 31 March 2002 was 52 days (2001 52 days).

17b Amounts falling due within one year

	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 £m
Bank overdrafts	–	7.0	60.9	–
Unsecured loan notes	1.9	–	–	–
	1.9	7.0	60.9	–
Payments received on account	2.2	–	–	–
Trade creditors				
Programme creditors	75.9	91.1	75.5	90.9
Programme acquisitions	44.0	39.7	44.0	39.7
Salaries and wages	29.0	28.0	18.2	17.6
Residual copyright payments	56.5	53.3	–	–
Licence fee collection creditors	4.6	5.4	4.6	5.4
Other trade creditors	174.3	167.2	117.1	104.2
	384.3	384.7	259.4	257.8
Other creditors				
Other taxation and social security	41.0	33.9	24.6	23.8
Amounts owed to subsidiaries	–	–	57.9	34.2
Amounts owed to associates and joint ventures	1.7	2.0	–	0.1
Obligations under finance leases	7.2	–	–	–
Amounts owed to subsidiaries in respect of finance leases	–	–	10.1	–
	49.9	35.9	92.6	58.1
Accruals and deferred income				
Accruals and deferred income	302.4	276.9	224.5	201.7
Licence saving stamps deposits and direct debit instalments	130.5	140.1	130.5	140.1
	432.9	417.0	355.0	341.8
Total	871.2	844.6	767.9	657.7

The prior year balance for the salaries and wages creditor has been restated to include balances that were previously included within other trade creditors (see Note 26b).

The Home Services' overdraft facility bears interest at bank base rates plus 1%.

17c Amounts falling due after more than one year

	Note	Group 2002 £m	Group 2001 £m	Home Services 2002 £m	Home Services 2001 £m
Bank and other loans		29.4	19.1	–	–
Trade creditors					
Programme acquisitions		36.4	21.0	36.4	21.0
Other trade creditors		2.9	0.7	–	0.7
		39.3	21.7	36.4	21.7
Other creditors					
Obligations under finance leases	17a	33.8	10.5	–	–
Amounts owed to subsidiaries in respect of finance leases		–	–	9.7	–
		33.8	10.5	9.7	–
Total		102.5	51.3	46.1	21.7

Creditors falling due after more than one year are all repayable within five years with the exception of the finance lease obligations (see Note 17d).

Bank and other loans include a US\$5million loan from Discovery which is repayable in the following stages: \$3million due 31 March 2004; \$2million due 31 March 2005. The remainder of the loans consist of multi-currency revolving facilities repayable in full in three years. Interest is payable at LIBOR plus 1.0% for the US\$5million loan and LIBOR plus 0.3% for the multi-currency facilities.

A finance lease transfers substantially all the risks and rewards of owning an asset to the lessee (the BBC). So we recognise the assets within our fixed assets with the corresponding borrowings in creditors.

17d Obligations under finance leases

The maturity of obligations under finance leases is as follows:

	Group 2002 £m	Group 2001 £m	Home Services 2002 £m	Home Services 2001 £m
Within one year	26.2	9.7	10.1	–
In the second to fifth years	94.3	43.9	9.7	–
Over five years	237.3	125.4	–	–
	357.8	179.0	19.8	–
Less: future finance charges	(89.4)	(52.9)	–	–
	268.4	126.1	19.8	–
Less: defeasance deposits	(227.4)	(115.6)	–	–
	41.0	10.5	19.8	–

Defeasance deposits are cash deposits that are linked to a matching creditor. We can only use these deposits to settle the linked liability.

The finance leases have been entered into by BBC Technology and Centre House Productions Limited.

BBC Technology has entered into finance leases to finance the acquisition of IT equipment which is subsequently leased to other parts of the BBC on an arm's length basis.

Centre House Productions Limited has entered into finance leases as a means of financing drama productions which result in a reduction in the production costs to the BBC. The level of obligations has increased significantly in 2002. These finance leases are matched by the defeasance deposits such that the principle on deposit and the interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. These deposits may only be used to settle the finance lease liabilities and therefore these do not represent separate assets and liabilities. Consequently they have been netted off with the finance lease creditor to show the net unmatched liability at the year end.

18 Provisions for liabilities and charges

Group	At 1 April 2001 as restated £m	Reclassification £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2002 £m
Licence fee	11.9	20.9	(37.1)	(8.6)	37.8	24.9
Restructuring	4.5	1.1	(3.7)	(1.1)	13.3	14.1
Litigation and insurance	14.3	—	(18.8)	(2.1)	21.2	14.6
Property	11.9	(1.1)	—	(0.5)	0.2	10.5
Pension	0.7	(0.7)	—	—	—	—
Other	9.9	6.5	(7.4)	(12.3)	21.8	18.5
Total	53.2	26.7	(67.0)	(24.6)	94.3	82.6

The 2001 figures have been restated for the adoption of FRS 17 and to reclassify programme loss provisions of £8.5million against originated programmes work in progress. £26.7million disclosed in other creditors in Home Services last year has been reviewed and reclassified into provisions in 2002 (see Note 26).

Property provisions include BBC World Service's liability of £3.6million (2001 £3.6million) to restore Bush House to its original condition, together with amounts relating to other dilapidations and relocations.

Other provisions consist of a number of balances arising across the BBC in the normal course of business.

Home Services	At 1 April 2001 as restated £m	Reclassification £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2002 £m
Licence fee	11.9	20.9	(37.1)	(8.6)	37.8	24.9
Restructuring	3.9	1.1	(3.2)	(1.0)	11.1	11.9
Litigation and insurance	14.3	—	(18.8)	(2.1)	21.2	14.6
Property	8.3	(1.1)	—	(0.5)	0.2	6.9
Other	9.9	6.5	(7.4)	(12.3)	19.6	16.3
Total	48.3	27.4	(66.5)	(24.5)	89.9	74.6

The 2001 figures have been restated for the adoption of FRS 17 and to reclassify programme loss provisions of £8.5million against originated programmes work in progress (see Note 26).

The Home Services and BBC World Service are funded from different sources. As such, the reserves relating to the BBC World Service are maintained separately from the rest of the Group and are restricted for use solely on BBC World Service activities.

19 Reserves

	Note	Operating reserve excluding pension reserve as restated £m	Pension reserve as restated £m	Total operating reserve as restated £m	Capital reserve £m	Revaluation reserve £m	Total £m
Group							
At 1 April 2001							
as previously stated		607.3	–	607.3	791.1	7.2	1,405.6
Prior year adjustment	26a	47.2	1,704.3	1,751.5	–	–	1,751.5
At 1 April 2001 as restated		654.5	1,704.3	2,358.8	791.1	7.2	3,157.1
Exchange adjustments		0.5	–	0.5	–	–	0.5
Deficit for the financial year		(15.9)	–	(15.9)	–	–	(15.9)
Actuarial loss on defined benefit pension schemes		–	(725.4)	(725.4)	–	–	(725.4)
Revaluation reserve transfer		0.8	–	0.8	–	(0.8)	–
Pension reserve transfer		17.8	(17.8)	–	–	–	–
Capital reserve transfer		(11.5)	–	(11.5)	11.5	–	–
At 31 March 2002		646.2	961.1	1,607.3	802.6	6.4	2,416.3
Represented by:							
General Group reserves		635.2	961.1	1,596.3	685.7	–	2,282.0
BBC World Service reserves		11.0	–	11.0	116.9	6.4	134.3
		646.2	961.1	1,607.3	802.6	6.4	2,416.3

Under the accounting standard FRS 10, *Goodwill and intangible assets*, any newly arising goodwill must be capitalised and amortised over its useful life. As is permitted by the standard, goodwill arising in periods prior to 1999 of £6.8million (2001 £6.8million) remains offset against the operating reserve.

	Note	Operating reserve as restated £m	Capital reserve £m	Revaluation reserve £m	Total £m
Home Services					
At 1 April 2001 as previously stated		546.3	791.1	7.2	1,344.6
Prior year adjustment	26a	34.8	–	–	34.8
At 1 April 2001 as restated		581.1	791.1	7.2	1,379.4
Deficit for the financial year		(9.3)	–	–	(9.3)
Revaluation reserve transfer		0.8	–	(0.8)	–
Capital reserve transfer		(11.5)	11.5	–	–
At 31 March 2002		561.1	802.6	6.4	1,370.1
Represented by:					
Home Services reserves		550.1	685.7	–	1,235.8
BBC World Service reserves		11.0	116.9	6.4	134.3
		561.1	802.6	6.4	1,370.1

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

20 Reconciliation of Group operating deficit to net cash inflow from operating activities

	2002 £m	2001 as restated £m
Group operating deficit	(173.4)	(129.8)
Depreciation and amortisation	220.5	189.6
Pension schemes operating costs (non-cash)	151.5	133.1
Loss on disposal of tangible fixed assets	1.4	6.5
(Increase)/decrease in stocks	(51.8)	(60.7)
(Increase)/decrease in debtors	(43.3)	(117.1)
Increase/(decrease) in creditors	83.2	84.3
Increase/(decrease) in provisions	29.4	23.1
Net cash inflow from operating activities	217.5	129.0

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

21 Analysis of changes in net funds

	At 1 April 2001 £m	Cash flows £m	Non-cash movements £m	At 31 March 2002 £m
Net cash				
Bank overdrafts	(7.0)	7.0	–	–
Cash at bank and in hand	102.9	(102.6)	–	0.3
	95.9	(95.6)	–	0.3
Liquid resources				
Deposits not repayable on demand	15.0	(15.0)	–	–
Short-term investments	253.4	103.4	–	356.8
Gross funds*	364.3	(7.2)	–	357.1
Loans from third parties	(19.1)	(10.3)	–	(29.4)
Unsecured loan notes	–	–	(1.9)	(1.9)
Finance leases	(10.5)	–	(30.5)	(41.0)
Net funds	334.7	(17.5)	(32.4)	284.8

Bank overdrafts represent temporary timing differences on cash at bank.

The Group cash at bank and in hand shown on the balance sheet is made up of deposits not repayable on demand and cash at bank and in hand.

The repayments on finance leases held by Centre House Productions Limited are offset directly by income earned on matching deposits, such that there is no cash flow effect (see Note 17d). The increase in finance lease liabilities represents the amount by which the interest accrued on the leases exceeds that earned on the deposits together with new defeasance deposits for new finance leases entered into during the year. Over the course of the lease the interest earned on deposit together with the principal is designed to meet the finance lease obligations.

	2002 £m	2001 £m
*Analysis of gross funds		
BBC funds	226.6	224.2
TV licence savings stamp deposits and direct debit instalments	130.5	140.1
Gross funds	357.1	364.3

22 Reconciliation of net cash flow to movement in net funds

	2002 £m	2001 £m
Decrease in cash in the year	(95.6)	(51.6)
Net cash outflow/(inflow) from management of liquid resources	88.4	(6.7)
Net cash (inflow) from financing activities	(10.3)	–
Change in net funds resulting from cash flows	(17.5)	(58.3)
Issue of loan notes	(1.9)	–
Finance leases	(30.5)	(6.1)
Exchange adjustments	–	(0.2)
Change in net funds	(49.9)	(64.6)
Net funds at the beginning of the year	334.7	399.3
Net funds at the end of the year	284.8	334.7

23 Commitments

23a Contracts placed for future expenditure

	Group 2002 £m	Group 2001 £m	Home Services 2002 £m	Home Services 2001 £m
Fixed asset additions	45.9	37.8	13.4	19.6
Programme acquisitions and sports rights	754.4	658.3	715.2	591.5
Independent programmes	69.4	24.8	69.4	24.8
	869.7	720.9	798.0	635.9

The increase in contractual commitments is due to the renegotiation of favourable long-term contracts for key programmes and the rights to broadcast major sporting events.

An operating lease is a lease where the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee (the BBC) is hiring rather than buying an asset.

23b Operating leases

Operating lease commitments payable in the following year, analysed according to the period in which the lease expires:

	Land and buildings 2002 £m	Land and buildings 2001 £m	Other 2002 £m	Other as restated 2001 £m
Group				
Within one year	2.7	2.3	5.3	12.3
In two to five years	12.1	11.6	9.3	16.1
After five years	13.0	8.8	2.5	3.2
	27.8	22.7	17.1	31.6
Home Services				
Within one year	1.3	2.1	1.0	8.0
In two to five years	4.4	3.5	10.8	10.2
After five years	11.8	7.6	–	–
	17.5	13.2	11.8	18.2

The prior year figures for land and buildings have been restated following a review of all the BBC's leases.

23c Other financial commitments

In the ordinary course of business the BBC enters into a large number of contracts with artists and writers and with providers of other services including licence fee collection and channel distribution.

24 Contingent liabilities

At 31 March 2002 the Group had unprovided contingent liabilities estimated to be £2.3million (2001 £2.8million) in respect of guarantees and indemnities.

Within BBC World Service, BBC Monitoring's operating reserve of £7.2million (2001 £7.0million) includes amounts arising as a result of charging a return on capital employed to its customers, together with other accumulated excesses of income over expenditure. There are limitations placed upon these funds and agreement has yet to be reached over their use.

BBC Resources Limited has a contract with 3sixtymedia Limited for the use of studios. In the event that turnover earned by 3sixtymedia Limited from the BBC falls below specified levels, BBC Resources Limited is liable to pay a proportion of any redundancy costs which arise as a consequence, up to a maximum of 100%. It is not practicable to quantify the possible amount of any such liability, as it is dependent upon both the level of redundancy costs and the level of turnover generated by the BBC. In the event that this liability crystallises, there will be a dilution in BBC Resources Limited's shareholding in 3sixtymedia Limited.

The Group also has a number of contingent liabilities arising from litigation. The BBC makes specific provision (see Note 18) against an estimate of any damages and costs which may be awarded.

25 Related party transactions

The related party transactions of the Group have been presented in accordance with FRS 8, *Related party disclosures*.

25a Transactions with joint ventures and associated undertakings

Included in the income and expenditure account is income from UKTV and the Discovery joint ventures of £30.3million and £24.2million respectively from sales of programmes. The BBC received £7.7million of income from various other associates from sales of programmes. In addition, Frontline Limited charged £6.3million for the distribution of BBC Worldwide Limited's magazines.

In October 2001 the BBC formed the Insight Property Partnership and the White City Development Partnership with Land Securities Trillium (LST) as explained in Note 14a. The BBC contributed its interest in the White City site to these partnerships. The consideration received was a combination of cash of £20million, partnership capital of £3.6million and reductions in service payments for property services. The latter is held as a prepayment on the BBC's balance sheet. In addition, development work in progress was transferred to the White City Development Partnership for cash of £17million. The BBC recorded neither a profit nor a loss on these transfers. The partnerships charged the BBC £25million for property services during the year.

Amounts owed by/to joint ventures and associated undertakings at the year end are disclosed within Notes 16 and 17. In all transactions the terms of trade were negotiated on an arm's length basis.

25b Other transactions

Related parties include Governors the Executive Committee and other senior managers, their immediate families and external entities controlled by them.

Sir Richard Eyre, Governor, is also Chairman and Managing Director of Chestermead Limited. During the year Sir Richard Eyre received, either directly or through Chestermead, payments totalling £9,500 for interviews and contributions to BBC programmes. No amounts were outstanding at the year end. He was also writer and director of *Iris*, a film produced by Fox Iris Productions Limited. BBC Films contributed towards the financing of this film. Sir Richard Eyre's wife, Sue Birwistle, works on a freelance basis for the BBC. During 2001/2002 she received £31,000 for her contribution to *Armadillo*.

Baroness Hogg, Governor, is also Chairman of Frontier Economics. During the year the BBC paid £45,000 to Frontier Economics for two projects relating to new service launches and the incorporation of BBC Broadcast Limited. No amounts were outstanding at the year end.

Rt Hon The Lord Ryder, Governor, is also a non-executive director and shareholder of Ipswich Town Football Club. During the year the BBC paid £1,195,000 to the club in respect of the UEFA Cup and FA Cup televised fixtures.

Ranjit Sondhi, Governor, is married to Anita Bhalla, who has been employed by the BBC since 1987 in various production and broadcasting roles. Her current role is Head of Political and Community Affairs for the English Regions. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

This is a technical explanation of how the adoption of the new policy has changed the figures in last year's financial statements.

Sir Christopher Bland, Chairman of the BBC until 30 September 2001, was also Chairman of British Telecommunications plc from May 2001. During this time the BBC traded with British Telecommunications plc in the normal course of business. Sir Christopher Bland was not a party to the approval process for any of this trading.

In the normal course of business, there are a number of transactions between the BBC and other parties which are related by virtue of the fact that senior employees of the BBC are married to or have family relations with individuals who own or are employed at other media, production and broadcasting companies.

The BBC has set procedures for dealing with situations to avoid any conflict of interest. Where transactions have arisen between connected parties, the BBC Governor or employee is not a party to the approval process.

26 Restatement of comparative figures

26a Adoption of FRS 17, Retirement benefits

The adoption of FRS 17, *Retirement benefits*, has required changes in the method of accounting for pension costs. As a result, the comparative figures for 2001 have been restated as follows:

In the Group income and expenditure account the defined benefit pension operating cost, included within operating expenditure, increased by £101.1million to £154.0million. A new income line, other finance income, represents the net expected return to the BBC on pension scheme assets after deducting the interest on the pension scheme liabilities. This offsets the pension scheme cost by £169.5million in 2001 resulting in a net credit of £15.5million to the income and expenditure account for this pension scheme.

In the Group balance sheet the pension provision was reduced by £47.2million, of which £31.5million related to amounts added during 2001 under the previous accounting policy SSAP 24. The pension scheme surplus increased net assets by £1,704.3million.

In total, the effect of FRS 17 has been to increase net assets by £1,751.5million.

The impact of adopting FRS 17 on the operating costs for 2002 is similar to that for 2001. However, volatility in the other finance costs results in a net pension charge of £43.3million in the income and expenditure account in 2002 compared with the credit of £15.5million in 2001.

The Home Services have taken advantage of provisions in the scheme and now account for the scheme as if it were a defined contribution scheme. This resulted in a decrease in pension costs of £24.0million in 2001. The pension provision of £34.5million was eliminated and the interest in BBC World Service net assets increased by £0.3million to £124.5million. The impact of adopting FRS 17 had a similar effect on Home Services' results in 2002.

26b Other restatements

The adoption of a new chart of accounts with our new financial system has led to a number of balance sheet reclassifications this year. The impact is explained under the relevant note to the financial statements.

APPENDIX 3

**FINANCIAL STATEMENTS OF THE BBC
FOR THE YEAR ENDED 31 MARCH 2003**

Consolidated statement of income and expenditure

for the year ended 31 March

The BBC does not aim to make a surplus. Surpluses and deficits represent short-term timing differences between income and expenditure which will reverse in subsequent years.

	Note	2003 £m	2002 £m
Group income	1	3,532.0	3,382.9
Operating expenditure	2	(3,938.6)	(3,556.3)
Group operating deficit		(406.6)	(173.4)
Share of operating surplus of associates and joint ventures		2.9	1.4
Operating deficit	3	(403.7)	(172.0)
(Loss)/profit on sale and termination of operations	5	(0.4)	7.7
(Loss)/profit on disposal of fixed assets	6	(14.3)	11.7
Deficit before interest and taxation		(418.4)	(152.6)
Net interest receivable and other similar items	7	5.1	21.6
Other finance income (from defined benefit pension scheme)	8a	114.3	133.9
(Deficit)/surplus before taxation and minority interest		(299.0)	2.9
Taxation	9	(15.7)	(17.7)
Minority interest		0.1	(1.1)
Deficit for the financial year	18	(314.6)	(15.9)

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of their cumulative operating losses (see Note 13d).

The above results are derived from continuing operations in both the current and previous financial periods.

There is no material difference between the results as disclosed above and the results on a historical cost basis.

Balance sheets

at 31 March

	Note	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Fixed assets					
Intangible fixed assets	10	15.7	15.4	–	–
Tangible fixed assets	11	802.9	760.8	554.2	520.8
Investment in programmes for future sale	12	108.3	111.8	–	–
Other investments	13	17.8	16.8	318.3	299.2
		944.7	904.8	872.5	820.0
Current assets					
Stocks	14	468.9	449.4	437.7	425.3
Long-term debtors	15	158.6	137.2	131.8	113.8
Current debtors	15	605.5	663.6	487.3	542.8
Total debtors		764.1	800.8	619.1	656.6
Short-term investments	20	64.9	356.8	32.9	356.8
Cash at bank and in hand	20	69.5	0.3	7.9	–
		1,367.4	1,607.3	1,097.6	1,438.7
Creditors – amounts falling due within one year					
	16	(920.5)	(871.2)	(782.9)	(767.9)
Net current assets		446.9	736.1	314.7	670.8
Total assets less current liabilities					
		1,391.6	1,640.9	1,187.2	1,490.8
Creditors – amounts falling due after more than one year					
	16	(159.4)	(102.5)	(56.2)	(46.1)
Provisions for liabilities and charges					
	17	(72.0)	(82.6)	(64.3)	(74.6)
Net assets excluding pension asset and liability					
		1,160.2	1,455.8	1,066.7	1,370.1
Pension asset	8	–	965.0	–	–
Pension liability	8	(1,074.5)	(3.9)	–	–
Net assets		85.7	2,416.9	1,066.7	1,370.1
Represented by					
Operating reserve excluding pension asset and liability					
	18	296.0	646.2	203.0	561.1
Pension reserve					
	18	(1,074.5)	961.1	–	–
Operating reserve					
		(778.5)	1,607.3	203.0	561.1
Capital reserve					
	18	858.1	802.6	858.1	802.6
Revaluation reserve					
	18	5.6	6.4	5.6	6.4
		85.2	2,416.3	1,066.7	1,370.1
Minority interest					
		0.5	0.6	–	–
		85.7	2,416.9	1,066.7	1,370.1

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of the net liabilities which at 31 March 2003 amounted to £62.9million (2002 £82.5million). These liabilities have not been included in the financial statements (see Note 13d).

The financial statements were approved by the Governors and Executive Committee on 19 June 2003 and signed on their behalf by:

Gavyn Davies *Chairman*

Greg Dyke *Director-General*

John Smith *Director of Finance, Property & Business Affairs*

Consolidated cash flow statement

for the year ended 31 March

	Note	2003 £m	2002 £m
Net cash (outflow)/inflow from operating activities	19	(68.3)	217.5
Dividends received from joint ventures and associates		1.3	1.1
Return on investments and servicing of finance			
Interest received		11.5	24.9
Interest paid		(2.0)	(2.8)
Interest paid on finance leases		(0.2)	-
Net cash inflow from return on investments and servicing of finance		9.3	22.1
Taxation			
Taxation paid		(12.9)	(13.9)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(179.9)	(194.2)
Investment in programmes for future sale		(85.5)	(83.2)
Investment in intangible fixed assets		(2.7)	(8.7)
Proceeds from the sale of investments		-	0.6
Proceeds from the sale of investment in programmes		0.4	5.9
Proceeds from the sale of tangible fixed assets		5.4	46.8
Net cash outflow from capital expenditure and financial investments		(262.3)	(232.8)
Acquisitions and disposals			
Purchase of a subsidiary net of overdrafts acquired		-	(9.1)
Investments in joint ventures		(1.2)	(11.4)
Proceeds from sale and termination of operations		3.2	9.0
Proceeds from disposal of interests in joint ventures and associates		0.1	-
Net cash inflow/(outflow) from acquisitions and disposals		2.1	(11.5)
Net cash outflow before use of liquid resources and financing		(330.8)	(17.5)
Management of liquid resources			
Net cash withdrawn from deposit		-	15.0
Sale/(purchase) of other liquid resources	20	291.9	(103.4)
Net cash inflow/(outflow) from management of liquid resources		291.9	(88.4)
Financing			
New loans	20	85.0	10.3
Repayment of loans	20	(25.9)	-
Repayment of finance leases		(21.2)	-
Repayment of loan notes	20	(0.5)	-
Net cash inflow from financing		37.4	10.3
Decrease in cash in the year	20,21	(1.5)	(95.6)

Consolidated statement of total recognised gains and losses

for the year ended 31 March

	Note	2003 £m	2002 £m
Group deficit for the financial year		(314.6)	(15.9)
Exchange differences on retranslation of overseas subsidiaries		(3.1)	0.5
Actuarial loss on defined benefit pension schemes	8	(2,013.4)	(725.4)
Total recognised gains and losses relating to the year		(2,331.1)	(740.8)

Reconciliations of movement in reserves

for the year ended 31 March

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Deficit for the financial year	(314.6)	(15.9)	(303.4)	(9.3)
Other recognised gains and losses relating to the year (net)	(2,016.5)	(724.9)	–	–
Decrease in reserves during the year	(2,331.1)	(740.8)	(303.4)	(9.3)
Opening reserves	2,416.3	3,157.1	1,370.1	1,379.4
Closing reserves	85.2	2,416.3	1,066.7	1,370.1

Statement of accounting policies

This section explains the BBC's main accounting policies, which have been applied consistently throughout the year and in the preceding year except where stated. A footnote in italics follows some policies below to explain technical aspects of the accounting treatment in plain English.

The financial statements have been prepared in accordance with the provisions of the BBC's Charter and Agreement. Although not mandatory, the BBC has chosen to follow the accounting and disclosure provisions of the Companies Act 1985, applicable UK accounting standards and the rules of the UK Listing Authority to ensure that its financial statements are prepared on a basis which is consistent with that of UK public limited companies. In line with other companies, the BBC files with Companies House audited financial statements for all its subsidiary companies.

Basis of accounting

The financial statements are presented under the historical cost accounting convention as modified by the revaluation of certain plant, machinery, furniture and fittings.

Basis of consolidation

The BBC Group comprises:

- UK Public Service Broadcasting and those subsidiaries incorporated to act solely on its behalf (notably Centre House Productions Limited, BBC Property Limited and BBC Property Investments Limited)
- BBC World Service (and its subsidiaries)
- Commercial subsidiary companies comprising BBC Resources Limited and BBC Commercial Holdings Limited and its various subsidiaries (notably BBC Worldwide Group, BBC World Group and BBC Ventures Group)

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term interest, usually between 20% and 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of profits less losses of associates and joint ventures is included in the consolidated statement of income and expenditure and its interest in their net assets is included in the consolidated balance sheet.

A separate statement of income and expenditure reflecting the results of UK Public Service Broadcasting has not been presented, as permitted by Section 230 of the Companies Act 1985.

These accounts of the BBC Group include the results of UK Public Service Broadcasting, BBC World Service and all businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses over which the BBC has influence but not control (associates) and those which the BBC jointly controls (joint ventures).

Investments

Investments are recorded on the balance sheet of UK Public Service Broadcasting at cost less provision for any impairment in value. The funding of UK Public Service Broadcasting and BBC World Service is legally separate and cross-subsidisation is not

permissible. Accordingly, for the purposes of preparing UK Public Service Broadcasting's balance sheet, UK Public Service Broadcasting is considered to have an investment in BBC World Service equal to the net assets of BBC World Service.

Income

Income, which excludes value added tax, trade discounts and sales between Group companies, is comprised of the following key classes of revenue, which are recognised as follows:

● Television licences

Income derived from television licences, receivable from the Department for Culture, Media and Sport, represents the value of licences issued in the year. The amount which can be paid in cash to the BBC for any year cannot exceed the total amount voted by Parliament for that year. Any difference between the value of licences issued and the amount voted is adjusted in the amount of cash received in the following year. Any amounts which have not been paid to the BBC are included within debtors.

● Grant-in-Aid from the Foreign and Commonwealth Office

BBC World Service income, primarily derived from a Grant-in-Aid from the Foreign and Commonwealth Office, is intended to meet estimated expenditure in the year but unexpended receipts for the year, within predetermined limits, are not liable to surrender.

● Provision of equipment, facilities and services

With the exception of long-term contracts, income is recognised when the equipment, facilities and services are provided to customers.

For long-term contracts, the amount of profit attributable to the stage of completion is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in prior years. Provision is made for any losses as soon as they are foreseen.

● Provision of programme making facilities and services – recognised on provision of service

● Licence fees from distribution of joint productions – recognised on the later of delivery of rights and the start of the licence period

● Programme distribution and channel income – recognised on provision of service

● Sale of promotional merchandise – recognised on delivery

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial, UK Public Service or BBC World Service activities. More information on these BBC fair trading requirements and policies can be found on pages 68 to 71 of this report.

Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 31 March or at forward rates where related hedging contracts are in place. Surpluses and deficits arising from the translation of assets and

Statement of accounting policies

liabilities at these rates of exchange, together with exchange differences arising from trading, are included in the statement of income and expenditure.

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates for the year. Exchange differences arising on consolidation from the retranslation of the opening net assets of overseas subsidiaries and any related long-term foreign currency borrowings are taken directly to the operating reserve, together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end. Other exchange differences are taken to the statement of income and expenditure.

As these financial statements are prepared in sterling, the BBC's foreign currency transactions and balances must be translated, at appropriate exchange rates, into sterling. This policy states how those re-translations are included in the financial statements and is consistent with the methods used by many companies.

Pension costs

The BBC operates both defined benefit and defined contribution schemes for the benefit of employees.

The amounts charged as expenditure for the defined contribution scheme represent the contributions payable by the BBC for the accounting periods in respect of this scheme.

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final pensionable pay. Amounts are charged to expenditure so as to spread the cost of pensions over employees' working lives with the BBC. The assets of the BBC's main scheme are held separately from those of the Group.

UK Public Service Broadcasting and its subsidiary undertakings have taken advantage of the provisions included within FRS 17, *Retirement benefits*, and account for the scheme as if it were a defined contribution scheme. This is because the pension scheme is managed centrally across the whole Group and it is not possible to allocate the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge under FRS 17 for UK Public Service Broadcasting and its subsidiary undertakings therefore represents the contributions payable in the year.

On retirement, members of the BBC's main pension scheme are paid their pensions from a fund which is kept separate from the BBC Group. The BBC makes cash contributions to that fund in advance of members' retirement.

Research and development

Research and development expenditure is written off as incurred.

Intangible fixed assets

Goodwill

Purchased goodwill (representing the excess of the fair value of the purchase consideration plus any related costs of acquisition over the fair value attributable to the separable net assets acquired), arising on acquisition of a subsidiary or business, is capitalised and amortised over its useful economic life. On the subsequent disposal or termination of a business, the surplus or deficit is calculated after charging the unamortised amount of any related goodwill. As is permitted by FRS 10, *Goodwill and intangible assets*, goodwill arising in periods up to 1 April 1998 remains offset against the operating

reserve. On disposal, goodwill previously written off against reserves is transferred to the statement of income and expenditure for the year.

Intellectual property rights

Purchased intellectual property rights are capitalised and amortised on a straight line basis over the expected useful life of the assets.

Tangible fixed assets

Expenditure on fixed assets is capitalised together with incremental and internal direct labour costs incurred on capital projects.

Depreciation is calculated so as to write off the cost or valuation, less estimated residual value, of fixed assets on a straight line basis over their expected useful lives. Depreciation commences from the date an asset is brought into service.

The BBC's useful lives for depreciation purposes for the principal categories of assets are:

Land and buildings

Freehold land	– not depreciated
Freehold and long-leasehold buildings	– fifty years
Short-leasehold land and buildings	– unexpired lease term

Plant and machinery

Computer equipment	– three to five years
Electrical and mechanical infrastructure	– ten to twenty-five years
Other	– three to ten years

Furniture and fittings

UK Public Service Broadcasting's plant and machinery is stated at the estimated current replacement cost of the assets, as at 31 March 1993, adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

BBC World Service's plant and machinery and furniture and fittings are stated at the estimated current replacement cost of the assets, as at 1 April 1996, as adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

There is no material difference between the net book value of these tangible fixed assets and their value as determined on a historical cost basis.

The BBC has revalued its assets once, when the internal market was introduced, but has chosen not to revalue its tangible assets on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. Assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

Investment in programmes for future sale

Investment in programmes for future sale is stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation of investment in programmes for future sale is charged to the income and expenditure account over the estimated average marketable life of the programme genre which is generally between two and ten years. The cost and accumulated amortisation of investment in programmes for future sale are reduced by programmes which are fully written off.

The cost of programmes for sale is charged to the income and expenditure account to match the expected timing of income from future sales.

Originated programme stocks and work in progress

Originated programme stocks and work in progress, including those commissioned from independent producers, are stated at the lower of cost and net realisable value. With the exception of the costs of prepaid repeats of independent programmes, the full stock value is written off on first transmission.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads.

Net realisable value is based on arm's length contract prices negotiated between the channel controllers and programme makers.

Acquired programmes and film stocks

The costs of acquired programmes and film stocks are written off on first transmission except to the extent that further showings are likely in the foreseeable future, when they are written off according to their expected transmission profile.

Assets and liabilities relating to acquired programmes are recognised at the point of payment or commencement of the licence period, whichever is earlier. Agreements for the future purchase of programmes whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

Other stocks

Raw materials and other physical stocks are stated at the lower of cost and net realisable value.

Deferred tax

Deferred tax is computed under the liability method. Full provision, without discounting, is made in respect of timing differences between certain items in the financial statements and their treatment for taxation purposes at the balance sheet date except as otherwise required by FRS 19, *Deferred tax*. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is corporation tax which is not payable at a specific time but which is expected to become payable in the future.

Operating leases

Operating lease rentals are written off on a straight line basis over the term of the lease.

An operating lease is a lease in which the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee – the BBC – has not acquired an asset but is hiring it, so the hire charge is included in the BBC's costs.

Finance leases

Assets acquired under finance leases are included within fixed assets at the total of the lease payments due over the life of the lease discounted at the rate of interest inherent in the lease. The same amount is included in creditors. Rental payments are apportioned between the finance element, which is charged against the income and expenditure account, and the capital element which reduces the lease creditor.

A finance lease is a lease that transfers substantially all the risks and rewards of owning and operating an asset to the lessee. Effectively the lessee owns the asset and has financed it by borrowing, so the asset and borrowing are included separately in the balance sheet.

Reserves

The value of the capital reserve is equal to the combined net book value of fixed assets of UK Public Service Broadcasting and BBC World Service at historic cost.

The revaluation reserve reflects the difference between the net book value of fixed assets of UK Public Service Broadcasting and BBC World Service at historic cost compared with their revalued amount.

The operating reserve is the accumulated surplus of the income and expenditure account to date.

The BBC is careful not to mix UK Public Service Broadcasting and BBC World Service reserves. Hence BBC World Service reserves are shown separately in the notes to the financial statements.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise bank deposits not repayable on demand and other short-term investments which include gilts, certificates of deposit and commercial paper.

Financial instruments

The Group does not enter into speculative derivative contracts. Some hedging contracts are undertaken in order to limit the Group's exposure to foreign exchange fluctuations (the accounting treatment for these contracts is explained in the foreign currency translation accounting policy).

Disclosure of the Group's loans and other financial assets and liabilities is provided within Note 23 to the financial statements.

Notes to the financial statements

Note 1 provides analysis of the different business areas within the BBC.

UK Public Service Broadcasting Group (referred to as 'Home Services' within the BBC Charter) comprises the UK public service broadcasting operations and those subsidiary companies incorporated to act solely on behalf of those public service operations.

BBC World Service comprises the Government-funded BBC World Service and media monitoring activities.

Commercial Businesses comprise businesses which generate external income from exploitation of the BBC's programmes, other assets and skill base.

I Analysis of income, (deficit)/surplus and net assets

Ia Analysis of income, (deficit)/surplus and net assets by activity

Note	UK Public Service Broadcasting Group £m	BBC World Service £m	Commercial Businesses £m	Total £m
2003				
Total income	2,797.3	224.2	1,144.0	4,165.5
Less: Intra-Group income	(116.1)	(0.5)	(437.4)	(554.0)
Less: Share of joint ventures	–	–	(79.5)	(79.5)
Group external income	<i>1b,d,g</i> 2,681.2	223.7	627.1	3,532.0
(Deficit)/surplus before interest and taxation	<i>1e</i> (331.1)	7.9	41.3	(281.9)
Defined benefit pension scheme				
– additional operating costs*†				(136.5)
– other finance income*				114.3
Net interest receivable				5.1
Deficit before taxation and minority interest				(299.0)
Net assets (excluding pension liability)	771.6	142.8	245.8	1,160.2
Pension liability*				(1,074.5)
Net assets				85.7
2002				
Total income	2,698.2	211.1	1,017.2	3,926.5
Less: Intra-Group income	(130.3)	(0.4)	(331.3)	(462.0)
Less: Share of joint ventures	–	–	(81.6)	(81.6)
Group external income	<i>1b,d,g</i> 2,567.9	210.7	604.3	3,382.9
(Deficit)/surplus before interest and taxation	<i>1e</i> (30.8)	9.4	20.3	(1.1)
Defined benefit pension scheme				
– additional operating costs*†				(151.5)
– other finance income*				133.9
Net interest receivable*				21.6
Surplus before taxation and minority interest				2.9
Net assets (excluding pension asset and liability)	1,083.7	134.3	237.8	1,455.8
Pension asset (net)*				961.1
Net assets				2,416.9

* As permitted by FRS 17 these items are not split between business classes because they are managed centrally across the whole Group and it is not possible to allocate them on a reasonable and consistent basis

† The actual employer cash contribution to the defined benefit pension scheme is included in the (deficit)/surplus before interest and taxation of each entity. The additional operating cost is the cost to the Group over and above these cash contributions

Ib UK Public Service Broadcasting Group income

The income from licences represents the value of all licences issued in the year.

Other licence fee income and adjustments include the year on year impact of licences issued in the year but not in force at 31 March either through late or early renewals or through refunds.

Other income includes the provision of content and services to overseas broadcasters, concert ticket sales and exploitation of the programme archive.

	2003 £m	2002 £m
Licence fee income		
Colour	2,271.3	2,164.3
Monochrome	2.8	3.4
Concessionary	0.9	0.8
Over 75s	370.9	350.0
Quarterly payment scheme premium	15.9	16.3
Other licence fee income and adjustments	(3.3)	(1.8)
Total licence fee income	2,658.5	2,533.0
Open University	0.1	7.7
Other income	22.6	27.2
Total external income	2,681.2	2,567.9

During the year 3.2 million (2002 3.3 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2002 £5).

Licences in force are those which are still valid as at 31 March each year.

	2003 Number m	2002 Number m
Licences in force		
Colour	20.1	19.9
Monochrome	0.1	0.1
Over 75s	3.7	3.6
Concessionary	0.2	0.2
	24.1	23.8

Households in which one or more persons over the age of 75 reside, as their primary residence, are entitled to a free licence. The BBC is reimbursed for these free licences by the Department for Work and Pensions.

Licence fees are set by the Department for Culture, Media and Sport.

	2003 £	2002 £
Licence fees		
Colour	112.00	109.00
Monochrome	37.50	36.50
Concessionary	5.00	5.00

From 1 April 2003 the colour and monochrome licence fees were increased to £116 and £38.50 respectively. The concessionary licence remained at £5.

Ic Geographical analysis of UK Public Service Broadcasting Group

UK Public Service Broadcasting Group income and deficit arises in the UK. The net assets used by these operations are located in the UK.

Id BBC World Service income

Other income is generated from the sale of programmes, co-production deals, publishing activities and the provision of media monitoring services.

	2003 £m	2002 £m
Grant-in-Aid	201.0	187.9
Subscriptions	16.1	15.6
Other income	6.6	7.2
Total external income	223.7	210.7

Ie BBC World Service surplus before interest and taxation by activity

	2003 £m	2002 £m
Broadcasting	6.5	8.6
BBC Monitoring	1.4	0.8
Total surplus before interest and taxation	7.9	9.4

Notes to the financial statements

If Geographical analysis of BBC World Service

BBC World Service income and surplus arises in the UK.

Location of BBC World Service net assets:	2003 £m	2002 £m
UK	56.1	50.2
Overseas	86.7	84.1
Net assets	142.8	134.3

Ig Analysis of Commercial Businesses' income by activity

	2003 £m	2002 £m
Publishing and new media	338.0	331.7
Programme distribution	168.8	172.3
Channels	79.0	71.8
Provision of play out and channel management services	98.3	–
Provision of programme making facilities and services	157.7	148.9
Provision of technology services	222.1	208.5
beeb Ventures Limited	0.6	2.4
Less intra-Group income	(437.4)	(331.3)
Total external income	627.1	604.3

Play out and channel management services were provided by an internal division of UK Public Service Broadcasting in 2002. On 2 April 2002 provision of these services transferred to BBC Broadcast Limited.

This table shows where the customers of BBC Commercial Businesses are based.

Ih Geographical analysis of Commercial Businesses

	United Kingdom £m	Americas £m	Rest of the world £m	Total £m
2003				
Income by destination	370.0	112.0	145.1	627.1
Surplus/(deficit)before interest and taxation	31.6	(2.5)	12.2	41.3
Net assets	208.1	37.4	0.3	245.8
2002				
Income by destination	348.6	110.5	145.2	604.3
Surplus before interest and taxation	6.9	0.7	12.7	20.3
Net assets	195.4	42.4	–	237.8

All commercial income arises in the UK as this is where rights for exploitation and the skills and services of the Commercial Businesses are developed.

2 Operating expenditure

2a Analysis of operating expenditure by activity

	Note	Total 2003 £m	Total 2002 £m
UK Public Service Broadcasting Group	2b	2,999.4	2,602.1
BBC World Service*	2c	215.8	204.6
Commercial Businesses	2d	586.9	598.1
Non-cash pension scheme operating costs**		136.5	151.5
		3,938.6	3,556.3

* BBC World Service expenditure of £215.8million (2002 £204.6million) excludes £0.5million (2002 £0.4million) of expenditure on the provision of services to other BBC Group companies

** As permitted by FRS 17 the non-cash operating costs are not split between the business activities as it is not possible to do this on a reasonable and consistent basis

This year this note has been expanded to give further detail on programme related spend. The 2002 figures have been re-analysed accordingly.

2b UK Public Service Broadcasting Group expenditure

	Note	2003 £m	2002 £m
Analogue services			
BBC One		858.9	731.0
BBC Two		367.4	311.6
National and regional television		211.1	188.6
National, regional and local radio		130.8	116.1
BBC Radio 1		17.2	16.8
BBC Radio 2		21.6	21.8
BBC Radio 3		30.2	31.0
BBC Radio 4		64.8	62.5
BBC Radio Five Live		53.8	50.3
		1,755.8	1,529.7
Digital services			
CBBC, CBeebies	i	39.9	11.0
BBC Three (previously BBC Choice)	ii	75.5	44.2
BBC News 24		23.8	25.7
BBC Parliament		2.7	2.5
BBC Four	i	41.2	24.5
Digital text and interactive television		9.5	7.3
1Xtra	iii	4.0	
BBC Five Live Sports Extra	iii	1.7	0.7
6 Music	iii	4.0	0.2
BBC 7	iii	2.2	–
BBC Asian Network		3.1	1.8
BBCi on the internet		72.3	66.5
		279.9	184.4
Transmitted programme spend	iv	2,035.7	1,714.1
Programme related spend			
Newsgathering		94.2	94.8
Marketing, press, publicity and events	v	63.5	48.3
On-air trails and navigation		25.5	22.0
Market research		12.7	11.7
Collecting societies		52.0	50.4
Orchestras and performing groups		15.5	14.6
Helplines, one-off events and other programme related spend		79.2	76.1
		342.6	317.9
Total programme spend		2,378.3	2,032.0
Overheads	vi	346.0	347.5
Total output spend		2,724.3	2,379.5
Percentage of output spend on programmes		87%	85%
Licence fee collection costs	vii	146.4	95.4
Transmission costs	viii	141.7	127.2
		288.1	222.6
Total broadcasting expenditure*		3,012.4	2,602.1

* Total broadcasting expenditure includes an exceptional loss on disposal of fixed assets within overheads of £13.0million (see Note 6).

i) Children's channels and BBC Four show an increase in costs reflecting their first full year of transmission. BBC Four costs are greater than those of its predecessor BBC Knowledge due to higher levels of originated programming.

ii) BBC Three was launched in February 2003 to replace BBC Choice. Increased costs were incurred by BBC Three due to launch costs for the new channel and additional commissions prior to launch.

Notes to the financial statements

2b UK Public Service Broadcasting expenditure *continued*

iii) BBC Five Live Sports Extra and 6 Music were both launched at the end of the 2002 financial year, so have incurred their first full year of costs in 2003. 1Xtra was launched in August 2002 and BBC 7 was launched in December 2002.

iv) Total spend on transmissions has risen in line with the BBC's stated objective to increase spend on programming.

v) There has been additional marketing spend in the year to support the launch of BBC Three and the digital radio networks, and to promote digital television services, including Freeview.

vi) Overheads include the central costs of accommodation, technology, finance and human resources.

vii) Licence fee collection costs were unusually low in 2002 due to a number of one-off events such as the rebate from Consignia for non-performance of contractual obligations. Under the new contractor, charges in 2003 have returned to their normal levels (collection costs in 2001 were £131.9million).

viii) Of the transmission costs, £73.2million relate to analogue services and £68.5million to digital services.

BBC World Service expenditure excludes expenditure spent on intra-Group activities.

2c BBC World Service expenditure

	2003 £m	2002 £m
Radio	149.8	142.1
Monitoring	22.4	22.6
Transmission costs	33.2	30.6
Internet activity	10.4	9.3
	215.8	204.6

The expenditure shown for Commercial Businesses relates only to external income and excludes expenditure relating to sales within the BBC.

2d Commercial Businesses' expenditure

	Note	2003 £m	2002 £m
Cost of sales		314.8	323.4
Distribution costs		133.4	147.0
Administrative and other costs		50.3	41.3
Amortisation of programme investment	12	88.4	86.4
		586.9	598.1

3 Operating deficit

The operating deficit is stated after charging the following items:	2003 £m	2002 £m
Payments under operating leases		
– land and buildings	28.8	26.4
– plant and machinery	6.5	9.6
– other	14.0	18.4
Research and development	17.0	15.2
Programme development	30.6	23.7
Depreciation		
– owned assets	126.5	121.8
– leased assets	10.8	10.9
Loss on disposal of tangible fixed assets	4.5	1.4
Amortisation of investment in programmes for future sale	88.4	86.4
Amortisation of intangible fixed assets	4.5	1.4

3 Operating deficit *continued*

	2003 £m	2002 £m
Auditors' remuneration (KPMG LLP)		
– financial audit – UK Public Service Broadcasting	0.6	0.4
– other	0.5	0.5
– further assurance services	0.6	0.3
– tax advisory services	0.2	0.2
– other non-audit services	0.3	0.2
Fair trading auditors' remuneration (PricewaterhouseCoopers LLP)	0.3	0.3

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year 2003 Number	2002 Number
UK Public Service Broadcasting	19,206	18,606
BBC World Service	2,057	1,797
Commercial Businesses	5,885	5,165
Group total	27,148	25,568

Within the averages above 2,628 (2002 2,166) part-time employees have been included at their full-time equivalent of 1,324 (2002 1,238).

In addition to the above, the Group employed an average full-time equivalent of 1,117 (2002 1,043) persons on a casual basis and the BBC Orchestra and Singers, employed on programme contracts, numbered 385 (2002 382) full-time equivalents.

On 2 April 2002 the equivalent of 762 full-time employees transferred to BBC Broadcast Limited from UK Public Service Broadcasting. This transfer is not reflected in the average for 2002.

4b Staff costs

	Note	2003 £m	2002 £m
Salaries and wages		988.4	895.1
Social security costs		83.0	77.9
Pension costs			
– main scheme (defined benefit)	8a	169.7	177.2
– other schemes	8c	2.0	2.3
Redundancy costs		22.6	29.6
		1,265.7	1,182.1
Comprising:			
UK Public Service Broadcasting		804.2	758.3
BBC World Service		73.2	65.4
Commercial Businesses		251.8	206.9
Main pension scheme additional operating cost (defined benefit) ¹		136.5	151.5
		1,265.7	1,182.1

¹The actual employer cash contributions to the defined benefit pension scheme are borne by each business. The additional operating cost is the cost to the Group over and above these contributions. It is not possible to allocate this to each business on a reasonable and consistent basis.

4c Remuneration of the Board of Governors and Executive Committee

The emoluments of the Governors and of the Executive Committee members are disclosed on pages 76 to 79 in the Governors' remuneration report.

Notes to the financial statements

5 (Loss)/profit on sale and termination of operations

	2003 £m	2002 £m
beeb Ventures Limited		
– partial disposal	–	9.0
– termination cost	(1.5)	(1.3)
Wood Norton Hall and Conference Centre	1.1	–
	(0.4)	7.7

On 22 April 2002, BBC Worldwide announced its intention to terminate the beeb.com business and exit the internet shopping sector. Certain beeb.com websites together with beeb.net have been integrated into BBC Worldwide's core operations. Following this decision a review of the carrying value of beeb Ventures Limited's fixed assets at 31 March 2002 took place and gave rise to a write-down of £1.3million being charged to the income and expenditure account in 2002. During the year ended 31 March 2003 redundancy and other closure costs totalling £1.5million have been charged to the income and expenditure account.

On 31 May 2002, the Group sold its Wood Norton Hall and Conference Centre business to a third party for a consideration of £5.1million. The profit on sale was £1.1million after deducting the costs of the disposal.

6 (Loss)/profit on disposal of fixed assets

	2003 £m	2002 £m
(Loss)/profit on disposal of tangible fixed assets	(14.3)	1.0
Profit on disposal of investments	–	3.4
Profit on disposal of intangible assets	–	7.3
	(14.3)	11.7

During 2003 the Group started redevelopment of its Broadcasting House site, which included the demolition of two properties adjacent to Broadcasting House. The net book value of assets taken out of use, totalling £13.0million, has been charged to the income and expenditure account.

BBC Technology disposed of various fixed assets resulting in a loss of £1.3million during the year.

During 2002, the Eurosport Consortium, in which the BBC holds an interest, disposed of its 50% shareholding in SETS (which owns the Eurosport trademark) to TF1, a French broadcasting company, resulting in a net profit on disposal of investments of £3.4million. The Group also disposed of its remaining rights and trademarks to certain non-core brands which gave rise to a net profit of £7.3million.

7 Net interest receivable and other similar items

	2003 £m	2002 £m
Interest receivable	7.5	24.6
Interest payable on bank and other loans	(2.0)	(2.8)
Finance charges payable in respect of finance leases	(0.4)	(0.2)
Net interest receivable	5.1	21.6

8 Pensions

8a Pension charge

The Group operates several pension schemes. The BBC Pension Scheme and a small unfunded pension scheme, which is closed to new members, are contributory defined benefit schemes. Additionally the Group Personal Pension Scheme and other small schemes are defined contribution schemes. The total pension charges for the year were:

	Operating cost 2003 £m	Net finance income 2003 £m	Net cost 2003 £m	Operating cost 2002 £m	Net finance income 2002 £m	Net cost 2002 £m
BBC Pension Scheme (Note 8b)	169.7	(114.6)	55.1	177.2	(133.9)	43.3
Unfunded defined benefit schemes (Note 8c)	0.2	0.3	0.5	0.2	-	0.2
Defined contribution schemes (Note 8c)	1.8	-	1.8	2.1	-	2.1
Total cost / (credit)	171.7	(114.3)	57.4	179.5	(133.9)	45.6

Under this scheme the employees receive a pension based on their final salary.

The actuarial valuation takes into account future investment returns and provides a longer-term view of the state of the scheme than the 'snap-shot' FRS 17 valuation.

The market valuation provides a 'snap-shot' at the balance sheet date. It is very volatile and can fluctuate widely from day to day.

An estimate of future inflation and salary increases is used to forecast the cost of funding future pensions of pension scheme members.

8b Principal scheme

The BBC Pension Scheme is the main pension scheme of the BBC Group and covers the majority of employees. This scheme provides salary-related pension benefits on a defined benefit basis from assets held in separate, trustee-administered, funds.

Actuarial valuation

The scheme is subject to independent valuation by a professionally qualified actuary at least every three years, on the basis of which the actuary certifies the rate of employer's contributions. These, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The most recent full actuarial valuation of the scheme was prepared at 1 April 2002 by Watson Wyatt, consulting actuaries, using the projected unit method. The actuarial valuation showed a surplus of £44.1 million (down from £61 million in 1999) and the actuarial value of the assets was sufficient to cover 109% of the benefits due to members after allowing for expected future increases in earnings.

The income to the pension scheme exceeds its cash outgoings each year and long-term performance measures show the scheme to be adequately funded and so employer contributions have remained steady for a number of years. However, in view of the recent short-term volatility of the stock market, it has been agreed with the trustees that employer contributions will rise by 0.5% a year for three years from the current 4.5% of pensionable pay, with the first 0.5% increase taking effect from 1 April 2003. In addition, the employee contributions will rise 0.5% per year from 4.5% to 6% over the three-year period commencing 1 April 2004.

Market valuations

Watson Wyatt produces an interim valuation each year based on market values of the scheme assets and liabilities, as required by FRS 17.

Financial assumptions in scheme valuation

The major assumptions used by the actuary at each valuation were:

	2003	2002	2001
Rate of increase in salaries	4.5%	4.7%	4.5%
Rate of increase in pension payments	2.5%	2.7%	2.5%
Inflation assumption	2.5%	2.7%	2.5%
Discount rate	5.4%	6.0%	6.0%

Notes to the financial statements

8 Pensions *continued*

This table shows the value of the assets owned by the pension scheme and the rate of growth that the trustees expect over time.

The assets in the scheme and the expected rates of return from those assets were:

	Long-term rate of return expected at 31 March 2003	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2002	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2001	Value at 31 March 2001 £m
Equities	8.3%	3,032	7.5%	4,421	7.0%	4,655
Bonds and gilts	4.5%	1,021	5.2%	908	4.7%	939
Property	6.4%	620	6.3%	606	6.0%	606
Cash	4.0%	230	4.7%	284	4.5%	279
Total market value of assets		4,903		6,219		6,479
Present value of scheme liabilities		(5,973)		(5,254)		(4,771)
(Deficit)/surplus in the scheme		(1,070)		965		1,708
Related deferred tax asset/(liability)		–		–		–
Net pension (liability)/asset		(1,070)		965		1,708

A deferred tax asset or liability will not arise for the Group because most of the Group's public service activity is not subject to taxation.

Movement in surplus during the year

	2003 £m	2002 £m
Surplus in scheme at beginning of year	965.0	1,708.0
Movement in year		
– contributions	33.4	25.7
– current service cost	(155.7)	(132.3)
– past service costs	(14.0)	(44.9)
– other finance income	114.6	133.9
– actuarial loss	(2,013.4)	(725.4)
(Deficit)/surplus in scheme at end of year	(1,070.1)	965.0

Analysis of amount charged to operating expenditure

	2003 £m	2002 £m
Current service cost	155.7	132.3
Past service cost	14.0	44.9
Total operating charge	169.7	177.2

The current service cost is the cost to the BBC of pension rights earned by employees in the year.

The amounts here are estimates based on predictions of future performance and economic conditions.

Analysis of amount credited to other finance income

	2003 £m	2002 £m
Expected return on pension scheme assets	424.0	416.4
Interest on pension scheme liabilities	(309.4)	(282.5)
Net return	114.6	133.9

8 Pensions *continued*

The actuarial gains and losses are those resulting from actual performance being different from that predicted – for example from changes in economic conditions or the demographic profile of BBC employees.

Analysis of amount recognised in statement of total recognised gains and losses

	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	(1,607.9)	(532.0)
Experience gains and (losses) arising on the scheme's liabilities	(12.4)	26.6
Changes in assumptions underlying the present value of the scheme liabilities	(393.1)	(220.0)
Actuarial loss recognised in statement of total recognised gains and losses	(2,013.4)	(725.4)

This note is designed to show trends over several years. Only three years are currently available since the adoption of FRS 17.

History of experience gains and losses

	2003	2002	2001
Difference between the expected and actual return on scheme assets:			
Amount (£million)	1,607.9	532.0	950.9
Percentage of scheme assets	32.8%	8.6%	14.7%
Experience gains and (losses) on scheme liabilities:			
Amount (£million)	12.4	(26.6)	(35.7)
Percentage of the present value of the scheme liabilities	0.2%	0.5%	0.7%
Total amount recognised in the statement of total recognised gains and (losses):			
Amount (£million)	(2,013.4)	(725.4)	(708.2)
Percentage of the present value of the scheme liabilities	33.7%	13.8%	14.8%

8c Other schemes

The small unfunded pension scheme is valued using assumptions which are the same as those for the main scheme. At 31 March 2003 the obligation was £4.4million (2002 £3.9million) which is fully provided for in the accounts. The current cost for the year for this scheme was £0.5million (2002 £0.2million) of which £0.2million (2002 £0.2million) was charged to operating costs and £0.3million (2002 £nil) as interest on pension liabilities.

The total charge for the Group personal pension scheme and other defined contribution schemes totalled £1.8million (2002 £2.1million).

8d UK Public Service Broadcasting

UK Public Service Broadcasting has taken advantage of the provisions within FRS 17 and accounts for the scheme as if it were a defined contribution scheme. This is because it is not possible to identify its share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge for UK Public Service Broadcasting therefore represents the contributions payable in the year. These contributions are set based on the funding needs identified from the actuarial valuation and benefit from the actuarial surplus. They are therefore lower than the regular cost.

Notes to the financial statements

9 Taxation

9a Analysis of charges for the period

The charge for the year, based on the rate of corporation tax of 30% (2002 30%) comprised:

	Note	2003 £m	2002 £m
Current tax			
UK corporation tax		17.7	12.7
Deduct: double tax relief		(3.5)	(2.9)
		14.2	9.8
Adjustments in respect of prior years			
		(3.0)	–
		11.2	9.8
Foreign tax		5.4	7.6
Share of associates tax		1.1	0.3
Total current tax	9b	17.7	17.7
Deferred tax			
Origination and reversal of timing differences		–	2.8
Adjustments in respect of previous years		(2.0)	(2.8)
Total deferred tax	9d	(2.0)	–
Total charge for the year		15.7	17.7

9b Factors affecting the tax charge

The Group is only liable to taxation on those activities carried out with a view to making a profit and on rent, royalties and interest receivable. The BBC does not therefore receive relief for all its expenditure, and the tax assessed for the year consequently differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Note	2003 £m	2002 £m
(Deficit)/surplus before tax		(299.0)	2.9
(Deficit)/surplus before tax multiplied by standard rate of corporation tax in the UK of 30% (2002 30%)		(89.7)	0.9
Effects of			
UK Public Service Broadcasting taxable external income		5.7	6.5
Non-taxable loss in UK Public Service Broadcasting		95.4	–
FRS 17 net Group pension charge		6.7	5.2
Commercial activities			
Non-taxable income		(0.4)	(3.9)
Disallowed expenditure		1.6	1.6
Depreciation in excess of capital allowances		–	1.8
Tax losses not Group relieved		–	1.4
Tax differential re overseas earnings		1.8	4.4
Other		(0.4)	(0.2)
Adjustments in respect of previous periods		(3.0)	–
Current tax charge for the year	9a	17.7	17.7

9c Factors that may affect future tax charges

The Group anticipates that the future tax charge will not alter materially since all licence fee income is free of tax.

9d Deferred tax analysis

Movement on deferred tax provision/(asset) in the year	Note	2003 £m	2002 £m
Provision at start of year		-	-
Exchange adjustment		0.5	-
Deferred tax credit	9a	(2.0)	-
Deferred tax asset at end of year		(1.5)	-
Analysis of deferred tax asset/(liability) at end of year*			
Accelerated capital allowances		(4.1)	1.5
Other timing differences		-	0.8
US timing differences		5.6	1.8
		1.5	4.1

* In 2002 the deferred tax asset of £4.1 million was not recognised

10 Intangible fixed assets

Goodwill is the difference between the value paid for a business and the fair value of its net assets. It represents the amount the purchaser is prepared to pay for the name and reputation of the business and its expected future profit schemes.

	Intellectual property rights £m	Goodwill £m	Total £m
Cost			
At 1 April 2002	8.7	8.1	16.8
Additions	4.7	0.1	4.8
At 31 March 2003	13.4	8.2	21.6
Amortisation			
At 1 April 2002	1.1	0.3	1.4
Charge for the year	4.0	0.5	4.5
At 31 March 2003	5.1	0.8	5.9
Net book value			
At 31 March 2003	8.3	7.4	15.7
At 31 March 2002	7.6	7.8	15.4

Goodwill is amortised on a straight line basis over 20 years reflecting the useful economic life, subject to reviews for impairment.

The £4.7million additions within intellectual property rights relate to the acquisition of software licences by BBC Technology. These are amortised on a straight line basis over the life of the licence.

On 28 February 2003 BBC Worldwide acquired 100% of the share capital of Parentwise Limited for a nominal amount. The company had net liabilities of £0.1million and goodwill of £0.1million has arisen on the transaction.

There was no difference between the book value, as recorded in the records of Parentwise Limited prior to the acquisition, and the fair value of the assets acquired.

Notes to the financial statements

11 Tangible fixed assets

11a The Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2002	457.9	876.3	122.4	106.4	1,563.0
Additions	3.8	80.5	8.0	114.8	207.1
Brought into service	9.3	60.9	3.6	(73.8)	–
Disposals	(16.4)	(37.0)	(7.9)	(2.3)	(63.6)
At 31 March 2003	454.6	980.7	126.1	145.1	1,706.5
Depreciation					
At 1 April 2002	199.0	540.1	63.1	–	802.2
Charge for the year	15.5	109.8	12.0	–	137.3
Elimination in respect of disposals	(6.0)	(25.2)	(4.7)	–	(35.9)
At 31 March 2003	208.5	624.7	70.4	–	903.6
Net book value					
At 31 March 2003	246.1	356.0	55.7	145.1	802.9
At 31 March 2002	258.9	336.2	59.3	106.4	760.8

Included within plant and machinery are £16.4million (2002 £19.6million) of assets held under finance leases.

One of the BBC's joint venture partners, Crown Castle UK Limited, has a charge of £3.0million over the assets of BBC Technology Group.

Included within fixed assets is £24million at cost relating to a relay station in Thailand used by BBC World Service. These assets are transferable to the Royal Thai Government in return for the payment of a nominal sum. BBC World Service will retain the rights to repurchase the assets, should the operation cease, for a similar nominal sum. The use of these assets is not affected by this transaction and therefore they will continue to be carried at cost less attributable depreciation in the balance sheet.

11b UK Public Service Broadcasting

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2002	400.0	429.4	93.3	55.1	977.8
Additions	2.6	39.2	6.9	83.9	132.6
Brought into service	3.9	25.2	3.0	(32.1)	–
Transfers (to)/from subsidiaries	–	(30.4)	–	0.6	(29.8)
Disposals	(16.2)	(14.8)	(6.2)	(1.6)	(38.8)
At 31 March 2003	390.3	448.6	97.0	105.9	1,041.8
Depreciation					
At 1 April 2002	168.2	247.5	41.3	–	457.0
Charge for the year	12.7	43.2	9.4	–	65.3
Transfers to subsidiaries	(0.2)	(16.2)	–	–	(16.4)
Elimination in respect of disposals	(6.0)	(9.1)	(3.2)	–	(18.3)
At 31 March 2003	174.7	265.4	47.5	–	487.6
Net book value					
At 31 March 2003	215.6	183.2	49.5	105.9	554.2
At 31 March 2002	231.8	181.9	52.0	55.1	520.8

11b UK Public Service Broadcasting *continued*

Included within plant and machinery are £6.7million (2002 £19.8million) of assets held under finance leases with another Group company.

The increase in assets under construction relates to the property investment programme currently under way (see Financial review pages 82 to 84).

11c Land and buildings at net book value comprise:

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Freeholds	208.9	226.0	193.4	210.1
Long leaseholds	9.9	9.9	9.9	9.9
Short leaseholds	27.3	23.0	12.3	11.8
	246.1	258.9	215.6	231.8

There has been no impairment in the carrying values of freehold properties at the balance sheet date.

Land and buildings in the Group include freehold land at a cost of £35.0million (2002 £34.8million) and in the UK Public Service Broadcasting operations of £30.8million (2002 £30.6million), none of which is depreciated.

12 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2002	323.8
Exchange adjustment	(12.7)
Additions	86.7
Financing benefit	(0.4)
Elimination of programmes fully amortised	(76.0)
At 31 March 2003	321.4
Amortisation	
At 1 April 2002	212.0
Exchange adjustment	(11.3)
Charge for the year	88.4
Elimination of programmes fully amortised	(76.0)
At 31 March 2003	213.1
Net book value	
At 31 March 2003	108.3
At 31 March 2002	111.8

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £82.7million direct investment in BBC programmes (2002 £80.5million).

Included in the net book value is £4.5million (2002 £4.2million) relating to investments held under a licence agreement. The financing benefit relates to monies received for tax credits on investments in sale and leaseback programmes.

Notes to the financial statements

13 Other investments (including BBC World Service net assets)

13a Movements in the year for the Group

	Interests in joint ventures (Note 13d) £m	Interests in associates (Note 13e) £m	Other investments £m	Total Group £m
At 1 April 2002	11.5	4.9	0.4	16.8
Additions	1.2	–	–	1.2
Disposals	–	(0.2)	–	(0.2)
Exchange adjustment	–	0.2	–	0.2
Provision against investments	–	(0.4)	(0.4)	(0.8)
Share of retained profits/(losses)	5.2	(24.8)	–	(19.6)
Dividend received	–	(1.3)	–	(1.3)
Adjustment to reflect effective obligations	(4.8)	26.3	–	21.5
At 31 March 2003	13.1	4.7	–	17.8

13b Movements in the year for UK Public Service Broadcasting

	Interest in BBC World Service net assets £m	Shares in subsidiaries £m	Interests in joint ventures £m	Other investments £m	Total £m
At 1 April 2002	134.3	155.3	9.2	0.4	299.2
Accumulated surplus	8.5	–	–	–	8.5
Additions	–	83.3	1.0	–	84.3
Disposals	–	(73.3)	–	(0.4)	(73.7)
At 31 March 2003	142.8	165.3	10.2	–	318.3

Additions to shares in subsidiaries include 10,000,000 ordinary shares issued at £1 each on 2 April 2002 to enable BBC Broadcast to finance the acquisition of the business from the BBC.

Disposals in shares in subsidiaries relates to the transfer of investments in BBC Technology of £63.0million, BBC Broadcast of £10.0million, and BBC Worldwide of £0.3million to the BBC Commercial Holdings Group. In consideration BBC Commercial Holdings issued 73,250,000 ordinary shares at £1 each which were fully subscribed for by UK Public Service Broadcasting.

Subsidiary undertakings are businesses the BBC controls.

13c Subsidiary undertakings

UK Public Service Broadcasting operation owns 100% of the issued share capital of the following companies which are incorporated in Great Britain:

BBC Commercial Holdings Limited
BBC Resources Limited
BBC Free To View Limited
BBC News Limited
BBC Property Limited
BBC Property Investments Limited
BBC Property Development Limited (dormant)
Centre House Productions Limited
BBC Digital Programme Services Limited
BBC Subscription Television Limited (dormant)
BBC Investments Limited (dormant)

13c Subsidiary undertakings *continued*

The Group also holds the controlling interest in the following principal subsidiary undertakings which are held by BBC World Service which owns 100% of the issued share capital:

Held by BBC World Service:

BBC East Asia Relay Company Limited (incorporated in Hong Kong)
 BBC Radiocom (Bulgaria) EOOD (incorporated in Bulgaria)
 BBC Radiocom (Hungary) KFT (incorporated in Hungary)
 BBC Radiocom (Praha) s.r.o. (incorporated in the Czech Republic)
 BBC Radiocom (Slovakia) s.r.o. (incorporated in the Slovak Republic)
 BBC Romania SRL (incorporated in Romania)
 BBC Polska Sp. z o.o. (incorporated in Poland)
 BBC do Brazil Limitada (incorporated in Brazil)
 BBC Radiocom Deutschland GmbH (incorporated in Germany)
 BBC Croatia d.o.o. (incorporated in Croatia)
 BBC World Service Trust*

* The BBC World Service Trust is a charitable company limited by guarantee, of which the BBC is the sole member

The Group also holds the controlling interest in the following subsidiaries, which unless otherwise stated are incorporated in Great Britain:

	Holding of ordinary shares %
Held by BBC Commercial Holdings Limited:	
BBC Worldwide Limited	100
BBC World Limited	100
BBC Ventures Group Limited	100
Held by BBC Ventures Group Limited:	
BBC Technology Holdings Limited	100
BBC Broadcast Limited	100
Held by BBC Technology Holdings Limited:	
BBC Technology Limited	100
BBC Technology Services Limited	100
BBC Technology Supply Limited	100
Kingswood Warren Ventures Limited (renamed BBC Vecta Limited in May 2003)	100
BBC Technology Holdings LLC (incorporated in the USA)	100
BBC Technology Consultancy LLC (incorporated in the USA)	100
Held by BBC Worldwide Limited:	
<i>Publishing</i>	
BBC Magazines Inc. (incorporated in the USA)	100
Galleon Limited	100
Broadcasting Dataservices Limited	75
Cover to Cover Cassettes Limited	100
BBC Audiobooks Limited (formerly Chivers Press Limited)	100
<i>Programme distribution</i>	
BBC Worldwide Americas Inc. (incorporated in the USA)	100
BBC Worldwide Music Limited	100
UK Programme Distribution Limited	95
BBC Worldwide Japan KK Limited (incorporated in Japan)	100
BBC Worldwide France SARL (incorporated in France)	100
BBC Worldwide Germany GmbH (incorporated in Germany)	100
BBC Worldwide Canada Limited (incorporated in Canada)	100
<i>Channels</i>	
New Video Channel America LLC (incorporated in the USA)	100
European Channel Broadcasting Limited	100
European Channel Management Limited	100

Notes to the financial statements

13c Subsidiary undertakings *continued*

	Holding of ordinary shares %
Investment companies	
Worldwide Americas Investments Inc. (incorporated in the USA)	100
BBC Worldwide Investments Limited	100
BBC World Service Television Limited	100
Worldwide Channel Investments Limited	100
Worldwide Channel Investments (Europe) Limited	100
Worldwide Channel Investments (Ontario) Limited (incorporated in Canada)	100
Internet	
beeb Ventures Limited	86.9
Held by BBC World Limited:	
BBC World Distribution Limited	100
Satellite News Corporation Limited (incorporated in Japan and renamed BBC World Distribution Japan Limited in April 2003)	100
BBC World (Singapore) Private Limited (incorporated in Singapore)	100
BBC World (Australia) Pty Limited (incorporated in Australia)	100
BBC Worldwide (India) Private Limited (incorporated in India)*	75

* BBC Worldwide Limited holds the remaining 25% interest in the ordinary shares of this company

Joint ventures are businesses the BBC jointly controls with other parties.

13d Interests in joint ventures

The Group has a 50% equity interest in the following joint ventures which are all incorporated in the UK, unless otherwise stated:

Name of entity	Activity	Partner	Accounting date
UK Channel Management Limited	Channels	Flextech	31 December 2002
UK Gold Holdings Limited	Channels	Flextech	31 December 2002
UKTV New Ventures Limited	Channels	Flextech	31 December 2002
UKTV Interactive Limited	Channels	Flextech	31 December 2002
JV Programmes LLC†	Channels	Discovery Communications Inc.	31 December 2002
BBC Haymarket Exhibitions Limited	Publishing	Haymarket Exhibitions Limited	31 December 2002
Insight Property Partnership	Property	Land Securities Trillium Limited	31 March 2003
DTV Services Limited*	Marketing	Crown Castle UK Limited, British Sky Broadcasting Limited	Six months to 31 March 2003

† Incorporated in the USA

* 33% equity interest

During the year the BBC entered into a new joint venture, DTV Services Limited, to provide marketing services for digital channels on a terrestrial platform in the UK. The BBC set up a subsidiary, BBC Free to View Limited (see Note 13c), to hold the BBC's digital terrestrial multiplex licence and its equity interest in the joint venture to ensure the costs of this joint venture are managed separately from licence fee funded activities.

For a number of years the BBC, through its subsidiary BBC Worldwide, has had major partnership deals with Flextech, the content division of Telewest Communications plc, for the production and marketing of subscription channels in the UK and with Discovery Communications Inc. for incorporating new channels around the world and providing new co-production funding for programmes. These alliances operate the joint ventures listed above.

The Group share of turnover for the Haymarket joint venture was £4.2million (2002 £6.4million) and its operating surplus share was £0.7million (2002 £0.3 million).

The joint venture with Land Securities Trillium Limited provides a range of property and development services to the BBC. Related joint ventures and associate companies have been set up to develop particular BBC properties.

The following disclosures represent the Group's equity shares of the assets and liabilities of its joint ventures based on the results for the latest accounting periods as shown above.

13d Interests in joint ventures *continued*

BBC Group share of:	UK Gold Holdings Limited ² £m	UK Channel Management Limited ² £m	Other joint ventures ² £m	Total joint ventures £m
2003				
Turnover	31.7	28.6	19.7	80.0
Profit/(loss) before tax	9.5	0.3	(1.0)	8.8
Taxation	(2.7)	–	(0.9)	(3.6)
Profit/(loss) after tax	6.8	0.3	(1.9)	5.2
Fixed assets	–	–	2.3	2.3
Goodwill	–	–	10.2	10.2
Current assets	14.3	27.6	19.4	61.3
Liabilities less than one year	(10.3)	(3.5)	(13.0)	(26.8)
Liabilities more than one year	(38.5)	(46.8)	(11.5)	(96.8)
Adjustment to reflect effective obligations	34.5	22.7	5.7	62.9
Net book value	–	–	13.1	13.1
2002				
Turnover	34.8	28.4	18.4	81.6
Profit/(loss) before tax	13.2	(3.0)	(1.9)	8.3
Taxation	(3.4)	–	(0.2)	(3.6)
Profit/(loss) after tax	9.8	(3.0)	(2.1)	4.7
Fixed assets	–	0.1	2.2	2.3
Goodwill	–	–	9.2	9.2
Current assets	14.2	14.0	19.6	47.8
Liabilities less than one year	(9.4)	(7.1)	(11.6)	(28.1)
Liabilities more than one year	(46.0)	(44.6)	(11.6)	(102.2)
Adjustment to reflect effective obligations	41.2	37.6	3.7	82.5
Net book value	–	–	11.5	11.5

² The figures for 2003 are based on unaudited financial statements (2002 unaudited)

Under the terms of the agreement with Flextech and Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2003 (2002 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation.

Notes to the financial statements

Associates are businesses over which the BBC exerts significant influence but does not have overall control.

13e Interests in associates

The Group holds significant interests in the following principal associates which, except where otherwise stated, are incorporated in Great Britain:

	Holding of issued ordinary shares %
Held by UK Public Service Broadcasting:	
Parliamentary Broadcasting Unit Limited	33
Broadcasters Audience Research Board Limited	
The Commonwealth Broadcasting Association	
Radio Joint Audience Research Limited (RAJAR)	50
Held by BBC World Service:	
Caribbean Relay Company Limited (incorporated in Antigua)	45
Multimedia Ventures Limited	50
WRG-FM SA (incorporated in Switzerland)	40
Held by BBC Worldwide Limited:	
Publishing	
Frontline Limited	23
Channels	
UKTV Pty Limited (incorporated in Australia)	20
Animal Planet (Latin America) LLC (incorporated in the USA)†	50
People and Arts (Latin America) LLC (incorporated in the USA)†	50
Animal Planet LLC (incorporated in the USA)†	20
JV Network LLC (incorporated in the USA)†	50
Animal Planet (Asia) LLC (incorporated in the USA)†	50
The Animal Planet Europe Partnership†	50
Animal Planet Japan KK (incorporated in Japan)†	33
Animal Planet Japan LLP (incorporated in the USA)†	50
Jasper Broadcasting Inc. (incorporated in Canada)	20
Jasper Junior Broadcasting Inc. (incorporated in Canada)	20
Animal Planet Canada Company ULC (incorporated in Canada)†	23
Held by BBC Resources Limited:	
3sixtymedia Limited	10
Held by BBC Property Limited:	
White City Development Partnership	**

* Broadcasters Audience Research Board Limited and The Commonwealth Broadcasting Association are companies limited by guarantee, of which the BBC is a joint member with other broadcasters

† Discovery associate

** 50% partnership share

13e Interests in associates *continued*

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2002 and the remaining associates' disclosures are based on the results at the date of their individual financial statements. These additional disclosures represent the Group's equity share of assets and liabilities of those entities.

	2003 £m	2002 £m
BBC Group interests in associates		
Share of turnover	37.5	39.1
Share of fixed assets	51.0	61.4
Share of current assets	14.7	23.9
Share of liabilities due within one year	(16.4)	(22.3)
Share of liabilities due after more than one year	(114.5)	(104.9)
Adjustment to reflect effective obligation	69.9	46.8
Net interests in associates	4.7	4.9

The results include the Group share of the operating profit of UKTV Pty Limited of £0.2million (2002 £0.1million) and Frontline Limited of £2.0million (2002 £1.0million). Both are accounted for separately from the Discovery associates. The Group's share of the remaining associates, including Jasper Broadcasting Inc. and Jasper Junior Broadcasting Inc., operated in partnership with Alliance Atlantis, was £nil (2002 £nil).

Under the terms of the agreements with Discovery and Alliance Atlantis, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2003 (2002 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation, with the exception of JV Network LLC. JV Network LLC was formed for the purpose of providing debt funding from Discovery to the other Discovery joint ventures and BBC Worldwide is not entitled to any profits arising within this entity.

14 Stocks

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Raw materials	4.2	2.4	–	–
Work in progress				
– originated programmes	245.2	254.5	245.1	254.5
– other	7.3	6.6	–	0.1
Finished programmes				
– acquired programmes and films	97.2	89.0	97.2	89.0
– originated programmes	94.9	80.7	94.9	80.7
Other	20.1	16.2	0.5	1.0
Total	468.9	449.4	437.7	425.3

Notes to the financial statements

15 Debtors

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Receivable within one year				
Trade debtors	142.6	146.4	21.9	27.5
Department for Culture, Media and Sport – licence fee debtors	254.3	255.5	254.3	255.5
Amounts owed by subsidiaries	–	–	56.0	58.1
Amounts owed by associates and joint ventures	4.9	9.2	–	–
VAT recoverable	38.0	39.6	34.1	30.7
Other debtors	22.7	36.4	5.6	14.2
Corporation tax	–	0.6	–	0.7
Prepayments	143.0	175.9	115.4	156.1
	605.5	663.6	487.3	542.8
Receivable after more than one year				
Trade debtors	–	0.2	–	0.2
Other debtors	6.9	–	–	–
Prepayments	151.7	137.0	131.8	113.6
	158.6	137.2	131.8	113.8
Total	764.1	800.8	619.1	656.6

The prepayments receivable after more than one year include an amount in respect of the White City building which is leased from the partnership between the BBC and Land Securities Trillium. This is being released over the term of the lease.

16 Creditors

16a Prompt payment policy

It is the BBC's policy to comply with the CBI prompt payment code in relation to the payment of suppliers, provided that the supplier is complying with the relevant terms and conditions of their contracts. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The BBC Group's number of creditor days outstanding in respect of other trade creditors at 31 March 2003 was 44 days (2002 52 days).

16b Amounts falling due within one year

	Note	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Bank overdrafts and other loans	23				
Bank overdrafts		70.7	–	70.7	60.9
Bank and other loans		0.9	–	–	–
Unsecured loan notes		1.7	1.9	–	–
		73.3	1.9	70.7	60.9
Payments received on account		–	2.2	–	–
Trade creditors					
Programme creditors		76.2	75.9	72.6	75.5
Programme acquisitions		35.4	44.0	35.0	44.0
Salaries and wages		48.6	29.0	27.2	18.2
Residual copyright payments		41.8	56.5	–	–
Other trade creditors		164.5	178.9	104.5	121.7
		366.5	384.3	239.3	259.4
Other creditors					
Corporation tax		3.1	–	1.3	–
Other taxation and social security		32.6	41.0	25.8	24.6
Amounts owed to subsidiaries		–	–	69.2	57.9
Amounts owed to associates and joint ventures		0.7	1.7	–	–
Obligations under finance leases		8.8	7.2	–	–
Amounts owed to subsidiaries in respect of finance leases		–	–	1.9	10.1
		45.2	49.9	98.2	92.6
Accruals and deferred income					
Accruals and deferred income		327.4	302.4	266.6	224.5
Licence savings stamps deposits and direct debit instalments		108.1	130.5	108.1	130.5
		435.5	432.9	374.7	355.0
Total		920.5	871.2	782.9	767.9

16c Amounts falling due after more than one year

	Note	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Bank and other loans	23	87.2	29.4	–	–
Trade creditors					
Programme acquisitions		33.1	36.4	33.1	36.4
Other trade creditors		–	2.9	–	–
		33.1	39.3	33.1	36.4
Other creditors					
Obligations under finance leases	23	39.1	33.8	–	–
Amounts owed to subsidiaries		–	–	18.3	–
Amounts owed to subsidiaries in respect of finance leases	23	–	–	4.8	9.7
		39.1	33.8	23.1	9.7
Total		159.4	102.5	56.2	46.1

Notes to the financial statements

17 Provisions for liabilities and charges

Group	At 1 April 2002 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2003 £m
Licence fee	24.9	(20.9)	(1.5)	19.8	22.3
Restructuring	14.1	(8.3)	(3.9)	5.2	7.1
Litigation and insurance	14.6	(2.9)	(2.5)	5.6	14.8
Property	10.5	–	–	2.4	12.9
Other	18.5	(9.6)	(16.4)	22.4	14.9
Total	82.6	(41.7)	(24.3)	55.4	72.0

Property provisions include BBC World Service's liability of £3.6million (2002 £3.6million) to restore Bush House to its original condition, together with amounts relating to other dilapidations and relocations.

Other provisions consist of a number of balances arising across the BBC in the normal course of business.

UK Public Service Broadcasting	At 1 April 2002 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2003 £m
Licence fee	24.9	(20.9)	(1.5)	19.8	22.3
Restructuring	11.9	(7.3)	(2.7)	4.0	5.9
Litigation and insurance	14.6	(2.9)	(2.5)	5.6	14.8
Property	6.9	–	–	2.4	9.3
Other	16.3	(9.6)	(12.5)	17.8	12.0
Total	74.6	(40.7)	(19.2)	49.6	64.3

18 Reserves

Group	Operating reserve excluding pension reserve £m	Pension reserve £m	Total operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2002	646.2	961.1	1,607.3	802.6	6.4	2,416.3
Exchange adjustments	(3.1)	–	(3.1)	–	–	(3.1)
Deficit for financial year	(314.6)	–	(314.6)	–	–	(314.6)
Actuarial loss on defined benefit pension schemes	–	(2,013.4)	(2,013.4)	–	–	(2,013.4)
Revaluation reserve transfer	0.8	–	0.8	–	(0.8)	–
Pension reserve transfer	22.2	(22.2)	–	–	–	–
Capital reserve transfer	(55.5)	–	(55.5)	55.5	–	–
At 31 March 2003	296.0	(1,074.5)	(778.5)	858.1	5.6	85.2
Represented by:						
General Group reserves	287.2	(1,074.5)	(787.3)	729.7	–	(57.6)
BBC World Service reserves	8.8	–	8.8	128.4	5.6	142.8
	296.0	(1,074.5)	(778.5)	858.1	5.6	85.2

The UK Public Service Broadcasting operations and BBC World Service are funded from different sources. As such, the reserves relating to BBC World Service are maintained separately from the rest of the Group and are restricted for use solely on BBC World Service activities.

Under the accounting standard FRS 10, *Goodwill and intangible assets*, any newly arising goodwill must be capitalised and amortised over its useful life. As is permitted by the standard, goodwill arising in periods prior to 1999 of £6.8million (2002 £6.8million) remains offset against the operating reserve.

18 Reserves *continued*

	Operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
UK Public Service Broadcasting				
At 1 April 2002	561.1	802.6	6.4	1,370.1
Deficit for financial year	(303.4)	–	–	(303.4)
Revaluation reserve transfer	0.8	–	(0.8)	–
Capital reserve transfer	(55.5)	55.5	–	–
At 31 March 2003	203.0	858.1	5.6	1,066.7
Represented by:				
UK Public Service Broadcasting reserves	194.2	729.7	–	923.9
BBC World Service reserves	8.8	128.4	5.6	142.8
	203.0	858.1	5.6	1,066.7

19 Reconciliation of Group operating deficit to net cash (outflow)/inflow from operating activities

	2003 £m	2002 £m
Group operating deficit	(406.6)	(173.4)
Depreciation and amortisation	230.2	220.5
Pension schemes operating costs (non-cash)	136.5	151.5
Loss on disposal of tangible fixed assets	4.5	1.4
Increase in stocks	(19.5)	(51.8)
Decrease/(increase) in debtors	37.3	(43.3)
(Decrease)/increase in creditors	(36.0)	83.2
(Decrease)/increase in provisions	(14.7)	29.4
Net cash (outflow)/inflow from operating activities	(68.3)	217.5

20 Analysis of changes in net funds/(debt)

	At 1 April 2002 £m	Cash flows £m	Non-cash movements £m	At 31 March 2003 £m
Net cash				
Bank overdrafts	–	(70.7)	–	(70.7)
Cash at bank and in hand	0.3	69.2	–	69.5
	0.3	(1.5)	–	(1.2)
Liquid resources				
Short-term investments	356.8	(291.9)	–	64.9
Gross funds	357.1	(293.4)	–	63.7
Debt:				
Loans from third parties	(29.4)	(59.1)	0.4	(88.1)
Unsecured loan notes	(1.9)	0.5	(0.3)	(1.7)
Finance leases	(41.0)	21.4	(28.3)	(47.9)
Net funds/(debt)	284.8	(330.6)	(28.2)	(74.0)

The repayments on finance leases held by Centre House Productions Limited are offset directly by income earned on matching deposits, such that there is no cash flow effect.

Notes to the financial statements

21 Reconciliation of net cash flow to movement in net funds

	2003 £m	2002 £m
Decrease in cash in year	(1.5)	(95.6)
Net cash (inflow)/outflow from management of liquid resources	(291.9)	88.4
Net cash inflow from increase in loans and finance leases	(37.2)	(10.3)
Change in net funds resulting from cash flows	(330.6)	(17.5)
Non-cash movement on loans	0.1	(1.9)
Increase in finance leases	(28.3)	(30.5)
Change in net funds	(358.8)	(49.9)
Net funds at the beginning of the year	284.8	334.7
Net (debt)/funds at the end of the year	(74.0)	284.8

22 Borrowing limits

When the Department for Culture, Media and Sport granted a new £350million borrowing limit for BBC Commercial Holdings Limited in July 2002, three financial covenants were defined which are required to be met as at 31 March each year. As at 31 March 2003 BBC Commercial Holdings Group was in compliance with each of these covenants.

Of the £350million commercial limit, only £210million is currently available to the commercial operations until BBC Resources Limited is transferred into the group headed by BBC Commercial Holdings Limited. This is required to take place before 30 September 2003.

The Public Services borrowing limit is set within the BBC Charter.

	2003 £m	2002 £m
Public Services		
Gross borrowing limit	200.0	200.0
Borrowings		
Bank overdrafts	70.7	60.9
Finance leases*	6.7	19.8
	77.4	80.7
Licence savings stamps deposits and direct debit instalments to extent not covered by cash and liquid resources**		
Licence savings stamps deposits and direct debit instalments	108.1	130.5
Less: short-term investments	(32.9)	(356.8)
Less: cash at bank and in hand	(20.4)	(11.4)
Amount not covered by cash and liquid resources	54.8	-
Gross borrowing	132.2	80.7

* Includes finance leases with commercial subsidiaries but excludes Centre House Productions finance leases

** The BBC must be able to repay these on demand and so to the extent that it does not hold cash reserves that match the liability, the balance is set against the borrowing limit

The Commercial Businesses' borrowing limit was set during 2003 by the Department for Culture, Media and Sport.

	2003 £m	2002 £m
Commercial Businesses		
Net borrowing limit	350.0	n/a
Loans from third parties	88.1	
Unsecured loan notes	1.7	
Finance leases	15.9	
Gross borrowing	105.7	
Less: Gross funds	(74.3)	
Net borrowing	31.4	

23 Financial instruments

23a Treasury management and financial instruments

The Group's treasury operations are managed by a group treasury function within parameters defined formally within the policies and procedures manual agreed by the Executive Committee. Group Treasury's activity is routinely reported to the Executive Committee and Board of Governors and is subject to review by internal and external auditors.

Group Treasury uses financial instruments to raise finance and to manage financial risk arising from its operations in accordance with its objectives which are:

- to ensure the business of the BBC, both Public Services and Commercial, is fully funded in the most efficient manner and remains compliant with borrowing limits
- to maximise the return on surplus funds, whilst ensuring sufficient cash is retained to meet foreseeable liquidity requirements
- to protect the value of the BBC's assets, liabilities and cash flows from the effects of adverse interest rates and foreign exchange fluctuations

The Group's financial instruments, other than those used for treasury risk management purposes, comprise cash and liquid resources, borrowings and various items such as trade debtors and creditors that arise directly from its operations. The Group finances its operations from these financial instruments. The main risks to be managed in this are ensuring that the Group has sufficient liquid funds to meet its obligations as they fall due and that it is compliant with its borrowing limits imposed by the Charter, by the Department for Culture, Media and Sport and by external loan covenants.

The Group also enters into limited foreign exchange and interest rate hedging transactions to manage its currency risk and interest rate risk. The Group is principally a domestic organisation with the majority of transactions and assets being in the UK and sterling based. However, the Group undertakes some transactions in currencies other than sterling and enters into forward currency contracts to manage this currency risk. Since March 2003 the Group has also entered into interest rate swaps to manage the interest rate risk now that it has a more significant level of loans.

The Group does not undertake speculative treasury transactions.

23b Cash and borrowing facilities

The Group invests short-term surplus cash in fixed rate investment products. Funds are invested only in organisations which have a minimum long-term rating of AA.

As at 31 March 2003 UK Public Service Broadcasting had available overdraft facilities of £13.2million and access to uncommitted bilateral money market lines totalling £45million. Interest is payable on the overdraft facility at a margin of 1% and on the money market facilities at between 0.125% and 0.5%.

BBC Commercial Holdings' loans comprise a £350million multicurrency revolving credit facility agreement repayable in full in March 2008. At 31 March 2003 £85million was drawn down. Interest is payable at LIBOR plus 0.375%, rising to LIBOR plus 0.45% once the facility is more than 50% utilised. Of the total amount £100million is available in the form of letters of credit to be issued in favour of the European Investment Bank to support its lending under the facilities detailed immediately below.

The European Investment Bank has made two loan facilities available to BBC Commercial Holdings. The first, for an amount of £66million, is available for drawing until March 2005 and must either be repaid in full as a single repayment by March 2013 or on an amortising basis by March 2015. The second, for £25million, is available for drawing until November 2003 and is repayable in one single instalment by November 2007. The interest rate applicable on both facilities is determined with reference to the European Investment Bank's own funding cost and carries no margin above this funding rate. At 31 March 2003 nothing was drawn down under either of these facilities.

Other loans include a US\$5million loan from Discovery (2002 US\$5million) which is repayable in the following stages: US\$1.5million due 31 March 2004; US\$3.5million due 31 March 2005. Interest is payable at LIBOR plus 1%.

In June 2003 a new £100million loan facility was put in place for UK Public Service Broadcasting which is available as either a revolving LIBOR-based loan or overdraft to May 2004 plus an option to extend the facility to May 2005. The facility bears interest at a margin of 0.2% and the overdraft facility bears interest at bank base rates plus 1%.

Notes to the financial statements

23b Cash and borrowing facilities *continued*

After the year end BBC Resources entered into a £50million revolving credit facility agreement which is repayable in full in September 2004. Interest is payable at LIBOR plus 0.375%.

23c Maturity of financial liabilities

The Group arranges its borrowings to meet forecast cash flows such that UK Public Service Broadcasting has access to sufficient funds to meet its commitments. Short-term flexibility is achieved by overdraft facilities.

The maturity profile of the Group's financial liabilities, other than short-term creditors, at 31 March was:

	Overdraft £m	Bank loans £m	Unsecured loan notes £m	Finance leases £m	Trade creditors £m	Total 2003 £m
2003						
Within one year	70.7	0.9	1.7	8.8	–	82.1
Between one and two years	–	2.2	–	5.0	18.2	25.4
Between two and five years	–	85.0	–	2.0	14.9	101.9
Greater than five years	–	–	–	32.1	–	32.1
	70.7	88.1	1.7	47.9	33.1	241.5
2002						
Within one year	–	–	1.9	7.2	–	9.1
Between one and two years	–	1.9	–	10.7	39.3	51.9
Between two and five years	–	27.5	–	2.3	–	29.8
Greater than five years	–	–	–	20.8	–	20.8
	–	29.4	1.9	41.0	39.3	111.6

Obligations under finance leases are in respect of computer hardware £15.9million (2002 £19.6million) and leases entered into by Centre House Productions Limited £32.0million (2002 £21.4million).

Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. Consequently they are netted off the finance lease creditor to show the net unmatched liability at the year end. These defeasance deposits, £275.3million at 31 March 2003 (2002 £227.4million), are structured such that the principal on deposit and the interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. Accordingly it is not included as borrowing for the purposes of compliance with the BBC's borrowing limits.

The maturity profile of UK Public Service Broadcasting's financial liabilities, other than short-term creditors, at 31 March was:

	Overdraft £m	Finance leases £m	Trade creditors £m	Intercompany creditors £m	Total 2003 £m
2003					
Within one year	70.7	1.9	–	–	72.6
Between one and two years	–	–	33.1	1.6	34.7
Between two and five years	–	4.8	–	6.8	11.6
Greater than five years	–	–	–	9.9	9.9
	70.7	6.7	33.1	18.3	128.8
2002					
Within one year	60.9	10.1	–	–	71.0
Between one and two years	–	9.7	36.4	–	46.1
	60.9	19.8	36.4	–	117.1

Obligations under finance leases are in respect of computer hardware.

23d Interest rates

The Group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the Group has borrowed at both fixed and floating rates of interest and then it has used interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

The Group's financial assets, excluding short-term debtors, amount to £140.4million at 31 March 2003 of which £134.4million are subject to floating rate interest and the remaining £6.0million of other debtors attract no interest.

After taking account of the various interest rate swaps and forward foreign currency contracts entered into by the Group, the interest rate profile of the Group's financial liabilities at 31 March 2003 was:

	Total £m	Financial liabilities on which no interest is paid £m	Floating rate financial liabilities £m	Fixed rate liabilities		
				Amount £m	Weighted average interest rate %	Weighted average period until maturity Years
2003						
Sterling	238.4	65.2	87.4	85.8	3.8%	4.5 years
US dollar	3.1	—	—	3.1	4.1%	1.4 years
Total	241.5	65.2	87.4	88.9		

Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions. In addition to the £70million of swaps included in the fixed rate liabilities of £85.8million shown above, which were effective at the year end, an additional £116million of forward starting swaps had been transacted to cover projected borrowings. These additional swaps were transacted at an average rate of 4.63% maturing in March 2008.

23e Currency exposure

The majority of the Group's operations are UK-based. The Group has one significant overseas operation, BBC Worldwide America, which operates in the USA and whose revenues and expenses are denoted exclusively in US dollars. The Group mitigates part of its exposure on its Group balance sheet to movements in the US dollar and sterling exchange rate for this overseas operation through borrowings denominated in dollars.

The Group has a number of transactions involving overseas parties and priced in the currencies of those parties. The Group's policy is to eliminate currency exposure at the time of the transaction through the use of forward contracts.

As at 31 March 2003, after taking into account the effects of forward foreign exchange contracts, the Group had no significant currency exposures.

23f Gains and losses on hedging contracts

The Group undertakes some transactions in international markets. Due to movements in exchange rates over time, the amount the Group expects to pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction. The Group manages its exposure to movements in exchange rates by entering into forward exchange hedging contracts. These allow the Group to settle transactions at known exchange rates, thereby eliminating much of this uncertainty.

At 31 March 2003 the Group had entered into a net commitment to purchase foreign currencies amounting to £84.5million that mature in the period through to 2007 in order to fix the sterling cost of commitments through this period.

Unrealised gains and losses on forward exchange hedging contracts amounted to an unrealised gain of £0.6million at the balance sheet date.

From March 2003 the Group started using interest rate swaps to manage its interest rate profile. There were no significant unrealised gains or losses on these contracts at 31 March 2003.

Notes to the financial statements

23g Fair values of financial assets and liabilities

There is no significant difference in value between the book value of the Group's financial instruments and their fair value.

24 Commitments

24a Contracts placed for future expenditure

	Group 2003 £m	Group 2002 £m	UK Public Service Broadcasting 2003 £m	UK Public Service Broadcasting 2002 £m
Fixed asset additions	95.6	45.9	76.7	13.4
Programme acquisitions and sports rights	670.1	754.4	670.0	715.2
Independent programmes	68.5	69.4	68.5	69.4
	834.2	869.7	815.2	798.0

An operating lease is a lease where the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee (the BBC) is hiring rather than buying an asset.

24b Operating leases

Operating lease commitments payable in the following year, analysed according to the period in which the lease expires:

	Land and buildings 2003 £m	Land and buildings 2002 £m	Other 2003 £m	Other 2002 £m
Group				
Within one year	2.6	2.7	2.3	5.3
In two to five years	11.0	12.1	8.8	9.3
After five years	17.6	13.0	1.9	2.5
	31.2	27.8	13.0	17.1
UK Public Service Broadcasting				
Within one year	1.7	1.3	1.2	1.0
In two to five years	3.1	4.4	3.2	10.8
After five years	15.1	11.8	0.1	—
	19.9	17.5	4.5	11.8

24c Other financial commitments

In the ordinary course of business the BBC enters into a large number of contracts with artists and writers and with providers of other services including licence fee collection and channel distribution.

25 Contingent liabilities

At 31 March 2003 the Group had unprovided contingent liabilities estimated to be £1.6million (2002 £2.3million) in respect of guarantees and indemnities.

The Group also has a number of contingent liabilities arising from litigation. The BBC makes specific provision (see Note 17) against an estimate of any damages and costs which may be awarded.

Related parties include Governors, the Executive Committee and other senior **managers**, their **immediate** families and external entities controlled by them.

26 Related party transactions

The related party transactions of the Group have been presented in accordance with FRS 8, *Related party disclosures*. Under the provisions of FRS 8 the BBC has not disclosed transactions between Group entities where more than 90% of those entities' voting rights are controlled within the Group. UK Public Service Broadcasting does not underwrite any of the activities or liabilities of the subsidiaries.

26a Transactions with joint ventures and associated undertakings

Included in the income and expenditure account is income from UKTV of £33.1million relating to the sale of programmes and JV Programmes LLC of £27.1million relating to the sale of programmes. There is also £6.0million of income made up of various other associates relating to the sale of programmes. Included in the income and expenditure is income of £0.3million from BBC Haymarket Exhibitions Limited relating to dividends and management fees. In addition, Frontline Limited charged £2.7million for the distribution of BBC Worldwide Limited's magazines. In all transactions, the terms of trade were negotiated on an arm's length basis.

The BBC and Land Securities Trillium Limited are partners in the Insight Property Partnership and the White City Development Partnership. On their formation in 2001 the BBC contributed its interest in the White City site in return for consideration which included reductions in service payments for future property services which are held as prepayments in the BBC's balance sheet. The partnership charged the BBC £111million for property services during the year (2002 £25million).

Amounts owed by/to joint ventures and associated undertakings at the year end are disclosed within Notes 15 and 16. In all transactions the terms of trade were negotiated on an arm's length basis.

26b Other transactions

Ranjit Sondhi, Governor, is married to Anita Bhalla, who has been employed by the BBC since 1987 in various production and broadcasting roles. Her current role is Head of Political & Community Affairs for the English Regions. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Dame Ruth Deech, Governor, has a daughter who is a journalist in BBC News. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Sir Robert Smith, Governor, has a son-in-law who worked for BBC Wales during the year and now works for BBC News on a freelance basis. His remuneration and freelance fees are based on the BBC's standard terms and conditions applicable to other staff employed in a similar capacity.

Sir Richard Eyre, Governor, is also Chairman and Managing Director of Chestermead Limited. During the year Sir Richard received either directly, or through Chestermead, payments totalling £3,754 for interviews and contributions to BBC programmes. No amounts were outstanding at the year end. Sir Richard Eyre's wife, Sue Birtwhistle, works on a freelance basis for the BBC. During 2002/2003 she received £19,080 from the BBC.

Rt Hon The Lord Ryder, Governor, is also a non-executive director and shareholder of Ipswich Town Football Club. During the year the BBC paid £94,814 to the club in respect of television and radio coverage.

Baroness Hogg, Governor, is also non-executive Chairman of Frontier Economics. During the year the BBC paid £5,925 to Frontier Economics for a project relating to the incorporation of BBC Broadcast Limited. No amounts were outstanding at the year end.

In the normal course of business there are a number of transactions between the BBC and other parties which are related by virtue of the fact that senior employees of the BBC are married to or have family relations with individuals who own or are employed at other media, production and broadcasting companies.

The BBC has set procedures for dealing with situations to avoid any conflict of interest. Where transactions have arisen between connected parties, the BBC Governor or employee is not party to the approval process.

APPENDIX 4
INDEX OF PRINCIPAL DEFINED TERMS

Account holder.....	111	Commercial Subsidiaries	86
Acquisition Tranche.....	56	Common Depository	2
Act	34	Company	48
Actual Interest Calculation	7	Condition.....	113
Advance	5	Conditions	113
Affected Party	96	Contractor	80
Agency Agreement	15, 113	Contribution Agreements	69
Agent Bank	15, 113	Corporate Services Agreement	15
Agents	113	Corporate Services Provider	14
Annual Interest Calculation	7	Credit Agreement.....	5
Assumed LPI	7, 59	CVA	43
Authorised Entity	105	Declaration of Trust	13
Available Receipts	91	Deed of Charge and Assignment.....	8, 113
Barclays	1	Deemed Unit Trust Distributions	54
3BC	2, 82	Default Interest.....	116
3BC Agreement.....	36, 82	Default Interest on Interest.....	122
3BC Charter	21, 36	Deferred Payment	72
Borrower	2, 12	Deferred Subscription Amounts.....	52
Borrower Account Charges	17	Definitive Notes	1, 2
Borrower Accounts	35	Developer.....	79
Borrower Assets.....	53	Development	5
Borrower Assignment of Rents.....	8	Development Account.....	5, 99
Borrower Cash and Corporate Management		Development Advance	5
Agreement	106	Development Advance Schedule	5
Borrower Debenture	8	Development Agreement	20
Borrower Development Account	98	Development Programme.....	20
Borrower Floating Charge	17	Development Tranche	56
Borrower Manager.....	13	Direct Agreements	18
Borrower Obligations	53	Direct Agreements Assignment	17
Borrower Operating Bank.....	15	Directors.....	48
Borrower Realisation Account.....	98	Distribution Compliance Period.....	135
Borrower Receipts	91	DSA Liquidity Advance.....	6
Borrower Rent Account.....	6, 98	DSA Liquidity Tranche.....	56
Borrower Secured Obligations.....	17	DSA Swap Transaction.....	94
Borrower Secured Parties	13	Duty of Care Agreement	18
Borrower Security Agreement	8	Eligible Investments.....	92
Borrower Security Trust	64	Eligible Noteholders	122
Borrower Security Trust Deed	13	Employer's Agent	79
Borrower Security Trustee.....	13	Enterprise Act	44
Borrower Share Charge	8	EPM Scheme.....	6
Borrower Shareholder.....	18	EPML	16
Borrower Standard Security.....	8	Euroclear	1, 2
Borrower Tax Amount.....	98	Event of Default	122
Broadcasting Act.....	82	Excess Borrower Interest	6
Building Certificates.....	21	Exchange Date	22
Building Contract.....	80	Expenses	57
Buildings Insurance Policy	18	Expenses Account	5, 99
Business Day	117	Expenses Tranche	56
Car Park Headlease.....	5	Extraordinary Resolution	122
Car Park Underlease	6	FCO.....	80
Certificate of Title.....	69	Finance Documents.....	7
Charter	82	Fitch	1, 122
CIML	13	Fixed Rate Swap Transaction.....	9
Clearstream, Luxembourg	1, 2	FSMA.....	15, 13
Closing Date	1, 116	Funder Representative.....	8
Collateral Deed	20	Global Notes	3
Commercial Revenue.....	37	Grant-in-Aid.....	3

Gross Redemption Yield.....	120	Market Rent.....	78
Headlease.....	5	Market Value.....	78
Headlease Break Option.....	19	Master Definitions Agreement.....	113
Headlease Landlord.....	72	Material Adverse Effect.....	62
Headlease Tenant.....	72	Material Adverse Tax Event.....	63
Headlessee.....	6	Maturity Date.....	1
Headlessees.....	6	Miscellaneous Documents.....	71
Heritable creditor.....	34	Moody's.....	1, 128
Holdings.....	12	Nominee.....	12
Home Services.....	82	Nominee Declaration of Trust.....	12
Index.....	7	Nominee Trust.....	12
Indexation.....	7	Note Calculation Date.....	103
Indexation Risk.....	7	Note Enforcement Notice.....	123
Indexation Swap Transaction.....	7, 94	Note Interest Transfer Amount.....	6
Insolvency Act.....	44	Note Payment Date.....	1, 8, 22, 117
Insolvency Event.....	58	Note Trust Deed.....	13, 113
Insurance Charge.....	17	Note Trustee.....	13, 113
Interest Account.....	5, 99	Noteholders.....	111, 113
Interest Amount.....	117	Notes.....	1, 113
Interest Amount Receipts.....	91	Notional Amount.....	94
Interest Instalment Amount.....	6	Offering Circular.....	1, 48
Interest Instalment Schedule.....	6	Outstanding Loan Balance.....	60
Interest Period.....	117	Pacific.....	48
Interest Period Date.....	117	Paying Agents.....	15, 113
Irish Stock Exchange.....	1, 117	Permanent Global Note.....	1, 2
SDA.....	14	Planning Consents.....	31
Issuer.....	1, 12, 113	Post Enforcement Call Option Agreement.....	26
Issuer Accounts.....	29	Prepayment Fee.....	60
Issuer Amount.....	94	Prepayment Fees.....	91
Issuer Cash and Corporate Management Agreement.....	103	Principal Amount Outstanding.....	23, 120
Issuer Development Guarantee.....	21	Principal Paying Agent.....	15, 113
Issuer Manager.....	13	Priority Amounts.....	92
Issuer Operating Account.....	8, 99	Project Documents.....	71
Issuer Operating Bank.....	15	Property.....	5
Issuer Secured Obligations.....	28	Quarterly Servicing Report.....	101
Issuer Secured Parties.....	13	Rate of Interest.....	117
Issuer Security.....	28, 113	Rating Agencies.....	1, 128
Issuer Security Trustee.....	13, 113	Receipts Ledger.....	104
Issuer Swap Collateral Cash Account.....	99	Redemption Amount.....	120
Issuer Swap Collateral Custody Account.....	100	Reference Date.....	120
Issuer Swap Transaction.....	94	Reference Gilt.....	120
Issuer/Borrower Expenses Loan Agreement.....	28	Regulation S.....	2
ITC.....	82	Regulations.....	1
Lender.....	8	Related Security.....	17
Licence Fee.....	82	relevant date.....	123
Licence Revenue.....	37	Rent Payments.....	6
Lloyds TSB.....	87	Rental Period.....	6
Loan.....	16	Rent-Free Period.....	6
Loan Amortisation Schedule.....	7	Repayment Instalment.....	7
Loan Calculation Date.....	101	Residual Value Agreement.....	72
Loan Enforcement Notice.....	67	S&P.....	1, 128
Loan Event of Default.....	62	Sale and Purchase Agreement.....	69
Loan Interest Period.....	59	Scheduled Principal Repayments.....	118
Loan Maturity Date.....	7	Scottish Enterprise Notice.....	69
Loan Payment Date.....	6	Scottish Floating Charges.....	17
Loan Servicer.....	13	SDLT.....	34
Loan Servicing Agreement.....	101	Securities Act.....	24, 135
Loan Transaction Documents.....	71	Security Creditor.....	77
LPI.....	7	Security Documents.....	71
Lump Sum Compensation Payment.....	55	Servicing Standard.....	101
Managers.....	135	Share Trustee.....	13
Managing Agent.....	18	SIPP Administrator.....	16
		SIPP Provider.....	16

SIPP Trustee	16	Termination Notice	73
SIPPs.....	6, 52	Termination Sum.....	73
Step-In-Party.....	81	Trigger Downgrade.....	72
sterling	3	Trigger Event	72
Sub-Paying Agent.....	15, 113	Trust Distribution Date	54
Subscription Agreement	135	Underlease.....	6
Surplus Calculation Date	58	Unit Trust.....	6
Swap Agreement.....	14	Unit Trust Deed.....	16
Swap Agreement Credit Support Document....	14, 96	Unit Trust Manager	16
Swap Calculation Date.....	103	Unit Trustee	6
Swap Payment Dates	95	Unitholders.....	6
Swap Provider.....	14	Units	16
Swap Provider Amount.....	94	VAT	53
Swap Receipts.....	91	VAT Amounts.....	66
Tax Event.....	96, 120	VAT Refund.....	98
Tax Liquidity Support Payments	54	World Service	40, 82, 86
Temporary Global Note.....	1, 2	World Service Broadcasting Agreement.....	86
Tenant	6, 75		

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