IMPORTANT NOTICE

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This offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of WHITE CITY PROPERTY FINANCE PLC, BARCLAYS BANK PLC or ABN AMRO BANK N.V., LONDON BRANCH (nor any person who controls any of them respectively nor any director, officer, employee nor agent of any of them respectively nor affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard copy version available to you on request from BARCLAYS CAPITAL, THE INVESTMENT BANKING DIVISION OF BARCLAYS BANK PLC.

WHITE CITY PROPERTY FINANCE PLC

(incorporated with limited liability in England and Wales)

£364,850,000 5.1202 per cent.
Commercial Mortgage Backed Fixed Rate Notes due 2035

Issue Price: 100.002 per cent.

unconditionally and irrevocably guaranteed as to scheduled
payments of principal and interest pursuant to
a financial guarantee issued by

MBIA

MBIA Assurance S.A.

(*Originally registered on 3 May, 1990 with the Nanterre Register of Trade and Companies.
Currently registered with the Paris Register of Trade and Companies under No. B377883293 (98 B 05130)*)

Admission to Listing

Application has been made to the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") for the £364,850,000 5.1202 per cent. Commercial Mortgage Backed Fixed Rate Notes due 2035 (the "**Notes**") of White City Property 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 depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear system ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about 23 March 2005 (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 depositary 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.

Note Financial Guarantee

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

Interest on the Notes

Interest on the Notes will be payable quarterly in arrear in pounds sterling on the 17th 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 July, 2005. The Notes will bear interest at a fixed rate of 5.1202 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 and, pursuant to the Note Financial Guarantee, MBIA. 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 April, 2035 (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 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 Moody's, the "**Rating Agencies**"). The rating to be assigned to the Notes will be based solely upon the financial strength rating of MBIA. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by one or more of the assigning rating organisations. The ratings from the Rating Agencies address the likelihood of timely receipt by any Noteholder of interest and the likelihood of timely receipt by any Noteholder of principal of the Notes.

Expected Ratings		Initial Principal Amount	Rate of Interest	Estimated Average Life	Maturity Date	Issue Price
Moody's	S&P					
Aaa	AAA	£364,850,000	5.1202 per cent.	22.5 years	April, 2035	100.002 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 22 March, 2005.

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 Depositary**") as common depositary for the account of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). 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 Depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Notes will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Interests in the Permanent Global Note will be exchangeable for definitive Notes in bearer form ("**Definitive Notes**") only in the limited circumstances described in "*Description of the Notes - Issuance of Definitive Notes*" at page 130. 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 129. 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, White City Property Trustees Limited (the "**Borrower**") accepts responsibility for all information relating to it in "*The Borrower*" at pages 59 to 60. The information relating to the British Broadcasting Corporation (the "**BBC**") in "*The Background and Business of the BBC*" at pages 93 to 104 and in Appendices 3 and 4 is based upon publicly available information.

In addition, MBIA accepts responsibility for the information contained in the sections entitled "Note Financial Guarantee", "MBIA", "MBIA Insurance Corporation", "Financial Statements of MBIA for the years ended 31 December 2003" and in paragraphs 2, 8, 12 and 15 of the section entitled "General Information" (together, the "**MBIA Information**") at pages 157 to 168, 169 to 173, 174 to 179, in Appendix 2 and at pages 186 and 187 respectively. To the best of the knowledge and belief of MBIA (which has taken all reasonable care to ensure that such is the case), the MBIA Information is in accordance with the facts and does not omit anything likely to affect the import of such information. MBIA accepts no responsibility for any other information contained in this Offering Circular. Save for the MBIA Information, MBIA has not separately verified the information contained in this Offering Circular. No representation, warranty or undertaking, expressed or implied, is made and no responsibility or liability is accepted by MBIA as to the accuracy or completeness of any information contained in this Offering Circular (other than the MBIA Information) or any other information supplied in connection with the Notes or their distribution. Each person receiving this Offering Circular acknowledges that such person has not relied on MBIA nor any person affiliated with it in connection with its investigation of the information contained herein (other than the MBIA Information).

No person is or has been authorised in connection with the issue and sale of the Notes to give any information or to make any representation not contained in this Offering Circular in connection with the Issuer, the Borrower, MBIA or the sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Borrower, Barclays or any affiliate of Barclays, the BBC, the Managers, MBIA, 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 or MBIA since the date hereof. Unless otherwise indicated herein, all information in this Offering Circular is given as of the date of this Offering Circular.

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

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

*All references in this document t*o "**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 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 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

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

On the Closing Date the Issuer will issue the Notes and will apply the proceeds of such issuance primarily to:

(a) make an advance in the amount of £323,500,000 to the Borrower under a credit agreement (the "**Credit Agreement**") to be dated on or around the Closing Date being an amount equal to the initial premium to be paid by the Borrower to the BBC in relation to the grant to the Borrower and the Nominee by the BBC of a lease (the "**Headlease**") for a term of 999 years in respect of a property (the "**Property**") situated at White City, London;

(b) credit £4,080,142 of such proceeds to a further account in the name of the Issuer (the "**Expenses Account**") and to make therefrom advances in relation to costs and fees relating to the arranging of the Loan and other Expenses incurred by the Borrower up to the Loan Payment Date falling in July 2007; and

(c) pay £37,269,858 of such proceeds to the Swap Provider pursuant to the Fixed Rate Swap Confirmation.

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

The Borrower will, subject to the terms of the Credit Agreement, be entitled to request and/or receive advances (each an "**Advance**") to be made to it:

(a) in respect of the premium for the grant of the Headlease;

(b) utilising amounts standing to the credit of the Expenses Account for the purposes of the registration costs incurred in connection with the grant of the Headlease and other Expenses incurred by the Borrower prior to the Loan Payment Date falling in July 2007;

(c) utilising amounts received by the Issuer from the Swap Provider pursuant to the Fixed Rate Swap Confirmation from time to time and credited to an account in the name of the Issuer (the "**Interest Account**") for the purposes of meeting the payment obligations of the Borrower in respect of the Loan up to the Loan Payment Date falling in January 2008;

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

(e) 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 VAT Liquidity Loan, the Related Security and Borrower Cashflows - Terms of the Credit Agreement - Conditions Precedent to Drawdown*" on page 67.

The Borrower will enter into the Credit Agreement and the Headlease in its capacity as trustee of the White City Property 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 Personal Pension Management Scheme (the "**PPM Scheme**"). Under the terms of the Unit Trust, the Borrower will be entitled to receive, from time to time, Deferred Subscription Amounts from the Unitholders (which are expected primarily to comprise amounts equal to tax refunds received by the Unitholders from time to time) which will be utilised to repay DSA Liquidity Advances or to pay the tax liability of the Unit Trust.

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

The Headlease Tenants 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.

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

From the Closing Date to 20 March 2007 (inclusive) (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 April 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 July 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 three Loan Payment Dates from and including the Loan Payment Date falling in July 2007, 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.

From (but excluding) 20 March 2007 to (and including) 20 March 2035 (the "**Rental Period**") and subject to the rent review process described below, the Tenant will be obliged to make Rent Payments payable quarterly in arrear based on (a) a base rent amount of £17,557,519 per annum and (b) an additional amount of £226,728 per annum, each subject to adjustments, and on 20 March 2035 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 20th day of March, June, September and December 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 4.2 per cent. and a floor of 1.5 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) 20 March 2032, the Rent Payments payable by the Tenant for each Rental Period will be reviewed to the greater of (a) the Rent Payment amounts (determined annually) which would have been due if such review had not taken place (adjusted for Indexation) and (b) the lesser of £70 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 April 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 second Business Day prior to the Loan Payment Date falling in July 2007 and thereafter in July of each subsequent year, interest on the Loan will be calculated in respect of the twelve months ending on the Loan Payment Date falling in July 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 April 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 2.6250 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 7 April 2035 (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 July 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 referable to such DSA Liquidity Advance. The final payment date in respect of DSA Liquidity Advances under the Credit Agreement is scheduled to fall in July 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 April 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 April 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 holders of the Notes (the "**Noteholders**") in respect of the Notes, to the Financial Guarantor 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.

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 by English law and a share charge (the "**Borrower Share Charge**") granted by the Borrower Shareholder and governed by English 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) a floating charge 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, (c) an assignment of rights by way of security under insurance policies, (d) a first ranking security over the Headlease, (e) an assignment of rights by way of security under the Collateral Deed, (f) an assignment of rights by way of security under certain Transaction Documents to which the Borrower is a party, and (g) an assignment of rights by way of security to the VAT Refund and the rent payments under the Underlease.

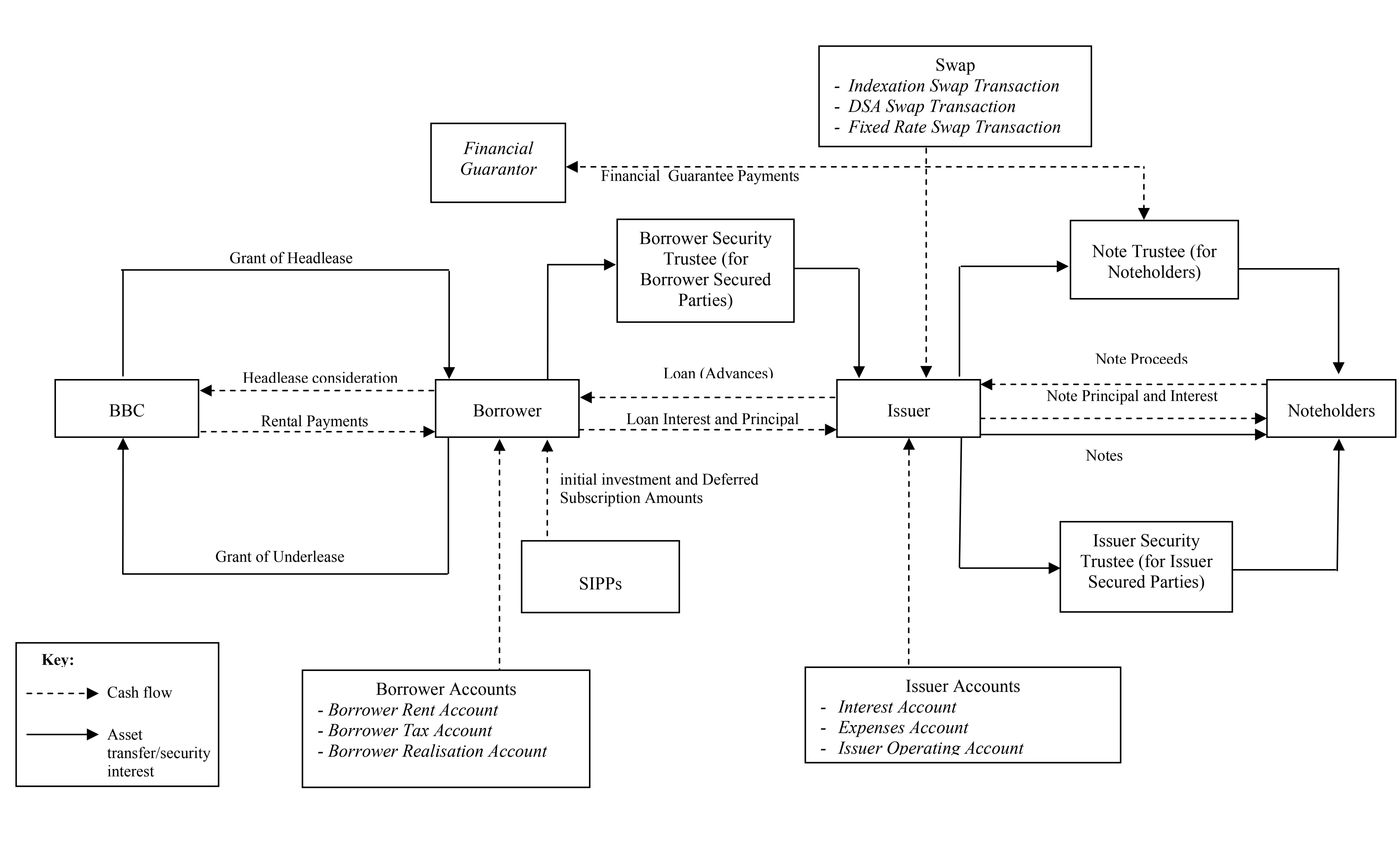
The Borrower will, in certain circumstances, have the benefit of an indemnity from the BBC in relation to (i) any income tax payable by the Borrower which exceeds the related Deferred Subscription Amounts and (ii) the amount of any due and unpaid DSA Liquidity Advance which the Borrower would otherwise fail to repay.

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

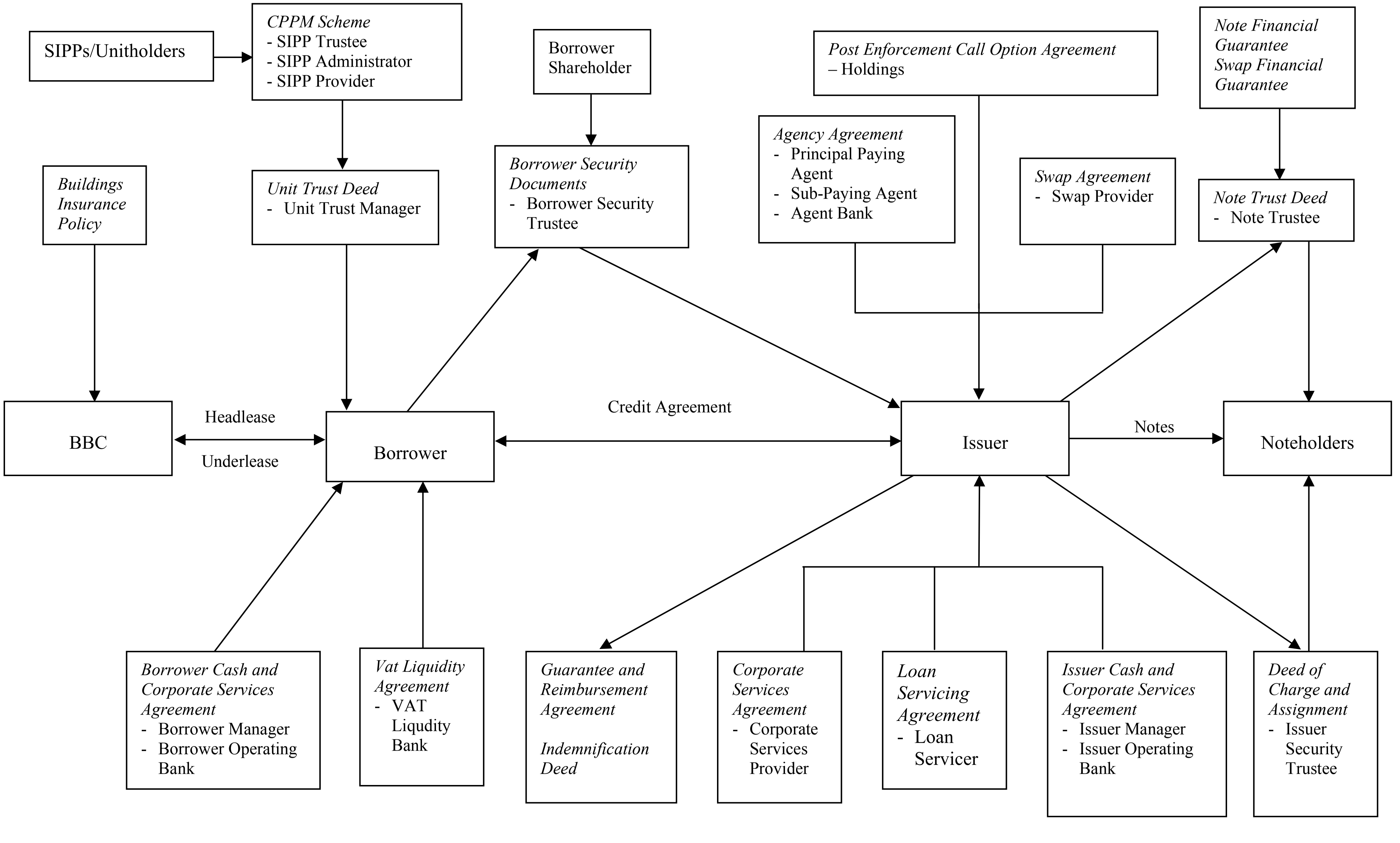
The fees payable to the Financial Guarantor in consideration for the issuance of the Financial Guarantees are set out in a fee letter between the Issuer and the Financial Guarantor (the "**Guarantee Fee Letter**") and the Guarantee and Reimbursement Agreement. The Issuer will pay or procure to be paid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

The Financial Guarantor will be entitled to give directions with respect to various matters in relation to the Notes, the Issuer Security (and thereby with respect to various matters relating to the Borrower Security) and the servicing of the Loan in its capacity as controlling party (the "**Issuer Controlling Party**") unless and until such time as the Note Trustee has determined that a Financial Guarantor Event of Default has occurred and has not been cured to the satisfaction of the Note Trustee or waived by the Note Trustee or the Noteholders, in which case the Financial Guarantor will cease to be the Issuer Controlling Party, which role will then fall upon the Note Trustee.

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 5 at the end of this Offering Circular.

The Parties

The major transaction parties are as follows:

The Issuer... White City Property 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 54.

The Borrower .... White City Property Trustees Limited (the "**Borrower**").

The Borrower is a private limited 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, borrowing under the Credit Agreement, declaring the Unit Trust and acting as the Unit Trustee and entering into transactions incidental to these activities including entering into the Residual Value Agreement. 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 59.

The Nominee.. White City Property Nominee 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 the granting of the Underlease and entering into transactions incidental to those activities including entering into the Residual Value Agreement. 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	White City Property 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 declared by the Share Trustee on 16 March 2005 (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, the Financial Guarantor and the Issuer. For as long as it is the Issuer Controlling Party, the Financial Guarantor will have the right to direct the Note Trustee in relation to enforcing the Issuer Security.
The Financial Guarantor	MBIA Assurance S.A. ("**MBIA**" in such capacity the "**Financial Guarantor**"). The Financial Guarantor will issue the Note Financial Guarantee to the Note Trustee in respect of the Notes and will issue the Swap Financial Guarantee to the Swap Provider in respect of the Issuer's obligations under the Indexation Swap Transaction. For further information about the Financial Guarantor, see "MBIA" at page 169. For further information about the Note Financial Guarantee, see "The Note Financial Guarantee" at page 157.
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 Financial Guarantor, the Issuer Security Trustee, the Corporate Services Provider, 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 Issuer Controlling Party will have the right to direct the Issuer Security Trustee in relation to enforcing the Issuer Security
The Borrower Security Trustee	HSBC Trustee (C.I.) Limited (in such capacity, the "**Borrower Security Trustee**"). The Borrower Security Trustee will act as trustee for the Issuer, the VAT Liquidity Bank, the Borrower Manager, the Borrower Operating Bank, 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 Controlling Party will have the right to direct the Loan Servicer in the conduct of the Loan Servicer's activities and in the exercise of any discretions under 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**"). Prior to the occurrence of a Financial Guarantor Swap Event if the long-term unsecured and unsubordinated debt obligations of the Swap Provider cease to be rated at least "A1" by Moody's or "A+" by S&P or if the short-term unsecured and unsubordinated debt obligations of the Swap Provider cease to be rated at least "P-1" by Moody's or "A-

1+" by S&P, 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, if the long-term unsecured and unsubordinated debt obligations of the Swap Provider cease to be rated at least "A3" by Moody's or "BBB+" by S&P or if the short-term unsecured and unsubordinated debt obligations of the Swap Provider cease to be rated at least "P-2" by Moody's or "A2" by S&P, the Swap Provider may be required to take steps to transfer its obligations to a replacement swap provider with the ratings required by the relevant Rating Agencies.

Following the occurrence of a Financial Guarantor Swap Event if the short-term unsecured and unsubordinated debt obligations of the Swap Provider cease to be rated at least "A-1+" by S&P or "P-1" by Moody's or the long term unsecured and unsubordinated debt obligations of the Swap Provider cease to be rated at least "A1" by Moody's, the Swap Provider may be required to make transfers to the Issuer of collateral in support of its obligations under the Swap Agreement pursuant to the terms of the Swap Agreement Credit Support Document or 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. Furthermore, if the long-term unsecured and unsubordinated debt obligations of the Swap Provider cease to be rated at least "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 "P-2" 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 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 109.

The short term unsecured obligations of Barclays are rated "A-1+" by S&P, "P-1" by Moody's and "F1+" by Fitch Ratings Limited ("**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 is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays is limited. It has its registered and head office at 54 Lombard Street, London EC3P 3AH. "**Financial Guarantor Swap Event**" means that either, (i) the Financial Guarantor ceases to be the Issuer Controlling Party, or (ii) the Financial Guarantor's long-term unsecured, unsubordinated debt obligations cease to be rated at least "Aa3" (or its equivalent) by Moody's or "AA-" (or its equivalent) by S&P;
The VAT Liquidity Bank........................	Barclays Bank PLC (in such capacity the "**VAT Liquidity Bank**"). The VAT Liquidity Bank will on the Closing Date enter into a liquidity facility agreement (the "**VAT Liquidity Agreement**") with the Borrower pursuant to which, on the Closing Date (assuming VAT is payable immediately on Headlease), the VAT Liquidity Bank will lend to the Borrower an amount of up to £56,612,500 (the "**VAT Liquidity Loan**") to enable the Borrower to pay VAT on the Headlease premium. The source for repayment of principal on the VAT Liquidity Loan will be the receipt by the Borrower of the corresponding VAT refund (the "**VAT Refund**"). The terms of the Headlease will provide that on the day immediately preceding each interest payment date under the VAT Liquidity Agreement the BBC will pay to the Borrower by way of Headlease premium rebate an amount equal to the interest then due. The VAT Liquidity Loan will be secured pursuant to the terms of the Borrower Debenture.
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 Blackwell 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 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, 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 Institutional Trust 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 HSBC House, Harcourt Centre, Harcourt Street, Dublin 2, Ireland.
	The Unit Trust
Background	The Unit Trust will be a collective investment scheme, as 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 should 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 62.
The Unit Trust	White City Property 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 carrying on a property investment business in the course of and for the purposes of which it will procure the grant of the Headlease and the grant of the Underlease, and will fund certain expenses incurred in connection with the Property. 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........................	Consortium Investment Management Limited (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 62.
SIPP Entities..	Capita Personal Pension Management Limited ("**Capita PPML**") (in its capacity as scheme trustee (the "**SIPP Trustee**") and as scheme administrator (the "**SIPP Administrator**")) and Capita Financial Managers Limited (a company authorised by the Financial Services Authority) as scheme provider (the "**SIPP Provider**"). Capita PPML will co-ordinate and represent the Unitholders pursuant to the Unit Trust Deed under the terms of the PPM Scheme, a scheme approved by the Inland Revenue under Chapter IV Part XIV of the Taxes Act.
	The Loan and the Related Security
The Loan	On the Loan Payment Date falling in July 2007, the principal amount of the loan granted pursuant to the Credit Agreement (the "**Loan**") is expected to be £364,850,000. Under the terms of the Credit Agreement, on each Loan Payment Date up to and including the Loan Payment Date falling in April 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 April 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 7th day of January, April, July and October of each calendar year.

For further information about the Loan, see "*The Loan, the VAT Liquidity Loan, the Related Security and Borrower Cashflows*" at page 66 For further information about the sources of funds available to the Borrower to make payments due in respect of the Loan, see "*The Accounts Structure*" at page 113.

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

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 Tax Account, the Borrower Rent Account and the Borrower Realisation Account (the "**Borrower Account Charges**");

(b) an assignment by way of security of the rights of the Borrower to the VAT Refund; (the "**VAT Refund Assignment**");

(c) an assignment by way of security of the rights of the Borrower under the BBC Deferred Subscription Amount Indemnity; and

(d) a floating charge over all the other assets of the Borrower not effectively secured by way of fixed security interest (the "**Borrower Floating Charge**").

The Borrower and the Nominee will also, on or around the Closing Date, enter into the Borrower Security Agreement in favour of the Borrower Security Trustee which will provide:

(a) first ranking security over the Headlease excluding certain interests in respect of fixtures (the "**Mortgage**");

(b) 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**");

(c) an assignment by way of security of the Rent Payments payable pursuant to the Underlease (the "**Rent Payment Assignment**"); and

(d) an assignment by way of security of the rights of the Borrower and the Nominee under the Collateral Deed (the "**Collateral Deed Assignment**").

Further, on or about the Closing Date a managing agent will be appointed by the Borrower Manager in respect of the Property (the "**Managing Agent**"), and such Managing Agent will enter into a duty of care agreement with 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.

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 is 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 of repute with a rating of no less than A- by Standard and Poors Rating Service or has otherwise been approved by the Headlease Tenants (such approval not to be unreasonably withheld or delayed). The Tenant, the Headlease Tenants and the Borrower Security Trustee will be joint-insured under the Building Insurance Policy.

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 37 and "*The Property and the Leases - The Underlease - Tenant's Obligations - Insurance*" at page 86.

	The Property
The Property	The land and buildings at 201 Wood Lane, London W12 known as White City Media Village. For further information about the Property, see "*The Property and the Leases*" at page 81.
The Headlease	On or around the Closing Date, the BBC, as the proprietor of the Property (having acquired the freehold of the Property from the Sellers) will grant the Headlease to the Headlease Tenants. The full term of the Headlease will be 999 years. Under the terms of the Headlease, the Headlease Tenants 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. The BBC is required under the terms of the Headlease to pay to the Borrower periodic rebates of premium each on the day immediately preceding that on which interest is payable by the Borrower under the VAT Liquidity Agreement in an amount equal to the interest then due thereunder. For further information about the Headlease, see "*The Property and the Leases - The Headlease*" at page 83.
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, 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 subject to the consent of the Issuer Controlling Party) 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 Headlease Tenants and the Borrower Security Trustee, see "*The Property and the Leases - The Headlease - Term and Break Clause - Headlease Break Option*" at page 84. 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, then 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. To the extent that the value of the Headlease Tenants' interest in the Property, falls by 20% or more (which fall is attributable to the aggregate of such compulsory purchase proceedings and any prior compulsory purchase proceedings during the Headlease term) then this will constitute a Material Value Reduction and give rise to a Trigger Event. (See "*The Property and the Leases – Headlease Break Option*" at page 84)
The Underlease	On or around the Closing Date, the Borrower and Nominee (as Landlord) 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 whether the Tenant is able to occupy and use the Property. The Tenant will make Rent 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 20 March 2032 calculated as described in "*Transaction Overview*" on page 5 and "*The Property and the Leases*" on page 81.
Governing Law	The Headlease and Underlease will be governed by English law.

	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 93 and "*Risk Factors - Factors Relating to the BBC*" at page 41.
	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 Depositary for Clearstream Luxembourg and Euroclear, on the Closing Date. Interests in the Temporary Global Note will be exchangeable from and including the date which is 40 days after the Closing Date (the "**Exchange Date**") upon certification as to non-U.S. beneficial ownership by the Noteholders, for interests in the Permanent Global Note, in bearer form without coupons or talons attached, which will also be deposited with the Common Depositary. Interests in the Permanent Global Note will be exchangeable for Definitive Notes only in certain limited circumstances. The Note Trust Deed contains provisions requiring the Note Trustee to have regard, in exercising any of its powers under the Note Trust Deed: (a) to the interests of the Financial Guarantor, for as long as it is the Issuer Controlling Party; and (b) otherwise equally to the interests of all of the Noteholders (and not the interests of any other Issuer Secured Party).

Financial Guarantees	An unconditional and irrevocable financial guarantee as to scheduled payments of interest (but excluding default interest, any additional amounts relating to prepayment and accelerated amounts) on the Notes and scheduled repayments of principal of the Notes will be issued by the Financial Guarantor in favour of the Trustee on the Closing Date (the "**Note Financial Guarantee**"). **Payment of Default Interest (as defined in Condition 4 at page 136) and Default Interest on Interest (as defined in Condition 6 at page 143) is not guaranteed by the Financial Guarantor under the Note Financial Guarantee. To the extent that there is a Tax Shortfall (as defined in Condition 4) there is no obligation on the Financial Guarantor to pay any Tax Shortfall Amounts (as defined in Condition 4).** An unconditional and irrevocable financial guarantee as to payments to be made by the Issuer under the Indexation Swap Transaction will be issued by the Financial Guarantor in favour of the Swap Provider on the Closing Date (the "**Swap Financial Guarantee**", and together with the Note Financial Guarantee, the "**Financial Guarantees**"). Each of the Financial Guarantees to be provided by the Financial Guarantor will constitute an unsubordinated and unsecured obligation of the Financial Guarantor which will rank at least *pari passu* with all other unsubordinated and unsecured obligations of the Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Issuer will be obliged to reimburse the Financial Guarantor in respect of payments made by the Financial Guarantor under the Financial Guarantees in accordance with the Guarantee and Reimbursement Agreement. In addition, the Financial Guarantor will be subrogated to the rights of the Noteholders and the Note Trustee in respect and to the extent of any payments made by the Financial Guarantor under the Note Financial Guarantee and to the rights of the Swap Provider in respect and to the extent of any payments made by the Financial Guarantor under the Swap Financial Guarantee and the Financial Guarantor will have the benefit of the security granted by the Issuer.
Interest	The Notes will bear interest at a fixed rate of 5.1202 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 17^{th} 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 136), 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 July 2005. **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. To the extent that the Issuer is obliged to make any such deduction or withholding, there is no obligation on the Financial Guarantor to pay any such amount so deducted or withheld. To the extent that there is a Tax Shortfall there is no obligation on the Financial Guarantor to pay any Tax Shortfall Amounts.** 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 144) 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 141.
Principal Scheduled Redemption	Subject to "*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 123. Unless previously redeemed in full, the Notes will be redeemed at their Principal Amount Outstanding together with accrued interest on the Maturity Date.
Tax Shortfall Deferral.........................	If on any Note Payment Date a Tax Shortfall Amount (as defined in Condition 4) would, but for the provisions of Conditions 4(b) and 5(a), be due for payment in relation to either interest or principal amounts due on a Note Payment Date, the Issuer shall not be obliged to pay such Tax Shortfall Amount on such Note Payment Date but instead such amount shall, subject to the operation of Conditions

	4(b) and 5(a) in relation to Tax Shortfall Amounts, be paid on the next following Note Payment Date, provided that the Issuer has sufficient funds available to make such payment in accordance with the relevant Priority of Payments (as described herein) and provided that all Tax Shortfall Amounts shall become due and payable on the Final Note Repayment Date. Tax Shortfall Amounts shall bear interest at the rate of interest payable on the Notes. ***To the extent there is a Tax Shortfall, any Tax Shortfall Amounts are not covered under the Note Financial Guarantee and the Financial Guarantor has no obligation to pay any such amounts.***
Redemption in Full	Unless a Note Enforcement Notice has been served, and subject to the consent of the Financial Guarantor (for so long as it is the Issuer Controlling Party), 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 139. 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 redemption in full in the following circumstances: (a) if the Issuer satisfies the Financial Guarantor (for so long as it is the Issuer Controlling Party) that (i) by virtue of a change in tax law from that in effect on the Closing Date the Issuer will be obliged to make any withholding or deduction from payments in respect of the Notes 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 (where it is the affected party)); (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), subject to the consent of the Financial Guarantor (for so long as it is the Issuer Controlling Party) and provided further that, in either case, the Issuer has certified to the Financial Guarantor (for so long as it is the Issuer Controlling Party) and 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 106. See further "*Terms and Conditions of the Notes*", Conditions 5(c) and 5(d) at 139 and 140 respectively. **Such early redemption of the Principal Amount Outstanding of the Notes does not cause the Financial Guarantor's obligations under the Note Financial Guarantee to be payable at such earlier dates. The Financial Guarantor shall only be liable to make payments in respect of the Notes pursuant to the Note Financial Guarantee on the dates on which such payment would have been required to be made if such amounts had not become redeemable, unless the Financial Guarantor otherwise decides and shall not be liable to pay any Tax Shortfall Amounts.**
Ratings	The Notes are, upon issue, expected to be rated Aaa by Moody's and AAA by S&P. The ratings that would be ascribed to the Notes absent the Note Financial Guarantee (the "**Adjusted Ratings**") are, upon the issue of the Notes, expected to be Aa2 by Moodys 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 assigned to the Notes reflect only the views of the Rating Agencies and will be based solely upon the financial strength of the Financial Guarantor.**
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 182.
Tap Issues/New Notes	The Issuer will be entitled (but not obliged) at its option from time to time on any date, with the consent of the Issuer Controlling Party (and subject to the satisfaction of certain conditions), to raise further funds by the creation and issue of (i) further Notes ("**Tap Notes**") which will carry the same terms and conditions in all respects (save as regards the first Interest Period, the first Note Payment Date and the first Interest Amount) so that the same will be consolidated and form a single series, and rank *pari passu* with, the Notes; and/or (ii) further Notes of a new class ("**New Notes**") which carry terms which differ from any existing class of Notes and which do not form a single series with any existing class of Notes.
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 will provide 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 and the Issuer Controlling Party. For as long as the Financial Guarantor is the Issuer Controlling Party it shall have the power to remove the Note Trustee from office. However, if the Financial Guarantor is no longer the Issuer Controlling Party, 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 (i) the Financial Guarantor, for so long as it is the Issuer Controlling Party, and (ii) if the Financial Guarantor is no longer the Issuer Controlling Party, 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 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, the Note Trust Deed and the Note Financial Guarantee will be governed by English law.
Available Funds and their Priority 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 VAT Liquidity Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Pre-Enforcement Priority of Payments (Borrower)*" at 77. Up to and including the Loan Payment Date falling in April 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 April 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. Prior to the Loan Payment Date falling in July 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 VAT Liquidity Loan, the Related Security and Borrower Cashflows*" at 66. 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 79. 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 VAT Liquidity Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Post-Enforcement Priority of Payments (Borrower)*" at 79
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 106.

The terms of the Credit Agreement will provide for the application of amounts standing to the credit of the Expenses Account and the Interest Account as described in "*The Loan, the Related Security, and Borrower Cashflows*" at 66.

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 108.

To the extent that either the Issuer (after accounting for the payments to be made under items (a) to (f) in "*Credit Structure and Issuer Cashflow - Cashflows - Pre Enforcement Priority of Payments (Issuer)*" at 106, on the next following Note Payment Date) or the Borrower (after accounting for the payments to be made under items (a) to (e) and (g) in "*The Loan, the VAT Liquidity Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Pre-Enforcement Priority of Payments (Borrower)*" on 77 or the payments to be made under items (a) to (i) in "*The Loan, the VAT Liquidity Loan, the Related Security and Borrower Cashflows - Borrower Cashflows – Post-Enforcement Priority of Payments (Borrower)*" at 79, 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 (upon the instructions of the Financial Guarantor, for as long as it is the Issuer Controlling Party). 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 108.

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 Guarantee and Reimbursement Agreement, the Indemnification Deed, 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 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 3
Investments from time to time held by or on behalf of the Issuer; and

(e) a floating charge over the whole of the undertaking and assets of the Issuer (other than any property or assets of the Issuer subject to an effective fixed security set out in paragraphs (a) to (d) above.

Upon enforcement of the Issuer Security, the amounts payable to 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 – Issuer Cashflows - Post-Enforcement Priority of Payments (Issuer)*" at 108.

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 that 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 Capita PPML 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 41.

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 84, 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 Landlord would be entitled to forfeit the Underlease. In pursuing such rights to forfeit, notice of intention to forfeit first needs to be served upon the tenant (save in relation to non-payment of rent when the landlord may peaceably re-enter a property) and there are in addition statutory rights for the tenant or other person interested in the lease (which includes a mortgagee or undertenant) to apply to the Court for relief. Whether such relief is granted is at the Court's absolute discretion but it would normally be granted where the rent arrears were paid and/or steps were taken to rectify the relevant breach. If replacement tenants could not be secured for the vacant space 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 50, 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 – Receivers and Mortgagee in Possession Liability*" at 40.

In seeking to relet the Property, following the forfeiture of the Underlease, the Landlord may let the Property in whole or in part as it wishes. The various buildings may be let as a whole, or individually or further divided as the Landlord wishes. Whilst unlet and during any rent free period allowed by way of inducement to an incoming tenant the relevant part of the Property will be non-income producing. In addition costs may be incurred in relation to the marketing of such space, and in relation to those parts that are unlet the costs of overheads and services attributable to the unlet space will be borne by the Borrower.

The Landlord's 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 use of the Property permitted under the planning consents which, (the "**Planning Consents**") is limited to broadcasting studios, office space and associated activities and retail (b) 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; (c) perceptions which alternate users of the Property may have regarding its safety, convenience and attractiveness; (d) the adequacy of the Property's management and maintenance; and (e) any capital expenditure needed to maintain the Property or make improvements to it or to convert its use.

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

Frustration

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

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

Insurance

Under the terms of the Credit Agreement, the Borrower will be obliged to effect or procure that there are effected the insurances described in "*The Property and the Leases - The Underlease - Insurance*" at 89. These obligations will in practice be fulfilled through the provisions of the Underlease which require the Tenant to assume full responsibility for the insurance of the Property against, among other things, the risks against which the Credit Agreement requires the Borrower to insure. The Borrower, the Tenant and the 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 further information regarding the insurance of the property and the application of insurance proceeds, see "*The Property and the Leases - The Underlease - Insurance*" at 89.

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 BBC as 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 any part of the Property is subject to a compulsory purchase order resulting in the value of the Headlease Tenant's interest in the

Property determined the day after conclusion of the proceedings relating to the compulsory purchase having fallen by 20% or more of the value of such interest (disregarding prior compulsory purchase) on the day before the commencement of such proceedings which fall is attributable to the aggregate of such compulsory purchase proceedings and any prior compulsory purchase proceedings, the Headlease Tenants 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 21.

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 83.

Leasehold Interest

The Headlease will permit the BBC as landlord to forfeit the Headlease if the Headlease Tenants breach any of their obligations under the Headlease and fail to remedy the same within a reasonable period. The BBC's right to forfeit, however, will not be exercisable whilst all or part of the principal, interest and other sums due under the Credit Agreement remain outstanding, 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 83.

Stamp Duty Land Tax – Withdrawal of Commercial Disadvantaged Areas Relief

Ways and Means Resolution 48 which was announced by the Chancellor of the Exchequer in his Budget of 16 March 2005 ("**Resolution 48**") removed "disadvantaged areas" relief from stamp duty land tax with effect from midnight on 16 March 2005 in relation to commercial property. The Property was on 16 March 2005 wholly within a "disadvantaged area" for the purposes of the relief. Resolution 48 provides, however, that disadvantaged areas relief will continue to be available in relation to commercial property, *inter alia*, for transactions effected in pursuance of a contract entered into on or before 16 March 2005, provided that (i) there is no variation of that contract or assignment of rights under that contract after that date, (ii) the transaction is not effected in consequence of the exercise after that date of an option, a right of pre-emption or a similar right and (iii) after that date there is no assignment, subsale or other transaction (relating to the whole or part of the subject-matter of the contract) as a result of which a person other than the purchaser under that contract becomes entitled to call for a conveyance to him.

The Sale and Purchase Agreement in relation to the acquisition of the freehold title of the Property by the BBC and an agreement in relation to each of the grant of the Headlease, the grant of the Underlease and the entering into of the Residual Value Agreement and the Collateral Deed (the "**Leases Agreement**") were both entered into on 16 March 2005. The Sale and Purchase Agreement and the Leases Agreement are expressed to be conditional upon the issue of the Notes, the entering into of, and drawdown under, the Acquisition Tranche of the Credit Agreement and the entering into of the VAT Liquidity Agreement and, in the case of the Leases Agreement, also upon completion of the Sale and Purchase Agreement.

The Issuer has accordingly been advised that, assuming that the terms of Resolution 48 are reflected in the legislation which gives this measure permanent effect (and subject to that qualification), no stamp duty land tax should be payable by the Borrower in respect of the grant of the Headlease, subject to the provisos stated in (i) and (iii) above.

The BBC has agreed in any event to provide an indemnity to the Borrower in relation to any liability to stamp duty land tax which the Borrower may incur in relation to the Headlease and the Residual Value Agreement as a result of such disadvantaged area relief not being available, and the BBC has undertaken to pay any stamp duty land tax that the BBC may be liable to pay in relation to the acquisition of the freehold of the Property and in relation to the Underlease and the Collateral Deed if such disadvantaged area relief is not available in respect of such transactions.

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 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 in possession of the Property, see "*Factors relating to the Loan and the Property – Receivers and Mortgagee in Possession Liability*" at 40.

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 freehold of the Property, which comprises registered land, will, following its acquisition, be registered at the Land Registry in the name of the BBC as legal proprietor. The Headlease and the Underlease will be subject to compulsory registration at the Land Registry although neither the Headlease Tenants nor the BBC have yet been registered as legal proprietor of their respective leasehold interests. Consequently, the Borrower Security Trustee is not yet registered as mortgagee under the Borrower Security Agreement.

The Lender has confirmed, following consultation with its external legal advisers, that it is not aware of any reason why the Headlease Tenants 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 mortgagee under the Borrower Security Agreement.

The Borrower will undertake that the Headlease and the Underlease will be completed and thereafter an appropriate application will be made to the Land Registry for registration of both leasehold titles. Arrangements have been made to ensure that all Land Registry 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 81. None of the Borrower, the Lender, the Issuer Manager, the Borrower Manager, the Financial Guarantor, the Issuer Security Trustee, 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.

Receivers and Mortgagee in Possession Liability

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

The Borrower Security Trustee may also be deemed to be a mortgagee in possession if it physically enters into possession of the Property or performs an act of control or influence which may amount to possession. If determined to be a mortgagee in possession, the Borrower Security Trustee would be obliged to account to the Headlease Tenants for any income obtained from the Property and would be liable to any tenants for the mis-management of the Property. A mortgagee in possession may also incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), can incur the liabilities of a property owner. The 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 mortgagee in possession. For further details of the risks associated with environmental liabilities at the Property, see "*Risk Factors – Factors relating to the Loan and the Property – Environmental Risks*" at 39.

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 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 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. 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 97.

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 BBC Charter (as described below) and the funding of the BBC from Licence Revenue (as described below) is currently being considered by the Government as part of the review of the BBC Charter. For further information see "*The Background and Business of the BBC – 2006 Charter Review*" at page 94.

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 BBC Charter (and the BBC Agreement) is currently being reviewed by the Government. The Secretary of State for Culture Media and Sport has announced when introducing the Green Paper "Review of the BBC's Royal Charter" (the "**Green Paper**") on 2 March 2005, that a new BBC Charter will come into force from 1 January 2007 until 31 December 2016. For further information on the renewal of the BBC Charter see "*The Background and Business of the BBC – 2006 Charter Review*" at page 94.

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 and there can be no assurance that the BBC Charter would be renewed beyond 31 December 2016. 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 effect 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, 2004, the Licence Revenue amounted to £2,798.1 million.

The Green Paper (as described in the section "*The Background and Business of the BBC – 2006 Charter Review*") at page 94 provides that the funding of the BBC by the Licence Revenue will continue until 2016 at a level to be set in the next phase of Charter Review. The Licence Revenue will not be used to fund other broadcasters in the medium term but consideration will be given to the use of the Licence Revenue to fund public service broadcasting more widely beyond the BBC in the future. 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 after the new BBC Charter as proposed in the Green Paper ceases to be in force on 31 December 2016. There is no obligation on the part of the current or any subsequent government to renew the BBC Charter beyond 31 December 2016. 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 dependent on Commercial Revenue which it generates itself. For further information on the Charter Review and the BBC's entitlement to receive Licence Revenue see "*The Background and Business of the BBC – 2006 Charter Review*" at page 94.

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, in particular after 2016. 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, 2004, Commercial Revenue contributed by the various commercial operations of the BBC to its overall funding amounted to £135 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 93.

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 Rent Payments. For further information on the assets and liabilities of the BBC, see "*Financial Statements of the BBC for the year ended 31 March, 2003*" in Appendix 3 and "*Financial Statements of the BBC for the year ended 31 March, 2004*" in Appendix 4.

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 Capita PPML 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 51).

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 or cancelled.

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 51).

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 PPM 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 PPM 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 63) 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 and, pursuant to the Note Financial Guarantee, the Financial Guarantor. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by Barclays 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. However, the Notes will have the benefit of the Note Financial Guarantee as to scheduled payments of interest and principal in accordance with the Conditions.

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. The risk of any liquidity problems is instead addressed by the availability of funds standing to the credit of the Issuer Expense Account, which may be applied in payment of expenses by the Issuer and under the Note Financial Guarantee, pursuant to which the Financial Guarantor guarantees timely payment of scheduled interest payments and scheduled principal repayments on the Notes, subject to certain exclusions.

Ratings of Notes and Confirmations of Ratings

The ratings assigned to the Notes are based solely on the financial strength rating of the Financial Guarantor. The ratings assigned to the Notes by the Rating Agencies reflect only the views of the Rating Agencies. The ratings address the likelihood of full and timely receipt by any of the Noteholders of interest on and principal of the Notes by the Maturity Date 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.

The Financial Guarantees

Scheduled payments of interest and repayment of principal on the Notes are guaranteed by the Financial Guarantor pursuant to the Note Financial Guarantee. Payments by the Issuer under the Indexation Swap Transaction are guaranteed by the Financial Guarantor pursuant to the Swap Financial Guarantee. The obligation of the Financial Guarantor to make such payments is unconditional and irrevocable.

While the Note Financial Guarantee mitigates the credit risks which potential investors in the Notes would otherwise be exposed to, involvement of the Financial Guarantor has certain consequences. For example, for so long as it is the Issuer Controlling Party, the Financial Guarantor will have the right to exercise many of the discretions which would otherwise rest in the Note Trustee, the Security Trustee and the Loan Servicer (including the discretion as to whether to call events of default or enforcement events and in respect of which the Note Trustee might have sought the directions of the Noteholders). In addition, in the event that the Financial Guarantor is required to make a payment under the Note Financial Guarantee and/or the Swap Financial Guarantee, the Issuer will be required to reimburse the Financial Guarantor in accordance with the Guarantee and Reimbursement Agreement and to pay various fees, costs and expenses to the Financial Guarantor.

The Note Financial Guarantee does not cover any amounts payable in respect of the Notes other than scheduled payments of interest and payments of principal on their scheduled repayment dates. Thus, it does not cover any default interest or default interest on interest or amounts payable on an early redemption of the Notes nor does it cover any Tax Shortfall Amounts. Potential investors in the Notes should bear in mind all the terms and conditions of the Note Financial Guarantee, which are set out in full in this Offering Circular and the implications thereof for the transaction as a whole.

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.

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. Any such shortfall will not be covered by the Note Financial Guarantee.

If on any Note Payment Date a Tax Shortfall Amount (as defined in Condition 4) would, but for the provisions of Conditions 4(b) and 5(a), become due for payment) in relation to either interest or principal amounts due on a Note Payment Date, the Issuer will not be obliged to pay such Tax Shortfall Amount on such Note Payment Date but instead such amount will, subject to the operation of Conditions 4 and 5 in relation to Tax Shortfall Amounts, be paid on the next following Note Payment Date, provided that the Issuer has sufficient funds available to make such payment in accordance with the relevant priority of payment (as described herein) and provided that all Tax Shortfall Amounts shall become due and payable on the Final Note Repayment Date. Tax Shortfall Amounts shall bear interest at the rate of interest payable on the Notes.

In the event that any withholding or deduction for or on account of tax is applicable to payments made under the Note Financial Guarantee, the Financial Guarantor will not be obliged to gross up or otherwise compensate Noteholders for the lesser amounts which they will receive as a result of such withholding or deduction save that the Financial Guarantor will be obliged, subject to certain conditions and limitations, to make additional payments by way of gross up to compensate Noteholders in respect of withholding taxes imposed by the Republic of France.

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, United Kingdom tax law and in each case the 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, United Kingdom tax law or in the interpretation, administration or application of any such 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 Borrower to make payments under the Loan or 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, the Borrower Security Agreement 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 (a) the Indexation Swap Transaction in order to mitigate its exposure to Indexation Risk, (b) the DSA Swap Transaction to provide for its obligation to make DSA Liquidity Advances to the Borrower and (c) the Fixed Rate Swap Transaction to provide for investment of funds to be credited to the Interest Account. The obligation of the Swap Provider to make Tax Liquidity Facility 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. 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 106 and 108 respectively.

For a more detailed description of the Swap Agreement see "Credit Structure and Issuer Cashflows - The Swap Agreement", below at 109 .

Risks relating to the introduction of International Financial Reporting Standards

The Issuer's UK corporation tax position depends to a significant extent on the accounting treatment applicable to the Issuer. From 1 January 2005, the Issuer's accounts are required to comply with International Financial Reporting Standards ("**IFRS**") or with new UK Financial Reporting Standards reflecting IFRS ("**new UK GAAP**"). There is a concern that companies such as the Issuer might, under either IFRS or new UK GAAP, suffer timing differences that could result in profits or losses for accounting purposes, and accordingly for tax purposes, which bear little or no relationship to the company's cash position. However, draft legislation has been published to be included in the Finance Act 2005 which – if enacted in the form in which it has been published, as modified by proposals in Inland Revenue Budget Note 13 published on 16 March 2005 ("**Budget Note 13**") – would allow "securitisation companies" to prepare tax computations for accounting periods beginning in 2005 on the basis of UK GAAP as applicable up to 31 December 2004, notwithstanding any requirement to prepare statutory accounts under IFRS or new UK GAAP. The Issuer has been advised that it will be a "securitisation company" for these purposes on the basis of the current draft legislation. It is also proposed in Budget Note 13 that the Finance Act 2005 will contain a provision enabling regulations to be made to establish a permanent regime for "securitisation companies".

The draft legislation and the proposals mentioned above all remain subject to change and withdrawal until enacted. The draft legislation - in the form in which it is currently drafted, as modified by proposals in Budget Note 13 - does not apply to accounting periods beginning on or after 1 January 2006. The stated policy of the Inland Revenue, though, is that the tax neutrality of securitisation companies in general should not be disrupted as a result of the transition to IFRS, and it is working with participants in the securitisation industry to establish a permanent regime that would prevent any such disruption. However, if the draft legislation or proposals are changed or withdrawn, or if further extensions or measures are not introduced by the Inland Revenue to deal with accounting periods beginning on or after 1 January 2006, then the Issuer may be required to recognize profits or losses as a result of the application of IFRS or new UK GAAP which could have tax effects not contemplated in the cashflows for the transaction, and as such adversely affect the Issuer and therefore the Noteholders.

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, White City Property Finance PLC, was incorporated in England and Wales on 26 January 2005 (registered number 5342887), as a public company with limited liability under the Companies Act 1985. The registered office of the Issuer is at Blackwell House, Guildhall Yard, London EC2V 5AE. The Issuer has no subsidiaries.

Principal Activities

The principal objects of the Issuer are set out in Clause 4 of its Memorandum of Association and are, among other things, to invest in mortgage loans secured on commercial or other properties in the British Isles or elsewhere (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

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

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

The company secretary of the Issuer is SFM Corporate Services Limited, a company incorporated in England and Wales (registered number 3920255), whose business address is Blackwell House, Guildhall Yard, London EC2V 5AE. The directors of SFM Directors Limited (registered number 3920254), SFM Corporate Services Limited and SFM Directors (No. 2) Limited (registered number

4017430) are Robert William Berry, Jonathan Eden Keighley and James Garner Smith Macdonald (together with their alternate directors, Annika Goodwille, Helena Whitaker, Petra Lohmeier, Claudia Wallace and J-P Nowacki), 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 SFM Nominees Limited (registered number 4115230) as nominee for Holdings. The shares of Holdings are held by the Share Trustee pursuant to the Declaration of Trust.

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 31 December and the first statutory accounts will be drawn up to 31 December 2005.

BDO Stoy Hayward
Chartered Accountants

BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL

The Directors
White City Property Finance PLC
Blackwall House
Guildhall Yard
London
EC2V 5AE

22 March 2005

Dear Sirs

White City Property Finance PLC ("ISSUER")

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular dated 22 March 2005 of White City Property Finance PLC relating to the issue of commercial mortgage backed fixed rate notes due 2035 (the **"Offering Circular"**).

The Issuer was incorporated on 26 January 2005 and changed its name from WC Media Village PLC on 31 January 2005. Since incorporation, the Issuer 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 Issuer as at 22 March 2005 ("the **Balance Sheet**") to which no adjustments were considered necessary.

Responsibility

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

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

It is our responsibility to compile the financial information set out in our report from the 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 Issuer as at 22 March 2005.

Balance sheet as at 22 March 2005

	As at 22 March 2005 £
Current assets	
Cash	12,501.50
Shareholders' funds – equity	
Called up share capital	12,501.50

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

On incorporation one share of £1 was issued and fully paid to White City Property Holdings Limited (formerly WC Media Village Holdings Ltd) and one share of £1 was issued fully paid to SFM Nominees Limited.

On 1 February 2005, 49,998 ordinary shares of £1 each were issued to White City Property Holdings Limited and partly paid up for cash consideration of £12,499.50.

3. Profit and Loss Account

The Directors have represented that the Issuer has been dormant throughout the period since incorporation on 26 January 2005 to 22 March 2005. The Issuer has not entered into any material contracts save for those detailed in the Offering Circular. 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, White City Property Trustees Limited, was incorporated in England and Wales on 18 February 2005 (registered number 5369329), 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, the VAT Liquidity Agreement, the Collateral Deed and the Residual Value 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 and the Credit 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
Adrian Walton Gower	The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU	Trust Administrator
Capita Trust Company Limited	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.

BARCLAYS

Barclays is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays is limited. It has its registered and head office at 54 Lombard Street, London EC3P 3AH. Barclays was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays was re-registered as a public limited company and its name was changed from "**Barclays Bank International Limited**" to "**Barclays Bank PLC**".

Barclays and its subsidiary undertakings (taken together, the "**Group**") is an international financial services group engaged primarily in banking, investment banking and asset management. In terms of assets employed, it is one of the largest financial services groups in the United Kingdom. The Group also operates in many other countries around the world and is a leading provider of co-ordinated global services to multinational corporations and financial institutions in the world's main financial centres. The whole of the issued ordinary share capital of Barclays is beneficially owned by Barclays PLC, which is the ultimate holding company of the Group.

The short term unsecured obligations of Barclays are rated A-1+ by S&P, P-1 by Moody's and F1+ by Fitch Ratings Limited and the long-term obligations of Barclays are rated AA by S&P, Aa1 by Moody's and AA+ by Fitch Ratings Limited.

As at 31 December 2004, the Group had total assets of £522,253 million (2003: £443,373m), total net loans and advances of £330,077 million (2003: £288,743m), total deposits of £328,742 million (2003: £278,960m) and equity shareholders funds of £17,581 million (2003: £16,485m). The profit before taxation of the Group in respect of the year ended 31 December 2004 was £4,612 million (2003: £3,845m) after charging net provisions for bad and doubtful debts of £1,091 million (2003: £1,347m).

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.

For so long as the Unitholders comprise only tax exempt SIPPs, 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 Unit Trust Deed will provide that Units may only be held by or on behalf of tax exempt SIPPs and, if not so held, must be transferred to an eligible Unitholder or cancelled (see "The Unitholders" below). 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 £1000 plus a total further investment of amounts equal to the amount of 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 63.

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

The Unitholders

It is intended that the ultimate, beneficial Unitholders will be a number of tax exempt SIPPs which qualify for exemption from United Kingdom income tax pursuant to section 643(2) of the Taxes Act 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 Personal Pension Management Scheme (the "**PPM 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 or cancelled.

Capita PPML

The Units will be held by Capita PPML, in its capacity as SIPP Trustee, pursuant to the PPM Scheme which is an approved scheme (reference SF87/180/1) under Chapter IV Part XIV of the Taxes Act for the Unitholders. The SIPP Trustee is responsible for the assets of the PPM Scheme which it holds as legal owner until benefits are paid out. Capita PPML, in its capacity as SIPP Administrator, is responsible to the Inland Revenue for the operation of the PPM 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.

Capita PPML is authorised and regulated by the FSA, and is a member of the Capita Group, a FSTE 100 listed company. Capita PPML launched the first ever UK Self Invested Personal Pension Plan in 1990, and has since acquired a significant share of the UK SIPP market, and is consistently growing, with now over 24,000 cases and £3 billion under management. Capita PPML administers SIPPs for major UK insurance companies, unit trust/investment trust management groups and online investment ventures.

Capita Financial Managers Limited, an authorised person for the purposes of FSMA, is the SIPP Provider in respect of the PPM 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 fund the premium for the grant of the Headlease.

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

(a) the Headlease (legal title to which will be held jointly by the Borrower and the Nominee. The Nominee will hold its interest in the Headlease on trust for the Borrower (as Unit Trustee) and the Borrower will hold both such interest and its interest in the Headlease on trust for the SIPPs;

(b) the Underlease (including the Borrower's right to receive Rent Payments from the Tenant thereunder);

(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;

(b) 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; and

(c) the obligation to pay interest on and repay the principal of the VAT Liquidity Loan and other amounts due to the VAT Liquidity Lender under the terms of the VAT Liquidity Facility,

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

Discharge of the Unit Trustee Obligations

The amounts payable by the Borrower (in its capacity as the Unit Trustee) to the BBC in relation to the grant of the Headlease will include an element of value added tax ("**VAT**") which will be funded by the VAT Liquidity Loan. VAT recovered by the Borrower (in its capacity as the Unit

Trustee) will be credited to the Borrower Tax Account and applied in repaying the VAT Liquidity Loan.

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" for the purposes of section 469 of the Taxes Act 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 VAT Liquidity Loan, the Related Security and Borrower Cashflows*" at page 66). Subject to the terms of the DSA Swap Transaction, the Lender will fund its obligation to make such DSA Liquidity Advances from amounts ("**Tax Liquidity Facility Payments**") received from the Swap Provider under such 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 for each trust distribution period ending 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" for the purposes of section 469 of the Taxes Act 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 Taxes Act, 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 should, 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. Capita PPML will, as SIPP Administrator and on behalf of the Unitholders, be obliged to take the necessary action to recover such tax from the Inland Revenue and will be obliged to 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 (being the BBC) will not be able to transfer, lease or charge its reversionary interest in the Property. The Borrower will be entitled to determine 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 Break Option*" at 84.

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 14.6% compounded annually to the Unitholders' initial investment of £1,250,000, 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 83.

THE LOAN, THE VAT LIQUIDITY 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 £364,850,000. 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;

(b) to enable the Borrower to pay certain expenses from time to time;

(c) to fund (in full) the payments due on the Loan on each Loan Payment Date up to and including the Loan Payment Date falling in April 2007 and to fund (in part) payments due on the Loan on the Loan Payment Dates falling in July 2007, October 2007 and January 2008;

(d) to capitalise certain interest obligations that accrue on the Loan; and

(e) to meet its payment obligations to the Inland Revenue in respect of United Kingdom Income Tax.

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 £364,850,000.

For further information regarding the Headlease and the Borrower's interests therein, see "*The Property and the Leases - The Headlease*" at 83.

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 Tranches:

(a) an acquisition tranche in the amount of £323,500,000 (the "**Acquisition Tranche**");

(b) an expenses tranche in the amount of £4,080,142 (the "**Expenses Tranche**"); and

(d) a tranche in respect of DSA Liquidity Advances (the "**DSA Liquidity Tranche**"), to be funded from Tax Liquidity Facility 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.

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 Loan Payment Date in July 2007. "**Expenses**" are fees, charges, costs and other expenses incurred by the Borrower up to the Loan Payment Date falling in July 2007 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 Facility Payments received from the Swap Provider under the DSA Swap Transaction (see "*Credit Structure and Issuer Cashflows - The Swap Agreement*" at 109).

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 Property;

(d) the Report on Title;

(e) the duly executed Finance Documents, the Guarantee and Reimbursement Agreement, the Indemnification Deed and bank mandates in respect of the Borrower Accounts;

(f) the duly executed Headlease and Underlease;

(g) evidence that the Borrower has duly elected to waive exemption from VAT in relation to the Property;

(h) 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);

(i) a true and certified copy of the BBC Charter and certain accounts of the BBC;

(j) a credit rating by the Rating Agencies which is satisfactory to the Lender; and

(k) 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 Expenses Tranche is contingent upon the Acquisition Tranche having been fully drawn and no Trigger Event under the Headlease or winding up of the Borrower having occurred.

If a request is received for an Advance under the Expenses Tranche, the Issuer Manager will debit the Expenses Account.

The Lender's obligation to make DSA Liquidity Advances will be contingent upon the representations and warranties (as described under "*The Loan, the VAT Liquidity Loan, the Related Security and Borrower Cashflows – Terms of the Credit Agreement - Representations and Warranties*" on page 70) 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 June 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 on the Loan Payment Date falling in July 2007 shall, subject to certain conditions, be promptly advanced to the Borrower for credit to the Borrower Rent Account.

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 April 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 July 2007 and thereafter in July of each subsequent year, 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 drawndown 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 April 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) the amount of fees, costs, expenses and any other amounts payable by the Issuer to the Financial Guarantor pursuant to the Guarantee Fees Letter and the Guarantee and Reimbursement Agreement;

(d) 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 any 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

(e) 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, and "P-1" by Moody's. 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 113. For further information regarding the Borrower Cash and Corporate Management Agreement, see "*Borrower Cash and Corporate Management*" at 123.

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 and that all deeds and documents necessary to show good and marketable title to the Headlease are either in the possession of solicitors or at the Land Registry undergoing registration; 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) details of any Loan Event of Default or potential Loan Event of Default; (iii) details of any material litigation and (iv) 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 and any change in the Planning Consents and the use assigned to the Property.

(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 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 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, being joint tenant of the Headlease and joint lessor of the Underlease and managing the Property 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; (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) 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) 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 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.

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 or proposed change in the practice of the Inland Revenue or any other relevant UK tax authority or change or proposed change in, or in the application of, 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 (including the 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; or

(c) the Borrower is or would be unable to comply with its payment obligations under the Finance Documents on the Loan Payment Date on or immediately following the date upon which a payment of tax by the Borrower has been made solely as a result of such payment of tax having been made.

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, in the case of a proposed change in law, 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. The BBC Deferred Subscription Amount Indemnity will not be considered to be such an arrangement.

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 or a non-payment falling within paragraph (c) of the definition of Material Adverse Tax Event, the Borrower Security Trustee may demand the immediate repayment of the Loan in full. 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 76).

The VAT Liquidity Loan

On the Closing Date, the aggregate amount of the VAT Liquidity Loan available to be advanced pursuant to the VAT Liquidity Agreement will be £56,612,500.

The VAT Liquidity Loan will be available for drawing in one advance for a period of 2 months from the Closing Date and will be applied by the Borrower in making payment to the BBC of the amount due to it under the terms of the Headlease in respect of VAT on the Headlease premium.

Terms of the VAT Liquidity Agreement

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

Conditions Precedent to Drawdown

The VAT Liquidity Lender's obligation to make the Advance in respect of the VAT Liquidity Loan will be subject to certain conditions precedent, including:

(a) certified copies of the memorandum and articles of association and certificate of incorporation of the Borrower together with an appropriate authorisation of the board of directors of the Borrower;

(b) evidence that the Borrower has applied to be or is registered for VAT;

(c) evidence that the Borrower is liable to pay VAT in respect of the Headlease premium and that the BBC has delivered a valid VAT invoice to the Borrower; and

(d) relevant legal opinions (including an opinion as to the capacity of the BBC to enter into the Headlease).

The VAT Liquidity Bank's obligation to make the Advance under the VAT Liquidity Agreement is also contingent upon the representations and warranties (as described below) being true and correct and no VAT Liquidity Loan Event of Default having occurred.

Interest and Repayments

Interest will be payable by the Borrower monthly in arrear on the last Business Day of each month, subject to applicable grace periods. Interest will be calculated by reference to LIBOR and a margin of 0.20 per cent.

On each interest payment date under the VAT Liquidity Agreement the BBC will pay to the Borrower by way of rebate of Headlease premium an amount equal to the interest then payable by the Borrower. Interest will only be payable by the Borrower to the VAT Liquidity Bank to the extent that the Borrower has received such rebate from the BBC.

Principal on the VAT Liquidity Loan will be due and payable (i) within three Business Days of receipt by the Borrower of the VAT Refund received by the Borrower and (ii) the date falling 6 months from the Closing Date, whichever is the earlier. The principal shall be repaid by application of the proceeds of the VAT Refund in accordance with the provisions of the Borrower Cash and Corporate Management Agreement or the Borrower Debenture (as applicable).

Representations and Warranties

The Borrower will make a number of representations and warranties in the VAT Liquidity Agreement including, but not limited to, its corporate status; VAT registration and availability of the VAT Refund; ranking of security granted by it to other parties pursuant to the Security Documents and the Borrower not being a member of a VAT Group.

Undertakings

The Borrower will give certain undertakings in the VAT Liquidity Agreement including maintenance of VAT registration; not taking any steps which would jeopardise availability of the VAT refund and a negative pledge.

VAT Liquidity Loan Events of Default

The VAT Liquidity Agreement will contain events of default, including non payment, cross default to the Credit Agreement, loss of VAT registration or evidence that the VAT Refund is not available. The occurrence of an event of default will permit the VAT Liquidity Bank to cancel availability and to accelerate the VAT Liquidity Loan but will not permit the VAT Liquidity Bank to enforce the Borrower Security. A VAT Liquidity Loan event of default will not cause a default under the Credit Agreement. If the VAT Liquidity Loan is not paid when due, interest will continue to accrue at the default rate.

The Related Security

The obligations of the Borrower under the Credit Agreement and the VAT Liquidity Agreement will be secured pursuant to the Security Documents. Additionally the Borrower will, in certain circumstances, have the benefit of the BBC Deferred Subscription Amount Indemnity.

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, inter alia, grant the Borrower Account Charges 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 Mortgage, the Insurances Charge, the Rent Payment Assignment and the Collateral Deed Assignment.

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, which include:

(a) to maintain the Property in good and substantial repair;

(b) to comply with the terms of the 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;

(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.

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. The Borrower Security Trustee shall at any time after the service of a Loan Enforcement Notice be required to request instructions from the Borrower Controlling Party as to whether it should enforce or endeavour to enforce any of the Related Security and/or as to the manner in which it should do so or endeavour to do so and shall act only upon the directions of the Borrower Controlling Party.

The "**Borrower Controlling Party**" means the Financial Guarantor unless and until such time as:

(a) the Issuer Security Trustee has determined that a Financial Guarantor Event of Default has occurred and has not been cured to the satisfaction of the Issuer Security Trustee or waived by the Issuer Security Trustee or the Note Trustee, in which case the Financial Guarantor will cease to be the Borrower Controlling Party, which role will then fall upon the Issuer Security Trustee; or

(b) the Loan and the Notes have been repaid in full and there are no amounts outstanding under the Guarantee and Reimbursement Agreement and the Guarantee Fee Letter in which case the Financial Guarantor will cease to be the Borrower Controlling Party, which role will then fall upon the Borrower Secured Party which ranks next highest under the relevant priority of payments set forth in the Borrower Cash and Corporate Management Agreement and the Borrower Debenture, as applicable.

BBC Deferred Subscription Amount Indemnity

On or about the Closing Date the Borrower, Borrower Security Trustee, the Financial Guarantor and the BBC will enter into an indemnity (the "**BBC Deferred Subscription Amount Indemnity**"). The BBC Deferred Subscription Amount Indemnity will provide that in certain circumstances:

(a) the BBC will pay to the Borrower the amount by which income tax paid by the Borrower exceeds the Category A Deferred Subscription Amounts where the Borrower is unable to comply with its obligations under the Finance Documents and an Indemnifiable Tax Determination (as defined below) has been obtained; or

(b) the BBC will pay to the Borrower the amount which the Borrower would otherwise fail to repay to the Issuer in respect of a DSA Liquidity Advance before the relevant due date for payment of such DSA Liquidity Advance (where and to the extent that such shortfall is not attributable to a failure to reclaim tax or a SIPP not being tax exempt and subject to an Indemnifiable Tax Determination being obtained within 2 years).

An Indemnifiable Tax Determination means that an expert has determined that the payment referred to in (a) or (b) has been caused because the Inland Revenue consider (i) that the Borrower has to pay under the law in force at the Closing Date, income tax which exceeds the income tax deemed to be deducted from the annual payments which are deemed by Section 469 of the Taxes Act to be received from the Borrower as a result of certain specified events, or (ii) that under the law in force at the Closing Date a SIPP is not entitled to claim a tax refund in respect of the income tax deemed to be deducted from the annual payments which are deemed by Section 469 of the Taxes Act to be received from the Borrower other than as a result of a SIPP not being tax exempt or administrative failure.

The BBC is required to gross up any amounts payable under the BBC Deferred Subscription Amount Indemnity. In certain circumstances as specified in the BBC Deferred Subscription Amount Indemnity, the Borrower will be required to repay to the BBC amounts paid pursuant to the BBC Deferred Subscription Amount Indemnity.

Borrower Cashflows

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

Prior to the 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 items (c), (f) and principal repayment under item (e), from the Borrower Tax Account)) such amount or amounts as may be necessary to pay on such date the following items in any order provided that such amounts fall within the then current Borrower Approved Budget or have been authorised by the Borrower Security Trustee with the prior consent of the Financial Guarantor:

(a) those amounts (if any) (together with any value added or similar taxes or insurance premium tax 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 (by application of DSA Liquidity Advances and Deferred Subscription Amounts);

(d) reimbursement, among other things, of (i) 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, (ii) any stamp duties incurred by the Lender, the Borrower Security Trustee and the Loan Servicer in respect of the Finance Documents and/or (iii) 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;

(e) any amounts due and payable under the VAT Liquidity Agreement by application of the proceeds of the VAT Refund (in the case of principal) and the rebate in respect of the Headlease premium received by the Borrower from the BBC (in the case of all other amounts); and

(f) any amounts due and payable by the Borrower to the BBC under the BBC Deferred Subscription Amount Indemnity in accordance with the terms thereof.

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 Headlease Tenants' rights under the Headlease, on each Loan Payment Date (i) amounts standing to the credit of the Borrower Rent Account (after deducting Excess Borrower Interest not available for such application pursuant to the terms of the Credit Agreement) and (ii), in respect of the Borrower's liability to pay income tax and amounts due by it under the BBC Deferred Subscription Amount Indemnity and to repay the principal on the VAT Liquidity Loan, amounts standing to the credit of the Borrower Tax Account 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) all as more fully set out in the Borrower Cash and Corporate Management Agreement:

(a) first, *pro rata and pari passu* in or towards payments of (A) principal on the VAT Liquidity Loan (by application of the proceeds of the VAT Refund) and (B) any amounts due and payable by the Borrower to the BBC under the BBC Deferred Subscription Amount Indemnity;

(b) second, *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;

(c) third, *pro rata and pari passu,* in or towards (A) payment and discharge of sums due to third parties (other than sums described in items (a), (b), (d), (e), (f) and (g)) under obligations incurred in the ordinary course of the Borrower's business and which fall within the Borrower Approved Budget or are otherwise approved by the Borrower Security Trustee with the prior consent of the Financial Guarantor, including provision for any such obligations expected to become due in the following Loan Interest Period (B) the payment of the Borrower's liability to income tax and (C) the payment of interest and any other amounts (other than principal) due and payable under the VAT Liquidity Agreement (by application of the rebate in respect of the Headlease premium received by the Borrower from the BBC);

(d) fourth, in or towards payment of interest on the Loan;

(e) fifth, in or towards payment of principal on the Loan;

(f) sixth, in or towards payment of any amounts due to the Issuer under the Issuer/Borrower Expenses Loan Agreement;

(g) seventh, in or towards payment of any amount payable by the Borrower to the expert pursuant to the terms of the BBC Deferred Subscription Amount Indemnity,

and any surplus shall be retained in the Borrower Rent Account.

On each Loan Payment Date up to and including the Loan Payment Date falling in April 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 April 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. Amounts due and payable in respect of the repayment of the VAT Liquidity Loan will be transferred by the Borrower Manager from the Borrower Tax Account to the VAT Liquidity Bank on the third business day following receipt by it of the VAT Refund.

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 (after deducting Excess Borrower Interest not available for such application pursuant to the terms of the Credit Agreement) and the Borrower Tax Account (if any), applied in the following order in payment all as more fully set out in the Borrower Cash and Corporate Management Agreement:

(a) first, *pro rata and pari passu* in or towards payments of (A) principal on the VAT Liquidity Loan (by application of the proceeds of the VAT Refund) and (B) amounts due and payable by the Borrower to the BBC under the BBC Deferred Subscription Amount Indemnity;

(b) second, *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;

(c) third, in or towards payment of interest and any other amounts (other than principal) due and payable under the VAT Liquidity Agreement (by application of the proceeds of the rebate in respect of the Headlease premium received by the Borrower from the BBC);

(d) fourth, in or towards payment of interest on the Loan;

(e) fifth, in or towards payment of the Outstanding Loan Balance, outstanding DSA Liquidity Advances and Prepayment Fees;

(f) sixth, in or towards payment of any amount payable by the Borrower to the expert pursuant to the terms of the BBC Deferred Subscription Amount Indemnity;

(g) seventh, in or towards payment of the Deferred Payment to the BBC;

(h) eighth, 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;

(i) ninth, in or towards payment and discharge of sums due to third parties (other than sums described in items (a) to (h) (inclusive) and item (j)), including liability of the Borrower for United Kingdom income tax and VAT then due; and

(j) tenth, in or towards payment of any amounts due to the Issuer under the Issuer/Borrower Expenses Loan Agreement.

For further information regarding deposits and transfers to and from the Borrower Accounts, see "*The Accounts Structure*" at 113.

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 directed by the Note Trustee of a notice (a "**Loan Enforcement Notice**") to the Borrower and the Borrower Security Trustee. Following the Related Security becoming enforceable, the Borrower Security Trustee will be required to apply all funds received or recovered by it (or any receiver appointed by it in respect of the Borrower) in the following order of priority (but without prejudice to the right of the Borrower Security Trustee to recover any shortfall from the Borrower) 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 Borrower Debenture:

(a) first, *pro rata and pari passu,* in or towards payment or discharge of all fees and expenses (including irrecoverable VAT thereon) 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 by the Borrower to the BBC under the BBC Deferred Subscription Amount Indemnity;

(d) fourth, in or towards payment or discharge of all amounts due and payable under the Loan;

(e) fifth, in or towards payment or discharge of all amounts due and payable under the VAT Liquidity Agreement;

(f) sixth, in or towards payment of any amount payable by the Borrower to the expert pursuant to the terms of the BBC Deferred Subscription Amount Indemnity;

(g) seventh, in or towards in payment (when due and payable) of the Deferred Payment to the BBC;

(h) eighth, 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;

(i) ninth, in or towards payment of any liability of the Borrower for United Kingdom income tax and VAT then due; and

(j) tenth, in or towards payment of any amount due to the Issuer under the Issuer/Borrower Expenses Loan Agreement,

Notwithstanding the above, prior to the application of funds on any date in accordance with items (a) to (j) 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.

THE PROPERTY AND THE LEASES

Overview of the Property

The Loan (and the VAT Liquidity Loan) will be secured primarily by a first ranking charge by way of legal mortgage over the Borrower's and the Nominee's legal interests in the Headlease of the Property.

The Property, known as the White City Media Village, is situated in West London and was formerly the site of the White City Stadium. It covers an area of 11.09 acres and was acquired by the BBC in the mid-1980s.

There are six different buildings at the Property as follows:

White City: 30,000 sq m net internal area ("**NIA**") of office accommodation. Built for the BBC in 1989.

Broadcast Centre: 25,118 sq m NIA of office accommodation and operational areas. Built for the BBC in 2001-2003.

Media Centre: 23,755 NIA of office accommodation together with retail units on parts of the ground floor. Built for the BBC in 2001-2003.

Energy Centre: Two buildings within a common envelope comprising 3,000 sq m NIA of plant rooms supporting the Broadcast Centre and Media Centre and separately 1,575 sq m NIA of potential office space currently completed to shell and core condition. Built for the BBC in 2001-2003.

North Perimeter Building ("Indie North"): 2,496 sq m NIA of office space part of which is to be let to London Borough of Hammersmith & Fulham at a subsidised rent for business start-up and regeneration projects as a condition to the applicable planning consent. Built in 2001-2003 for White City Development Partnership.

South Perimeter Building ("Indie South"): 4,298 sq m NIA office space for letting to non-BBC occupiers. Built in 2001-2003 for White City Development Partnership.

Property Purchase Agreement

The freehold title to the Property will be the subject of a sale and purchase agreement (the "**Sale and Purchase Agreement**") to be made between, amongst others, (a) a general partnership comprising BBC Property Investment Limited and Land Securities Trillium (Media Services) Limited (known as Insight Property Partnership) and (b) a general partnership comprising BBC Property Limited and Land Securities Trillium (Media Services) Developments Limited (together, the "**Sellers**") and (c) 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 Headlease Tenants will obtain good and marketable 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 legal advisers, instructed in connection with the acquisition of the freehold title to the Property, will have prepared and issued a certificate of title in relation to the freehold title of the Property (the "**Certificate of Title**").

The Certificate of Title 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 title is registered 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 from time to time;

(e) an analysis of the replies to enquiries provided by the Sellers 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 town and country planning irregularities); and

(f) a report on the terms and conditions of the Headlease and the 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 and 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 will have raised 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 consider 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, the Borrower Security Trustee and the Financial Guarantor. A copy of the Valuation Report is annexed as Appendix 1.

Capacity of Parties

The external legal advisers to the Lenders have satisfied themselves that each of the Headlease Tenants 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 and the Borrower Share Charge and the Borrower Security Trust Deed (together the "**Security Documents**"), the Credit Agreement, the VAT Liquidity Agreement, the BBC Deferred Subscription Amount Indemnity and the Borrower Cash and Corporate Management Agreement; and

(b) the "**Miscellaneous Documents**", being the Headlease, the 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, the VAT Liquidity Loan, the Related Security and Borrower Cashflows- Terms of the Credit Agreement - Representations and Warranties*" at 70.

Drawdown and Post-Completion Formalities

Confirmation will be required from the Lender's external legal advisers that all registrations at Companies House and at the Land Registry 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 39.

Freehold Title

The BBC will acquire from the Sellers the freehold title to the Property before granting the Headlease referred to below to the Borrower and the Nominee.

The Headlease

On or around the Closing Date, and immediately following acquisition of the Property from the Sellers, the BBC (in such capacity, the "**Headlease Landlord**") will grant the Headlease to the Headlease Tenants the consideration for which will be a premium of £323,500,000 plus VAT (the payment of VAT by the Headlease Tenants to the Headlease Landlord being deferred to 25 April

2005, together with, in certain circumstances, an amount in respect of the Deferred Payment plus VAT (see below), subject to periodic rebates of such premium each in an amount equal to the interest payable on the VAT Liquidity Loan from time to time. The Nominee will hold its legal title to the Headlease on trust for the Borrower (as Unit Trustee) and the Borrower will hold such interest and its interest in the Headlease on trust for the SIPPs. The Headlease will be governed by English law.

Any deferred consideration payable to the BBC in 2035 at the end of the contractual term of the Underlease (the "**Deferred Payment**") will be calculated, pursuant to an agreement (expressed as a variation to the Headlease) to be entered into on or around the Closing Date between the Headlease Landlord and the Headlease Tenants (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. A part of the residual value due to the BBC will be payable as a rebate of rental under the Underlease. 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 999 years from and including the Closing Date.

Headlease Break Option

There will be a tenant's break clause pursuant to which the Headlease Tenants will be entitled and, in the case of (f) below, will be obliged to determine the Headlease on the occurrence of Trigger Events (as described below), which, in the case of (a) to (e) will relate principally to the financial status of the BBC and its ability to make necessary rental payments under the Underlease. The Headlease Tenants 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 (and, in the case of (f) below, oblige) the Headlease Tenants to determine the Headlease are as follows:

(a) the BBC fails to pay in full any rent or other sum due and payable pursuant to the Underlease and/or 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 Adjusted Rating of the Notes to lower than BBB-/Baa3 (or its equivalent) by either of the Rating Agencies occurs; and

  (B) the BBC does not satisfy such Rating Agencies that the Adjusted 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 any part of the Property is in the process of being, or has been acquired compulsorily resulting in the value of the Headlease Tenant's interest in the Property determined the day after conclusion of the proceedings relating to the compulsory purchase having fallen by 20% or more of the value of such interest (disregarding any prior compulsory purchase) on the day before the commencement of such proceedings which fall is attributable to the aggregate of such compulsory purchase proceedings and any prior compulsory purchase proceedings;

(d) the Property or any part thereof is damaged or destroyed so as to result in the value of the Headlease Tenant's interest in the Property determined the day after such damage or destruction having fallen by 20% or more of the value of such interest on the day before such damage or destruction, which fall in value is attributable only to such damage or destruction and the same have or has not been rebuilt or reinstated (in accordance with the obligations of the Tenant contained in the Underlease) within 5 years of the date of such damage or destruction;

(e) (i) the BBC Charter is not renewed or is terminated early and is not replaced by HM Government with an equivalent or similar arrangement in which HM Government has control over the BBC's status as a public broadcaster, or (ii) the BBC is privatised resulting in more than 49.999% of the licence fee funded (or, if the licence fee is replaced, equivalent public funded) part of the BBC being transferred to the ownership of the private sector (for the avoidance of doubt the term "private sector" shall not include subsidiaries of the BBC or an entity in which the BBC is a joint venture party in either case as contemplated under the BBC Charter or an equivalent or similar arrangement in which HM Government has control over the BBC's status as a public broadcaster); or

(f) the BBC (i) is obliged to make any payment under the BBC Deferred Subscription Amount Indemnity or in its reasonable opinion, there is a substantial likelihood that it will become obliged to make such payment, and (ii) delivers to the Headlease Tenants written notice requiring the Headlease Tenant to determine the Headlease.

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 4 weeks written notice and, in the case of the Trigger Event specified in (f), shall forthwith upon the occurrence of such Trigger Event give written notice (each 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 (and, in the case of a Trigger Event specified in (f), the obligation) to serve such notice itself on their behalf.

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 notional 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 Tenants' ability in certain circumstances to determine the Headlease, see "*The Loan, the VAT Liquidity Loan, the Related Security and Borrower Cashflows - Terms of the Credit Agreement*" at page 66 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 41.

Rent

The annual rent is one peppercorn.

Tenant's obligations

The Headlease Tenants' obligations in the Headlease will be more limited than those in the Underlease. The main tenant's obligations are referred to below. The Headlease Tenants 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 Tenants 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 insure the Property under the Underlease, see "*The Underlease - Insurance*" at page 89.

Alterations

The Headlease Tenants 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 proposed alterations affecting the exterior or structure of the Property must be given to the Headlease Landlord upon request. Subject to the foregoing, the Landlord's consent is not required for alterations or additions to the Property.

Alienation/Charging

There will be no restrictions on any form of alienation or charging by the Headlease Tenants of the whole of the Property, subject to any successor undertaking to implement the options in the Underlease and the Headlease Tenant assigning rights and obligations under the Residual Value Agreement and the consent of the holders of security being obtained. Subject as aforesaid, the Headlease Tenants may freely assign or charge their interest in the Property. So long as the Underlease is subsisting, the Headlease Tenants 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 any 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 Tenants 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 Tenants 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.

Forfeiture

The Headlease Landlord will be entitled to re-enter and forfeit the Headlease if the Headlease Tenants breach any of their 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 forfeit, 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 forfeiture in relation to a breach which is capable of being remedied (i) the Headlease Landlord will be required to give the Headlease Tenants and Borrower Security Trustee written notice of its intention to do so and provide details of the breach or breaches and give the Headlease Tenants and Borrower Security Trustee a reasonable period (in the case of non-payment of rent or other sums not less than 14 Business Days and in other cases not less than three months) to remedy the breach or breaches.

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 Tenants shall only be obliged to pay any sum due under the Headlease to the extent that they have funds available to do so, and all sums required to be paid or provided for by the Headlease Tenants 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 Tenants to recover amounts due and payable until the Headlease Tenants have 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 Tenants and will not use the failure of the Headlease Tenants to perform an obligation as the basis of any counterclaim. The Headlease Landlord will not petition, apply or commence proceedings for the administration, winding-up, or bankruptcy of the Headlease Tenants.

Headlease Tenant 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.

As at the Closing Date the ratio of the value of the Loan to the value of the Headlease as specified in the Valuation Report will be 130%.

The Underlease

On or around the Closing Date, the Headlease Tenants (in the capacity as landlord under the Underlease, the "**Landlord**") will grant the Underlease to the BBC (in such capacity as the "**Tenant**"). The Underlease will be governed by English law.

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 and the Tenant will not have a statutory entitlement to a new lease at the expiry of the term of the Underlease.

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, quarterly in arrears, on the 20^{th} day of March, June, September and December of each calendar year (subject to grace periods).

The base rent reserved under the Underlease is equal to a base principal rent of £17,557,519 per annum and an additional amount of £226,728 per annum. However, this base and additional rent will be reviewed annually in each year following the end of the Rent-Free Period by reference to the cumulative increase in the LPI since July 2004.

From 20 March 2032, the rent under the Underlease for each Rental Period will be reviewed to the greater of (a) the Rent Payment amounts (determined annually) which would have been payable if such review had not taken place (adjusted for Indexation) and (b) the lesser of £70 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). The Tenant covenants that payments under the Underlease shall be without deduction or withholding for tax save as required by law in which circumstances the Tenant’s payment shall be grossed up to take account of any such withholding.

Tenant's obligations

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

Repair/Decoration

To put, keep and maintain the Property in good and substantial repair decoration and condition and when necessary, to replace, rebuild, renew, reinstate and restore 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 Landlord.

Insurance

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

The specified insured risks are the usual risks in a lease of this kind and include terrorism. The insurance is to be in the joint names of the Landlord, 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 Landlord 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 Landlord) the insurance policy contains a standard mortgagee clause and that the policy will not be invalidated for non-payment of premium without the Landlord being given not less than 14 days written notice.

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 88.

Alterations

The Tenant will not be permitted to make any alterations or additions which in itself or in combination with previous alterations or additions 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 proposed alterations affecting the exterior or structure of the Property must be given to the Landlord upon request. Subject to the foregoing, the Landlord' consent is not required to alterations or additions to the Property

Alienation

Assigning and 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 are not for a duration or period expiring after the date of the expiry of the term of the Underlease. Sublettings are also to be on arms length market terms but this does not apply to certain categories of sublettings (being sublettings to group companies of the Tenant or any company in which the Tenant holds not less than 25% of the issued share capital, sublettings to any third party providing services or supplies to the Tenant or employees of the Tenant on or at the Property and sublettings entered into in compliance with title obligations) not exceeding in total 25% of the net lettable area of the lettable areas of the buildings at the Property. The Tenant is however permitted to sublet up to one-fifth of the 25% of net lettable area to any third party even if the third party does not fall within the categories listed above. The Tenant will be permitted to grant occupational licences upon terms by which a landlord and tenant relationship is not created to any one or more of its subsidiaries, holding company or other subsidiaries of such holding company or any third party without the Landlord's consent.

Use of the Property and Planning and statutory requirements

The permitted use under the Underlease will be any 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 Landlord's prior written consent to planning applications for works that would require Landlord's consent under the terms of the Underlease.

Yielding Up

To yield up the Property immediately before the end of the term (or sooner determination) in accordance with the Tenant's obligations under the Underlease (unless exercising its option to acquire the Headlease or renew the Underlease).

Indemnity

Not to do or omit to do anything in relation to the Property that may subject the Landlord to any liability and to exercise control of the Property so as to fully protect the Landlord against any such liability. The Tenant will indemnify the Landlord against costs arising directly or indirectly from, among other things, any breach by the Tenant of the terms of the Underlease. If a claim is brought against the Landlord against which the Landlord is indemnified by the Tenant, then the Tenant will, at its cost and expense and in the Landlord's name, be required to defend such claim and the Landlord 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 Landlord's obligations under the Headlease in so far as they relate to the Property save for obligations in relation to rent.

Landlord's obligations

In addition to the usual undertaking for quiet enjoyment the Landlord under the Underlease will undertake, among other things, by way of indemnity only 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.

Forfeiture

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

Exclusion of Security of Tenure

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

VAT

The Tenant will be obliged to pay VAT on any payment made to the Landlord 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 Landlord 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 Landlord 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 Landlord to recover amounts due and payable until the Landlord has sufficient assets to meet the claim (taking account of other liabilities ranking ahead of or equal to the Tenant's claim). Further, the Tenant will agree not to set-off any amount claimed against any amount which the Tenant is obliged to pay to the Landlord. The Tenant will not be permitted to petition, apply or commence proceedings for the administration, winding-up, or bankruptcy of the Landlord.

Options

Not less than 36 months prior to the expiry of the Underlease, the Tenant shall serve on the Headlease Tenants 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 assignment of the Headlease to the Tenant. In order to exercise the option the Tenant must serve a notice on the Headlease Tenants not more than thirty nor less than twenty four 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 Tenants' 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 £119,000,000 as increased annually in line with the Index together, in either case, with VAT and Interest on such sum but reduced, in either case, by an amount equal to part of the residual share of the BBC in relation to such Market Value provided that, all monies due under the Finance Documents shall be paid in priority to any share in the residual 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 thirty four million pounds (£34,000,000) 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 thirty nor less than twenty four 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 subject to giving not less than twenty four months notice prior to expiry of the term.

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 manufacturers of wireless radios. 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, 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 broadcasting and the Internet in the 1990's.

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

Charter Review is the process of reviewing the current Charter and funding settlement. The limited length of the Charter allows the Secretary of State an opportunity, every ten years or so, to look carefully at the BBC's role, function and structure. The Department for Culture, Media and Sport (DCMS) which is responsible for Charter Review is currently doing this, as the BBC's Charter is due for renewal on 31 December 2006.

The review of the current Charter was formally announced by the Secretary of State, at the end of 2003. It started with a public consultation by the DCMS based around a set of questions about the BBC. This consultation was completed on 31 March 2004. Along with all other interested parties the BBC also contributed to the debate on the future look of the BBC through its paper "Building Public Value" published end of June. The paper sets out the BBC's aims for the next 10 years and beyond. It provides a starting point for the BBC's own detailed planning for the future. In addition to the Government's own work on Charter review the Government also commissioned an independent panel of experts chaired by Lord Terry Burns to advise them on the future of the BBC.

The Secretary of State for Culture, Media and Sport, the Rt Hon Tessa Jowell MP, published a Green Paper on the review of the BBC's Royal Charter on 2 March 2005. Announcing the Green Paper, she said:

- "Our consultation showed that in a world of more choice and more variety than ever before, with a fully digital Britain around the corner, the public demand a strong and independent main national public service broadcaster. This Green Paper is our blueprint for delivering it."

- "The BBC, like any public institution, needs to adapt if it is to serve its audiences and keep pace with changes in technology. Its values, its global reach, its standards and its editorial independence from all corners must be preserved. Our proposals, including keeping the licence fee and renewing the Charter for another 10 years, will enable it to do just that."

Key announcements in the Green Paper were as follows:

(a) The Board of Governors will be replaced by a new, transparent and accountable BBC Trust to oversee the corporation – with responsibility for the licence fee and for making sure the BBC fulfils its public service obligations.

(b) A formally constituted Executive Board, which will now include some non-executives – responsible for delivering the BBC's services within a framework set by the Trust.

(c) The BBC will continue to be established by a new Royal Charter from 1 January 2007 to 31 December 2016.

(d) The licence fee will continue at least until 2016 – at a level to be set in the next phase of Charter Review. The licence fee will not be used to fund other broadcasters in the immediate term but consideration will be given, at an appropriate point before digital switchover (which it is hoped will conclude in 2012), as to whether public funding, including licence fee income, should be used to fund public service broadcasting more widely beyond the BBC in the future. There will also be a review, before the end of the next Charter period, of whether there is a case for other methods of funding the BBC beyond 2016 – particularly subscription.

(e) The Government proposes five key purposes for all BBC services:

    (i) sustaining citizenship and civil society;

    (ii) promoting education and learning;

    (iii) stimulating creativity and cultural excellence;

    (iv) representing the UK, its Nations, regions and communities;

    (v) brining the UK to the world and the world to the UK,

    and an additional special purpose of helping to build a digital Britain.

(f) Ofcom will have a clearer role in external competition regulation of the BBC.

(g) The Government supports the need for a significant degree of production outside of London.

(h) To boost quality and support the broadcasting industry, further consideration will be given to either a "window of creative competition" between BBC in-house production and external producers, as already proposed by the BBC, or an increase in the current 25 per cent independent production quota.

The Green Paper, entitled "A strong BBC, independent of government", begins a second phase of public consultation on the future of the BBC which will end on 31 May 2005. The Government's final proposals for the future of the BBC will then be published in the form of a White Paper towards the end of 2005 and a new Charter, which will take effect from 1 January 2007, will be published in 2006.

Consequences of non-renewal of the Charter

If the Charter was not renewed after 2016 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 operating in accordance with internal commercial and editorial policies.

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

The Board of Governors is responsible for ensuring that the BBC fulfils its public service obligations. It safeguards the BBC's independence, sets key objectives, approves strategy and policy, monitors performance and compliance and ensures public accountability. The Governors appoint the Director-General (who is the BBC's chief executive and editor-in-chief) and, with him, other members of the Executive Committee, and determine Executive Board remuneration. BBC operations are run by the directors of ten programming and broadcasting divisions and five professional services divisions.

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

The Executive Board has delegated specific authority to a number of sub-boards in certain areas:

(a) Creative Board - chaired by the Director General with responsibility for promoting creativity, major service and programme making decisions, responding to Governors' service reviews and educational policy;

(b) Journalism Board - chaired by the deputy Director General with primary responsibility for journalism strategy, editorial policy, compliance and performance issues; and

(c) Commercial Board - chaired by the Chief Operating Officer with responsibility for setting the strategy of approving investments and monitoring performance of the commercial businesses.

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.

However, the Green Paper proposes that the Board of Governors be replaced as described in the section "*The Background and Business of the BBC – 2006 Charter Review*" at page 94.

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). This website and any other website referred to in this Offering Circular do 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. For further information on the BBC's entitlement to receive Licence Fee funding until 2016 see "*The Background and Business of the BBC 2006 Charter Review*" at page 94.

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 2002/2003 the BBC issued 24.1 million licences, receiving £2,658.5 million in licence fee income and in 2003/2004 the BBC issued 24.5 million licences, receiving £2,798.1 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 financial 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 clearly 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 business-to-business commercial companies under one holding company. BBC Ventures Group Limited's subsidiaries currently comprise BBC Resources Limited and BBC Broadcast 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; and

(ii) BBC Broadcast Limited - offers services required to launch, promote, play-out and manage television channels.

The BBC is currently in the process of selling BBC Broadcast Limited because the BBC recognises that while BBC Broadcast Limited is still growing its growth is hampered by BBC ownership. Additionally, the BBC is currently reviewing the business of BBC Resources Limited with a view to developing strategic partnerships for BBC Resources Limited.

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

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 loan facility of up to £100 million provided by Lloyds TSB Bank plc ("**Lloyds TSB**"). The facility provides for this amount 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 2004).

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 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 carrying out 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 to those of 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 carry out 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 Divisional Director/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 Board 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 Board 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 (Digital Terrestrial Television) 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 further, BBC programmes are 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 and the suggestions have now been incorporated into the Green Paper. 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.

The Government recognises that the BBC has a vital role in the change over process from analogue to the digital broadcasting and this was further recognised in an OFCOM report produced in April 2004 entitled "Driving Digital Switch Over". 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. The BBC also broadcasts "in the clear" (ie without encryption) on satellite. The OFCOM report referred to above also included plans for a phased switch-off analogue signals – from region to region and the BBC has assisted OFCOM and the Government in its thinking in how this process would operate, including the creation of SwitchCo, an independent organisation which would oversee the switch-over strategy.

Property Strategy

The BBC Property Portfolio consists of 520 Properties nationwide. The BBC undertook a significant review of its property portfolio during 1998/2000 and one of the major "visions" that came out of this review was that the BBC’s properties in London were too scattered and did not meet the BBC’s business needs. In particular, many of the properties were of poor quality, Broadcasting House, London W1 was in need of a major update and the lease for Bush House was due to expire in 2008.

The BBC decided to rationalise its London base to 3 sites in London: (i) Broadcasting House (the new home of Radio, News and World Service); (ii) Television Centre (home for TV Production); and (ii) White City (home for the BBC’s Broadcast Centre and administrative services).

The Broadcasting House development is currently under construction and at White City the newly constructed BBC buildings combine to form a media village built to meet the following objectives:

- To provide a flexible and adaptable use for the properties being developed.
- To provide a technology-friendly building to support intensive use of changing technology across all media, with minimal disruption.
- The development of the site should not lead to an extra burden on the Licence Fee payer, in lifecycle terms, and in the context of the overall business need and strategy.
- The properties should promote the BBC brand values of providing quality, accessibility, professionalism, forward-thinking, cost consciousness, creativity and impartiality.
- The properties should be "pleasing" enough to attract and retain talent and space should be allocated according to need and not to status.

- The properties should be such that the BBC becomes more visible to its audiences and encourages the audiences to communicate with the BBC by visiting its properties.
- The open environment of the new buildings should be a catalyst for change, leading to flatter management structures and allow for more flexible and collaborative working.

White City overview

The BBC's White City development is central to the BBC's property strategy over the next three decades.

The BBC worked with Land Securities Trillium to develop White City through a partnership arrangement and Land Securities Trillium provided development capital and expertise in developing, managing and operating the buildings. Following the lease restructuring, it is currently envisaged that Land Securities will continue to manage and operate the White City buildings.

The BBC has owned the White City site since the mid 1980s. The first building on the site (known as White City 1) was constructed in 1989, the remainder of the site remained undeveloped. It was a brown field site and had the benefit of being close to Television Centre and plans are underway for the development of the rest of the area. There was a clear opportunity to meet the BBC's operational needs.

The further development of the White City site started in early 2000, in anticipation of the partnership with Land Securities Trillium. The early start (prior to the BBC entering into the partnership arrangements) was driven by inadequate BBC Broadcast facilities at television centre and by the Bush House lease expiry. The design team selected for the project was led by Allies and Morrison. The first building to be completed and handed over to the BBC was the Broadcast Centre on 4 October 2003. The BBC started moving people into the Broadcast Centre 6th October 2003. Substantially all of the BBC's TV output is now being controlled in the new facilities in this building.

The next building to be completed was the Media Centre and the first move into the Media Centre was in mid-January 2004. The notional completion of this building was 16 weeks ahead of programme. Most of the staff that moved in were from Broadcasting House which was vacated for the purposes of the Broadcasting House project.

As stated above, one of the aspirations of the site was to allow the BBC to connect directly with its audiences and the site contains a pedestrianised public space in which the BBC promotes events directly to the public. For example, summer 2004 games such as the Olympics, Wimbledon and European Football were shown on a big screen in this area. There are also various retail outlets there for the benefit of the BBC staff and local residents.

The White City area as a whole has become the subject of substantial regeneration proposals. Immediately to the north of Shepherds Bush, Westfield are currently constructing a 130,000 sq ft super regional centre including a flagship Marks & Spencer, two other major anchor stores, approximately 230 speciality stores, and public transport infrastructure improvements. The total project cost is estimated at £1.4 billion and is expected to be completed in early 2008. This site and the BBC Media Village are also included within one of the major Opportunity Areas designated in the Mayor's "London Plan" which includes a further 17.6 hectares of land to the east of Wood Lane intended for mixed use redevelopment.

The buildings currently house in the region of 5,600 people as follows across the three buildings:

White City 1 - 2,300 people within the following functions : Current Affairs, Documentary and Factual Programmes, Education, Employee Services, Technology Operations, and numerous smaller groups.

Media Centre - 1,700 people within the central support services which include Central Finance, Property, Human Resources, Governance and Accountability, Legal, Licence Fee Unit, Marketing and Communications, Procurement and Strategy areas.

Broadcast Centre - 1,600 people. Occupied by BBC Broadcast Limited which, among other things, provides the BBC's playout services. The Broadcast Centre houses all the technical equipment to provide for the playout activity. While BBC Broadcast is due to be sold over the coming year to a new third party provider it is expected that the building will be let to the successful bidder under an operating lease; the BBC believes it would be impractical and uneconomic for the bidder to operate without the technically complex and highly resilient areas and systems which the Broadcast Centre contains, or to replicate them elsewhere. The Broadcast Centre also houses New Media, which develops and operates the BBC's on-line services, services to mobile telephony and other emerging media.

There are changes occurring within the BBC that will result in some staff being located to Manchester and a substantial number of job cuts within the central services area. The departments which will relocate to Manchester are however largely based in Television Centre.

It is anticipated that the Media Centre will house the BBC's head office functions long term and that almost all of the jobs that were relocated to White City from Broadcasting House to facilitate the redevelopment of that site will remain in the Media Centre even after the redevelopment is completed. Broadcasting House will house the BBC Global News Operations, the World Service and Network Radio once fully complete, towards the end of the decade.

The BBC has a long association with the W12 area of London since the 1960's when Television Centre was built and occupied. This presence has been further consolidated with the development and occupation of the White City development and it is envisaged that the occupation of the area will continue throughout the tenure of the Underlease.

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) deducted from the Interest Account on Loan Payment Dates up to and including the Loan Payment Date falling in April 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 or in part 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 Facility Payments and payments under the Fixed Rate Swap Transaction) received by the Issuer from the Swap Provider under the Swap Agreement (excluding all cash and securities transferred to the Issuer by the Swap Provider in accordance with the terms of the Swap Agreement Credit Support Document); 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 or the Issuer Manager acting on its behalf 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 (other than, in the case of amounts due under items (a) below, the aggregate amount of any Tax Liquidity Facility Payments paid into the Issuer Operating Account, 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 119).

"**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 Issuer Security, in each case falling within the current Issuer Approved Budget or approved by the Issuer Security Trustee with the prior consent of the Financial Guarantor;

(b) DSA Liquidity Advances to be made to the Borrower.

All Priority Amounts notified to the Issuer Manager to be paid during the period from (and including) each Loan Payment Date to (but excluding) the next succeeding Note Payment Date shall be paid by the Issuer Manager (following determination by it of (y) and (z) below) 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 (x) such payments and to make in full (y) all payments required to be made by the Issuer under the Issuer Swap Transaction on the next succeeding Swap Payment Date and (z) all payments required to be made on the next succeeding Note Payment Date under items (a) to (e) of the Issuer Pre-Enforcement Priority of Payments, as applicable.

Pre-Enforcement Priority of Payments (Issuer)

On each Swap Payment Date, the Issuer or 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 DSA Liquidity Advances from the Borrower (and in an amount equal to such repayments), 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 attributable to 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 to the extent that the Issuer Manager has been notified of the amount due.

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 cleared funds available in the Issuer Operating Account to make in full all payments required to be made on the next succeeding Note Payment Date under items (a) to (e) (inclusive) below.

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 or the Issuer Security Trustee or any receiver appointed by or on behalf of the Issuer Security Trustee; 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 provided that, in each case, such payment falls within those categories and amounts specified in the current Issuer Approved Budget;

(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 (other than any Interest Tax Shortfall Amounts) 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, *pro rata* and *pari passu*, in or towards payment or discharge of (i) principal due and overdue on the Notes (other than any Principal Tax Shortfall Amounts) (ii) any amounts due and payable by the Issuer to the Financial Guarantor under the Guarantee Fee Letter, the Guarantee and Reimbursement Agreement and the Indemnification Deed;

(e) fifth, in or towards payment or discharge of any Interest Tax Shortfall Amounts, together with interest thereon, and any Principal Tax Shortfall Amounts due and payable;

(f) sixth, 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 attributable to the early termination of the DSA Swap Transaction);

(g) seventh, 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 Operating Account 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 and "P-1" by Moody's 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 113.

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, Issuer Security Trustee and the Financial Guarantor. Following enforcement of the Issuer Security, the Issuer Security Trustee will be required to apply all funds (other than (a) amounts standing to the credit of the Expenses Account, which are to be applied for specific purposes under the terms of the Credit Agreement, provided no Trigger Event or Insolvency Event has occurred, (b) amounts standing to the Interest Account which are to be applied for specific purposes under the terms of the Issuer Cash and Corporate Management Agreement (provided that the Note Trustee has not declared that each Note is due and payable), (c) amounts standing to the credit of the Issuer Operating Account 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 applied towards payment of all termination payments due and payable by the Issuer to the Swap Provider under the Swap Agreement and the balance (if any) shall be applied in the order of priority set out below), 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 Issuer Security Trustee in respect of the Issuer Secured Obligations; 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 (f) 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 (other than any Interest Tax Shortfall Amounts);

(c) third, in or towards payment or discharge of all amounts of principal due or overdue on the Notes and all other amounts due in respect of the Notes (other than any Tax Shortfall Amounts) until the outstanding principal balance of the Notes (excluding any Principal Tax Shortfall Amounts) is reduced to zero;

(d) fourth, in or towards payment or discharge of any amounts due and payable by the Issuer to the Financial Guarantor under the Guarantee Fee Letter, the Guarantee and Reimbursement Agreement and the Indemnification Deed;

(e) fifth, in or towards payment or discharge of any Interest Tax Shortfall Amounts, together with interest thereon, and any Principal Tax Shortfall Amounts due or overdue;

(f) sixth, 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); and

(g) 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.

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 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 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 July 2004 (compounded on a quarterly basis); and

(b) the "**Issuer Amount**" being the Notional Amount, increased at the rate of LPI from February 2004 (compounded on an annual basis).

The "**Notional Amount**" will be £4,389,380 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 each Note Payment Date in each year, or if such day is not a Business Day, then the immediately preceding Business Day. The first Swap Payment Date in respect of the Indexation Swap will be the Swap Payment Date falling in July 2007 and in respect of the Fixed Rate Swap will be the Swap Payment Date falling in July 2005.

Under the terms of the DSA Swap Transaction the following payments (if any) will be made in respect of each Swap Payment Date falling in January and July of each year commencing from and including January 2007:

(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 the Closing Date, approximately £37,269,858 of the proceeds of the Notes shall be paid by the Issuer to the Swap Provider. The Swap Provider will, on set quarterly dates thereafter make payments (together with a fixed yield amount) according to a pre-determined schedule and deposit them into the Issuer Operating Account, according to the terms of the Credit Agreement and the Issuer Cash and Corporate Agreement, 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, *provided that*, for so long as the Financial Guarantor is the Issuer Controlling Party and the Swap Financial Guarantee remains in full force and effect, following the failure by the Issuer to make any payment under the Indexation Swap Transaction, the Swap Provider will only have the right to terminate the Indexation Swap Transaction if the Financial Guarantor has failed to make payment in full to the Swap Provider following a demand having been made by the Swap Provider under the Swap Financial Guarantee four Business Days prior to such failure by the Financial Guarantor to make such payment.

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

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. The Issuer will be obliged to pay break costs to the Swap Provider on early termination of the Fixed Rate Swap Transaction.

The Swap Provider will be obliged to make payments under the Swap Agreement without any withholding or deduction of taxes unless required by law. Neither the Swap Provider nor the Issuer shall be under any obligation to pay any additional sum if it is required by law to withhold or deduct tax from payments.

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.

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 (if it is the affected party) and by the Swap Provider (if it is the affected party), 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 140.

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 Financial Guarantee

The Issuer's obligations under the Indexation Swap Transaction are guaranteed pursuant to, and subject to the terms of, the Swap Financial Guarantee provided by the Financial Guarantor.

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 will require the Borrower to ensure that all Rent Payments (after the Rent Free Period) and any relevant Deferred Subscription Amounts (other than those relating to tax repayments) are paid directly into the Borrower Rent Account. The Issuer Cash and Corporate Management Agreement will require the Issuer Manager, on the Loan Payment Date falling in July 2007, to pay the Borrower Excess Interest to the Borrower for credit to 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 VAT Liquidity Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Pre-Enforcement Priority of Payments (Borrower)*" at page 77.

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, DSA Liquidity Advances paid to it and the VAT Refund 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, 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 and the amount of the VAT Refund received by the Borrower is to be applied in repayment of principal on the VAT Liquidity Loan.

(c) 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 VAT Liquidity Loan, the Related Security and Borrower Cashflows - Borrower Cashflows - Pre-Enforcement Priority of Payments (Borrower Realisation Account)*" at page 79.

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 April 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 July 2007, the Issuer shall (subject to certain conditions) advance the Excess Borrower Interest to the Borrower.

(b) 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 £4,080,142 which shall (subject to the satisfaction of certain conditions) be applied in making Advances to the Borrower to pay Expenses incurred by the Borrower prior to the Loan Payment Date falling in July 2007.

(c) 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 106 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.

(d) 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

(e) 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, the Financial Guarantor 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 Financial

Guarantor for so long as it is the Controlling Party, 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.

Issuer Approved Budget

Pursuant to the Issuer Cash and Corporate Management Agreement, the Issuer Manager has agreed to prepare an approved budget in respect of the Issuer, divided into quarterly periods, containing estimates of expenses and revenue which budget shall be approved by the Issuer Security Trustee in consultation with the Financial Guarantor (for so long as it is the Issuer Controlling Party) (the "**Issuer Approved Budget**").

Delegation by the Loan Servicer

The Loan Servicer may, in certain circumstances, without the consent of the Issuer or the Issuer Security Trustee (unless it is the Issuer Controlling Party) but with the consent of the Financial Guarantor (for so long as it is the Issuer Controlling Party) 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, (c) upon the direction of the Financial Guarantor, for as long as it is the Issuer Controlling Party, or (d) for as long as the Issuer

Security Trustee is the Issuer Controlling Party, 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.

Exercise of Discretions

The Loan Servicer agrees in the Loan Servicing Agreement that, for so long as the Financial Guarantor is the Issuer Controlling Party, it will only exercise discretions under the Transaction Documents (including the Credit Agreement) if directed to do so by the Financial Guarantor (for so long as it is the Issuer Controlling Party).

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, the Financial Guarantor, 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 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 Scheduled Note Principal Payment (if any) 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 131.

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 Financial Guarantor (for so long as it is the Issuer Controlling Party), 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 Controlling Party) 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) an application 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 Issuer Controlling Party, 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, the Issuer Controlling Party 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, the Issuer Controlling Party and 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, and a "P-1" rating (or its equivalent) by Moody's or, if at the relevant time there is no such entity, any entity approved in writing by the Issuer Controlling Party.

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 and the Borrower Realisation Account, as are more particularly described below and in "*Accounts Structure - Borrower Accounts*" on page 113.

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 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 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 113.

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 Approved Budget

Pursuant to the Borrower Cash and Corporate Management Agreement, the Borrower Manager has agreed to prepare an approved budget in respect of the Borrower, divided into quarterly periods, containing estimates of expenses and revenue which budget shall be approved by the Borrower Security Trustee in consultation with the Financial Guarantor (for so long as it is the Borrower Controlling Party) (the "**Borrower Approved Budget**").

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 or the Credit Agreement, 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 23 March 2005,

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	100.002%
17 July 2005	100%
17 July 2006	100%
17 July 2007	100%
17 July 2008	100%
17 July 2009	100%
17 July 2010	99%
17 July 2011	99%
17 July 2012	98%
17 July 2013	97%
17 July 2014	96%
17 July 2015	95%
17 July 2016	94%
17 July 2017	92%
17 July 2018	90%
17 July 2019	88%
17 July 2020	85%
17 July 2021	83%
17 July 2022	80%
17 July 2023	76%
17 July 2024	72%
17 July 2025	68%
17 July 2026	63%
17 July 2027	58%
17 July 2028	53%
17 July 2029	47%
17 July 2030	40%
17 July 2031	33%
17 July 2032	25%
17 July 2033	16%
17 July 2034	7%
17 July 2035	0%

Average Life (years)	22.5 years
First Principal Payment Date	17 April 2008
Last Principal Payment Date	17 April 2035

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 153.

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, administration or application 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 £364,850,000 per cent. Commercial Mortgage Backed Fixed Rate Guaranteed Notes due 2035 (the "**Notes**") (as more fully defined below) of White City Property 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, MBIA Assurance S.A. (the "**Financial Guarantor**") 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 Notes are unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest in respect of the Notes, pursuant to a financial guarantee dated the Closing Date issued by the Financial Guarantor (the "**Note Financial Guarantee**").

The security for, among other things, the Notes (the "**Issuer Security**") is created pursuant to, and on terms set out in, a deed of charge and assignment dated on or about the Closing Date (the "**Deed of Charge and Assignment**", which expression includes such deed of charge and assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) and made between, among others, the Issuer, 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 Institutional Trust 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, the Master Definitions Agreement and the Note Financial Guarantee (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, the Master Definitions Agreement and the Note Financial Guarantee (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, the Note Financial Guarantee 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 Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of and definitions contained in the Note Financial Guarantee.

The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on or about 16 March 2005.

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, Note Financial Guarantee, Security and Priority

(A) Status and relationship between the Notes

(a) The Notes constitute direct, secured and unconditional obligations of the Issuer. The Notes rank *pari passu* and rateably without preference or priority among themselves and will rank in priority to all unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) The 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) Note Financial Guarantee

The Notes have the benefit of the Note Financial Guarantee which has been issued pursuant to a guarantee and reimbursement agreement dated on or before the Closing Date between, among others, the Issuer and the Financial Guarantor (the "**Guarantee and Reimbursement Agreement**"). Pursuant to the Note Financial Guarantee, the Financial Guarantor has unconditionally and irrevocably agreed to pay to the Note Trustee all sums due and payable but unpaid by the Issuer in respect of scheduled principal and interest (but always excluding Default Interest (as defined in Condition 4 (*Default Interest*)) on the Notes, as more particularly described in the Note Financial Guarantee.

The terms of the Note Financial Guarantee provide that amounts of principal on any Notes which have become immediately due and payable (whether by virtue of acceleration, prepayment or otherwise) other than Scheduled Principal Repayments (as defined below) will not be treated as Guaranteed Amounts (as defined in the Note Financial Guarantee) which are Due for Payment (as defined in the Note Financial Guarantee) unless the Financial Guarantor in its sole discretion elects so to do by notice in writing to the Note Trustee. If no such election is made, the Financial Guarantor will continue to be liable to make payments in respect of the Notes pursuant to the Note Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

(C) Status of Note Financial Guarantee

The Note Financial Guarantee provided by the Financial Guarantor in respect of the Notes constitutes an unsubordinated and unsecured obligation of the Financial Guarantor which will rank at least *pari passu* with all other unsubordinated and unsecured obligations of the Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(D) Subrogation of the Financial Guarantor

The Note Trust Deed and the Note Financial Guarantee provide that the Financial Guarantor shall be subrogated to any rights of the Note Trustee and the Noteholders against the Issuer in respect of amounts due in respect of the Notes which have been paid by the Financial Guarantor under the Note Financial Guarantee.

(E) Security and Priority of Payments

The security in respect of the Notes is set out in the Deed of Charge and Assignment. The "**Issuer Controlling Party**" will be the Financial Guarantor unless and until such time as the Note Trustee has determined that an MBIA Event of Default (as defined in the Guarantee and Reimbursement Agreement) has occurred that has not been cured to the satisfaction of the Note Trustee or waived by the Note Trustee, in which case the Note Trustee will be the Issuer Controlling Party. The Deed of Charge and Assignment also contains provisions regulating the priority of application of the Available Receipts (as defined in the Master Definitions Agreement) among the persons entitled thereto prior to the service of a Note Enforcement Notice (as defined in Condition 9(*a*)), and of the Available Receipts and the proceeds of enforcement or realisation of the Issuer Security by the Issuer Security Trustee after the service (upon instructions of the Issuer Controlling Party) of a Note Enforcement Notice.

The Issuer Security may be enforced by the Issuer Security Trustee following the service (upon instructions of the Issuer Controlling Party) 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 Transaction 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, sub-mortgage, assignment, charge, sub-charge, pledge, lien (unless arising by operation of law), hypothecation 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 Transaction 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 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 Transaction Documents, or the priority of the security interests created thereby, to be amended, terminated, postponed or discharged, or consent to any variation of, or exercise any powers of consent or waiver pursuant to the terms of, the Note Trust Deed, these Conditions, the Deed of Charge and Assignment or any of the other Transaction Documents, or permit any party to any of the Transaction Documents or the Issuer Security or any other person whose obligations form part of the Issuer Security to be released from such obligations or dispose of 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 Transaction 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 Transaction 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.

The Note Trustee may not give its consent to any of the foregoing without being instructed to do so by the Financial Guarantor, if the Financial Guarantor is the Issuer Controlling Party. If the Issuer Security Trustee is the Issuer Controlling Party, such consent shall only be given upon the resolution of the holders of more than 50 per cent of the Principal Amount Outstanding of the Notes.

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 Transaction Documents or may impose such other conditions or requirements as the Issuer Controlling Party may deem expedient (in its absolute discretion) provided that if the Issuer Security Trustee is the Issuer Controlling Party each of the Rating Agencies (as defined in Condition 14) has provided written confirmation to the Note Trustee that the then applicable Adjusted Ratings (as defined in the Master Definitions Agreement) of the Notes then rated thereby will not be qualified, downgraded or withdrawn as a result of such modifications or additions.

(B) 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 an Issuer Manager in respect of the monies from time to time standing to the credit of the Issuer Operating 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 Controlling Party 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 provided that if the Financial Guarantor is the Issuer Controlling Party, the Issuer Security Trustee shall not seek to terminate the appointment of the Loan Servicer or the Issuer Manager without the Financial Guarantor's prior approval.

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 but subject to Condition 4(b) and Condition 5(a), interest will continue to accrue thereon (both before and after any judgment) ("**Default Interest**") at the Rate of Interest applicable to such Note up to (but excluding) the date on which, on presentation of such Note, payment in full of the relevant amount of principal, together with the interest accrued thereon, is made or (if earlier) the seventh day after notice is duly given to the holder thereof (either in accordance with Condition 14 or individually) that, upon presentation thereof being duly made, such payment will be made, provided that upon presentation thereof being duly made, payment is in fact made.

Payment of Default Interest is not guaranteed by the Financial Guarantor under the Note Financial Guarantee.

(b) Note Payment Dates and Interest Periods

Subject to the provisions of this Condition 4(b) in relation to Interest Tax Shortfall Amounts, interest on the Notes is payable quarterly in arrear on the 17^{th} 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 July 2005.

In these Conditions, "**Interest Period**" means the period from (and including) the 17^{th} 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 July 2005) 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.

If on any Note Payment Date an Interest Tax Shortfall Amount would, but for the provisions of this paragraph, be due for payment, the Issuer shall not be obliged to pay such Interest Tax Shortfall Amount on such Note Payment Date but shall, subject to the provisions of this Condition 4(b) and provided that it has sufficient funds available to make such payment in accordance with the Issuer Priorities of Payments (as defined in the Master Definitions Schedule), pay such Interest Tax Shortfall Amount on the next following Note Payment Date, and Interest Tax Shortfall Amounts which are not paid on any Note Payment Date as a result of the operation of the provisions of this paragraph shall bear interest at the Rate of Interest during the period from the Note Payment Date on which they would, but for the provisions of this paragraph, first fall due for payment to the Note Payment Date on which they are paid, Provided that on the Final Note Repayment Date the Issuer shall pay all accrued Interest Tax Shortfall Amounts, together with interest accrued thereon.

"**Interest Tax Shortfall Amount**" means any amount of interest on the Notes which the Issuer is unable to pay as a result of a Tax Shortfall, to be paid in accordance with the applicable Issuer Priority of Payments.

"**Principal Tax Shortfall Amount**" means any amount of principal on the Notes which the Issuer is unable to pay as a result of a Tax Shortfall, to be paid in accordance with the applicable Issuer Priority of Payments.

"**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).

"**Tax Shortfall Amounts**" means an Interest Tax Shortfall Amount or a Principal Tax Shortfall Amount.

To the extent there is a Tax Shortfall, there is no obligation on the Financial Guarantor to pay any Tax Shortfall Amounts or interest accrued thereon.

(c) *Rate of Interest*

The rate of interest payable from time to time in respect of the Notes (the "**Rate of Interest**") will be 5.1202 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 Financial Guarantor, 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 Financial Guarantor, 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, the Financial Guarantor 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 Issuer Controlling Party has been appointed.

5. Redemption and Cancellation

(a) *Scheduled Redemption*

Subject to the provisions of this Condition 5(a) in relation to Principal Tax Shortfall Amounts, 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 April 2035 (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.

If on any Note Payment Date a Principal Tax Shortfall Amount would, but for the provisions of this paragraph, be due for payment, the Issuer shall not be obliged to pay such Principal Tax Shortfall Amount on such Note Payment Date but shall, subject to the provisions of this Condition 5(a) and provided that it has sufficient funds available to make such payment in accordance with the Issuer Priorities of Payments (as defined in the Master Definitions Schedule), pay such Principal Tax Shortfall Amount on the next following Note Payment Date, and for the avoidance of doubt, Principal Tax Shortfall Amounts which are not paid on any Note Payment Date as a result of the operation of the provisions of this paragraph shall bear interest in accordance with Condition 4(a) at the Rate of Interest during the period from the Note Payment Date on which they would, but for the provisions of this paragraph, first fall due for payment to the Note Payment Date on which they are paid, Provided that on the Final Note Repayment Date the Issuer shall pay all accrued Principal Tax Shortfall Amounts, together with, for the avoidance of doubt, interest accrued thereon.

To the extent there is a Tax Shortfall, there is no obligation on the Financial Guarantor to pay any Tax Shortfall Amounts or interest accrued thereon.

(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 to the prior approval of the Financial Guarantor (for so long as it is the Issuer Controlling Party), each Note shall be subject to mandatory redemption in whole at the Redemption Amount plus accrued and unpaid interest on any Note Payment Date following prepayment of the Loan in full made by the Borrower pursuant to the terms of the Credit Agreement.

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

(c) *Redemption for Tax or Other Reasons*

If the Issuer at any time satisfies the Financial Guarantor (for so long as it is the Issuer Controlling Party immediately prior to giving the notice referred to below that either (i) by virtue of a change in the tax law of the United Kingdom or any other jurisdiction (or the application, administration 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 (or the application, administration or official interpretation thereof) 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 Financial Guarantor (for so long as it is the Issuer Controlling Party and 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 interest 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 or prior to the Note Payment Date on which such notice expires, no Note Enforcement Notice has been served, then the Issuer shall with the prior approval by the Financial Guarantor, (for as long as it is the Issuer Controlling Party), on such Note Payment Date, provided that the relevant event described above is continuing, having given not more than 60 nor less than 30 days' written notice ending on such Note Payment Date to the Note

Trustee, the Financial Guarantor (for so long as it is the Issuer Controlling Party, the Paying Agents and to the Noteholders in accordance with Condition 14, redeem all the Notes each in an amount equal to the Principal Amount Outstanding and accrued and unpaid plus interest accrued and unpaid on the Notes.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any Note other than by way of redemption pursuant to this Condition 5(c). Once redeemed to the full extent provided in this Condition 5(c), the Notes shall cease to bear interest.

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

(d) 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 (where it is the affected party), 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 and the Financial Guarantor (for so long as it is the Issuer Controlling Party) 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 Issuer Controlling Party, Note Trustee and the Noteholders in accordance with Condition 14 and provided that, on or prior to 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 Issuer Controlling Party and 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 with the prior approval of the Financial Guarantor, for as long as it is the Issuer Controlling Party, redeem on such Note Payment Date all the Notes each in an amount equal to the Principal Amount Outstanding plus interest accrued and unpaid on the Notes.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not and shall not be obliged to 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, administration or official interpretation of any law) (on or after the Closing Date),

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).

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

(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 and, for the avoidance of doubt, shall include any Principal Tax Shortfall Amount.

"**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 Depositary.

(b) Laws and Regulations

Payments of principal, interest and premium (if any) in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.

(c) Overdue Principal Payments

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note or part thereof in accordance with Condition 4*(a)* will be paid against presentation of such Note at the specified office of any Paying Agent and in accordance with Condition 6*(a)*.

(d) Change of Agents

The Principal Paying Agent is HSBC Bank plc at its offices at 8 Canada Square, Level 24, London E14 5HQ. The Issuer reserves the right, subject to the prior written approval of the Issuer Controlling Party, at any time to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent and the Agent Bank and to appoint additional or other Agents. The Issuer will at all times maintain a Paying Agent with a specified office in Dublin, for so long as the Notes are listed on the Irish Stock Exchange. The Issuer shall cause at least 30 days' notice of any change in or addition to the Paying Agents or their specified offices to be given to the Noteholders in accordance with Condition 14.

(e) Presentation on Non-Business Days

If any Note is presented (if required) for payment on a day which is not a 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.

Payment of Default Interest on Interest is not guaranteed by the Financial Guarantor under the Note Financial Guarantee.

(g) Change of currency

(i) If at any time there is a change in the currency of the United Kingdom such that the Bank of England recognises a different currency or currency unit or more than one currency or currency unit as the lawful currency of the United Kingdom, then references in, and obligations arising under, the Notes outstanding at the time of any such change and which are expressed in sterling will be converted into, and/or any amount becoming payable under the Notes thereafter as specified in these Conditions will be paid in, the currency or currency unit of the United Kingdom, and in the manner designated by the Principal Paying Agent.

Any such conversion will be made at the official rate of exchange recognised for that purpose by the Bank of England.

(ii) Where such a change in currency occurs, the Global Notes in respect of the Notes then outstanding and these Conditions will be amended in the manner determined by the Issuer (with the prior written consent of the Issuer Controlling Party and the Note Trustee) so as to reflect that change and, so far as practicable, to place the Issuer, the Note Trustee, the Financial Guarantor and the Noteholders in the same position each would have been in had no change in currency occurred (such amendments to include, without limitation, changes required to reflect any modification to business day or other conventions arising in connection with such change in currency). All amendments made pursuant to this Condition 6*(g)* will be binding upon holders of such Notes.

(iii) Notification of the amendments made to Notes pursuant to this Condition 6*(g)* will be made to the Noteholders in accordance with Condition 14 which will state, among other things, the date on which such amendments are to take or took effect, as the case may be.

The obligations of the Note Financial Guarantor under the Financial Guarantee will not be affected by any redenomination pursuant to this Condition save that following such redenomination payments under the Note Financial Guarantee shall be made in such changed currency.

7. Taxation

All payments in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent is required by applicable law in any jurisdiction to make any payment in respect of the Notes subject to any such withholding or deduction. In that event, the Issuer or such Paying Agent (as the case may be) will make such payment after such withholding or deduction has been made and will account to the relevant authorities for the amount so required to be withheld or deducted. **Neither the Issuer nor any Paying Agent will be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction.**

To the extent that the Issuer is obliged to make any deduction or withholding, there is no obligation on the Financial Guarantor to pay any such amount so deducted or withheld.

8. Prescription

Claims for principal in respect of the Global Notes will become void unless the relevant Global Note is presented for payment within ten years of the appropriate relevant date. Claims for interest in respect of the Global Notes will become void unless the relevant Global Note is presented for payment within five years of the appropriate relevant date.

Claims for principal and interest in respect of Definitive Notes will become void unless made within ten years, in the case of principal, and five years, in the case of interest, of the appropriate relevant date.

In this Condition 8, the "**relevant date**" means the date on which a payment in respect thereof first becomes due, but if the full amount of the moneys payable has not been received by the Principal Paying Agent or the 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**") or a Guarantee and Reimbursement Event of Default (as defined in the Guarantee and Reimbursement Agreement) occurs then,

(1) if and for so long as the Financial Guarantor is the Issuer Controlling Party, the Note Trustee shall, upon being (i) so directed by the Financial Guarantor in accordance with the Note Trust Deed and (ii) indemnified or furnished with security 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 (as directed by the Financial Guarantor for so long as it is the Issuer Controlling Party) the Issuer Security enforceable; and

(2) if and for so long as the Financial Guarantor is not the Issuer Controlling Party, 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, give a Note Enforcement Notice to the Issuer and Issuer Security Trustee declaring each Note to be due and payable and 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 (with the consent of the Financial Guarantor) 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 Transaction Documents to which it is party and, in any such case (except where the Issuer Controlling Party certifies that, in its opinion, such default is incapable of remedy, when no notice will be required), such default continues for a period of 14 days following the service by the 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 Financial Guarantor or, if and for so long as the Financial Guarantor is not the Issuer Controlling Party, by the Issuer Security 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 or the making of an application for an administration order) and such proceedings are not, in the opinion of the Issuer Controlling Party, 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 Issuer Security Trustee if it is the Issuer Controlling Party, shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders.

(b) Effect of Declaration by 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.

Such an acceleration of sums due on the Notes does not accelerate the Financial Guarantor's payment obligations under the Note Financial Guarantee. The Financial Guarantor shall only be liable to make payments in respect of the Notes pursuant to the Note Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable, unless the Financial Guarantor otherwise decides.

To the extent there is a Tax Shortfall at the time of such early redemption, there is no obligation on the Financial Guarantor to pay any Tax Shortfall Amounts or any interest accrued thereon.

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). For so long as the Financial Guarantor is the Issuer Controlling Party, the Note Trustee will generally be required to act in accordance with the directions of the Financial Guarantor, as provided for in the Note Trust Deed.

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 Transaction 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 Transaction 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 that is not the Issuer Controlling Party under the Deed of Charge and Assignment. No Noteholder will be entitled to directly take proceedings for the winding up or administration of the Issuer.

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 Transaction 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, 33⅓ 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 but for as long as the Financial Guarantor is the Issuer Controlling Party subject to directions from the Financial Guarantor, (i) to any modification (except a Basic Terms Modification which is subject to prior approval by the Financial Guarantor and by an Extraordinary Resolution) of, or to any waiver or authorisation of any breach or proposed breach of, the Notes (including these Conditions) or any of the Transaction 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 Transaction 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 but for as long as the Financial Guarantor is the Issuer Controlling Party subject to directions from the Financial Guarantor, determine that an Event of Default will not, subject to specified conditions, be treated as such provided always that for as long as the Financial Guarantor is not the Issuer Controlling Party 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, the Financial Guarantor 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 Transaction 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 Transaction Documents while the Financial Guarantor is the Issuer Controlling Party, it will notify the Financial Guarantor that it has been called upon to do so and may only exercise the relevant discretion in accordance with the Financial Guarantor's instructions.

(j) If the 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 Transaction Documents while the Issuer Security Trustee is the Issuer Controlling Party, it will notify the Issuer Security Trustee that it has been called upon to do so and may only exercise the relevant discretion in accordance with the Issuer Security Trustee's instructions.

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 Transaction 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 Transaction Documents or whose obligations are comprised in the Issuer Security and/or any of their subsidiary or associated companies and to act as trustee for the holders of any other securities issued by or relating to the Issuer and/or any other person who is a party to the Transaction 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 Issuer Manager, the Borrower Manager, the Swap Provider or any other person of their obligations under the Transaction 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 Depositary for communication by it to Euroclear and/or Clearstream, Luxembourg for communication by them to their Accountholders and for communication by such Accountholders to entitled participants. Any notice delivered to Euroclear and/or Clearstream, Luxembourg as aforesaid shall be deemed to have been given on the day on which it is delivered to the Common Depositary.

(*b*) Any notice specifying a Note Payment Date, an Interest Amount or a Principal Amount Outstanding shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen or such other medium for the electronic display of data as may be previously approved in writing by the Note Trustee and notified to the Financial Guarantor and the Noteholders pursuant to Condition 14*(a)*. Any such notice shall be deemed to have been given on the first date on which such information appeared on the relevant screen. If it is impossible or impractical to give notice in accordance with this paragraph then notice of the matters referred to in this paragraph shall be given in accordance with Condition 14*(a)*.

(*c*) A copy of each notice given in accordance with this Condition 14 shall be provided to (for so long as the Notes are listed on the Irish Stock Exchange) the Company Announcements Office of the Irish Stock Exchange and at all times to 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, 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 and the Financial Guarantor (for so long as it is the Issuer Controlling Party), 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 and the Financial Guarantor in such manner as the Note Trustee shall require.

15. Substitution

As more fully set out in the Note Trust Deed, the Issuer Controlling Party may, without the consent of the Noteholders, agree or instruct the substitution of the Issuer (or of any previous substitute) by another single purpose entity (the "**New Issuer**") as principal debtor under the 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 Issuer Controlling Party, Note Trustee and the Rating Agencies granting a rating on the Notes) in accordance with Condition 14.

16. Tap Issues and New Issues

(a) Tap Issues

The Issuer shall be at liberty, without the consent of Noteholders, but subject always to the provisions of these Conditions and the Note Trust Deed, and provided that the Note Trustee shall not have given a Note Enforcement Notice, to raise further funds, from time to time, on any date, by the creation and issue of further Notes (the "**Tap Notes**") carrying the same terms and conditions in all respects (except in relation to the first Interest Period, the first Note Payment Date and the first Interest Amount) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Notes provided that (i) the aggregate principal amount of all Tap Notes to be issued on such date is not less than £1,000,000, (ii) the then current ratings of the Notes are not adversely affected by such issue, (iii) the Tap Notes are assigned the same ratings as are then applicable to the Notes, (iv) the Financial Guarantor consents to such issue in writing, (v) the Tap Notes have the benefit of the Note Financial Guarantee and (vi) the Tap Notes are listed on the Irish Stock Exchange. Except in relation to the first Interest Period, the first Note Payment Date and the first Interest Amount, all references in these Conditions to the "Notes", shall include any Tap Notes in issue from time to time.

(b) New Issues

The Issuer shall be at liberty, without the consent of the Noteholders (but subject always to the provisions of the Note Trust Deed), to raise further funds from time to time and on any date by the creation and issue of new notes (the "**New Notes**") carrying terms which differ from the Notes and which do not form a single series with the Notes provided that the conditions to the issue of further Notes as set out in Conditions 16(*a*)(ii) and 16(a)(iv) are met in respect of the issue of such New Notes.

(c) Supplemental Trust Deeds and Security

Any Tap Notes or New Notes will be constituted by a further deed or deeds supplemental to the Note Trust Deed and have the benefit of security pursuant to a further deed or deeds supplemental to the Deed of Charge and Assignment.

17. Privity of Contract

No person shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of a third party which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

18. Governing Law

The Note Trust Deed, the Deed of Charge and Assignment, Agency Agreement, the other Transaction Documents and the Notes are governed by, and shall be construed in accordance with, English law.

SCHEDULE TO THE CONDITIONS

Note Amortisation Schedule

Period	Note Payment Date in	Note Balance (beginning of period)	Scheduled Principal Repayments
1	March 2005	364,850,000.00	-
2	July 2005	364,850,000.00	-
3	October 2005	364,850,000.00	-
4	January 2006	364,850,000.00	-
5	April 2006	364,850,000.00	-
6	July 2006	364,850,000.00	-
7	October 2006	364,850,000.00	-
8	January 2007	364,850,000.00	-
9	April 2007	364,850,000.00	-
10	July 2007	364,850,000.00	-
11	October 2007	364,850,000.00	-
12	January 2008	364,850,000.00	-
13	April 2008	364,850,000.00	91,370.19
14	July 2008	364,758,629.81	121,555.95
15	October 2008	364,637,073.86	100,548.20
16	January 2009	364,536,525.65	118,175.70
17	April 2009	364,418,349.96	252,995.67
18	July 2009	364,165,354.28	234,115.76
19	October 2009	363,931,238.52	215,240.03
20	January 2010	363,715,998.50	248,130.80
21	April 2010	363,467,867.70	385,101.68
22	July 2010	363,082,766.03	368,792.23
23	October 2010	362,713,973.80	352,562.60
24	January 2011	362,361,411.19	387,984.44
25	April 2011	361,973,426.76	527,098.53
26	July 2011	361,446,328.22	513,582.74
27	October 2011	360,932,745.49	500,228.24
28	January 2012	360,432,517.24	538,334.44
29	April 2012	359,894,182.80	641,091.76
30	July 2012	359,253,091.04	681,310.79
31	October 2012	358,571,780.25	671,344.56
32	January 2013	357,900,435.69	699,631.52
33	April 2013	357,200,804.17	842,996.85
34	July 2013	356,357,807.31	835,790.15
35	October 2013	355,522,017.16	828,926.59
36	January 2014	354,693,090.57	872,893.78
37	April 2014	353,820,196.79	1,018,358.10
38	July 2014	352,801,838.69	1,014,701.23
39	October 2014	351,787,137.46	1,011,488.70
40	January 2015	350,775,648.76	1,058,653.46
41	April 2015	349,716,995.31	1,206,194.03
42	July 2015	348,510,801.28	1,206,370.84
43	October 2015	347,304,430.44	1,207,100.60
44	January 2016	346,097,329.84	1,257,653.46
45	April 2016	344,839,676.38	1,370,364.16
46	July 2016	343,469,312.23	1,423,232.20
47	October 2016	342,046,080.02	1,428,443.62

Period	Note Payment Date in	Note Balance (beginning of period)	Scheduled Principal Repayments
48	January 2017	340,617,636.40	1,470,503.96
49	April 2017	339,147,132.44	1,622,112.19
50	July 2017	337,525,020.26	1,630,874.24
51	October 2017	335,894,146.01	1,640,430.30
52	January 2018	334,253,715.71	1,698,371.68
53	April 2018	332,555,344.03	1,851,959.94
54	July 2018	330,703,384.09	1,865,515.23
55	October 2018	328,837,868.86	1,879,998.01
56	January 2019	326,957,870.86	1,941,965.00
57	April 2019	325,015,905.85	2,097,490.72
58	July 2019	322,918,415.13	2,116,198.64
59	October 2019	320,802,216.49	2,135,976.86
60	January 2020	318,666,239.63	2,202,206.02
61	April 2020	316,464,033.60	2,325,776.49
62	July 2020	314,138,257.12	2,394,541.07
63	October 2020	311,743,716.05	2,420,177.10
64	January 2021	309,323,538.95	2,479,906.60
65	April 2021	306,843,632.35	2,639,157.15
66	July 2021	304,204,475.21	2,669,332.38
67	October 2021	301,535,142.83	2,700,893.52
68	January 2022	298,834,249.31	2,776,407.59
69	April 2022	296,057,841.72	2,937,431.24
70	July 2022	293,120,410.48	2,973,971.69
71	October 2022	290,146,438.79	3,012,072.15
72	January 2023	287,134,366.64	3,092,639.40
73	April 2023	284,041,727.24	3,255,367.69
74	July 2023	280,786,359.55	3,298,726.72
75	October 2023	277,487,632.83	3,343,831.52
76	January 2024	274,143,801.31	3,429,745.29
77	April 2024	270,714,056.02	3,565,150.65
78	July 2024	267,148,905.37	3,653,839.16
79	October 2024	263,495,066.21	3,706,528.79
80	January 2025	259,788,537.42	3,788,791.30
81	April 2025	255,999,746.12	3,954,693.96
82	July 2025	252,045,052.16	4,013,155.71
83	October 2025	248,031,896.45	4,073,772.48
84	January 2026	243,958,123.97	4,171,322.94
85	April 2026	239,786,801.03	4,338,677.45
86	July 2026	235,448,123.58	4,405,484.76
87	October 2026	231,042,638.81	4,474,672.12
88	January 2027	226,567,966.70	4,578,549.55
89	April 2027	221,989,417.15	4,747,254.02
90	July 2027	217,242,163.13	4,822,976.90
91	October 2027	212,419,186.23	4,901,319.46
92	January 2028	207,517,866.77	5,011,887.27
93	April 2028	202,505,979.51	5,160,173.04
94	July 2028	197,345,806.46	5,273,775.21
95	October 2028	192,072,031.25	5,361,864.50
96	January 2029	186,710,166.75	5,472,721.52
97	April 2029	181,237,445.23	5,643,781.61
98	July 2029	175,593,663.63	5,739,178.12

Period	Note Payment Date in	Note Balance (beginning of period)	Scheduled Principal Repayments
99	October 2029	169,854,485.51	5,837,720.79
100	January 2030	164,016,764.73	5,962,838.96
101	April 2030	158,053,925.77	6,134,882.37
102	July 2030	151,919,043.40	6,241,111.63
103	October 2030	145,677,931.77	6,350,775.79
104	January 2031	139,327,155.98	6,483,798.49
105	April 2031	132,843,357.49	6,656,680.45
106	July 2031	126,186,677.04	6,774,457.15
107	October 2031	119,412,219.88	6,895,975.75
108	January 2032	112,516,244.13	7,037,352.82
109	April 2032	105,478,891.31	7,199,635.62
110	July 2032	98,279,255.69	7,344,328.11
111	October 2032	90,934,927.58	7,478,293.91
112	January 2033	83,456,633.67	7,625,287.54
113	April 2033	75,831,346.13	7,799,362.17
114	July 2033	68,031,983.96	7,942,543.75
115	October 2033	60,089,440.21	8,090,140.21
116	January 2034	51,999,299.99	8,249,674.34
117	April 2034	43,749,625.65	8,424,075.26
118	July 2034	35,325,550.39	8,581,205.22
119	October 2034	26,744,345.17	8,743,118.32
120	January 2035	18,001,226.85	8,912,509.17
121	April 2035	9,088,717.68	9,088,717.68

USE OF NET PROCEEDS

The net proceeds from the issuance of the Notes will be approximately £364,850,000 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 to be paid by the Borrower to the BBC in relation to the grant of the Headlease;

(b) funding the Expenses Tranche and the making therefrom of Advances to the Borrower in relation 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 any other Expenses incurred by the Borrower during the Rent-Free Period;

(c) funding the Interest Account; and

(d) funding certain fees and expenses payable to the Financial Guarantor.

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.

NOTE FINANCIAL GUARANTEE

The following is the text, subject to completion and amendment, of the Note Financial Guarantee, referred to herein as "**this Note Financial Guarantee**":

Note Financial Guarantee Number:	UK05165
Guaranteed Obligations:	The payment obligations of the Issuer in respect of each amount of Principal and Interest owing by the Issuer and outstanding under the Notes, as further defined below.
Guarantor:	MBIA Assurance S.A. ("**MBIA**") a *société anonyme* incorporated under the laws of the French Republic (registered with the Paris Register of Trade and Companies under No. B377883293 (98 B 05130) and acting through its registered branch office in England and Wales (registration number BR003789)).
Beneficiary:	The Note Trustee.
Date of Issue:	23 March 2005

1. DEFINITIONS, INTERPRETATION AND CONSTRUCTION[1]

1.1 Definitions

For the purposes of this Note Financial Guarantee, the following terms will have the meanings given to them below:

"**Accelerated Payment**" means, following an Acceleration, any payment in full or in part by MBIA of the Guaranteed Obligations in advance of the relevant Note Payment Date.

"**Acceleration**" means in relation to the Notes the declaration by written notice from the Note Trustee to the Issuer that the Notes are immediately due and payable pursuant to Condition 9 (*Events of Default*), and "**Accelerated**" will be construed accordingly.

"**Affiliate**" means any person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the first person, where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting stock, by contract or otherwise.

"**Agency Agreement**" has the meaning given to it in the Master Definitions Agreement.

"**Avoided Payment**" means any payment made by the Issuer in respect of the Guaranteed Obligations which has been avoided under any applicable bankruptcy, insolvency or similar law.

[1] For the avoidance of doubt, potential investors should note that the defined terms used in the form of this Note Financial Guarantee do not apply to the remainder of this Offering Circular

"**Business Day**" has the meaning given in Condition 4(b) (*Interest - Note Payment Dates and Interest Periods*).

"**Conditions**" means the terms and condition of the Notes, as set out in the Note Trust Deed.

"**Due for Payment**" means due for payment on a Note Payment Date or, with respect to Recovered Amounts, the date of the relevant Order. For the avoidance of doubt "Due for Payment" does not include any date which may arise earlier than a Note Payment Date by reasons of prepayment, acceleration, mandatory or optional redemption or otherwise unless MBIA has given its consent to such earlier date.

"**euro**" or "**€**" means the single currency of the Participating Member States.

"**Financial Guarantee Fee**" has the meaning given to it in the Guarantee and Reimbursement Agreement.

"**Guaranteed Amounts**" means, with respect to any Note Payment Date, the sum of Interest and Principal (if any) due on the Guaranteed Obligations on such Note Payment Date and, for the avoidance of doubt, includes Recovered Amounts and (if any) MBIA Additional Amounts (as defined in Clause 6.2 below). For the avoidance of doubt, "Guaranteed Amounts" does not include, and no guarantee is given by MBIA under this Note Financial Guarantee in respect of, any Tax Shortfall or Tax Shortfall Amounts or any deduction or withholding which the Issuer may or would have been required to make for or on account of Taxes in respect of the Guaranteed Obligations, any gross-up or make whole payment payable by the Issuer in respect of any such deduction or withholding or any other amount payable by the Issuer in respect of Taxes due in connection with the payment of such amount of Principal and/or Interest.

"**Guarantee and Reimbursement Agreement**" means the agreement between the Issuer and MBIA pursuant to which, *inter alia*, MBIA has agreed to issue the Note Financial Guarantee and the Issuer has agreed, *inter alia*, to indemnify and reimburse MBIA for, and to MBIA being subrogated to the rights of the Noteholders in respect of, any payments made by MBIA under the Note Financial Guarantee.

"**Guaranteed Obligations**" means the payment obligations of the Issuer in respect of each amount of Principal and Interest owing by the Issuer and outstanding under the Notes but excluding any Notes which have been purchased by the Issuer for so long as they are held by the Issuer.

"**Interest**" means any amount in respect of regularly scheduled interest owing by the Issuer under the Notes as reduced by any Interest Tax Shortfall Amount and excluding any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, default interest, premium or similar types of payment.

"**Interest Tax Shortfall Amount**" has the meaning given to it in Condition 4(b) (*Interest - Note Payment Dates and Interest Periods*).

"**Issuer**" means White City Property Finance PLC.

"**Issuer Manager**" has the meaning given to it in the Master Definitions Agreement.

"**Master Definitions Agreement**" has the meaning given to it in the Conditions.

"**MBIA Event of Default**" has the meaning given to that term in the Guarantee and Reimbursement Agreement.

"**Nonpayment**" means, on any Note Payment Date, the failure by the Issuer to pay all or any part of the Guaranteed Amounts which are due for payment on such Note Payment Date.

"**Noteholder**" has the meaning given to it in the Conditions.

"**Notes**" means the £364,850,000 5.1202 per cent. Commercial Mortgage Backed Fixed Rate Notes due 2035 issued by the Issuer.

"**Note Payment Date**" has the meaning given to it in Condition 4(b) (*Interest - Note Payment Dates and Interest Periods*) or such later date on which payments may be made by the Issuer in accordance with Condition 6(e) (*Payments - Presentation on Non-Business Days*).

"**Note Trustee**" means HSBC Trustee (C.I.) Limited or any additional or successor trustee appointed pursuant to the Note Trust Deed.

"**Note Trust Deed**" means the note trust deed dated 23 March 2005 between the Issuer, MBIA and the Note Trustee constituting the Notes, as modified or supplemented from time to time.

"**Notice of Demand**" means the notice of demand substantially in the form set out in the Schedule to this Note Financial Guarantee.

"**Order**" means a final, non-appealable order from a court of competent jurisdiction.

"**Participating Member States**" means the member states of the European Union which have adopted or adopt the euro as their lawful currency in accordance with the legislation of the European Community relating to the Economic and Monetary Union.

"**Paying Agent**" has the meaning given to it in the Conditions.

"**Principal**" means each amount of regularly scheduled principal outstanding under the Notes, as reduced by any Principal Tax Shortfall Amount and as further reduced by each amount of principal repaid or prepaid by the Issuer pursuant to the Conditions, excluding any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, premium, "spens" or similar types of payments.

"**Principal Paying Agent**" has the meaning given to it in the Conditions.

"**Principal Tax Shortfall Amount**" has the meaning given to it in Condition 4(b) (*Interest - Note Payment Dates and Interest Periods*).

"**Rating Agencies**" has the meaning given to it in the Guarantee and Reimbursement Agreement.

"**Receipt**" means (i) actual delivery to MBIA (or the Fiscal Agent (as defined in Clause 9 (*Appointment of Fiscal Agent*) below), as applicable) at the address set out in the Notice of Demand (or such other office as MBIA has notified to the Note Trustee by at least seven (7) Business Days' notice) (or, in the case of the Fiscal Agent (as defined in Clause 9 (*Appointment of Fiscal Agent*) below), to such address as MBIA has notified to the Note Trustee by at least seven (7) Business Days' notice) prior to 12.00 noon, London time, on a Business Day or (ii) if such actual delivery takes place either on a day that is not a Business Day or after 12.00 noon, London time, "**Receipt**" will be deemed to have occurred on the next succeeding Business Day.

"**Recovered Amounts**" means any payment of Principal or Interest made by or on behalf of the Issuer to the Note Trustee or a Noteholder which is adjudicated an Avoided Payment by an Order and recovered from the Note Trustee or, as the case may be, a Noteholder.

"**Taxes**" includes all present and future income, turnover and other taxes, levies, imposts, deductions, charges and withholdings whatsoever imposed, charged or levied by any jurisdiction (including without limitation, insurance, stamp, registration, issue or documentary taxes or duties) together with interest thereon and penalties with respect thereto (if any) and any payments made on or in respect thereof and "**Tax**" and "**Taxation**" will be construed accordingly.

"**Tax Shortfall**" has the meaning set out in Condition 4(b) (*Interest - Note Payment Dates and Interest Periods*).

"**Tax Shortfall Amounts**" means an Interest Tax Shortfall Amount or a Principal Tax Shortfall Amount.

"**Termination Date**" has the meaning set out in Clause 14.1 (*Termination*).

"**Transaction Documents**" has the meaning given to it in the Master Definitions Agreement.

1.2 **Clauses and Schedules**

Any reference in this Note Financial Guarantee to a Clause or a Schedule is, unless otherwise stated, to a clause or schedule in this Note Financial Guarantee.

1.3 **Legislation**

Any reference in this Note Financial Guarantee to any legislation (whether primary legislation or regulations or other secondary legislation made pursuant to primary legislation) will be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

1.4 **Headings**

Headings and sub-headings are for ease of reference only and will not affect the construction of this Note Financial Guarantee.

2. **GUARANTEE**

2.1 In consideration of the promise of payment of the Financial Guarantee Fee by or on behalf of the Issuer and subject to the terms of this Note Financial Guarantee, MBIA unconditionally and irrevocably guarantees to the Note Trustee for the benefit of the Noteholders of the Guaranteed Obligations:

2.1.1 an amount equal to the Guaranteed Amounts which have become Due for Payment but are unpaid by reason of Nonpayment; and

2.1.2 an amount equal to the Guaranteed Amounts which are Recovered Amounts.

2.2 This Note Financial Guarantee does not guarantee any prepayment or other acceleration payment which at any time may become due in respect of any Guaranteed Obligation, other than at the sole option of MBIA as specified in Clause 7 (*Acceleration*), nor against any risk other than Nonpayment, including failure of the Note Trustee or any Paying Agent to make any payment due to Noteholders of Guaranteed Amounts nor any amount in respect of any deduction or withholding which the Issuer would have been required to make for or on account of Taxes in respect of the Guaranteed Obligations, any gross-up or make whole payment payable by the Issuer in respect of any such deduction or withholding or any other amount payable by the Issuer in respect of Taxes.

3. **PAYMENTS**

3.1 MBIA will make payments to the Note Trustee from its own funds by 11.00 a.m. on the later of:

3.1.1 the day which is four (4) Business Days following Receipt of a Notice of Demand in accordance with Clause 8 (*Notice of Demand*); or

3.1.2 the day on which the Guaranteed Amounts are Due for Payment.

3.2 Payments due under this Note Financial Guarantee will be satisfied by payment to the person specified in the relevant Notice of Demand in pounds Sterling by credit to a pounds Sterling account at a bank in London, England, as specified in the Notice of Demand and payment to such person will discharge the obligations of MBIA under this Note Financial Guarantee to the extent of such payment, whether or not funds are properly applied by such person.

3.3 Once payment of any Guaranteed Amounts has been made to the person specified in any Notice of Demand, MBIA will have no further obligation in respect of such Guaranteed Amounts.

3.4 Nothing in this Note Financial Guarantee will oblige MBIA to make payments in respect of the Guaranteed Obligations:

3.4.1 earlier than any date on which such payments are Due for Payment; or

3.4.2 which would be greater than the Interest element of such Guaranteed Obligations and the Principal element of such Guaranteed Obligations.

4. **SUBROGATION**

MBIA will be subrogated to the Noteholders' and the Note Trustee's rights in respect of the Guaranteed Obligations to the extent of any payments made by or on behalf of MBIA under this Note Financial Guarantee.

5. **WAIVER OF DEFENCES**

5.1 The obligations of MBIA under this Note Financial Guarantee will continue and will not be terminable other than in accordance with Clause 14 (*Termination*) notwithstanding failure to receive payment of the Financial Guarantee Fee or any other fee due in respect of this Note Financial Guarantee. The Financial Guarantee Fee is not refundable for any reason.

5.2 Notwithstanding that the Note Financial Guarantee is a guarantee and not a contract of insurance neither the obligation of MBIA contained in this Note Financial Guarantee nor the rights, powers and remedies conferred in respect of MBIA upon the Note Trustee and/or any Noteholder by this Note Financial Guarantee or by law shall be discharged, impaired or otherwise affected by:

5.2.1 the winding-up, dissolution, administration or reorganisation of the Issuer or any other person under any applicable law or any change in the status, function, control or ownership of the Issuer or any other person;

5.2.2 any of the Guaranteed Obligations being or becoming illegal, invalid, unenforceable or ineffective in any respect;

5.2.3 any time or other indulgence being granted or agreed to be granted to the Issuer in respect of any of the Guaranteed Obligations;

5.2.4 any amendment to, or any variation, waiver or release of the Guaranteed Obligations;

5.2.5 any failure to realise or fully to realise the value of, or any release, discharge, exchange or substitution of, any security taken in respect of the Guaranteed Obligations;

5.2.6 any defence of fraud (but excluding fraud by the Note Trustee) or any defence based on misrepresentation, breach of warranty or non-disclosure of information (by any person) whether acquired directly, by assignment, by subrogation, or otherwise, to the extent such rights and defences may be available to MBIA to avoid payment of its obligations under this Note Financial Guarantee; or

5.2.7 any other act, event or omission (other than the failure to deliver a Notice of Demand) which, but for this Clause 5.2, might operate to discharge, impair or otherwise affect any of the obligations of MBIA contained in this Note Financial Guarantee or any of the rights, powers or remedies conferred upon the Note Trustee and the Noteholders by the Conditions, the Note Trust Deed, this Note Financial Guarantee or by law.

5.3 No warranties are given and nothing in this Note Financial Guarantee is intended to constitute a warranty or a condition precedent to payment under the Note Financial Guarantee other than Receipt of a Notice of Demand in accordance with Clause 8 (*Notice of Demand*) below.

5.4 The waivers set out in Clause 5.1 to 5.3 above will prevent MBIA from refusing payment of any claim under this Note Financial Guarantee but will not, and nothing in this Note Financial Guarantee will be construed in any way to limit or otherwise affect MBIA's right to pursue recovery or claims (based on contractual or other rights, including such rights resulting from the Note Trustee's or such other person's fraud, negligence or breach of any agreement to which it is a party) for reimbursement against any persons for any liabilities, losses, damages, costs and expenses incurred by MBIA after MBIA has made payment in full on the relevant Note Payment Date of the Guaranteed Amounts.

6. WITHHOLDING AND DEDUCTIONS

6.1 Payments of Guaranteed Amounts by MBIA will be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of such Taxes is required by law or regulation or administrative practice of any jurisdiction. Subject to Clause 6.2 below, if any such withholding or deduction is required, MBIA will pay the Guaranteed Amounts net of such withholding or deduction and will account to the appropriate tax authority for the amount required to be withheld or deducted.

6.2 Payments of Guaranteed Amounts by MBIA will be made without withholding or deduction for, or on account of, any present or future Tax, assessment or other governmental charge of whatever nature imposed or levied in respect of withholding taxes or deductions relating thereto by or on behalf of the French Republic or any political subdivision or taxing authority therein or thereof ("**France**") unless the withholding or deduction of such Tax, assessment or other governmental charge is required by law or regulation or administrative practice of France. If any such withholding or deduction is required, subject as provided below, MBIA shall make the payment in respect of the relevant Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. If any withholding or deduction is so required, MBIA shall pay such amounts ("**MBIA Additional Amounts**") for the account of each Noteholder in respect of which a withholding or deduction has been made as are necessary to ensure that the net amounts receivable by such Noteholder after such withholding or deduction shall equal the Guaranteed Amounts which would have been receivable by such Noteholder in respect of the Guaranteed Obligations in the absence of such withholding or deduction but provided that no such payment shall be payable in respect of any Note or coupon presented for payment:

(a) by or on behalf of a Noteholder who is liable or subject to the Tax, assessment or charge in respect of which such withholding or deduction is required to be made by reason of such Noteholder having some connection with France other than the mere holding of such Note or coupon or the mere benefit of this Note Financial Guarantee;

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;

(c) (i) by or on behalf of a Noteholder who would not be liable or subject to the Tax, assessment or charge in respect of which such withholding or deduction is required to be made if such Noteholder had made a declaration of non-residence or other similar claim for exemption to the relevant tax authority, or (ii) to the extent that such withholding or deduction would have been eliminated or reduced if such Noteholder had made a claim for relief from such withholding or deduction pursuant to an applicable double tax treaty, provided that, in each case, the declaration or claim for exemption or relief was a declaration or claim which such Noteholder would have been entitled to make; or

(d) more than 30 days after the relevant Note Payment Date except to the extent that the Noteholder would have been entitled to such additional amounts if it had presented such Note or coupon on the last day of such period of 30 days.

6.3 For the avoidance of doubt, all payments of Guaranteed Amounts by MBIA will be made subject to any other withholding or deduction required by law, regulation or administrative practice in any jurisdiction (other than France) to which MBIA is subject or in or through which any payment is made by MBIA.

7. ACCELERATION

7.1 At any time following Acceleration, MBIA may decide, in its absolute discretion, to make a full or partial Accelerated Payment under this Note Financial Guarantee.

7.2 Any Accelerated Payment will be communicated in writing by MBIA to the Note Trustee without the need for Receipt of a Notice of Demand, and it will be made to the account specified by the Note Trustee or the Principal Paying Agent.

8. NOTICE OF DEMAND

8.1 Payments of Guaranteed Amounts will only be made after presentation of a validly completed Notice of Demand signed by the Note Trustee.

8.2 Notices of Demand must be given by the Note Trustee and delivered by registered mail, or personally to the address set out in the Notice of Demand, or such other address as MBIA may notify in writing to the Note Trustee.

8.3 If any Notice of Demand is not in the proper form or is not properly completed, executed or delivered, it will be deemed not to have been received by MBIA.

8.4 MBIA will promptly advise the Note Trustee if a Notice of Demand has not been properly completed, executed or delivered and the Note Trustee may submit an amended Notice of Demand to MBIA.

9. **APPOINTMENT OF FISCAL AGENT**

9.1 At any time during the term of this Note Financial Guarantee MBIA may appoint a fiscal agent (the "**Fiscal Agent**") by written notice to the Note Trustee at the notice address specified in the Note Trust Deed specifying the name and notice address of the Fiscal Agent, which Fiscal Agent may be situated in New York City and/or London. From and after the date of receipt of such notice by the Note Trustee:

9.1.1 copies of all notices including the Notice of Demand and other documents required to be delivered to MBIA pursuant to this Note Financial Guarantee must be simultaneously delivered to the Fiscal Agent and to MBIA and will not be deemed to be received until both the Fiscal Agent and MBIA are in Receipt thereof; and

9.1.2 all payments required to be made by MBIA under this Note Financial Guarantee will be made directly by MBIA or by the Fiscal Agent on behalf of MBIA, provided, however, that payment by MBIA to the Fiscal Agent will not discharge MBIA's obligations in respect of the Guaranteed Amounts. The Fiscal Agent is the agent of MBIA only and the Fiscal Agent will not be liable to the Note Trustee or any Noteholder for any acts by MBIA or any failure by MBIA to deposit, or cause to be deposited, sufficient funds to make payments under this Note Financial Guarantee.

10. **TRANSFER**

10.1 The rights and obligations of MBIA under this Note Financial Guarantee may be transferred to any Affiliate of MBIA without the consent of the Note Trustee or the Noteholders provided that:

10.1.1 at the time of the transfer the location of the transferee does not result in either (a) any withholding or deduction for Tax or does not otherwise prevent payment being made or result in any deduction being made in respect of any Guaranteed Amount, or (b) any claim or increased claim arising under Clause 6 (*Indemnification*) of the Guarantee and Reimbursement Agreement;

10.1.2 a legal opinion, in form and substance satisfactory to the Note Trustee is produced by an appropriately qualified and experienced counsel as a condition precedent;

10.1.3 at the time of transfer MBIA or such transferee delivers to the Note Trustee written confirmation from the Rating Agencies that, at the time of such transfer, the financial strength of such transferee is rated at least equal to the financial strength of MBIA at that time and the rating of the Notes is at least equal to such financial strength rating; and

10.1.4 MBIA or such transferee delivers to the Note Trustee written notice of any such transfer and such transferee assumes the obligations of MBIA under the Note Financial Guarantee and accedes to the relevant Transaction Documents whereupon, without further action, MBIA will be released from its obligations under this Note Financial Guarantee other than any obligation to make payment in respect of any

Guaranteed Amounts payable hereunder following the Receipt by MBIA of a Notice of Demand prior to the date on which the transfer is effective.

10.2 If MBIA receives a Notice of Demand in accordance with Clause 8 (*Notice of Demand*) and payment of the Guaranteed Amounts specified therein would, in the reasonable opinion of MBIA, be subject to withholding or deduction in accordance with Clause 6 (*Withholding and Deductions*) then:

10.2.1 MBIA shall use its reasonable endeavours to transfer its rights and obligations under this Note Financial Guarantee to any branch or office through which it will exercise its rights and perform its obligations under this Note Financial Guarantee (the "**New Branch**") or to any Affiliate, which transfer in either case would result in such payments of the Guaranteed Amounts not being subject to any withholding or deduction required by law, regulation or administrative practice in any jurisdiction;

10.2.1 in the case of a transfer to an Affiliate in the circumstances described in 10.2.1 above, the provisions listed in 10.1.1 to 10.1.4 will apply, except that 10.1.4 will be deemed to be amended for the purposes of this Clause 10.2 to provide that MBIA will be released from all its obligations under this Note Financial Guarantee without limitation; and

10.2.3 in the case of a transfer to an Affiliate or to the New Branch in the circumstances described in 10.2.1, the transferee will make payment to the Note Trustee on the day which is four (4) Business Days following the date the transfer is effective.

11. REDENOMINATION

The obligations of MBIA under this Note Financial Guarantee will not be affected by any redenomination of the Guaranteed Obligations into euro pursuant to Condition 6(g) (*Payments - Change of currency*) of the Notes save that, following such redenomination, payments of Guaranteed Amounts hereunder shall be made in euro.

12. THIRD PARTY RIGHTS

Any rights which any person (other than MBIA as issuer of this Note Financial Guarantee and the Note Trustee as beneficiary of this Note Financial Guarantee) may otherwise have to enforce any term or condition of this Note Financial Guarantee pursuant to the Contracts (Rights of Third Parties) Act 1999 are hereby expressly excluded.

13. ENTIRE AGREEMENT

This Note Financial Guarantee (including the Schedule hereto) constitutes the entire agreement between MBIA and the Note Trustee in relation to MBIA's obligation to make payments to the Note Trustee in respect of Guaranteed Amounts and supersedes and replaces any previous agreement or understanding that may have existed between MBIA and the Note Trustee in relation to such payments.

14. TERMINATION

14.1 Subject to Clause 14.2, this Note Financial Guarantee will terminate on the date falling two years and one day after the earlier of:

14.1.1 the last Note Payment Date; and

14.1.2 payment in full of the Guaranteed Obligations (such date being the "**Termination Date**").

14.2 In the event that:

14.2.1 the liability of MBIA in respect of any claim made hereunder shall have arisen prior to the Termination Date and remain outstanding at the Termination Date; and

14.2.2 (a) a petition is presented prior to the Termination Date pursuant to which an administration order is made in relation to the Issuer; or (b) the winding-up of the Issuer is commenced (such administration order and such winding-up, the "**Insolvency Proceedings**")

this Note Financial Guarantee shall terminate on the later of:

(i) the date of the conclusion or dismissal of such Insolvency Proceedings without continuing jurisdiction by the court in such Insolvency Proceedings; and

(ii) the date on which MBIA has made all payments required to be made under the terms of this Note Financial Guarantee in respect of any Avoided Payments.

14.3 After the Termination Date, MBIA will cease to be liable in respect of any further demand made in respect of the Guaranteed Obligations.

15. GOVERNING LAW AND JURISDICTION

This Note Financial Guarantee will be governed by and construed in accordance with the laws of England and Wales and the English courts will have exclusive jurisdiction to settle any dispute arising from or connected with this Note Financial Guarantee (including a dispute regarding the existence, validity or termination of this Note Financial Guarantee) or the consequences of its nullity.

IN WITNESS WHEREOF this Note Financial Guarantee has been executed and made effective as a deed by MBIA on the day and year first set out above.

EXECUTION PAGE

Executed as a Deed on behalf of

MBIA ASSURANCE S.A.
By:

Schedule
Form of Notice of Demand

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

Telephone:	00 44 20 7920 6363
Fax:	00 44 20 7588 3393
Attention:	The Director

The undersigned, a duly authorised officer of HSBC Trustee (C.I.) Limited (the "**Note Trustee**"), hereby certifies to MBIA Assurance S.A. ("**MBIA**"), with reference to Note Financial Guarantee No. UK05165 dated 23 March 2005 (the "**Note Financial Guarantee**") issued by MBIA in respect of the payment obligations of the Issuer in respect of each amount of Principal and Interest owing by the Issuer and outstanding pursuant to the White City Property Finance PLC (the "**Issuer**") £364,850,000 5.1202 per cent. Commercial Mortgage Backed Fixed Rate Notes due 2035, that:

1. The Note Trustee is the trustee under the Note Trust Deed for the Noteholders.

2. The Note Trustee has been notified by the Issuer Manager that the deficiency in respect of Guaranteed Amounts which are Due for Payment on [*insert Note Payment Date*] will be £[*insert applicable amount*] (the "**Notes Shortfall**").

3. The Note Trustee is making a claim under the Note Financial Guarantee for the Notes Shortfall to be applied in or towards the payment of Guaranteed Amounts which are Due for Payment.

4. The Note Trustee agrees that, following payment of funds by or on behalf of MBIA to the Note Trustee (if applicable), it will procure that:

   4.1 it holds such amounts on trust in favour of the Noteholders and will apply such amounts directly to the payment of Guaranteed Amounts which are Due for Payment;

   4.2 such funds are not applied for any other purpose;

   4.3 such funds are not co-mingled with other funds held by the Note Trustee; and

   4.4 a record of payments with respect to each Guaranteed Obligation and the corresponding claim on the Note Financial Guarantee and the proceeds thereof is maintained by the Principal Paying Agent in accordance with the terms of the Agency Agreement.

5. Payment will be made in [*pounds Sterling*] by credit to the designated [*pounds Sterling*] account of the [*insert payee*] at [*insert account details*] with [*insert bank details*].

Unless the context otherwise requires, capitalised terms used in this Notice of Demand and not defined herein will have the meanings set out in the Note Financial Guarantee.

This Notice of Demand will be revoked in whole or in part (as appropriate) by written notice by the Note Trustee to MBIA at any time prior to 10.00 a.m. (London time) on the second Business Day prior to the date specified above on which Guaranteed Amounts are Due for Payment if and only to the extent that moneys are actually received in respect of all or part of the Guaranteed Obligations prior to such time from a source other than MBIA.

This Notice of Demand will be governed by and construed in accordance with English law.

IN WITNESS WHEREOF the Note Trustee has executed and delivered this Notice of Demand on the [*insert date*] day of [*insert date*].

[HSBC Trustee (C.I.) Limited]

By:	____________________________	By	____________________________
Title:	____________________________	Title:	____________________________

MBIA

General

MBIA Assurance S.A. ("**MBIA**") is a *société anonyme* that was created and incorporated under French law on 3 May 1990. MBIA's corporate charter expires on 3 May 2089. MBIA's principal activity is the guarantee of financial obligations. MBIA has been set up in the form of a joint stock corporation and is subject to the provisions of the French Code of Commerce ("**Code de Commerce**") since the law of 24 July 1966 was replaced by the Code of Commerce.

MBIA has no subsidiaries.

Furthermore, MBIA is licensed in the French Republic under the terms of Article L 321-1 of the French Insurance Code ("**Code des Assurances**"), to carry out operations of the type corresponding to Branch 15 Guarantees listed in Article R 321-1 of the aforementioned Code (*Journal Officiel* dated 28 March 1991). MBIA is subject to the supervision of the *Commission de Contrôle des Assurances, Mutuelles et Institutions de Prevoyance* ("**CCAMIP**"). It is registered with the Paris Commercial Register (Paris Register of Trade and Companies) under No. B377883293 (98 B 05130) and has its registered office at 112, Avenue Kléber, 75116 Paris, France.

MBIA has used the provisions of the EC third non-life insurance directive (No. 92/49/EEC) to operate in the United Kingdom both on a services and a branch basis. MBIA was registered as an overseas company in England and Wales under Chapter II of Part XXII of the Companies Act 1985 on 10 February 1997 under number FC020116 and a branch of MBIA Assurance was registered in the United Kingdom during 2000 under number BR003789. MBIA’s business in the United Kingdom is to a limited extent subject to supervision by the Financial Services Authority ("**FSA**"). Its branch office is located at 1 Great St Helen’s, 2nd Floor, London, EC3A 6HX, United Kingdom.

Business and Financial Structure

MBIA is licensed to do business in, and is subject to regulation under, the laws of the French Republic. MBIA is a 99.99 % owned subsidiary of MBIA Insurance Corporation ("**MBIA Corp.**"). MBIA Corp. is the principal operating subsidiary of MBIA Inc. ("**MBIA Inc.**"), a New York Stock Exchange listed company. MBIA Inc. is not obliged to pay the debts of, or claims against, MBIA Corp. or MBIA.

MBIA is engaged primarily in carrying out insurance and reinsurance transactions of any kind authorised by the CCAMIP, with the exception of insurance transactions involving commitments, the performance of which depends on human life, but including particularly guarantee transactions, and namely, insuring the repayment of financial or other contractual obligations entered into by local governments, other public entities, companies, trusts and other commercial entities as well as any ancillary activities. MBIA may, for this purpose, make any investment and acquire any stake, in France and/or abroad, through the acquisition of a participating interest or securities, contributions in cash or in kind, subscription to any issue of shares or bonds, loans or credits; and may, to this end, borrow and make use of any means of financing it may choose and pledge such investments or interests as it sees fit. MBIA may carry out in France and/or abroad any industrial, commercial, financial or real estate operations that may be linked, directly or indirectly, to the above activities or are likely to facilitate the development thereof within the scope of the legislation specific to insurance companies.

Financial Strength Ratings

Fitch, Moody's and S&P have rated the financial strength of MBIA at "**AAA**", "**Aaa**" and "**AAA**" respectively.

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the financial strength of MBIA and its ability to pay claims on its financial guarantees. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the obligations, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the obligations. MBIA does not guarantee the market price of the obligations nor does it guarantee that the ratings on the obligations will not be revised or withdrawn.

Summary of Financial Information

For the periods ending 31 December 2001, 2002 and 2003, MBIA had net income (loss) of (1,389,753) Euros, 7,066,119 Euros and 14,870,728 Euros, respectively. During the year 2000, MBIA established a branch in the United Kingdom. As a start-up entity, the UK branch operated at a net loss for the periods ending 31 December 2000 and 2001. Its accounts are included in the financial statements of MBIA for the periods ending 31 December 2001, 2002 and 2003. For the years ending 31 December 2001, 2002 and 2003, MBIA had net assets 31,002,236 Euros, 38,068,355 Euros and 52,939,082 Euros, respectively.

Capitalisation and Indebtedness Table

As at 31 December 2003, 31 December 2002 and 31 December 2001, the capitalisation and indebtedness of MBIA was as follows (*source: audited accounts of MBIA Assurance S.A. for financial years ending 31 December 2003, 2002 and 2001*):

MBIA Assurance S.A. – Capitalisation and Indebtedness Table[1]
(thousands of euros)

	31 December 2003	**31 December 2002**	**31 December 2001**
Indebtedness			
– Funds Held [2]	0	0	499
Shareholders' Equity			
– Common stock, par value 15 euros per share: 1,750,000 authorised and issued shares (fully paid)	26,250	26,250	26,250
– Retained Earnings, Other Reserves, Net Loss	26,689	11,818	4,752
Total Shareholders Equity	52,939	38,068	31,002
Total Capitalisation and Indebtedness [3]	**52,939**	**38,068**	**31,501**

[1]This Capitalisation and Indebtedness Table has been prepared in accordance with generally accepted accounting principles in France. Save as set out in the Table, MBIA Assurance S.A. did not at the relevant dates have any loan capital outstanding or created but unissued, term loans or any other borrowings in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, mortgages, charges, finance lease commitments, hire purchase obligations or guarantees, or contingent liabilities.

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

[3] There has been no material change in the authorised and issued share capital, in the capitalisation and indebtedness, contingent liabilities or guarantees of MBIA Assurance S.A. since 31 December 2003.

Risk Diversification

MBIA Corp. and MBIA seek to maintain a diversified insured portfolio designed to spread risk based on a variety of criteria, including revenue source, issue size, type of bond and geographic area. As at 31 December 2003, MBIA Corp. had 31,000 policies outstanding. These policies are diversified among 10,803 "credits", which MBIA Corp. defines as any group of issues supported by the same revenue source. MBIA seeks similar diversification. The breakdown of risks insured by MBIA (before reinsurance) and in force as at 31 December 2003 is presented in the following table. (*source: MBIA's books and records*)

Table of Risks
(thousands of euros)

	2003	**2002**	**2001**
Sovereign and Sub-Sovereign	5,573,016	1,505,487	1,202,950
Public Utilities	8,149,784	6,206,452	3,406,744
Structured Finance	5,778,389	2,216,384	903,246
Financial Institutions [4]	119,100	148,301	173,591
Investor Owned Utilities	-0-	254,283	268,731
Total	**19,620,289**	**10,330,907**	**5,955,262**

Relationship between MBIA and MBIA Corp.

MBIA Corp. and MBIA have entered into (i) a reinsurance agreement dated 1 January 1993 (as amended and restated on 1 January 2002) providing for MBIA Corp.'s reinsurance of the risks of MBIA (the "**Reinsurance Agreement**") and (ii) an agreement dated 1 November 1991 (as amended and restated on 1 April 2002) whereby MBIA Corp. agrees to maintain the net worth of MBIA, to remain its sole shareholder[5] and not to pledge its shares of MBIA (as amended, the "**Net Worth Maintenance Agreement**"). Under the Reinsurance Agreement, MBIA Corp. agrees to reimburse MBIA, on an excess of loss basis, for losses incurred in each calendar year for net retained insurance liability. MBIA Corp. shall reimburse MBIA for the amount of MBIA's losses paid in each calendar year which amount is in the aggregate in excess of an amount equal to the greater of: (1) US$500,000 or (2) 40% of MBIA's net earned premium income for that same calendar year. The liability of MBIA Corp. shall not exceed in any one calendar year, MBIA's net retention with respect to the principal outstanding plus interest insured under MBIA's largest guarantee in effect as of 11:59 p.m. on 31 December of the prior year.

Under the Net Worth Maintenance Agreement, MBIA Corp. agrees to cause MBIA to maintain a minimum capital and surplus position of 4,573,471 euros, or such greater amount as shall be required now or in the future by French law or French regulatory authorities; provided however, (i) any contributions to MBIA for such purpose shall not exceed 35% of MBIA Corp.'s policyholders' surplus on an accumulated basis as determined by the laws of the State of New York, and (ii) any contribution shall be made in compliance with Section 1505 of the New York State Insurance Law.

Bondholders should note that the Net Worth Maintenance Agreement between MBIA and MBIA Corp. and the Reinsurance Agreement (together, the "**MBIA Assurance Agreements**") are entered into for the benefit of MBIA and are not, and should not be regarded as guarantees by MBIA Corp. of

[4] Consists in large part of risks involving smaller banks and insurance companies
[5] MBIA Corp. owns all shares of MBIA Assurance SA with the exception of 6 shares, each of which is attributed to each director of MBIA Assurance SA during the term of his/her office for French corporate law purpose.

the payment of any indebtedness, liability or obligations of the Issuer, the Bonds or any MBIA financial guarantees.

Information in this disclosure statement concerning MBIA Corp. is provided for background purposes only in view of the importance to MBIA of the MBIA Assurance Agreements. It does not imply that the MBIA Assurance Agreements are guarantees for the benefit of the beneficiaries of any MBIA financial guarantee. Payments of principal and of interest on the obligations will be guaranteed by MBIA pursuant to the terms of the financial guarantees provided by MBIA and will not be additionally guaranteed by MBIA Corp.

The MBIA Assurance Agreements are agreements solely between MBIA and MBIA Corp. and do not confer rights on third parties; however, these arrangements, together with the ownership of MBIA by MBIA Corp. and the underwriting support supplied to MBIA by MBIA Corp., may make information about MBIA Corp. of interest to beneficiaries of financial guarantees issued by MBIA. Additionally, the MBIA Assurance Agreements were relevant to the rating agencies in justification of the triple-A ratings granted to MBIA. Any modifications to the Net Worth Maintenance Agreement are subject to confirmation from each of Fitch, Moody's and S&P that such modifications will not result in the reduction or withdrawal of the claims-paying ratings then assigned to MBIA.

Pursuant to procedures initially developed by MBIA Corp., MBIA is selective in the risks it chooses to underwrite. Logistic and underwriting support is supplied to MBIA from MBIA Corp. A logistic review of a credit and the proposed structure is undertaken by analysts on a deal team. Both the credit and the structure are then presented to a separate underwriting committee composed of persons not directly involved in the initial analysis. Only following approval of both the credit and the structure may a financial guarantee be issued by MBIA.

MBIA Corp. and MBIA maintain zero-loss underwriting standards; they underwrite their respective financial guarantees such that at the time a financial guarantee is issued no losses are expected throughout the term of the guarantee based on a worst-case scenario.

Management

The current members of the Board of Directors of MBIA, their ages and positions within MBIA and their other principal activities are as follows:

Name	**Age**	**Title**	**Other Activities**
Deborah M. Zurkow	47	Chairman and Managing Director	Managing Director of MBIA Corp.
David H. Dubin	42	Member of the Board of Directors	Managing Director of MBIA Corp.
Gary C. Dunton	49	Member of the Board of Directors	Chief Executive Officer of MBIA Corp.
Philip C. Sullivan	49	Member of the Board of Directors	Managing Director of MBIA Corp.
Juliet S. Telford	39	Member of the Board of Directors	Vice President of MBIA Corp.
Ram D. Wertheim	50	Member of the Board of Directors	General Counsel and Secretary of MBIA Corp.

The business address of Ms. Zurkow is 112, Avenue Kléber, 75116 Paris, France. The business address of Ms. Telford and Messrs. Dubin and Sullivan is 1 Great St. Helen's, London EC3A 6HX, United Kingdom. The business address of Messrs. Dunton, and Wertheim is 113 King Street, Armonk, New York 10504, United States.

MBIA INSURANCE CORPORATION

General

MBIA Insurance Corp. is a leading global provider of financial guarantee insurance incorporated in the State of New York whose registered office is at 113 King Street, Armonk, NY 10504, United States of America. MBIA Insurance Corp. is a wholly owned subsidiary of MBIA Inc., which is engaged in providing financial guarantee insurance and investment management and financial services to public finance clients and financial institutions on a global basis. MBIA Insurance Corp. provides financial guarantees for municipal bonds, asset-backed and mortgage-backed securities, investor-owned utility bonds, and collateralised obligations of sovereigns, corporations and financial institutions, both in the new issue and secondary markets. MBIA Corp. also insures privately issued bonds used for the financing of public purpose projects which are primarily located overseas and include toll roads, bridges, airports, public transportation facilities and other types of infrastructure projects that serve a substantial public purpose. While in the United States projects of this nature are financed through the issuance of tax-exempt bonds by special purpose, government sponsored tax-exempt entities, the general absence of tax-advantaged financing, among other reasons, has led to the transfer of the operation of many such public purpose projects to the private sector. Generally, the private entities operate under a concession agreement with the sponsoring government agency, which maintains a level of regulatory oversight and control over the project.

MBIA Insurance Corp. is the successor to the business of the Municipal Bond Insurance Association (the "**Association**") which began writing financial guarantees for municipal bonds in 1974. MBIA Insurance Corp. is the parent of MBIA Insurance Corp. of Illinois ("**MBIA Illinois**") and Capital Markets Assurance Corporation ("**CapMAC**"), both financial guarantee companies. In 1990, MBIA Insurance Corp. formed a French insurance company, MBIA Assurance, to write financial guarantee insurance in the countries of the European community. MBIA Assurance, which is also a 99.99% subsidiary of MBIA Insurance Corp., writes policies insuring sovereign risk, public infrastructure financings, asset-backed transactions and certain collateralised obligations of corporations and financial institutions. MBIA Assurance has used the provisions of the Third Non-life Insurance Directive No. 92/49/EEC to operate in the United Kingdom both on a services and a branch basis. In light of the amount of business generated from the United Kingdom, MBIA UK was created in 2002 and received regulatory authorization in 2004. Generally, throughout the text, references below to MBIA Insurance Corp. include the activities of its subsidiaries, MBIA Illinois, MBIA Assurance, MBIA UK and CapMAC.

Financial guarantee insurance provides an unconditional and irrevocable guarantee of the payment of the principal and interest or other amounts owing, on insured obligations when due. MBIA Insurance Corp. primarily insures obligations which are sold in the new issue and secondary markets, or which are held in unit investment trusts ("**UIT**") and by mutual funds. It also provides surety bonds for debt service reserve funds. The principal economic value of financial guarantee insurance to the entity offering the obligations is the savings in interest costs resulting from the difference in the market yield between an insured obligation and the same obligation on an uninsured basis. In addition, for complex financings and for obligations of issuers that are not well-known by investors, insured obligations receive greater market acceptance than uninsured obligations. The municipal obligations that MBIA Insurance Corp. insures include tax-exempt and taxable indebtedness of states, counties, cities, utility districts and other political subdivisions, as well as airports, higher education and health care facilities and similar authorities. The asset-backed or structured finance obligations insured by MBIA Insurance Corp. typically consist of securities that are payable from or which are tied to the performance of a specified pool of assets that have a defined cash flow. These include residential and commercial mortgages, a variety of consumer loans, corporate loans and bonds and equipment and real property leases.

Financial Strength Ratings of MBIA Insurance Corp.

Fitch, Moody's and S&P have rated the financial strength of MBIA Insurance Corp. at "**AAA**", "**Aaa**" and "**AAA**" respectively.

Each rating of MBIA Insurance Corp should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA Insurance Corp. and its ability to pay claims on its policies and financial guarantees. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

Capitalisation and Indebtedness Table

The following table sets forth the capitalisation and indebtedness of MBIA Insurance Corp. as at 31 December 2003, 31 December 2002 and 31 December 2001 (*source: extracted from the audited accounts of MBIA Insurance Corp. for financial years ended 31 December 2003, 2002 and 2001*):

	31 December 2003	**31 December 2002 (US$ in thousands)**	**31 December 2001**
Long-term Debt	Nil	Nil	Nil
Investors' Equity:			
Common stock, par value $150 per share; authorised, issued and outstanding – 100,000 shares	15,000	15,000	15,000
Additional paid-in capital[6]	1,636,422	1,610,574	1,567,478
Capital Contribution	Nil	Nil	Nil
Retained earnings	4,512,765	3,943,341	3,572,397
Accumulated other comprehensive income.	437,993	339,710	71,014
Total Investors' Equity	**US$ 6,602,180**	**US$ 5,908,625**	**US$ 5,225,889**
Total Capitalisation and Indebtedness[7]	**US$ 6,602,180**	**US$ 5,908,625**	**US$ 5,225,889**

Risk Diversification

At 31 December 2003, the net par amount outstanding on MBIA Insurance Corp.'s insured obligations (including insured obligations of MBIA Illinois, MBIA and CapMAC, but excluding the guarantee of US$9.7 billion of investment management transactions for MBIA Investment Management Corp. and MBIA Global Funding Limited) was US$541 billion. Net insurance in force was US$835.8 billion.

Because generally MBIA Insurance Corp. guarantees to the holder of the underlying obligation the timely payment of amounts due on such obligation in accordance with its original payment schedule, in the case of a default on an insured obligation, payments under the insurance policy cannot be accelerated unless MBIA Insurance Corp. consents to the acceleration. Otherwise, MBIA Insurance Corp. is required to pay principal, interest or other amounts only as originally scheduled payments come due.

MBIA Insurance Corp. underwrites financial guarantee insurance on the assumption that the insurance will remain in force until maturity of the insured obligations. MBIA Insurance Corp. estimates that the average life (as opposed to the stated maturity) of its insurance policies in force at

6 Represents the additional contribution from MBIA Inc. above the par value of the common stock.
7 There has been no material change in the authorised and issued share capital, in the capitalisation and indebtedness, contingent liabilities or guarantees of MBIA Insurance Corp. since 31 December 2003.

31 December 2003 was 10.5 years. The average life was determined by applying a weighted average calculation, using the remaining years to maturity of each insured obligation, and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings of insured issues. Average annual debt service on the portfolio at 31 December 2003 was US$ 61.8 billion.

Reinsurance

State insurance laws and regulations, as well as the rating agencies, impose minimum capital requirements on financial guarantee companies, limiting the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. MBIA Insurance Corp. increases its capacity to write new business by using treaty and facultative reinsurance to reduce its gross liabilities on an aggregate and single risk basis.

As a primary insurer, MBIA Insurance Corp. is required to honour its obligations to its policyholders whether or not its reinsurers perform their obligations to MBIA Insurance Corp. The financial position of all reinsurers is monitored by MBIA Insurance Corp. on a regular basis.

Regulation

MBIA Insurance Corp. is licensed to do insurance business in, and is subject to insurance regulation and supervision by, the State of New York (its state of incorporation), the 49 other US states, the District of Columbia, the Territory of Guam, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States, the Commonwealth of Puerto Rico, the Kingdom of Spain, the Republic of France, the United Kingdom and the Republic of Singapore. The extent of state insurance regulation and supervision varies by jurisdiction, but New York, Illinois and most other jurisdictions have laws and regulations prescribing minimum standards of solvency, including minimum capital requirements and business conduct which must be maintained by insurance companies. The laws and regulations of these states also limit both the aggregate and individual risks that MBIA Insurance Corp. may insure on a net basis based on the type of risk being insured. These laws prescribe permitted classes and concentrations of investments. In addition, some state laws and regulations require the approval or filing of policy forms and rates. MBIA Insurance Corp. is required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed. The operations and accounts of MBIA Insurance Corp. are subject to examination by these regulatory agencies at regular intervals. MBIA Inc. is subject to the direct and indirect effects of governmental regulation, including changes in tax laws affecting the municipal and asset-backed debt markets. No assurance can be given that future legislative or regulatory changes might not adversely affect the results of operations and financial conditions of MBIA Inc.

MBIA Insurance Corp. is licensed to provide financial guarantee insurance under Article 69 of the New York Insurance Law. Article 69 defines financial guarantee insurance to include any guarantee under which loss is payable upon proof of occurrence of financial loss to an insured as a result of certain events. These events include the failure of any obligor on or any issuer of any debt instrument or other monetary obligation to pay principal, interest, premium, dividend or purchase price of or on such instrument or obligation, when due. Under Article 69, MBIA Insurance Corp. is licensed to transact financial guarantee insurance, surety insurance, and credit insurance and such other kinds of business to the extent necessarily or properly incidental to the kinds of insurance which MBIA Insurance Corp. is authorised to transact. In addition, MBIA Insurance Corp. is empowered to assume or reinsure the kinds of insurance that it is licensed to write directly.

As a financial guarantee insurer, MBIA Insurance Corp. is required by the laws of New York, California, Connecticut, Florida, Illinois, Iowa, New Jersey and Wisconsin to maintain contingency reserves on its municipal bonds, asset-backed securities and other financial guarantee liabilities.

Under New Jersey, Illinois and Wisconsin regulations, contributions by such an insurer to its contingency reserves are required to equal 50% of earned premiums on its municipal bond business. Under New York law, such an insurer is required to contribute to contingency reserves 50% of premiums as they are earned on policies written prior to 1 July 1989 (net of reinsurance) and, with respect to policies written on and after 1 July 1989, must make contributions over a period of 15 or 20 years (based on issue type), or until the contingency reserve for such insured issues equals the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.55% to 2.5%, depending upon the type of obligation guaranteed (net of reinsurance, refunding, refinancing and certain insured securities). California, Connecticut, Iowa and Florida law impose a generally similar requirement. In each of these states, MBIA Insurance Corp. may apply for release of portions of the contingency reserves in certain circumstances.

The laws of New York regulate the payment of dividends by MBIA Insurance Corp. and provide that a New York domestic stock property/casualty insurance company (such as MBIA Insurance Corp.) may not declare or distribute dividends except out of statutory earned surplus. New York law provides that the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders' surplus, as shown by the most recent statutory financial statement on file with the New York Insurance Department, and (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the New York Superintendent of Insurance approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations and writings. The foregoing dividend limitations are determined in accordance with Statutory Accounting Practices ("**SAP**"), which generally produce statutory earnings in amounts less than earnings computed in accordance with Generally Accepted Accounting Principles ("**GAAP**"). Similarly, policyholders' surplus, computed on a SAP basis, will normally be less than net worth computed on a GAAP basis.

MBIA Insurance Corp., MBIA Illinois and CapMAC are exempt from assessments by the insurance guarantee funds in the majority of the states in which they do business. Guarantee fund laws in most states require insurers transacting business in the state to participate in guarantee associations, which pay claims of policyholders and third-party claimants against impaired or insolvent insurance companies doing business in the state. In most cases, insurers licensed to write only municipal bond insurance, financial guarantee insurance and other forms of surety insurance are exempt from assessment by these funds and their policyholders are prohibited from making claims on these funds.

Management

At 31 December 2004, the executive officers and their present ages and positions within MBIA Insurance Corp. are set forth below:

Name	Age	Position
Joseph W. Brown	55	Executive Chairman
Gary C. Dunton	49	Chief Executive Officer
Neil G. Budnick	50	President
Ram D. Wertheim	50	General Counsel and Secretary

Recent Developments [8]

For the quarter ended 30 September 2004, MBIA Insurance Corp. had net income of US$190.1 million as compared to US$190.0 million for the quarter ended 30 September 2003. At 30 September 2004, MBIA Insurance Corp.'s investor's equity was US$6.9 billion.

MBIA Insurance Corp. guaranteed US$66.8 billion of net par value through the third quarter 2004, a decrease of 15 % over the US$78.2 billion of net par insured in the same 2003 period. During the first three quarters of 2004, MBIA Insurance Corp. insured US$36.8 billion of net par value of domestic municipal bonds, a 20% decrease from US$46.2 billion insured in the same 2003 period. In the domestic structured finance market, which includes mortgage-backed and asset-backed transactions, MBIA Insurance Corp. insured US$20.2 billion of net par value, an increase of 36% from the US$14.9 billion insured in the same period last year. In addition, MBIA Insurance Corp. insured US$9.8 billion of net securities internationally in during the first three quarters of 2004 compared with US$17.1 billion net in the same 2003 period.

Gross premiums written during the third quarter 2004 decreased to US$264.0 million from US$346.8 million a year ago. Net premiums earned during the third quarter 2004 were US$206.8 million, up from US$195.1 million in the comparable 2003 period. Net investment income, excluding net realised capital gains, increased from US$104.2 million a year ago to US$109.6 million. Revenues of MBIA Insurance Corp. for the quarter ended 30 September 2004 decreased to US$324.1 million compared with US$330.1 million for the quarter ended 30 September 2003. Total expenses for the quarter ended 30 September 2004 were US$62.8 million compared to US$61.9 million for the quarter ended 30 September 2003.

Computed on a statutory basis, as of 30 September 2004, MBIA Insurance Corp.'s unearned premium reserve was US$3.2 billion, and its capital base, consisting of capital and surplus and contingency reserve, was US$6.3 billion. Total claims-paying resources at 30 September 2004, rose to US$12.9 billion, compared with US$12.6 billion at 31 December 2003.

On 8 March 2005 MBIA Inc. announced that it will restate its financial statements for 1998 and subsequent years. The restatement is being made to correct the accounting treatment for two reinsurance agreements that MBIA Inc. entered into in 1998 with Converium Re (previously known as Zurich Reinsurance North America). The restatement will not have a material effect on MBIA Inc.'s financial position, and MBIA Inc. does not expect the restatement to have any effect on its ratings or on the triple-A ratings of MBIA Insurance Corporation or MBIA.

As a result of this restatement, MBIA Inc.'s financial results for 1998 will reflect a third quarter incurred loss of $70 million related to $265 million of bonds insured by MBIA Inc. that were issued by Allegheny Health, Education and Research Foundation. The after-tax loss will be approximately $47 million, resulting in net income for the year of approximately $386 million, or $2.57 per share, down 11% from $433 million or $2.88 per share as originally reported.

MBIA Inc. estimates that its earnings will be reduced by approximately $6 million (or four cents per share) in 1999, $4 million (or 3 cents per share) in 2000, $3 million (or two cents per share) in 2001 and will have a de minimis effect in 2002. MBIA Inc. estimates that its earnings will increase by approximately $2 million (or one cent per share) in 2003 and $4 million (or three cents per share) in 2004. MBIA Inc. expects to finalise these estimates and file its 2004 audited financial statements in its 10K by the 16 March 2005 deadline although the restatement could result in a delay in this filing.

[8] The source of the financial information appearing in the section entitled "Recent Developments" is MBIA Insurance Corp.'s books and records.

On 8 March 2005, MBIA Inc. filed a Form-8-K with the Securities and Exchange Commission with respect to the restatement described herein. This Form 8-K is available on MBIA Inc.'s web site at www.MBIA.com or at the SEC's web site at www.SEC.gov.

UNITED KINGDOM TAXATION

The following, which applies only to persons who are the beneficial owners of the Notes, is a summary of the Issuer's understanding of current United Kingdom tax law and Inland Revenue practice as at the date of this Offering Circular relating to certain aspects of the United Kingdom taxation of the Notes. It is not a comprehensive analysis of the tax consequences arising in respect of Notes. Some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Noteholders who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

Interest on the Notes

1. Withholding tax on payments of interest on the Notes

For so long as the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Taxes Act (the Irish Stock Exchange is such a "recognised stock exchange" for this purpose) interest payments on each of the Notes will be treated as a "payment of interest on a quoted Eurobond" within the meaning of section 349 of the Taxes Act. In these circumstances, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax irrespective of whether the Notes are in global form or in definitive form.

If the Notes cease to be listed on a recognised stock exchange, an amount must be withheld on account of United Kingdom income tax at the lower rate (currently 20 per cent.) from interest paid on them, subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of an applicable double taxation treaty or to the interest being paid to the persons (including companies within the charge to United Kingdom corporation tax in respect of the interest paid) and in the circumstances specified in sections 349A to 349D of the Taxes Act.

2. Payments by MBIA under the Note Financial Guarantee

If MBIA makes any payments in respect of interest on the Notes (or other amounts due under such Notes other than the repayment of amounts subscribed for the Notes) such payments may be subject to United Kingdom withholding tax at the basic rate (currently 22 per cent.), subject to such relief as may be available under the provisions of any applicable double taxation treaty. Such payments by MBIA may not be eligible for the exemptions from withholding tax described in 1 above.

3. Further United Kingdom income tax issues for non-United Kingdom resident Noteholders

Interest on the Notes constitutes United Kingdom source income and, as such, may be subject to income tax by direct assessment even where paid without withholding, subject to such relief as may be available pursuant to the provisions of an applicable double taxation treaty.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation through a branch or agency or, in the case of a Noteholder which is a company, which carries on a trade through a permanent establishment, in the United Kingdom in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision under an applicable double taxation treaty.

United Kingdom corporation tax payers

In general, Noteholders which are within the charge to United Kingdom corporation tax in respect of Notes will be charged to tax and obtain relief as income on all returns on and fluctuations in value of the Notes broadly in accordance with their statutory accounting treatment.

Other United Kingdom tax payers

1. Taxation of chargeable gains

It is expected that the Notes will not be regarded by the Inland Revenue as constituting "qualifying corporate bonds" within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal of the Notes may give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains. There are provisions to prevent any particular gain (or loss) from being charged (or relieved) at the same time under these provisions and also under the provisions of the "accrued income scheme" described in 2 below.

2. Accrued income scheme

On a disposal of Notes by a Noteholder, any interest which has accrued since the last Note Payment Date may be chargeable to tax as income under the rules of the "accrued income scheme" if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

Stamp Duty and SDRT

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Note or of a Definitive Note.

European Union Directive on the Taxation of Savings Income

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 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 and ABN AMRO Bank N.V., London Branch (together, the "**Managers**"), pursuant to a subscription agreement dated 22 March 2005 (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.

The Netherlands

Each of the Managers has further represented and agreed that this Offering Circular may not be distributed and the Notes (including rights representing an interest in any Global Notes) may not be offered, sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who or which are established, domiciled or have their residence in The Netherlands ("**Dutch Residents"**) other than to the following entities (hereinafter referred to as "**Professional Market Parties**" or "**PMPs**") provided further that they acquire the Notes for their own account and trade for the account of another PMP:

(a) banks, insurance companies, securities firms, collective investment institutions or pension funds that are supervised or licensed under Dutch law;

(b) banks or securities firms licensed or supervised in a European Economic Area member state (other than The Netherlands) and registered with the Dutch Central Bank (De Nederlandsche Bank N.V.: "**DNB**") or the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiele Markten*) and acting through a branch office in The Netherlands;

(c) Netherlands collective investment institutions which offer their shares or participations exclusively to professional investors and are not required to be supervised or licensed under Dutch law;

(d) the Dutch government (de Staat der Nederlanden), DNB, Dutch regional, local or other decentralised governmental institutions, or any international treaty organisations and international organisations and supranational organisations located in the Netherlands;

(e) Netherlands enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes;

(f) Netherlands enterprises, entities or individuals with net equity (eigen vermogen) of at least €10,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes and who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding such date;

(g) Netherlands subsidiaries of the entities referred to under (a) above provided such subsidiaries are subject to prudential supervision;

(h) Netherlands enterprises or entities that have a credit rating from an approved rating agency or whose securities have such a rating; and

(i) such other Netherlands entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.

All Notes (whether or not offered to Dutch residents) shall bear the following legend:

"THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED AS PART OF ITS INITIAL DISTRIBUTION OR AT ANY TIME

THEREAFTER, DIRECTLY OR INDIRECTLY, TO INDIVIDUALS OR LEGAL ENTITIES WHO OR WHICH ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS ("**DUTCH RESIDENTS**") OTHER THAN TO PROFESSIONAL MARKET PARTIES WITHIN THE MEANING OF THE EXEMPTION REGULATION PURSUANT TO THE DUTCH ACT ON THE SUPERVISION OF THE CREDIT SYSTEM 1992 ("**PMPs**").

EACH DUTCH RESIDENT BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT IS SUCH A PMP AND IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST HEREIN), BY PURCHASING SUCH NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED TO DUTCH RESIDENTS OTHER THAN TO A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP AND THAT (2) THE HOLDER WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE."

Ireland

Each of the Managers has further represented and agreed that:

(a) other than in circumstances which do not constitute an offer or sale to the public in Ireland or elsewhere by means of a prospectus within the meaning of the Companies Acts, 1963 to 2001 of Ireland (i) prior to application for listing of the Notes being made and the Irish Stock Exchange having approved this Offering Circular in accordance with the Regulations, it has not offered or sold and will not offer or sell, in Ireland or elsewhere, by means of any document or other means of visual reproduction, including electronic means, any of the Notes, (ii) subsequent to application for listing of the Notes being made and the Irish Stock Exchange approving this Offering Circular in accordance with the Regulations, it has not offered or sold and will not offer or sell, in Ireland or elsewhere, any of the Notes by means of any document or other means of visual reproduction, including electronic means, other than this Offering Circular (or any document including electronic means of visual reproduction approved as aforesaid, which sets out listing particulars in relation to the Notes prepared in accordance with the Regulations) and only where this Offering Circular (or such other listing particulars as aforesaid) is accompanied by an application form or an application form is issued which indicates where this Offering Circular (or such other listing particulars as aforesaid) can be obtained or inspected and (iii) it has not issued and will not issue at any time, in Ireland or elsewhere, any application form for any of the Notes unless the application form is accompanied by this Offering Circular (or a document including electronic means of visual reproduction, which sets out listing particulars in relation to the Notes prepared in accordance with the Regulations and approved by the Irish Stock Exchange) or the application form indicates where this Offering Circular or such listing particulars can be obtained or inspected;

(b) it has not made and will not make at any time any offer of any of the Notes in Ireland to which the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992 of Ireland would apply;

(c) it will not sell any Notes pursuant to this Offering Circular and it will not take any proceedings on applications made pursuant to this Offering Circular until the fourth business day in Ireland after the date of this Offering Circular;

(d) it has complied and will comply with all applicable provisions of the Investment Intermediaries Acts, 1995 to 2000 of Ireland (as amended) with respect to anything done by it in relation to the Notes or operating in, or otherwise involving, Ireland and, in the case of the Managers acting under and within the terms of an authorisation to do so for the purposes of EU Council Directive 93/22/EEC of 10 May 1993 (as amended or extended), it has complied with any codes of conduct made under the Investment Intermediaries Acts 1995 to 2000, of Ireland (as amended) and, in the case of the Managers acting within the terms of an authorisation granted to it for the purposes of EU Council Directive 2000/12/EC of 20 March 2000 (as amended or extended), it has complied with any codes of conduct or practice made under section 117(1) of the Central Bank Act, 1989 of Ireland (as amended); and

(e) in respect of an offer of the Notes to the public in Ireland or elsewhere within the meaning of the Companies Acts, 1963 to 2001 of Ireland, it will comply with the requirements of sections 56 and 57 of the Companies Act, 1963 of Ireland.

General

Except for listing the Notes on the Official List of the Irish Stock Exchange and delivery of this document to the Registrar of Companies in Ireland, no action is being taken in any jurisdiction that would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisement in connection with the Notes may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each of the Managers has undertaken not to offer or sell any of the Notes, or to distribute this document or any other material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with applicable law and regulations.

Attention is drawn to the information set out under "*Important Notice*" at page 2.

GENERAL INFORMATION

1. The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 16 March 2005.

2. The issue of the Note Financial Guarantee by the Financial Guarantor has been duly authorised.

3. It is expected that listing of the Notes on the Official List of the Irish Stock Exchange will be granted on or about 23 March 2005 subject only to the issue of the Global Notes. The listing of the Notes will be cancelled if the Global Notes are not issued. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction.

4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Notes is 021524816 and the ISIN is XS0215248161.

5. No statutory or non-statutory accounts in respect of any financial year of the Issuer have been prepared. So long as the Notes are listed on the Official List of the Irish Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time will be available at the specified offices of the Paying Agent in Dublin. The Issuer does not publish interim accounts.

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

7. 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.

8. The Financial Guarantor is not, and has not been, involved in any legal or arbitration proceedings, including any which are pending or threatened of which the Financial Guarantor is aware, which may have, or have had during the 12 months prior to date of this Offering Circular a significant effect on the financial position of the Financial Guarantor.

9. 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.

10. BDO Stoy Hayward LLP, 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).

11. 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).

12. The auditors of the Financial Guarantor are PricewaterhouseCoopers, statutory auditors, of 32 rue Guersant, 75833 Paris, Cedex 17, France. Unqualified audited accounts have been prepared in relation to the Financial Guarantor for the three financial years immediately preceding the date of this Offering Circular. PricewaterhouseCoopers has given, and has not withdrawn, its consent to the inclusion of their report in this Offering Circular in the form and context in which it is included and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).

13. Save as disclosed herein, since 26 January 2005 (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.

14. Save as disclosed herein, since 18 February 2005 (being the date of incorporation of the Borrower), (a) 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; and (b) the Borrower has not commenced operations and no accounts have been made up.

15. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Financial Guarantor since 31 December 2003, and there has been no material adverse change in the financial position or prospects of the Financial Guarantor since 31 December 2003, the date to which the Financial Guarantor's most recent audited accounts have been prepared.

16. 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 Memorandum and Articles of Association of the Borrower;

    (iii) the Subscription Agreement referred to in paragraph 9 above; and

    (iv) the balance sheet of the Issuer as at 22 March 2005 and the auditors report thereon;

    (v) the constitutive documents of the Financial Guarantor (in French, accompanied by an English translation);

    (vi) audited accounts of the Financial Guarantor (in French, accompanied by an English translation) for the financial years ending on 31 December 2003 and on 31 December 2002;

    (vii) accountants' report of PricewaterhouseCoopers in relation to the Financial Guarantor dated 31 December 2004;

    (viii) the Subscription Agreement; and

    (ix) drafts (subject to modification) of the following documents:

        (a) the Note Trust Deed;

        (b) the Financial Guarantees;

        (c) the Guarantee and Reimbursement Agreement;

(d) the Indemnification Deed;

(e) the Deed of Charge and Assignment;

(f) the Declaration of Trust;

(g) the Loan Servicing Agreement;

(h) the Issuer Cash and Corporate Management Agreement;

(i) the Swap Agreement (including the Swap Agreement Credit Support Document);

(j) the Post Enforcement Call Option Agreement;

(k) the Corporate Services Agreement;

(l) the Agency Agreement;

(m) the Credit Agreement;

(n) the Unit Trust Deed;

(o) the Borrower Debenture;

(p) the Borrower Security Agreement

(q) the Borrower Share Charge;

(r) the Borrower Security Trust Deed;

(s) the Borrower Cash and Corporate Management Agreement;

(t) the Headlease;

(u) the Underlease;

(v) the Residual Value Agreement;

(w) the Collateral Deed;

(x) the Borrower/Issuer Expenses Loan Agreement;

(y) the Nominee Declaration of Trust;

(z) the Master Definitions Agreement;

(aa) the VAT Liquidity Agreement;

(bb) the Duty of Care Agreement; and

(cc) the BBC Deferred Subscription Amount Indemnity.

APPENDIX 1

VALUATION REPORT

Report and Valuation for
White City Trustees Limited
Consortium Investment Management Limited
White City Property Finance PLC
HSBC Trustee (C.I.) Limited
MBIA Assurance SA

BBC Broadcasting Centre, Wood Lane, White City, London W12

16 March 2005

Private and Confidential

DTZ Debenham Tie Leung
One Curzon St
LONDON W1A 5PZ

Contents

Appendices

DTZ Debenham Tie Leung
International Property Advisers

Your ref:
Our ref: ao.jg.0394.0105.rep
Direct tel: 020 7643 6246
Direct fax: 020 7643 6303
E-mail: alistair.oates@dtz.com

16 March 2005

White City Trustees Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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

Consortium Investment Management Limited
27 Soho Square
London W1D 3AY

MBIA Assurance SA
112, Avenue Kleber
75116 Paris
France

White City Property Finance PLC
Blackwell House
Guildhall Yard
London
EC2V 5AE

Dear Sirs

Property: Broadcasting Centre for the BBC at White City

1 Terms of instruction, confidentiality and disclosure

1.1 Loan proposition

We understand that White City Trustees Limited ("the Applicant") intends to finance the acquisition 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 confirmed in our letter of 21 February 2005, we have valued the long leasehold interest in the above property, as at 16 March 2005, 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 property has been inspected by Alistair Oates MRICS, Jake Harris MRICS and James Taylor MRICS on numerous occasions over the past year in connection with advice being provided to the BBC in respect of this property. We were able to inspect all of the buildings. The BBC and their advisors have provided us with plans of the buildings and schedules of floor areas. We have undertaken a full measured survey of the building known as White City I and have undertaken check measurements in respect of the remaining buildings.

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 have provided development contingency advice.
c. We have acted as commercial agents at the scheme at White City.
d. We have advised in respect of contract negotiations for the White City Partnership between the BBC and Land Securities.
e. We have provided valuation advice to the BBC and Land Securities Trillium in respect of properties they are developing in partnership at White City.

In addition we have advised the BBC in respect of the following other properties over the past three years:

a. We are providing development consultancy and valuation advice in respect of Broadcasting House in London.
b. We advised the BBC/Land Securities Trillium Partnership in respect of the acquisition of Forest House in Wood Green.
c. We are providing ongoing development advice in respect of the aforementioned Forest House and the adjacent Centre House and BBC Woodlands.
d. We advised the BBC in respect of the development of a Broadcasting Centre for BBC Scotland at Pacific Quay in Glasgow.

We confirm that we have undertaken the valuations acting as an External Valuer, qualified for the purpose of the valuation.

We confirm that we have discussed our previous involvement with the borrower with you and you have 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 the 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 completion of the proposed head and underleases
b. Market Value assuming vacant possession.
c. Market Value assuming vacant possession and that the buildings are 30 years older than at the date of valuation.

In preparing our valuations on this basis it is necessary for us to prepare a valuation on a “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 23 March 2005, between, amongst others, White City Trustees Limited, Consortium Investment Management Limited, White City Property Finance Plc, HSBC Trustees (C.I.) Limited and MBIA Assurance SA, 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.

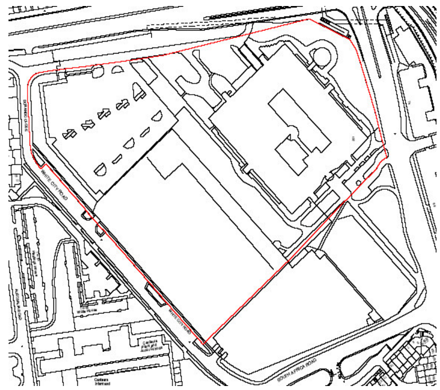
Yours faithfully

Alistair Oates MRICS
Director
For and on behalf of
DTZ Debenham Tie Leung Limited

2 Broadcasting Centre for the BBC at White City

2.1 Location and situation

White City is situated approximately five miles west of the West End of London, ten miles east of Heathrow airport and immediately adjacent to Hammersmith.



The property is situated on the west side of Wood Lane at its junction with the Westway A40(m) in the London Borough of Hammersmith and Fulham. The property benefits from its proximity to White City underground station which is approximately 200 metres south of the property and provides access to the West End with a journey time of approximately 20 minutes.

2.2 Description and construction

The property comprises three phases of development which were constructed independently and our known as White City 1 –3.

White City 1

The property was constructed in 1989 and provides accommodation on ground floor and five upper levels above a basement car park providing 240 spaces. The property is of frame construction with a flat roof and metallic external cladding and benefits from double glazed tinted metal framed windows. The fourth and fifth floors are set back from the building line.

The specification of the building includes air conditioning, raised floors and suspended ceilings. The property was constructed to provide maximum flexibility, although it has been sub-divided by the current occupier, generally by the use of demountable partitioning to the majority of the accommodation. The building predominantly provides office accommodation, although a restaurant is provided on the ground floor with 750 covers.

We have been advised by the BBC that the building houses 2,300 members of staff employed in the Current Affairs, Documentary and Factual Programs, Education, Employment Services, and Technology Operations in addition to numerous other small functions

White City 2

This phase of the development comprises three linked buildings known as the Broadcast Centre, the Media Centre and The Energy Centre. The three buildings were completed in 2003 and offer a high specification office accommodation and a comparatively small provision of retail accommodation.

The Broadcast Centre is arranged over basement, ground and five upper floors. The fifth floor is set back from the building line and there is an additional sixth/roof level utilised to accommodate plant equipment. The building is of frame construction with metal-framed windows and provides high quality open plan office accommodation with a three-atrium design. In addition to this, the building incorporates areas of bespoke BBC operational equipment. The basement accommodation offers 200 car parking spaces and also services Media Centre. We have been advised by the BBC that the building houses 1,600 members of staff employed by BBC Broadcast Limited. This section of the BBC is responsible for 'playout services', hence the requirement for bespoke technical equipment.

Media Centre is similar in design to Broadcast Centre, but does not incorporate areas of bespoke BBC operational equipment. It does, however, provide a Boardroom with appropriate hospitality facilities. Additionally, this building provides retail accommodation at ground floor level, which we understand is currently fully sub-let to various retail operators. The BBC have informed us that Media Centre accommodates 1,700 people who work within the central support services, including Finance, Property, Human Resources, and Governance.

The Energy Centre is also of frame construction and effectively comprises two buildings contained within one envelope. The larger of the two sections houses the plant requirements for Broadcasting Centre and Media Centre. The smaller section offers potential office accommodation which is currently unoccupied and in a shell condition.

White City 3

This phase comprises two office buildings, constructed in 2003, which provide accommodation on the ground and first floors and were designed for occupation by companies involved in the media and not for direct BBC occupation. The BBC will however be taking an over-riding lease to include this part of the development, although it is their intention to sublet this part of the property.

2.3 Accommodation

The property occupies a site of 4.49 hectares (11.09 acres).

Building	Use	Sq m	Sq ft
White City 1	Office	29,584	318,443
White City 2	Office	50,151	539,820
White City 3	Office	4,944	53,221
Total net internal floor area		**84,679**	**911,484**

2.4 Planning

The property has the benefit of planning permission for B1 (office use) in respect of the majority of the three phases, although there are some small areas with planning permission for A1 and A3 (retail uses). Planning permission for White City 1 was granted in 1987 whilst planning permission for the balance of the development was granted in 2001.

2.5 Tenure

The property is to be held on a lease for a term of 999 years from and including the 23 March 2005 at a fixed rent of one peppercorn per annum. The headlease is subject to a Residual Value Sharing Agreement which gives the BBC the right to benefit from a top slice and bottom slice of value on expiry of the contractual term. This has been reflected in our valuation.

Comment

We are of the opinion that the value of the head lease detailed above is approximately the same as the value of the freehold interest in the property if the head lease was not granted.

2.6 Tenancy

The property will be let in its entirety to the British Broadcasting Corporation for a term of 30 years from and including the 23 March 2005 on full repairing and insuring terms. The rent on commencement of the lease will be £18,225,000 per annum subject to annual rental uplifts in line with the Retail Prices Index (RPI), subject to maximum and minimum uplifts of 4.2% and 1.5% per annum, respectively. The sub-tenant will however enjoy a rent free period of 24 months. The rent commencement date will therefore be 23 March 2007 and the rent payable from that date will be £18,225,000 per annum, inflated from the commencement of the lease to the rent commencement date in line with the provisions detailed above. From 20 March 2032, the rent will be subject to an upward only rent review to the greater of (a) the then rent if the review is not undertaken in 2032 and (b) the lesser of £70 per sq foot of Net Internal Area and the Market Rent of the premises.

There is an absolute bar in the lease against assignment, although the tenant is permitted to sublet the accommodation, subject to certain conditions.

The tenant has three options at the end of the lease, to vacate at the end of the contractual term, to acquire the head lease or to renew the occupational lease. To exercise any of these options the tenant must serve not less than 24 months or more than 30 months notice in writing on the landlord. If the tenant wishes to acquire the head lease the purchase price will be the lesser of the market value of the landlord's interest and £119,000,000 increased annually in line with the index, less the BBC Share of Residual Value. Alternatively the tenant has an option at the end of the lease to take a new thirty year lease of the property at an initial rent equal to the lesser of the Market Rent and £34,000,000 per annum, inflated in accordance with RPI. The rent is then inflated annually in accordance with the provisions of the initial lease. If the tenant exercises this option the tenant shall be entitled to a rent free period which in net present value terms equates to the BBC share of residual value.

Comment

We are of the opinion that the proposed rent free period of 24 months is not more than the rent free period that would have to be offered in the market to a tenant who was prepared to take a lease on the terms detailed above of the entire property.

2.7 Market Rent

We are of the opinion that the Market Rent of the property, as at 16 March 2005, subject to the assumptions and comments in this Report and the Appendices is: -

£20,075,000
(Twenty million and seventy five thousand pounds)
per annum exclusive

2.8 Market Value

This valuation has been prepared on the following Special Assumption:-

i. The property has been let in accordance with the details set out in this Report.

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 16 March 2005, is: -

£252,770,000,000
(Two hundred and fifty two million seven hundred and seventy thousand pounds)

2.9 Market Value assuming vacant possession throughout

This valuation has been prepared on the following Special Assumption:-

i. Vacant possession throughout.

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 16 March 2005, is: -

£208,850,000
(Two hundred and eight million eight hundred and fifty thousand pounds)

2.10 Market Value assuming vacant possession and that the buildings are 30 years older than at the date of valuation

This valuation has been prepared on the following Special Assumptions:-

i. Vacant possession throughout.
ii. That the buildings are thirty years older than they are on the valuation date.

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 16 March 2005, is: -

£69,355,,000
(Sixty nine million and three hundred and fifty five thousand 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 outgoings. 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. 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.

4. 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.

5. 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.

6. Floor Areas

We have undertaken a full measure survey of the property known as White City 1. In respect of all the other buildings we have been provided with measurements by Lambert Smith Hampton. We have undertaken check measurements on site to confirm the accuracy of these measurements. All measurements and calculations have been undertaken in accordance with the Code of Measuring Practice issued by the Royal Institution of Chartered Surveyors.

APPENDIX 2

FINANCIAL STATEMENTS OF MBIA
FOR THE YEAR ENDED 31 DECEMBER 2003

MBIA STATUTORY AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

(Translated from French into English)

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders of
MBIA Assurance S.A.
112, avenue Kléber
75116 Paris

In compliance with the assignment entrusted to us by your shareholder's annual general meeting, we hereby report to you, for the year ended 31 December 2003, on:

- the audit of the accompanying financial statements of MBIA Assurance S.A. ;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities, as of 31 December 2003, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

II JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L.225-235 of the Commercial Code relating to the justification of our assessments, introduced by the Financial Security Act of 1st August 2003 and which came into effect for the first time this year, we bring to your attention the following matters:

Note II to the financial statements describes the accounting principles and methods used by the company, in particular the accounting rules concerning premiums (point b), technical reserves (point c) and deferral of acquisition costs and commissions received from reinsurers (point d).

When assessing the accounting rules and principles, we examined the appropriateness of the above mentioned accounting methods, given the specific nature of the business and taking into account the economic and regulatory environment of the company.

Based on the available information, we have tested and verified the correctness of the application of these methods and of the disclosures provided in the notes to the financial statements.

The assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

III - SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Paris, on 14 May 2004

The statutory auditor
PricewaterhouseCoopers Audit

Catherine Thuret
Partner

MBIA ASSURANCE S.A.

FINANCIAL STATEMENTS: BALANCE SHEET/ASSETS (in Euros)

ASSETS	At Dec. 31, 2003	At Dec. 31, 2002
Subscribed capital uncalled	**0**	**0**
Intangible assets	**0**	**0**
Investments		
Land and buildings	0	0
Investments in related parties	0	0
Other investments	190,017,439	130,277,108
Cash deposits with guarantors		
	190,017,439	**130,277,108**
Investment related to unit-linked contracts	0	0
Reinsurers' share in technical reserves		
Unearned premiums and premium deficiency reserves		
Related parties	0	469,586
Third party reinsurers	61,666,078	49,529,055
Claims reserve	0	0
Provision for profit sharing	0	0
Equalization reserve	0	0
Other technical provisions	0	0
Technical reserve for unit-linked contracts	0	0
	61,666,078	**49,998,641**
Debtors		
Amounts receivable from parent company	3,802,450	4,300,515
Insurance debtors		
Other	1,084,362	355,723
Reinsurance debtors		
Other	979,504	301,684
Other Debtors		
Prepaid and recoverable taxes	52,213	2,697,119
Sundry debtors		
Related parties	977,713	977,350
Other	414	448
Titrimmo guarantee deposit	0	0
	6,896,656	**8,632 839**
Other assets		
Tangible assets	1,377,243	380,739
Other deposits and guarantees	95,503	82,936
Cash and cash equivalents	8,559,608	2,541,152
	10,032,354	3,004,827
Prepayments and accrued income		
Other	373,065	377,741
Deferred acquisition costs	9,080,114	4,272,931
Accrued interest and rental income	2,952,805	516,637
	12,405,984	**5,167.309**
Unrealised exchange differences	5,189,132	2,467,938
TOTAL ASSETS	**286,207,643**	**199,548,662**

MBIA ASSURANCE S.A.

FINANCIAL STATEMENTS: BALANCE SHEET/LIABILITIES (in Euros)

LIABILITIES	At Dec. 31, 2003	At Dec. 31, 2002
Shareholders' equity		
Share capital	**26,250,000**	**26,250,000**
Other reserves	457,730	457,731
Retained earnings/(deficit)	11,360,624	4,294,505
Net income/(loss) for the year	14,870,728	7,066,119
	52,939,082	**38,068,355**
Subordinated liabilities	**0**	**0**
Gross technical reserves		
Unearned premiums and premium deficiency reserves	183,189,012	127,963,776
Claims reserve	0	0
Other technical reserves	0	0
	183,189,012	**127,963,776**
Technical reserve for unit-linked contracts	0	0
Provisions for liabilities and charges		
Provision for exchange losses	5,189,132	3,038,661
Provision for charges	0	0
	5,189,132	**3,038,661**
Cash deposits received from reinsurers	**2,195,266**	**2,195,266**
Other liabilities		
Amounts due to parent company	19,670,562	14,894,133
Insurance creditors		
Related parties	0	0
Third party reinsurers	1,180,926	244
Reinsurance creditors		
Related parties	3,779,529	3,073,176
Third party reinsurers	145,486	1,656,592
Bond issue	0	0
Amounts due to credit institutions (loans)	9,000	6,100
Other liabilities		
Other cash deposits received		
Related parties	0	0
Other	1,168,647	1,168,647
Accrued personnel costs	541,911	472,746
Accrued taxes and social security charges	8,652,243	1,230,650
Sundry creditors		
Related parties	0	0
Other	890,393	486,574
	36,038,697	**22,988,862**
Accruals and deferred income		
Other accruals	6,656,454	5,293,742
	6,656,454	**5,293,742**
Unrealised exchange differences	**0**	**0**
TOTAL LIABILITIES	**286,207,643**	**199,548,662**

MBIA ASSURANCE S.A.

FINANCIAL STATEMENTS: PROFIT AND LOSS ACCOUNT (in Euros)

NON LIFE INSURANCE TECHNICAL ACCOUNT	2003 Gross	Ceded business	2003 Net	2002 Net
Earned premiums				
Premiums	**88,660,124**	**(27,607,256)**	**61,052,868**	**47,693,218**
Change in unearned premiums reserve	(64,414,295)	16,042,058	(48,372,237)	(47,662,326)
Allocated investment income	2,071,259		2,071,259	275,800
Other technical income	8,053,111		8,053,111	11,445,725
Claim charges	0		0	0
Charges from other technical reserves	0		0	0
Acquisition and administration costs				
Acquisition costs	(2,053,472)		(2,053,472)	(1,860,315)
Administration costs	**(6,392,688)**		**(6,392,688)**	**(6,267,436)**
Reinsurance commissions received		7,229,961	7,229,961	3,464,082
Other Technical charges	0		0	0
	25,924,039	(4,335,237)	21,588,802	7,088,748
Non-life underwriting result			21,588,802	7,088,748
NON-LIFE INSURANCE NON-TECHNICAL ACCOUNT				
Investment income				
Investment revenues			4,904,434	2,659,816
Other investment income			5,911,478	2,145,033
Gains on sale of investments			330,670	275,774
Allocated investment income			0	0
Investment expense				
Interest and portfolio expenses			(71,647)	(44,396)
Other investment expenses			(251,354)	(278,023)
Losses on sale of investments			(7,850,020)	(4,347,738)
Investment income transferred to the technical accounts			(2,071,259)	(275,800)
Other non-technical income			194	296
Other non-technical expense			(6)	(149)
Non-recurring income/expense				
Non-recurring income			0	0
Non-recurring expense			0	(288)
Employee profit sharing			0	0
Income tax			(7,620,564)	(157,154)
Non-technical result on non-life insurance			**(6,718,074)**	**(22,629)**
INCOME FOR THE YEAR			**14,870,728**	**7,066,119**

NOTES TO THE FINANCIAL STATEMENTS

I – BUSINESS OF THE COMPANY

MBIA Assurance S.A. "MBIA Assurance" or "the Company" is a *Société Anonyme* with a share capital of 26,250,000 euros. MBIA Assurance is a 99.99% owned subsidiary of MBIA Insurance Corporation.

MBIA Assurance carries out operations of the type corresponding to Branch 15 Guarantee listed in Article R 321-1 of the French Insurance Code.

MBIA Assurance's principal activity is the guarantee of financial obligations, and notably with respect to securitisations, structured finance, and project finance transactions.

Financial Guarantee insurance policies issued by MBIA Assurance provide an unconditional and irrevocable guarantee of the payment of the principal and interest, or other amounts owed, on insured obligations when due.

II – ACCOUNTING POLICIES AND METHODS

The annual financial statements are prepared and presented in accordance with the provisions of the French Insurance Code (decree dated June 8, 1994 and the regulation dated June 20, 1994) so as to incorporate the EEC directive n°91-674 dated December 19, 1991 regarding the financial statements of insurance companies. Since there is no specific provision related to these texts, the applied principles are those defined by the "Plan Comptable Général", the French accounting convention. The accounting year has a 12-month duration.

The Company does not produce consolidated accounts since it has no subsidiaries. However, during the year 2000, the Company established a branch in the United Kingdom whose accounts are included in the Company's financial statements. The accounting principles and methods used at year-end and summarized below remain unchanged from the previous year-end accounts.

a) *Investments*

Bonds and other fixed-income securities are stated at cost, excluding interest accrued at the date of acquisition. Premiums and discounts on bonds and other fixed-income securities (difference between the purchase price and the redemption price) are written off to the profit and loss account over the residual lives of the securities in accordance with Article R 332-19 of the French Insurance Code. The differences between the redemption prices to be received and the depreciation of these differences are recorded under "accrued income" or "deferred income".

At year-end, the realisable value corresponds to the quoted value on the last trading day of the year or to the market value for the securities that are not listed. In application of Article R 332-19, no provision is made for unrealised losses corresponding to the difference between the amortised cost of securities and their fair market value. However, a provision for counterparty risks is recorded if the Company has reason to believe that the issuer will be unable to fulfil its obligations in terms of the payment of principal or interest.

Equities and other variable income securities are stated at cost, excluding accrued interest at the acquisition date. Values are determined using the First In - First Out method "FIFO".

A provision is recorded separately for each line of securities when a decrease in book value is considered permanent in accordance with the Avis N°2002-F of the French Accounting Standard Council dated December 18, 2002 which redefines the evaluation methodology of the provision for this depreciation. Securities which are deemed to have suffered a permanent diminution in value are analysed according to their redemption value, taking into consideration the company's capacity to hold on to the securities until the expected maturity date. A provision is made against these securities, which is equal to the difference between the purchase price of the security and its redemption value. As of December 31, 2003 the Company did not have to record any such provision.

In addition, a liquidity risk reserve is made against the various investments in the event of unrealised losses on the assets listed in Article R332-20 and is calculated in accordance with the provisions of Article R 331-5-1 of the French Insurance Code (as modified by Article 2 II of the decree 2003-1236 dated December 22, 2003).

In the event of unrealized net losses on the assets listed in Article R332-20, an increase of the reserve is made either:

- for a third of the unrealised loss (unless the resulting reserve would exceed the total unrealised loss at the date of the balance sheet) as long as the company covers its regulatory capital commitments and its solvency margin; or

- for the total amount of the unrealised loss at the date of the balance sheet.

Realisable value corresponds to a market value as described in Article R 332-20-1 of the French Insurance Code. The calculation methods of that value will vary according to the type of investments.

As of December 31, 2003, the Company did not have to increase its liquidity risk reserve; the change in the accounting methodology as set out in Avis n°2004-B dated January 21, 2004 of the "Comité d'urgence" of the French Accounting Standard Council therefore had no effect on the financial statements.

Investment income and expenses:

Investment income includes accrued interest and rental income for the year, reversal of provisions, income from redemption price differences, investment revenues as well as investment gains (gains on the sale of investments, reversal of the capitalisation reserve) and, if appropriate, net realised exchange gains as well as reversals of provisions for exchange losses.

Investment expenses include portfolio expenses, interest expenses, increases in provisions against investment, amortization of redemption price differences as well as investment losses (losses on sale of investments, increases in the capitalization reserve) and, if appropriate, realised exchange losses as well as increases in the exchange losses provision.

Gains and losses on the sale of investments are calculated using the First In - First Out method.

The sale of certain redeemable transferable securities (bonds, negotiable debt securities) leads to contributions or withdrawals on the capitalisation reserve depending on the results of the sale. This regulatory reserve is recorded on a specific line under shareholders' equity.

Investment income and expenses are recorded into the non-technical account. A percentage of net investment income is transferred from the non-technical account to the technical account on the basis of the following formula: Net technical provision (+ capitalisation reserves) divided by the sum of shareholders' equity, excluding the capitalisation reserve, and net technical provision (+ capitalisation reserves).

b) Premiums

Premiums represent written premiums (excluding taxes and net of cancellations) and variations of the provision for premiums to be written. MBIA Assurance does not register future premiums that are linked to a contract setting up the payment of the premiums by instalments and which would necessitate an equal and opposite provision for deferred premiums if they were registered.

c) Technical reserves

- Unearned premium reserve ("UPR”):

The reserve for unearned premiums is calculated on a contract by contract basis, taking into account the risk cycle, in order to comply better with Article R 333-1 of the French Insurance Code and Article 57-2 of the European Directive n°91/674/CEE of December 19, 1991 applicable to statutory and consolidated accounts. This states that: "In classes of insurance where the assumption of a temporal correlation between risk experience and premium is not appropriate, calculation methods shall be applied that take into account the differing pattern of risk over time".

Since December 31, 2000, at the request of the *Commission de Contrôle des Assurances,* UPR, previously calculated on a pro rata basis through December 31, 1999, is now calculated based upon the risk cycle. When a guarantee is issued upon a loan, the UPR takes into account the repayment schedule of the loan.

In 2002, we reviewed the way we record our instalment premiums to comply better with the recommendations of the *Commission de Contrôle des Assurances.* As of December 31, 2002, the calculation of the provision for unearned premium takes into account the risk cycle for this type of premium.

- Claim paying reserves:

Since its formation, MBIA Assurance has never recorded any claims.

d) Expense allocation

Effective from January 1, 1995, a distinction is made between acquisition and administration costs. These costs mainly correspond to personnel expenses which are allocated based on the position occupied by each employee.

Deferred acquisition costs ("DAC") linked to UPR are recorded in the balance sheet under the caption DAC, in accordance with Article R 332-33 of the French Insurance Code. The amount is calculated separately for each unearned premium and is limited to the amount posted for unearned premium reserves for each of the policies in accordance with the Commission’s recommendation. DAC is amortised on a straight-line basis over the period between the balance sheet date and the end of the contract, limited to five years.

The portion of commissions received from reinsurers that is not related to the accounting year is also recorded in the balance sheet. The amount deferred is calculated and then taken to the profit and loss account in the same manner as that employed for the calculation of DAC for the same contracts.

e) *Reinsurance cessions*

Reinsurance cessions are calculated in accordance with treaties signed between MBIA Assurance and various reinsurers. Pledged investments received from reinsurers are booked off-balance sheet and evaluated at year-end at market value. Cash deposits received from reinsurers are booked under liabilities in the balance sheet.

f) *Debtors*

Debtors are posted at face value and include:

- Technical debtors;
- Amounts receivable from parent company;
- Recoverable taxes and amounts receivable from staff;
- Sundry debtors;
- Accrued income

Provisions for bad debt are made to the extent that a collection risk is identified.

g) *Exchange gains and losses*

Foreign currency transactions are converted into euros at year-end exchange rates.

The elements in the balance sheet that relate to the UK branch and which are in foreign currencies are converted into British pounds at year-end exchange rates. This exchange gain or loss that is calculated and posted in British pounds is then recorded in the euro accounts at year-end exchange rates.

Unrealised exchange gains and losses for all currencies combined are netted and included in the balance sheet in either assets or liabilities. A related provision is recorded in the case of a net unrealised exchange loss. This provision is calculated for the French operations and the UK operations separately.

h) *Tangible fixed assets used in the business*

Tangible fixed assets are stated at cost. Maintenance charges are charged to the profit and loss account when incurred, except where they serve to increase productivity or extend the useful life of the asset concerned.

Depreciation is calculated using the straight-line method over the estimated useful life of the assets, in accordance with French tax rules. The main estimated useful lives are as follows:

Leasehold improvements, fixtures and fittings	8 years
Vehicles	5 years
Office and computer equipment	4 years
Furniture	5 to 8 years

i) *Taxes*

Taxes are recorded in the profit and loss account and correspond to the tax payable for the period. Tax is related to both transactions concluded by the French office of MBIA Assurance and by its UK branch.

III – NOTES TO THE BALANCE SHEET

a) *Investment portfolio*

Investments recorded in the balance sheet at December 31, 2003 in accordance with Articles R 332-19 and R 332-20 of the French Insurance Code are as follows:

Description of securities	Units	At Cost	Unit Market price	Market value	Unrealised (gains/(losses)
Long-term investments					
OAT	3,887,448	4,177,735	1.1266	4,379,433	201,698
BTAN	8,500,000	8,466,850	1.0215	8,862,580	215,730
Govt. bonds in EUR	15,150,000	14,906,331	0.9820	14,877,117	(29,214)
Govt. bonds in USD	12,500,000	10,251,179	0.7924	9,904,556	(346,623)
Govt. bonds in GBP	72,050,000	91,221,310	1.2580	90,641,615	(579,695)
Total within the OECD		**129,023,405**		**128,485,301**	**(538,104)**
Total outside the OECD		**0**		**0**	**0**
Total long-term investment		**129,023,405**		**128,485,301**	**(538,104)**
Short-term investments					
Credis EUR	874	300,456	392	342,346	41,890
Credis USD	292	592,342	2,090	610,204	17,862
Credis CAD	317	289,939	1,166	369,639	79,700
FCP Berri Tresor	493	2,329,865	4,752	2,342,544	12,679
FCP Berri Monetaire	619	15,998,750	26,051	16,125,848	127,098
FCP Primerus Monetaire	869	2,000,733	2,622	2,278,996	278,262
FCP Fructifonds	361	9,935,232	30,204	10,903,821	968,588
Fixed deposit HKD		239,178		239,178	0
Fixed deposit GBP		12,769,580		12,769,580	0
Fixed deposit USD		1,590,007		1,590,006	0
Fixed deposit EUR		2,002,883		2,002,883	0
Sicav GBP	2,486	12,945,069	5,426	13,488,173	543,106
Total within the OECD		**60,994,034**		**63,063,219**	**2,069,185**
Total outside the OECD		**0**		**0**	**0**
Total short-term investment		**60,994,034**		**63,063,219**	**2,069,185**
Total investment within the OECD		**190,017,439**		**191,548,520**	**1,531,081**
Total investment outside the OECD		**0**		**0**	**0**
TOTAL investments in euros		**190,017,439**		**191,548,520**	**1,531,081**

All the above investments have been valued in accordance with Articles R 332-19 and R 332-20 of the French Insurance Code. The realisable value of the securities corresponds to their market value at December 31, 2003.

b) *Debtors and creditors*

At December 31, 2003, the maturity of all amounts due from debtors and to creditors was less than one year, except for the deposit received from CapMAC, for the amount of € 1,168,647.

c) *Related party debtors and creditors (in euros)*

Debtors	Amounts receivable from parent company	Insurance receivables	Sundry debtors
MBIA Insurance Corporation and branches	3,802,450	0	977,713

Creditors	Reinsurance debts	Guarantee deposits	Inter-company account
MBIA Insurance Corporation	3,111,029	2,195,266	19,670,562
MBIA Inc.	668,500		
Total	**3,779,529**	**2,195,266**	**19,670,562**

d) *Share capital and changes in shareholders' equity*

At December 31, 2003 the Company's issued share capital was made up of 1,750,000 ordinary shares with a par value of 15 euros each. MBIA Insurance Corporation held 99.99% of the capital at that date.

Changes in shareholders' equity during 2003 were as follows:

(in thousands of euros)	January 1, 2003	Result	December 31, 2003
Share capital	26,250		26,250
Legal reserve	4		4
Capitalisation reserve	25		25
Unavailable reserves	429		429
(Deficit)/retained earnings	4,284	7,066	11,350
Branch exchange rate difference	10		10
Result 2002	7,066	(7,066)	0
Result 2003	0	**14,871**	**14,871**
Total	**38,068**	**14,871**	**52,939**

e) *Currency balances*

	Assets		Liabilities	
December 31, 2003	**Value In base currency**	**Converted in euros**	**Value In base currency**	**Converted in euros**
USD	22,483,490	**18,486,162**	**39,697,655**	**31,402,481**
GBP	127,352,568	**180,695,385**	**104,308,904**	**148,007,859**
CAD	810,082	499,003	633,085	389,975
NZD	114,514	59,506	-	-
HKD	2,940,922	299,944	394,882	40,135
JPY	88,097,460	652,332	305,108,987	2,259,230
Total		**200,692,332**		**182,099,680**

At December 31, 2003 the unrealised exchange differences amounted to € 5,189,132 and were recorded as assets.

f) *Accrued and deferred income (in euros)*

	2003	**2002**
Other accruals		
- Amortisation of capital gains	6,424	1,857
- Prepayments	366,641	375,884
Deferred acquisition costs	9,080,114	4,272,931
Accrued interest and rental income	2,952,805	516,637
Total Assets	**12,405,984**	**5,167,309**

	2003	**2002**
Other accruals		
- Amortisation of capital losses	616,807	409,429
- Deferred commissions	6,039,647	4,884,313
Total Liabilities	**6,656,454**	**5,293,742**

g) *Fixed assets and depreciation*

Fixed assets (in euros)	**Balance at 01/01/03**	**Additions**	**Disposals**	**Balance at 12/31/03**
Installations, office layout	**524,632**	**887,184**	**179**	**1,411,637**
Office supplies	54,305	116,201	0	170,506
Computer supplies	96,505	8,112	0	104,617
Office furniture	301,101	103,690	0	404,791
Total fixed assets	**976,543**	**1,115,187**	**179**	**2,091,551**

Depreciation (in euros)	**Balance at 01/01/03**	**Depreciation charge**	**Disposals**	**Balance at 12/31/03**
Installations, office layout	401,010	41,245	15	442,240
Office supplies	27,467	17,252	0	44,719
Computer supplies	62,478	12,894	0	75,372
Office furniture	104,849	47,128	0	151,977
Total depreciation	**595,804**	**118,519**	**15**	**714,308**

IV – NOTES TO THE PROFIT AND LOSS ACCOUNTS

a) *Investment income and expenses*

Investment income and expenses mainly include investment revenues (interest, rental income, cash dividends), income and charges linked to the realization of investments as well as results from exchange rate operations.

Investment income (in thousands of euros)

	2003	2002
Revenues from investments in subsidiaries and affiliates	0	0
Revenues from property holdings	0	0
Other investment revenues	4,904	2,660
Total	**4,904**	**2,660**

Breakdown of other investment income (in thousands of euros)

	2003	2002
Exchange gain on investments	0	(22)
Exchange gain on currency revaluation	2,867	0
Amortisation of capital gains	5	50
Reversal of provision for exchange loss on investments	3,039	2,117
Total	**5,911**	**2,145**

Breakdown of investment expenses (in thousands of euros)

	2003	2002
Interest and bank fees	72	44
Amortisation of capital losses	251	278
Charge to provision for exchange loss on investments	5,189	3,039
Exchange losses on investments	580	1,168
Loss on sale of investments	287	141
Exchange losses on currency revaluation	1,794	0
Capitalisation reserve	0	0
Total	**8,173**	**4,670**

b) *Additional notes to the profit and loss accounts*

Personnel costs

Personnel costs for the period 2001 through 2003 are as follows:

(in euros)	2003	2002	2001
Wages and salaries	1,082,435	1,221,414	357,991
Social security taxes	557,596	291,805	161,549
Other	649,824	673,207	482,391
Total	**2,289,855**	**2,186,426**	**1,001,931**
of which related to UK branch	*999,242*	*668,882*	*515,632*

Breakdown of gross premiums written

Gross premiums written in the period 2001 through 2003 are as follows:

(By product type in euros)	**2003**	**2002**	**2001**
Local government	12,264,939	12,896,287	(22,425)
Structured finance	4,802,526	1,243,887	1,269,941
Concessions and corporates	71,592,659	54,895,322	19,832,859
Total	**88,660,124**	**69,035,496**	**21,080,375**

(By geographic region in euros)	**2003**	**2002**	**2001**
Europe	88,706,230	68,685,371	20,997,027
of which France	*1,576,762*	*193,931*	*298,647*
The Americas	(67,566)	305,318	0
Asia	21,460	44,807	83,348
Total	**88,660,124**	**69,035,496**	**21,080,375**

Other technical income corresponds to studies, services and surveillance work provided by MBIA Assurance during the year.

V – OTHER INFORMATION

a) *Consolidating entity*

MBIA Assurance is a 99.99% owned subsidiary of MBIA Insurance Corporation whose head office is located at 113 King Street, Armonk, New York, 10504, USA.

Relationship between MBIA Assurance and MBIA Insurance Corporation

The relationship between MBIA Assurance and MBIA Insurance Corporation is based upon the maintenance of the net worth of the French subsidiary (under the conditions of the "Net Worth Maintenance Agreement" described below) and on the reinsurance of MBIA Assurance risk by MBIA Insurance Corporation.

This relationship is the basis upon which the rating agencies have granted a Triple-A rating to MBIA Assurance.

Agreements between MBIA Assurance and MBIA Insurance Corporation

Net Worth Maintenance Agreement

MBIA Assurance signed a "Net Worth Maintenance Agreement" with MBIA Insurance Corporation on January 1, 1991 which was amended and restated on April 1, 2002. Under the "Net Worth Maintenance Agreement", MBIA Insurance Corporation agrees to remain the sole shareholder of MBIA Assurance and not to pledge its shares. It also agrees to maintain for its French subsidiary a minimum capital and surplus position of 4,573,470.52 euros, or such greater amount as shall be required now or in the future by French law or French regulatory authorities provided that:

(i) any contributions to MBIA Assurance for such purpose shall not exceed 35% of MBIA Insurance Corporation's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York; the total amount of surplus, in thousands of US$, was 3,158,009 at December 31, 2002 and 3,715,013 at December 31, 2003;
(ii) any contribution shall be made in compliance with Section 1505 of the New York State Insurance law; provided that MBIA Insurance Corporation hereby confirms that it may make

single contributions to MBIA Assurance that do not exceed a total of US$200 million without taking any additional actions under Section 1505 of the New York State Insurance Law with respect to any such single contribution.

Any modifications to the "Net Worth Maintenance Agreement" may not occur without confirmation from each Standard & Poor's Rating Services and Moody's Investors Service, that such modifications will not result in the reduction or the withdrawal of the claims paying ratings then assigned to MBIA Insurance Corporation.

Reinsurance Agreement

MBIA Assurance has signed a "Reinsurance Agreement" with MBIA Insurance Corporation on January 1, 1993 which was amended and restated on January 1, 2002.

Under the "Reinsurance Agreement", MBIA Insurance Corporation shall reimburse MBIA Assurance for the amount of MBIA Assurance's losses paid in each calendar year which amount is in the aggregate in excess of an amount equal to the greater of:

(i) US$ 500,000 or
(ii) 40% of MBIA Assurance's net earned premium income for that same calendar year.

However, the liability of MBIA Insurance Corporation shall not exceed, in any one calendar year, MBIA Assurance's net retention with respect to the principal outstanding plus interest insured under its largest policy in effect as of December 31 of the prior year.

b) *Average number of employees*

The average number of employees for the years 2002 and 2003 was four people for MBIA Assurance, and thirteen and fifteen, respectively, for the UK branch.

In addition, MBIA Insurance Corporation provided employees who have been seconded to the UK branch of MBIA Assurance.

c) *Off-balance sheet commitments*

Commitments received

At December 31, 2003, the shares and cash pledged by AMBAC Assurance Corporation in relation to reinsurance transactions amounted to € 10,819,516 and is broken down as follows:

- Fixed-term deposit of GBP 2,640,260 (€ 3,746,112 including € 19,226 in interest)
- Cash deposit of GBP 311,100 (€ 441,402)
- Cash deposit of € 579,912
- French government bonds of € 6,052,089 including € 135,489 of interest

At December 31, 2003, the securities and cash amounts received as pledge from Riverstone (formerly known as CTR), in regard to reinsurance operations, amounted to € 18,074 and were composed of 22 shares of FCP CTR Réserve, with a unit value of € 821.54 each, and held by DWS.

At December 31, 2003, the Company had no other off-balance sheet commitments and had not carried out any off-balance sheet financial instrument transactions.

Commitment paid

On July 17, 2002, MBIA Assurance provided a guarantee to one of its employees, for their lessor, in regard to the payment of their rent (which might be revised) and any other fees up to € 65,280. This will stay in effect until the end of the lease, i.e. for nine years until July 31, 2011.

d) Guarantees issued

The following chart represents the amounts guaranteed by MBIA Assurance at December 31, 2003. Amounts are stated in par and gross of reinsurance.

(in thousands of euros)	**2003**	**2002**	**2001**
Sovereign and Sub-sovereign	5,573,016	1,505,487	1,202,950
Public Utilities	8,149,784	6,460,735	3,675,475
Structured Finance	5,778,389	2,216,384	903,246
Financial Institutions (1)	119,100	148,301	173,591
Total	**19,620,289**	**10,330,907**	**5,955,262**

(1) mainly banks and insurance companies.

e) Payments to Management

The total amount paid to the members of the Board of Directors was € 1,985,372 including salaries and benefits in kind.

VI – POST BALANCE SHEET EVENTS

No such events have taken place.

APPENDIX 3

FINANCIAL STATEMENTS OF THE BBC
FOR THE YEAR ENDED 31 MARCH 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 liabilities at these rates of exchange, together with exchange differences arising from trading, are included in the statement of income and expenditure.

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates for the year. Exchange differences arising on consolidation from the retranslation of the opening net assets of overseas subsidiaries and any related long-term foreign currency borrowings are taken directly to the operating reserve, together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end. Other exchange differences are taken to the statement of income and expenditure.

As these financial statements are prepared in sterling, the BBC's foreign currency transactions and balances must be translated, at appropriate exchange rates, into sterling. This policy states how those re-translations are included in the financial statements and is consistent with the methods used by many companies.

Pension costs
The BBC operates both defined benefit and defined contribution schemes for the benefit of employees.

The amounts charged as expenditure for the defined contribution scheme represent the contributions payable by the BBC for the accounting periods in respect of this scheme.

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final pensionable pay. Amounts are charged to expenditure so as to spread the cost of pensions over employees' working lives with the BBC. The assets of the BBC's main scheme are held separately from those of the Group.

UK Public Service Broadcasting and its subsidiary undertakings have taken advantage of the provisions included within FRS 17, *Retirement benefits*, and account for the scheme as if it were a defined contribution scheme. This is because the pension scheme is managed centrally across the whole Group and it is not possible to allocate the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge under FRS 17 for UK Public Service Broadcasting and its subsidiary undertakings therefore represents the contributions payable in the year.

On retirement, members of the BBC's main pension scheme are paid their pensions from a fund which is kept separate from the BBC Group. The BBC makes cash contributions to that fund in advance of members' retirement.

Research and development
Research and development expenditure is written off as incurred.

Intangible fixed assets
Goodwill
Purchased goodwill (representing the excess of the fair value of the purchase consideration plus any related costs of acquisition over the fair value attributable to the separable net assets acquired), arising on acquisition of a subsidiary or business, is capitalised and amortised over its useful economic life. On the subsequent disposal or termination of a business, the surplus or deficit is calculated after charging the unamortised amount of any related goodwill. As is permitted by FRS 10, *Goodwill and intangible assets*, goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve. On disposal, goodwill previously written off against reserves is transferred to the statement of income and expenditure for the year.

Intellectual property rights
Purchased intellectual property rights are capitalised and amortised on a straight line basis over the expected useful life of the assets.

Tangible fixed assets
Expenditure on fixed assets is capitalised together with incremental and internal direct labour costs incurred on capital projects.

Depreciation is calculated so as to write off the cost or valuation, less estimated residual value, of fixed assets on a straight line basis over their expected useful lives. Depreciation commences from the date an asset is brought into service.

The BBC's useful lives for depreciation purposes for the principal categories of assets are:

Land and buildings	
Freehold land	– not depreciated
Freehold and long-leasehold buildings	– fifty years
Short-leasehold land and buildings	– unexpired lease term
Plant and machinery	
Computer equipment	– three to five years
Electrical and mechanical infrastructure	– ten to twenty-five years
Other	– three to ten years
Furniture and fittings	– three to ten years

UK Public Service Broadcasting's plant and machinery is stated at the estimated current replacement cost of the assets, as at 31 March 1993, adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

BBC World Service's plant and machinery and furniture and fittings are stated at the estimated current replacement cost of the assets, as at 1 April 1996, as adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

There is no material difference between the net book value of these tangible fixed assets and their value as determined on a historical cost basis.

The BBC has revalued its assets once, when the internal market was introduced, but has chosen not to revalue its tangible assets on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. Assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

Investment in programmes for future sale
Investment in programmes for future sale is stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation of investment in programmes for future sale is charged to the income and expenditure account over the estimated average marketable life of the programme genre which is generally between two and ten years. The cost and accumulated amortisation of investment in programmes for future sale are reduced by programmes which are fully written off.

The cost of programmes for sale is charged to the income and expenditure account to match the expected timing of income from future sales.

Originated programme stocks and work in progress
Originated programme stocks and work in progress, including those commissioned from independent producers, are stated at the lower of cost and net realisable value. With the exception of the costs of prepaid repeats of independent programmes, the full stock value is written off on first transmission.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads.

Net realisable value is based on arm's length contract prices negotiated between the channel controllers and programme makers.

Acquired programmes and film stocks
The costs of acquired programmes and film stocks are written off on first transmission except to the extent that further showings are likely in the foreseeable future, when they are written off according to their expected transmission profile.

Assets and liabilities relating to acquired programmes are recognised at the point of payment or commencement of the licence period, whichever is earlier. Agreements for the future purchase of programmes whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

Other stocks
Raw materials and other physical stocks are stated at the lower of cost and net realisable value.

Deferred tax
Deferred tax is computed under the liability method. Full provision, without discounting, is made in respect of timing differences between certain items in the financial statements and their treatment for taxation purposes at the balance sheet date except as otherwise required by FRS 19, *Deferred tax*. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is corporation tax which is not payable at a specific time but which is expected to become payable in the future.

Operating leases
Operating lease rentals are written off on a straight line basis over the term of the lease.

An operating lease is a lease in which the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee – the BBC – has not acquired an asset but is hiring it, so the hire charge is included in the BBC's costs.

Finance leases
Assets acquired under finance leases are included within fixed assets at the total of the lease payments due over the life of the lease discounted at the rate of interest inherent in the lease. The same amount is included in creditors. Rental payments are apportioned between the finance element, which is charged against the income and expenditure account, and the capital element which reduces the lease creditor.

A finance lease is a lease that transfers substantially all the risks and rewards of owning and operating an asset to the lessee. Effectively the lessee owns the asset and has financed it by borrowing, so the asset and borrowing are included separately in the balance sheet.

Reserves
The value of the capital reserve is equal to the combined net book value of fixed assets of UK Public Service Broadcasting and BBC World Service at historic cost.

The revaluation reserve reflects the difference between the net book value of fixed assets of UK Public Service Broadcasting and BBC World Service at historic cost compared with their revalued amount.

The operating reserve is the accumulated surplus of the income and expenditure account to date.

The BBC is careful not to mix UK Public Service Broadcasting and BBC World Service reserves. Hence BBC World Service reserves are shown separately in the notes to the financial statements.

Cash and liquid resources
Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise bank deposits not repayable on demand and other short-term investments which include gilts, certificates of deposit and commercial paper.

Financial instruments
The Group does not enter into speculative derivative contracts. Some hedging contracts are undertaken in order to limit the Group's exposure to foreign exchange fluctuations (the accounting treatment for these contracts is explained in the foreign currency translation accounting policy).

Disclosure of the Group's loans and other financial assets and liabilities is provided within Note 23 to the financial statements.

Notes to the financial statements

Note 1 provides analysis of the different business areas within the BBC.

UK Public Service Broadcasting Group (referred to as 'Home Services' within the BBC Charter) comprises the UK public service broadcasting operations and those subsidiary companies incorporated to act solely on behalf of those public service operations.

BBC World Service comprises the Government-funded BBC World Service and media monitoring activities.

Commercial Businesses comprise businesses which generate external income from exploitation of the BBC's programmes, other assets and skill base.

1 Analysis of income, (deficit)/surplus and net assets

1a 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	*1 b,d,g*	**2,681.2**	**223.7**	**627.1**	**3,532.0**
(Deficit)/surplus before interest and taxation	*1 e*	(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	*1 b,d,g*	2,567.9	210.7	604.3	3,382.9
(Deficit)/surplus before interest and taxation	*1 e*	(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

1b 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.

Licence fee income	**2003 £m**	2002 £m
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.

Licences in force	**2003 Number m**	2002 Number m
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.

Licence fees	**2003 £**	2002 £
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.

1c 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.

1d 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

1e 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

1f 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

1g 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.

1h 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.

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)*		**136.5**	151.5
		1,265.7	1,182.1

** The actual employer cash contributions to the defined benefit pension scheme are borne by each business. The additional operating cost is the cost to the Group over and above these contributions. It is not possible to allocate this to each business on a reasonable and consistent basis*

4c Remuneration of the Board of Governors and Executive Committee

The emoluments of the Governors and of the Executive Committee members are disclosed on pages 76 to 79 in the Governors' remuneration report.

5 (Loss)/profit on sale and termination of operations

	2003 £m	2002 £m
beeb Ventures Limited		
– partial disposal	**–**	9.0
– termination cost	**(1.5)**	(1.3)
Wood Norton Hall and Conference Centre	**1.1**	–
	(0.4)	7.7

On 22 April 2002, BBC Worldwide announced its intention to terminate the beeb.com business and exit the internet shopping sector. Certain beeb.com websites together with beeb.net have been integrated into BBC Worldwide's core operations. Following this decision a review of the carrying value of beeb Ventures Limited's fixed assets at 31 March 2002 took place and gave rise to a write-down of £1.3million being charged to the income and expenditure account in 2002. During the year ended 31 March 2003 redundancy and other closure costs totalling £1.5million have been charged to the income and expenditure account.

On 31 May 2002, the Group sold its Wood Norton Hall and Conference Centre business to a third party for a consideration of £5.1million. The profit on sale was £1.1million after deducting the costs of the disposal.

6 (Loss)/profit on disposal of fixed assets

	2003 £m	2002 £m
(Loss)/profit on disposal of tangible fixed assets	**(14.3)**	1.0
Profit on disposal of investments	**–**	3.4
Profit on disposal of intangible assets	**–**	7.3
	(14.3)	11.7

During 2003 the Group started redevelopment of its Broadcasting House site, which included the demolition of two properties adjacent to Broadcasting House. The net book value of assets taken out of use, totalling £13.0million, has been charged to the income and expenditure account.

BBC Technology disposed of various fixed assets resulting in a loss of £1.3million during the year.

During 2002, the Eurosport Consortium, in which the BBC holds an interest, disposed of its 50% shareholding in SETS (which owns the Eurosport trademark) to 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.

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 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.

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 £441million (down from £611million 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.

The market valuation provides a 'snap-shot' at the balance sheet date. It is very volatile and can fluctuate widely from day to day.

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.

An estimate of future inflation and salary increases is used to forecast the cost of funding future pensions of pension scheme members.

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%

This table shows the value of the assets owned by the pension scheme and the rate of growth that the trustees expect over time.

8 Pensions *continued*

The assets in the scheme and the expected rates of return from those assets were:

	Long-term rate of return expected at 31 March 2003	**Value at 31 March 2003 £m**	Long-term rate of return expected at 31 March 2002	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2001	Value at 31 March 2001 £m
Equities	**8.3%**	**3,032**	7.5%	4,421	7.0%	4,655
Bonds and gilts	**4.5%**	**1,021**	5.2%	908	4.7%	939
Property	**6.4%**	**620**	6.3%	606	6.0%	606
Cash	**4.0%**	**230**	4.7%	284	4.5%	279
Total market value of assets		**4,903**		6,219		6,479
Present value of scheme liabilities		**(5,973)**		(5,254)		(4,771)
(Deficit)/surplus in the scheme		**(1,070)**		965		1,708
Related deferred tax asset/(liability)		**–**		–		–
Net pension (liability)/asset		**(1,070)**		965		1,708

A deferred tax asset or liability will not arise for the Group because most of the Group's public service activity is not subject to taxation.

Movement in surplus during the year

	2003 £m	2002 £m
Surplus in scheme at beginning of year	**965.0**	1,708.0
Movement in year		
– contributions	**33.4**	25.7
– current service cost	**(155.7)**	(132.3)
– past service costs	**(14.0)**	(44.9)
– other finance income	**114.6**	133.9
– actuarial loss	**(2,013.4)**	(725.4)
(Deficit)/surplus in scheme at end of year	**(1,070.1)**	965.0

Analysis of amount charged to operating expenditure

The current service cost is the cost to the BBC of pension rights earned by employees in the year.

	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

Analysis of amount credited to other finance income

The amounts here are estimates based on predictions of future performance and economic conditions.

	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.

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 £4.1million 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.

11 Tangible fixed assets

11a The Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	**Total £m**
Cost or valuation					
At 1 April 2002	457.9	876.3	122.4	106.4	**1,563.0**
Additions	3.8	80.5	8.0	114.8	**207.1**
Brought into service	9.3	60.9	3.6	(73.8)	**–**
Disposals	(16.4)	(37.0)	(7.9)	(2.3)	**(63.6)**
At 31 March 2003	**454.6**	**980.7**	**126.1**	**145.1**	**1,706.5**
Depreciation					
At 1 April 2002	199.0	540.1	63.1	–	**802.2**
Charge for the year	15.5	109.8	12.0	–	**137.3**
Elimination in respect of disposals	(6.0)	(25.2)	(4.7)	–	**(35.9)**
At 31 March 2003	**208.5**	**624.7**	**70.4**	**–**	**903.6**
Net book value					
At 31 March 2003	**246.1**	**356.0**	**55.7**	**145.1**	**802.9**
At 31 March 2002	258.9	336.2	59.3	106.4	**760.8**

Included within plant and machinery are £16.4million (2002 £19.6million) of assets held under finance leases.

One of the BBC's joint venture partners, Crown Castle UK Limited, has a charge of £3.0million over the assets of BBC Technology Group.

Included within fixed assets is £24million at cost relating to a relay station in Thailand used by BBC World Service. These assets are transferable to the Royal Thai Government in return for the payment of a nominal sum. BBC World Service will retain the rights to repurchase the assets, should the operation cease, for a similar nominal sum. The use of these assets is not affected by this transaction and therefore they will continue to be carried at cost less attributable depreciation in the balance sheet.

11b UK Public Service Broadcasting

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	**Total £m**
Cost or valuation					
At 1 April 2002	400.0	429.4	93.3	55.1	**977.8**
Additions	2.6	39.2	6.9	83.9	**132.6**
Brought into service	3.9	25.2	3.0	(32.1)	**–**
Transfers (to)/from subsidiaries	–	(30.4)	–	0.6	**(29.8)**
Disposals	(16.2)	(14.8)	(6.2)	(1.6)	**(38.8)**
At 31 March 2003	**390.3**	**448.6**	**97.0**	**105.9**	**1,041.8**
Depreciation					
At 1 April 2002	168.2	247.5	41.3	–	**457.0**
Charge for the year	12.7	43.2	9.4	–	**65.3**
Transfers to subsidiaries	(0.2)	(16.2)	–	–	**(16.4)**
Elimination in respect of disposals	(6.0)	(9.1)	(3.2)	–	**(18.3)**
At 31 March 2003	**174.7**	**265.4**	**47.5**	**–**	**487.6**
Net book value					
At 31 March 2003	**215.6**	**183.2**	**49.5**	**105.9**	**554.2**
At 31 March 2002	231.8	181.9	52.0	55.1	520.8

11b UK Public Service Broadcasting *continued*

Included within plant and machinery are £6.7million (2002 £19.8million) of assets held under finance leases with another Group company.

The increase in assets under construction relates to the property investment programme currently under way (see Financial review pages 82 to 84).

11c Land and buildings at net book value comprise:

	Group 2003 £m	Group 2002 £m	**UK Public Service Broadcasting 2003 £m**	UK Public Service Broadcasting 2002 £m
Freeholds	**208.9**	226.0	**193.4**	210.1
Long leaseholds	**9.9**	9.9	**9.9**	9.9
Short leaseholds	**27.3**	23.0	**12.3**	11.8
	246.1	258.9	**215.6**	231.8

There has been no impairment in the carrying values of freehold properties at the balance sheet date.

Land and buildings in the Group include freehold land at a cost of £35.0million (2002 £34.8million) and in the UK Public Service Broadcasting operations of £30.8million (2002 £30.6million), none of which is depreciated.

12 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2002	323.8
Exchange adjustment	(12.7)
Additions	86.7
Financing benefit	(0.4)
Elimination of programmes fully amortised	(76.0)
At 31 March 2003	**321.4**
Amortisation	
At 1 April 2002	212.0
Exchange adjustment	(11.3)
Charge for the year	88.4
Elimination of programmes fully amortised	(76.0)
At 31 March 2003	**213.1**
Net book value	
At 31 March 2003	**108.3**
At 31 March 2002	111.8

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £82.7million direct investment in BBC programmes (2002 £80.5million).

Included in the net book value is £4.5million (2002 £4.2million) relating to investments held under a licence agreement. The financing benefit relates to monies received for tax credits on investments in sale and leaseback programmes.

13 Other investments (including BBC World Service net assets)

13a Movements in the year for the Group

	Interests in joint ventures (Note 13d) £m	Interests in associates (Note 13e) £m	Other investments £m	Total Group £m
At 1 April 2002	11.5	4.9	0.4	16.8
Additions	1.2	–	–	1.2
Disposals	–	(0.2)	–	(0.2)
Exchange adjustment	–	0.2	–	0.2
Provision against investments	–	(0.4)	(0.4)	(0.8)
Share of retained profits/(losses)	5.2	(24.8)	–	(19.6)
Dividend received	–	(1.3)	–	(1.3)
Adjustment to reflect effective obligations	(4.8)	26.3	–	21.5
At 31 March 2003	**13.1**	**4.7**	**–**	**17.8**

13b Movements in the year for UK Public Service Broadcasting

	Interest in BBC World Service net assets £m	Shares in subsidiaries £m	Interests in joint ventures £m	Other investments £m	Total £m
At 1 April 2002	134.3	155.3	9.2	0.4	299.2
Accumulated surplus	8.5	–	–	–	8.5
Additions	–	83.3	1.0	–	84.3
Disposals	–	(73.3)	–	(0.4)	(73.7)
At 31 March 2003	**142.8**	**165.3**	**10.2**	**–**	**318.3**

Additions to shares in subsidiaries include 10,000,000 ordinary shares issued at £1 each on 2 April 2002 to enable BBC Broadcast to finance the acquisition of the business from the BBC.

Disposals in shares in subsidiaries relates to the transfer of investments in BBC Technology of £63.0million, BBC Broadcast of £10.0million, and BBC Worldwide of £0.3million to the BBC Commercial Holdings Group. In consideration BBC Commercial Holdings issued 73,250,000 ordinary shares at £1 each which were fully subscribed for by UK Public Service Broadcasting.

Subsidiary undertakings are businesses the BBC controls.

13c Subsidiary undertakings

UK Public Service Broadcasting operation owns 100% of the issued share capital of the following companies which are incorporated in Great Britain:

BBC Commercial Holdings Limited
BBC Resources Limited
BBC Free To View Limited
BBC News Limited
BBC Property Limited
BBC Property Investments Limited
BBC Property Development Limited (dormant)
Centre House Productions Limited
BBC Digital Programme Services Limited
BBC Subscription Television Limited (dormant)
BBC Investments Limited (dormant)

13c Subsidiary undertakings *continued*

The Group also holds the controlling interest in the following principal subsidiary undertakings which are held by BBC World Service which owns 100% of the issued share capital:

Held by BBC World Service:
BBC East Asia Relay Company Limited (incorporated in Hong Kong)
BBC Radiocom (Bulgaria) EOOD (incorporated in Bulgaria)
BBC Radiocom (Hungary) KFT (incorporated in Hungary)
BBC Radiocom (Praha) s.r.o. (incorporated in the Czech Republic)
BBC Radiocom (Slovakia) s.r.o. (incorporated in the Slovak Republic)
BBC Romania SRL (incorporated in Romania)
BBC Polska Sp. z.o.o. (incorporated in Poland)
BBC do Brazil Limitada (incorporated in Brazil)
BBC Radiocom Deutschland GmbH (incorporated in Germany)
BBC Croatia d.o.o. (incorporated in Croatia)
BBC World Service Trust*

** The BBC World Service Trust is a charitable company limited by guarantee, of which the BBC is the sole member*

The Group also holds the controlling interest in the following subsidiaries, which unless otherwise stated are incorporated in Great Britain:

	Holding of ordinary shares %
Held by BBC Commercial Holdings Limited:	
BBC Worldwide Limited	100
BBC World Limited	100
BBC Ventures Group Limited	100
Held by BBC Ventures Group Limited:	
BBC Technology Holdings Limited	100
BBC Broadcast Limited	100
Held by BBC Technology Holdings Limited:	
BBC Technology Limited	100
BBC Technology Services Limited	100
BBC Technology Supply Limited	100
Kingswood Warren Ventures Limited (renamed BBC Vecta Limited in May 2003)	100
BBC Technology Holdings LLC (incorporated in the USA)	100
BBC Technology Consultancy LLC (incorporated in the USA)	100
Held by BBC Worldwide Limited:	
Publishing	
BBC Magazines Inc. (incorporated in the USA)	100
Galleon Limited	100
Broadcasting Dataservices Limited	75
Cover to Cover Cassettes Limited	100
BBC Audiobooks Limited (formerly Chivers Press Limited)	100
Programme distribution	
BBC Worldwide Americas Inc. (incorporated in the USA)	100
BBC Worldwide Music Limited	100
UK Programme Distribution Limited	95
BBC Worldwide Japan KK Limited (incorporated in Japan)	100
BBC Worldwide France SARL (incorporated in France)	100
BBC Worldwide Germany GmbH (incorporated in Germany)	100
BBC Worldwide Canada Limited (incorporated in Canada)	100
Channels	
New Video Channel America LLC (incorporated in the USA)	100
European Channel Broadcasting Limited	100
European Channel Management Limited	100

13c Subsidiary undertakings *continued*

	Holding of ordinary shares %
Investment companies	
Worldwide Americas Investments Inc. (incorporated in the USA)	100
BBC Worldwide Investments Limited	100
BBC World Service Television Limited	100
Worldwide Channel Investments Limited	100
Worldwide Channel Investments (Europe) Limited	100
Worldwide Channel Investments (Ontario) Limited (incorporated in Canada)	100
Internet	
beeb Ventures Limited	86.9
Held by BBC World Limited:	
BBC World Distribution Limited	100
Satellite News Corporation Limited (incorporated in Japan and renamed BBC World Distribution Japan Limited in April 2003)	100
BBC World (Singapore) Private Limited (incorporated in Singapore)	100
BBC World (Australia) Pty Limited (incorporated in Australia)	100
BBC Worldwide (India) Private Limited (incorporated in India)*	75

** BBC Worldwide Limited holds the remaining 25% interest in the ordinary shares of this company*

Joint ventures are businesses the BBC jointly controls with other parties.

13d Interests in joint ventures

The Group has a 50% equity interest in the following joint ventures which are all incorporated in the UK, unless otherwise stated:

Name of entity	Activity	Partner	Accounting date
UK Channel Management Limited	Channels	Flextech	31 December 2002
UK Gold Holdings Limited	Channels	Flextech	31 December 2002
UKTV New Ventures Limited	Channels	Flextech	31 December 2002
UKTV Interactive Limited	Channels	Flextech	31 December 2002
JV Programmes LLC†	Channels	Discovery Communications Inc.	31 December 2002
BBC Haymarket Exhibitions Limited	Publishing	Haymarket Exhibitions Limited	31 December 2002
Insight Property Partnership	Property	Land Securities Trillium Limited	31 March 2003
DTV Services Limited*	Marketing	Crown Castle UK Limited, British Sky Broadcasting Limited	Six months to 31 March 2003

† Incorporated in the USA

** 33% equity interest*

During the year the BBC entered into a new joint venture, DTV Services Limited, to provide marketing services for digital channels on a terrestrial platform in the UK. The BBC set up a subsidiary, BBC Free to View Limited (see Note 13c), to hold the BBC's digital terrestrial multiplex licence and its equity interest in the joint venture to ensure the costs of this joint venture are managed separately from licence fee funded activities.

For a number of years the BBC, through its subsidiary BBC Worldwide, has had major partnership deals with Flextech, the content division of Telewest Communications plc, for the production and marketing of subscription channels in the UK and with Discovery Communications Inc. for incorporating new channels around the world and providing new co-production funding for programmes. These alliances operate the joint ventures listed above.

The Group share of turnover for the Haymarket joint venture was £4.2million (2002 £6.4million) and its operating surplus share was £0.7million (2002 £0.3 million).

The joint venture with Land Securities Trillium Limited provides a range of property and development services to the BBC. Related joint ventures and associate companies have been set up to develop particular BBC properties.

The following disclosures represent the Group's equity shares of the assets and liabilities of its joint ventures based on the results for the latest accounting periods as shown above.

13d Interests in joint ventures *continued*

BBC Group share of:	UK Gold Holdings Limited* £m	UK Channel Management Limited* £m	Other joint ventures* £m	**Total joint ventures £m**
2003				
Turnover	31.7	28.6	19.7	**80.0**
Profit/(loss) before tax	9.5	0.3	(1.0)	**8.8**
Taxation	(2.7)	–	(0.9)	**(3.6)**
Profit/(loss) after tax	**6.8**	**0.3**	**(1.9)**	**5.2**
Fixed assets	–	–	2.3	**2.3**
Goodwill	–	–	10.2	**10.2**
Current assets	14.3	27.6	19.4	**61.3**
Liabilities less than one year	(10.3)	(3.5)	(13.0)	**(26.8)**
Liabilities more than one year	(38.5)	(46.8)	(11.5)	**(96.8)**
Adjustment to reflect effective obligations	34.5	22.7	5.7	**62.9**
Net book value	**–**	**–**	**13.1**	**13.1**
2002				
Turnover	34.8	28.4	18.4	**81.6**
Profit/(loss) before tax	13.2	(3.0)	(1.9)	**8.3**
Taxation	(3.4)	–	(0.2)	**(3.6)**
Profit/(loss) after tax	9.8	(3.0)	(2.1)	**4.7**
Fixed assets	–	0.1	2.2	**2.3**
Goodwill	–	–	9.2	**9.2**
Current assets	14.2	14.0	19.6	**47.8**
Liabilities less than one year	(9.4)	(7.1)	(11.6)	**(28.1)**
Liabilities more than one year	(46.0)	(44.6)	(11.6)	**(102.2)**
Adjustment to reflect effective obligations	41.2	37.6	3.7	**82.5**
Net book value	–	–	11.5	**11.5**

** The figures for 2003 are based on unaudited financial statements (2002 unaudited)*

Under the terms of the agreement with Flextech and Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2003 (2002 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation.

Associates are businesses over which the BBC exerts significant influence but does not have overall control.

13e Interests in associates

The Group holds significant interests in the following principal associates which, except where otherwise stated, are incorporated in Great Britain:

	Holding of issued ordinary shares %
Held by UK Public Service Broadcasting:	
Parliamentary Broadcasting Unit Limited	33
Broadcasters Audience Research Board Limited	*
The Commonwealth Broadcasting Association	*
Radio Joint Audience Research Limited (RAJAR)	50
Held by BBC World Service:	
Caribbean Relay Company Limited (incorporated in Antigua)	45
Multimedia Ventures Limited	50
WRG-FM SA (incorporated in Switzerland)	40
Held by BBC Worldwide Limited:	
Publishing	
Frontline Limited	23
Channels	
UKTV Pty Limited (incorporated in Australia)	20
Animal Planet (Latin America) LLC (incorporated in the USA)†	50
People and Arts (Latin America) LLC (incorporated in the USA)†	50
Animal Planet LLC (incorporated in the USA)†	20
JV Network LLC (incorporated in the USA)†	50
Animal Planet (Asia) LLC (incorporated in the USA)†	50
The Animal Planet Europe Partnership†	50
Animal Planet Japan KK (incorporated in Japan)†	33
Animal Planet Japan LLP (incorporated in the USA)†	50
Jasper Broadcasting Inc. (incorporated in Canada)	20
Jasper Junior Broadcasting Inc. (incorporated in Canada)	20
Animal Planet Canada Company ULC (incorporated in Canada)†	23
Held by BBC Resources Limited:	
3sixtymedia Limited	10
Held by BBC Property Limited:	
White City Development Partnership	**

** Broadcasters Audience Research Board Limited and The Commonwealth Broadcasting Association are companies limited by guarantee, of which the BBC is a joint member with other broadcasters*

† Discovery associate

*** 50% partnership share*

13e Interests in associates *continued*

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2002 and the remaining associates' disclosures are based on the results at the date of their individual financial statements. These additional disclosures represent the Group's equity share of assets and liabilities of those entities.

BBC Group interests in associates	**2003 £m**	2002 £m
Share of turnover	**37.5**	39.1
Share of fixed assets	**51.0**	61.4
Share of current assets	**14.7**	23.9
Share of liabilities due within one year	**(16.4)**	(22.3)
Share of liabilities due after more than one year	**(114.5)**	(104.9)
Adjustment to reflect effective obligation	**69.9**	46.8
Net interests in associates	**4.7**	4.9

The results include the Group share of the operating profit of UKTV Pty Limited of £0.2million (2002 £0.1million) and Frontline Limited of £2.0million (2002 £1.0million). Both are accounted for separately from the Discovery associates. The Group's share of the remaining associates, including Jasper Broadcasting Inc. and Jasper Junior Broadcasting Inc., operated in partnership with Alliance Atlantis, was £nil (2002 £nil).

Under the terms of the agreements with Discovery and Alliance Atlantis, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2003 (2002 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation, with the exception of JV Network LLC. JV Network LLC was formed for the purpose of providing debt funding from Discovery to the other Discovery joint ventures and BBC Worldwide is not entitled to any profits arising within this entity.

14 Stocks

	Group 2003 £m	Group 2002 £m	**UK Public Service Broadcasting 2003 £m**	UK Public Service Broadcasting 2002 £m
Raw materials	**4.2**	2.4	**–**	–
Work in progress				
– originated programmes	**245.2**	254.5	**245.1**	254.5
– other	**7.3**	6.6	**–**	0.1
Finished programmes				
– acquired programmes and films	**97.2**	89.0	**97.2**	89.0
– originated programmes	**94.9**	80.7	**94.9**	80.7
Other	**20.1**	16.2	**0.5**	1.0
Total	**468.9**	449.4	**437.7**	425.3

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

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

	Operating reserve excluding pension reserve £m	Pension reserve £m	Total operating reserve £m	Capital reserve £m	Revaluation reserve £m	**Total £m**
Group						
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.

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%.

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:

2003	Overdraft £m	Bank loans £m	Unsecured loan notes £m	Finance leases £m	Trade creditors £m	**Total 2003 £m**
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:

2003	Overdraft £m	Finance leases £m	Trade creditors £m	Intercompany creditors £m	**Total 2003 £m**
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:

				Fixed rate liabilities		
	Total £m	Financial liabilities on which no interest is paid £m	Floating rate financial liabilities £m	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.

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

FINANCIAL STATEMENTS OF THE BBC
FOR THE YEAR ENDED 31 MARCH 2004

Financial statements

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	2004 £m	2003 £m
Group income	1	**3,705.9**	3,532.0
Operating expenditure	2	**(4,001.6)**	(3,938.6)
Group operating deficit		**(295.7)**	(406.6)
Share of operating surplus of associates and joint ventures		**2.0**	2.9
Operating deficit	3	**(293.7)**	(403.7)
Loss on sale and termination of operations	5	**–**	(0.4)
Profit/(loss) on disposal of fixed assets	6	**41.8**	(14.3)
Deficit before interest and taxation		**(251.9)**	(418.4)
Net interest (payable)/receivable and other similar items	7	**(3.1)**	5.1
Other finance income (from defined benefit pension scheme)	8c	**21.0**	114.3
Deficit before taxation and minority interest		**(234.0)**	(299.0)
Taxation	9	**(15.2)**	(15.7)
Minority interest		**0.3**	0.1
Deficit for the financial year	19	**(248.9)**	(314.6)

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.

There is no difference between the results as disclosed above and the results on a historical cost basis.

Balance sheets

at 31 March

	Note	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Fixed assets					
Intangible fixed assets	10	**19.9**	15.7	**–**	–
Tangible fixed assets	12	**791.5**	802.9	**519.0**	554.2
Investment in programmes for future sale	13	**107.5**	108.3	**–**	–
Other investments	14	**16.1**	17.8	**286.6**	318.3
		935.0	944.7	**805.6**	872.5
Current assets					
Stocks	15	**433.0**	468.9	**400.4**	437.7
Long-term debtors	16	**142.0**	158.6	**118.1**	131.8
Current debtors	16	**672.7**	605.5	**537.7**	487.3
Total debtors		**814.7**	764.1	**655.8**	619.1
Short-term investments	21	**12.6**	64.9	**12.6**	32.9
Cash at bank and in hand	21	**39.3**	69.5	**8.2**	7.9
		1,299.6	1,367.4	**1,077.0**	1,097.6
Creditors – amounts falling due within one year	17b	**(891.6)**	(920.5)	**(792.0)**	(782.9)
Net current assets		**408.0**	446.9	**285.0**	314.7
Total assets less current liabilities		**1,343.0**	1,391.6	**1,090.6**	1,187.2
Creditors – amounts falling due after more than one year	17c	**(216.3)**	(159.4)	**(39.3)**	(56.2)
Provisions for liabilities and charges	18	**(77.5)**	(72.0)	**(64.7)**	(64.3)
Net assets excluding pension liability		**1,049.2**	1,160.2	**986.6**	1,066.7
Pension liability	8c	**(436.3)**	(1,074.5)	**–**	–
Net assets		**612.9**	85.7	**986.6**	1,066.7
Represented by					
Operating reserve excluding pension liability	19	**255.4**	296.0	**193.0**	203.0
Pension reserve	19	**(436.3)**	(1,074.5)	**–**	–
Operating reserve		**(180.9)**	(778.5)	**193.0**	203.0
Capital reserve	19	**788.8**	858.1	**788.8**	858.1
Revaluation reserve	19	**4.8**	5.6	**4.8**	5.6
		612.7	85.2	**986.6**	1,066.7
Minority interest		**0.2**	0.5	**–**	–
		612.9	85.7	**986.6**	1,066.7

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 2004 amounted to £57.6million (2003 £62.9million). These liabilities have not been included in the financial statements (see Note 14d).

The financial statements were approved by the Board of Governors and Executive Committee on 17 June 2004 and signed on their behalf by:

Michael Grade *Chairman*
Mark Byford *Acting Director-General*
John Smith *Director of Finance, Property & Business Affairs*

Consolidated cash flow statement

for the year ended 31 March

Reconciliation of Group operating deficit to net cash flow from operating activities

	2004 £m	2003 £m
Group operating deficit	**(295.7)**	(406.6)
Depreciation and amortisation	**229.0**	230.2
Pension schemes operating costs (non-cash)	**161.3**	136.5
Loss on disposal of tangible fixed assets	**2.4**	4.5
Decrease/(increase) in stocks	**35.9**	(19.5)
(Increase)/decrease in debtors	**(50.6)**	37.3
Decrease in creditors	**(17.2)**	(36.0)
Increase/(decrease) in provisions	**5.5**	(14.7)
Net cash inflow/(outflow) from operating activities	**70.6**	(68.3)

Cash flow statement

	Note	2004 £m	2003 £m
Net cash inflow/(outflow) from operating activities		**70.6**	(68.3)
Dividends received from joint ventures and associates		**1.3**	1.3
Return on investments and servicing of finance			
Interest received		**5.0**	11.5
Interest paid		**(7.5)**	(2.0)
Interest paid on finance leases		**(0.3)**	(0.2)
Net cash (outflow)/inflow from return on investments and servicing of finance		**(2.8)**	9.3
Taxation			
Taxation paid		**(9.7)**	(12.9)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		**(243.9)**	(179.9)
Investment in programmes for future sale		**(90.6)**	(85.5)
Investment in intangible fixed assets		**(0.6)**	(2.7)
Decrease in loan to associate undertaking		**0.2**	–
Capital repayment from joint ventures		**1.0**	–
Proceeds from the sale of investment in programmes		**–**	0.4
Proceeds from the sale of tangible fixed assets		**143.8**	5.4
Net cash outflow from capital expenditure and financial investments		**(190.1)**	(262.3)
Acquisitions and disposals			
Purchase of a subsidiary		**(9.9)**	–
Cash acquired with subsidiary		**0.6**	–
Investments in joint ventures		**–**	(1.2)
Proceeds from sale of operations		**–**	3.2
Proceeds from disposal of interests in joint ventures and associates		**–**	0.1
Net cash (outflow)/inflow from acquisitions and disposals		**(9.3)**	2.1
Net cash outflow before use of liquid resources and financing		**(140.0)**	(330.8)
Management of liquid resources			
Sale of other liquid resources	20, 21	**52.3**	291.9
Net cash inflow from management of liquid resources		**52.3**	291.9
Financing			
Increase in loans		**135.0**	85.0
Repayment of loans		**(42.6)**	(25.9)
Repayment of finance leases	21	**(1.8)**	(21.2)
Repayment of loan notes	21	**(0.6)**	(0.5)
Net cash inflow from financing		**90.0**	37.4
Increase/(decrease) in cash in the year	20, 21	**2.3**	(1.5)

Financial statements
Consolidated statement of total recognised gains and losses
for the year ended 31 March

	Note	2004 £m	2003 £m
Group deficit for the financial year		**(248.9)**	(314.6)
Exchange differences on retranslation of overseas subsidiaries		**(2.1)**	(3.1)
Actuarial gain/(loss) on defined benefit pension schemes	8c	**778.5**	(2,013.4)
Total recognised gains and losses relating to the year		**527.5**	(2,331.1)

Reconciliations of movement in reserves
for the year ended 31 March

	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Deficit for the financial year	**(248.9)**	(314.6)	**(80.1)**	(303.4)
Other recognised gains and losses relating to the year (net)	**776.4**	(2,016.5)	**–**	–
Increase/(decrease) in reserves during the year	**527.5**	(2,331.1)	**(80.1)**	(303.4)
Opening reserves	**85.2**	2,416.3	**1,066.7**	1,370.1
Closing reserves	**612.7**	85.2	**986.6**	1,066.7

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 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 Financial Services Authority Listing Rules 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 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 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, as if it were a company.

These accounts of the 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 of 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 is recognised when receivable from the Department for Culture, Media and Sport. This 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 is primarily derived from a Grant-in-Aid which is recognised when received from the Foreign and Commonwealth Office. It 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 future losses 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 delivery of rights or the start of the licence period, whichever is the later

- *Programme distribution and channel income* – recognised on provision of service

- *Sale of promotional merchandise* – recognised on delivery or provision of service

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial, UK Public Service Broadcasting or BBC World Service activities. More information on these BBC fair trading requirements and policies can be found on pages 82 to 85 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 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 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 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.

Other intangibles

Other intangibles are capitalised and amortised on a straight line basis over the expected useful life of the assets.

Tangible fixed assets

Expenditure on fixed assets is capitalised together with incremental and internal direct labour costs incurred on capital projects.

Depreciation is calculated so as to write off the cost or valuation, less estimated residual value, of fixed assets on a straight line basis over their expected useful lives. Depreciation commences from the date an asset is brought into service.

The BBC's useful lives for depreciation purposes for the principal categories of assets are:

Land and buildings	
Freehold land	– not depreciated
Freehold and long-leasehold buildings	– fifty years
Short-leasehold land and buildings	– unexpired lease term
Plant and machinery	
Computer equipment	– three to five years
Electrical and mechanical infrastructure	– ten to twenty-five years
Other	– three to ten years
Furniture and fittings	– three to ten years

UK Public Service Broadcasting's plant and machinery is stated at the estimated current replacement cost of the assets, as at 31 March 1993, adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

BBC World Service's plant and machinery and furniture and fittings are stated at the estimated current replacement cost of the assets, as at 1 April 1996, as adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

There is no material difference between the net book value of these tangible fixed assets and their value as determined on a historical cost basis.

The BBC has revalued its tangible assets once, when the internal market was introduced, but has chosen not to revalue them 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 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.

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 (less the investment in BBC World Service) and BBC World Service at historic cost less its dilapidations provision.

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.

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 is separately funded from the UK Public Services Broadcasting Group. It comprises broadcasting and media monitoring activities.

Commercial Businesses comprise businesses which generate external income from exploitation of the BBC's programmes, other assets and skill base.

1 Analysis of income, (deficit)/surplus and net assets

1a 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**
2004					
Total income		2,940.0	243.7	1,150.5	**4,334.2**
Less: Intra-Group income		(121.5)	(0.6)	(417.6)	**(539.7)**
Less: Share of joint ventures		(1.3)	–	(87.3)	**(88.6)**
Group external income	1b,d,g	2,817.2	243.1	645.6	**3,705.9**
(Deficit)/surplus before interest and taxation	1e,h	(136.0)	9.2	36.2	**(90.6)**
Defined benefit pension scheme					
– additional operating costs*†					**(161.3)**
– other finance income*					**21.0**
Net interest payable					**(3.1)**
Deficit before taxation and minority interest					**(234.0)**
Net assets (excluding pension liability)	1f,h	710.3	152.5	186.4	**1,049.2**
Pension liability*†					**(436.3)**
Net assets					**612.9**
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	1b,d,g	2,681.2	223.7	627.1	3,532.0
(Deficit)/surplus before interest and taxation	1e,h	(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)	1f,h	771.6	142.8	245.8	1,160.2
Pension liability*†					(1,074.5)
Net assets					85.7

* As permitted by FRS 17 these items are not split between business classes because they are managed centrally across the 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.

1b UK Public Service Broadcasting 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.

Licence fee income	2004 £m	2003 £m
Colour	**2,364.2**	2,271.3
Monochrome	**2.5**	2.8
Concessionary	**0.9**	0.9
Over 75s	**407.8**	370.9
Quarterly payment scheme premium	**15.7**	15.9
Other licence fee income and adjustments	**7.0**	(3.3)
Total licence fee income	**2,798.1**	2,658.5
Open University	**–**	0.1
Other income	**19.1**	22.6
Total external income	**2,817.2**	2,681.2

During the year 3.1 million (2003 3.2 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2003 £5).

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.

Licences in force are those which are still valid as at 31 March each year.

Licences in force	2004 Number m	2003 Number m
Colour	**20.4**	20.1
Monochrome	**0.1**	0.1
Over 75s	**3.8**	3.7
Concessionary	**0.2**	0.2
	24.5	24.1

Licence fees are set by the Department for Culture, Media and Sport.

Licence fees	2004 £	2003 £
Colour	**116.00**	112.00
Monochrome	**38.50**	37.50
Concessionary	**5.00**	5.00

From 1 April 2004 the colour and monochrome licence fees were increased to £121.00 and £40.50 respectively. The concessionary licence remained at £5.

1c Geographical analysis of UK Public Service Broadcasting Group

UK Public Service Broadcasting Group income and deficit arise in the UK. The net assets used by these operations are located in the UK.

1d 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.

	2004 £m	2003 £m
Grant-in-Aid	**220.1**	201.0
Subscriptions	**16.7**	16.1
Other income	**6.3**	6.6
Total external income	**243.1**	223.7

1e BBC World Service surplus before interest and taxation by activity

	2004 £m	2003 £m
Broadcasting	**9.7**	6.5
BBC Monitoring	**(0.5)**	1.4
Total surplus before interest and taxation	**9.2**	7.9

1f Geographical analysis of BBC World Service

BBC World Service income, operating expenditure and surplus arises primarily in the UK.

Location of BBC World Service net assets	**2004 £m**	2003 £m
UK	**59.0**	56.1
Overseas	**93.5**	86.7
Net assets	**152.5**	142.8

1g Analysis of Commercial Businesses' income by activity

	2004 £m	2003 £m
Publishing and new media	**341.2**	338.0
Programme distribution	**175.3**	168.8
Channels	**78.7**	79.0
Provision of playout and channel management services	**108.8**	98.3
Provision of programme making facilities and services	**128.0**	157.7
Provision of technology services	**231.2**	222.1
beeb Ventures Limited	**–**	0.6
Less intra-Group income	**(417.6)**	(437.4)
Total external income	**645.6**	627.1

1h Geographical analysis of Commercial Businesses

This table shows where the customers of BBC Commercial Businesses are based.

	United Kingdom £m	Americas £m	Rest of the world £m	**Total £m**
2004				
External income by destination	**375.2**	**121.9**	**148.5**	**645.6**
Surplus/(deficit) before interest and taxation	**20.0**	**2.0**	**14.2**	**36.2**
Net assets	**151.8**	**33.9**	**0.7**	**186.4**
2003				
External 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

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 2004 £m**	Total 2003 £m
UK Public Service Broadcasting Group	2b	**2,993.6**	2,999.4
BBC World Service*	2c	**233.9**	215.8
Commercial Businesses	2d	**612.8**	586.9
Non-cash pension scheme operating costs**		**161.3**	136.5
		4,001.6	3,938.6

* BBC World Service expenditure of £233.9million (2003 £215.8million) excludes £0.6million (2003 £0.5million) 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.

2b UK Public Service Broadcasting Group expenditure

	Note	2004 £m	2003* £m
Analogue services			
BBC One	(i)	**812.3**	859.4
BBC Two	(i)	**365.2**	372.2
National and regional television		**212.3**	209.9
National, regional and local radio		**133.4**	130.0
BBC Radio 1		**17.6**	17.1
BBC Radio 2		**21.7**	21.5
BBC Radio 3		**32.1**	32.8
BBC Radio 4		**69.9**	70.5
BBC Radio Five Live		**51.5**	53.8
		1,716.0	1,767.2
Digital services			
The CBBC Channel, CBeebies		**46.2**	44.7
BBC Three (formerly BBC Choice)	(ii)	**99.4**	75.3
BBC Four	(iii)	**35.2**	41.0
BBC News 24		**23.5**	23.8
BBC Parliament		**2.5**	2.7
Interactive television (BBCi)	(iv)	**15.3**	9.5
1Xtra	(v)	**5.1**	4.0
BBC Five Live Sports Extra		**1.7**	1.7
BBC 6 Music		**4.1**	4.0
BBC 7	(v)	**4.3**	2.8
BBC Asian Network		**4.1**	3.0
bbc.co.uk	(iv)	**66.7**	75.0
Digital Curriculum		**4.1**	5.2
		312.2	292.7
Transmitted programme spend		**2,028.2**	2,059.9
Programme related spend			
Newsgathering		**92.5**	94.2
Collecting societies		**54.4**	52.0
Orchestras and performing groups		**18.3**	16.1
Marketing, press and publicity	(vi)	**53.3**	63.5
On-air trails		**23.1**	25.5
Market research and audience services		**14.4**	12.7
Libraries, helplines, development and one-off events		**80.8**	78.6
		336.8	342.6
Total programme spend		**2,365.0**	2,402.5
Overheads	(vii)	**325.8**	321.8
Total output spend		**2,690.8**	2,724.3
Percentage of output spend on programmes		**88%**	88%
Licence fee collection costs		**150.8**	146.4
Transmission costs	(viii)	**152.0**	141.7
		302.8	288.1
Total broadcasting expenditure**		**2,993.6**	3,012.4

* In 2003 £24.2million was misallocated to overheads. The 2003 figures have been reanalysed and the percentage of output spend on programmes has been adjusted accordingly.

** Total broadcasting expenditure in 2003 includes an exceptional loss on disposal of fixed assets within overheads of £13.0million.

(i) Spend on BBC One and BBC Two was higher in 2003 due to coverage of major sporting events such as the Football World Cup and the Commonwealth Games.

(ii) Increased costs were incurred by BBC Three in 2004, representing the first full year of service following its launch in February 2003.

(iii) BBC Four incurred costs in 2003 associated with the launch of the channel in March 2002.

(iv) Reduced costs of bbc.co.uk in 2004 reflect the BBC New Media strategy of diverting spend from online to interactive television services (BBCi).

(v) 1Xtra was launched in August 2002 and BBC 7 was launched in December 2002. Increased costs in 2004 reflect the first full year of service for both channels.

(vi) Marketing spend was higher in 2003 to support the launch of digital channels and Freeview.

(vii) Overheads include the central costs of accommodation, technology, finance and human resources. Within 2004 overheads is £14.9million of costs incurred due to early completion of a technology upgrade. These costs were originally planned over the next two financial years.

(viii) Of the transmission costs, £75.1million relate to analogue services (2003 £73.2million) and £76.9million to digital services (2003 £68.5million).

BBC World Service expenditure excludes expenditure on intra-Group activities.

2c BBC World Service expenditure

	2004 £m	2003* £m
Radio	**153.9**	142.7
Monitoring	**25.3**	22.4
Transmission and distribution costs	**41.7**	40.3
Internet activity	**13.0**	10.4
Total	**233.9**	215.8

*2003 costs have been restated to reclassify distribution costs from radio to transmission and distribution costs.

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	**2004 £m**	2003 £m
Cost of sales		**342.6**	314.8
Distribution costs		**131.3**	133.4
Administrative and other costs		**49.4**	50.3
Amortisation of programme investment	13	**89.5**	88.4
		612.8	586.9

3 Operating deficit

The operating deficit is stated after charging the following items:

	2004 £m	2003 £m
Payments under operating leases		
– land and buildings	**43.6**	28.8
– plant and machinery	**9.8**	6.5
– other	**9.5**	14.0
Research and development	**20.9**	17.0
Programme development	**29.7**	30.6
Depreciation		
– owned assets	**125.5**	126.5
– leased assets	**5.2**	10.8
Loss on disposal of tangible fixed assets	**2.4**	4.5
Fixed asset impairment	**2.9**	–
Amortisation of investment in programmes for future sale	**89.5**	88.4
Amortisation of intangible fixed assets	**5.1**	4.5
Intangible fixed asset impairment	**0.8**	–
Auditors' remuneration (KPMG LLP)		
– financial audit – UK Public Service Broadcasting	**0.6**	0.6
– other	**0.5**	0.5
– further assurance services	**0.6**	0.6
– tax advisory services	**0.3**	0.2
– other non-audit services	**0.3**	0.3
Fair trading auditors' remuneration (PricewaterhouseCoopers LLP)	**0.3**	0.3

In addition to the £0.6million (2003 £0.6million) of further assurance services charged to the income and expenditure statement, a further £0.2million (2003 £nil) was paid to the auditors for due diligence services. Such costs are included within the cost of the related investment.

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2004 Number	2003 Number
UK Public Service Broadcasting	**19,579**	19,206
BBC World Service	**2,224**	2,057
Commercial Businesses	**5,829**	5,885
Group total	**27,632**	27,148

Within the averages above, 3,027 (2003 2,628) part-time employees have been included at their full-time equivalent of 1,470 (2003 1,324).

In addition to the above, the Group employed an average full-time equivalent of 857 (2003 1,117) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, numbered 384 (2003 385) full-time equivalents.

4b Staff costs

	Note	2004 £m	2003 £m
Salaries and wages		**1,030.3**	988.4
Social security costs		**95.0**	83.0
Pension costs			
– main scheme (defined benefit)	8c	**196.5**	169.7
– other schemes	8c	**1.7**	2.0
Redundancy costs		**22.5**	22.6
		1,346.0	1,265.7
Comprising:			
UK Public Service Broadcasting		**844.4**	804.2
BBC World Service		**79.6**	73.2
Commercial Businesses		**260.7**	251.8
Main pension scheme additional operating cost (defined benefit)*		**161.3**	136.5
		1,346.0	1,265.7

* 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 91 to 94 in the Governors' remuneration report.

5 Loss on sale and termination of operations

	2004 £m	2003 £m
beeb Ventures Limited termination cost	**–**	(1.5)
Wood Norton Hall and Conference Centre	**–**	1.1
	–	(0.4)

During the year ended 31 March 2003, BBC Worldwide restructured the beeb.com business. Certain beeb.com websites together with beeb.net have now been integrated into BBC Worldwide's core operations. Redundancy and other closure costs totalling £1.5million were 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 Profit/(loss) on disposal of fixed assets

	2004 £m	2003 £m
Profit/(loss) on disposal of tangible fixed assets	**41.8**	(14.3)

In July 2003, the Group granted a 150-year head lease on the Broadcasting House site to Daunus Limited (see Note 14d) and Morgan Stanley Gamma Investments, resulting in a profit of £40.4million. Daunus Limited will redevelop the site which the Group will lease back.

Preparatory work on the Broadcasting House site completed prior to the sale included work on Broadcasting House and the demolition of adjacent properties. The net book value of assets taken out of use, totalling £13.0million, was charged to the income and expenditure account in the prior year.

BBC Technology disposed of fixed assets under finance leases resulting in a profit of £1.4million. Prior year disposals by BBC Technology resulted in a loss of £1.3million.

7 Net interest (payable)/receivable and other similar items

	2004 £m	2003 £m
Interest receivable	**5.0**	7.5
Interest payable on bank and other loans	**(7.8)**	(2.0)
Finance charges payable in respect of finance leases	**(0.3)**	(0.4)
Net interest (payable)/receivable	**(3.1)**	5.1

8 Pensions

8a Group pension schemes

The Group operates several pension schemes. The BBC Pension Scheme (the BBC's most significant scheme) and a small unfunded 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. Note 8b describes the BBC Pension Scheme and Note 8c explains the numbers in the financial statements.

8b BBC Pension Scheme

The BBC Pension Scheme is the main pension scheme of the Group and covers the majority of employees. This scheme provides salary related benefits on a defined benefit basis funded from assets held in separate trustee-administered funds.

The maturity of a scheme provides an indication of the cash requirements of the scheme and the likely attitude of the trustees to risk within their investment policy.

8b i Scheme maturity profile

The number of active contributors exceeds the number of members receiving pensions:

	2004 Number	2003 Number	2002 Number
Contributors	**21,426**	20,361	18,578
Pensioners	**16,302**	16,116	15,866
Dependants	**3,555**	3,498	3,428
Deferred pensioners	**14,864**	14,531	14,267

8b ii Scheme external cash flows (day-to-day liquidity)

External cash inflows to the pension scheme continue to exceed its external cash outgoings each year and this is expected to remain the case for the foreseeable future.

	2004 £m	2003 £m	2002 £m
Contributions (employer and employee)	**90**	88	72
Investment income	**167**	194	198
External cash inflows	**257**	282	270
Payments of pensions and transfers out	**(220)**	(212)	(213)
Expenses	**(20)**	(15)	(18)
Net external cash inflow	**17**	55	39

An actuarial valuation assumes the scheme will continue for the foreseeable future and considers whether the expected returns on the scheme's assets exceed the future liabilities of the pension scheme, smoothing the short-term volatility brought about by market valuations of assets.

8b iii Ability to meet long-term commitments

The pension scheme trustees manage the scheme in the short-, medium- and long-term. They agree funding decisions based on valuations which take a longer-term view of the assets required to fund the scheme's liabilities (actuarial valuations).

The actuarial valuations of the scheme are performed by Watson Wyatt, consulting actuaries, using the projected unit method. The most recent formal actuarial valuation (April 2002) shows a surplus of £441million with assets sufficient to cover 109% of the benefits due to members. The 2003 and 2004 figures are from an interim update of this 2002 valuation.

Actuarial valuation	1 April 2004 £m	1 October 2003 £m	1 April 2003 £m	1 April 2002 £m
Scheme assets (Note 8b v)	**5,668**	5,591	5,496	5,392
Scheme liabilities (Note 8b vi)	**(5,525)**	(5,354)	(5,229)	(4,951)
Surplus	**143**	237	267	441
Percentage by which scheme assets cover scheme liabilities	**103%**	104%	105%	109%

8b iv Funding the scheme
The scheme has shown an actuarial surplus for many years which has allowed both the BBC and the members to pay contributions at a reduced rate (4.5%).

In 2003 it was agreed with the trustees that employer contributions will rise to 6.0% by 2006 with employee contributions rising to 6.0% by 2007. The position will be reviewed again in 2005 after a new formal actuarial valuation by Watson Wyatt is produced.

	Projections					
Contribution rates	2007 %	2006 %	2005 %	2004 %	2003 %	2002 %
Employer	6.0	6.0	5.5	5.0	4.5	4.5
Employee	6.0	5.5	5.0	4.5	4.5	4.5
Underlying cost of scheme to BBC as % of pensionable salaries*				19.5	20.4	21.0

* excludes the cost effectively paid for by the employee

8b v Scheme assets
The allocation of assets by the scheme trustees is governed by a need to manage risk against the desire for high returns and any liquidity needs. A high percentage of assets are held in equities which the trustees expect will produce higher returns in the long term. The target allocation, based on market values, for equities is 60%, bonds and gilts 30% and property 10%.

Where market values are higher than actuarial values it means the market is anticipating greater future investment returns than are being assumed in funding the scheme's liabilities.

	Long-term rate of return expected for	Market value		Actuarial value*	
Type of asset	**market value**	**£m**	**%**	**£m**	**%**
2004					
Equities	**7.9%**	**4,118**	**70**	**4,109**	**72**
Bonds and gilts	**4.8%**	**1,048**	**18**	**902**	**16**
Property	**6.3%**	**597**	**10**	**556**	**10**
Cash	**3.9%**	**117**	**2**	**101**	**2**
Total assets		**5,880**		**5,668**	
2003					
Equities	8.3%	3,032	62	3,778	69
Bonds and gilts	4.5%	1,021	21	853	16
Property	6.4%	620	13	632	11
Cash	4.0%	230	4	233	4
Total assets		4,903		5,496	
2002					
Equities	7.5%	4,421	71	3,784	70
Bonds and gilts	5.2%	908	15	827	15
Property	6.3%	606	10	532	10
Cash	4.7%	284	4	249	5
Total assets		6,219		5,392	

* The last formal actuarial valuation was undertaken in 2002. The 2003 and 2004 figures are from an interim update of this valuation

8b vi Scheme liabilities

The calculation of the scheme liabilities requires a number of assumptions, both demographic and financial, to be made. The key financial assumptions made by the actuaries were:

The discount rate used in the actuarial valuation of liabilities is that of the expected return on assets held by the scheme and is considered to be a prudent long-term average.

A higher discount rate means a lower value for the liabilities.

The discount rate for the market value is taken as the rate for an AA rated corporate bond.

Key financial assumptions	2004 %	2003 %	2002 %
Actuarial valuation			
Rate of increase in salaries	**4.5**	4.5	4.5
Rate of increase in pension payments	**2.5**	2.5	2.5
Inflation assumption	**2.5**	2.5	2.5
Discount rate for actuarial valuation	**6.25**	6.25	6.25
Market valuation			
Rate of increase in salaries	**4.7**	4.5	4.7
Rate of increase in pension payments	**2.7**	2.5	2.7
Inflation assumption	**2.7**	2.5	2.7
Discount rate for market valuation	**5.6**	5.4	6.0

Scheme liabilities at present value	2004 £m	2003 £m	2002 £m
Actuarial valuation	**5,525**	5,229	4,951
Market valuation	**6,312**	5,973	5,254

8b vii Scheme financial position

The actuarial valuation provides a long-term view and assumes the scheme will continue for the foreseeable future. The market valuation provides a snapshot position of the status of the scheme at that time.

	Market valuation			Actuarial valuation		
	Assets £m	Liabilities £m	Net position £m	Assets £m	Liabilities £m	Net position £m
2004	**5,880**	**(6,312)**	**(432)**	**5,668**	**(5,525)**	**143**
2003	4,903	(5,973)	(1,070)	5,496	(5,229)	267
2002	6,219	(5,254)	965	5,392	(4,951)	441
2001	6,479	(4,771)	1,708	5,341	(4,669)	672

A deferred tax asset or liability will not arise on the above market valuation for the Group because most of the Group's public service activity is not subject to taxation.

The current service cost is the underlying cost to the BBC of pension rights earned by employees during the year.

The past service cost arises from members of the scheme becoming entitled to improved defined retirement benefits, resulting in a charge for years of service before the award of the improvement.

The finance return comprises estimates based on predictions of future performance and economic conditions.

8c Pension charges and balances within financial statements

8c i Pension charges in income statement

	Defined benefit schemes: BBC Pension Scheme £m	Defined benefit schemes: Unfunded scheme £m	Defined contribution schemes £m	All schemes £m
2004				
Current service cost	(189.5)	(0.1)	(1.6)	(191.2)
Past service cost	(9.0)	–	–	(9.0)
Gain on settlements and curtailments	2.0	–	–	2.0
Operating cost	**(196.5)**	**(0.1)**	**(1.6)**	**(198.2)**
Expected return on pension scheme assets	338.4	–	n/a	338.4
Interest on pension scheme liabilities	(317.2)	(0.2)	n/a	(317.4)
Net finance income/(cost)	**21.2**	**(0.2)**	**–**	**21.0**
Net cost in income statement	**(175.3)**	**(0.3)**	**(1.6)**	**(177.2)**
2003				
Current service cost	(155.7)	(0.2)	(1.8)	(157.7)
Past service cost	(14.0)	–	–	(14.0)
Operating cost	(169.7)	(0.2)	(1.8)	(171.7)
Expected return on pension scheme assets	424.0	–	n/a	424.0
Interest on pension scheme liabilities	(309.4)	(0.3)	n/a	(309.7)
Net finance income/(cost)	114.6	(0.3)	–	114.3
Net cost in income statement	(55.1)	(0.5)	(1.8)	(57.4)

These gains and losses arise from actual performance being different from that predicted – for example changes in economic conditions or the demographic profile of BBC employees.

8c ii Pension costs in statement of total recognised gains and losses (STRGL)

	2004 £m	2003 £m
Actual return less expected return on pension scheme assets	**778.4**	(1,607.9)
Experience gains/(losses) arising on scheme liabilities	**0.1**	(12.4)
Changes in assumptions underlying present value of scheme liabilities	**–**	(393.1)
Net gain/(loss) recognised in STRGL	**778.5**	(2,013.4)

Only defined benefit schemes give rise to gains and losses in the STRGL.

The defined contribution schemes do not give rise to balance sheet pension assets/liabilities as there is no ongoing liability to the employer from these schemes once the contributions due for the year have been settled.

8c iii Movement in pension liability during year

	BBC Pension Scheme 2004 £m	**Unfunded scheme 2004 £m**	**Total 2004 £m**	BBC Pension Scheme 2003 £m	Unfunded scheme 2003 £m	Total 2003 £m
Net pension (liability)/asset at start of year	**(1,070.1)**	**(4.4)**	**(1,074.5)**	965.0	(3.9)	961.1
Contributions (from employer)	**35.3**	**n/a**	**35.3**	33.4	n/a	33.4
Operating charge for year	**(196.5)**	**(0.1)**	**(196.6)**	(169.7)	(0.2)	(169.9)
Net finance income/(cost)	**21.2**	**(0.2)**	**21.0**	114.6	(0.3)	114.3
Net gain/(loss) recognised in STRGL	**778.5**	**–**	**778.5**	(2,013.4)	–	(2,013.4)
Closing net pension liability	**(431.6)**	**(4.7)**	**(436.3)**	(1,070.1)	(4.4)	(1,074.5)

This note is designed to show trends over several years. Only four years are currently available since the adoption of FRS 17.

8c iv History of experience gains and losses

	2004	2003	2002	2001
Amount by which the expected return on scheme assets is (higher)/lower than the actual return:				
Amount (£million)	**778.4**	(1,607.9)	(532.0)	(950.9)
Percentage of scheme assets	**13.2%**	32.8%	8.6%	14.7%
Experience gains and (losses) on scheme liabilities:				
Amount (£million)	**0.1**	(12.4)	26.6	35.7
Percentage of present value of scheme liabilities	**0.0%**	0.2%	0.5%	0.7%
Total amount (gain/(loss)) recognised in STRGL:				
Amount (£million)	**778.5**	(2,013.4)	(725.4)	(708.2)
Percentage of present value of scheme liabilities	**12.3%**	33.7%	13.8%	14.8%

8d UK Public Service Broadcasting pension charge

UK Public Service Broadcasting has taken advantage of the provision 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 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 (see Note 8b vii). They are therefore lower than the regular cost.

9 Taxation

9a Analysis of charges for the period

The charge for the year, based on the rate of corporation tax of 30% (2003 30%) comprised:

	Note	**2004 £m**	2003 £m
Current tax			
UK corporation tax		**9.8**	17.7
Deduct: double tax relief		**(2.9)**	(3.5)
		6.9	14.2
Adjustments in respect of prior years		**(0.4)**	(3.0)
		6.5	11.2
Foreign tax		**9.2**	5.4
Share of associates tax		**0.5**	1.1
Total current tax	9b	**16.2**	17.7
Deferred tax			
Origination and reversal of timing differences		**(2.1)**	–
Adjustments in respect of previous years		**1.1**	(2.0)
Total deferred tax	9d	**(1.0)**	(2.0)
Total charge for the year		**15.2**	15.7

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	**2004 £m**	2003 £m
Deficit before tax		**(234.0)**	(299.0)
Deficit before tax multiplied by standard rate of corporation tax in the UK of 30% (2003 30%)		**(70.2)**	(89.7)
Effects of			
Public services taxable external income		**3.5**	5.7
Non-taxable deficit in Public Services		**37.0**	95.4
FRS 17 element of net Group pension charge		**42.1**	6.7
Commercial activities			
Non-taxable income		**(0.4)**	(0.4)
Disallowed expenditure		**1.1**	1.6
Depreciation less than capital allowances		**(0.5)**	–
Tax differential re overseas earnings		**4.5**	1.8
Other		**(0.5)**	(0.4)
Adjustments in respect of previous periods		**(0.4)**	(3.0)
Current tax charge for the year	9a	**16.2**	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 asset in the year	Note	**2004 £m**	2003 £m
Asset at start of year		**(1.5)**	–
Exchange adjustment		**0.6**	0.5
Deferred tax credit	9a	**(1.0)**	(2.0)
Deferred tax asset at end of year		**(1.9)**	(1.5)

Analysis of deferred tax asset at end of year		
Accelerated capital allowances	**5.7**	4.1
Other timing differences	**(0.1)**	–
US timing differences	**(7.5)**	(5.6)
	(1.9)	(1.5)

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.

In order to achieve consistency, accounting standards require the accounting policies of an acquired entity to be aligned with those of the Group at the date of acquisition.

10 Intangible fixed assets

	Goodwill £m	Other intangibles £m	**Total £m**
Cost			
At 1 April 2003	8.2	13.4	21.6
Additions	9.5	0.6	10.1
At 31 March 2004	**17.7**	**14.0**	**31.7**
Amortisation			
At 1 April 2003	0.8	5.1	5.9
Charge for the year	0.4	4.7	5.1
Impairment losses	–	0.8	0.8
At 31 March 2004	**1.2**	**10.6**	**11.8**
Net book value			
At 31 March 2004	**16.5**	**3.4**	**19.9**
At 31 March 2003	7.4	8.3	15.7

On 20 February 2004 BBC Worldwide acquired 100% of the share capital of Origin Publishing Limited and £9.5million of goodwill arose on the acquisition (see Note 11).

All goodwill is amortised on a straight line basis over 20 years reflecting the useful economic life, subject to reviews for impairment.

Included within other intangibles are software licences. An additional £0.2million was acquired during the year. These are amortised on a straight line basis over the life of the licence.

In July 2003, BBC Worldwide Americas Inc. acquired the Britannia Video and Gifts catalogue business and customer list of names and transactional histories for a cash consideration of £0.4million. This other intangible will be amortised on a straight line basis over five years.

11 Acquisitions

On 20 February 2004 BBC Worldwide acquired 100% of the share capital of Origin Publishing Limited for £10.2million. Goodwill arose in respect of this transaction as follows:

	Book value £m	Accounting policy alignment £m	Fair value £m
Tangible fixed assets	0.2	–	0.2
Net current assets (excluding cash)	0.1	(0.2)	(0.1)
Cash	0.6	–	0.6
	0.9	(0.2)	0.7
Goodwill			9.5
Total consideration			**10.2**

Satisfied by:	
Cash consideration	9.9
Deferred consideration – loan notes	0.3
Total consideration	**10.2**
The net outflow of cash in respect of the purchase of subsidiary undertakings is as follows:	
Cash consideration	9.9
Cash balance of subsidiary undertakings purchased	(0.6)
	9.3

Origin Publishing Limited contributed turnover of £1.5million and operating profit of £0.1million to the results for the year ended 31 March 2004. The company made a profit after taxation of £nil from the beginning of its financial year, 1 October 2003, to the date of acquisition. In its previous financial year the profit after taxation was £0.3million.

Other than an adjustment to reduce net assets by £0.2million in order to align Origin Publishing Limited's accounting policies with those of the Group, no difference has been recorded between the book value and the fair value of the assets acquired. However, due to the proximity of the acquisition to the year end, certain fair values may require revision during 2004.

Contingent consideration of up to £4.3million may be payable, based on the short-term financial performance of the acquired business in the period to 30 September 2006. Based on the applicable financial targets and the management's expectation of the short-term financial performance of the business during the period to 30 September 2006, no contingent consideration has been recognised in the calculation of goodwill at 31 March 2004.

12 Tangible fixed assets

12a 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 2003	454.6	980.7	126.1	145.1	**1,706.5**
Additions	12.3	67.6	23.9	138.6	**242.4**
Brought into service	4.5	45.9	2.6	(53.0)	**–**
Disposals	(39.6)	(92.7)	(26.4)	(47.7)	**(206.4)**
At 31 March 2004	**431.8**	**1,001.5**	**126.2**	**183.0**	**1,742.5**
Depreciation					
At 1 April 2003	208.5	624.7	70.4	–	**903.6**
Charge for the year	14.2	106.3	10.2	–	**130.7**
Impairments	–	–	–	2.9	**2.9**
Elimination in respect of disposals	(5.8)	(66.0)	(14.4)	–	**(86.2)**
At 31 March 2004	**216.9**	**665.0**	**66.2**	**2.9**	**951.0**
Net book value					
At 31 March 2004	**214.9**	**336.5**	**60.0**	**180.1**	**791.5**
At 31 March 2003	246.1	356.0	55.7	145.1	802.9

During the year, the Group disposed of all plant and machinery held under finance leases. As a result the net book value of assets held under finance leases at 31 March 2004 is £nil (2003 £16.4million).

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 £28million 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 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 2003	390.3	448.6	97.0	105.9	**1,041.8**
Additions	11.0	27.5	22.8	83.7	**145.0**
Brought into service	3.8	24.1	1.8	(29.7)	**–**
Transfers from subsidiaries	–	3.0	0.1	–	**3.1**
Disposals	(39.6)	(42.7)	(19.8)	(47.7)	**(149.8)**
At 31 March 2004	**365.5**	**460.5**	**101.9**	**112.2**	**1,040.1**
Depreciation					
At 1 April 2003	174.7	265.4	47.5	–	**487.6**
Charge for the year	11.6	48.3	7.8	–	**67.7**
Transfers from subsidiaries	–	1.8	0.1	–	**1.9**
Impairments	–	–	–	2.9	**2.9**
Elimination in respect of disposals	(5.7)	(25.4)	(7.9)	–	**(39.0)**
At 31 March 2004	**180.6**	**290.1**	**47.5**	**2.9**	**521.1**
Net book value					
At 31 March 2004	**184.9**	**170.4**	**54.4**	**109.3**	**519.0**
At 31 March 2003	215.6	183.2	49.5	105.9	554.2

During the year UK Public Service Broadcasting disposed of plant and machinery held under finance leases with another Group company. As a result the net book value of assets held under finance leases with another Group company at 31 March 2004 is £nil (2003 £6.7million).

12c Land and building at net book value comprise:

	Group 2004 £m	Group* 2003 £m	**UK Public Service Broadcasting 2004 £m**	UK Public Service Broadcasting 2003 £m
Undepreciated land	**25.4**	30.9	**25.1**	30.8
Freehold buildings	**139.7**	173.9	**128.4**	162.6
Total freeholds	**165.1**	204.8	**153.5**	193.4
Long leaseholds	**17.7**	9.9	**17.7**	9.9
Short leaseholds	**32.1**	31.4	**13.7**	12.3
	214.9	246.1	**184.9**	215.6

* Following a review in the year within BBC World Service, it was concluded that land and buildings with a net book value of £4.1million previously classified as freehold should be classified as short leasehold. The 2003 figures have been reanalysed accordingly

13 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2003	321.4
Exchange adjustment	(16.8)
Additions	90.6
Elimination of programmes fully amortised	(64.8)
At 31 March 2004	**330.4**
Amortisation	
At 1 April 2003	213.1
Exchange adjustment	(14.9)
Charge for the year	89.5
Elimination of programmes fully amortised	(64.8)
At 31 March 2004	**222.9**
Net book value	
At 31 March 2004	**107.5**
At 31 March 2003	108.3

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £88.6million direct investment in BBC programmes (2003 £82.7million).

Included in the net book value is £3.5million (2003 £4.5million) relating to investments held under a licence agreement.

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	Total Group £m
At 1 April 2003	13.1	4.7	17.8
Exchange adjustments	–	0.1	0.1
Disposals	–	(0.2)	(0.2)
Share of profits/(losses) after tax	5.8	(18.3)	(12.5)
Dividend received	(0.5)	(0.8)	(1.3)
Amortisation	(0.7)	–	(0.7)
Repayment of capital	(1.0)	–	(1.0)
Adjustment to reflect effective obligations	(5.4)	19.3	13.9
At 31 March 2004	**11.3**	**4.8**	**16.1**

14b Movements in the year for UK Public Service Broadcasting

	Interest in BBC World Service net assets £m	Shares in subsidiaries £m	Interests in in joint ventures £m	Total £m
At 1 April 2003	142.8	165.3	10.2	318.3
Accumulated surplus	9.7	–	–	9.7
Additions	–	51.0	–	51.0
Capital reduction	–	(40.0)	–	(40.0)
Disposals	–	(51.0)	–	(51.0)
Amortisation	–	–	(0.7)	(0.7)
Repayment of capital	–	–	(0.7)	(0.7)
At 31 March 2004	**152.5**	**125.3**	**8.8**	**286.6**

Capital reduction represents a share buy-back by BBC Resources Limited of £40.0million. Disposals of shares in subsidiaries relates to the transfer of investments in BBC Resources Limited of £51.0million to BBC Ventures Limited, another BBC subsidiary company. In consideration BBC Ventures Limited issued 51,000,001 ordinary shares at £1 each to BBC Commercial Holdings Limited. In turn, BBC Commercial Holdings Limited issued 51,000,001 ordinary shares at £1 each to UK Public Service Broadcasting.

Subsidiary undertakings are businesses the BBC controls.

14c Subsidiary undertakings

The principal subsidiary undertakings of the BBC at 31 March 2004 are listed below. All are wholly owned (directly and indirectly) and incorporated in Great Britain and registered in England and Wales except where stated. A full list of subsidiaries is available at bbc.co.uk or from the BBC Secretary at BBC Media Centre, 201 Wood Lane, London W12 7TQ.

Name of entity	Activity
BBC Commercial Holdings Limited	Holding company
BBC Worldwide Limited	Publishing, channels and programme distribution
BBC World Limited	Channels
BBC Ventures Limited	Holding company
BBC Technology Holdings Limited	Technology services
BBC Broadcast Limited	Playout and channel management services
BBC Resources Limited	Programme making facilities and services
BBC Vecta Limited	Technology services
BBC Free To View Limited	Holding company for digital licence
BBC Property Limited	Property
BBC Property Development Limited	Property
Centre House Productions Limited	Production financing

Joint ventures are businesses the BBC jointly controls with other parties.

14d Interests in joint ventures

The Group has a 50% equity interest in the following joint ventures which are all incorporated in Great Britain and registered in England and Wales, unless otherwise stated:

Name of entity	Activity	Partner	Accounting date
UK Channel Management Limited	Channels	Flextech	31 December 2003
UK Gold Holdings Limited	Channels	Flextech	31 December 2003
UKTV New Ventures Limited	Channels	Flextech	31 December 2003
UKTV Interactive Limited	Channels	Flextech	31 December 2003
JV Programmes LLC*	Channels	Discovery Communications Inc.	31 December 2003
BBC Haymarket Exhibitions Limited	Publishing	Haymarket Exhibitions Limited	31 December 2003
DTV Services Limited**	Marketing	Crown Castle UK Limited, British Sky Broadcasting Limited	31 March 2004
Insight Property Partnership	Property	Land Securities Trillium Limited	31 March 2004
Daunus Limited***	Property	Land Securities Trillium (BH) Limited, Morgan Stanley Delta LLC, Structured Finance Management Limited	****

* Incorporated in the USA
** 33% equity interest
*** 100% holding of 'A' class shares representing 10% of the total issued shares of Daunus Limited. The rest of the shares in Daunus Limited are held by the other partners. The BBC holds its investment in Daunus Limited through a subsidiary, BBC Property Development Limited
**** Daunus Limited will prepare its first set of financial statements as at 30 June 2004

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 BBC is part of a joint venture, DTV Services Limited, to provide marketing services for digital channels on a terrestrial platform in the UK. The BBC's subsidiary BBC Free to View Limited (see Note 14c) holds 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.

The joint venture with Land Securities Trillium Limited, the Insight Property Partnership, 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.

During the year the Group entered into arrangements with Daunus Limited, to redevelop the Broadcasting House site. Under these arrangements the Group granted a 150-year head lease on Broadcasting House to Daunus Limited and Morgan Stanley Gamma Investments in July 2003. Land Securities Trillium Limited has entered into a contract with Daunus Limited to redevelop the site. The Group will lease back the redeveloped site from Daunus Limited.

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.

Group share of:	UK Gold Holdings Limited* £m	UK Channel Management Limited* £m	Other joint ventures £m	**Total joint ventures £m**
2004				
Turnover	32.7	29.4	26.5	**88.6**
Profit/(loss) before tax	9.5	6.2	(5.4)	**10.3**
Taxation	(2.4)	(1.9)	(0.2)	**(4.5)**
Profit/(loss) after tax	**7.1**	**4.3**	**(5.6)**	**5.8**
Fixed assets	–	0.2	2.0	**2.2**
Goodwill	–	–	8.8	**8.8**
Current assets	14.7	33.4	20.7	**68.8**
Liabilities less than one year	(13.2)	(6.6)	(18.3)	**(38.1)**
Liabilities more than one year	(28.9)	(45.5)	(13.6)	**(88.0)**
Adjustment to reflect effective obligations	27.4	18.5	11.7	**57.6**
Net book value	**–**	**–**	**11.3**	**11.3**
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

* The figures are based on unaudited financial statements

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 2004 (2003 £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 the BBC exerts significant influence but does not have overall control.

14e Interests in associates

The Group holds (directly and indirectly) significant interests in the principal associates listed below which, except where otherwise stated, are incorporated in Great Britain and registered in England and Wales. A full list of associates is available at bbc.co.uk, or from the BBC Secretary (see Note 14c for the address).

	Holding of issued ordinary shares %	Activity
Parliamentary Broadcasting Unit Limited	33	Content provider
Broadcasters Audience Research Board Limited (BARB)	*	Audience research
The Commonwealth Broadcasting Association	*	Broadcasting forum
Radio Joint Audience Research Limited (RAJAR)	50	Audience research
Frontline Limited	23	Publishing
UKTV Pty Limited (incorporated in Australia)	20	Channels
People and Arts (Latin America) LLC (incorporated in the USA)**	50	Channels
Animal Planet LLC (incorporated in the USA)**	20	Channels
The Animal Planet Europe Partnership**	50	Channels
Animal Planet Japan KK (incorporated in Japan)**	33	Channels
Jasper Broadcasting Inc. (incorporated in Canada)	20	Channels
Jasper Junior Broadcasting Inc. (incorporated in Canada)	20	Channels
3sixtymedia Limited	10	Production
White City Development Partnership	***	Property

* 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

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2003 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.

Group interests in associates	2004 £m	2003 £m
Share of turnover	**38.6**	37.5
Share of fixed assets	**43.1**	51.0
Share of current assets	**12.6**	14.7
Share of liabilities due within one year	**(7.2)**	(16.4)
Share of liabilities due after more than one year	**(118.9)**	(114.5)
Adjustment to reflect effective obligation	**75.2**	69.9
Net interests in associates	**4.8**	4.7

The results include the Group share of the operating profit of UKTV Pty Limited of £0.3million (2003 £0.2million) and Frontline Limited of £1.1million (2003 £2.0million). 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 (2003 £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 2004 (2003 £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 2004 £m	Group 2003 £m	**UK Public Service Broadcasting 2004 £m**	UK Public Service Broadcasting 2003 £m
Raw materials	**5.1**	4.2	**0.7**	–
Work in progress				
– originated programmes	**273.1**	245.2	**272.7**	245.1
– other	**6.0**	7.3	**0.2**	–
Finished programmes				
– acquired programmes and films	**82.3**	97.2	**82.3**	97.2
– originated programmes	**44.5**	94.9	**44.5**	94.9
Other	**22.0**	20.1	**–**	0.5
Total	**433.0**	468.9	**400.4**	437.7

16 Debtors

	Group 2004 £m	Group 2003 £m	**UK Public Service Broadcasting 2004 £m**	UK Public Service Broadcasting 2003 £m
Receivable within one year				
Trade debtors	**135.7**	142.6	**18.1**	21.9
Department for Culture, Media and Sport				
– licence fee debtors	**275.4**	254.3	**275.4**	254.3
Amounts owed by subsidiaries	**–**	–	**30.6**	56.0
Amounts owed by associates and joint ventures	**3.1**	4.9	**3.1**	–
VAT recoverable	**40.3**	38.0	**35.9**	34.1
Other debtors	**21.9**	22.7	**4.8**	5.6
Prepayments	**196.3**	143.0	**169.8**	115.4
	672.7	605.5	**537.7**	487.3
Receivable after more than one year				
Other debtors	**5.7**	6.9	**–**	–
Prepayments	**136.3**	151.7	**118.1**	131.8
	142.0	158.6	**118.1**	131.8
Total	**814.7**	764.1	**655.8**	619.1

The prepayments receivable after more than one year include £52.5million (2003 £54.5million) in respect of the White City site which is leased from the partnership between the BBC and Land Securities Trillium Limited. This is being released over the term of the lease.

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 Group's number of creditor days outstanding in respect of other trade creditors at 31 March 2004 was 45 days (2003 44 days).

17b Amounts falling due within one year

	Note	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Bank overdrafts and other loans					
Bank overdrafts	23	**38.2**	70.7	**31.3**	70.7
Bank and other loans	23	**–**	0.9	**–**	–
Unsecured loan notes	23	**1.6**	1.7	**–**	–
		39.8	73.3	**31.3**	70.7
Trade creditors					
Programme creditors		**78.7**	76.2	**77.2**	72.6
Programme acquisitions		**24.6**	35.4	**23.9**	35.0
Salaries and wages		**50.5**	48.6	**30.6**	27.2
Residual copyright payments		**34.2**	41.8	**–**	–
Other trade creditors		**162.9**	164.5	**111.1**	104.5
		350.9	366.5	**242.8**	239.3
Other creditors					
Obligations under finance leases		**–**	8.8	**–**	–
Amounts owed to subsidiaries in respect of finance leases		**–**	–	**–**	1.9
Amounts owed to subsidiaries		**–**	–	**92.6**	69.2
Amounts owed to associates and joint ventures		**1.2**	0.7	**–**	–
Corporation tax		**8.5**	3.1	**6.4**	1.3
Other taxation and social security		**32.8**	32.6	**28.2**	25.8
		42.5	45.2	**127.2**	98.2
Accruals and deferred income					
Accruals and deferred income		**349.3**	327.4	**281.6**	266.6
Licence savings stamps deposits and direct debit instalments		**109.1**	108.1	**109.1**	108.1
		458.4	435.5	**390.7**	374.7
Total		**891.6**	920.5	**792.0**	782.9

17c Amounts falling due after more than one year

	Note	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Bank and other loans	23	**180.0**	87.2	**–**	–
Trade creditors					
Programme acquisitions		**6.0**	33.1	**6.0**	33.1
Other creditors					
Obligations under finance leases	23	**30.3**	39.1	**–**	–
Amounts owed to subsidiaries	23	**–**	–	**33.3**	18.3
Amounts owed to subsidiaries in respect of finance leases	23	**–**	–	**–**	4.8
		30.3	39.1	**33.3**	23.1
Total		**216.3**	159.4	**39.3**	56.2

18 Provisions for liabilities and charges

Group	At 1 April 2003 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	**At 31 March 2004 £m**
Licence fee	22.3	(20.0)	–	19.8	**22.1**
Restructuring	7.1	(5.1)	(1.5)	15.2	**15.7**
Litigation and insurance	14.8	(4.6)	(4.6)	5.6	**11.2**
Property	12.9	(0.4)	(2.4)	1.8	**11.9**
Other	14.9	(8.2)	(14.8)	24.7	**16.6**
Total	72.0	(38.3)	(23.3)	67.1	**77.5**

Property provisions include BBC World Service's liability of £3.6million (2003 £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 2003 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	**At 31 March 2004 £m**
Licence fee	22.3	(20.0)	–	19.8	**22.1**
Restructuring	5.9	(4.2)	(1.2)	11.9	**12.4**
Litigation and insurance	14.8	(4.6)	(4.6)	5.6	**11.2**
Property	9.3	(0.4)	(2.4)	1.8	**8.3**
Other	12.0	(8.2)	(15.3)	22.2	**10.7**
Total	64.3	(37.4)	(23.5)	61.3	**64.7**

19 Reserves

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.

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 2003	296.0	(1,074.5)	(778.5)	858.1	5.6	**85.2**
Exchange adjustments	(2.1)	–	(2.1)	–	–	**(2.1)**
Deficit for financial year	(248.9)	–	(248.9)	–	–	**(248.9)**
Actuarial gain on defined benefit pension schemes	–	778.5	778.5	–	–	**778.5**
Revaluation reserve transfer	0.8	–	0.8	–	(0.8)	**–**
Pension reserve transfer	140.3	(140.3)	–	–	–	**–**
Capital reserve transfer	69.3	–	69.3	(69.3)	–	**–**
At 31 March 2004	255.4	(436.3)	(180.9)	788.8	4.8	**612.7**
Represented by:						
General Group reserves	243.4	(436.3)	(192.9)	653.1	–	**460.2**
BBC World Service reserves	12.0	–	12.0	135.7	4.8	**152.5**
	255.4	(436.3)	(180.9)	788.8	4.8	**612.7**

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 (2003 £6.8million) remains offset against the operating reserve.

The £3.6million dilapidations provision relating to BBC World Service is included in the transfer between the capital reserve and the operating reserve in the year. This is because during the year it was concluded that the provision will be funded from capital Grant-in-Aid when it crystallises.

UK Public Service Broadcasting	Operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2003	203.0	858.1	5.6	**1,066.7**
Deficit for financial year	(80.1)	–	–	**(80.1)**
Revaluation reserve transfer	0.8	–	(0.8)	**–**
Capital reserve transfer	69.3	(69.3)	–	**–**
At 31 March 2004	193.0	788.8	4.8	**986.6**
Represented by:				
UK Public Service Broadcasting reserves	181.0	653.1	–	**834.1**
BBC World Service reserves	12.0	135.7	4.8	**152.5**
	193.0	788.8	4.8	**986.6**

20 Reconciliation of net cash flow to movement in net debt

	2004 £m	2003 £m
Increase/(decrease) in cash in year	**2.3**	(1.5)
Net cash inflow from management of liquid resources	**(52.3)**	(291.9)
Net cash inflow from increase in loans and finance leases	**(90.0)**	(37.2)
Change in net debt resulting from cash flows	**(140.0)**	(330.6)
Non-cash movement on loans	**–**	0.1
Non-cash decrease/(increase) in finance leases	**15.8**	(28.3)
Change in net debt	**(124.2)**	(358.8)
Net (debt)/funds at the beginning of the year	**(74.0)**	284.8
Net debt at the end of the year	**(198.2)**	(74.0)

21 Analysis of changes in net (debt)/funds

	At 1 April 2003 £m	Cash flows £m	Non-cash movements £m	At 31 March 2004 £m
Net cash				
Bank overdrafts	(70.7)	32.5	–	**(38.2)**
Cash at bank and in hand	69.5	(30.2)	–	**39.3**
	(1.2)	2.3	–	**1.1**
Liquid resources				
Short-term investments	64.9	(52.3)	–	**12.6**
Gross funds	63.7	(50.0)	–	**13.7**
Debt				
Loans from third parties	(88.1)	(92.4)	0.5	**(180.0)**
Unsecured loan notes	(1.7)	0.6	(0.5)	**(1.6)**
Finance leases	(47.9)	1.8	15.8	**(30.3)**
Net debt	(74.0)	(140.0)	15.8	**(198.2)**
Made up of:				
Public Service Broadcasting	(24.1)	20.1	6.7	**2.7**
Commercial Businesses	(31.5)	(156.7)	15.8	**(172.4)**
Centre House Productions Limited	(27.1)	(1.4)	–	**(28.5)**
Less: Intercompany eliminations	8.7	(2.0)	(6.7)	**–**
Net debt	(74.0)	(140.0)	15.8	**(198.2)**

Liquid resources are current asset investments that are readily disposable without disrupting the BBC, and are either readily convertible into known amounts of cash at or close to their carrying amount, or are traded on an active market. In relation to the BBC, liquid resources are sterling amounts on deposit.

The debt and repayments on finance leases held by Centre House Productions Limited are offset directly by cash held on matching deposits, and the income from them, such that there is no long-term cash flow effect.

22 Reconciliation of net funds/(debt) to the Department for Culture, Media and Sport (DCMS) borrowing ceilings

	Note	**Public Services 2004 £m**	Public Services 2003 £m	**Commercial Businesses 2004 £m**	Commercial Businesses 2003 £m
Net funds/(debt)	21	**2.7**	(24.1)	**(172.4)**	(31.5)
Licence savings stamps deposits and direct debit instalments*	17b	**(109.1)**	(108.1)	**–**	–
Borrowings as defined by DCMS borrowing ceiling		**(106.4)**	(132.2)	**(172.4)**	(31.5)
Borrowing ceiling		**200.0**	200.0	**350.0**	350.0

* The BBC must be able to repay the licence savings stamps deposits and direct debit instalments on demand and they are therefore included in the public service borrowings.

The public service borrowing limit of £200million is set within the BBC Charter. As at 31 March 2003 and 31 March 2004 the BBC was in compliance with this borrowing ceiling.

When the Department for Culture, Media and Sport granted a £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 2004 and 31 March 2003 BBC Commercial Holdings Group was in compliance with each of these covenants. Compliance with the borrowing ceiling is detailed in the table above.

A forward currency contract is a contract to buy or sell foreign currency in exchange for sterling at a specific date. Companies typically enter into forward contracts to lock into a particular exchange rate, thereby eliminating cash flow risk that may be associated with a future purchase or sale.

An interest rate swap is a contract between two parties to change the basis of their interest rate payment or receipts either from fixed to floating rates or vice versa. Companies typically enter into these arrangements to reduce the exposure to interest rate risk by fixing a floating interest rate. Alternatively, a company may believe that interest rates may fall and wish to convert a fixed rate loan to a floating rate.

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 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 protect the value of the BBC's assets, liabilities and cash flows from the effects of adverse interest rates and foreign exchange fluctuations
- to maximise the return on surplus funds, whilst ensuring sufficient cash is retained to meet foreseeable liquidity requirements

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 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 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. The Group has also entered into interest rate swaps to manage the interest rate risk arising as a result of its borrowing needs. 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 2004 UK Public Service Broadcasting had available a £100million loan facility which is available as either a revolving LIBOR-based loan or an overdraft to May 2004 with an option to extend the facility to May 2005. The loan facility bears interest at a margin of 0.2% and the overdraft facility bears interest at bank base rates plus 1%. This facility was renewed in May 2004 on the same terms with a new maturity date of May 2005 and option to extend to May 2006.

Money market lines are short-term borrowings.

In addition to this loan facility UK Public Service Broadcasting has access to uncommitted money market lines, from three individual banks, totalling £25million (2003 £45million) with interest payable at a margin of between 0.125% and 0.5% over LIBOR.

BBC Commercial Holdings' loans comprise a £350million multicurrency revolving credit facility agreement repayable in full in March 2008. At 31 March 2004 £105million (2003 £85million) was drawn down by way of advances. 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 their lending under the facilities detailed immediately below. As at 31 March 2004 a further £76.9million (2003 £nil) was utilised by way of letters of credit issued to support the borrowing under these facilities.

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. £50million was drawn under this facility at 31 March 2004 (2003 £nil). The second, for £25million, was available for drawing until November 2003 and is repayable in one single instalment by November 2007. £25million was drawn under this facility at 31 March 2004 (2003 £nil). 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. The lending under both these facilities is supported by letters of credit issued by the commercial banks under the £350million revolving credit facility referred to above.

As at 31 March 2003, other loans included a US$5million loan from Discovery. This was repaid in full during the year to 31 March 2004. In addition BBC Commercial Holdings had an overdraft facility of £20million available, which is due to be reviewed in January 2005.

BBC Resources has a £50million revolving credit facility agreement, repayable in full in September 2004. Interest is payable at LIBOR plus 0.375%. During the year, BBC Resources drew £40million under this facility and repaid this balance in full before the year end.

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 2004 £m**
2004						
Within one year	38.2	–	1.6	–	–	**39.8**
Between one and two years	–	–	–	–	4.6	**4.6**
Between two and five years	–	130.0	–	–	1.4	**131.4**
Greater than five years	–	50.0	–	30.3	–	**80.3**
	38.2	**180.0**	**1.6**	**30.3**	**6.0**	**256.1**
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

During the year, the Group disposed of all computer hardware held under finance leases. As a result the obligations under finance leases in respect of computer hardware at 31 March 2004 is £nil (2003 £15.8million). The remaining finance leases relate to Centre House Productions Limited, £30.3million (2003 £32.1million)

Defeasance deposits are amounts deposited with banks by Centre House Productions Limited which earn the exact amount of interest needed to cover the capital repayment and interest element of each of the finance leases. The defeasance deposits are 'ring-fenced' and therefore cannot be used for any transactions apart from the agreed capital and interest payments.

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, £273.5million at 31 March 2004 (2003 £275.3million), 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 the UK Public Service Broadcasting's financial liabilities, other than short-term creditors, at 31 March was:

	Overdraft £m	Finance leases £m	Trade creditors £m	Inter-company creditors £m	**Total 2004 £m**
2004					
Within one year	31.3	–	–	–	**31.3**
Between one and two years	–	–	4.6	5.9	**10.5**
Between two and five years	–	–	1.4	13.7	**15.1**
Greater than five years	–	–	–	13.7	**13.7**
	31.3	**–**	**6.0**	**33.3**	**70.6**
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

23d Interest rates

The Group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the Group has been borrowing at floating rates of interest and then 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 £51.9million at 31 March 2004 (2003 £134.4million) all of which are subject to floating rate 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 2004 and 2003 was:

				Fixed rate liabilities		
	Total £m	Financial liabilities on which no interest is paid £m	Floating rate financial liabilities £m	Amount £m	Weighted average interest rate %	Weighted average period until maturity Years
2004						
Sterling	256.1	36.3	10.8	209.0	4.5	4.0
Total	**256.1**	**36.3**	**10.8**	**209.0**		
2003						
Sterling	238.4	65.2	87.4	85.8	3.8	4.5
US dollar	3.1	–	–	3.1	4.1	1.4
Total	241.5	65.2	87.4	88.9		

Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature in March 2008. In addition to the £209million (2003 £70million) of swaps included in the fixed rate liabilities of £209million (2003 £85.8million) shown above, which were effective at the year end, an additional £17million (2003 £116million) of forward starting swaps had been transacted to cover projected borrowings. These additional swaps were transacted at an average rate of 4.79% (2003 4.63%).

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 denominated exclusively in US 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 2004, 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 receive or 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 2004 the Group had entered into a net commitment to purchase foreign currencies amounting to £71.0million (2003 £84.5million) that mature in the period through to 2010 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 loss of £6.7million (2003 £3.4million gain) at the balance sheet date, of which £2.0million is expected to be recognised in the next financial year.

From March 2003 the Group started using interest rate swaps to manage its interest rate profile. Unrealised gains or losses on these contracts amounted to an unrealised gain of £3.9million (2003 no significant contracts) at the balance sheet date, of which £1.0million is expected to be recognised in the next financial year.

23g Fair values of financial assets and liabilities
There are no significant differences in value between the book and fair value of the Group's financial instruments other than as disclosed in Note 23f.

24 Commitments
24a Contracts placed for future expenditure

	Group 2004 £m	Group 2003 £m	**UK Public Service Broadcasting 2004 £m**	UK Public Service Broadcasting 2003 £m
Fixed asset additions	**78.4**	95.6	**52.9**	76.7
Programme acquisitions and sports rights	**1,073.6**	670.1	**1,073.5**	670.0
Independent programmes	**73.9**	68.5	**70.2**	68.5
	1,225.9	834.2	**1,196.6**	815.2

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 2004 £m	Land and buildings 2003 £m	**Other 2004 £m**	Other 2003 £m
Group				
Within one year	**11.0**	2.6	**3.2**	2.3
In two to five years	**9.2**	11.0	**14.8**	8.8
After five years	**54.9**	17.6	**1.9**	1.9
	75.1	31.2	**19.9**	13.0
UK Public Service Broadcasting				
Within one year	**9.9**	1.7	**0.6**	1.2
In two to five years	**7.7**	3.1	**2.4**	3.2
After five years	**54.1**	15.1	**0.1**	0.1
	71.7	19.9	**3.1**	4.5

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 2004 the Group had unprovided contingent liabilities estimated to be £0.9million (2003 £1.3million) in respect of guarantees and indemnities. All of this relates to UK Public Service Broadcasting.

Details of further consideration which may be payable in relation to acquisitions is given in Note 11.

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.

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 £46.0million (2003 £33.1million) relating to the sale of programmes and JV Programmes LLC of £28.4million (2003 £27.1million) relating to the sale of programmes. There is also £7.3million (2003 £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 £0.4million (2003 £0.3million) from BBC Haymarket Exhibitions Limited relating to dividends and management fees. In addition, Frontline Limited charged £2.9million (2003 £2.7million) for the distribution of BBC Worldwide Limited's magazines. Also included is a charge for £0.4million (2003 £0.4million) from Parliamentary Broadcast Unit Limited, for the purchase of broadcast licences.

The BBC, Crown Castle UK Limited and British Sky Broadcasting Limited are partners in DTV Services Limited. In the year the BBC paid DTV Services Limited £1.4million (2003 £nil) for marketing services. In addition the BBC received £0.3million (2003 £nil) from DTV Services Limited for administrative services.

During the year £0.3million (2003 £nil) of funding for restructuring was provided to 3sixtymedia Limited in line with contractual obligations.

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 £145million for property services during the year (2003 £111million).

In July 2003, the BBC granted a head lease on Broadcasting House to Daunus Limited (a company in which the BBC holds a 10% interest (see Note 14d)) and Morgan Stanley Gamma Investments, for a premium of £92.0million in cash, plus the cost of works to date, £47.8million, realising a profit of £40.4million. A further £12.4million has been invoiced since July for works incurred during the rest of the year. Daunus Limited has appointed Land Securities Trillium Limited to redevelop the site.

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.

Related parties include Governors, the Executive Committee and other senior managers, their immediate families and external entities controlled by them.

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 Richard Eyre, Governor until 31 May 2003, is also Chairman and Managing Director of Chestermead Limited. During the year Sir Richard Eyre received either directly, or through Chestermead, payments totalling £10,917 for interviews and contributions to BBC programmes (2003 £3,754). No amounts were outstanding at the year end. Sir Richard Eyre's wife, Sue Birtwhistle, works on a freelance basis for the BBC through Chestermead. During the year, the BBC paid £38,675 to Chestermead in relation to services of Sue Birtwhistle (2003 £19,080). 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 £70,947 to the club in respect of television and radio coverage (2003 £94,814). No amounts were outstanding at the year end.

Baroness Hogg, Governor until 9 February 2004, is also non-executive Chairman of Frontier Economics. During the year the BBC paid £48,831 to Frontier Economics in relation to advice on the online review and work on conditional access pricing (2003 £5,925 for a project relating to the incorporation of BBC Broadcast Limited). No amounts were outstanding at the year end.

Deborah Bull, Governor, is sole Director of Deborah Bull Limited. Subsequent to her appointment, she received, through Deborah Bull Limited, payments totalling £13,320 for contributions to various BBC programmes. No amounts were outstanding at the year end.

Michael Grade was appointed BBC Chairman on 2 April 2004 and took up his appointment on 17 May 2004. At the date of his appointment, Michael Grade held directorships and/or interests in several companies that have relationships with the BBC. Since his appointment, Michael Grade has resigned from these positions and/or disposed of these interests, except for his positions as non-executive Chairman of Pinewood Shepperton and non-executive Chairman of Hemscott plc. In the year ended 31 March 2004, which was prior to Michael Grade's appointment, the BBC paid £640,577 to Pinewood Shepperton for the use of studios and related facilities, and £500 to Hemscott plc for business information. At the year end, £72,864 and £nil were outstanding respectively.

In the normal course of business the BBC transacts with other parties which are related to it by virtue of its senior employees being married or closely related to employees of the BBC or 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.

APPENDIX 5
INDEX OF PRINCIPAL DEFINED TERMS

REGISTERED AND HEAD OFFICE OF THE ISSUER

White City Property Finance PLC
Blackwell House
Guildhall Yard
London EC2V 5AE

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

LOAN SERVICER
HSBC Bank plc
8 Canada Square
Level 24
London E14 5HQ

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

AUDITORS TO THE ISSUER
BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL

AUDITORS TO MBIA
PricewaterhouseCoopers
32 rue Guersant
75833 Paris Cedex 17

LEGAL ADVISERS

To the Issuer
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Woolgate Exchange
25 Basinghall Street
London EC2V 5HA

To the Lead Manager
Sidley Austin Brown & Wood
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA

To the Note Trustee
Sidley Austin Brown & Wood
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA

To the BBC:
Linklaters
1 Silk Street
London EC2Y 8HQ

To the BBC
As to Property law
Lovells
Atlantic House
Holborn Viaduct
London, EC1A 2FG

To the Borrower and the Borrower Manager
MacFarlanes
10 Norwich Street
London EC4A 1BD

To MBIA
As to English Law:
Clifford Chance
Limited Liability Partnership
10 Upper Bank Street
London EC14 5JJ

To MBIA
As to French Law:
Clifford Chance
SELAFA
112, Avenue Kléber
BP 163 Trocadero
75770 Paris Cedex 16

PRINCIPAL PAYING AGENT, AGENT BANK AND ISSUER OPERATING BANK
HSBC Bank plc
8 Canada Square
Level 24
London E14 5HQ

SUB-PAYING AGENT
HSBC Institutional Trust Services (Ireland) Limited
HSBC House
Harcourt Centre, Harcourt Street
Dublin 2, Ireland

LISTING AGENT
A&L Listing Limited
International Financial Services Centre
North Wall Quay
Dublin
Ireland