

## IMPORTANT NOTICE

**IMPORTANT:** You must read the following before continuing. The following applies to the prospectus following this page (the “Prospectus”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them at any time you receive any information from us as a result of such access.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE PROSPECTUS IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.**

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. IN ORDER TO BE ELIGIBLE TO READ THE PROSPECTUS OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES DESCRIBED THEREIN, YOU MUST NOT BE A “U.S. PERSON” AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (A “U.S. PERSON”).**

**WITHIN THE UNITED KINGDOM, THE PROSPECTUS MAY NOT BE PASSED ON EXCEPT TO INVESTMENT PROFESSIONALS OR OTHER PERSONS IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (AS AMENDED) DOES NOT APPLY TO THE ISSUER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THE PROSPECTUS MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE PROSPECTUS RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.**

**THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**Confirmation of your representation:** The Prospectus is being sent at your request and by accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to us that you are not a U.S. Person and that you consent to delivery of the Prospectus by electronic transmission.

**You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.**

**The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a co-arranger or any affiliate of a co-arranger is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by a co-arranger or such affiliate on behalf of the issuer in such jurisdiction.**

**The Prospectus 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 the co-arrangers or any dealer, nor any person who controls any co-arranger or dealer, nor any director, officer, employee or agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format herewith and the hard copy version available to you on request from Citigroup Global Markets Limited and/or The Royal Bank of Scotland plc.**

## **BAA FUNDING LIMITED**

*(incorporated with limited liability in Jersey with registered number 99529)*

### **Multicurrency programme for the issuance of Bonds**

BAA Funding Limited (the “**Issuer**”) has established a multicurrency programme for the issuance of Bonds (the “**Programme**”).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 as amended (“**FSMA**”) (the “**UK Listing Authority**” or “**UKLA**”) for Bonds issued under the Programme during the period of twelve months after the date hereof to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Bonds to be admitted to trading on the London Stock Exchange – Regulated Market (the “**Market**”). References in this Prospectus to Bonds being “listed” (and all related references) shall mean that such Bonds have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

The Programme provides that Bonds may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer (as defined below). The Issuer may also issue unlisted Bonds.

The Bonds may be issued, on a continuing basis, to one or more of the Dealers specified under “*Some Characteristics of the Bond Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the “relevant Dealer” shall, in the case of an issue of Bonds being (or intended to be) subscribed by more than one Dealer or in respect of which subscriptions will be procured by more than one Dealer, be to all Dealers agreeing to subscribe for such Bonds or to procure subscriptions for such Bonds, as the case may be.

**Bonds issued under the Programme have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or with any securities regulatory authority of any state or other jurisdiction of the United States. The Bonds may be offered, sold or delivered only outside the United States to persons who are not “U.S. persons” as defined in Regulation S under the Securities Act (“Regulation S”) (each, a “U.S. person”) in offshore transactions in reliance on Regulation S. Each purchaser of the Bonds in making its purchase will be deemed to have made certain acknowledgements, representations and agreements. See “Subscription and Sale” in this Prospectus.**

Please see “*Risk Factors*” to read about certain factors you should consider before buying any Bonds and “*Documents Incorporated by Reference*” for details of certain documents that are incorporated by reference in, and form an important part of, this Prospectus.

	<b>Co-Arrangers</b>	
<b>Citi</b>		<b>The Royal Bank of Scotland</b>
	<b>Dealers</b>	
<b>Banco Bilbao Vizcaya Argentaria, S.A. Crédit Agricole CIB RBC Capital Markets</b>	<b>BNP PARIBAS  Citi Santander Global Banking &amp; Markets</b>	<b>Caja Madrid  HSBC The Royal Bank of Scotland</b>

Prospectus dated 18 March 2011

Under the Programme the Issuer may, subject to all applicable legal and regulatory requirements, from time to time issue Bonds in bearer and/or registered form (respectively “**Bearer Bonds**” and “**Registered Bonds**”). Copies of each Final Terms (as defined below) will be available (in the case of all Bonds) from the specified office set out below of Deutsche Trustee Company Limited as bond trustee (the “**Bond Trustee**”), (in the case of Bearer Bonds) from the specified office set out below of each of the Paying Agents (as defined below) and (in the case of Registered Bonds) from the specified office set out below of each of the Registrar and the Transfer Agent (each as defined below), provided that, in the case of Bonds which are not listed on any stock exchange, copies of the relevant Final Terms will only be available for inspection by the relevant Bondholders (as defined below).

Details of the aggregate principal amount, interest (if any) payable, the issue price and any other conditions not contained herein, which are applicable to each Tranche of each Sub-Class of each Class of each Series (all as defined below) will be set forth in a set of final terms (the “**Final Terms**”), or in a separate prospectus specific to such Tranche (a “**Drawdown Prospectus**”), see “*Final Terms and Drawdown Prospectuses*” below. In the case of a Tranche of Bonds which are the subject of a Drawdown Prospectus, each reference in this Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus, unless the context requires otherwise. In the case of Bonds to be admitted to the Official List and to trading on the Market of the London Stock Exchange, the Final Terms will be delivered to the UK Listing Authority and the London Stock Exchange on or before the relevant date of issue of the Bonds of such Tranche. The Issuer may also issue unlisted Bonds. The Issuer may agree with any Dealer and the Bond Trustee that Bonds may be issued in a form not contemplated by the Conditions (as defined below) herein, in which event (in the case of Bonds admitted to the Official List only) a supplementary prospectus or further prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Bonds.

Bonds issued under the Programme will be issued in series on each Issue Date (each a “**Series**”) and each Series may comprise one or more of two classes (each a “**Class**”). Bonds will be designated as either “**Class A Bonds**” or “**Class B Bonds**”. Under the Programme, the Issuer may issue Bonds in one or more classes which rank in point of payment and security subordinate to the Class A Bonds and the Class B Bonds (the “**Subordinated Bonds**”). Each Class may comprise one or more sub-classes (each a “**Sub-Class**”) with each Sub-Class pertaining to, among other things, the currency, interest rate and maturity date of the relevant Sub-Class. Each Sub-Class may be zero-coupon, fixed rate, floating rate or index-linked Bonds and may be denominated in sterling, euro or U.S. dollars (or in other currencies subject to compliance with applicable laws). Investors in the Bonds are notified that the Issuer has issued Bonds under this Programme and may from time to time in the future issue further Bonds, the terms of which will be specified in the relevant Final Terms.

Ratings ascribed to all of the Bonds reflect only the views of Standard & Poor’s Credit Market Services Europe Limited, a division of The McGraw-Hill companies (“**Standard & Poor’s**”) and Fitch Ratings Ltd. (“**Fitch**” and, together with Standard & Poor’s, the “**Rating Agencies**”) and any further or replacement rating agency appointed by the Issuer with the approval of the Borrower Security Trustee (acting upon the instructions of the Qualifying Borrower Secured Creditors, as defined below). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or all of the Rating Agencies. A suspension, reduction or withdrawal of the rating assigned to any of the Bonds may adversely affect the market price of such Bonds.

Standard & Poor’s and Fitch are established in the European Community and have applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. Where an issue of Bonds is rated such rating will be (i) issued by a credit rating agency established in the European Community and registered in accordance with Regulation (EC) No 1060/2009 (the “**CRA Regulation**”) (or a credit rating agency that operated in the European Community before 7 June 2010 which has applied for registration and such application has not been refused) and (ii) specified in the relevant Final Terms.

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

In the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum denomination shall be €50,000 or not less than the equivalent of €50,000 in any other currency as at the date of issue of the Bonds. Bonds may be issued in such denomination and higher integral multiples of a smaller amount specified in the relevant Final Terms.

If issued under the relevant Final Terms, Bonds that are Bearer Bonds may be represented initially by one or more Temporary Global Bonds, without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg on or about the Issue Date of such Sub-Class. Each such Temporary Global Bond will be exchangeable for Permanent Global Bonds or definitive securities in bearer form as specified in the relevant Final Terms following the expiration of 40 days after the later of the commencement of the offering and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership and as may be required by U.S. tax laws and regulations, as

described in “*Forms of the Bonds*”. Bonds in bearer form are subject to U.S. tax law requirements. Subject to certain exceptions, the Bearer Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

The Programme contemplates the potential issue of Bonds which have been unconditionally and irrevocably guaranteed by a relevant Financial Guarantor, and the Issuer may issue such Bonds in the future. If a relevant Financial Guarantor is appointed in relation to any Sub-Class of Bonds (as specified in the relevant Final Terms) a supplement to this Prospectus will be produced providing such information about such relevant Financial Guarantor as may be required by the rules of the UK Listing Authority, the London Stock Exchange or such other listing authority or stock exchange on which such Bonds are admitted to listing and/or trading. The Issuer does not intend to issue any Bonds with a BAA Bond Guarantee under this Prospectus.

If issued under the relevant Final Terms, Bonds that are Registered Bonds will be represented on issue by beneficial interests in one or more global certificates (each a “**Global Bond Certificate**”), in fully registered form, without interest coupons attached, which will be deposited with, and registered in the name of, a common depository for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Bond Certificates will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Bonds in definitive, certificated and fully registered form will be issued only in the limited circumstances described herein. In each case, purchasers and transferees of Bonds will be deemed to have made certain representations and agreements. See “*The Bonds*” and “*Subscription and Sale*” below.

### IMPORTANT NOTICES

This Prospectus is being distributed only to, and is directed only at, persons who (i) are outside the UK or (ii) are persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) are high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “**relevant persons**”). This Prospectus, or any of its contents, must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Issuer or the Obligors is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct or that there has been no adverse change in the financial position of the Issuer or the Obligors as of any time subsequent to the date indicated in the document containing the same. None of the Co-Arrangers, the Dealers, the Bond Trustee, the Borrower Security Trustee or the Other Parties undertakes to review the financial condition or affairs of any of the Issuer or the Obligors during the life of the Programme or to advise any investor in the Bonds of any information coming to their attention. Investors should review, among other things, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Bonds.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, any member of the Borrower Group, any member of the BAA Group, either Co-Arranger, any Dealer, the Bond Trustee, the Borrower Security Trustee or any of the Other Parties that any recipient of this Prospectus should purchase any of the Bonds.

Each person contemplating making an investment in the Bonds must make its own investigation and analysis of the creditworthiness of the Issuer and the Obligors 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 Bonds should consult independent professional advisers.

The distribution of this Prospectus and the offering, sale or delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. This Prospectus does not constitute, and may not be used for the purposes of, an offer to or solicitation by any person to subscribe or purchase any Bonds in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

In connection with the issue of any Tranche of Bonds, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of

Bonds and 60 days after the date of the allotment of the relevant Tranche of Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

The Jersey Financial Services Commission (the “**Commission**”) has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Bonds by the Issuer. A copy of this document has been delivered to the Jersey registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and he has given, and has not withdrawn, his consent to its circulation. It must be distinctly understood that, in giving these consents, neither the Jersey registrar of companies nor the Commission takes any responsibility for the financial soundness of the Issuer or for the correctness of any statements made, or opinions expressed, with regard to it.

If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other financial advisor. It should be remembered that the price of securities and the income from them can go down as well as up.

**The investments described in this document do not constitute a collective investment fund for the purpose of the Collective Investment Funds (Jersey) Law 1988, as amended, on the basis that they are investment products designed for financially sophisticated investors with specialist knowledge of, and experience of investing in, such investments, who are capable of fully evaluating the risks involved in making such investments and who have an asset base sufficiently substantial as to enable them to sustain any loss that they might suffer as a result of making such investments. These investments are not regarded by the Jersey Financial Services Commission as suitable investments for any other type of investor.**

**Any individual intending to invest in any investment described in this document should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.**

All references herein to “**pounds**”, “**sterling**” or “**£**” are to the lawful currency of the UK, all references to “**\$**”, “**U.S.\$**”, “**U.S. dollars**” and “**dollars**” are to the lawful currency of the United States of America, and references to “**€**” or “**euro**” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.

This Prospectus contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Issuer to differ materially from the information presented herein. When used in this Prospectus, the words “**estimate**”, “**project**”, “**intend**”, “**anticipate**”, “**believe**”, “**expect**”, “**should**” and similar expressions, as they relate to the Obligors and their management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Obligors do not undertake any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## **RESPONSIBILITY STATEMENTS**

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “**Prospectus Directive**”) and for the purpose of giving information with regard to the Issuer and the Obligors which, according to the particular nature of the Issuer and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer.

Each of the Issuer and the Obligors accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Obligors (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make representations other than the information or the representations contained in this Prospectus in connection with the Issuer, the Shared Services Provider, BSC, any member of the Borrower Group or of the Group, or the offering or sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Shared Services Provider, BSC, any member of the Borrower Group or of the Group, the Co-Arrangers, the Dealers, the Bond Trustee or the Borrower Security Trustee. Neither the delivery of this Prospectus nor any offering or sale of Bonds made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer, any member of the Borrower Group or the Group since the date hereof. Unless otherwise indicated herein, all information in this Prospectus is given as of the date of this Prospectus. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or any Dealer to subscribe for, or purchase, any of the Bonds.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Co-Arranger, Dealer, the Bond Trustee, the Borrower Security Trustee, the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Agents, the Borrower Account Bank, the Issuer Account Bank or the members of the BAA Group (other than the Issuer and the Obligors) (together, the “**Other Parties**”) as to the

accuracy or completeness of the information contained or incorporated by reference in this Prospectus or any other information supplied in connection with the Bonds or their distribution. The statements made in this paragraph are without prejudice to the respective responsibilities of the Issuer and the Obligors. Each person receiving this Prospectus acknowledges that such person has not relied on any Co-Arranger, Dealer, the Bond Trustee or the Borrower Security Trustee or any Other Party nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision. None of the Issuer, the Obligors or the Other Parties accept responsibility to investors for the regulatory treatment of their investment in the Bonds in any jurisdiction or by any regulatory authority.

### **SUPPLEMENTARY PROSPECTUS**

The Issuer has undertaken, in connection with the admission of the Bonds to the Official List and to trading on the Market, that, if there shall occur any significant new factor, mistake or material inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Bonds whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Bonds, the Issuer shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent issue by the Issuer of Bonds and will supply to the Co-Arrangers, each Dealer and the Bond Trustee such number of copies of such supplement hereto or replacement prospectus as such Dealer and Bond Trustee may reasonably request. The Issuer will also supply to the UK Listing Authority such number of copies of such supplement hereto or replacement prospectus as may be required by the UK Listing Authority and will make copies available, free of charge, upon oral or written request, at the specified offices of the Paying Agents and in respect of Registered Bonds, the Registrar and the Transfer Agent (as defined herein).

Each of the Obligors and BAA Airports has undertaken to the Dealers in the Dealership Agreement (as defined in “*Subscription and Sale*”) to comply with section 87G of the FSMA.

If the terms of the Programme are modified or amended in a manner which would make this Prospectus, as so modified or amended, inaccurate or misleading, a new prospectus will be prepared.

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the FSMA, the Issuer shall prepare and make available an appropriate supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by the UKLA and section 87G of the FSMA.

### **FINAL TERMS AND DRAWDOWN PROSPECTUSES**

In this section the expression “necessary information” means, in relation to any Tranche of Bonds, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Bonds. In relation to the different types of Bonds which may be issued under the Programme, the Issuer has endeavoured to include in this Prospectus, including the documents incorporated by reference, all of the necessary information except for information relating to the Bonds which is not known at the date of this Prospectus and which can only be determined at the time of an individual issue of a Tranche of Bonds.

Any information relating to the Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Bonds will be contained either in the relevant Final Terms or in a Drawdown Prospectus. For a Tranche of Bonds which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, supplement this Prospectus and must be read in conjunction with this Prospectus. The Conditions as supplemented, amended and/or replaced to the extent described in the relevant Final Terms are the terms and conditions applicable to any particular Tranche of Bonds which is the subject of Final Terms.

The Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus are the terms and conditions applicable to any particular Tranche of Bonds which is the subject of a Drawdown Prospectus. Each Drawdown Prospectus will be constituted by a single document containing the necessary information relating to the Issuer and the relevant Bonds.

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## OVERVIEW OF THE PROGRAMME AND FINANCING STRUCTURE

*The following does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus, including all documents incorporated by reference herein, and, in relation to the Conditions of any particular Tranche of Bonds, the applicable Final Terms.*

BAA Funding Limited (the “**Issuer**”) established a bond issuance programme (the “**Programme**”) in 2008. The Programme is used to raise finance in the capital markets for BAA’s London airports, Heathrow Airport and Stansted Airport (together, the “**Airports**”), and for the Heathrow Express rail service. Heathrow Airport is the world’s busiest airport in terms of international passengers and Europe’s busiest airport in terms of total passengers. It has also risen to become one of the top two ranking major European hub airports on overall passenger satisfaction. Stansted is the United Kingdom’s third busiest airport. In 2010, the Airports together accounted for approximately 66 per cent. of all airline passenger traffic in the Greater London area.

The owners and operators of the Airports are Heathrow Airport Limited and Stansted Airport Limited (“**Heathrow**” and “**Stansted**”, respectively, and, together, the “**Airport Operators**”). The Airport Operators are subsidiaries of BAA Airports Limited (“**BAA Airports**”), itself a wholly owned subsidiary of BAA Limited (“**BAA**” and, together with its subsidiaries, the “**BAA Group**”). The BAA Group is owned by investment vehicles controlled by Ferrovial S.A., Caisse de dépôt et placement du Québec and the Government of Singapore Investment Corporation, which acquired what was then BAA plc (now BAA Airports) in June 2006.

Under the Programme, the Issuer issues bonds (the “**Bonds**”) whose proceeds are loaned to one or more of the Airport Operators (which are referred to in this capacity as the “**Borrowers**”). The terms of the inter-company loans (the “**Borrower Loans**”) between the Issuer and the Borrowers are designed to match economically the terms of the Bonds and any related hedging. The Issuer therefore expects to repay principal and pay interest on the Bonds from payments of interest and principal under the Borrower Loans. The Borrowers’ assets, which secure the Borrower Loans, have characteristics that demonstrate capacity to produce funds to service any payments due and payable under the Borrower Loans and, consequently, on the Bonds. The Issuer can, however, also issue Bonds to create a liquidity reserve and has access to liquidity under a liquidity facility agreement for the purpose of meeting any shortfall in amounts available to it to pay, among other things, interest (but not principal) on the Bonds.

The Borrowers use the proceeds of the Borrower Loans for their general corporate purposes, including to fund operating and capital expenditure and to pay interest on and to refinance principal drawn down under their banking facilities. The Borrowers are also able to borrow under their banking facilities, which include a capital expenditure and a working capital facility. Other outstanding bank facilities include a term loan facility which was entered into in August 2008 as part of the refinancing of the Airport Operators and, in relation to Heathrow, a £625 million facility entered into in August 2010 and loans from the European Investment Bank. The Borrowers also have access to liquidity under a liquidity facility agreement for the purposes of servicing, among other things, interest (but not principal) on certain of their banking facilities and payments under their hedging transactions.

The Issuer and the Borrowers hedge a proportion of their interest rate, inflation and currency exposure under an agreed hedging policy.

The Borrowers and Heathrow Express Operating Company Limited (“**Heathrow Express**”), which owns and operates the Heathrow Express rail service, together with their immediate parent and holding companies, BAA (SP) Limited and BAA (AH) Limited, form the “**Borrower Group**”. Each member of the Borrower Group is an “**Obligor**”, and each Obligor has given guarantees in respect of each other’s obligations under the various finance agreements. The Issuer and each of the Obligors have granted security over all their respective assets in relation to their respective senior and subordinated obligations.

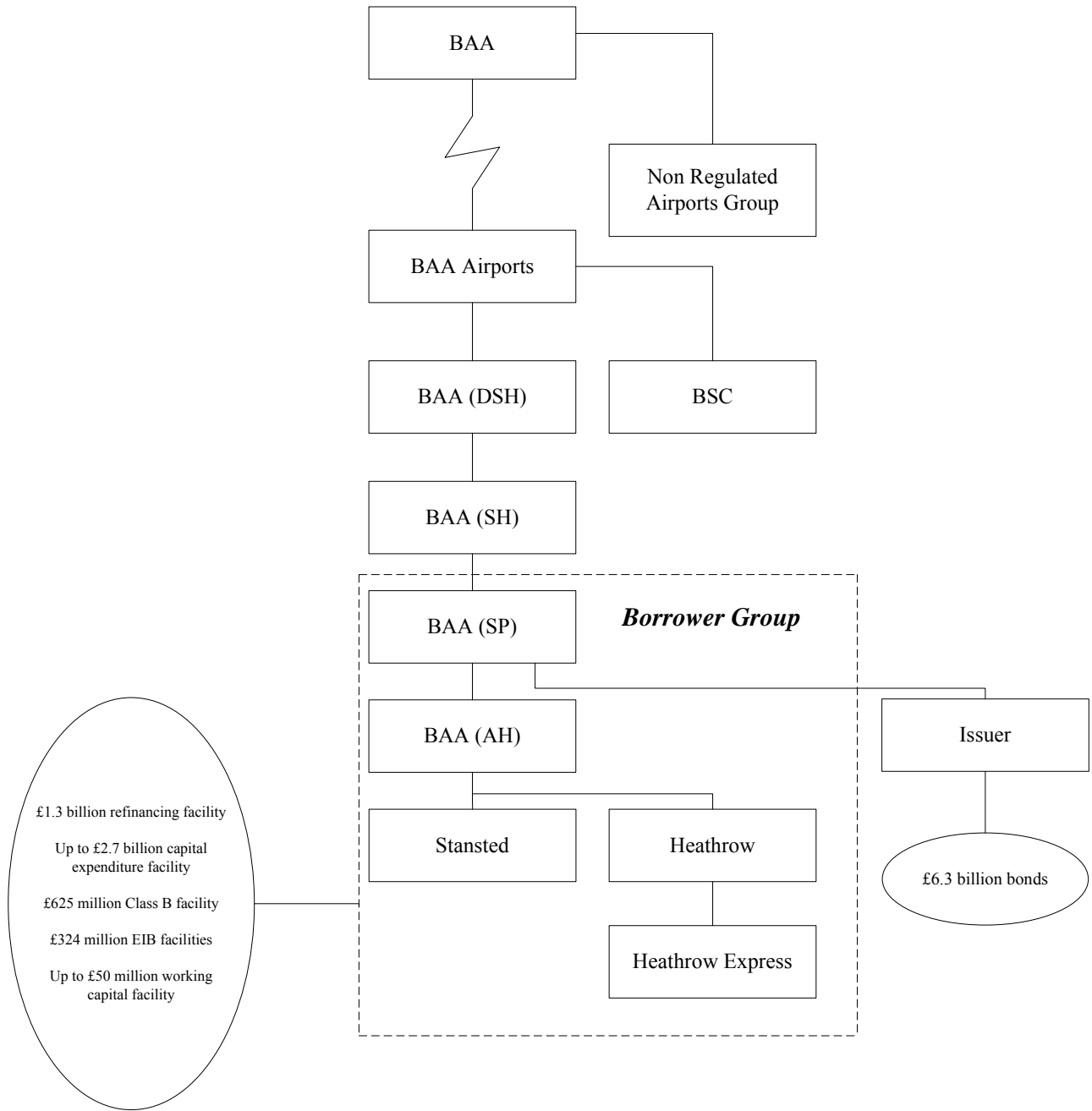
For more details on the financing arrangements described above, see “*Summary of the Financing Agreements*” and the documents incorporated by reference in this Prospectus.

The Airport Operators and Heathrow Express (together, the “**Operating Companies**”) have entered into a shared services agreement with BAA Airports under which BAA Airports provides services at each of the Airports as well as central support services. For more information on the services provided by BAA Airports, see “*Business – Shared Services*”.



**SIMPLIFIED CORPORATE AND DEBT STRUCTURE**

The following chart summarises the Group’s corporate and financing structure as at the date of this Prospectus.



## SOME CHARACTERISTICS OF THE BOND PROGRAMME

The Issuer	BAA Funding Limited.
Borrowers	Heathrow Airport Limited and Stansted Airport Limited.
Obligors	The Borrowers, BAA (AH) Limited, BAA (SP) Limited and Heathrow Express Operating Company Limited.
Bond Trustee	Deutsche Trustee Company Limited or any successor appointed pursuant to the Bond Trust Deed.
Borrower Security Trustee	Deutsche Trustee Company Limited or any successor appointed pursuant to the Security Trust and Intercreditor Deed (the “ <b>STID</b> ”).
Co-Arrangers	Citigroup Global Markets Limited and The Royal Bank of Scotland plc (the “ <b>Co-Arrangers</b> ”).
Dealers	Citigroup Global Markets Limited, The Royal Bank of Scotland plc, Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., BNP Paribas, London Branch, Caja de Ahorros y Monte de Piedad de Madrid, Crédit Agricole Corporate and Investment Bank, HSBC Bank plc and Royal Bank of Canada Europe Limited (together with any other dealer appointed from time to time by the Issuer, the “ <b>Dealers</b> ”).
Programme Size	Up to £50,000,000,000 (or its equivalent in other currencies) aggregate nominal amount of Bonds outstanding at any time as increased from time to time by the Issuer.
Issuance in Classes	<p>Bonds issued under the Programme will be issued in Series, with each Series comprising one of two Classes, Class A Bonds and Class B Bonds. Each Class will comprise one or more Sub-Classes of Bonds and each Sub-Class can be issued in one or more Tranches, the specific terms of each Tranche of a Sub-Class being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class.</p> <p>On each Issue Date, the Issuer will issue the Sub-Classes of Bonds set out in the Final Terms (each, a “<b>Series</b>”) published on the relevant Issue Date.</p>
Certain Restrictions	Each issue of Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the restrictions applicable at the date of this Prospectus. See “ <i>Subscription and Sale</i> ”.
Currencies	Euro, sterling, U.S. dollars and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Final Terms or Drawdown Prospectus	Bonds issued under the Programme may be issued either (1) pursuant to this Base Prospectus and associated Final Terms, or (2) pursuant to a Drawdown Prospectus.
Redenomination	The applicable Final Terms may provide that certain Bonds may be redenominated in euro. The relevant provisions applicable to any such redenomination will be contained in Condition 19 ( <i>European Economic and Monetary Union</i> ), as amended by the applicable Final Terms.
Maturities	<p>Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer.</p> <p>In certain circumstances, where Bonds have a maturity of less than one year, such Bonds will be subject to limitations to ensure the Issuer complies with section 19 of FSMA. For further details please see the United Kingdom selling restrictions as set out in the “<i>Subscription and Sale</i>” section of this Prospectus and the Final Terms for any particular Series of Bonds.</p>

Issue Price	Bonds may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as set out in the relevant Final Terms.
Interest	Bonds will, unless otherwise specified in the relevant Final Terms, be interest-bearing and interest will be calculated (unless otherwise specified in the relevant Final Terms) on the Principal Amount Outstanding (as defined in the Conditions) of such Bond. Interest will accrue at a fixed or floating rate (plus, in the case of Indexed Bonds, amounts in respect of indexation) and will be payable in arrear, as specified in the relevant Final Terms, or on such other basis and at such rate as may be so specified. Interest will be calculated on the basis of such Day Count Fraction (as defined in the Conditions) as may be agreed between the Issuer and the relevant Dealer as specified in the relevant Final Terms.
Form of Bonds	The Bonds will be issued in bearer or registered form as specified in the relevant Final Terms. Registered Bonds will not be exchangeable for Bearer Bonds.
Interest Payment Dates	Interest in respect of Fixed Rate Bonds will be payable semi-annually in arrear, in respect of Floating Rate Bonds will be payable quarterly in arrear and in respect of Indexed Bonds is or will be payable semi-annually in arrear (or, in each case, as otherwise specified in the relevant Final Terms).
Early Redemption	The applicable Final Terms will indicate either that the relevant Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, for taxation reasons if applicable, following prepayment of a Borrower Loan or following an Index Event or a Bond Event of Default) or that such Bonds will be redeemable at the option of the Issuer and/or the Bondholders upon giving notice to the Bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer, in each case as set out in the applicable Final Terms.
Scheduled Redemption	Unless previously redeemed or cancelled, each Sub-Class of Bonds is expected to be redeemed on the Scheduled Redemption Date. Neither the Issuer nor the Borrowers have the right to extend the Scheduled Redemption Date, which is also the maturity date of the corresponding tranche of the Borrower Loan. The Maturity Date under the Bonds falls two years later, to cater solely for the possibility that the Borrower might default on repayment of the Borrower Loan. In these circumstances (which constitute a Loan Event of Default), the Bonds will accrue interest at a floating rate, which will be met from any available proceeds from the Borrower Loan or, if insufficient, from drawings under the Issuer Liquidity Facility to the extent available. If the Bonds are not redeemed in full by their Maturity Date, there will be a Bond Event of Default.
Final Redemption	If a Sub-Class of Bonds has not previously been redeemed in full, such Sub-Class shall be finally redeemed at its respective Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) ( <i>Application of the Index Ratio</i> )) plus accrued interest on the Maturity Date as specified in the applicable Final Terms.
Denomination of Bonds	Bonds will be issued in such denominations as are or may be agreed between the Issuer and the relevant Dealer, as specified in the relevant Final Terms, but the minimum denomination shall be €50,000 or not less than the equivalent of €50,000 in any other currency as at the date of issue of the Bonds.
Taxation	Payments in respect of Bonds will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, unless and save to the extent that the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event and to that extent, the Issuer will make payments subject to the appropriate withholding or deduction. No additional amounts will be paid by the Issuer in respect of any withholdings or deductions, unless otherwise specified in the applicable Final Terms.

Status of the Bonds	<p>The Bonds to be issued under the Programme will constitute secured obligations of the Issuer. Bonds of each Class rank <i>pari passu</i> without preference or priority in point of security amongst themselves.</p> <p>The Bonds represent the right of the holders of such Bonds to receive interest (where applicable) and principal payments from the Issuer in accordance with the terms and conditions of the Bonds and the bond trust deed dated the Initial Issue Date as amended from time to time (the “<b>Bond Trust Deed</b>”) entered into by the Issuer and the Bond Trustee in connection with the Programme.</p> <p>All claims in respect of the Class A Bonds will rank in priority to payments of interest and principal due on the Class B Bonds. All claims in respect of the Class A Bonds and Class B Bonds will rank in priority to payments of interest and principal due on all Subordinated Bonds.</p>
Covenants	<p>The representations, warranties, covenants and events of default which will apply to, among other things, the Bonds are set out in the Bond Trust Deed. See “<i>Summary of the Financing Agreements – Bond Trust Deed</i>”.</p>
Listing	<p>It is anticipated that Bonds issued under the Programme will be admitted to the Official List and admitted to trading on the Market. The Bonds may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.</p> <p>Unlisted Bonds may also be issued. The applicable Final Terms will state whether or not the relevant Bonds are to be listed and, if so, on which stock exchange(s).</p>
Ratings	<p>Where an issue of Bonds is rated such rating will be (i) issued by a credit rating agency established in the European Community and registered in accordance with Regulation (EC) No 1060/2009 (the “CRA Regulation”) (or a credit rating agency that operated in the European Community before 7 June 2010 which has applied for registration and such application has not been refused) and (ii) specified in the relevant Final Terms.</p> <p>The ratings assigned to the Class A Bonds and the Class B Bonds by the Rating Agencies reflect only the views of the Rating Agencies. A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of the Borrowers. A rating may be subject to suspension, change or withdrawal at any time by the assigning Rating Agency.</p>
Governing Law	<p>The Bonds will be governed by, and construed in accordance with, English law.</p>
Selling Restrictions	<p>There are restrictions on the offer, sale and transfer of the Bonds in the United States, the United Kingdom, Jersey and such other restrictions as may be required in connection with the offering and sale of a particular Sub-Class of Bonds. See “<i>Subscription and Sale</i>” and the Final Terms for any particular series of Bonds.</p>
Investor Information	<p>BAA Airports as Security Group Agent (on behalf of the Borrower Group) is required to produce an Investor Report (the “<b>Investor Report</b>”) semi-annually.</p>

## **RISK FACTORS**

*The following sets out certain aspects of the Programme documentation and the activities of the Borrower Group about which prospective Bondholders should be aware. The occurrence of any of the events described below could have a material adverse impact on the business, financial condition or results of operations of the Issuer, the Borrowers or the other Obligors and could lead to, among other things, Trigger Events, Bond Events of Default, Loan Events of Default and/or non-payment of amounts under the Bonds.*

*This section of the Prospectus describes all material risks that are known to the Borrower Group as at the date of this Prospectus. This section of the Prospectus is not intended to be exhaustive and prospective Bondholders should read the detailed information set out elsewhere in this document, including the documents incorporated by reference, prior to making any investment decision. Further, prospective Bondholders should take their own legal, financial, accounting, tax and other relevant advice as to the structure and viability of an investment in the Bonds.*

*In addition, whilst the various structural elements described in this document are intended to lessen some of the risks discussed below for holders of the Bonds, there can be no assurance that these measures will ensure that the holders of the Bonds of any Sub-Class or Tranche receive payment of interest or repayment of principal from the Issuer in respect of such Bonds on a timely basis or at all.*

### **COMMERCIAL RISKS**

#### **Aeronautical income**

The Borrowers generate aeronautical income from airport fees and traffic charges. These charges are regulated and principally levied on the basis of passenger numbers, maximum total aircraft weight and the length of time for which an aircraft is parked at the airport. The charges are also linked to the rate of inflation, which is liable to change. There are no specific operating contracts between the Borrowers and any of the airlines operating at the Airports. There can therefore be no assurance as to the level of the Borrowers' future aeronautical income from any one or more airline operators. Decisions by, financial difficulties at, or the failure of a significant airline customer, or the withdrawal of their landing rights, could lead to a reduction in flights and passenger numbers and/or failure or delay in recovering airport fees or landing charges. The effect of decisions by or events at airlines that have a major presence at the Airports could have a particularly material adverse effect on the Borrowers. The number of passengers using the Airports may be affected by a number of other factors, including: macroeconomic events whether affecting the global economy, the UK economy or the Greater London economy in which the Airports are based (which have for instance caused a decrease in demand during the recent financial crisis and recession); competition from UK and non-UK airports; wars; riots; political action; industrial action (for instance the strikes that affected British Airways in 2010); blockades; health scares; natural disasters such as the volcanic eruption which caused disruption at the Airports in 2010; bad weather; acts of terrorism; international trade liberalisation developments such as "Open Skies"; the quality of services and facilities, including the impact of construction projects; and the development of efficient and viable alternatives to air travel, including the improvement or expansion of existing surface transport systems, the introduction of new transport links or technology and the increased use of communications technology.

Following disruption caused by bad weather in December 2010, BAA has launched an enquiry to be chaired by non-executive director David Begg to examine Heathrow's ability to prepare and respond effectively to periods of bad weather and deliver recommendations for Heathrow Airport for the future. A few airlines have indicated that they may launch claims against Heathrow. If any airline or other party was ultimately able to substantiate and succeed in a claim in relation to the disruption, this may impact on the EBITDA of the Group.

#### **Non-aeronautical income**

The Borrower Group's principal sources of non-aeronautical income include retail concession fees and car parking income, property rental income and income from the provision of operational facilities and utilities.

Retail concession fees are driven by passenger numbers and propensity of passengers to spend in the shops at the Airports. Factors affecting the number of passengers using the Airports are discussed under "– Aeronautical Income" above. Levels of retail income at the Airports may also be affected by changes in the mix of long- and short-haul and transfer and origin and destination passengers; economic factors, including exchange rates; retail tenant failures; reduced competitiveness of the airport retail offering; stricter hand luggage and other carry on restrictions; and reduced shopping time as a result of more rigorous and time consuming security procedures.

## **Security and terrorism risks**

The UK Government currently assesses the terrorism threat to interests within the UK as “Severe”, the second highest threat level. The threat to aviation has recently been re-assessed and is now categorised as “Substantial” for outbound aviation and “Severe” for inbound aviation. Airports continue to operate heightened security measures and were required to introduce additional security measures following the discovery of terrorist plots in August 2006 and December 2009. An incident in 2010 involving cargo aircraft led to additional measures for the cargo industry only. The consequences of any future terrorist attack may include cancellation or delay of flights, fewer airlines and passengers using the Airports, liability for damage or loss and the costs of repairing damage.

The implementation of additional security measures at the Airports in the future could lead to additional limitations on airport capacity, overcrowding, increases in operating costs and delays to passenger movement through the Airports.

## **Construction and Planning Risks**

The Borrower Group’s capital investment programme includes major construction projects at the Airports and is subject to a number of risks. For example, if a Borrower is not able to achieve a consensus amongst its airline customers in support of capital investment projects, this could affect the willingness of the Civil Aviation Authority (the “CAA”) to include the costs of such projects in the Regulatory Asset Base, also known as RAB. Difficulties in obtaining any requisite permits, consents, including environmental consents, licences, planning permissions, compulsory purchase orders or easements could adversely affect the design or increase the cost of the capital expenditure projects or delay or prevent the completion of a project or the commencement of its commercial operation. Although contractors typically share in cost and schedule risks, the Borrowers may face higher than expected construction costs and delays, not all of which may be permitted by the CAA to be included in the relevant Airport’s RAB, and possible shortages of equipment, materials and labour due to the number of major construction projects in the London area.

The failure of Heathrow or Stansted to recognise, plan for and manage the extent of the impact of construction projects on its Airport could result in projects overrunning budgets, operational disruptions, capital expenditure trigger rebates to airlines, unsatisfactory facilities at the relevant Airport, safety and security performance deficiencies and higher than expected operating costs. Any of these could affect the relevant Airport’s day-to-day operations.

The commencement of commercial operation of a newly constructed facility may also give rise to start up problems, such as the breakdown or failure of equipment or processes or lack of readiness of operators, closure of facilities and disruptions of operations. The Borrowers’ construction contracts may contain restricted remedies or limitations on liability such that any such sums claimed or amounts paid may be insufficient to cover the financial impact of breach of contract. The ability of contractors to meet their financial or other liabilities cannot be assured.

## **Other Risks to the Airports’ Operations and Income**

### *Group risk*

The Borrower Group is part of a larger BAA Group which contains other companies, including airport operating companies. The Borrowers could face secondary liabilities in respect of tax or pension obligations of other BAA Group entities should those entities not satisfy those liabilities.

### *Accidents*

Airports are exposed to the risk of accidents, including aircraft crashes. These accidents could result in injury or loss of human life, damage to airport infrastructure and short or long term closure of an Airport’s facilities and may have an impact on passenger traffic levels.

### *Insurance*

The Borrowers benefit from insurance cover to protect against key insurable risks including terrorism and business interruption. Cover may not be adequate to cover lost income, reinstatement costs, increased expenses or other liabilities. Moreover, there can be no assurance that if insurance cover is cancelled or not renewed, replacement cover will be available at commercially reasonable rates or at all.

The Borrowers may not have, or may cease to have, insurance cover if the loss is not covered under, or is excluded from, an insurance policy including by virtue of a deductible applying, exhaustion of applicable cover limits or a policy operating as an excess policy or if the relevant insurer successfully avails itself of defences available to it, such as breach of disclosure duties, breach of policy condition or misrepresentation.

Insurance cover for the Borrowers is currently, and may in the future be, provided by a combination of insurance market entities and captive insurance companies owned by, or affiliated with, BAA or its ultimate shareholders. Any of these insurers could cease to offer current insurance cover, become insolvent or lose their licences or authorisations.

### ***Pensions***

Under the Shared Services Agreement, BAA Airports is entitled to pass a proportional amount of its pension costs on to the Operating Companies. The funding position of the pension scheme may vary from time to time (e.g. as a result of fluctuation in investment values or as a result of changes to actuarial assumptions), thereby affecting the level of the Borrower Group's pension costs.

The BAA Pension Trustee is a Borrower Secured Creditor pursuant to the STID and ranks equally in an amount up to £300 million with principal payments required to be made to the Issuer under any Borrower Loan Agreement in respect of the Class A Bonds. For further details, see the STID, which is incorporated by reference in this Prospectus.

### ***Operational risks***

The operation of an airport is a complex undertaking that is subject to a number of factors outside the control of the Borrower Group. These factors include weather conditions, variable aircraft movements, traffic congestion, third party reliance on technical equipment and airline hub requirements and procedures. Given the nature of these factors, it is not possible to accurately predict their future impact on airport operations from past performance.

### ***Contractual matters***

The Borrowers are operating companies and have entered into and will continue to enter into contracts with third parties under which they have given or will give representations, covenants and indemnities as part of the transactions to which the contracts relate. In connection with sales of assets or shares, BAA (AH) Limited as seller has been, and is likely in the future to be, required to provide various warranties.

### **Reliance on BAA Airports as Shared Services Provider**

The Borrowers are dependent on BAA Airports as Shared Services Provider to operate the Airports. BAA Airports employs the staff assigned to the Airports and also to the other airports owned and operated by BAA. Pursuant to the Shared Services Agreement, BAA Airports also provides various management services (including senior management and strategic direction), administration, cash management and operational services, including the provision of IT services and staff, to the Operating Companies as described in more detail in "*Business – Shared Services*". Whilst the Shared Services Agreement contains provisions that are designed to assist with the transfer of employees and services to the Operating Companies or a replacement services provider if the Shared Services Agreement were terminated, there can be no assurance that transfers will be effected in a manner that does not adversely affect the business of the Borrowers.

### ***Arrangements entered into by BAA Airports directly***

A significant number of contracts for third party IT systems and IT support important to the Borrower Group's operations are in the name of BAA Airports and are terminable by the contract counterparties if BAA Airports were to become insolvent. Whilst steps may be taken to seek to minimise the impact of such termination provisions, and there may be commercial reasons why the contract counterparties would not elect to terminate if they are being paid for the continued use of the relevant IT system or IT support and the Borrowers are not themselves insolvent, there is a risk that the Borrowers' access to IT systems and IT support may be negatively affected by an insolvency of BAA Airports.

## **REGULATORY RISKS**

### **Legal framework of regulation liable to change**

The UK Government has recently confirmed the completion of a review of the framework for the economic regulation of UK airports. For more information on the UK Government's proposals, see "*Airport Regulation—Airport Regulation Generally—Potential Future Changes to the Regulatory Framework*".

The reforms resulting from the review are expected to be implemented through a new licensing regime for airports similar to licences in place in certain other regulated sectors such as water and energy. Heathrow and Stansted are expected to require a licence and to be subject to some form of price control arrangements and a possible sanctions regime. The reforms include measures to promote the financial resilience of licensed airports including a supplementary duty on the CAA to ensure that airports can finance their licensed activities; ring-fencing provisions that would broadly prohibit the granting or subsistence of security over airport assets but with derogations in respect of those elements that cut across existing financing arrangements with a requirement on the CAA to apply agreed tests when considering the removal of an airport's derogations and an appeals process that is aligned with the wider licence modification process; a minimum creditworthiness requirement for licensed airports; and a requirement for airports to put in place continuity of service plans. The UK Government also confirmed that it will not be proceeding with earlier proposals for the introduction of a special administration regime.

In February 2011, the CAA launched a consultation on the potential extension of Heathrow's current regulatory period by one year to 31 March 2014. This reflects the fact that the bill to introduce the proposed reforms will not be introduced into Parliament before the 2012 session and the CAA's desire that it is in place prior to determining the terms for the next regulatory period. The consultation is due to conclude in March 2011.

If, in the future, the CAA switched on ring-fencing restrictions in a way that adversely affected the ability of the Airports to finance their businesses at reasonable rates, this could be adverse to holders of the Bonds.

Details of the proposed changes to the regulatory framework are not yet available and will require primary legislation to be implemented. There can be no certainty that the proposals will be implemented in a way which reflects published statements to date or at all and so no assurance can be given as to the effect such changes may have on the Borrowers' business.

### **Competition Commission investigation into BAA's ownership of UK airports**

In March 2009, the Competition Commission ("CC") published its final decision in relation to its investigation into the supply of UK airport services by BAA. The key structural remedy called for the disposal of certain airports including Stansted. See "*Airport Regulation—Competition in the Air Transport Industry—Competition Commission Final Decision*".

The CC's decision was initially overturned by the Competition Appeals Tribunal but was upheld by the Court of Appeal in October 2010 and, in February 2011, BAA was refused permission to appeal to the Supreme Court.

Following the Court of Appeal decision, interim undertakings relating to the governance and monitoring of Stansted (as well as Edinburgh and Glasgow airports) have been reinstated and the CC is considering responses to a consultation as to whether there have been material changes in circumstances that might lead to it amending the scope of the remedies requiring that BAA divest Stansted Airport (as well as either Edinburgh or Glasgow airport) contained in its final decision in March 2009. The CC has indicated that it expects to issue its provisional decision on its consultation during March 2011 and the final decision in April 2011.

If BAA is ordered to sell Stansted Airport, BAA would be required under the terms of the Finance Documents to apply the net disposal proceeds to the repayment of debt to the extent required to maintain compliance with the financial ratios specified in the Finance Documents. There can be no assurance that Stansted Airport would be sold for a price that would ensure a reduction in leverage after application of the net disposal proceeds. The Airports have differing airline customer profiles: mainly full-service airlines at Heathrow Airport and low-cost carriers at Stansted Airport. Divestiture of Stansted Airport would mean the Borrower Group would service a less diversified customer base.

### **Civil Aviation Authority regulation**

The Borrower Group's operations at the Airports are subject to regulatory review that results in, amongst other things, the setting of the price caps on certain of the airport's charges by the CAA. This regulatory review generally takes place every five years; see "*Airport Regulation – Principles of Economic Regulation*". In November 2009, the CAA announced two complementary projects intended to support the transition towards a more competitive UK airports industry, namely: the development of the CAA's approach to analysing competition faced by airports and the publication of guidance; and the identification and development of potential alternative approaches to price cap regulation that minimise distortions to competition or investment incentives at airports.

There can be no assurance that the current or future price caps set by the CAA will be sufficient to allow the Airports to operate at a profit; nor that the present price caps will be increased or at least maintained at current levels; nor that the methodology of the review process at subsequent reviews (for instance, the CAA's proposals that in future reviews Stansted charges may not be RAB based) would not have a material adverse effect on the income of the Borrowers.

The CAA has additionally established performance-linked requirements which can negatively impact aeronautical income. For instance, the CAA reduces certain permitted airport charges if prescribed milestones are not met on certain capital investment projects and under a service quality rebate scheme. Failure to meet specified targets relating to, among other things, airport cleanliness, security queuing times and stand and jetty availability can result in rebates to airline customers of up to 7 per cent. of airport charges. See "*Airport Regulation – Heathrow Price Regulation – SQR Scheme*" and "*Airport Regulation – Stansted Price Regulation – The Stansted Airport Q5 Decision*".

### **Other regulatory and public policy changes**

Income and/or operations at the Airports could be adversely affected by changes in policies regarding route licensing, the "use it or lose it" rule under which airlines are required to fly 80 per cent. of their slots or sacrifice them to other airlines, security and safety, immigration and border controls, airport development, environmental policy, tax, air passenger duty and the provision of airport capacity.



## **Environmental, health and safety and planning considerations**

The Borrowers' business is affected by a wide variety of EU and UK environmental, health and safety and planning laws and requirements. The Borrowers' existing operations may be impacted by a number of environmental and planning factors, including those involving aircraft movements; air quality (including emissions standards); noise; soil and water pollution arising from airport operations; discharges and surface water drainage; land and groundwater contamination; flooding; asbestos in premises and exposure to asbestos; waste handling, management and disposal; climate change; and energy use and efficiency.

Compliance with present or future environmental, health and safety and planning requirements may be costly and time-consuming and interfere with the Borrowers' existing activities and operations. Historically, reasonable environmental costs incurred by the Borrowers (other than environmental mitigation matters unrelated to capital expenditure projects, which are typically regarded as operating expenditures) have been taken into account by the CAA in determining the RAB for the related Airport and setting the airport charges. However, there can be no assurance such costs and other constraints will be taken into account in determining RAB in the future or will not have a material adverse effect on the Borrowers' operations or their financial condition.

## **FINANCING RISKS**

### **Hedging Risks**

Whilst the Issuer and the Borrowers operate a hedging programme in accordance with the Hedging Policy, the Issuer and the Borrowers are not required to fully or perfectly hedge their present or future interest rate or inflation exposure and may not in practice do so. The Hedging Policy appears as Schedule 5 to the Common Terms Agreement, which is incorporated by reference in this Prospectus. The Borrowers and the Issuer are subject to the creditworthiness of, and in certain circumstances early termination of the hedging arrangements by, Hedge Counterparties.

In addition, BAA Airports has entered into hedging transactions in relation to an employee share option plan under which employees have the potential right to acquire Ferrovial shares. Under the Shared Services Agreement, BAA Airports may recharge to the Borrowers costs incurred in relation to the hedging transactions. As at 31 December 2010, BAA Airports had a potential liability of £76 million as a result of these arrangements, the majority of which would be attributable to the Borrowers. The amount that the Borrowers may ultimately be required to pay will depend on various factors including the number of options vested or exercised and the Ferrovial share price either on the option exercise dates or when the hedging transactions are terminated or reach maturity.

### **Liquidity Facilities**

The Borrowers and the Issuer have Liquidity Facilities available to cover certain shortfalls in interest and other payments in respect of certain of their financial indebtedness. If the Issuer or the Borrowers are unable to replace a Liquidity Facility Provider which does not renew its commitment, after the Fifth Anniversary of the relevant Liquidity Facility Agreement the Issuer will not be permitted to issue further Bonds and the Borrowers will not be permitted to incur any further Senior Net Indebtedness or Junior Indebtedness.

### **Leverage Risks**

#### *Leverage*

Because of the secured nature of their borrowings and the structure that applies to them, the Borrowers have been able to raise more debt than would typically be the case for an unsecured borrower. As a result, a greater portion of the Borrowers' cash flow from operations is dedicated to payments on their debt obligations, thus reducing their flexibility to deal with significant financial underperformance. This may increase the Borrowers' vulnerability to any economic downturn in their business or to adverse industry conditions.

#### *Financing risk*

The Borrower Group will need to raise further debt from time to time in order, among other things, to:

- (a) finance future capital expenditure; and
- (b) enable it/the Issuer to refinance Bonds and other debt.

There can be no assurance that the Borrower Group will be able to raise future finance on terms that are economically viable or at all. For instance, events in the credit markets in 2007 and 2008 significantly restricted the supply of credit.

## **Monitoring of Compliance with Warranties and Covenants and the Occurrence of Trigger Events, Loan Events of Default or Potential Loan Events of Default**

The STID provides that the Borrower Security Trustee will be entitled to assume, unless it is otherwise disclosed in any Investor Report or Compliance Certificate or the Borrower Security Trustee is expressly informed otherwise, that no Trigger Event, Loan Event of Default or Potential Loan Event of Default has occurred which is continuing. The Borrower Security Trustee will not itself monitor whether any such event has occurred. As the Issuer is a special purpose company, it will fall to the Obligor themselves to make these determinations as well as the determinations of the financial and operational positions underlying them, which may be subjective.

### **Rights of Subordinated Creditors**

In connection with the refinancing of the debt of BAA (SH) plc in November 2010, BAA (SH) plc granted a first ranking charge of all the issued share capital of BAA (SP) Limited to secure its obligations under the New SH Facility and the SH Notes (for definitions and further information see “*Business – Overview – Refinancing of BAA (SH) plc Debt*”).

Following the occurrence of an acceleration event under the New SH Facility and/or the SH Notes, the security agent appointed in connection therewith may be instructed to enforce the security granted over the shares in BAA (SP) Limited which may lead to a change of control of the Borrower Group. Any such change of control may lead to a termination event under the Shared Services Agreement. See “*Commercial Risks – Reliance on BAA Airports as Shared Services Provider*”.

### **Modifications, waivers and consents in respect of Common Documents and Issuer Transaction Documents**

The STID provides that the Borrower Security Trustee shall seek the approval of Bondholders on certain matters, along with all other holders of Qualifying Borrower Debt, as a condition to concurring in making modifications to or granting consents or waivers. There can be no assurance that any modification, consent or waiver will be favourable to all Bondholders. Such changes may be detrimental to the interests of some or all Bondholders, despite the ratings of such Bonds being affirmed. The votes of the Bondholders of the relevant Class may not constitute a majority in respect of any such matter and Bondholders alone may not be able to control the outcome of any particular approval process.

## **OTHER LEGAL RISKS**

### **Mortgagee in possession liability**

Should the Borrower Security Trustee take enforcement proceedings under the Security Documents and if there is a physical entry into possession of any Airports or an act of control or influence that may amount to possession, such as receiving rental income directly from a relevant tenant, the Borrower Security Trustee may be deemed to be a mortgagee in possession. A mortgagee in possession may 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 has the absolute discretion at any time to refrain from taking any action under the Transaction Documents, including becoming a mortgagee in possession in respect of an Airport, unless it is satisfied at the time that it is adequately indemnified by the Borrower Secured Creditors (including the Bondholders on behalf of the Issuer).

### **Change of law**

It is possible that changes in law or regulations, or their interpretation or application (see, for example, “– *Regulatory Risks – Legal framework of regulation liable to change*” above), after the date of the Prospectus may result in the transaction as originally structured no longer having the effect anticipated.

### **Tax Risks**

#### ***The Issuer’s UK tax position***

On establishment of the Programme, the Issuer was advised that it should be a “securitisation company” for the purposes of the UK Taxation of Securitisation Companies Regulations 2006, made in December 2006 under section 84 of the Finance Act 2005, which has subsequently been rewritten to section 624 of the Corporation Tax Act 2010 (the “**Securitisation Regulations**”). The Issuer is operated on the basis that it is a securitisation company for these purposes and is therefore subject to corporation tax in the UK on its retained profit only, in accordance with the special regime for securitisation companies as provided for by these regulations.

If the Issuer were to cease to qualify as a securitisation company, this may have a material adverse effect on the Issuer’s UK tax position which could adversely affect the Issuer’s ability to make timely payment of interest and principal under the Bonds. See “*Tax Considerations – United Kingdom Taxation*”.

### ***Potential secondary tax liabilities of the members of the Borrower Group and the Issuer***

Where a company fails to discharge certain tax liabilities within a specified time period, UK tax law imposes, in certain circumstances, secondary liability for those overdue taxes on other companies that are or have been members of the same group of companies, or are or have been under common control, for tax purposes with the company that has not discharged its tax liabilities.

If any secondary tax liabilities arise in the Issuer or the Borrowers, which are not discharged by the Tax Covenantors, and are of significant amounts, the Issuer or the Borrowers could be adversely affected.

The Issuer and the members of the Borrower Group have been members of a value added tax (“VAT”) group that also includes members of the wider corporate group of which BAA is the representative member. Although, following the Initial Issue Date, the Issuer and the members of the Borrower Group ceased to be grouped for VAT purposes with members of the wider group, they will continue to have exposure to VAT liabilities of other members of the wider BAA group that arose prior to the Initial Issue Date.

### ***Withholding tax in respect of the Bonds***

In the event that any withholding or deduction for or on account of tax is required to be made from payments due under the Bonds, neither the Issuer nor any Paying Agent nor any other person will be obliged to pay any additional amounts to Bondholders or, if Definitive Bonds are issued, Couponholders, or otherwise to compensate Bondholders or Couponholders for the reduction in the amounts they will receive as a result of such withholding or deduction. See “*Tax Considerations*” for a discussion of the risk of withholding taxes applying in respect of payments under the Bonds.

### ***Withholding tax in respect of Borrower Loan Agreements***

The Issuer believes that all payments made under a Borrower Loan Agreement can be made without deduction or withholding for or on account of any UK or Jersey tax. In the event that any withholding or deduction for or on account of tax is required to be made from any payment due to the Issuer under a Borrower Loan Agreement, the Borrower making that payment will be obliged to gross up that payment so that the Issuer will receive the same cash amount that it would have received had no such withholding or deduction been required to be made. If a Borrower is obliged to increase any sum payable by it to the Issuer as a result of that Borrower being required by a change in tax law to make a withholding or deduction from that payment, that relevant Borrower will have the option (but not the obligation) to prepay all relevant outstanding advances made under the relevant Borrower Loan Agreement in full. If the Borrowers choose to prepay the advances, the Issuer will then be required to redeem the Bonds. Such redemption would be for the Principal Amount Outstanding (as adjusted, in the case of the index-linked bonds, in accordance with the terms of the Bonds), together with accrued interest. If the Borrowers do not have sufficient funds to enable them to either repay the relevant Borrower Loan Agreement or gross up payments to the Issuer, the Issuer’s ability to make timely payments of interest and principal under the Bonds could be adversely affected.

## **Insolvency Considerations**

### ***Appointment of Administrative Receiver***

The Insolvency Act allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, it should be applicable to the floating charges created by the Obligors and assigned by way of security to the Bond Trustee. However, as this issue is partly a question of fact, were it not to be possible to appoint an administrative receiver in respect of one or more Obligors, they would be subject to administration if they were to become insolvent.

Since the Issuer is incorporated in Jersey, it is unlikely that it will be possible to appoint an administrative receiver in respect of the Issuer in England (so as to prevent the appointment of an English administrator) using the capital market provisions referred to above. Accordingly, in the event that the Issuer were to become insolvent and it was not possible to appoint an administrative receiver, the Issuer could be placed into administration.

### ***Recharacterisation of fixed security interest***

There is a possibility that a Court could find that certain fixed security interests instead take effect as floating charges. Whether the fixed security interests will be upheld will depend, among other things, on whether the Borrower Security Trustee or, as the case may be, the Bond Trustee has the requisite degree of control over the relevant assets and exercises that control in practice. If the fixed security interests are recharacterised as floating security interests, certain claims, including certain employee claims in respect of contributions to pension schemes and wages and the costs and expenses of an administration and/or a liquidation, may have priority over the rights of the Borrower Security Trustee or the Bond Trustee, as the case may be, to the proceeds of enforcement.

## **ISSUER AND BOND CONSIDERATIONS**

### **Bonds obligations of Issuer only**

None of the Bonds will be obligations of, nor will they be guaranteed by, any of the Other Parties or any company in the Borrower Group. Furthermore, the Bonds are limited recourse obligations of the Issuer and no person other than the Issuer will accept any liability whatsoever to Bondholders in respect of any failure by the Issuer to pay any amount due under the Bonds.

### **Special purpose vehicle issuer**

The Issuer is a special purpose financing entity established for the purpose of issuing asset backed securities, in particular, bonds to finance loans made by it to the Borrowers under the Borrower Loan Agreements, which are secured by security granted over the Borrowers' business and assets. Other than the proceeds of the issuance of Bonds, the Issuer's principal source of funds will be pursuant to the Borrower Loan Agreements (and thereby indirectly from the Borrowers' business) and funds available to it pursuant to the Issuer Liquidity Facilities and the Issuer Hedging Agreements.

Therefore, the Issuer is subject to all the risks relating to income and expenses to which the Borrowers are subject. Such risks could limit funds available to the Borrowers to enable the Borrowers to satisfy in full and on a timely basis their obligations under the Borrower Loan Agreements and their guarantees under the Security Agreement.

### **Issuer and Borrower security**

Although the Bond Trustee will hold the benefit of the Issuer Security on trust for the Bondholders and the Borrower Security Trustee will hold the benefit of the Borrower Security on trust for the Borrower Secured Creditors, such security interests will also be held on trust for certain third parties. Certain of the Issuer's obligations to such third parties rank ahead of the Bondholders. Such persons include, among others, the Bond Trustee (in its individual capacity), the Issuer Hedge Counterparties (in respect of certain payments payable to them), the Issuer Liquidity Facility Providers, the Registrar, the Transfer Agents, the Paying Agents and the Issuer Account Bank in respect of certain amounts owed to them (see "*Summary of the Financing Agreements – Documents Not Incorporated by Reference – Cash Management – Issuer Cash Management Agreement and Issuer Account Bank Agreement*"). To the extent that significant amounts are owing to any such persons, the amounts available to Bondholders will be reduced. Likewise, certain of the Borrowers' obligations to certain third parties will rank ahead of their obligations to the Issuer. In addition, it should be noted that unsecured creditors of the Borrowers, such as trade creditors and suppliers, while subordinate to Borrower Secured Creditors, are not bound into the financing structure as they are not parties to the STID and the Common Terms Agreement and so will be able to petition for a winding up or administration of a relevant Borrower who fails to pay its unsecured debts as they fall due.

### **Timing of payment on Bonds**

Payment Dates for the various different types of Senior Debt, Junior Debt and Subordinated Debt will not necessarily coincide, and there is no obligation to ensure that a payment made in respect of any Junior Debt or Subordinated Debt will not lead to a deficiency of funds to make payments in respect of Senior Debt that falls due on a later date.

### **Subordination of the Class B Bonds**

Payments under the Class B Bonds will rank subordinate to payments under the Class A Bonds. If on any Interest Payment Date the Issuer has insufficient funds to make payments under the Class B Bonds and unless amounts are available to be drawn under the Issuer Liquidity Facility, the Issuer's liability to make such payments will be deferred and no non payment Bond Event of Default will arise as a result of such non payment. Prior to repayment in full of the Senior Debt, rights of holders of Class B Bonds are (other than with respect to a Basic Terms Modification or other matters which affect their Entrenched Rights) generally restricted with respect to certain actions and participating in voting on STID Proposals, with the result that such holders will only be entitled to vote on certain matters and take action following repayment of the Senior Debt.

### **Conflict of interest**

The Bond Trust Deed requires the Bond Trustee to have regard to the interests of all the Bondholders (so long as any of the Bonds remain outstanding) equally as regards all powers, trusts, authorities, duties and discretions of the Bond Trustee as if they formed a single class (except where expressly required otherwise). However, the Bond Trust Deed also requires that, in the event of a conflict between the interests of the holders of any Class of Bonds, the Bond Trustee shall have regard to the interests of the holders of the Most Senior Class of Bonds then outstanding provided that, if, in the Bond Trustee's opinion, there is a conflict of interest between the holders of two or more Tranches or Sub-Classes of Bonds of the same Class, it shall have regard to the interests of the holders of the Tranche or Sub-Class of such Class then outstanding with the greatest Principal Amount Outstanding.

### **Limited liquidity of the Bonds; Absence of secondary market for the Bonds**

There can be no assurance that a secondary market for the Bonds will develop, or, if a secondary market does develop for any of the Bonds issued after the date of this Prospectus, that it will provide any holder of Bonds with liquidity or that any such liquidity will continue for the life of the Bonds. Consequently, any purchaser of the Bonds must be prepared to hold such Bonds for an indefinite period of time or until final redemption or maturity of the Bonds.

The liquidity and market value at any time of the Bonds are affected by, among other things, the market view of the credit risk of such Bonds and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets, international political events and the performance and financial condition of the Borrowers.

### **Rating of the Bonds; Change to covenants subject to Ratings Confirmation**

Changes can be made to certain covenants provided that the Borrowers obtain a Ratings Confirmation in respect of the particular change. The Rating Agencies may not provide their confirmation in the time available or at all, and they will not be responsible for the consequences thereof. A Ratings Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time. A Ratings Confirmation cannot be construed as advice for the benefit of any parties to the transaction. No assurance can be given that, although a Ratings Confirmation in respect of any particular change has been provided, such change will not have an adverse impact upon the business of the Borrowers.

The ratings assigned by the Rating Agencies to the Class A Bonds and the Class B Bonds reflect only the views of the Rating Agencies and in assigning the ratings the Rating Agencies take into consideration the credit quality of the Borrowers and structural features and other aspects of the transaction, including counterparty risk. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies as a result of changes in, or unavailability of, information or if, in the Rating Agencies' judgment, circumstances so warrant. If any rating assigned to the Bonds is lowered or withdrawn, the market value of the Bonds may be reduced. Future events, including events affecting the Borrowers and/or circumstances relating to the airport industry generally, could have an adverse impact on the ratings of the Bonds.

### **Certain risks related to index-linked Bonds**

Under the Programme, the Issuer may from time to time issue Bonds with principal or interest determined by reference to an index or formula. Potential investors should be aware that they may lose all or a substantial portion of their principal of any index-linked Bonds issued under the Programme. The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any index-linked Bonds. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any such Bonds and the suitability of such Bonds in the light of its particular circumstances.

### **Changes to the risk weighted asset framework**

Bondholders should consult their own advisers as to the consequences to and effect on them of the application of the EU Capital Requirements Directive (Directive numbers 2006/48/EC and 2006/49/EEU, as amended (“**CRD**”)), as implemented by their own regulator, to their holding of any Class of Bonds. The Issuer is not responsible for informing Bondholders of the effects of the changes to risk-weighting which will result for investors from the adoption of CRD by their own regulator.

### **Denominations and trading**

The Bonds of each Class, Sub-Class or Tranche will be issued in the Specified Denominations as set out in the Final Terms. For so long as the Bonds of any relevant Class, Sub-class or Tranche are represented by a Global Bond, and the rules of Euroclear and Clearstream, Luxembourg so permit, the Bonds will be tradeable in minimum authorised denominations of €50,000 or not less than the equivalent of €50,000 in any other currency as at the date of issue of the Bonds (the “**Minimum Denomination**”) and higher integral multiples of a smaller amount (the “**Integral Amount**”) up to and including the amount that is twice the Minimum Denomination less the Integral Amount (the “**Maximum Denomination**”). However, if Definitive Bonds for that Class, Sub-class or Tranche of Bonds are required to be issued and printed, any Bondholders holding Bonds having a denomination which cannot be represented by a Definitive Bond in the Minimum Denomination or higher integral multiples of the Integral Amount up to and including the Maximum Denomination will not be entitled to receive a Definitive Bond and would need to purchase a principal amount of Bonds such that its holding amounts to a Specified Denomination.

### **Book-entry form of Bonds**

The Bonds will initially only be issued in global form and deposited with a common depository for Euroclear and Clearstream, Luxembourg. Interests in the Global Bonds and Global Bond Certificates will trade in book-entry form only. The common depository, or its nominee, for Euroclear and Clearstream, Luxembourg will be the sole holder of the Global Bonds and Global Bond Certificates representing the Bonds. Accordingly, owners of book-entry interests must

rely on the procedures of Euroclear and Clearstream, Luxembourg, and non-participants in Euroclear or Clearstream, Luxembourg must rely on the procedures of the participant through which they own their interests, to exercise any rights and obligations of a holder of Bonds.

Unlike the holders of the Bonds themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Bonds. The procedures to be implemented through Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Bonds.

## BUSINESS

### 1. OVERVIEW

#### 1.1 Overview of the Borrower Group

The Borrower Group includes the operators of Heathrow Airport and Stansted Airport and the Heathrow Express rail service. The Airports operate in one of the world's busiest air traffic markets. In 2010, the Airports handled approximately 66 per cent. of airline passenger traffic in the Greater London area.

Heathrow is the world's busiest airport in terms of international passengers and the busiest airport in Europe in terms of total passengers. In 2009, Heathrow handled nearly 15 per cent. more international passengers than its nearest rival, Paris Charles de Gaulle.

Heathrow is the UK's only hub airport used almost wholly by network airlines and having a significant proportion of transfer traffic whilst Stansted is predominantly a point to point airport used primarily by low cost airlines to serve short haul routes across Europe. Heathrow handles approximately 70 per cent. of all the UK's long haul air traffic and 52 per cent. of all air traffic in the Greater London area. As such, it represents essential transport infrastructure for the Greater London area and the whole of the United Kingdom.

Given its relative scale, Heathrow is also critical to the financial profile of the Airports, accounting in 2010 for approximately 78 per cent. of the Airports' total passengers and approximately 90 per cent. of their revenue, Adjusted EBITDA and RAB.

The Borrower Group generates two primary types of income: aeronautical income and non-aeronautical income. Aeronautical income is generated from fees charged to airlines for use of the airports' facilities for flight and passenger activities. Non-aeronautical income is generated mainly from retail concession fees, car parking income and other services supplied by the Airport Operators. The Borrower Group also generates income from the Heathrow Express rail operations.

The map below shows the location of the Airports:



#### 1.2 The Competition Commission Final Decision

BAA's provision of airport services has been the subject of a Competition Commission ("CC") investigation which decided in its final decision in March 2009 that BAA must divest both Gatwick Airport and Stansted Airport. Gatwick has since been sold.

The CC's decision was initially overturned by the Competition Appeals Tribunal but was upheld by the Court of Appeal in October 2010 and, in February 2011, BAA was refused permission to appeal to the Supreme Court.

Following the Court of Appeal decision, interim undertakings relating to the governance and monitoring of Stansted (as well as Edinburgh and Glasgow airports) have been reinstated and the CC is considering responses to a consultation as to whether there have been material changes in circumstances that might lead to it amending the scope of the remedies requiring that BAA divest Stansted Airport (as well as either Edinburgh or Glasgow airport) contained in its final decision in March 2009. The CC has indicated that it expects to issue its provisional decision on its consultation during March 2011 and the final decision in April 2011.

### *1.3 Runway developments*

In response to the new UK Government's 'Coalition Agreement', Heathrow Airport and Stansted Airport have stopped pursuing planning applications for their third and second runways respectively. The decision on runways is expected to reduce BAA's financing requirements over the next quinquennium. As a result of this decision the Borrower Group has announced an impairment charge of £149.3 million in respect of runway planning application costs at both Heathrow and Stansted, of which £104.4 million related to the write-off of planning application costs and £44.9 million related to the write down in the value of domestic properties and land purchased by both airports falling within the planned expanded airport boundaries prior to their transfer to investment properties. The Borrower Group does not expect any accounting write off to have an impact on the RAB, the Borrower Group's financial ratios or its future cash flows.

### *1.4 Historical Overview of the Operating Companies*

The BAA Group is owned by investment vehicles controlled by Ferrovial S.A., Caisse de dépôt et placement du Québec and the Government of Singapore Investment Corporation, which acquired what was then BAA plc (now BAA Airports) in June 2006. The Airport Operators are indirect subsidiaries of BAA Airports. BAA Airports is itself a subsidiary of BAA.

On 22 October 2010, Ferrovial S.A. announced plans to sell a minority stake of about 10 per cent. of its shares in FGP Topco Limited, the BAA Group's ultimate holding company. At the same time, Ferrovial S.A. re-affirmed its commitment as a long-term investor in the BAA Group.

BAA currently owns and operates six airports in the United Kingdom, including Heathrow Airport and Stansted Airport.

### *1.5 Economic Regulation*

The Airports are subject to economic regulation by the CAA. The regulatory system is designed to allow airports to generate revenues which are sufficient to allow airports to finance their operating and capital expenditure requirements and provide a regulated rate of return on their Regulatory Asset Base, referred to as RAB.

In July 2010, the new UK Government announced that it will introduce an Airport Economic Regulation Bill to reform the economic regulation of airports to promote both the interests of passengers and investment in the UK's airports. The proposals of the UK Government include the introduction of an operating licence regime for Heathrow Airport and Stansted Airport.

The measures will include a primary duty for the CAA to promote the interests of passengers and a supplementary duty to ensure that licensees can finance their activities. The measures will also include a minimum credit worthiness requirement for licensed airports, ring fencing provisions with initial derogations from certain provisions where the costs of introduction would exceed their benefits, a requirement on the CAA to apply agreed tests when considering the removal of derogations and an appeals process that is aligned with the wider licence modification process and a requirement for airports to put in place continuity of service plans.

The Government also confirmed it will not bring in a special administration regime and that it will not be making changes to the basis on which the current price caps at Heathrow and Stansted are set.

In February 2011, the CAA launched a consultation on the potential extension of Heathrow's current regulatory period by one year to 31 March 2014. This reflects the fact that the bill to enact these reforms will not be introduced into Parliament before the 2012 session and the CAA's desire that it is in place prior to determining the terms for the next regulatory period. The consultation is due to conclude in March 2011.

For more information on economic regulation of the Airports, see "*Airport Regulation*".

### *1.6 Refinancing of BAA (SH) plc Debt*

In November 2010, BAA (SH) plc refinanced its outstanding debt through the entry into of a new loan facility in an amount of £175 million (the "**New SH Facility**") and the issuance of £325 million secured notes due 2017 (the "**SH Notes**"). To secure its obligations under the New SH Facility and the SH Notes, BAA (SH) plc provided a first ranking charge of all the issued share capital of BAA (SP) Limited which is enforceable in accordance with the terms of an intercreditor agreement entered into between, among others, the facilities agent in respect of the New SH Facility, the note trustee in respect of the SH Notes and the security agent.



## Heathrow

Located 15 miles west of Central London, Heathrow Airport handles more international passengers than any other airport in the world. It is the principal airport for long haul routes in the United Kingdom and is Europe's busiest airport in terms of total passengers. In 2010, 65.7 million passengers travelled through Heathrow Airport, of which approximately 7 per cent. were domestic passengers, 53 per cent. were international long haul passengers and 40 per cent. were European passengers. Heathrow Airport hosts most of the world's major international airlines and is the worldwide hub of British Airways and the main European hub of the **oneworld** alliance. It also hosts the other two principal alliances of SkyTeam and Star Alliance. In 2010, British Airways accounted for approximately 41 per cent of Heathrow's air transport movements ("ATMs"), **oneworld** 48 per cent. and Star Alliance 30 per cent. In 2010, approximately 65 per cent. of Heathrow Airport's passenger traffic was origin and destination traffic and 35 per cent. was transfer traffic.

Heathrow Airport is served by two parallel runways which together have maximum permitted air transport movements of 480,000 per year. For the 12 months ended 31 December 2010, actual passenger air transport movements totalled 449,220. Heathrow Airport provides a wide range of passenger services, including passenger-handling facilities, shops, bars, restaurants and over 20,000 public car park spaces. Heathrow Airport is served by extensive bus services, London Underground services and the dedicated Heathrow Express rail link to and from London Paddington Station. Heathrow generated turnover of £1,844.7 million and, including Heathrow Express, Adjusted EBITDA of £880.7 million for the 12 months ended 31 December 2010.

## Stansted

Located 30 miles northeast of Central London, Stansted Airport is the UK's third busiest airport in terms of total passengers. In 2010, 18.6 million passengers travelled through Stansted Airport, of which approximately 9 per cent. were domestic passengers, 3 per cent. were international long haul passengers and 88 per cent. were European passengers. Stansted Airport's traffic is predominantly point-to-point traffic, with the airport being home to low-cost airlines that mainly serve short haul destinations in Europe and charter airlines specialising in short and medium-haul destinations. Ryanair is the largest airline operating at Stansted Airport, representing 63.8 per cent. of Stansted's aeronautical income in 2010. Stansted's single runway has a maximum allowed capacity of 264,000 air transport movements per year, enabling passenger capacity of up to 35 million per year. For the 12 months ended 31 December 2010, actual passenger air transport movements at Stansted Airport totalled 133,151. Stansted Airport offers a full range of passenger services, with shops, bars, restaurants and over 26,000 public car park spaces. Stansted Airport is also served by extensive local and express bus services, train services and the dedicated Stansted Express rail link to and from London Liverpool Street Station. Stansted generated turnover of £229.6 million and Adjusted EBITDA of £86.2 million for the 12 months ended 31 December 2010.

<i>General Description</i> <sup>(1)</sup>	<i>Heathrow</i>	<i>Stansted</i>
Opened in	1946	1966
Location	15 miles west of Central London	30 miles northeast of Central London
Number of runways	2 (currently operated under segregated mode)	1
Runway length (metres)	Northern: 3,902; Southern: 3,658	3,048
Number of terminals <sup>(2)</sup>	4	1
Total land area	1,227 hectares	957 hectares
Total retail space (m <sup>2</sup> ) <sup>(3)</sup>	52,469	11,081
Closing RAB at 31 March 2010 <sup>(4)</sup>	£10,728.5 million	£1,293.0 million

**Passenger statistics and air transport movements**
**Passenger profile**

International/domestic .....	93% (long haul: 53%; European: 40%)/7%	91% (long haul: 3%; European: 88%)/9%
Business/leisure .....	34%/66%	20%/80%
Full-cost/low-cost/charter .....	100%/–/–	3%/94%/3%
<b>Airlines</b> .....	86 (main airlines: British Airways, Virgin Atlantic Airways and bmi)	21 (main airlines: Ryanair and easyJet)
<b>Destinations</b> .....	170	150
<b>Air transport movement allowed annual capacity</b> .....	480,000	264,000
<b>Air transport movements</b> .....	449,220	133,151/143,335 <sup>(5)</sup>
<b>Passengers allowed annual capacity</b> ..	Not applicable	35 million
<b>Passengers</b> .....	65.7 million	18.6 million

Source: BAA.

- (1) Except as otherwise indicated, data as of 31 December 2010 or for the year ended 31 December 2010.
- (2) Heathrow Terminal 2 closed in November 2009 and a new Terminal 2 is currently under construction.
- (3) Heathrow and Stansted also have retail space of 5,536 m<sup>2</sup> and 389 m<sup>2</sup> respectively outside of their terminals.
- (4) Source: Heathrow and Stansted regulatory accounts, 31 March 2010.
- (5) Stansted air transport movements of 133,151 include passenger air transport movements only and of 143,335 includes cargo and passenger air transport movements.

## **2. STRENGTHS**

### **The Airports have a strong position in the South East of England, one of the world's busiest air traffic markets and a market with growing demand for air travel and limited airport capacity.**

- Airports are critical to domestic and international travel, trade and communication. With a strong position in the South East of England, Heathrow and Stansted represent unique and high quality infrastructure in one of the most important air travel catchment areas in the world. Aviation is a long-term growth industry. Over the ten years to 2010, passenger traffic through Heathrow and Stansted increased at a compound annual rate of 1 per cent. despite the effects of both the 2001 terrorist attacks in the United States and the major economic downturn in 2008 and 2009. Growth in air travel in the South East of England is expected to continue. In the UK Government's 2003 Air Transport White Paper ("ATWP"), an independent analysis of traffic forecast that air travel demand in the South East of England will increase to between 200 and 300 million passengers per annum by 2030. This compares with total traffic through the five major airports in the Greater London area of approximately 127 million passengers in 2010 (Source: BAA/CAA). Heathrow Airport and Stansted Airport accounted for approximately 52 per cent. and 14 per cent., respectively, of this traffic. Given their significant position in the Greater London airport market, the Airports are essential transport infrastructure for the South East of England and, in the case of Heathrow Airport, for the entire United Kingdom.
- The scale of infrastructure and geographical requirements necessary to develop a competing airport provide for high barriers to entry. These barriers to entry are even more marked for hub airports such as Heathrow. The ATWP ruled against the development of any competing runway infrastructure in the South East of England until 2030 and the new UK Government has ruled out new runway development at Heathrow, Stansted and at Gatwick, meaning that new airport development in this geographic area is unlikely for the foreseeable future.
- London is the world's leading financial centre, driving significant global business travel into and out of the region. The United Kingdom is ranked sixth globally for international arrivals and seventh for international tourism earnings (Source: Visit Britain).

### **The Borrower Group benefits from the unique scale, market position and resilience of Heathrow Airport.**

- Heathrow is the world's busiest airport in terms of international passengers and Europe's busiest airport in terms of total passengers. Heathrow accounts for approximately 90 per cent. of the Group's turnover, Adjusted EBITDA and RAB.
- Heathrow Airport enjoys a unique market position in the United Kingdom, being the country's only hub airport and acting as the gateway to approximately 70 per cent. of all long haul air traffic entering and leaving the United Kingdom in 2010 (Source: BAA/CAA). In 2010, approximately 35 per cent. of its traffic comprised transfer passengers with approximately 75 per cent. of this traffic connecting between international flights.
- Over half of Heathrow Airport's passengers are non-UK resident and it has an even split between business, visiting friends and family and leisure traffic. Further, it has a balanced mix of European, North Atlantic and other long haul traffic. As a result, there is a greater diversity of economic and demographic factors affecting Heathrow's passenger demand compared to other UK and international airports.
- An increasing proportion of its passenger traffic relates to the fastest growing long haul segment of the global aviation industry; at 53 per cent. in 2010, this is a significantly higher proportion than other UK and European airports. It has also been operating close to its permitted capacity for a number of years reflecting airline demand to use the airport. These two factors provide Heathrow with substantial resilience in its passenger traffic.

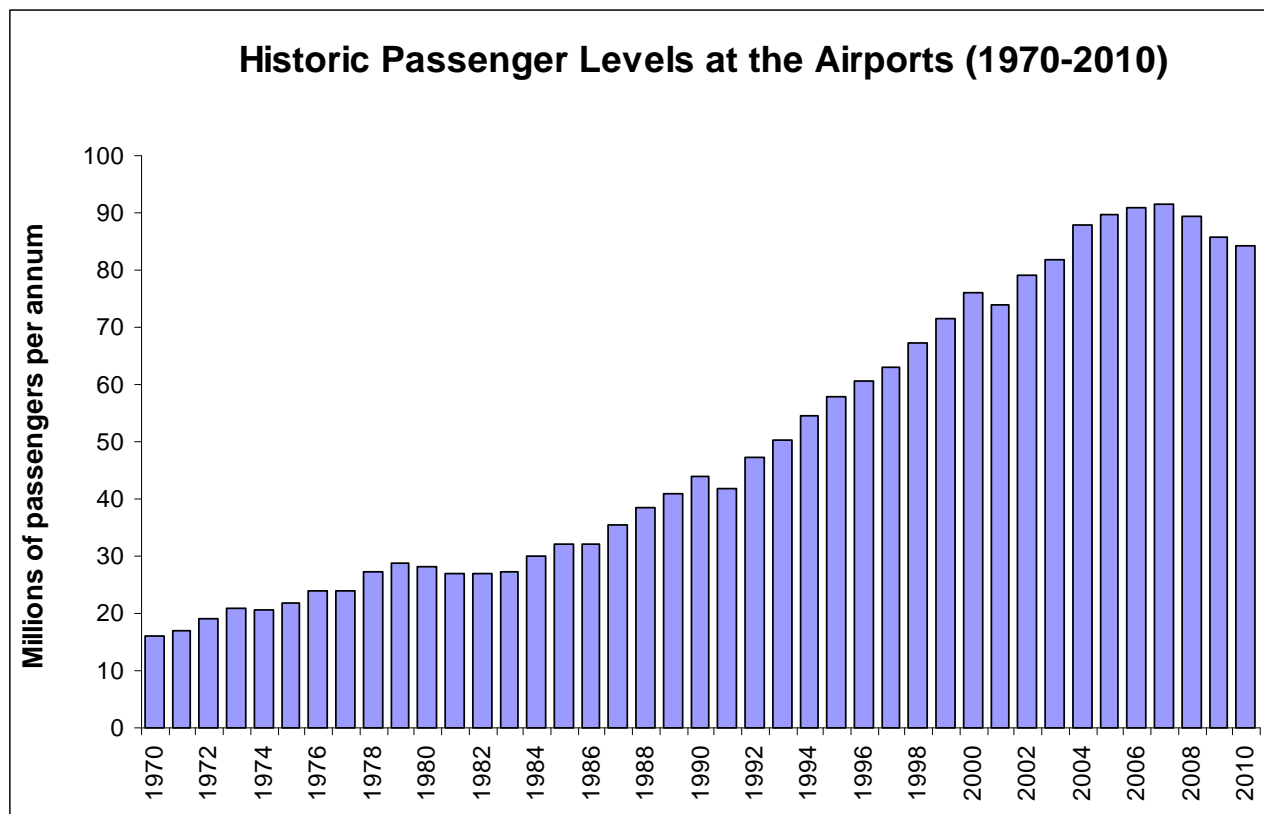
### **Regulation provides cash flow visibility and mitigates market risk.**

- Heathrow and Stansted are both subject to price regulation by the CAA. This involves the CAA every five years setting caps on the amount that the Airports can charge airlines for using their facilities. The charges are set taking into account forecast passenger traffic, operating costs and other revenues for the relevant Airport as well as allowing recovery of capital costs and a return on capital. In making its determination, the CAA takes into account the actual historic experience of the Airports which materially mitigates the market risk faced by the

Airports. This price setting mechanism provides significant income predictability and cash flow visibility within each regulatory period as well as protection against longer term cost and revenue risks.

#### Proven resilience to shocks and economic downturns.

- Heathrow has been resilient to economic downturns and other changes in the air travel market seen in recent years such as wars, acts of terrorism and the threat of pandemic illnesses. In recent years, demand for air travel in the United Kingdom has tended to return relatively quickly to historic levels following external shocks. The graph below shows that demand shocks in the United Kingdom, such as the terrorist attacks of 11 September 2001, oil crises and the first Gulf war, have been followed by periods of renewed growth bringing passenger numbers back to the pre-shock trend.



Source: BAA.

#### The Airports benefit from diversified income sources and serve a variety of market segments.

The Airports earn income from a variety of sources, including:

- charges to airlines;
- concession fees from retail operators and direct income from car parks and advertising revenue;
- the rental of airport premises such as aircraft hangars, cargo storage facilities, maintenance facilities and offices;
- the provision of facilities such as baggage handling and passenger check-in; and
- the operation of the Heathrow Express rail service.

The Airports serve a diversified range of major airlines, including British Airways, Virgin Atlantic Airways, bmi, easyJet and Ryanair. Heathrow is less reliant on its main customer and airline alliance (2010: British Airways, 41 per cent. of ATMs; **oneworld**, 48 per cent. of ATMs) than other European hub airports (e.g. Amsterdam Schiphol (2009: KLM, 51 per cent. of ATMs; SkyTeam, 65 per cent. of ATMs) and Frankfurt (2009: Lufthansa, around 60 per cent. of passengers; Star Alliance, 74 per cent. of passengers).

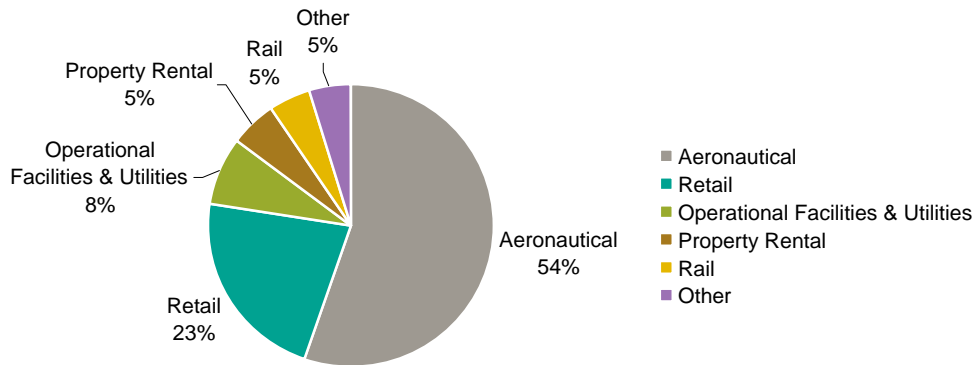
Heathrow and Stansted serve a range of market segments, including:

- business and leisure travellers;
- origin and destination and transfer passengers;
- long and short haul routes; and

- full-cost, low-cost and charter carriers.

The chart below represents the total revenue of the Airports by source for 2010.

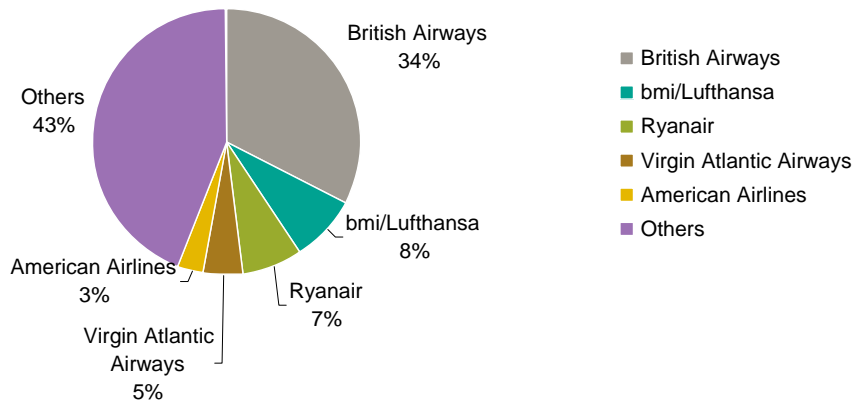
**Total revenue of the Airports by source, 2010**



Source: BAA.

The chart below represents the total aeronautical income of the Airports by airline for 2010.

**Total aeronautical income<sup>(1)</sup> of the Airports by airline, 2010**



Source: BAA.

(1) Excludes other charges, related primarily to the provision of fixed electrical ground power and pre-conditioned air to aircraft.

### 3. STRATEGY

The Airports' strategy is focused on providing world-class airports to serve the UK's capital city, particularly by developing Heathrow Airport's position as the UK's direct connection to the world and Europe's hub airport of choice.

To support and develop Heathrow Airport's role as a hub, the Borrower Group will continue enabling the success of the major network airlines operating at Heathrow Airport by investing in further capacity, operational flexibility and resilience at sustainable charges for airline customers.

Heathrow Airport offers a compelling, competitive range of routes and frequencies for the large London origin and destination aviation market. For both local and transfer passengers Heathrow Airport is working continuously to make every journey better through improved service standards to ensure it remains passengers' preferred airport. Improving the passenger experience is supported by ongoing investment in modern airport facilities and operating processes.

#### **4. THE ROLE OF THE AIRPORT OPERATORS**

The Airport Operators co-ordinate the activities of the numerous organisations involved in the provision of airport services to passengers, airlines and other airport users. Their activities include:

- providing passengers, airlines and other service providers with the infrastructure and facilities (such as check-in desks, concourses, gate rooms, baggage handling facilities and office facilities) needed to optimise operations and maximise passenger and flight traffic within existing capacity constraints;
- implementing, under government supervision, air transport security measures, including passenger and baggage inspections. The UK Government has the power to give any Airport Operator “such directions of a general character as appear to the Secretary of State to be necessary or expedient in the interests of national security or of relations with a country or territory outside the UK”;
- developing commercial areas (such as shops, restaurants and car parks) and determining the optimal mix and location of retail services;
- maintaining and developing airport infrastructure to meet evolving airline and passenger demands, including delivering a “master plan” for the future development of each Airport;
- ensuring that the Airports are served by appropriate and adequate ground transport services;
- maximising capacity at the Airports and setting airport capacity constraints in consultation with National Air Traffic Services Limited (“NATS”), the airlines and Airport Co-ordination Limited (“ACL”), an organisation owned and managed by several major UK airlines, which allocates take-off and landing slots; and
- assigning airlines to terminals at the Airports in consultation with the airlines, ACL and NATS.

Each Airport Operator must address the specific needs of each category of airline that uses its airport.

#### **5. AIRPORT INFRASTRUCTURE, FACILITIES AND ACCESS**

##### *5.1 Heathrow Airport*

###### *(a) Overview*

Heathrow Airport commenced operations as London’s principal commercial airport in 1946. Heathrow Airport’s first permanent terminal opened in 1955 and the substantial growth in demand for air transport throughout the 1960s and 1970s saw much of the core infrastructure at Heathrow Airport’s Central Terminal Area developed, including the opening of what is now Terminal 3 in 1961 and Terminal 1 in 1968 and the construction of car parks, public transport and other operational and administration facilities. Terminal 4 was added in 1986.

With the opening of Terminal 5’s main facilities in March 2008, Heathrow Airport acquired additional terminal passenger capacity for 30 million passengers per year. Once Terminal 5C becomes fully operational in 2011 up to 35 million passengers per year will enjoy the same passenger experience as if they were using the main terminal.

The additional capacity provided by Terminal 5 has enabled Heathrow to begin rebuilding and renovating Heathrow’s other four terminals.

The first key phase in transforming Heathrow’s existing terminals is the construction of a new Terminal 2. The original Terminal 2 was closed in November 2009. Demolition of buildings on the new Terminal 2 site has been completed and construction of the new terminal is underway. The new Terminal 2 will be home to the Star Alliance airlines at Heathrow providing competitive equivalence to British Airways at Terminal 5. It will have an initial capacity of 20 million passengers per year when it becomes operational in 2014. The new terminal may be extended beyond the first phase currently under construction including to occupy the current footprint of Terminal 1, necessitating the closure of this terminal and increasing the terminal’s capacity to 30 million passengers per year.

These projects are expected to expand Heathrow Airport’s terminal capacity to between 90 million and 95 million passengers per year. Without additional runway capacity, these levels of passenger throughput are dependent on increasing the average number of passengers carried on each aircraft through a combination of use of larger aircraft and higher load factors.

Recent trends in aircraft manufacturing have led to an increase in development of larger aircraft. The Airbus A380, the world’s largest passenger aircraft (average 475 passengers), is expected to be particularly attractive to major network carriers that serve hub airports that are at or near maximum permitted runway capacity. The A380 commenced scheduled services from Heathrow Airport in March 2008, and there are currently in excess of 350 A380 air transport movements per month.

(b) Runways

Heathrow Airport's two parallel runways generally operate in "segregated mode", with arriving aircraft allocated to one runway and departing aircraft to the other. To mitigate noise impact to residents living below the approach and departure routes, the allocation of runways to arriving and departing aircraft is normally swapped at around 3:00 p.m. each day or as weather conditions necessitate.

Heathrow Airport is permitted to schedule up to 480,000 air transport movements per year and its runways currently operate at approximately 95 per cent. of their permitted capacity.

(c) Retail Facilities

Heathrow Airport has a total of approximately 53,000 square metres of retail space served by over 90 retail clients operating approximately 400 retail outlets. Terminal 5, with over 24,000 square metres of retail space, has significantly increased the Airport's overall retail portfolio. BAA owns over 20,000 public car park spaces at Heathrow Airport that are available to travellers and the general public. All terminals at Heathrow Airport are served by car rental operators. Heathrow Airport's terminals and their approaches provide advertising space, which yields further income.

(d) Access to Heathrow Airport

Heathrow Airport's extensive ground transport links facilitate access to the airport for passengers, cargo transporters and airport personnel:

- Heathrow Airport is located just off the M4 motorway to London and the west of England and London's orbital motorway, the M25.
- Heathrow Express offers a frequent non-stop rail service to and from London Paddington Station. This service is supplemented by the Heathrow Connect "stopping service", which provides connections with train services on the UK's western main line as well as local access to the airport.
- Additional direct rail connections to Heathrow Airport are expected in the future following the completion of Airtrack, which will link the airport to the South and West of London, and of the cross London rail service Crossrail. In addition, the new UK Government has confirmed its support for the proposed high speed rail link between London and Birmingham together with closer assessment of the merits of a direct connection to Heathrow. A direct high speed rail link to Heathrow would reduce journey times from the Midlands and north of England and is expected to increase demand to use Heathrow by capturing UK passengers that currently travel via other European hub airports. Capacity should also be increased by allowing domestic slots serviced by relatively small aircraft to be rotated onto long haul routes serviced by larger aircraft.
- The London Underground Piccadilly Line has stations serving each of the terminals at Heathrow Airport.
- Long distance coach services operated by National Express provide fast services from Heathrow Airport to various parts of the United Kingdom, including Victoria Coach Station in Central London. Many of the local bus services in the nearby London suburbs also run to Heathrow Airport.

(e) Future investment at Heathrow Airport

Heathrow Airport is implementing a £5.1 billion investment programme over the five years to 31 March 2013. It is expected that by 2014 around 70 per cent. of passengers will be using new or recently constructed terminals and the remaining 30 per cent. of passengers will be using extensively refurbished terminals. The investment programme will also facilitate the co-location of members of each of the three main global airline alliances and will include developing the largest integrated baggage handling system in the world.

The major steps in Heathrow Airport's investment programme through to 2013 currently include:

- completing Terminal 5's second satellite, T5C, during 2011;
- completing the construction of phase one of the new Terminal 2 by 2013, enabling it to become operational in 2014;
- developing baggage systems and improved connectivity within and between the Airport's terminals;
- redeveloping and extending Terminal 4; and
- re-locating the Star Alliance airlines from Terminals 1 and 3 to the new Terminal 2.

The investment programme is regularly reviewed by Heathrow and airline stakeholders to ensure alignment with business and operational priorities. This process can lead to changes in the timing of delivery of specific elements in the programme. However, such changes are not expected to give rise to material variance in the total level of capital expenditure over the five years to 31 March 2013.

The current phasing of Heathrow Airport's capital investment programme over the five years to 31 March 2013, in outturn prices, is set out below based on the broad project groups used in the 2008 regulatory settlement.

### Heathrow Planned Capital Expenditures<sup>(1)</sup>

	<i>Year ended 31 March</i>					<i>Total</i>
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	
	<i>(£ millions, outturn prices)</i>					
	<i>(actual)</i>					
Eastern campus (Terminals 1 and 2).....	267	189	312	735	687	2,189
Western campus						
Terminal 3 .....	43	35	48	10	2	137
Terminal 4 .....	83	70	7	33	7	201
Terminal 5 .....	92	143	105	2	—	342
Connections & baggage.....	77	150	259	134	37	657
Other capital projects.....	154	152	167	42	41	555
<b>Total capital projects.....</b>	<b>716</b>	<b>739</b>	<b>897</b>	<b>956</b>	<b>775</b>	<b>4,083</b>
Rail .....	13	14	35	38	70	170
Information Technology (IT).....	11	38	41	32	7	128
Project for Sustainable Development of Heathrow (PSDH) <sup>(2)</sup> .....	—	25	120	296	250	691
<b>Total.....</b>	<b>740</b>	<b>816</b>	<b>1,094</b>	<b>1,321</b>	<b>1,101</b>	<b>5,072</b>

Source: BAA

- (1) Spend has been transferred between the broad project groups from that shown in the settlement to reflect changes in how individual projects are managed and in the scope of project groups. Planned capital expenditure is as at February 2010.
- (2) A significant proportion of PSDH expenditure was originally allocated to work related to the possible development of a third runway and additional terminal capacity. Given the recent announcements from the new UK government that it will not support the development of a third runway at Heathrow, BAA will be discussing with airlines the potential future use of these funds.

## 5.2 Stansted

### (a) Overview

Commercial operations began in 1966 at Stansted Airport, with its current terminal facilities completed in 1991. Stansted has a single runway and a single passenger terminal configuration, with three satellites, two connected to the terminal by a tracked transit system and the other by a pedestrian walkway.

In the last ten years, Stansted Airport has benefited from the expansion of low-cost carriers offering short haul flights to European destinations. The number of passengers using Stansted Airport was 18.6 million in 2010 compared with 11.9 million in 2000.

### (b) Runway

Stansted Airport's runway has since 2008 been permitted to schedule up to 264,000 air transport movements per year.

### (c) Retail Facilities

Stansted Airport has approximately 11,000 square metres of retail space, with approximately 50 retail clients operating around 100 retail outlets. The main retail facilities are located in Stansted Airport's core terminal building and supplemented by additional outlets located within the airport's three boarding satellites. Stansted Airport also offers over 26,000 public car park spaces.

### (d) Access to Stansted Airport

Stansted Airport is located just off the M11 motorway, which links London and Cambridge, and the A120 dual carriageway, 20 minutes from London's orbital M25 motorway.

In addition to road access, Stansted Airport has a railway station located below its terminal building. Stansted Express trains run frequently to and from Liverpool Street Station in Central London. There are also regular rail services from Stansted Airport to Cambridge, Leicester and the Midlands.

Scheduled express coach services run to Stansted Airport from various London bus terminals.

(e) Future investment at Stansted Airport

Stansted Airport's investment programme over the current quinquennium will be focussed on projects, expected to cost approximately £90 million (in 2009/10 prices), to enable Stansted Airport's existing infrastructure to service up to 35 million passengers per annum. The key projects are:

- the completion of an upgrade of the terminal baggage system in 2013; and
- the construction of additional aircraft stands commencing in 2013.

The current expected phasing of Stansted Airport's capital investment programme over Q5 expressed in 2009/10 prices is set out below.

**Stansted Planned Capital Expenditures**

	<i>Year ended 31 March</i>					<i>Total</i>
	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	
	<i>(£ millions, 2009/10 prices)</i>					
Stansted Generation 1 .....	16	18	18	20	20	92
Stansted Generation 2 .....	16	9	—	—	—	25
<b>Total</b> .....	<b>32</b>	<b>27</b>	<b>18</b>	<b>20</b>	<b>20</b>	<b>117</b>

Source: BAA.

**6. TRAFFIC**

*6.1 Historic Growth in Passenger Traffic at the Airports*

Both Airports have seen passenger traffic grow over the last 10 years. Historic trends in passenger traffic and air transport movements at the Airports between 2000 and 2010 are discussed below.

(a) Heathrow

**Number of Passengers and Air Transport Movements, Heathrow Airport**

	<i>Year ended 31 December</i>		
	<i>Number of Passengers</i>	<i>Percentage Growth on Previous Year<sup>(1)</sup></i>	<i>Number of Air Transport Movements</i>
	<i>(millions)</i>	<i>(%)</i>	<i>(thousands)</i>
2000 .....	64.3	—	459.7
2001 .....	60.4	(6.0)	457.6
2002 .....	63.0	4.3	460.3
2003 .....	63.2	0.3	457.0
2004 .....	67.1	6.2	469.8
2005 .....	67.7	0.9	472.0
2006 .....	67.3	(0.5)	470.8
2007 .....	67.9	0.8	475.7
2008 .....	66.9	(1.4)	473.1
2009 .....	65.9	(1.5)	460.0
2010 .....	65.7	(0.2)	449.2
<b>Compound Annual Growth Rate, 2000-2010</b> .....		<b>0.2</b>	<b>(0.2)</b>

Source: BAA.

(1) Percentage growth on the prior year is based on unrounded passenger and air transport movement numbers.

With the increase in total air transport movements limited at Heathrow Airport by the constraint of 480,000 air transport movements per year, the overall passenger growth at the airport has been partly driven by an increase in the number of passengers per aircraft, including through the introduction of larger aircraft.

Over the last ten years, passenger traffic at Heathrow Airport has seen a significant shift in mix with substantial growth in emerging market long haul routes such as the Far East, Middle East and India. In contrast, traffic with more mature markets such as domestic, European and North Atlantic (other than growth in 2008 due to the first phase of Open Skies becoming effective) has declined slightly.



This shift in mix has been driven by a number of factors including the strong economic development of emerging markets; increased use of alternative transport on domestic routes as well as other short haul routes such as Paris and Brussels; and airlines actively rotating their scarce slots to more lucrative long haul markets. As a result, traffic on long haul routes, other than North Atlantic routes, has increased its share of Heathrow Airport's total passenger traffic from 22 per cent. in 2000 to 30 per cent. in 2010, equivalent to over six million additional passengers per annum.

The terrorist attacks on the United States in 2001 and their aftermath resulted in a major upheaval to transatlantic services and were the major cause of a reduction in Heathrow Airport's total passenger numbers in 2001 and early 2002. Airlines responded by cutting costs, ceasing to serve marginal routes and consolidating some of their London operations at Heathrow Airport. Passenger traffic on transatlantic routes did not see a sustained recovery until 2004. This, combined with the impact of SARS on traffic with the Far East in 2003, resulted in only modest growth in Heathrow Airport's total traffic in 2003 but a strong recovery in 2004.

Since 2008, Heathrow Airport's passenger traffic has been affected by the aviation industry's need to adjust to high fuel prices and by the impact of the difficult global economic environment. Nevertheless, Heathrow Airport has remained resilient with passenger traffic declining only 1.4 per cent. to 66.9 million in 2008 and 1.5 per cent. to 65.9 million in 2009. However, Heathrow's performance improved as 2009 progressed, with a modest recovery in passenger traffic commencing from July 2009 with growth in passenger traffic of 0.3 per cent. and 1.1 per cent. in the third and fourth quarters of 2009.

In 2010, Heathrow's passenger traffic was impacted by a number of exceptional events including closure of UK and European airspace primarily in April due to ash from an Icelandic volcano, industrial action affecting British Airways' operations between March and June and severe winter weather in December. These factors are estimated to have resulted in the loss of up to 2.4 million passengers. As a result, whilst Heathrow's reported traffic declined 0.2 per cent. to 65.7 million, adjusting for the disruptions, traffic is estimated to have increased by up to 3.4 per cent. Heathrow's underlying growth accelerated as the year progressed, increasing from 2.3 per cent. in the first half, driven particularly by European scheduled traffic and renewed confidence amongst business travellers. The improving performance resulted in several all time traffic records being set in 2010 including the busiest day and the two busiest months in Heathrow's history.

European scheduled traffic has increased slightly since 2008 due mainly to the recovery in 2010 referred to above. North Atlantic traffic has declined slightly since 2008 although the extent of decline has been mitigated by the introduction of Open Skies from March 2008 due to airlines moving some US services from Gatwick airport to Heathrow Airport. Traffic with other long haul markets has remained broadly stable with growth in markets such as the Middle East and India. However, domestic traffic has declined reflecting a long term trend of reduced domestic services at Heathrow that has been further accentuated by both the recent economic downturn and the fact that service reductions tend to be focused on domestic routes during periods of disruption such as the British Airways' industrial action and adverse weather conditions during 2010.

(b) Stansted

#### Number of Passengers and Air Transport Movements, Stansted Airport

	<i>Year ended 31 December</i>			
	<i>Number of Passengers</i>	<i>Percentage Growth on Previous Year<sup>(1)</sup></i>	<i>Number of Air Transport Movements</i>	<i>Percentage Growth on Previous Year<sup>(1)</sup></i>
	<i>(millions)</i>	<i>(%)</i>	<i>(thousands)</i>	<i>(%)</i>
2000 .....	11.9	—	146.5	—
2001 .....	13.7	15.2	152.5	4.1
2002 .....	16.0	17.5	154.5	1.3
2003 .....	18.7	16.6	171.3	10.9
2004 .....	20.9	11.7	177.4	3.5
2005 .....	22.0	5.3	178.4	0.6
2006 .....	23.7	7.6	190.2	6.6
2007 .....	23.8	0.3	191.5	0.7
2008 .....	22.3	(6.0)	177.2	(7.5)
2009 .....	20.0	(10.7)	156.2	(11.8)
2010 .....	18.6	(7.0)	143.3	(8.3)
<b>Compound Annual Growth Rate, 2000-2010 .....</b>		<b>4.6</b>		<b>(0.2)</b>

Source: BAA.

(1) Percentage growth on previous year based on unrounded passenger and air transport movement numbers.

Stansted Airport has experienced significant growth in the last ten years with a compound annual growth rate in passengers of 4.6 per cent. between 2000 and 2010, despite the impact of the recent economic downturn on traffic since

2008. This growth was driven primarily by expansion of the operations of the airport's two largest current airlines, Ryanair and easyJet. European scheduled traffic accounts for approximately 85 per cent. of Stansted Airport's passenger traffic reflecting the focus of Ryanair's and easyJet's activities.

Stansted Airport has been more affected by the recent difficult economic environment than Heathrow Airport, with passenger numbers decreasing by 6.0 per cent. in 2008 and 10.7 per cent. in 2009. One airline customer, Maxjet, filed for Chapter 11 bankruptcy in December 2007; Globespan, American Airlines and Sky Europe have left Stansted Airport; and Air Berlin ceased UK domestic routes late in 2007. The rate of decline in passenger traffic at Stansted Airport had been moderating since reaching a peak of 14.6 per cent. in the first quarter of 2009 and was 5.7 per cent. in the fourth quarter of 2009 and 4.7 per cent. in the first quarter of 2010.

Stansted was also disrupted in April 2010 (and to a lesser extent in May 2010) as a result of ash from a volcanic eruption in Iceland which is estimated to have resulted in passenger traffic being 0.4 million lower than expected but, excluding this, the decline in traffic in the second quarter of 2010 relative to the prior year narrowed further to an estimated 3.1 per cent.

However, in the second half of 2010, the declines in Stansted's traffic accelerated again reflecting airline capacity reductions (particularly redeployment of aircraft to other European markets), renewed economic uncertainty in the UK that particularly affected the outbound leisure market, a key part of Stansted's traffic, and the severe winter weather in December that is estimated to have resulted in the loss of 0.1 million passengers. As a result, in 2010 Stansted's passenger traffic declined 7.0 per cent. to 18.6 million.

## 7. CUSTOMERS

The following table provides details of the main airline customers for the Airports in the 12 months ended 31 December 2010:

### Main Airline Customers for Heathrow Airport and Stansted Airport

	<i>Year ended 31 December 2010</i>			
	<i>Passengers</i>	<i>Air transport</i>	<i>Aeronautical</i>	<i>Percentage</i>
	<i>(millions)</i>	<i>movements</i>	<i>income<sup>(1)</sup></i>	<i>of airport's</i>
		<i>(thousands)</i>	<i>(£ millions)</i>	<i>aeronautical</i>
				<i>income<sup>(1)</sup></i>
				<i>(%)</i>
<b>Heathrow Airport</b>				
British Airways.....	25.9	186.2	361.8	38.0%
Virgin Atlantic Airways .....	3.6	14.0	55.0	5.8%
bmi.....	3.4	38.8	45.7	4.8%
<b>Stansted Airport</b>				
Ryanair .....	12.6	83.4	78.7	63.8%
easyJet.....	3.9	30.2	21.6	17.5%

Source: BAA.

(1) Excludes other charges, related primarily to the provision of fixed electrical ground power and pre-conditioned air to aircraft.

#### Heathrow Airport

The largest customer at Heathrow Airport is British Airways, which has its global hub there. British Airways is a full-service airline operating a wide range of domestic, European and international long haul services. It is currently the sole airline occupant at Terminal 5. Heathrow has an agreed joint framework with British Airways for future cooperation.

Virgin Atlantic Airways operates multi-class flights to long haul destinations from Heathrow Airport's Terminal 3. bmi, which is now owned by Lufthansa, mainly operates a mix of short and medium-haul services from Heathrow Airport, where it is the main feeder airline to the Star Alliance.

#### Stansted Airport

Ryanair is Stansted Airport's largest customer and has grown its Stansted Airport operations substantially in the past decade. easyJet also has a significant base at Stansted Airport. Ryanair and easyJet are Europe's two largest low-cost carriers, and both require airport facilities that allow rapid aircraft turnarounds to enable optimum aircraft utilisation.

## **8. OTHER OPERATIONS**

### *8.1 Cargo and Mail Carriers*

The bulk of cargo and mail at Heathrow is carried in the cargo holds of passenger flights rather than by dedicated cargo flights. At Stansted, Federal Express has a main cargo and mail hub facility.

Cargo and mail carriers are responsible for handling merchandise and packages at the Airports, including delivery to cargo warehouses, customs procedures and clearance, aircraft loading and unloading, sorting and transport to the final destination.

The Airport Operators provide cargo sheds and other accommodations and facilities which are leased, or separately billed on a use basis, to cargo-service providers.

### *8.2 Government Services and Agencies*

The UK Government is responsible for a number of essential services at the Airports, which it discharges through governmental and non-governmental agencies, notably:

- Security operations: The UK Government is responsible for setting aviation security regulations, issues directions to airport operators, airlines and cargo operators and monitors compliance with these directions through a programme of regular inspections and audits;
- Public order and policing services: Policing operations at the Airports are the responsibility of the local police authority that each Airport Operator pays for the provision of these services. These public safety services should be distinguished from security operations, which are designed to prevent illicit acts that risk endangering the security of the aircraft and passengers; and
- Border controls: The UK Home Office's Border Agency is responsible for the control of persons and goods.

Air traffic control, including aerodrome navigation services ("ANS"), are provided by NATS, a privately held entity which is responsible for the arrival and departure of aircraft to and from the aircraft parking areas at the Airports. NATS also works closely with the Airport Operators and airlines in determining the declaration of scheduling capacity.

### *8.3 Air Service Agreements*

The allocation of airlines between the Airports is subject to agreements between the UK Government, the European Union and other countries. Constraints on the designation of airports for use by European and US airlines were removed by the first stage of the Open Skies Agreement between the European Union and the United States that entered into force on 30 March 2008 ("**Open Skies**") which allows any European or US airline to fly any route between any city in the European Union and any city in the United States. For more information on air service agreements, see "*Airport Regulation*" and "*Risk Factors—Regulatory Risks—Other regulatory and public policy changes*".

## **9. SUPPLIERS**

The Airport Operators work with numerous external suppliers for the delivery of services relating to the day-to-day operation of the Airports, as well as for the construction of capital projects.

## **10. COMPETITION**

Heathrow Airport's main competitors are the other major European hub airports such as Paris Charles de Gaulle, Amsterdam, Frankfurt and Madrid. In the future, Heathrow Airport could experience increasing competition from hub airports in the Middle East, such as the current and planned future airports in Dubai.

Stansted Airport faces competition from London Gatwick Airport, London Luton Airport and London City Airport in the air travel market in the South East of England and other forms of travel (including the Eurostar high-speed train service connecting London with Paris and Brussels).

## **11. ENVIRONMENTAL REGULATION**

A wide variety of EU and UK environmental policies and regulations affect the Airports, focusing in particular on climate change and energy use; noise; air quality; soil and water pollution arising from airport operations; surface water drainage and flooding; waste handling, management and disposal.

The main framework for noise management at the Airports is provided by the European Environmental Noise Directive action planning process. This includes, for example: pricing regimes that penalise noisier aircraft; airfield operation protocols relating to engine noise; the provision of fixed ground power and preconditioned air; investments in systems to monitor and track noise levels of aircraft and local noise insulation schemes. The UK Government also has direct responsibility for regulating aircraft noise at Heathrow and Stansted and is expected to consult on the night flying restrictions at the Airports in 2011.

The relevant local authorities for the Airports also impose noise controls as part of the planning system, including annual air transport movement limits and noise contour area limits. They also implement policies for the development of dwellings in areas exposed to transportation noise or poor air quality as set out in the UK Government's Planning Policy Guidance Notes.

The UK Government's Air Quality Strategy implements the requirements of European legislation for air quality and provides a framework to identify air quality improvement measures and sets out a coordinated approach to achieve them. The local authority for Heathrow has declared an "air quality management area" to manage nitrogen dioxide levels in the vicinity of the airport.

The Airports are also subject to regulation of energy and related CO<sub>2</sub> emissions. Under the CRC Energy Efficiency Scheme from 2011 the Airports are required to pay a fee to the UK Government for each tonne of carbon dioxide emitted from fixed asset energy use. Additionally Heathrow and Stansted Airports are covered by the EU Emissions Trading Scheme (EU ETS) due to the size of combustion plant on site. The EU ETS requires allowances for emissions from fossil fuel consumption on site to be surrendered on an annual basis. The next phase of the scheme starts in 2013 and, in line with the overall goal of reducing emissions, will result in reduced emissions allowances being available, with an increasing requirement over the phase to purchase EU emissions allowances by auction.

Heathrow has adopted a strategy to reduce emissions from energy use in airport buildings by 34 per cent. by 2020 from 1990 levels. Stansted is developing suitable local targets informed by energy strategy assessments. The Airports also have strategies in respect of water and land quality, waste and biodiversity.

See "*Risk Factors – Regulatory Risks – Environmental, health and safety and planning considerations*".

## **12. RELATED PARTY TRANSACTIONS**

The Airport Operators have entered and may from time to time in the future enter into transactions with certain affiliates of BAA and its shareholders, including Ferrovial, S.A. and its affiliates. All such contracts are and will be negotiated on an arm's-length basis and, where applicable, are subject to the requirements of EU legislation.

## **13. SHARED SERVICES**

Pursuant to a Shared Services Agreement, BAA Airports provides or procures third parties to provide central support services to its subsidiaries to assist with the running and management of the airports.

### ***Services provided by BAA Airports***

The services provided by BAA Airports include IT, health and safety, security, research, airport planning and marketing, finance, human resources, property management, regulatory services, corporate and public affairs and legal support. BAA Airports has sub-contracted certain of the cash management and accounting services to BAA Business Support Centre Limited.

All of the staff working for the Airport Operators are employed and provided by BAA Airports, although Heathrow Express employs its staff directly with the exception of a small number of senior management who are employed by BAA Airports.

The terms on which services and staff are provided to the Borrower Group are set out in the Shared Services Agreement. There is a similar agreement between BAA Airports and the other airports in the BAA Group.

### ***Fees payable to BAA Airports***

Each of the Operating Companies pays a fee to BAA Airports which comprises:

- (a) the cost to BAA Airports of providing the services; and
- (b) in respect of centralised airport services, administrative and business support services and corporate services, a margin of 7.5 per cent.

The majority of costs for employees provided under the Shared Services Agreement are included in the charges for airport services and capital project services, to which the margin does not apply. The margin payable to BAA Airports in relation to services to the Operating Companies was £8.9 million in the 12 months to 31 December 2010.

### ***Termination of Shared Services Agreement***

Subject to the prior written consent of the Borrower Security Trustee, the Operating Companies have the right to terminate the Shared Services Agreement in the case of a breach by BAA Airports with a material adverse effect not remedied within 30 days, certain insolvency related events in relation to BAA Airports or if it becomes illegal for either BAA Airports or the Obligors to perform their obligations under the Shared Services Agreement.

BAA Airports may terminate the Shared Services Agreement only where:

- (a) another suitable and properly resourced member of the BAA Group (excluding any members of the Borrower Group) is appointed to act as replacement Shared Services Provider on substantially the same terms;
- (b) a replacement Shared Services Provider is appointed with the consent of and approved by the Borrower Security Trustee and, unless otherwise agreed as an Extraordinary Voting Matter, a Ratings Confirmation is provided; or
- (c) the Operating Companies fail to pay any amounts of £50,000 or more to BAA Airports under the Shared Services Agreement, subject to a 30 Business Day grace period.

The Shared Services Agreement will terminate in respect of an Operating Company which ceases to be controlled by BAA Airports. Unless otherwise agreed, termination will take effect 6 months from the date that the Operating Company ceases to be controlled by BAA Airports.

BAA Airports is entitled to pass pensions costs on to the Borrower Group. These relate to BAA Airports' obligation to fund BAA's defined benefit pension scheme and are calculated on a basis linked to pensionable payroll in respect of those employees that BAA Airports makes available to the Operating Companies under the agreement. In certain circumstances, the obligation of the Operating Companies to meet pension costs will survive termination of the agreement.

In the event of termination of the Shared Services Agreement, BAA Airports is required to use its reasonable endeavours to facilitate the transfer of the terminated services to the Operating Companies (or to any replacement servicer appointed by the Operating Companies) with a view to ensuring an orderly and efficient transfer with minimal disruption to the ongoing business of the Operating Companies. The employment of relevant airport level staff is expected to pass to the relevant Operating Company or to a replacement service provider.

### ***Potential Conflicts of Interest***

Because Heathrow, Stansted and Heathrow Express have entered into the Shared Services Agreement, there may be potential conflicts of interest for José Leo, who is a director of BAA Airports, which is the provider of the shared services, and each of the Borrowers, which are recipients of the shared services, and for Nicholas Cullen, Steven Morgan and John Holland-Kaye, who are directors of BAA Airports and Heathrow and, in the case of Nicholas Cullen, Heathrow Express. Save as disclosed in this paragraph, as at the date of this Prospectus there are no potential conflicts of interest between any duties owed to each of the Obligor and the private interests or any other duties of any of their directors.

For a description of certain risks associated with the Shared Services Agreement, see "*Risk Factors – Commercial Risks – Reliance on BAA Airports as Shared Services Provider*".

## **14. INSURANCE**

BAA Airports provides risk management, insurance and claims handling services to the Operating Companies. BAA Airports arranges both annual and multi-year insurance programmes on a group-wide basis for the BAA Group. Heathrow Express has separate public liability insurance cover and the Airport Operators, through BAA Airports, have separate policies to protect against specific risks. For example, a separate policy was arranged to protect against construction risks in connection with the construction of Heathrow Airport's Terminal 5.

The BAA Group insurance programmes, which are required under the Common Terms Agreement, include the following insurance cover:

- ***property damage and business interruption insurance*** which covers all risks (including terrorism) of sudden accidental direct physical loss or destruction of, or damage to, insured property and resultant loss of revenue and/or increased costs of maintaining normal business activities. There is also a separate policy covering specified tenanted properties, which provides cover on the basis of individual property sums insured;
- ***general liability insurance***, including aviation liability, aviation war/terrorism, public/product liability; public liability with respect to the Heathrow Express rail service; and construction third-party liability;
- ***construction all-risks insurance*** (including terrorism), which is provided up to the full value of all projects commenced during the remainder of Q5. There are additional contractors all risks and public liability insurance policies in respect of specific projects;
- ***third-party financial loss and professional indemnity insurance***; and
- ***employers' liability insurance***.

Insurance cover for the Borrower Group is provided by a combination of insurance market entities and captive insurance companies owned by or affiliated with BAA Airports or its ultimate shareholders.

Some insurance cover for the Borrower Group is provided by BAA's own captive insurance company, BAA Insurance Services Ltd (the "**Captive**"). The Captive enables the BAA Group to access reinsurance markets (including Pool Re for property terrorism risks), to leverage the BAA Group's combined position on the conventional insurance market and

to offer funding options for the Group's self-insured retention. The Captive underwrites some group-wide risks and also funds some of the BAA Group's self-insured retention.

For more information on insurance, see "*Risk Factors – Commercial Risks – Other Risks to the Airports' Operations and Income – Insurance*".

## 15. PENSIONS

As at 31 December 2010, BAA's defined benefit pension scheme (the "**Pension Scheme**") had 7,507 current members, 8,198 pensioners and 4,565 deferred pensioners. The Pension Scheme is administered by a board of trustees comprising three employee representatives, one pensioner representative and four representatives from BAA. In addition, the Law Debenture Trust Company provides an independent trustee. The Pension Scheme is closed to new members.

The BAA Pension Trustee undertook a formal valuation of the Pension Scheme as at 30 September 2007. Following the valuation, agreement was reached between BAA Airports and the BAA Pension Trustee that the level of employer contribution for the three year period commencing 1 January 2009 would be £80 million per year. The Borrower Group is liable for approximately £70 million per year of this figure. From 1 January 2009, BAA Airports has agreed to fund any pension costs associated with redundancies on a pay-as-you-go basis.

Under the terms of the Shared Services Agreement, the Borrowers are liable to fund their share of any deficit in the Pension Scheme. The Pension Scheme also has a right to receive up to £300 million out of the proceeds of an enforcement of the security granted by the Borrower Group, to rank *pari passu* with the Class A Bonds.

All employees joining BAA Airports since 16 June 2008 are eligible to join BAA's defined contribution pension scheme. Heathrow Express employees directly employed by Heathrow Express are able to join a separate defined contribution scheme.

In any sale of a Borrower, in order to bring to an end such Borrower's pension funding obligations, a payment can be made to the Pension Scheme in an amount not exceeding the amount specified in the Shared Services Agreement. In relation to the sale of Gatwick airport completed in December 2009, a payment of £105 million was made into the Pension Scheme in June 2010 which is reflected in the scheme assets at 31 December 2010.

For additional information, see "*Risk Factors – Commercial Risks – Other Risks to the Airports' Operations and Income – Pensions*".

## 16. TREASURY MANAGEMENT

BAA Airports provides central treasury services (including day-to-day cash management) to the Borrower Group and the wider BAA Group. Each Operating Company records separate operating, investing and financing cash flows for inclusion in its respective financial statements, and each Airport Operator also maintains its own bank accounts and separately records as loans any funds drawn under working capital or capital expenditure facilities or under specific loans from the Issuer or any other provider of financial resources.

BAA Airports centrally manages all hedging and financial derivatives on behalf of the Borrowers and the Issuer and arranges for the Borrowers or the Issuer to enter into Treasury Transactions to manage risk inherent in its business or funding on a prudent basis. Interest rate, inflation and foreign exchange risks are and will be hedged through a combination of cash balances, Authorised Investments and derivative instruments such as interest rate swaps, inflation swaps and foreign exchange forwards in compliance with the Hedging Policy (see the Hedging Policy at Schedule 5 of the Common Terms Agreement). BAA has in the past prepaid, and is likely in the future to prepay, a proportion of its swaps.

Under each Borrower Loan Agreement, all amounts raised by the Issuer (through the issue of Bonds, where appropriate, as swapped into sterling under a Cross-Currency Hedging Agreement) will be backed by an aggregate matching debt obligation owed by the Borrowers to the Issuer. All advances made by the Issuer under the Borrower Loan Agreements are or will be in Sterling and in amounts and at rates of interest corresponding to amounts and rates set out in the relevant Final Terms or, if hedged in accordance with the Hedging Policy, at the hedged rate with the same interest periods. Each Advance is repayable on the Scheduled Redemption Date in respect of the related Bonds. Proceeds are used by the Borrowers to repay or service Financial Indebtedness of the Airport Operators or for general corporate purposes.

As part of its normal cash management activities, in order to optimise short term cash utilisation within the BAA Group, in January 2011 £100 million of proceeds received by BAA Airports from the recently completed disposal of Naples airport in Italy together with £17 million of residual cash held by BAA (SH) plc from its recent refinancing – see "*Business – Overview – Refinancing of BAA (SH) plc Debt*" – were injected by way of inter-company loan to Heathrow.

## AIRPORT REGULATION

### 1. AIRPORT REGULATION GENERALLY

#### 1.1 *Regulatory Framework*

The Airports Act sets out the regulatory framework for airports in the UK. The CAA, as the economic regulator for UK airports, is required to set price controls for the airport charges levied by price regulated (“designated”) airports. Whether or not an airport is designated is a matter for the UK Government. Heathrow and Stansted are both designated airports.

The CAA sets the maximum level of airport charges for five year periods, known as quinquennia. As with other UK regulated utilities, the Airports’ price caps have been set on an RPI +/- X basis based on an allowed return on the Regulatory Asset Base (referred to as the RAB). Changes in costs and revenues and changes in assumed traffic volumes are addressed going forward when tariffs are re-set for the following regulatory period. However, there is not a retrospective adjustment for shortfalls in lost income or additional costs (except where airports incur additional security costs, above an established threshold, when implementing new security directives imposed by the EU or the UK Government).

In November 2009, the CAA announced two complementary projects intended to support the transition towards a more competitive UK airports industry, namely: the development of the CAA’s approach to analysing competition faced by airports; and the identification and development of alternative approaches to price cap regulation that would minimise distortions to competition or investment incentives at airports.

#### 1.2 *The CAA and its Statutory Powers and Objectives*

The CAA is the independent aviation regulator in the UK, with responsibility for economic regulation, airspace policy, safety regulation and consumer protection. The CAA has a statutory duty to perform its functions in setting price controls in a manner which it considers is best calculated to:

- further the reasonable interests of users of airports within the UK;
- promote the efficient, economic and profitable operation of such airports;
- encourage investment in new facilities at airports in time to satisfy anticipated demands by the users of such airports; and
- impose the minimum restrictions that are consistent with the performance by the CAA of its functions.

The Airports Act does not provide guidance on how the CAA should weigh its various statutory duties. The CAA has stated that where two or more of its statutory duties pull in different directions it will base its decisions on its overall assessment of how the combination of regulatory policy decisions are together best calculated to meet its statutory duties taken as a whole.

In carrying out its statutory functions, the CAA also has to take account of the UK’s international obligations. Amongst other things, these provide that airport charges for non-national aircraft are not higher than those paid by national aircraft engaged in similar operations.

The International Civil Aviation Organisation publishes guidance on charges for airport services. It considers that where an airport is provided for international use, the users shall ultimately bear their full and fair share of the cost of providing the airport including a reasonable rate of return on assets. It also provides guidance on charging systems suggesting, among other things, that charges should be simple and non-discriminatory and that increases should be introduced on a gradual basis where possible.

#### 1.3 *Open Skies*

In April 2007, the European Community, its Member States and the United States signed the first stage of the Open Skies Agreement, which came into effect on 30 March 2008 and liberalised air services between the EU and the United States providing access to Heathrow Airport for a greater number of airlines.

#### 1.4 *Potential Future Changes to the Regulatory Framework*

The UK Government announced in April 2008 a review of the framework for the economic regulation of airports. It published a consultation document in March 2009, outlining a number of proposals and in December 2009 announced its decisions concerning the review.

The reforms include introducing a new single primary duty for the CAA to promote the interests of existing and future end consumers of passenger and freight services, wherever appropriate by promoting effective competition. There will also be supplementary duties for the CAA to:

- have regard for airport operators' legal obligations to comply with applicable environmental and planning law;
- secure, so far as it is economical to meet them, that all reasonable demands for airport services are met efficiently;
- ensure that licence holders are able to finance the activities which are subject to the relevant licence obligations;
- have regard to guidance issued by the Secretary of State, as well as any National Policy Statement on airports; and
- have regard to the principles of Better Regulation and to consult with stakeholders, including airlines.

The reforms will be brought into effect through a licensing regime for airports similar to licences in place in certain other regulated sectors such as water and energy. Only airports that pass the designation criteria will require a licence which at the current time would encompass both Heathrow and Stansted. Licensed airports are expected to be subject to some form of price control arrangements and a possible sanctions regime. The regime is to be developed but could include financial penalties, for example, in the event of airport closures due to poor winter weather preparation. Licensed airports are also expected to be obliged to consult stakeholders on future plans for investment in and the operation of an airport, to report on environmental performance, to comply with service standards and measures to hold an operator to account for the delivery of agreed investment outputs.

The reforms also include measures to promote the financial resilience of licensed airports. On 21 July 2010, the UK Government announced further details of this aspect of the reforms. The new legislation will include:

- a supplementary duty for the CAA to ensure that licence holders are able to finance their licensed activities;
- a minimum creditworthiness requirement for licensed airports;
- ring-fencing provisions similar to those in place in other regulated sectors but with initial derogations from some of those provisions where the costs of implementation would exceed their benefits;
- a requirement on the CAA to apply agreed tests when considering the removal of an airport's derogations and an appeals process that is aligned with the wider licence modification process; and
- a requirement for airports to put in place continuity of service plans.

The UK Government also confirmed:

- the earlier decision not to bring in a special administration regime; and
- that it will not be making changes to the basis on which the current price caps at Heathrow and Stansted are set.

Legislation is expected to be introduced in 2012 to implement the reforms. In February 2011, the CAA launched a consultation on the potential extension of Heathrow's current regulatory period by one year to 31 March 2014. This reflects the fact that the bill to enact these reforms will not be introduced into Parliament before the 2012 session and the CAA's desire that it is in place prior to determining the terms for the next regulatory period. The consultation is due to conclude in March 2011.

The Government has also announced proposals to merge the Competition Commission and the Office of Fair Trading to create a new single competition and markets authority. The precise details of these proposals and the timing of their implementation is subject to public consultation in early 2011. Depending on the outcome of the consultation, this may affect the procedure for appeals of future pricing reviews.

## **2. AERODROME LICENCES**

The Airport Operators are currently subject to aerodrome licensing, which requires the operator to demonstrate that it is competent to conduct aerodrome operations safely.

The CAA must grant a licence in respect of any aerodrome in the United Kingdom if it is satisfied that:

- the applicant is competent, having regard to its previous conduct and experience, equipment, organisation, staffing, maintenance and other arrangements, to secure that the aerodrome and the airspace within which its visual traffic pattern is normally contained are safe for use by aircraft; and
- the aerodrome is safe for use by aircraft, having regard in particular to the physical characteristics of the aerodrome and of its surroundings.

The Airport Operators have all relevant aerodrome licences for their airports.

## **3. PRINCIPLES OF ECONOMIC REGULATION**

The CAA imposes conditions on the operators of designated airports to regulate the maximum amount they may levy in airport charges during a quinquennium.

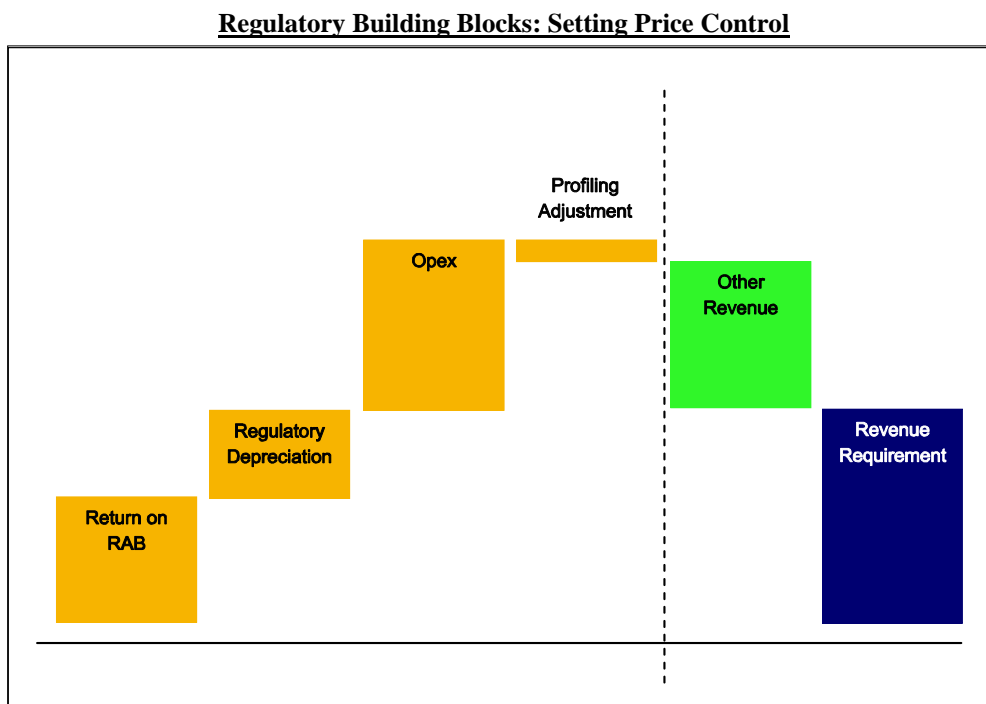


### 3.1 The Price Cap

The CAA uses a “single till” building block approach in setting the price caps. The single till takes into account revenue and costs from both aeronautical and non-aeronautical activities when setting the price caps for a quinquennium.

In setting the price cap, the CAA determines the regulated revenue requirement which is calculated as the sum of forecast operating expenditure less other revenue plus the required return (using the cost of capital determined by the CAA) on the forecast RAB (taking into account forecast capital expenditure), plus regulatory depreciation and plus or minus any profiling adjustment. The profiling adjustment is a mechanism for transferring revenue between quinquennia to smooth charges that would otherwise have occurred due to major investments. The resultant regulated revenue requirement is the total airport charges income.

This methodology for deriving the regulated revenue requirement can be represented by a simplified diagram:



The regulated revenue requirement is divided by forecast passenger numbers which, subject to a price profiling adjustment to smooth charges across the five years of a regulatory period, establishes the price cap expressed as a maximum allowable yield per passenger.

During each quinquennium, the maximum allowable yield changes from each 1 April by RPI +/- X based on RPI from the previous August.

When setting the price cap the CAA will take its own view of the scope for future efficiency savings, the appropriate level of capital expenditure and the rate of growth in demand for airport services.

While the price cap places a limit on the increase in the airport charges yield, the airport operator has the discretion on whether to price to the maximum permitted level. Therefore, the Airport Operators can choose to price charges below the cap. For example, if there is unused capacity, an Airport Operator may choose to set prices below the cap in order to stimulate demand.

The price control conditions set by the CAA include the following components for the maximum allowable yield:

- The “**S factor**” is an adjustment designed to recover in subsequent regulatory years within the relevant quinquennium additional security costs incurred as a result of new UK or European Commission security directives issued by or through the UK Government. For Q5, the Airport Operators are permitted to recover 90 per cent. of any such additional security costs incurred above thresholds of £16.5 million at Heathrow Airport and £3.6 million at Stansted Airport (nominal prices)
- The “**K factor**” is designed to correct for any under recovery (dilution) or over recovery (concentration) in airport charges compared to the annual maximum allowable yield per passenger. Under or over recoveries generally arise due to changes in traffic mix or average loads compared to those forecast at the time prices were set. For example, an increase in international departing passengers would result in yield concentration leading to an over recovery. Conversely, an increase in average loads would cause yield dilution. The K factor adjustment

is applied to the maximum allowable yield calculation two years after the year in which it is incurred and therefore can be carried forward to the following quinquennium

- There is also a capital expenditure “trigger” term built into the formula for Heathrow Airport, with provision for the maximum allowable yield to be reduced if specified projects are not delivered on time. There are 24 trigger projects at Heathrow Airport, which relate to approximately 60 per cent. of its capital investment plan during Q5. The projects that could give rise to the most significant reductions in aeronautical income, if they did not meet the relevant milestones, include the completion of Terminal 5C, the Terminal 3 integrated baggage system and Phase 1 of the new Terminal 2. The maximum amount at risk at the beginning of Q5 was approximately £259 million with the majority of the amount at risk relating to the last two years of Q5
- At 31 December 2010, 10 of the 24 capital investment trigger projects at Heathrow during the current regulatory period had been completed as a result of which the maximum amount at risk had reduced to approximately £200 million. Based on forecast project completion dates for all trigger projects as at 31 December 2010, it is expected that aeronautical income would be adjusted at Heathrow Airport by £51 million (in 2007/08 prices) over the regulatory period (approximately 1 per cent. of the CAA’s forecast of aeronautical income in this period) to reflect re-phasing of investment compared to that anticipated by the CAA at the time of the March 2008 settlement. Of this amount, £1 million relates to the 10 completed projects
- There are service quality rebate schemes at each of the Airports which set defined service standards for a range of passenger facilities, such as piers, lifts, escalators and people movers, as well as for airfield congestion and security queuing times. To the extent the Airport Operators do not meet the defined standards, they are required to provide rebates to airlines on the per-passenger charges, which in Q5 could amount to as much as 7 per cent. of airport charges. For Heathrow Airport only, the scheme includes a bonus element whereby Heathrow Airport is permitted to levy up to 2.24 per cent. higher airport charges to the extent it exceeds certain of the service quality standards
- In addition, Heathrow’s maximum allowable yield for the current quinquennium took into account forecast capital expenditure on the Project for Sustainable Development of Heathrow (‘PSDH’) which included expenditure related to the proposed third runway. Given the uncertainty over the scale and timing of capital expenditure on PSDH and consistent with CAA guidance in the Q5 settlement, following consultation with airlines Heathrow agreed that remuneration for PSDH would be determined on an ex-post basis, i.e. recovery of the capital expenditure would commence the year after it is incurred. In the year to 31 March 2010, aeronautical income was reduced by £12.8 million to reflect this principle due to lower PSDH expenditure than reflected in the regulatory settlement. Given that the UK government recently ruled out the development of a third runway at Heathrow the level of annual adjustment to aeronautical income may increase over the remainder of the current quinquennium although the level of adjustment will also depend partly on the extent to which it is agreed with airlines that funds allocated to PSDH expenditure can be utilised on other projects.

From 1 April 2008, ANS costs have been included within airport charges.

The Airport Operators recover the allowable yield through three types of airport fees and traffic charges:

#### *Passenger fees*

- Currently, fees per passenger are based on the number of passengers on board an aircraft, and are levied in respect of all departing passengers other than those who do not change aircraft (transit passengers) and crew members working on the flight. There are three different charges for departing passengers, depending on route area: domestic, Republic of Ireland and international.
- From 1 April 2011, the basis on which Heathrow (but not Stansted) recovers the passenger fee element of its allowable yield is expected to change. Whilst this element of the allowable yield will continue to be levied on departing passengers only, there will be two rather than three different levels of charge based on route area: European (including domestic) and rest of world. In addition, transit passengers will become subject to passenger fees although both transfer and transit passengers will benefit from a discount relative to departing passengers starting their journeys at Heathrow. Crew members will remain outside the scope of the passenger fees.

#### *Landing charges*

- Landing charges are levied for substantially all aircraft (with certain diplomatic and other flights being exempted). These are calculated in accordance with the certified maximum take-off weight of the aircraft and are banded into categories for aircraft weighing less than and those weighing more than sixteen tonnes, which includes nearly all commercial aircraft. These charges are adjusted, where applicable, in accordance with each aircraft’s noise-rating, its emissions and the time of day, with landing charges at Heathrow Airport being higher during peak traffic times than off-peak traffic times.

#### *Parking charges*

- Aircraft parking charges are based on the duration of the ground stay and the aircraft weight. The time element is based on the total number of 15-minute charging periods (or part thereof) that an aircraft is parked on

designated parking areas. There is also a peak morning period for charging in summer at Heathrow Airport on pier-served stands only

The maximum allowable yields set by the CAA apply to passenger flights only; they do not apply to non-passenger flights, for example, dedicated cargo flights. However, the price control conditions set by the CAA stipulate that the airports must charge non-passenger flights at the same rates as passenger flights. These flights incur the minimum departure charge which applies when the departing passenger charge falls below this minimum level. In the year ended 31 December 2010, there were 2,489 all-cargo air transport movements at Heathrow Airport and 10,184 at Stansted Airport.

### 3.2 *Regulatory Asset Base (RAB)*

As with other regulated utilities in the UK, the RAB acts as a unit of regulatory value and does not correspond to statutory asset values. The CAA has historically calculated a forecast of the value of the RAB at each airport over each year of the quinquennium. This has been included in the CAA's RAB forecasts made at the time of the quinquennial decisions. For Q5 at Stansted Airport, however, the CAA has decided not to specify a RAB. For more information, see "*—Stansted Price Regulation—The Stansted Airport Q5 Price Decision*".

The closing RAB at each Airport for each year is taken to be the sum of the opening RAB, plus capital expenditure (unless disallowed by the CAA) plus an adjustment for RPI inflation less regulatory depreciation (including the pricing profile adjustment—see "*—The Price Cap*" above) and less proceeds of disposals at the Airport.

The CAA does not update the value of the RAB within each quinquennium. Each Airport has been required to submit regulatory accounts to the CAA at 31 March of each year, identifying, among other things, the value of the RAB. A decision as to whether the current period RAB has been appropriately updated during the current regulatory period is not made until the CAA sets the opening RAB for the next quinquennium as part of the price control review.

The RAB is independently verified by the Airports' statutory auditors and included in the regulatory accounts which are provided annually to (but not approved by) the CAA.

### 3.3 *Quinquennia*

The CAA sets price caps for designated airports for a five year period, each known as a quinquennium. The current quinquennium, Q5, lasts from 1 April 2008 to 31 March 2013 for Heathrow (although the CAA is currently consulting on a potential extension to 31 March 2014) and from 1 April 2009 to 31 March 2014 for Stansted.

### 3.4 *Constructive Engagement*

For the Q5 review, the CAA proposed a process of constructive engagement. This required airports and airlines to seek to agree some of the main inputs of the price control calculation. Discussions were held on airport vision, airport strategy, capital expenditure, traffic forecasts, capital expenditure efficiency, opportunities for operating cost efficiencies and non-regulated charges.

### 3.5 *Statutory Reference to Competition Commission*

Before the CAA can set new price controls, it is required under the Airports Act to make a statutory reference to the Competition Commission with regard to:

- the maximum amounts of airport charges that should be capable of being levied by the Airport Operator during the next quinquennium; and
- whether the Airport Operator has, at any time during the relevant period, pursued a course of conduct which has operated or might be expected to operate against the public interest in relation to:
  - any airport charges levied by the Airport Operator;
  - any operational activities carried on by the Airport Operator relating to the airport; and/or
  - the granting of a right by virtue of which any operational activities relating to the airport may be carried on by any other person or persons.

If the Competition Commission concludes that the Airport Operator's course of conduct has had, or might be expected to have, adverse effects on the public interest, the Competition Commission should also report on whether such adverse effects could be remedied or prevented by the imposition of any conditions in relation to the airport (or by modifying conditions already in force).

In setting the price caps the CAA must have regard to the Competition Commission's conclusions but is not bound by them. In relation to Competition Commission conclusions on public interest issues, the CAA shall impose new conditions or modify existing conditions under Section 46(2) of the Airports Act as it considers appropriate for the purposes of remedying or preventing the adverse effects specified in the Competition Commission's report, unless the Secretary of State directs the CAA otherwise, and in doing so shall have regard to the Competition Commission's suggested conditions or modifications.

The CAA's reference to the Competition Commission is currently a mandatory part of the regulatory review process for airports (unlike in other regulated industries). There is no opportunity for an Airport Operator to appeal the CAA's final decision to the Competition Commission. The only legal recourse for an airport operator in respect of the regulatory settlement is to seek judicial review.

As a result of the review of the framework of economic regulation (see "*Potential Future Changes to the Regulatory Framework*"), it is expected that the Competition Commission will no longer maintain its advisory role during the review of the price controls by the CAA and instead will act as the body of appeal for airport operators against the CAA's decisions.

### 3.6 *Interim Reviews*

The price cap is typically set for a quinquennium and cannot be changed during this period without the Airport Operator's consent. In other words, airlines and the CAA cannot force a reopening of the price cap determination during a regulatory period.

The CAA has indicated that it does not consider that financial distress, per se, would justify re-opening price controls, nor a scaling back or deferral of the investment programme that users effectively pay for through their charges. This means that in extreme circumstances the CAA would not necessarily increase the level of airport charges to assist an airport that was experiencing financial difficulties. The CAA has stated that to do otherwise would transfer risk from equity and debt investors to users, contrary to the CAA's policy approach. This was reaffirmed in the CAA's decision in respect of Heathrow Airport for Q5 published on 11 March 2008.

## 4. HEATHROW PRICE REGULATION

### 4.1 *Key elements of CAA's Q5 Decision*

The CAA's decision in respect of Heathrow Airport for Q5 was published on 11 March 2008. The key elements of the CAA's decision include:

- Maximum allowable yield increases based on RPI + 7.5 per cent. for each regulatory year during Q5;
- "single till" approach and continuity with current price control in terms of recognising commercial revenues and costs of the airport, the definition of airport charges and the principal design of the price cap;
- WACC (weighted average cost of capital, which is the CAA's assessment, using a notional capital structure, of the appropriate allowed blended cost of debt and return on equity to satisfy the requirements of capital providers over the quinquennium) of 6.2 per cent. pre-tax real;
- lower projected operating costs than had been forecast by Heathrow;
- confirmation of regulatory intent that risks associated with specific financial arrangements adopted by the airports fall on the owners and their investors rather than users;
- the ability of Heathrow to earn a return on the forecast Q5 expenditure of £639.0 million (in 2007/08 prices) associated with a third runway or mixed mode at Heathrow Airport and a mechanism to provide a degree of certainty that such expenditure would be ultimately included in the RAB; and
- a cross-period revenue profile adjustment (i.e. bringing revenues forward from Q5 to Q4) which was included in the Q4 regulatory settlement to avoid significant changes in prices that would otherwise have occurred due to major investments (in particular Terminal 5). The CAA has unwound this profile adjustment in the Q5 regulatory statement.

The CAA confirmed that, with the exception of £23 million of expenditure associated with Personal Rapid Transit, all the actual capital expenditure in Q4 has been included in the initial RAB for Q5. However, the CAA made a number of RAB reductions related to the Terminal 5 hotel site (£10 million) and the Q3 pensions holiday (£135 million).

The CAA's conclusions in this respect reflect the view that the capital expenditure in Q4 had been efficiently incurred. This followed extensive work by BAA and the airlines to verify that this was the case.

### 4.2 *SQR Scheme*

The CAA also introduced a service quality rebate ("SQR") scheme with defined service targets for a range of services relating to passengers' experience such as security queuing times, departure lounge seat availability, cleanliness, way-finding, flight information, arrivals baggage reclaim availability, the availability of equipment such as lifts, escalators and people movers and the availability of and access to infrastructure such as piers, jetties and stands. The service standards cover other areas such as airfield congestion.

Service standards include that

- departing passengers should pass through security within 5 minutes 95 per cent. of the time and within 10 minutes 99 per cent. of the time and transfer passengers should pass through security within 10 minutes 95 per cent. of the time; and

- arrivals baggage reclaim and other equipment shall be available at least 99 per cent. of the time.

To the extent that Heathrow does not achieve the defined standards, rebates to airlines are required. The maximum total revenue at risk during the quinquennium is 7 per cent. of the total airport charges. Heathrow can achieve a 2.24 per cent. revenue upside in the form of a bonus if it exceeds certain SQR targets.

As a proportion of total airport charges, rebates are up to a total of approximately 2.6 per cent. for departure lounge seat availability, cleanliness, way-finding, flight information, arrivals baggage reclaim and equipment availability, 1.2 per cent. for infrastructure availability and access, 1.1 per cent. for passenger security queuing times and 1.0 per cent. for airfield congestion.

In the two years since the current SQR scheme was introduced up to 31 March 2010, Heathrow incurred total rebates of £13 million (less than 1 per cent. of aeronautical income over the period), with lower rebates in the second year than the first year.

#### 4.3 *Other Relevant Points coming out of the Q5 Settlement*

The CAA provided for an independent mid Q5 assessment of progress in achieving capital expenditure efficiency at Heathrow Airport and its performance in consulting with users on airport development and investment. The assessment commenced in April 2010 and the CAA produced a report in February 2011. Overall, the report considers that progress has been made in the first two years of Q5 but there is still room for further improvement in the way that Heathrow plans, implements, measures and evaluates capital expenditure projects. The CAA has stated that it expects Heathrow to take account of the report in preparing and implementing capital investment plans for the remainder of Q5, and for the capital expenditure plans that will underpin regulatory submissions for the next regulatory settlement.

## 5. STANSTED PRICE REGULATION

### 5.1 *Recent History*

In December 2006, the CAA proposed de-designation for Stansted Airport and extended Q4 by one year in order to allow time for the UK Government to decide the issue. The UK Government decided to retain Stansted Airport's status as a designated airport. The CAA therefore set a price control for the period from 1 April 2009 to 31 March 2014 (the "Stansted Q5").

### 5.2 *The Stansted Airport Q5 Decision*

The CAA published its decision in March 2009 taking into account the Competition Commission's recommendations published in October 2008.

The main features of the CAA's decision are as follows:

- maximum aeronautical charges of £6.53 per passenger (in 2009/10 prices) for two years, subsequently rising at RPI plus 1.63 per cent. per annum for the three years 2011/12 to 2013/14;
- the airport should implement an enhanced consultation process for capital projects; and
- the introduction of a service quality rebate scheme, under which Stansted Airport is required to provide rebates to airlines of up to 7 per cent. of airport charges where the airport's service performance falls short of the defined standards; in the first year of the scheme ended 31 March 2010 total rebates were less than £1 million.

The CAA stated that there was a dual rationale for the price profile set out in the decision document. In the CAA's view the price profile is the product of both the standard "building block" approach to setting prices carried out by the Competition Commission and the CAA's assessment that the price control profile is consistent with the development of more effective airport competition over time.

Therefore, the CAA did not establish an opening RAB for the Stansted Q5, and it signalled that there should be no presumption that a RAB-based approach would be used in any future modification of price controls at Stansted Airport. In its recommendations to the CAA, the Competition Commission included in Stansted's RAB all capital expenditure incurred during Q4 except £37 million relating to Stansted Generation 2.

## 6. COMPETITION IN THE AIR TRANSPORT INDUSTRY

### 6.1 *Competition Commission Market Investigation*

On 30 June 2006, the Office of Fair Trading (the "OFT") announced that it was launching a market study under the Enterprise Act 2002 of the UK airports market. Having carried out this market study and following consultation, the OFT in March 2007 formally made a reference to the Competition Commission for an investigation into the supply of airport services by BAA within the United Kingdom under Section 131 of the Enterprise Act 2002. The OFT reference identified competition issues resulting, *inter alia*, from:

- i. BAA's ownership of Heathrow Airport, Stansted Airport and Gatwick airport (subsequently sold by BAA in December 2009) in addition to Edinburgh and Glasgow airports;
- ii. development and planning restrictions; and
- iii. the nature of the regulatory framework.

#### 6.2 *Competition Commission Final Decision*

In March 2009, the CC published its final decision in relation to its investigation into the supply of UK airport services by BAA. The key structural remedy called for the disposal of certain airports including Stansted.

The CC's decision was initially overturned by the Competition Appeals Tribunal but was upheld by the Court of Appeal in October 2010 and, in February 2011, BAA was refused permission to appeal to the Supreme Court.

Following the Court of Appeal decision, interim undertakings relating to the governance and monitoring of Stansted (as well as Edinburgh and Glasgow airports) have been reinstated and the CC is considering responses to a consultation as to whether there have been material changes in circumstances that might lead to it amending the scope of the remedies requiring that BAA divest Stansted Airport (as well as either Edinburgh or Glasgow airport) contained in its final decision in March 2009. The CC has indicated that it expects to issue its provisional decision on its consultation during March 2011 and the final decision in April 2011.

## DESCRIPTION OF THE OBLIGORS AND THE ISSUER

### HEATHROW AIRPORT LIMITED

Heathrow Airport Limited was incorporated under the Companies Act 1985 and registered in England and Wales on 19 February 1986 as a private limited company with number 01991017. Heathrow's registered office is at The Compass Centre, Nelson Road, Hounslow, Middlesex TW6 2GW and its telephone number is 084 4335 1801. Heathrow is a wholly owned subsidiary of BAA (AH) Limited and its authorised share capital is £1,247,570,415 divided into 857,570,415 £1 ordinary shares, 385,000,000 £1 preference shares and 500,000,000 £0.01 preference shares. The £1.00 preference shares are redeemable by Heathrow on 16 January 2016 at £1.37 per share, uplifted for movements in the RPI. On a return of capital on winding up or capital reduction, the holders of the £1 preference shares shall be entitled to a sum calculated in accordance with Heathrow's Articles of Association, in priority to any payment to the holders of any other class of shares other than the holders of irredeemable preference shares.

Heathrow has two subsidiary companies, Heathrow Express and Heathrow Airport Community Board Insulation Limited.

#### *Management and Employees*

The directors of Heathrow and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Nicholas Cullen	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
John Holland-Kaye	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
Steven Morgan	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
José Leo	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director

BAA Airports provides employees to Heathrow to undertake its operation of Heathrow Airport and Heathrow does not employ any staff directly. For the 12 months ended 31 December 2010, the average number of employees of BAA Airports engaged in the operation of Heathrow Airport was 5,148.

### HEATHROW EXPRESS OPERATING COMPANY LIMITED

Heathrow Express, a wholly owned subsidiary of Heathrow, undertakes the operation of the Heathrow Express rail service. While Heathrow is entitled to all receipts and income relating to the Heathrow Express rail service, Heathrow pays Heathrow Express a management fee and reimburses all of its operating costs.

Heathrow Express was incorporated under the Companies Act 1985 and registered in England and Wales on 11 January 1996 as a private limited company with number 03145133. The registered office of Heathrow Express is at The Compass Centre, Nelson Road, Hounslow, Middlesex TW6 2GW. Its authorised share capital is £100, divided into 100 £1 ordinary shares. Heathrow Express does not have any subsidiary companies.

#### *Management and Employees*

The directors of Heathrow Express and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Nicholas Cullen	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
Mark Murphy	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
Robert Smallwood	The Compass Centre	Director

Richard Robinson	Nelson Road, Hounslow Middlesex TW6 2GW The Compass Centre	Director
Benjamin Harding	Nelson Road, Hounslow Middlesex TW6 2GW The Compass Centre	Director
	Nelson Road, Hounslow Middlesex TW6 2GW	

Heathrow Express employs most of its own staff directly (with some staff being provided by BAA Airports). For the 12 months ended 31 December 2010, the average number of employees was 411.

### **Heathrow Airport Community Board Insulation Limited**

Heathrow Airport Community Board Insulation Limited, a wholly-owned subsidiary of Heathrow, is comprised of representatives from the local community and has been created to oversee the administration of the Community Buildings Noise Insulation Scheme. The board is responsible for making important decisions on how the noise insulation is to be provided to community buildings and the order in which these buildings should be insulated. Heathrow funds the noise insulation and the administration of this body. Heathrow provides funding of up to £5 million in any full financial year to allow the board to carry out its role.

### **STANSTED AIRPORT LIMITED**

Stansted Airport Limited was incorporated under the Companies Act 1985 and registered in England and Wales on 19 February 1986 as a private limited company with number 01990920. Stansted's registered office is at The Compass Centre, Nelson Road, Hounslow, Middlesex TW6 2GW and its telephone number is 084 4335 1803. Stansted is a wholly owned subsidiary of BAA (AH) Limited and its authorised share capital is £520,000,000, divided into 520,000,000 £1 ordinary shares. Stansted does not have any subsidiaries.

#### ***Management and Employees***

The directors of Stansted and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Nicholas Barton	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
José Leo	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
Fidel Lopez	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director

BAA Airports provides employees to Stansted to undertake its operation of Stansted Airport and Stansted does not employ any staff directly. For the 12 months ended 31 December 2010, the average number of employees of BAA Airports engaged in the operation of Stansted Airport was 1,121.

### **BAA (SP) LIMITED**

BAA (SP) Limited was incorporated under the Companies Act 1985 and registered in England and Wales on 20 December 2007 as a private limited company with number 06458621. The registered office of BAA (SP) Limited is at The Compass Centre, Nelson Road, Hounslow, Middlesex TW6 2GW and its telephone number is 084 4335 1801. BAA (SP) Limited is a wholly owned subsidiary of BAA (SH) plc and its authorised share capital is £17,100,000, and its issued share capital is £10,969,754.84 divided into 5,773,555,178 £0.0019 ordinary shares. BAA (SP) Limited has two direct subsidiaries, BAA (AH) Limited and BAA Funding Limited.

#### ***Management and Employees***

The directors of BAA (SP) Limited and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
José Leo	The Compass Centre Nelson Road, Hounslow	Director



Frederick Maroudas	Middlesex TW6 2GW The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
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BAA (SP) Limited does not have any employees.

**BAA (AH) LIMITED**

BAA (AH) Limited was incorporated under the Companies Act 1985 and registered in England and Wales on 20 December 2007 as a private limited company with number 06458657. The registered office of BAA (AH) Limited is at The Compass Centre, Nelson Road, Hounslow, Middlesex TW6 2GW and its telephone number is 084 4335 1801. BAA (AH) Limited is a wholly owned subsidiary of BAA (SP) Limited and its authorised share capital is £13,500,000, and its issued share capital is £11,026,388.24, divided into 7,350,925,493 £0.0015 ordinary shares. BAA (AH) Limited has two direct subsidiaries, Heathrow Airport Limited and Stansted Airport Limited.

**Management and Employees**

The directors of BAA (AH) Limited and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
José Leo	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
Frederick Maroudas	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director

BAA (AH) Limited does not have any employees.

**THE ISSUER**

The Issuer was incorporated and registered in Jersey on 11 December 2007 (with registered number 99529) as a public company of unlimited duration and with limited liability under the Companies (Jersey) Law 1991. The registered office of the Issuer is 22 Grenville Street, St. Helier, Jersey JE4 8PX and its telephone number is 01534 609000. The Issuer carries out all its business through a fixed place of business at The Compass Centre, Nelson Road, Hounslow, Middlesex TW6 2GW.

The issued share capital of the Issuer consists of 2 ordinary shares of no par value and there is only a single class of shares in issue, namely ordinary shares without any preferential rights. The entire issued share capital of the Issuer is held by BAA (SP) Limited. Since the date of incorporation, no options to acquire shares have been issued or authorised. Since its incorporation up to the date of this Prospectus, the Issuer has not paid any dividends.

**Principal Activities**

The Issuer was formed with a view to raise or borrow money and to grant security over its property for the performance of its obligations or the payment of money, to lend money and to invest in and acquire loans and other similar investments.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of Bonds and to on-lend the proceeds of such issues of Bonds to the Borrowers. The Issuer is and is obliged to remain resident in the United Kingdom for United Kingdom tax purposes.

The Issuer has not engaged, since its incorporation, and does not expect to engage, in any activities other than those incidental to (i) the authorisation and issue of the Bonds; (ii) the ownership of such interests and other assets referred to herein; (iii) the other matters contemplated in this Prospectus; (iv) the authorisation and execution of the other documents referred to in this Prospectus to which it is or will be a party; and (v) other matters which are incidental or ancillary to those activities.

The Issuer has entered into the Issuer Transaction Documents to which it is party for the purpose of making a profit. The Issuer has no subsidiaries, employees or non-executive directors.

**Directors and Company Secretary**

The directors of the Issuer and their respective business addresses and principal activities are set out below.

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
José Leo	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
Frederick Maroudas	The Compass Centre Nelson Road, Hounslow Middlesex TW6 2GW	Director
Vincent Michael Rapley	1st Floor, Phoenix House, 18 King William Street, London EC4N 7BP	Director

State Street Secretaries (Jersey) Limited, whose business address is 22 Grenville Street, St Helier, Jersey JE4 8PX, is the company secretary of the Issuer. The directors of State Street Secretaries (Jersey) Limited are Simon Burgess, Dean Godwin and Carl Hansen, and their business address is the same as State Street Secretaries (Jersey) Limited.

#### ***Issuer Corporate Administration Agreements***

Pursuant to the terms of the Issuer Corporate Administration Agreements, State Street (Jersey) Limited provides certain corporate services to the Issuer and State Street Administration Services (UK) Limited provides an independent, UK-resident director to the Issuer, each in consideration for the payment by the Issuer of an annual fee to State Street (Jersey) Limited and State Street Administration Services (UK) Limited, respectively.

Pursuant to the terms of the Issuer Corporate Administration Agreements, the appointment of State Street (Jersey) Limited shall terminate (i) upon the expiration of 90 days' notice in writing given by State Street (Jersey) Limited to the Issuer or by the Issuer to State Street (Jersey) Limited and, if required under any consent granted pursuant to the Control of Borrowing (Jersey) Order 1958, as amended, to the Commission, and a substitute administrator shall be appointed by the Issuer on terms substantially the same as those set out in the Issuer Corporate Administration Agreements and such appointment will be effective not later than the date of the termination of the appointment of State Street (Jersey) Limited; or (ii) immediately if (X) either party has broken or is in breach of any of the terms of the Issuer Corporate Administration Agreements and shall not have remedied such breach within 30 days after service of notice requiring the same to be remedied or (Y) either of the Issuer or State Street (Jersey) Limited is declared *en désastre* or has committed any act or omission indicative of insolvency.

Upon the termination of its appointment, State Street (Jersey) Limited is required within two working days of the Issuer's request, to deliver all information and data relating to the Issuer held by State Street (Jersey) Limited, to the Issuer.

The Issuer Corporate Administration Agreement between the Issuer and State Street (Jersey) Limited is governed by Jersey law. The Issuer Corporate Administration Agreement between the Issuer and State Street Administration Services (UK) Limited is governed by the laws of England and Wales.

## SUMMARY OF THE FINANCING AGREEMENTS

The following is a description of the principal Programme documentation. The Common Terms Agreement, the STID, the Bond Trust Deed, the Security Agreement, the Obligor Floating Charge Agreement and the Master Definitions Agreement are incorporated by reference in this Prospectus and may be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and are also available from <http://www.baa.com/financialinformation>. For more information, see “Documents Incorporated By Reference”.

Capitalised terms used but not defined in this section are defined in the Master Definitions Agreement.

### DOCUMENTS INCORPORATED BY REFERENCE

This section contains summaries of the following documents, which are incorporated by reference in this Prospectus:

- Common Terms Agreement
- Security Trust and Intercreditor Deed
- Bond Trust Deed
- Security Agreement
- Obligor Floating Charge Agreement

**These summaries are brief and only touch in very general terms on the main provisions of the documents listed above. Consequently, investors are strongly recommended to obtain copies of the documents themselves. Recipients of this Prospectus should visit one of the websites listed above in order to download and read copies of the documents incorporated by reference. In addition to the documents listed above, the Master Definitions Agreement is also incorporated by reference.**

The Borrower Secured Creditors (including the Issuer) all benefit from common terms and a common security package granted by the Obligors. The Common Terms Agreement sets out the common terms applicable to the Borrower Loan Agreements and each other Authorised Credit Facility which the Borrowers enter into. Except for certain limited exceptions (such as those described under “– Documents Not Incorporated by Reference – Refinancing Facility Agreement” below), no Borrower Secured Creditor can have additional warranties, covenants, trigger events or loan events of default beyond the common terms deemed to be incorporated by reference into their Authorised Credit Facilities through their execution of, or accession to, the Common Terms Agreement. The Borrower Secured Creditors have also entered into intercreditor arrangements, contained in the STID, which regulate among other things: (i) the claims of the Borrower Secured Creditors; (ii) the exercise and enforcement of rights by the Borrower Secured Creditors; and (iii) the giving of instructions, consents and waivers and, in particular, the basis on which votes of the Borrower Secured Creditors will be counted. It is a requirement of the Common Terms Agreement that any future provider of an Authorised Credit Facility must accede to and be bound by the terms of the Common Terms Agreement and the STID.

### 1. COMMON TERMS AGREEMENT

#### General

The Common Terms Agreement sets out the representations, covenants, Trigger Events and Loan Events of Default (at Schedules 1 to 4, respectively) which apply to each Authorised Credit Facility including the Borrower Loan Agreements.

#### Covenants

The covenants are positive, negative, informational and financial in nature. They include an undertaking by the Borrower Group Agent to provide consolidated audited financial statements of the Borrower Group and the Issuer for each financial year and consolidated, unaudited financial information for the financial half-year.

The Borrower Group Agent must also supply an Investor Report by 30 June and 31 December each year which will include a general update on the Borrower Group, regulatory and business developments and capital expenditure.

Each Obligor has undertaken not to incur any Financial Indebtedness other than Permitted Financial Indebtedness. The incurrence of additional Senior Debt or Junior Debt is subject to certain conditions including that the Senior RAR (in respect of additional Senior Debt) must be less than 0.725 and the Junior RAR (in respect of additional Junior Debt) must be less than 0.90 (as modified by the Refinancing Facility Agreement see below), in each case calculated taking account of the proposed additional Financial Indebtedness. In addition, there are provisions which restrict the amount of

Financial Indebtedness which can fall due (a) within any 24 month period to 30 per cent. of Total RAB and (b) within any Five Year Period to 50 per cent. of Total RAB.

The Borrowers are able to sell all or part of an Airport subject to the application of proceeds to stay within prescribed financial ratios and to repayment of the Refinancing Facility as described below. Heathrow Airport cannot be sold without approval from the requisite majority of Qualifying Borrower Secured Creditors. If a Borrower is forced to sell an Airport, and the net proceeds are less than required to comply with the financial ratios, a Trigger Event will occur, the consequences of which are set out below.

In addition to the restrictions on financial indebtedness and disposals, the Common Terms Agreement also contains a number of covenants which regulate the Obligor's activities including, among others:

- (1) limitations on non Permitted Business;
- (2) limitations on joint ventures;
- (3) a negative pledge; and
- (4) a requirement to comply with specified insurance and outsourcing policies.

### **Trigger Events**

The Common Terms Agreement sets out certain Trigger Events including:

- (1) any breach of the following Financial Ratios:
  - (A) the Senior RAR as at any Relevant Date prior to 1 April 2018 is, or is estimated to be, more than 0.70 and thereafter is, or is estimated to be, more than 0.725;
  - (B) the Junior RAR as at any Relevant Date is, or is estimated to be, more than 0.85;
  - (C) the Senior ICR for each Relevant Period is, or is estimated to be, less than 1.40; or
  - (D) the Junior ICR for each Relevant Period is, or is estimated to be, less than 1.20;
- (2) a credit rating downgrade of Class A Bonds below BBB+;
- (3) a credit rating downgrade of Class B Bonds below BBB-;
- (4) the commencement of the final reading of draft legislation in the House of Lords or the House of Commons (whichever occurs later) relating to the business of any Obligor if such legislation could (if enacted) reasonably be expected to have a Material Adverse Effect;
- (5) forecast Capital Expenditure over the 12 month period following a Calculation Date exceeds the aggregate of undrawn Capex Facilities, cash and Projected Excess Cashflow Before Capex over such 12 month period;
- (6) the amount available under the Issuer's Liquidity Facilities/any cash liquidity reserve is less than the estimated interest and equivalent finance charges for (a) the 12 month period following a Calculation Date in respect of Issuer Senior Debt and (b) the six month period following a Calculation Date in respect of Issuer Junior Debt;
- (7) the issue of any compliance or enforcement order by any Regulator which would reasonably be expected to have a Material Adverse Effect; or
- (8) the issue of a termination notice or a notice of any proposed or actual modification in respect of any licence by a Regulator which, if implemented, would reasonably be expected to have a Material Adverse Effect.

The occurrence of a Trigger Event gives rise to various consequences including a block on Restricted Payments, the preparation of remedial plans and a termination plan in respect of the Shared Services Agreement, and a right for the Borrower Security Trustee to request to participate in discussions with the Regulator.

### **Loan Events of Default**

The Common Terms Agreement contains a number of Loan Events of Default (subject, in some cases, to agreed exceptions, materiality qualifications, reservations of law and grace periods) including:

- (1) non-payment by an Obligor of amounts payable under the Finance Documents;
- (2) a breach of the following Financial Ratios:
  - (A) if the Senior RAR as stated in the Compliance Certificate produced in respect of the Reporting Date falling in June in respect of 31 December of the preceding Financial Year is more than 0.925; and/or
  - (B) if the Average Senior ICR as stated in the Compliance Certificate produced in respect of the Reporting Date falling in June on or after the Reporting Date in June 2012 is less than 1.05;
- (3) non-compliance with any term of any covenant or undertaking in any Finance Document;

- (4) a representation made or repeated by an Obligor in any Finance Document being incorrect or misleading in any material respect when made or deemed to be repeated;
- (5) the insolvency of an Obligor;
- (6) it becoming unlawful for any Obligor to perform its obligations under any Transaction Document;
- (7) certain changes in law; or
- (8) the occurrence of a Bond Event of Default.

In respect of each Loan Event of Default requiring any action or discretion on the part of the relevant creditor, the Borrower Security Trustee will act in accordance with the relevant provisions of the STID.

The Common Terms Agreement also provides for an “**Accepted Restructuring Event**” regime under which if there occurs a proposed or actual change in law/regulation and its effect would be to:

- (i) restrict the grant or subsistence of security over the material assets of the Borrowers;
- (ii) restrict the ability of the Borrower Security Trustee to appoint a receiver or the Bond Trustee to appoint an administrative receiver; or
- (iii) establish a special insolvency regime,

and, such proposed or actual change would otherwise result in the occurrence of a Restricted Loan Event of Default at that time, then only a Trigger Event will arise until either (a) it is remedied or (b) the date falling on the later of (1) twelve months after the date of the occurrence of the Trigger Event or (2) nine months after the date on which the relevant Loan Event of Default would (but for the Accepted Restructuring Event regime) have first occurred. After this period a Loan Event of Default will occur.

### **Hedging Policy**

The Issuer and the Borrowers are subject to a Hedging Policy which is set out at Schedule 5 of the Common Terms Agreement. The Borrowers and the Issuer have entered into and in the future may enter into various interest rate, inflation-linked and currency swap transactions in conformity with the Hedging Policy.

Such policy includes an obligation to ensure that:

- (1) (a) during the current Regulatory Period, at least 75 per cent.; and  
 (b) during the immediately following Regulatory Period, at least 50 per cent.,  
 of Relevant Debt (as defined in the Hedging Policy but which, broadly, means Senior Debt and Junior Debt excluding certain items) of the Group is hedged such that it effectively bears either a fixed rate of interest or an inflation linked rate of interest;
- (2) any foreign currency denominated debt instruments are 100 per cent. currency hedged; and
- (3) the Group does not hedge its exposure to interest rate risk such that the Total Notional Hedged Amount (as defined in the Hedging Policy) exceeds 102.5 per cent. of the sum of Relevant Debt (subject to certain exclusions).

## **2. SECURITY TRUST AND INTERCREDITOR DEED**

The intercreditor arrangements among the Borrower Secured Creditors of the Borrower Group (the “**Intercreditor Arrangements**”) are contained in the STID. Unsecured creditors (other than BAA Airports or any Affiliate thereof which provides subordinated loans to a member of the Borrower Group) are not and will not become parties to the Intercreditor Arrangements and will have unfettered, independent rights of action in respect of their debts. However, the aggregate amount of unsecured Financial Indebtedness is restricted under the Common Terms Agreement.

The purpose of the Intercreditor Arrangements is to regulate, among other things: (i) the claims of the Borrower Secured Creditors and their ranking in point of payment after the delivery of a Loan Enforcement Notice; (ii) the exercise, acceleration and enforcement of rights by the Borrower Secured Creditors; (iii) the rights of the Borrower Secured Creditors to instruct the Borrower Security Trustee; and (iv) the giving of consents and waivers and the making of modifications to the Common Terms Agreement, the Security Documents, the Shared Services Agreement, the STID, the Master Definitions Agreement and the Tax Deed of Covenant (the “**Common Documents**”). The Intercreditor Arrangements provide for the subordination and postponement of all claims in respect of Financial Indebtedness of any BAA Group company or Affiliate thereof that is not a member of the Borrower Group and following delivery of a Loan Acceleration Notice, payments under the Shared Services Agreement and certain other contracts otherwise entered into in accordance with the Common Terms Agreement.

As regards the giving of consents and waivers and the making of modifications in relation to the Common Documents, the STID contains provisions which enable the Borrower Security Trustee to give or permit the making thereof in

certain circumstances (principally where it determines that the consent, waiver or modification will not be materially prejudicial to Borrower Secured Creditors). Where the Borrower Security Trustee is not willing or able to exercise its discretion, approval from relevant Qualifying Borrower Secured Creditors (which do not include providers of liquidity or hedge counterparties) is required. Consents, waivers, or modifications may, depending on their nature, constitute Ordinary Voting Matters or Extraordinary Voting Matters. In addition, it may constitute an Entrenched Right in respect of one or more Borrower Secured Creditors with the result that the consent of such Borrower Secured Creditors will need to be obtained. The STID contains the detailed provisions regarding the quorum required for the approval of such matters, the time periods in which approvals need to be given and the percentage thresholds required to approve the different matters. Voting is effected on a 'one pound equals one vote' basis, save that, in the case of bank debt, the entirety of the relevant outstanding bank debt will vote in accord with the instructions given by the relevant majority of the bank lenders in respect of such debt. Bondholders will be able to participate in such approval processes by means of an electronic voting procedure, details of which are set out in the Bond Trust Deed (and is briefly described in "*Bond Trust Deed*" below). For full details of voting and modifications, consents and waivers, see parts 6 and 7 of the STID.

There are also provisions which enable instructions to be given to the Borrower Security Trustee by the required percentage of Qualifying Borrower Secured Creditors in relation to a number of matters including whether to enforce the security following a Loan Event of Default and whether to deliver a Loan Acceleration Notice. The required percentage of QBS Creditors differs depending on the nature of the instruction and also may vary over time.

There is no generally applicable priority of payments prior to the delivery of a Loan Enforcement Notice (save in certain limited circumstances as set out in paragraph 12 of Schedule 9 to the Common Terms Agreement, including where the Obligors have insufficient funds on any payment date to pay in full those liabilities required to be paid on such date) and because there is no requirement for all Financial Indebtedness to have common payment dates, the Borrowers are free to pay debts as they fall due, whether they be in respect of Senior Debt or Junior Debt or in respect of unsecured claims. There are, however, priorities of payments which regulate payments made after the delivery of a Loan Enforcement Notice and after the delivery of a Loan Acceleration Notice. In addition, the making of certain payments following a Loan Event of Default is regulated. For full details of the priorities of payments, see Schedule 2 of the STID.

Subject to accession to the STID and Common Terms Agreement, Finance Lessors and other Authorised Credit Providers may, in the future, become Borrower Secured Creditors.

The representative of the Issuer is the Bond Trustee.

The STID is governed by English law.

### **3. BOND TRUST DEED**

The Issuer, the Bond Guarantor and the Bond Trustee have entered into a bond trust deed (the "**Bond Trust Deed**") pursuant to which the Bonds are constituted. The Bond Trust Deed includes the form of the Bonds and contains a covenant from the Issuer to the Bond Trustee to pay all amounts due under the Bonds. The Bond Trustee holds the benefit of that covenant on trust for itself and the Bondholders in accordance with their respective interests. The Bond Trust Deed contains a number of covenants given by the Issuer including it being obliged to use its reasonable endeavours to maintain a listing for listed Bonds whilst they remain outstanding.

#### **Bondholders Voting Mechanics**

In relation to a STID Voting Request in respect of Ordinary Voting Matters or Extraordinary Voting Matters, voting in respect of the Class A Unwrapped Bonds may be made by holders of the Class A Unwrapped Bonds and, following repayment in full of the Senior Debt, voting in respect of the Class B Unwrapped Bonds may be made by holders of the Class B Unwrapped Bonds, in each case in accordance with the following electronic voting procedures:

- (a) the Bond Trustee will upon receipt of a STID Voting Request distribute a copy of the STID Voting Request and proposed resolution to the Qualifying Bondholders;
- (b) Qualifying Bondholders may vote on the proposed resolution within the Decision Period through the clearing systems;
- (c) the Principal Paying Agent, in the case of the Bearer Bonds, and the Registrar, in the case of Registered Bonds, will complete Block Voting Instructions (which shall be the only method of voting in respect of such matters) in respect of the votes cast by Qualifying Bondholders and will notify the Borrower Security Trustee and the Issuer accordingly;
- (d) only the Principal Amount Outstanding of Bonds then owed to Bondholders that vote on a proposed resolution within the Decision Period will be counted towards the Quorum Requirement and the Qualifying Borrower Senior Debt of the Participating QBS Creditors with such tranche being divided on a pound for pound basis between votes cast in favour and votes cast against; and

- (e) votes cast in favour and votes cast against will then be aggregated by the Borrower Security Trustee with the votes cast by the other Participating Qualifying Borrower Secured Creditors.

For a description of Bondholder voting mechanics in other circumstances, see “*The Bonds – Terms and Condition of the Bonds – Condition 15 (Meetings of Bondholders, Modification, Waiver and Subscription)*”.

The Bond Trust Deed is governed by English law.

#### 4. SECURITY AGREEMENT AND OBLIGOR FLOATING CHARGE AGREEMENT

##### **Borrower Security**

Each Obligor entered into the security agreement (the “**Security Agreement**”) with the Borrower Security Trustee on the Initial Issue Date. Under the Security Agreement, each Obligor guarantees the obligations of each other Obligor under the Finance Documents, in each case to the Borrower Security Trustee for itself and as security trustee for the Borrower Secured Creditors. Each Obligor secures its property, assets and undertakings to the Borrower Security Trustee for itself and as trustee for the Borrower Secured Creditors.

Except as set out below, the Security Agreement is subject to the STID.

The security constituted by the Security Agreement includes:

- (i) first fixed charges over certain assets of the Obligors including the ordinary shares in each Obligor (other than BAA (SP) Limited); plant, machinery, office equipment, computers, vehicles and other chattels; and all monies standing to the credit of each Obligor’s accounts and the debts represented thereby;
- (ii) first fixed charges over each Obligor’s right, title and interest from time to time in and to:
  - (A) by way of legal mortgage over any real property interests owned by it at the date of the Security Agreement and by way of equitable fixed charge over any real property interests acquired after the date of the Security Agreement; and
  - (B) the proceeds of disposal of any land;
- (iii) an assignment by way of security of each Obligor’s right in respect of Assignable Insurances and in respect of its right, title and interest in all Transaction Documents to which an Obligor is a party; and
- (iv) first floating charges of the whole of the undertaking, property, assets and rights whatsoever and wheresoever present and future of each Obligor (the floating charges referred to in this paragraph, the “**Security Agreement Floating Security**”).

The Borrower Security does not extend to:

- (a) any Borrower’s interest in certain leasehold property or any other property or properties in respect of which the creation of any security by the relevant Borrower is prohibited absolutely or without consent (until such time as consent is obtained) (the “**Excluded Charged Property**”); or
- (b) any Obligor’s rights under a document to the extent that such rights cannot be secured without the consent of a party to that document (the “**Excluded Documents**” and, together with the Excluded Charged Property, the “**Excluded Property**”).

The Obligors covenant in the Common Terms Agreement that the value of the Excluded Property of each Borrower shall not at any time exceed 5 per cent. of the Total RAB of such Borrower.

##### **Floating charges held by the Borrower Security Trustee and the Issuer**

The Issuer holds the floating charges granted by the Obligors pursuant to the Obligor Floating Charge Agreement (the “**OFCA Floating Security**”) for the benefit of itself. The OFCA Floating Security and the Security Agreement Floating Security rank *pari passu* with one another and are expressed to be created simultaneously.

*Enforceability of the floating charges:* The Security Agreement and the STID provide that the Security Agreement Floating Security shall only become enforceable following the delivery of a Loan Enforcement Notice.

The Obligor Floating Charge Agreement provides that the OFCA Floating Security shall become enforceable by the Bond Trustee (by appointing an administrative receiver):

- (a) following the delivery of a Loan Enforcement Notice under the Common Terms Agreement; or
- (b) if the Bond Trustee has actual notice of an application for the appointment of an administrator in respect of an Obligor or has actual notice of the giving of a notice of intention to appoint an administrator in respect of an Obligor or has actual notice of the filing of a notice of appointment of an administrator of an Obligor with the court (in which case, the Bond Trustee will (subject to “– *Indemnity of the Bond Trustee*” immediately below), be obliged to appoint an administrative receiver).

In either case, the Bond Trustee shall not be liable for any failure to appoint, save in the case of its own negligence, wilful default or fraud.

*Indemnity of the Bond Trustee:* The Bond Trustee shall not be obliged to appoint an administrative receiver unless it is indemnified and/or secured to its satisfaction. However, pursuant to the Obligor Floating Charge Agreement, in the event that the Bond Trustee is required to enforce the OFCA Floating Security by appointing an administrative receiver following receipt of actual notice of an application for the appointment of an administrator or actual notice of the giving of a notice of intention to appoint an administrator, or has actual notice of the filing of a notice of appointment of an administrator in respect of an Obligor with the court, the Bond Trustee agrees that it is adequately indemnified and secured in respect of such appointment by virtue of its rights against the Obligors under the Obligor Floating Charge Agreement and against the Issuer under the Bond Trust Deed, and the security it has in respect of such rights. The Obligors covenant in the Obligor Floating Charge Agreement that, in the event the Bond Trustee appoints an administrative receiver by reason of it having actual notice of an application for the appointment of an administrator or actual notice of the giving of a notice of intention to appoint an administrator, they waive any claims against the Bond Trustee in respect of such appointment.

*Appointment of an administrator:* The STID provides that the Borrower Security Trustee shall not (notwithstanding any instruction from a Borrower Secured Creditor to the contrary) make any application to appoint an administrator or give any notice of intention to appoint an administrator unless the Bond Trustee has agreed to such action.

*Consultation in dealings with administrative receiver of the floating charge assets:* Any administrative receiver appointed by the Bond Trustee pursuant to the Obligor Floating Charge Agreement in respect of any assets over which it is so appointed shall consult with the Borrower Security Trustee as holder of the Security Agreement Floating Security and, if necessary, request the release of such assets from such security.

*Proceeds:* The Security Agreement, the STID and the Obligor Floating Charge Agreement provide that the proceeds of enforcement of the OFCA Floating Security by the Bond Trustee (or any administrative receiver appointed by it) and paid to the Borrower Security Trustee will be applied, together with any proceeds of enforcement of the other Borrower Security by the Borrower Security Trustee (or any Receiver appointed by it), in accordance with the Borrower Payments Priorities. Any proceeds of enforcement of the OFCA Floating Security will be paid to the Issuer and will be taken into account by the Borrower Security Trustee in ensuring that the Issuer recovers no more than its *pro rata* proportion of the aggregate proceeds of enforcement of all Borrower Security.

## **DOCUMENTS NOT INCORPORATED BY REFERENCE**

This section contains summaries of the principal Programme documentation which is not incorporated by reference in this Prospectus.

### **1. BORROWER LOAN ARRANGEMENTS**

#### **Borrower Loan Agreements**

Amounts raised by the Issuer through the issue of Bonds will be on-lent, in Sterling, to one or more of the Borrowers so as to create matching debt obligations owed by the Borrowers to the Issuer under a loan agreement (each, a “**Borrower Loan Agreement**”) other than in respect of legal maturity and in the case of amounts raised by the Issuer through the issue of Bonds for the purpose of creating a liquidity reserve. As the Borrower Loans are structured and tranching to match the tenor, interest rate and payment dates of each Sub-Class of Bonds and related hedging, the Borrower Loans have characteristics that demonstrate capacity to produce funds to service any payments due and payable under the Bonds and related hedging.

The obligations of each Borrower under each Borrower Loan Agreement are secured pursuant to the Security Agreement, and are guaranteed by each other Obligor in favour of the Borrower Security Trustee. The obligations of each Borrower under each Borrower Loan Agreement are also secured pursuant to the Obligor Floating Charge Agreement in favour of the Issuer.

The Issuer’s obligations to repay principal and pay interest on the Bonds are intended to be met primarily from the payments of principal and interest received from each Borrower under each Borrower Loan Agreement and payments received under any related Hedging Agreements. Failure of a Borrower to repay an advance on the maturity date in respect of such advance (which corresponds to the Scheduled Redemption Date of the corresponding Class or Sub-Class of Bonds) will be a Loan Event of Default under the relevant Borrower Loan Agreement, although it will not, of itself, constitute a Bond Event of Default.

Each Borrower agrees to make payments free and clear of any withholding on account of tax unless it is required by law to do so – in such circumstances each Borrower will gross-up such payments.

Each Borrower Loan Agreement will be governed by English law and subject to the exclusive jurisdiction of the English courts (except that the Issuer alone may commence proceedings in any other court with jurisdiction).



## 2. CASH MANAGEMENT

### **Borrower Cash Management**

#### *Accounts*

In accordance with the Common Terms Agreement, the Borrowers and Heathrow Express each maintain an operating account (each, an “**Operating Account**”), a joint disposal proceeds account (the “**Disposal Proceeds Account**”) and a liquidity reserve account (the “**Borrower Liquidity Reserve Account**”) with the Borrower Account Bank, as well as a joint debt collateralisation account (the “**Debt Collateralisation Account**”). Heathrow maintains an insurance proceeds account (the “**Insurance Proceeds Account**”) on behalf of the Borrowers. Each of the above accounts are collectively referred to as an “**Obligor Account**”. The Royal Bank of Scotland plc, acting through its office at 135 Bishopsgate, London EC2M 3UR, currently serves as Borrower Account Bank pursuant to the Borrower Account Bank Agreement.

Heathrow Express maintains operating accounts with Barclays Bank PLC and will transfer amounts standing to the credit of those accounts on a weekly basis to the Operating Account opened by Heathrow Express with the Borrower Account Bank (the “**Heathrow Express Operating Account**”).

#### *Operating Accounts*

Each Borrower will pay, among other things, the proceeds of any Borrower Loan or advance under an Authorised Credit Facility and income received from the BSC Account or BAA Airports Account on the allocation of revenues processed for such Borrower into its Operating Account and will use the funds standing to the credit of such Operating Account to make payments under the Authorised Credit Facilities on the payment dates specified in the relevant Authorised Credit Facility and to make payments to the BSC Account or BAA Airports Account to settle payments processed by the Shared Services Sub-contractor or Shared Services Provider as they fall due, as the case may be, on its behalf.

#### *Debt Collateralisation Account*

The Debt Collateralisation Account may be credited by the Borrowers in discharge of their obligation to Collateralise Senior Debt or Junior Debt that is not required to be Actually Prepaid following the delivery of a Loan Enforcement Notice or to meet certain hedging shortfalls.

#### *Authorised Investments*

The Common Terms Agreement allows the Borrower Group to invest in Authorised Investments such part of the amounts standing to the credit of any of the Obligor Accounts as is prudent and in accordance with certain provisions set out in the Common Terms Agreement.

### **Issuer Cash Management Agreement and Issuer Account Bank Agreement**

The Issuer appointed BAA Airports as the Issuer Cash Manager pursuant to a cash management agreement dated the Initial Issue Date, as amended on 11 August 2010 (the “**Issuer Cash Management Agreement**”). Pursuant to the Issuer Cash Management Agreement, BAA Airports undertakes cash administration functions on behalf of the Issuer.

The Issuer established before the Initial Issue Date sterling, euro and U.S. dollar operating accounts (together with any issuer collateral accounts opened after the Initial Issuer Date, the “**Issuer Accounts**”). The Issuer may also open and maintain a liquidity reserve account (the “**Issuer Liquidity Reserve Account**”) with the Issuer Account Bank.

Prior to the service of a Bond Enforcement Notice under the Issuer Deed of Charge, monies credited to an operating Issuer Account will be applied, subject to certain exceptions as set out in the Issuer Cash Management Agreement and Condition 8(f), for payment in accordance with the priority of payments set out in the Issuer Cash Management Agreement as set out below:

- (i) *first*, the amounts due in respect of the fees and other remuneration and indemnity payments (if any) payable to the Bond Trustee and any Receiver and any costs, charges, liabilities and expenses incurred by the Bond Trustee under the Trust Documents and any other amounts payable to the Bond Trustee and any Receiver under the Trust Documents;
- (ii) *second*, in or towards satisfaction, *pro rata* and *pari passu* of the amounts payable by the Issuer in respect of any amounts due and owing by the Issuer in respect of:
  - (a) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Paying Agents, Exchange Agent, Agent Bank, Registrar and Transfer Agent incurred under the Agency Agreement and any Calculation Agent under the Calculation Agency Agreement;

- (b) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Account Bank incurred under the Issuer Account Bank Agreement;
  - (c) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Cash Manager (for so long as the Issuer Cash Manager is not BAA Airports or a member of the BAA Group); and
  - (d) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Corporate Administration Providers under the Issuer Corporate Administration Agreements;
- (iii) *third*, in or towards satisfaction, *pro rata* and *pari passu*, of:
- (a) payment of amounts due and payable to any third party creditors of the Issuer, or to become due and payable to any third party creditors of the Issuer prior to the next Payment Date, of which the Issuer Cash Manager has notice prior to the relevant Payment Date, which amounts have been incurred without breach by the Issuer of the Issuer Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere); and
  - (b) any amounts due and payable by the Issuer and for which the Issuer is primarily liable in respect of all UK corporation tax and other tax for which the Issuer is liable under the laws of any jurisdiction other than UK corporation tax at the standard rate from time to time on the Issuer Profit Amount, which shall be met by the Issuer out of the Issuer Profit Amount;
- (iv) *fourth*, *pro rata* according to the respective amounts thereof: (a) the fees, other remuneration, indemnity payments, costs, charges and expenses of each Issuer Liquidity Facility Provider (and any facility agent and arranger under any Issuer Liquidity Facility Agreement) and amounts of interest and principal due in respect of any drawing under the Issuer Liquidity Facility Agreement (other than in respect of any Liquidity Subordinated Amounts); and (b) the fees, other remuneration, indemnity payments, costs, charges and expenses (other than reimbursement sums in respect of payments of principal and interest) of each Relevant Financial Guarantor pursuant to the G&R Deed;
- (v) *fifth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of all scheduled amounts payable to each Issuer Hedge Counterparty under any Interest Rate Hedging Agreement entered into between the Issuer and the Issuer Hedge Counterparty (other than Issuer Subordinated Hedge Amounts) and scheduled amounts due and payable to the Borrowers under any back-to-back hedging arrangements in respect of amounts received by the Issuer from the Issuer Hedge Counterparties under any Interest Rate Hedging Agreement entered into between the Issuer and an Issuer Hedge Counterparty;
- (vi) *sixth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of interest and commitment commissions due in respect of the Class A Bonds (other than principal and Subordinated Step-up Fee Amounts); (b) all scheduled amounts payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class A Bonds (other than Issuer Subordinated Hedge Amounts); (c) all reimbursement sums (if any) owed to each Relevant Financial Guarantor under the G&R Deed in respect of payments of interest of any Class A Wrapped Bonds guaranteed by such relevant Financial Guarantor; and (d) all unscheduled amounts (including termination payments) payable to each Issuer Hedge Counterparty under any Interest Rate Hedging Agreement entered into between the Issuer and the Issuer Hedge Counterparty (other than Issuer Subordinated Hedge Amounts) and unscheduled amounts (including termination amounts) due and payable to the Borrowers under any back-to-back hedging arrangements in respect of amounts received by an Issuer from the Issuer Hedge Counterparties under any Interest Rate Hedging Agreement entered into between the Issuer and an Issuer Hedger Counterparty;
- (vii) *seventh*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of the Class A Bonds; (b) all principal exchange amounts due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class A Bonds; (c) any termination amounts or other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class A Bonds (other than in respect of Issuer Subordinated Hedge Amounts); and (d) all reimbursement sums (if any) owed to each Relevant Financial Guarantor under the G&R Deed in respect of payments of principal on any Class A Wrapped Bonds guaranteed by such Relevant Financial Guarantor;
- (viii) *eighth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of interest and commitment commissions due in respect of the Class B Bonds (other than principal and Subordinated Step-up Fee Amounts); (b) all scheduled amounts payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class B Bonds (other than Issuer Subordinated Hedge Amounts); and (c) all reimbursement sums (if any) owed to each Relevant Financial Guarantor under the G&R Deed in respect of payments of interest on any Class B Wrapped Bonds guaranteed by such Relevant Financial Guarantor;

- (ix) *ninth, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of the Class B Bonds; (b) all principal exchange amounts due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class B Bonds; (c) any termination amounts or other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class B Bonds (other than in respect of Issuer Subordinated Hedge Amounts); and (d) all reimbursement sums (if any) owed to each Relevant Financial Guarantor under the G&R Deed in respect of payments of principal on any Class B Wrapped Bonds guaranteed by such Relevant Financial Guarantor;
- (x) *tenth, pro rata* according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-Up Fee Amounts due or overdue in respect of the Class A Bonds;
- (xi) *eleventh, pro rata* according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-Up Fee Amounts due or overdue in respect of the Class B Bonds;
- (xii) *twelfth*, in or towards satisfaction of any Liquidity Subordinated Amount due to an Issuer Liquidity Facility Provider;
- (xiii) *thirteenth, pro rata* according to the respective amounts thereof, in or towards satisfaction of any Issuer Subordinated Hedge Amounts due or overdue to an Issuer Hedge Counterparty;
- (xiv) *fourteenth*, in or towards satisfaction of all reimbursement sums (if any) owed to the Bond Guarantor in respect of payments of interest on any BAA Guaranteed Bonds and all reimbursement sums (if any) owed to the Bond Guarantor in respect of payments of principal on any BAA Guaranteed Bonds; and
- (xv) *fifteenth*, after retaining the Issuer Profit Amount, (which the Issuer may, after meeting any corporation tax thereon, use to pay a dividend or otherwise to pay to such account or person nominated by the Issuer), any remaining amount by way of rebate, to the maximum extent possible, of Ongoing Facility Fees to the Borrowers under the terms of the Borrower Loan Agreements; and
- (xvi) *sixteenth*, any remaining amount to the Borrowers in equal proportions.

After the service of a Bond Enforcement Notice by the Bond Trustee under the Issuer Deed of Charge, the Issuer Cash Manager (or any substitute cash manager appointed by the Bond Trustee to act on its behalf) shall (to the extent that such funds are available) use funds standing to the credit of the Issuer Accounts (other than (i) Issuer Excess Hedge Collateral (if any), which shall be returned to the relevant Issuer Hedge Counterparty in accordance with the relevant Issuer Hedge Agreement, (ii) Issuer Hedge Replacement Premium (if any), which shall be paid to the relevant Issuer Hedge Counterparty and (iii) amounts standing to the credit of a Liquidity Standby Account that has been opened in accordance with the terms of an Issuer Liquidity Facility Agreement, which shall be paid to the relevant Issuer Liquidity Facility Provider in accordance with such Issuer Liquidity Facility Agreement) to make payments in accordance with the following order of priority:

- (i) *first*, the amounts due in respect of the fees and other remuneration and indemnity payments (if any) payable to the Bond Trustee and any Receiver and any costs, charges liabilities and expenses incurred by the Bond Trustee and any Receiver appointed under the Trust Documents or the Obligor Floating Charge Agreement and any other amounts payable to the Bond Trustee and any Receiver under the Trust Documents or the Obligor Floating Charge Agreement;
- (ii) *second*, in or towards satisfaction, *pro rata* and *pari passu* of the amounts payable by the Issuer in respect of any amounts due and owing by the Issuer in respect of:
  - (a) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Paying Agents, Exchange Agent, Agent Bank, Registrar and Transfer Agent incurred under the Agency Agreement and any Calculation Agent under the Calculation Agency Agreement;
  - (b) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Account Bank incurred under the Issuer Account Bank Agreement;
  - (c) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Cash Manager (for so long as the Issuer Cash Manager is not BAA Airports or a member of the BAA Group); and
  - (d) the fees, other remuneration, indemnity payments, costs, charges and expenses of each Issuer Corporate Administration Provider incurred under the Issuer Corporate Administration Agreements;
- (iii) *third, pro rata*, according to the respective amounts thereof: (a) all amounts due to each Issuer Liquidity Facility Provider (and any facility agent and arranger under any Issuer Liquidity Facility Agreement), including all amounts of interest and principal due in respect of any drawing under the Issuer Liquidity Facility Agreement (other than in respect of any Liquidity Subordinated Amounts); and (b) the fees, other remuneration, indemnity payments (other than in respect of reimbursement sums in respect of payments of interest or principal), costs,

charges and expenses (other than reimbursement sums) of each Relevant Financial Guarantor pursuant to the G&R Deed;

- (iv) *fourth, pro rata* according to the respective amounts thereof in or towards satisfaction of all scheduled amounts payable to each Issuer Hedge Counterparty under any Interest Rate Hedging Agreement (other than Issuer Subordinated Hedge Amounts);
- (v) *fifth, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of interest and commitment commissions due in respect of the Class A Bonds (other than principal and Subordinated Step-up Fee Amounts); (b) all unscheduled amounts (including termination amounts) payable to each Issuer Hedge Counterparty under any Interest Rate Hedging Agreement (other than Issuer Subordinated Hedge Amounts); (c) all scheduled amounts payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class A Bonds (other than Issuer Subordinated Hedge Amounts); (d) all reimbursement sums (if any) owed to each Relevant Financial Guarantor under the G&R Deed in respect of payments of interest on any Class A Wrapped Bonds guaranteed by such Relevant Financial Guarantor; and (e) in the event that any Interest Rate Hedging Agreement has been terminated and to the extent that the Issuer has received any termination payment thereunder, any termination payment that is due from the Issuer to a Borrower under the related back-to-back hedging agreement;
- (vi) *sixth, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of the Class A Bonds; (b) all principal exchange amounts due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class A Bonds; and (c) any termination amounts or other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class A Bonds (other than in respect of Issuer Subordinated Hedge Amounts); and (d) all reimbursement sums (if any) owed to each Relevant Financial Guarantor under the G&R Deed in respect of payments of interest on any Class A Wrapped Bonds guaranteed by such Relevant Financial Guarantor;
- (vii) *seventh, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of interest and commitment commissions due in respect of the Class B Bonds (other than principal and Subordinated Step-up Fee Amounts); (b) all scheduled amounts payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class B Bonds (other than Issuer Subordinated Hedge Amounts); and (c) all reimbursement sums (if any) owed to each Relevant Financial Guarantor under the G&R Deed in respect of payments of interest on any Class B Wrapped Bonds guaranteed by such Relevant Financial Guarantor;
- (viii) *eighth, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of the Class B Bonds; (b) all principal exchange amounts due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class B Bonds; (c) any termination amounts or other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of Class B Bonds (other than in respect of Issuer Subordinated Hedge Amounts); and (d) all reimbursement sums (if any) owed to each Relevant Financial Guarantor under the G&R Deed in respect of payments of interest on any Class B Wrapped Bonds guaranteed by such Relevant Financial Guarantor;
- (ix) *ninth, pro rata* according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-Up Fee Amounts due or overdue in respect of the Class A Bonds;
- (x) *tenth, pro rata* according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-Up Fee Amounts due or overdue in respect of the Class B Bonds;
- (xi) *eleventh*, in or towards satisfaction of any Liquidity Subordinated Amount due to an Issuer Liquidity Facility Provider;
- (xii) *twelfth, pro rata* according to the respective amounts thereof, in or towards satisfaction of any Issuer Subordinated Hedge Amounts due or overdue to an Issuer Hedge Counterparty;
- (xiii) *thirteenth*, in or towards satisfaction of the amounts payable by the Issuer in respect of any amounts due and owing by the Issuer in respect of the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Cash Manager (if the Issuer Cash Manager is BAA Airports);
- (xiv) *fourteenth*, in or towards satisfaction of all reimbursement sums (if any) owed to the Bond Guarantor in respect of payments of interest on any BAA Guaranteed Bonds and all reimbursement sums (if any) owed to the Bond Guarantor in respect of payments of principal on any BAA Guaranteed Bonds; and
- (xv) *thereafter*, after retaining the Issuer Profit Amount (which the Issuer may, after meeting any corporation tax thereon, use to pay a dividend or otherwise to pay to such account or person nominated by the Issuer), any remaining amount by way of rebate of facility fees pursuant to the terms of the Borrower Loan Agreements.

The Royal Bank of Scotland plc, acting through its office at 35 New Broad Street, London EC2P 2EF currently serves as Issuer Account Bank pursuant to the Issuer Account Bank Agreement.

#### 4. REFINANCING FACILITY AGREEMENT

The Obligors have entered into the Refinancing Facility Agreement dated 18 August 2008 as amended and restated on 6 October 2008.

The Refinancing Facility is subject to an additional covenant to those set out in the Common Terms Agreement, namely, for so long as the Refinancing Facility is outstanding, or any commitment thereunder in force, the definition of Additional Indebtedness Test shall be altered to provide that for the purposes of the definition of "Permitted Financial Indebtedness", the Additional Indebtedness Tests are:

- (a) to incur additional Senior Debt, the Senior RAR taking into account the proposed additional Financial Indebtedness, must be less than 0.725; and
- (b) to incur additional Junior Debt, the Junior RAR taking account of the proposed additional Financial Indebtedness, must be less than 0.85.

The ability of the Refinancing Facility Providers to accelerate any sums owing to them under the Refinancing Facility Agreement upon or following the occurrence of a Loan Event of Default thereunder is subject to the STID.

#### Application of Disposal Proceeds and Bond Proceeds

For so long as any amount is outstanding under the Refinancing Facility Agreement and notwithstanding the terms of the Common Terms Agreement or any other Finance Document, the Borrowers shall, and, in the case of Net Disposal Proceeds BAA (SP) Limited shall ensure that the Borrowers will, apply:

- (a) an amount of any Net Disposal Proceeds equal to the CTA Required Amount (as defined below) and any cash proceeds (net of costs, expenses (including legal fees, commissions, underwriting fees and all other costs and expenses relating to any such issue, auditors' fees, out of pocket restructuring and organisation costs), taxes and amounts held in escrow) received under a Borrower Loan Agreement and derived from the issue by the Issuer of any Bonds in the following order:
  - (i) *first*, in prepayment of the Senior Debt (without double counting) and/or (provided that the Senior RAR for each subsequent Relevant Date calculated by reference to the most recently occurring Calculation Date (adjusted on a *pro forma* basis to take into account the proposed prepayment and, if relevant, disposal) does not exceed 0.70) Junior Debt in each case maturing within six months of the receipt of the Net Disposal Proceeds or, as the case may be, the date of issue of the relevant Bonds;
  - (ii) *secondly*, in prepayment of loans outstanding under the Capex Facility (the "**Capex Facility Loans**") together with all Associated Amounts relating to the prepaid Capex Facility Loans until the available Capex Facility is equal to the projected Capex certified by the Borrower Group Agent for: (a) the 12 month period following the date of the prepayment; or (b) if the aggregate principal amount of the loans outstanding under the Refinancing Facility (the "**Refinancing Facility Loans**") is less than 50 per cent. of the aggregate principal amount of the Refinancing Facility Loans as at the Initial Issue Date, the 18 month period following the date of the prepayment;
  - (iii) *thirdly*, subject to paragraphs (A), (B) and (C) below, in prepayment of the Refinancing Facility Loans and Associated Amounts relating to the prepaid Refinancing Facility Loans with a final maturity date falling within 12 months of the date of the prepayment or, as the case may be, receipt of Net Disposal Proceeds with such prepayment proceeds to be applied towards the Refinancing Facility Loans in ascending order of final maturity date beginning with the Refinancing Facility Loans that have the earliest final maturity date (such order being the "**Ascending Order**"); and
  - (iv) *fourthly*, subject to paragraphs (A), (B) and (C) below, any remaining proceeds (the "**Remaining Amount**") shall be applied in prepayment of Refinancing Facility Loans that are designated as Senior Debt ("**Tranche A Loans**") and/or Refinancing Facility Loans that are designated as Junior Debt ("**Tranche B Loans**") and, in each case, Associated Amounts relating to the prepaid Tranche A Loans and/or prepaid Tranche B Loans, as the case may be, in descending order of final maturity date beginning with the Refinancing Facility Loans that have the latest final maturity date (such order being the "**Descending Order**") provided that if the principal amount of the Refinancing Facility Loans is less than 50 per cent. of the principal amount of the Refinancing Facility Loans as at the Initial Issue Date, the Remaining Amount shall be applied in prepayment of Refinancing Facility Loans and Associated Amounts relating to the prepaid Refinancing Facility Loans as follows: (i) 70 per cent. of the Remaining Amount will be applied in prepayment of Refinancing Facility Loans and Associated Amounts relating to the prepaid Refinancing Facility Loans in the Descending Order; and (ii) 30 per cent. of the Remaining Amount will be applied towards Refinancing Facility Loans and Associated Amounts relating to the prepaid Refinancing Facility Loans in the Ascending Order; and

- (b) an amount of the Net Disposal Proceeds equal to the amount of the Net Disposal Proceeds less the CTA Required Amount in prepayment of the Refinancing Facility Loans in Ascending Order together with all Associated Amounts relating to the prepaid Refinancing Facility Loans.

In relation to sub-paragraphs (a)(iii) and (iv) above:

- (A) subject, at all times, to the provisions of the Common Terms Agreement and paragraph (B) below, if, at any time, the outstanding amount of a Tranche B Loan is greater than the outstanding amount of the corresponding Tranche A Loan with the same final maturity date the Borrower is required to prepay that Tranche B Loan and all Associated Amounts relating to that prepaid Tranche B Loan so that the outstanding amount of that Tranche B Loan is equal to or less than the outstanding amount of the corresponding Tranche A Loan with the same final maturity date;
- (B) where the Borrower has prepaid a Tranche A Loan such that sub-paragraph (A) above applies so that no further prepayment of that Tranche A Loan is permitted, the Borrower may then prepay either: (y) the Tranche B Loan and Associated Amounts relating to the Tranche B Loan corresponding to that Tranche A Loan; or (z) the next Tranche A Loan and Associated Amounts relating to that Tranche A Loan in Descending Order as described in sub-paragraph (a)(iv) above; and
- (C) where a Borrower elects to prepay Tranche B Loans, sub-paragraphs (a)(iii) and (iv) apply with respect to Tranche B Loans and the relevant Associated Amounts only.

“**CTA Required Amount**” means the amount of Net Disposal Proceeds equal to the amount required to be applied in accordance with the Common Terms Agreement to ensure that, immediately following such application, the Senior RAR for each subsequent Relevant Date calculated by reference to the most recently occurring Calculation Date (adjusted on a *pro forma* basis to take into account the proposed disposal and repayment) shall be no more than or equal to 0.70 and the Junior RAR for each subsequent Relevant Date calculated by reference to the most recently occurring Calculation Date (adjusted on a *pro forma* basis to take into account the proposed disposal and repayment) shall be no more than or equal to 0.85.

## 5. INITIAL CREDIT FACILITIES AGREEMENT

The Obligors and BAA Airports have entered into the Initial Credit Facilities Agreement dated 18 August 2008 as amended and restated on 6 October 2008. Under this facility agreement, a 5-year revolving credit facility has been made available by the Initial Credit Facility Providers to the Borrowers which comprises:

- (a) a revolving £50,000,000 tranche to fund the working capital requirements of the Borrowers; and
- (b) a revolving £2,700,000,000 tranche to meet the capital expenditure requirements of the Borrower Group (the “**Capex Facility**”). As at the date of this Prospectus, the Capex Facility includes an A tranche of £2,300,000,000 which is designated as Senior Debt and a B tranche of £400,000,000 which is designated as Junior Debt. The Borrowers may draw down under the Capex Facility in order to refinance capital expenditure since 18 August 2008 funded from other sources, including cash. In addition, prior to the repayment in full of the Refinancing Facility, amounts drawn under the A tranche of the Capex Facility can be repaid using the B tranche.

## 6. LIQUIDITY FACILITY AGREEMENTS

### The Borrower Liquidity Facilities and Letters of Credit

Under the terms of the Initial Borrower Liquidity Facility Agreement, Lloyds TSB Bank plc has (a) made available to the Borrowers a £205,000,000 committed sterling revolving credit facility and (b) a sterling letter of credit facility in place of its commitment under the revolving credit facility. The obligation to provide the letter of credit facility will be released upon receipt of written confirmation from each of the Rating Agencies that the termination of the letter of credit facility will not result in any downgrade of the then current rating of any Tranche of Bonds or any Financial Indebtedness under any Supported Agreement (the “**LC Release Conditions**”).

The Initial Borrower Liquidity Facility Provider has provided a 364 day commitment (which may be renewed) to permit drawings where there will be insufficient funds available: (1) to pay amounts scheduled to be paid under outstanding Treasury Transactions under any Borrower Hedging Agreement; (2) to fund any EIB Liquidity; and (3) to fund interest shortfalls under the Refinancing Facility Agreement (a “**Borrower Liquidity Shortfall**”).

### The Issuer Liquidity Facilities

Under the terms of the Initial Issuer Liquidity Facility Agreement, Lloyds TSB Bank plc has provided a £524,465,656.13 (less its then commitment under the Initial Borrower Liquidity Facility Agreement) 364 day commitment (which may be renewed) to permit drawings to be made by the Issuer, in circumstances where there will be insufficient funds available to the Issuer on a Payment Date to pay amounts (other than principal amounts to be repaid in respect of the Class A Bonds and principal amounts to be repaid and any Subordinated Step-up Fee Amounts to be paid in respect of Class B Bonds or any termination payments under any Issuer Hedging Agreements) scheduled to be

paid in respect of paragraphs (i) to (vii) inclusive of the Issuer Pre-Enforcement Priority of Payments (an “**Issuer Liquidity Shortfall**”).

The Issuer is not able to make a drawing in respect of an Issuer Liquidity Shortfall relating (in whole or in part) to Class B Bonds unless the amount of such drawing does not exceed the Class B Available Liquidity Amount.

### **General provisions applicable to both the Initial Borrower Liquidity Facility Agreement and the Initial Issuer Liquidity Facility Agreement**

Each Liquidity Facility Agreement provides that if (i) at any time the rating of the relevant Liquidity Facility Provider falls below the Liquidity Facility Requisite Rating or (ii) the relevant Liquidity Facility Provider does not agree to renew its commitment under such Liquidity Facility prior to the expiry of the relevant availability period, the Borrowers or the Issuer, as applicable, will:

- (a) use all reasonable endeavours to replace the relevant Liquidity Facility Provider with a party having the Liquidity Facility Requisite Rating; and
- (b) (if a replacement is not made within the relevant time period specified in the relevant Liquidity Facility Agreement) be entitled to require such Liquidity Facility Provider to pay into the Borrower Liquidity Reserve or the Liquidity Standby Account (in the case of a Liquidity Facility), as applicable, the full amount of the relevant Liquidity Facility Provider’s undrawn commitment (a “**Standby Drawing**”).

A Standby Drawing will generally be repayable only if the relevant Liquidity Facility Provider is re-rated with the Liquidity Facility Requisite Rating or confirmation is received from each of the Rating Agencies that either (i) the terms of a replacement Liquidity Facility or (ii) the absence of any such facility, in each case, as applicable, will not lead to a ratings downgrade of the relevant indebtedness from the relevant Rating Agencies.

Following the making of a Standby Drawing of the available commitment of a Liquidity Facility Provider where such Liquidity Facility Provider has not agreed to renew its commitment and not been replaced by a replacement provider, the available commitment of such Liquidity Facility Provider will only be available to fund Borrower Liquidity Shortfalls or Issuer Liquidity Shortfalls, as applicable, in respect of amounts due as at the Fifth Anniversary with respect to such Liquidity Facility Provider. Following the relevant Fifth Anniversary, (i) the Borrowers will not incur any further Senior Debt or Junior Debt (other than any indexation accrued on existing liabilities or indexation accretion in respect of an inflation-linked Hedging Agreement) without the prior written consent of the relevant Borrower Liquidity Facility Provider, and (ii) the Issuer will not issue any further Bonds without the prior written consent of the relevant Issuer Liquidity Facility Provider providing the Standby Drawing.

Each Liquidity Facility Provider’s commitment shall reduce in proportion to any reduction in the Total RAB which occurs as a result of any sale or disposal of the assets of Stansted in accordance with the terms of the Initial Borrower Liquidity Facility Agreement and/or Initial Issuer Liquidity Facility Agreement, as applicable.

Upon the enforcement of the Borrower Security pursuant to the Security Agreement and the STID, all indebtedness outstanding under any Borrower Liquidity Facility (other than Subordinated Liquidity Facility Amounts) will rank in priority to the Borrower Loans relating to the Bonds.

Upon the enforcement of the Issuer Security pursuant to the Issuer Deed of Charge, all indebtedness outstanding under any Issuer Liquidity Facility (other than Subordinated Liquidity Facility Amounts) will rank in priority to the Bonds.

## **7. BAA (SP) LIMITED DEBENTURE**

On or about the date of the refinancing of BAA (SH) plc’s debt (see “*Business – Overview – Refinancing of BAA (SH) plc Debt*”), the terms of the BAA (SP) Limited unsecured loan note were amended such that interest will accrue thereon at the rate which is the aggregate of (a) the percentage rate per annum notified by BAA (SH) plc to BAA (SP) Limited from time to time (being a rate equal to BAA (SH) plc’s all in cost of funds under the terms of its third party debt obligations (taking into account any hedging entered into by BAA (SH) plc in connection therewith) from time to time); and (b) 0.125% on the principal amount outstanding of the loan note from time to time or such other rate as reflects an arm’s length rate of return on the loan note and as has been agreed between the parties thereto from time to time (the “**BAA (SP) Limited Debenture**”).

The terms of the BAA (SP) Limited Debenture provide that BAA (SP) Limited can make payments of interest or scheduled principal to the holder of the BAA (SP) Limited Debenture (being BAA (SH) plc) only in circumstances where no Trigger Event has occurred or is subsisting.

The BAA (SP) Limited Debenture ranks junior and subordinated to all secured obligations of BAA (SP) Limited existing and outstanding.

## **8. BAA BOND GUARANTEE**

On the Initial Issue Date, BAA Airports Limited (the “**Bond Guarantor**”) provided a guarantee (the “**BAA Bond Guarantee**”) in respect of certain Bonds in exchange for certain classes of bonds originally issued by the Bond

Guarantor (the “**BAA Guaranteed Bonds**”). The Bond Guarantor’s rights of subrogation against the Issuer in respect of any payments under its BAA Bond Guarantee will be subordinated pursuant to the provisions of the Issuer Transaction Documents. The BAA Bond Guarantee extends only to the BAA Guaranteed Bonds.

## **9. TAX DEED OF COVENANT**

Pursuant to the Tax Deed of Covenant, each of the Tax Covenantors made representations and gave warranties and covenants with a view to protecting the Issuer and the members of the Borrower Group from various tax-related risks. Among the matters covered by those representations, warranties and covenants are VAT grouping, tax residency, group tax matters, secondary tax liabilities and the Issuer’s status as a securitisation company for the purposes of The Taxation of Securitisation Companies Regulations 2006. The Tax Deed of Covenant is governed by English law.

## **10. THE ISSUER DEED OF CHARGE**

Pursuant to the Issuer Deed of Charge, the Issuer secured its obligations to the Issuer Secured Creditors by granting the following security:

- an assignment by way of first fixed security of the Benefit of the Issuer under the Finance Documents to which it is a party and under each Issuer Transaction Document (other than the Trust Documents);
- a first fixed charge of the Benefit of the Issuer Accounts and any bank or other accounts in which the Issuer may at any time have or acquire any Benefit;
- a first fixed charge of the Benefit of each Authorised Investment of the Issuer; and
- a floating charge over the whole of the Issuer’s undertaking, assets, property and rights whatsoever and wheresoever situated, present and future, including the Issuer’s uncalled capital.

The Issuer Security is held on trust by the Bond Trustee for itself and on behalf of the Issuer Secured Creditors in accordance with, and subject to, the Issuer Deed of Charge.

## **11. CONDITIONS PRECEDENT**

The conditions precedent to the issue of Bonds are set out in a conditions precedent agreement dated the Initial Issue Date (the “**CP Agreement**”) between, among others, the Bond Trustee, the Borrower Security Trustee, the Obligors and the Issuer.



## THE BONDS

### Terms and Conditions of the Bonds

*The following is the text of the terms and conditions which (subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Final Terms (as defined below) and, save for the italicised paragraphs) will be incorporated by reference into each Global Bond (as defined below) representing Bonds (as defined below) in bearer form, Bonds in definitive form (if any) issued in exchange for the Global Bond(s) representing Bonds in bearer form, each Global Bond Certificate (as defined below) representing Bonds in registered form and each Individual Bond Certificate (as defined below) representing Bonds in registered form (only if such incorporation by reference is permitted by the rules of the relevant stock exchange and agreed by the Issuer). If such incorporation by reference is not so permitted and agreed, each Bond in bearer form and each Individual Bond Certificate representing Bonds in registered form will have endorsed thereon or attached thereto such text (as so completed, amended, varied or supplemented). Further information with respect to each Tranche (as defined below) of Bonds will be given in the relevant Final Terms which will provide for those aspects of these Conditions which are applicable to such Tranche (as defined below) of Bonds, including, in the case of Wrapped Bonds (as defined below), the form of Financial Guarantee (as defined below) and endorsement and, in the case of all Sub-Classes (as defined below), the terms of the relevant advance under the relevant Borrower Loan Agreement. If a Relevant Financial Guarantor (as defined below) is appointed in relation to any Sub-Class of Wrapped Bonds (as specified in the relevant Final Terms) a supplement to this Prospectus will be produced providing such information about such Relevant Financial Guarantor as may be required by the rules of the UK Listing Authority, the London Stock Exchange or such other listing authority or stock exchange on which such Bonds are admitted to listing and/or trading. References in the Conditions to “**Bonds**” are as the context requires, references to the Bonds of one Sub-Class only, not to all Bonds which may be issued under the Programme. The Issuer does not intend to issue any Bonds with a BAA Bond Guarantee under this Prospectus.*

BAA Funding Limited (the “**Issuer**”) has established a bond programme (the “**Programme**”) for the issuance of wrapped bonds (the “**Wrapped Bonds**”) and unwrapped bonds (the “**Unwrapped Bonds**”) (together with the Wrapped Bonds, the “**Bonds**”). Bonds issued under the Programme on a particular Issue Date comprise a Series (a “**Series**”), and each Series comprises one or more Classes of Bonds (each a “**Class**”). Each Class may comprise one or more sub-classes (each a “**Sub-Class**”) and each Sub-Class comprises one or more tranches (each a “**Tranche**”).

The Wrapped Bonds will be designated as “**Class A Wrapped Bonds**” or “**Class B Wrapped Bonds**”. The Unwrapped Bonds will be designated as “**Class A Unwrapped Bonds**” (and together with the Class A Wrapped Bonds, the “**Class A Bonds**”) or “**Class B Unwrapped Bonds**” (and together with the Class B Wrapped Bonds, the “**Class B Bonds**”). Under the Programme, the Issuer may issue Bonds in one or more classes which rank in point of payment and security subordinate to the Class A Bonds and the Class B Bonds (the “**Subordinated Bonds**”). Each Sub-Class will be denominated in different currencies or have different interest rates, maturity dates or other terms. Bonds of any Class may be zero coupon (“**Zero Coupon Bonds**”), fixed rate (“**Fixed Rate Bonds**”), floating rate (“**Floating Rate Bonds**”), index-linked (“**Indexed Bonds**”), dual currency bonds (“**Dual Currency Bonds**”), partly paid bonds (“**Partly Paid Bonds**”) or instalment bonds (“**Instalment Bonds**”) depending on the method of calculating interest payable in respect of such Bonds and may be denominated in sterling, euro, U.S. dollars or in other currencies subject to compliance with applicable law. Certain Sub-Classes of Bonds novated to the Issuer by BAA Limited will be guaranteed as to payments of interest and principal by BAA Limited in its capacity as “**Bond Guarantor**” and such Bonds will be designated as BAA Guaranteed Bonds.

The terms and conditions applicable to any particular Sub-Class of Bonds are these terms and conditions (“**Conditions**”) as supplemented by a set of final terms in relation to such Sub-Class (“**Final Terms**”). In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

The Bonds will be subject to and have the benefit of a bond trust deed to be dated the Initial Issue Date (as defined below) as the same may be amended, supplemented, restated and/or novated from time to time, (the “**Bond Trust Deed**”) between the Issuer, each financial guarantor which accedes to the Bond Trust Deed (each, a “**Relevant Financial Guarantor**”) and Deutsche Trustee Company Limited as trustee (the “**Bond Trustee**”, which expression includes the trustee or trustees for the time being of the Bond Trust Deed).

The Class A Wrapped Bonds and the Class B Wrapped Bonds alone will be unconditionally and irrevocably guaranteed as to scheduled or ultimate payments of principal and interest (as adjusted for indexation, as applicable, but excluding any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and amounts (if any) by which, in the case of Fixed Rate Bonds or Indexed Bonds (other than deferred interest), the Coupons (as defined below) exceed the initial Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(i) (*Definitions*)), and, in the case of Floating Rate Bonds, the Coupons (as defined below) exceed the initial Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(i) (*Definitions*)) (in each case, the “**Subordinated Step-up Fee Amounts**”), all such amounts being the “**FG Excepted Amounts**”) pursuant to a financial guarantee (each, a

“**Financial Guarantee**”) to be issued by a Relevant Financial Guarantor (each such Relevant Financial Guarantor being a “**Financial Guarantor**”) in conjunction with the issue of each Sub-Class of Bonds.

Neither of the Class A Unwrapped Bonds or the Class B Unwrapped Bonds will have the benefit of any such Financial Guarantee.

The Bonds have the benefit (to the extent applicable) of an agency agreement (as amended, supplemented and/or restated from time to time, the “**Agency Agreement**”) to be dated on or before the date upon which the first Series of Bonds is issued by the Issuer (the “**Initial Issue Date**”) (to which, among others, the Issuer, the Bond Trustee, the Principal Paying Agent and the other Paying Agents (in the case of Bearer Bonds) or the Transfer Agents and the Registrar (in the case of Registered Bonds) are party). As used herein, each of “**Principal Paying Agent**”, “**Paying Agents**”, “**Exchange Agent**”, “**Agent Bank**”, “**Transfer Agent**” and/or “**Registrar**” means, in relation to the Bonds, the persons specified in the Agency Agreement as the Principal Paying Agent, Paying Agents, Agent Bank, Transfer Agents and/or Registrar, respectively, and, in each case, any successor to such person in such capacity. The Bonds may also have the benefit (to the extent applicable) of a calculation agency agreement (in the form or substantially in the form of schedule 1 to the Agency Agreement, the “**Calculation Agency Agreement**”) between, *inter alia*, the Issuer and any calculation agent appointed by the Issuer as calculation agent (the “**Calculation Agent**”).

On or about the Initial Issue Date, the Issuer will enter into a deed of charge (the “**Issuer Deed of Charge**”) with the Bond Trustee as security trustee, pursuant to which the Issuer will grant certain fixed and floating charge security (the “**Issuer Security**”) to the Bond Trustee for itself and on behalf of the Bondholders, each Relevant Financial Guarantor, each Issuer Hedge Counterparty, each Issuer Liquidity Facility Provider, the Principal Paying Agent, each Paying Agent, the Exchange Agent, the Calculation Agent (if any), the Transfer Agent, the Registrar, the Bond Guarantor, the Issuer Account Bank, the Agent Bank, the Issuer Cash Manager and the Issuer Corporate Administration Provider (together, the “**Issuer Secured Creditors**”).

On the Initial Issue Date, the Issuer will enter into a Dealership Agreement (the “**Dealership Agreement**”) with the dealers named therein (the “**Dealers**”) in respect of the Programme, pursuant to which any of the Dealers may enter into a subscription agreement (each a “**Subscription Agreement**”) in relation to each Sub-Class of Bonds issued by the Issuer, and pursuant to which the Dealers will agree to subscribe for the relevant Sub-Class of Bonds. In any Subscription Agreement relating to a Sub-Class of Bonds, any of the Dealers may agree to procure subscribers to subscribe for the relevant Sub-Class of Bonds.

The Issuer may enter into liquidity facility agreements (together, the “**Issuer Liquidity Facility Agreements**”) with certain liquidity facility providers (together, the “**Issuer Liquidity Facility Providers**”) pursuant to which the Issuer Liquidity Facility Providers agree to make certain facilities available to meet liquidity shortfalls.

The Issuer may enter into certain currency, inflation-linked and interest rate hedging agreements (together, the “**Issuer Hedging Agreements**”) with certain hedge counterparties (together, the “**Issuer Hedge Counterparties**”) in respect of certain Sub-Classes of Bonds, pursuant to which the Issuer hedges certain of its currency and interest rate obligations. The Issuer may also enter into back to back swap arrangements with the Borrowers on substantially the same terms as the corresponding Hedging Agreements between the Issuer and the relevant Hedge Counterparties.

On the Initial Issue Date, the Issuer will enter into a common terms agreement with amongst others, the Borrowers (the “**Common Terms Agreement**”) and a security trust and intercreditor deed between amongst others, the Obligors, the Borrower Security Trustee and the other Borrower Secured Creditors (the “**STID**”).

On the Initial Issue Date the Issuer will enter into an Obligor floating charge agreement (the “**Obligor Floating Charge Agreement**”) pursuant to which the Obligors will grant a floating charge over all or substantially all of their assets in favour of the Issuer.

The Bond Trust Deed, the Bonds (including the applicable Final Terms), the Issuer Deed of Charge, the Financial Guarantee Fee Letters, the Agency Agreement, the Issuer Liquidity Facility Agreements, the Issuer Hedging Agreements, the Borrower Loan Agreements, the G&R Deed, the Financial Guarantees, the Bond Guarantees, the Common Terms Agreement, the Security Agreement, the Obligor Floating Charge Agreement, the STID, the CP Agreement, the Issuer Cash Management Agreement, the master definitions agreement between, among others, the Issuer and the Bond Trustee to be dated the Initial Issue Date (the “**Master Definitions Agreement**”), the account bank agreement between, among others, the Issuer Account Bank, the Issuer and the Bond Trustee (the “**Issuer Account Bank Agreement**”), the Tax Deed of Covenant and each indemnification deed between, among others, the Relevant Financial Guarantor and the Dealers to be dated on or prior to the Initial Issue Date (each, an “**Indemnification Deed**”), and any related document (each, if not defined above, as defined below or in the Master Definitions Agreement) are, in relation to the Bonds, together referred to as the “**Issuer Transaction Documents**”.

Terms not defined in these Conditions have the meaning set out in the Master Definitions Agreement.

Certain statements in these Conditions are summaries of the detailed provisions appearing on the face of the Bonds (which expression shall include the body thereof), in the relevant Final Terms or in the Bond Trust Deed or the Issuer Deed of Charge. Copies of the Bond Trust Deed are available for inspection during normal business hours at the specified offices of the Principal Paying Agent (in the case of bearer Bonds) or the specified offices of the Transfer

Agents and the Registrar (in the case of registered Bonds), save that, if this Bond is an unlisted Bond of any Sub-Class, the applicable Final Terms will only be obtainable by a Bondholder holding one or more unlisted Bonds of that Sub-Class and such Bondholder must provide evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Bonds and identity.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Bond Trust Deed, the Issuer Deed of Charge and the relevant Final Terms and to have notice of those provisions of the Agency Agreement and the other Issuer Transaction Documents applicable to them.

Any reference in these conditions to a matter being “specified” means as the same may specified in the relevant Final Terms.

## 1. Form, Denomination and Title

### (a) *Form and Denomination*

The Bonds are in bearer form (“**Bearer Bonds**”) or in registered form (“**Registered Bonds**”) as specified in the applicable Final Terms and serially numbered in the Specified Denomination(s) provided that in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be £50,000, €50,000 or not less than the equivalent of €50,000 in any other currency as at the date of issue of the relevant Bonds. Bonds may be issued in such denomination and higher integral multiples of a smaller amount if specified in the applicable Final Terms. Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination and Registered Bonds may not be exchanged for Bearer Bonds. References in these Conditions to “**Bonds**” include Bearer Bonds and Registered Bonds and all Sub-Classes, Classes, Tranches and Series.

So long as the Bonds are represented by a temporary Global Bond or permanent Global Bond and the relevant clearing system(s) so permit, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination).

Interest-bearing Bearer Bonds are issued with Coupons (as defined below) (and, where appropriate, a Talon, (as defined below)) attached. After all the Coupons attached to, or issued in respect of, any Bearer Bond which was issued with a Talon have matured, a coupon sheet comprising further Coupons (other than Coupons which would be void) and (if necessary) one further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent. Any Bearer Bond the principal amount of which is redeemable in instalments may be issued with one or more Receipts (as defined below) (and, where appropriate, a Talon) attached thereto. After all the Receipts attached to, or issued in respect of, any Instalment Bond which was issued with a Talon have matured, a receipt sheet comprising further Receipts (other than Receipts which would be void) and (if necessary) a further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent.

### (b) *Title*

Title to Bearer Bonds, Coupons, Receipts and Talons (if any) passes by delivery. Title to Registered Bonds passes by registration in the register (the “**Register**”), which the Issuer shall procure to be kept by the Registrar.

In these Conditions, subject as provided below, each reference to “**Bondholder**” (in relation to a Bond, Coupon, Receipt or Talon), “**holder**” and “**Holder**” means (i) in relation to a Bearer Bond, the bearer of any Bearer Bond, Coupon, Receipt or Talon (as the case may be) and (ii) in relation to a Registered Bond, the person in whose name a Registered Bond is registered, as the case may be. The expressions “**Bondholder**”, “**holder**” and “**Holder**” include the holders of instalment receipts (which, in relation to Class A Bonds will be “**Class A Receipts**”, in relation to Class B Bonds, “**Class B Receipts**” and together, the “**Receipts**”) appertaining to the payment of principal by instalments (if any) attached to such Bonds in bearer form (the “**Receiptholders**”), the holders of the coupons (which, in relation to Class A Bonds will be “**Class A Coupons**”, in relation to Class B Bonds, “**Class B Coupons**” and together, the “**Coupons**”) (if any) appertaining to interest bearing Bonds in bearer form (the “**Couponholders**”), and the expression Couponholders or Receiptholders includes the holders of talons in relation to Coupons or Receipts as applicable, (which, in relation to Class A Bonds will be “**Class A Talons**”, in relation to Class B Bonds, “**Class B Talons**” and together, the “**Talons**”) (if any) for further coupons or receipts, as applicable attached to such Bonds (the “**Talontholders**”).

The bearer of any Bearer Bond, Coupon, Receipt or Talon and the registered holder of any Registered Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the relevant Bond, or its theft or loss or any express or constructive notice of any claim by any other person of any interest therein

other than, in the case of a Registered Bond, a duly executed transfer of such Bond in the form endorsed on the Bond Certificate in respect thereof) and no person will be liable for so treating the holder.

Bonds which are represented by a Global Bond or Global Bond Certificate will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

(c) ***Fungible Issues of Bonds comprising a Sub-Class***

The Issuer may, from time to time, without the consent of the Bondholders, Receiptholders or Couponholders, create and issue further Bonds having the same terms and conditions as the Bonds of a Sub-Class in all respects (or in all respects except for the first payment of interest). Accordingly, a Sub-Class of Bonds may comprise a number of issues in addition to the initial Tranche of such Sub-Class. Such further issues of the same Sub-Class will be consolidated and form a Series with the prior issues of that Sub-Class.

**2. Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds**

(a) ***Exchange of Bonds***

Subject to Condition 2(e) (*Closed Periods*), Bearer Bonds may, if so specified in the relevant Final Terms, be exchanged at the expense of the transferor Bondholder for the same aggregate principal amount of Registered Bonds at the request in writing of the relevant Bondholder and upon surrender of the Bearer Bond to be exchanged together with all unmatured Coupons, Receipts and Talons (if any) relating to it at the specified office of the Registrar or any Transfer Agent or Paying Agent. Where, however, a Bearer Bond is surrendered for exchange after the Record Date (as defined below) for any payment of interest or Interest Amount (as defined below), the Coupon in respect of that payment of interest or Interest Amount need not be surrendered with it. Registered Bonds may not be exchanged for Bearer Bonds.

(b) ***Transfer of Registered Bonds***

A Registered Bond may be transferred upon the surrender of the relevant Individual Bond Certificate, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent or the Registrar. However, a Registered Bond may not be transferred unless (i) the principal amount of Registered Bonds proposed to be transferred and (ii) the principal amount of the balance of Registered Bonds to be retained by the relevant transferor are, in each case, Specified Denominations. In the case of a transfer of part only of a holding of Registered Bonds represented by an Individual Bond Certificate, a new Individual Bond Certificate in respect of the balance not transferred will be issued to the transferor within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such form of transfer.

(c) ***Delivery of New Individual Bond Certificates***

Each new Individual Bond Certificate to be issued upon exchange of Bearer Bonds or transfer of Registered Bonds will, within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or the Registrar stipulated in the request for exchange or form of transfer, or be mailed at the risk of the Bondholder entitled to the Individual Bond Certificate to such address as may be specified in such request for exchange or form of transfer. For these purposes, a form of transfer or request for exchange received by the Registrar after the Record Date (as defined below) in respect of any payment due in respect of Registered Bonds shall be deemed not to be effectively received by the Registrar until the business day (as defined below) following the due date for such payment.

(d) ***Exchange at the Expense of Transferor Bondholder***

Registration of Bonds on exchange or transfer will be effected at the expense of the transferor Bondholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment of (or the giving of such indemnity as the Transfer Agent or the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

(e) ***Closed Periods***

No transfer of a Registered Bond may be registered, nor may any exchange of a Bearer Bond for a Registered Bond occur during the period of 15 days ending on the due date for any payment of principal, interest, Interest Amount (as defined below) or Redemption Amount (as defined below) on that Bond.

(f) ***Regulations Concerning the Transfer of Registered Bonds***

All transfers of Registered Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Principal Paying Agent, the Bond Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder who requests in writing a copy of such regulations.

**3. Status of Bonds, Financial Guarantee and BAA Bond Guarantee**

(a) ***Status of Class A Bonds***

This Condition 3(a) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds.

The Class A Bonds, Class A Coupons, Class A Talons and Class A Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Issuer Secured Creditors*) and rank *pari passu* without any preference among themselves. However, the Class A Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(b) ***Status of Class B Bonds***

This Condition 3(b) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class B Bonds.

The Class B Bonds, Class B Coupons, Class B Talons and Class B Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Issuer Secured Creditors*), are subordinated to the Class A Bonds, Class A Coupons, Class A Receipts and Class A Talons (if any) and rank *pari passu* without any preference among themselves. However, the Class B Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(c) ***Financial Guarantee Issued by a Relevant Financial Guarantor***

This Condition 3(c) is applicable only in relation to Bonds which are specified as being a Sub-Class of Wrapped Bonds.

Each Sub-Class of Wrapped Bonds will have the benefit of a Financial Guarantee issued by a Relevant Financial Guarantor, issued pursuant to a guarantee and reimbursement deed between, amongst others, the Issuer and the Relevant Financial Guarantor dated on or before the relevant Issue Date (as defined below) of such Bonds (the “**G&R Deed**”). Under the relevant Financial Guarantee, the Relevant Financial Guarantor unconditionally and irrevocably agrees to pay to the Bond Trustee all sums due and payable but unpaid by the Issuer in respect of scheduled interest and payment of principal (but excluding FG Excepted Amounts) on such Wrapped Bonds, all as more particularly described in the relevant Financial Guarantee.

The terms of the relevant Financial Guarantee provide that amounts of principal on any such Bonds which have become immediately due and payable (whether by virtue of acceleration, prepayment or otherwise) other than on the relevant Payment Date (as defined under the relevant Financial Guarantee) will not be treated as Guaranteed Amounts (as defined in the relevant Financial Guarantee) which are Due for Payment (as defined in the relevant Financial Guarantee) under the relevant Financial Guarantee unless the Relevant Financial Guarantor in its sole discretion elects so to do by notice in writing to the Bond Trustee. A Relevant Financial Guarantor may elect to accelerate payments due under its Financial Guarantee in full or partially. All payments made by the Relevant Financial Guarantor under its relevant Financial Guarantee in respect of partial acceleration shall be applied (i) to pay the Interest (as defined in the relevant Financial Guarantee) accrued but unpaid on the Principal (as defined in the relevant Financial Guarantee) of such part of the accelerated payment and (ii) to reduce the Principal (as defined in the relevant Financial Guarantee) (or, in the case of Wrapped Bonds repayable in instalments, each principal repayment instalment on a *pro rata* basis with a corresponding reduction of each amount of the Interest (as stated in the relevant Financial Guarantee)) outstanding under the relevant Sub-Classes of Wrapped Bonds. If no such election is made, the Relevant Financial Guarantor will continue to be liable to make payments in respect of the Bonds pursuant to the relevant 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.

To the extent that the early redemption price of any Bonds exceeds the aggregate of the Principal Amount Outstanding of and any accrued interest outstanding on any such Bonds to be redeemed (each as adjusted for indexation in accordance with Condition 7(b) (*Application of the Index Ratio*), if applicable), payment of such early redemption price will to that extent, not be guaranteed by the Relevant Financial Guarantor under its relevant Financial Guarantee.

(d) ***Status of Financial Guarantee***

This Condition 3(d) is applicable only in relation to Bonds which are specified as being a Sub-Class of Wrapped Bonds.

The relevant Financial Guarantee provided by a Relevant Financial Guarantor in respect of the Bonds will constitute a direct, unsecured obligation of such Relevant Financial Guarantor which will rank at least *pari passu* with all other unsecured obligations of such Relevant Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(e) ***BAA Bond Guarantee issued by the Bond Guarantor***

This Condition 3(e) is applicable only in relation to Bonds which are specified as being a Sub-Class of BAA Guaranteed Bonds.

Each Sub-Class of BAA Guaranteed Bonds will be guaranteed by the Bond Guarantor issued pursuant to a bond guarantee dated on or before the Initial Issue Date of such Bonds (the “**BAA Bond Guarantee**”). Under the relevant BAA Bond Guarantee, the Bond Guarantor unconditionally and irrevocably agrees to pay to the Bond Trustee all sums due and payable but unpaid by the Issuer in respect of scheduled interest and payment of principal on such BAA Guaranteed Bonds, all as more particularly described in the BAA Bond Guarantee.

(f) ***Status of BAA Bond Guarantee***

This Condition 3(f) is applicable only in relation to Bonds which are specified as being a Sub-Class of BAA Guaranteed Bonds.

Each BAA Bond Guarantee provided by the Bond Guarantor in respect of the Bonds will constitute a direct, unsecured obligation of the Bond Guarantor which will rank at least *pari passu* with all other unsecured obligations of the Bond Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(g) ***Bond Trustee not responsible for monitoring compliance***

The Bond Trustee shall not be responsible for monitoring compliance by the Issuer with any of its obligations under the Issuer Transaction Documents except by means of receipt of a certificate from the Issuer which will state, among other things, that no Bond Event of Default is outstanding. The Bond Trustee shall be entitled to rely on such certificates absolutely. The Bond Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Issuer Transaction Documents. The Bond Trustee may call for and is at liberty to accept as sufficient evidence a certificate signed by any one director of the Issuer, the Obligors (or any of them) or any other party to any Issuer Transaction Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Bond Trustee may require to be satisfied. The Bond Trustee is in no way bound to call for further evidence or be responsible for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Bond Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

#### **4. Security, Priority and Relationship with Issuer Secured Creditors**

(a) ***Security***

As continuing security for the payment or discharge of the Issuer Secured Liabilities (including all monies payable in respect of the Bonds, Coupons and Receipts and otherwise under the Bond Trust Deed, the Issuer Deed of Charge and any deed or other document executed in accordance with the Bond Trust Deed or Issuer Deed of Charge and expressed to be supplemental to the Bond Trust Deed or Issuer Deed of Charge (as applicable) (the “**Trust Documents**”) (including the remuneration, expenses and other claims of the Bond Trustee and any Receiver appointed under the Issuer Deed of Charge)), the Issuer has entered in to the Issuer Deed of Charge to create as far as permitted by and subject to compliance with any applicable law, the following security (the “**Issuer Security**”) in favour of the Bond Trustee for itself and on trust for the other Issuer Secured Creditors:

- (i) an assignment by way of first fixed security of the Benefit of the Issuer under the Finance Documents to which it is a party;
- (ii) an assignment by way of first fixed security of the Benefit of the Issuer under each Issuer Transaction Document (other than the Trust Documents);

- (iii) a first fixed charge of the Benefit of the bank accounts (other than any Liquidity Standby Account (the “**Issuer Accounts**”)) and any bank or other accounts in which the Issuer may at any time have or acquire any Benefit;
- (iv) a first fixed charge of the Benefit of each Authorised Investment of the Issuer; and
- (v) a floating charge over the whole of the Issuer’s undertaking, assets, property and rights whatsoever and wheresoever situated, present and future, including the Issuer’s uncalled capital.

All Bonds issued by the Issuer under the Programme will share in the Issuer Security constituted by the Issuer Deed of Charge, upon and subject to the terms thereof.

(b) ***Relationship among Bondholders and with other Issuer Secured Creditors***

The Bond Trust Deed contains provisions detailing the Bond Trustee’s obligations to consider the interests of Bondholders as regards all discretions of the Bond Trustee (except where expressly provided or otherwise referred to in Condition 16 (*Bond Trustee Protections*)).

(c) ***Enforceable Security***

In the event of the Issuer Security becoming enforceable as provided in the Issuer Deed of Charge, the Bond Trustee shall, if instructed by, in respect of the Wrapped Bonds, each Relevant Financial Guarantor (or following the occurrence of an FG Event of Default, the holders of the Most Senior Class of Wrapped Bonds then outstanding) and in respect of the Unwrapped Bonds, the holders of the Most Senior Class of Unwrapped Bonds then outstanding, enforce its rights with respect to the Issuer Security, but without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any particular Bondholder, provided that the Bond Trustee shall not be obliged to take any action unless it is indemnified and/or secured to its satisfaction.

(d) ***Application After Enforcement***

After enforcement of the Issuer Security, the Bond Trustee shall (to the extent that such funds are available) use funds standing to the credit of the Issuer Accounts to make payments in accordance with the Issuer Post-Enforcement Priority of Payments (as set out in the Issuer Deed of Charge).

(e) ***Bond Trustee not liable for security***

The Bond Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Issuer Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the Issuer Security, whether such defect or failure was known to the Bond Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Issuer Security created under the Issuer Deed of Charge whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Issuer Security or otherwise. The Bond Trustee shall have no responsibility for the value of any such Issuer Security.

**5. Issuer Covenants**

So long as any of the Bonds remain outstanding, the Issuer has agreed to comply with the covenants as set out in schedule 2 of the Bond Trust Deed.

The Bond Trustee shall be entitled to rely absolutely on a certificate of any director of the Issuer in relation to any matter relating to such covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

**6. Interest and other Calculations**

(a) ***Interest Rate and Accrual***

Each Bond (unless specified in the relevant Final Terms to be a Zero Coupon Bond) bears interest on its Principal Amount Outstanding as defined below (or as otherwise specified in the relevant Final Terms) from the Interest Commencement Date (as defined below) at the Interest Rate (as defined below), such interest being payable in arrear (unless otherwise specified in the relevant Final Terms) on each Interest Payment Date (as defined below).

Interest will cease to accrue on each Bond (or, in the case of the redemption of part only of a Bond, that part only of such Bond) on the due date for redemption unless, upon due presentation, payment of principal is improperly

withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate that would otherwise apply in respect of unpaid amounts on such Bonds at such time to the Bond Relevant Date (as defined in Condition 6(i)(Definitions)).

In the case of interest on Class B Unwrapped Bonds only, if, on any Interest Payment Date, prior to the delivery of a Bond Enforcement Notice, there are insufficient funds available to the Issuer in accordance with the applicable Issuer Priority of Payments (after taking into account any amounts available to be drawn under any Liquidity Facility) to pay such accrued interest, the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of the Issuer Cash Management Agreement, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Senior Debt has been paid in full; and (iii) the date on which a Bond Enforcement Notice has been delivered. Interest will accrue on such deferred interest at the rate otherwise payable on unpaid principal of such Class B Unwrapped Bonds at such time.

If any Maximum Interest Rate or Minimum Interest Rate is specified in the relevant Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified, as the case may be.

(b) **Business Day Convention**

If any date referred to in these Conditions or the relevant Final Terms is specified to be subject to adjustment in accordance with a Business Day convention and would otherwise fall on a day which is not a Business Day (as defined below), then if the Business Day Convention specified in the relevant Final Terms is:

- (i) the “**Following Business Day Convention**”, such date shall be postponed to the next day which is a Business Day;
- (ii) the “**Modified Following Business Day Convention**”, such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
- (iii) the “**Preceding Business Day Convention**”, such date shall be brought forward to the immediately preceding Business Day.

(c) **Floating Rate Bonds**

This Condition 6(c) is applicable only if the relevant Final Terms specify the Bonds as Floating Rate Bonds.

If “**Screen Rate Determination**” is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Bonds for each Interest Period will be determined by the Agent Bank (or the Calculation Agent, if applicable) on the following basis:

- (i) if the Page (as defined below) displays a rate which is a composite quotation or customarily supplied by one entity, the Agent Bank (or the Calculation Agent, if applicable) will determine the Relevant Rate (as defined in Condition 6(i) (Definitions));
- (ii) in any other case, the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the Relevant Rates (as defined below) which appear on the Page as of the Relevant Time (as defined below) on the relevant Interest Determination Date;
- (iii) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Agent Bank (or the Calculation Agent, if applicable) will:
  - (A) request the principal Relevant Financial Centre office of each of the Reference Banks (as defined in Condition 6(i) (Definitions)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre (as defined below) interbank market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and
  - (B) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested in Condition 6(c)(iii), the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable)) quoted by the Reference Banks at approximately 11:00 a.m. (local time in the Relevant Financial Centre of the Relevant Currency) on the relevant Interest Determination Date (as defined in Condition 6(i) (Definitions)) for loans in the Relevant Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 6(i) (Definitions)),



and the Interest Rate for such Interest Period shall be the sum of the rate or (as the case may be) the arithmetic mean so determined and (a) for any Interest Period that ends before the Scheduled Redemption Date, the Margin and (b) for any Interest Period that ends on or after the Scheduled Redemption Date, the Margin and the Step-Up Floating Fee Rate. However, if the Agent Bank or the Calculation Agent (as applicable) is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate applicable to the Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Bonds in respect of a preceding Interest Period.

If “**ISDA Determination**” is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate(s) applicable to the Bonds for each Interest Period will be the sum of the ISDA Rate and (a) for any Interest Period that ends before the Scheduled Redemption Date, the Margin and (b) for any Interest Period that ends on or after the Scheduled Redemption Date, the Margin and the Step-Up Floating Fee Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Agent Bank (or the Calculation Agent, if applicable) under an interest rate swap transaction if the Agent Bank (or the Calculation Agent, if applicable) were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(i) (*Definitions*)); and
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (1) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period, (2) if the relevant Floating Rate Option is based on EURIBOR, the first day of that Interest Period or (3) in any other case, as specified in the relevant Final Terms.

(d) **Fixed Rate Bonds**

This Condition 6(d) is applicable only if the relevant Final Terms specify the Bonds as Fixed Rate Bonds.

Subject to the next paragraph, the Interest Rate applicable to the Bonds for each Interest Period will be the rate specified in the relevant Final Terms.

The Interest Rate applicable to the Bonds for each Interest Period from (and including) the Scheduled Redemption Date will be a floating rate equal to the sum of (a) the rate determined in accordance with Condition 6(c) (*Floating Rate Bonds*) if that Condition otherwise applied and (b) the Step-Up Fixed Fee Rate.

(e) **Indexed Bonds**

This Condition 6(e) is applicable only if the relevant Final Terms specify the Bonds as Indexed Bonds.

Payments of principal on, and the interest payable in respect of, the Bonds will be subject to adjustment for indexation and to the extent set out in Condition 7(b) (*Application of the Index Ratio*).

Subject to the next paragraph, the Interest Rate applicable to the Bonds for each Interest Period will be the rate specified in the relevant Final Terms.

The Interest Rate applicable to the Bonds for each Interest Period from (and including) the Scheduled Redemption Date will be a floating rate equal to the sum of (a) the arithmetic mean rate determined in accordance with Condition 6(c) (*Floating Rate Bonds*) if that Condition otherwise applied and (b) the Step-Up Fixed Fee Rate.

(f) **Rounding**

For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified):

- (i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up);
- (ii) all figures will be rounded to seven significant figures (with halves being rounded up); and
- (iii) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, “unit” means, with respect to any currency other than euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to euro, means 0.01 euro.

(g) **Calculations**

The amount of interest payable in respect of any Bond for each Interest Period shall be calculated by applying the Interest Rate to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Bond divided by the Calculation Amount (as defined in Condition 6(i) (*Definitions*)) and, in the case of Indexed Bonds only, adjusted according to the indexation set out in Condition 7(b) (*Application of the Index Ratio*), unless an Interest Amount is specified in respect of such period in the relevant Final Terms, in which case the amount of interest payable in respect of such Bond for such Interest Period will equal such Interest Amount.

(h) **Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts**

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Agent Bank (or the Calculation Agent, if applicable) may be required to calculate any Redemption Amount or the amount of an instalment of scheduled principal (an “**Instalment Amount**”), obtain any quote or make any determination or calculation, the Agent Bank (or the Calculation Agent, if applicable) will determine the Interest Rate and calculate the amount of interest payable (the “**Interest Amounts**”) in respect of each Specified Denomination of Bonds for the relevant Interest Period (including, for the avoidance of doubt any applicable Index Ratio to be calculated in accordance with Condition 7(b) (*Application of the Index Ratio*), calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount, Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Paying Agents or in the case of Registered Bonds, the Registrar, and, in each case, the Bond Trustee, the Issuer, the Bondholders and the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation as soon as possible after its determination but in no event later than (i) (in case of notification to the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Sub-Class or Class of Bonds are for the time being listed or by which they have been admitted to listing, to the Principal Paying Agent, the Bond Trustee and to the Bondholders in accordance with Condition 17 (*Notices*). If the Bonds become due and payable under Condition 11 (*Events of Default*), the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made unless otherwise required by the Bond Trustee. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Agent Bank (or the Calculation Agent, if applicable) or, as the case may be, the Bond Trustee pursuant to this Condition 6 or Condition 7 (*Indexation*), shall (in the absence of manifest error) be final and binding upon all parties.

(i) **Definitions**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

“**Business Day**” means:

- (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms; and
- (ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the Relevant Currency (which in the case of a payment in U.S. Dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms,

provided that when “Business Day” is used in relation to (a) a payment of principal or interest that will ultimately be used to make a payment on any Wrapped Bond or (b) any notice delivered in connection with such a payment, a day will only be a Business Day if it is also a business day (howsoever defined) for the purposes of the relevant Financial Guarantee;

“**Bond Relevant Date**” means, in respect of any Class, Sub-Class or Tranche of the Bonds, the earlier of (a) the date on which all amounts in respect of the Bonds have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding (adjusted in the case of Indexed Bonds in accordance with Condition 7(b) (*Application of Index Ratio*)) has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Bondholders in accordance with Condition 17 (*Notices*);

“**Calculation Amount**” means the amount specified as such in the relevant Final Terms;

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Bond for any period of time (whether or not constituting an Interest Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual (ICMA)**” is specified:
  - (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
  - (B) if the Calculation Period is longer than one Determination Period, the sum of:
    - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
    - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“**Determination Period**” means the period from and including a Determination Date in any year but excluding the next Determination Date; and

“**Determination Date**” means the date specified as such hereon or, if none is so specified, the Interest Payment Date;

- (ii) if “**Actual/365**” or “**Actual/Actual**” is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366, and (2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if “**Actual/365 (Fixed)**” is specified, the actual number of days in the Calculation Period divided by 365;
- (iv) if “**Actual/360**” is specified, the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (1) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (2) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the last day of such period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month);

“**euro**” means the lawful currency of the Participating Member States;

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified in the relevant Final Terms;

“**Interest Determination Date**” means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Final Terms or, if none is so specified, the day falling two Business Days in London prior to the first day of such Interest Period (or if the specified currency is sterling the first day of such Interest Period) (as adjusted in accordance with any Business Day Convention (as defined above) specified in the relevant Final Terms);

“**Interest Payment Date**” means the date(s) specified as such in the relevant Final Terms;

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“**Interest Rate**” means the rate of interest payable from time to time in respect of the Bonds and which is either specified as such in, or calculated in accordance with the provisions of, these Conditions and/or the relevant Final Terms;

“**ISDA Definitions**” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds of the relevant Sub-Class as published by the International Swaps and Derivatives Association, Inc.);

“**Issue Date**” means the date specified as such in the relevant Final Terms;

“**Margin**” means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms;

“**Maturity Date**” means the date specified in the relevant Final Terms as the final date on which the principal amount of the Bond is due and payable;

“**Page**” means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service (“**Reuters**”)) as may be specified in the relevant Final Terms, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices;

“**Participating Member State**” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty establishing the European Communities (as amended), and “Participating Member States” means all of them;

“**Principal Amount Outstanding**” means, in relation to a Bond, Sub-Class or Class, the original face value thereof less any repayment of principal made to the Holder(s) thereof in respect of such Bond, Sub-Class or Class;

“**Redemption Amount**” means the amount provided under Condition 8(d) (*Optional Redemption*), unless otherwise specified in the relevant Final Terms;

“**Reference Banks**” means the institutions specified as such or, if none, four major banks selected by the Agent Bank (or the Calculation Agent, if applicable) in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable), on behalf of the Issuer, in its sole and absolute discretion;

“**Relevant Currency**” means the currency specified as such or, if none is specified, the currency in which the Bonds are denominated;

“**Relevant Financial Centre**” means, with respect to any Bond, the financial centre specified as such in the relevant Final Terms or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Agent Bank (or the Calculation Agent, if applicable);

“**Relevant Rate**” means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Final Terms);

“**Relevant Time**” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre;

“**Representative Amount**” means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Final Terms as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

“**Scheduled Redemption Date**” has the meaning given to it in the applicable Final Terms;

“**Specified Duration**” means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the period or duration specified as such in the relevant Final Terms or, if none is specified, a period of time equal to the relative Interest Period;

“**Step-Up Fixed Fee Rate**” means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms or, if no such rate is specified, zero;

“**Step-Up Floating Fee Rate**” means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms or, if no such rate is specified, zero;

“**sub-unit**” means in the case of any currency, the lowest amount of such currency that was available as legal tender in the country of such currency;

“**TARGET Settlement Day**” means any day on which the TARGET system is open; and

“**TARGET system**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer system (TARGET or TARGET2).

(b) ***Agent Bank, Calculation Agent and Reference Banks***

The Issuer will procure that there shall at all times be an Agent Bank (and a Calculation Agent, if applicable) and four Reference Banks selected by the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) with offices in the Relevant Financial Centre if provision is made for them in these Conditions applicable to this Bond and for so long as it is outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) will select another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. If the Agent Bank (or the Calculation Agent, if applicable) is unable or unwilling to act as such or if the Agent Bank (or the Calculation Agent, if applicable) fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint (with the prior written consent of the Bond Trustee) a successor to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

(c) ***Determination or Calculation by Bond Trustee***

If the Agent Bank (or the Calculation Agent, if applicable) does not at any time for any reason determine any Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or any other amount to be determined or calculated by it, the Bond Trustee shall (without liability for so doing) determine such Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or other amount as aforesaid at such rate or in such amount as in its absolute discretion (having regard as it shall think fit to the procedures described above, but subject to the terms of the Bond Trust Deed) it shall deem fair and reasonable in all the circumstances or, subject as aforesaid, apply the foregoing provisions of this Condition, with any consequential amendments, to the extent that, in its sole opinion, it can do so and in all other respects it shall do so in such manner as it shall, in its absolute discretion, deem fair and reasonable in the circumstances, and each such determination or calculation shall be deemed to have been made by the Agent Bank (or the Calculation Agent, if applicable).

(d) ***Certificates to be final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of Condition 6 (*Interest and Other Calculations*) whether by the Principal Paying Agent or the Agent Bank (or the Calculation Agent, if applicable) shall (in the absence of wilful default, gross negligence, bad faith or manifest error) be binding on the Issuer, each Obligor, the Agent Bank, the Bond Trustee, the Principal Paying Agent, the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Obligors, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Agent Bank or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(e) ***Interest on Dual Currency Bonds***

The rate or amount of interest payable in respect of Dual Currency Bonds shall be determined in the manner specified in the applicable Final Terms.

(f) ***Interest on Partly Paid Bonds***

In the case of Partly Paid Bonds (other than Partly Paid Bonds which are Zero Coupon Bonds), interest will accrue as aforesaid on the paid-up nominal amount of such Bonds and otherwise as specified in the applicable Final Terms.

## 7. **Indexation**

This Condition 7 is applicable only if the relevant Final Terms specify the Bonds as Indexed Bonds.

(a) ***Definitions***

“**affiliate**” means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, “**control**” means control as defined in the Companies Act;

“**Base Index Figure**” means (subject to Condition 7(c)(i) (*Change in base*)) the base index figure as specified in the relevant Final Terms;

“**Index**” or “**Index Figure**” means, subject as provided in Condition 7(c)(i) (*Change in base*), the UK Retail Price Index (RPI) (for all items) published by the Central Statistical Office and available to view at (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference to the Index Figure:

- (i) applicable to a particular month shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and (e) (*Cessation of or Fundamental Changes to the Index*), be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication;
- (ii) applicable to the first calendar day of any month shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and (e) (*Cessation of or Fundamental Changes to the Index*), be construed as a reference to the Index Figure published in the second month prior to that particular month and relating to the month before that of publication; or
- (iii) applicable to any other day in any month shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and (e) (*Cessation of or Fundamental Changes to the Index*), be calculated by linear interpolation between (x) the Index Figure applicable to the first calendar day of the month in which the day falls, calculated as specified in sub-paragraph (ii) above, and (y) the Index Figure applicable to the first calendar day of the following month, calculated as specified in sub-paragraph (ii) above, and rounded in accordance with Condition 6(f) (*Rounding*).

If the Index is replaced, the Issuer will describe the replacement Index in a supplementary prospectus;

“**Index Ratio**” applicable to any month means the Index Figure applicable to such month divided by the Base Index Figure;

“**Limited Index Ratio**” means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

“**Limited Indexation Factor**” means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

“**Limited Indexation Month**” means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

“**Limited Indexed Bonds**” means Indexed Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies; and

“**Reference Gilt**” means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer and approved by the Bond Trustee (an “**Indexation Adviser**”).

(b) ***Application of the Index Ratio***

Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Indexed Bonds applicable to the month in which such payment falls to be made and rounded in accordance with Condition 6(f) (*Rounding*).

(c) ***Changes in Circumstances Affecting the Index***

- (i) Change in base: If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of “**Index**” and “**Index Figure**” in Condition 7(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefor), and (2) the new Base Index Figure shall be the product of the then existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

- (ii) Delay in publication of Index: If the Index Figure relating to any month (the “**relevant month**”) which is required to be taken into account for the purposes of the determination of the Index Figure for any date is not published on or before the fourteenth business day before the date on which such payment is due (the “**date for payment**”) (otherwise than because the Index has ceased to be published), the Index Figure applicable to the relevant month shall be (1) such substitute index figure (if any) as the Bond Trustee considers to have been published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, (or such other body designated by the UK government for such purpose) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Bond Trustee); or (2) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(c)(ii)(1)) before the date for payment.

(d) ***Application of Changes***

Where the provisions of Condition 7(c)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(c)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Bond is still outstanding, then:

- (i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(c)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) ***Cessation of or Fundamental Changes to the Index***

- (i) If (1) the Bond Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Bondholders, the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Issuer and the Bond Trustee or, failing agreement on and the making of such appointment within 20 business days following the expiry of the 20 business day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the “**Expert**”), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.
- (iii) If any payment in respect of the Bonds is due to be made after the cessation or changes referred to in Condition 7(e)(i) but before any such adjustment to, or replacement of, the Index takes effect, the Issuer shall (if the Index Figure applicable (or deemed applicable) to the relevant month is not available in accordance with the provisions of Condition 7(c)(i) (*Change in base*) above) make a provisional payment on the basis that the Index Figure applicable to the month in which such payment is due to be made is the Index Figure last published. In that event, or in the event of any payment (also referred to below as a “**provisional payment**”) on the Bonds having been made on the basis of an Index applicable under Condition 7(c)(ii)(1) and the Bond Trustee (acting solely on the advice of an Indexation Adviser) subsequently determining that the relevant circumstances fall within this Condition 7(e) (*Cessation of or Fundamental Changes to the Index*), then:

- (A) in relation to a payment of principal or interest in respect of the Bonds other than upon final redemption of such Bond, if the sum which would have been payable if such adjustment of substitute index had been in effect on the due date for such payment is greater or less than the amount of such provisional payment, the Interest Amount payable on the Bonds on the Interest Payment Date next succeeding the date on which such adjustment or substitute index becomes effective shall be increased or reduced to reflect the amount by which such provisional payment fell short of, or (as the case may be) exceeded, the sum which would have been paid on the Bonds if such adjustment or substituted index had been in effect on that date; or
  - (B) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.
- (iv) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, each Relevant Financial Guarantor, the other Issuer Secured Creditors, the Bond Trustee and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 17 (*Notices*) of such amendments as promptly as practicable following such notification.

## 8. Redemption, Purchase and Cancellation

### (a) *Scheduled Redemption*

Unless previously redeemed in full, or purchased and cancelled as provided below, or unless such Bond is stated in the relevant Final Terms as having no fixed maturity date, each Sub-Class of Bonds will be redeemed on the Scheduled Redemption Date as follows and to the following extent:

- (i) if, by the Scheduled Redemption Date, the Issuer has received repayment of the related advance (in accordance with the provisions of the relevant Borrower Loan Agreement) of a principal amount equal to the Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) of such Sub-Class, then the Bonds of such Sub-Class will be redeemed in full (after exchange of such principal amount to the relevant currency pursuant to the relevant Cross Currency Hedging Agreement, if such a Cross Currency Hedging Agreement has been entered into); and
- (ii) if, by the Scheduled Redemption Date, the Issuer has received repayment of the related advance (in accordance with the provisions of the relevant Borrower Loan Agreement) of a principal amount less than the Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) of such Sub-Class, then the Bonds of such Sub-Class will be redeemed *pro rata* in part to the extent of the amount which is so deposited (after exchange of such principal amount to the relevant currency pursuant to the relevant Cross Currency Hedging Agreement, if such a Cross Currency Hedging Agreement has been entered into).

If the Bonds of a Sub-Class are not redeemed in full by the Scheduled Redemption Date, then on each Interest Payment Date which thereafter occurs, the Bonds of such Sub-Class will be redeemed in full or, as the case may be, *pro rata* in part to the extent of the principal amount (after exchange of such principal amount to the relevant currency pursuant to the relevant Cross Currency Hedging Agreement, if such a Cross Currency Hedging Agreement has been entered into or, if there is no longer a Cross Currency Hedging Agreement in place and the Sub-Class is denominated in a currency other than the currency of the related advance, at a spot rate of exchange) which, if any, is received by the Issuer in repayment of the related advance(s) (in accordance with the provisions of the relevant Borrower Loan Agreements) until the earlier of (a) such time as such Sub-Class of Bonds is redeemed in full or (b) the Maturity Date specified in the relevant Final Terms for such Sub-Class.

### (b) *Final Redemption*

If the Bonds of a Sub-Class have not previously been redeemed in full, or purchased and cancelled, the Bonds will be finally redeemed at the then Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) of such Sub-Class plus accrued but unpaid interest on the Maturity Date specified in the relevant Final Terms for such Sub-Class.

In the case of principal on Class B Unwrapped Bonds only, if, on any date on or after the Maturity Date but prior to the delivery of a Bond Enforcement Notice on which such Bond is to be redeemed (in whole or in part), there are insufficient funds available to the Issuer to pay such principal, the Issuer's liability to pay such principal will be treated as not having fallen due and will be deferred until the earliest of (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of the Issuer Cash



Management Agreement, sufficient funds to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which all Senior Debt has been paid in full and (iii) the date on which a Bond Enforcement Notice has been delivered. Interest will accrue on such deferred principal at the rate otherwise payable on unpaid principal of such Class B Unwrapped Bonds immediately prior to the Maturity Date.

(c) **Redemption of Zero Coupon Bonds after Scheduled Redemption Date**

If the relevant Final Terms specifies that there is a Scheduled Redemption Date for the Bonds, the Redemption Amount payable upon redemption of a Zero Coupon Bond at any time after the Scheduled Redemption Date shall be an amount equal to the sum of:

- (i) the Redemption Amount that would have been payable if the Bond had been redeemed on the Scheduled Redemption Date; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to such amount from (and including) the Scheduled Redemption Date to (but excluding) the date of redemption or (as the case may be) the date upon which the Bond becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of Condition 8(k) or, if none is so specified, a Day Count Fraction of 30/360.

In these Conditions, “**Accrual Yield**” has the meaning given to it in the relevant Final Terms.

(d) **Optional Redemption**

Subject as provided below, upon giving not more than 60 nor less than 30 days’ notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders, the Issuer may (prior to the Maturity Date) redeem any Sub-Class of the Bonds in whole or in part (but on a *pro rata* basis only) on any Interest Payment Date at their Redemption Amount, provided that Floating Rate Bonds may not be redeemed before the date (if any) specified in the relevant Final Terms, as follows:

- (i) In respect of Fixed Rate Bonds denominated in Sterling, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be an amount equal to the higher of (i) their Principal Amount Outstanding and (ii) the price determined to be appropriate by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Redemption Yield (as defined below) on such Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee) determine to be appropriate, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(d)(i), “**Gross Redemption Yield**” means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the UK Debt Management Office publication “Formulae for Calculating Gilt Prices from Yields” (published on 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002) page 5 or any replacement therefor and, for the purposes of such calculation, the date of redemption of the relevant Fixed Rate Bonds shall be assumed to be the Scheduled Redemption Date and not the Maturity Date; “**Reference Date**” means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(d)(i); and “**Reference Gilt**” means the Treasury Stock specified in the relevant Final Terms.

- (ii) In respect of Floating Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Final Terms) plus any accrued but unpaid interest on the Principal Amount Outstanding.
- (iii) In respect of Indexed Bonds denominated in Sterling, the Redemption Amount will (unless otherwise specified in the relevant Final Terms) be the higher of (i) the Principal Amount Outstanding and (ii) the price determined to be appropriate (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Real Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market, (selected by the Issuer and approved by the Bond Trustee), determine to be appropriate, plus accrued but unpaid interest (as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) on the Principal Amount Outstanding.

For the purposes of this Condition 8(d)(iii), “**Gross Real Redemption Yield**” means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the UK Debt Management Office publication “Formulae for Calculating Gilt Prices from Yields” published on 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002, page 4 or any replacement therefor and, for the purposes of such calculation, the date of redemption of the relevant Indexed Bonds shall be assumed to be the Scheduled Redemption Date and not the Maturity Date; “**Reference Date**” means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(d)(iii); and “**Reference Gilt**” means the Treasury Stock specified in the relevant Final Terms.

- (iv) In respect of Fixed Rate Bonds denominated in euro, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be an amount equal to the higher of (i) their Principal Amount Outstanding and (ii) the present value at the Reference Date (as defined below) of (A) their Principal Amount Outstanding plus (B) all required interest payments due on the Bonds (excluding accrued but unpaid interest to the date on which the Bonds are to be redeemed (the “**Redemption Date**”)), computed using a discount rate equal to the Bund Rate as of the Reference Date and assuming the relevant Fixed Rate Bonds would otherwise have been redeemed on the Scheduled Redemption Date, plus, in either case, accrued but unpaid interest to the Redemption Date.

For the purposes of this Condition 8(d)(iv), “**Bund Rate**” means, with respect to any Reference Date, the rate per annum equal to the equivalent yield to maturity as of such date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price on such date of determination; “**Comparable German Bund Issue**” means the German *Bundesanleihe* security specified in the relevant Final Terms or, if no such security is specified or the specified security is no longer in issue, the German *Bundesanleihe* security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such Reference Date to the Scheduled Redemption Date and that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of euro-denominated corporate debt securities in a principal amount approximately equal to the then Principal Amount Outstanding of the Bonds and of a maturity most nearly equal to the Scheduled Redemption Date provided, however, that if the period from such Redemption Date to the Scheduled Redemption Date is less than one year, a fixed maturity of one year shall be used; “**Comparable German Bund Price**” means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations or, if the Financial Adviser obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations; “**Financial Adviser**” means a financial adviser in Frankfurt (selected by the Issuer and approved by the Bond Trustee); “**Reference Date**” means the date which is three Business Days prior to the dispatch of the notice of redemption under this Condition 8(d)(iv); “**Reference German Bund Dealer**” means any dealer of German *Bundesanleihe* securities appointed by the Financial Adviser; and “**Reference German Bund Dealer Quotations**” means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Financial Adviser of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Financial Adviser by such Reference German Bund Dealer at or about 3:30 p.m. (Frankfurt, Germany time) on the Reference Date.

In any such case, prior to giving any such notice, the Issuer must certify (as further specified in the Finance Documents) to the Bond Trustee that it will have the funds, not subject to any interest (other than under the Issuer Security) of any other person, required to redeem the Bonds as aforesaid.

(e) ***Redemption for Index Event, Taxation or Other Reasons***

*Redemption for Index Events:* Upon the occurrence of any Index Event (as defined below), the Issuer may, upon giving not more than 10 nor less than 5 days’ notice to the Bond Trustee, the Issuer Secured Creditors and the holders of the Indexed Bonds in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Indexed Bonds of all Sub-Classes on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(b) (*Application of Index Ratio*)) plus accrued but unpaid interest. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Indexed Bonds linked to the same underlying Index are also redeemed at the same time. Before giving any such notice, the Issuer shall provide to the Bond Trustee, the Issuer Secured Creditors and any Relevant Financial Guarantor(s) a certificate signed by an authorised signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to effect such redemption.

“**Index Event**” means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(c)(ii) (*Delay in publication of Index*) and the Bond Trustee has been notified by the Principal Paying Agent that publication of the Index has ceased or (ii) notice is published by Her Majesty’s Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Issuer and such circumstances are continuing.

*Redemption for Taxation Reasons:* In addition, if at any time the Issuer satisfies the Bond Trustee, (a) that the Issuer would, on the next Interest Payment Date, become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (other than 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 UK or Jersey or any political subdivision thereof, or any other authority thereof or any change in the application or official interpretation of such laws or regulations (“**Taxes**”); (b) that the Issuer or a Borrower would on the next Interest Payment Date be required to make any withholding or deduction for or on account of any Taxes from payments in respect of a Borrower Loan Agreement; (c) that the Issuer or an Issuer Hedge Counterparty would be required to make any withholding or deduction for or on account of any Taxes from payments in respect of an Issuer Hedging Agreement; or (d) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Initial Issue Date that it has or will become unlawful for the Issuer to perform any of its obligations under the Borrower Loan Agreements or to fund or to maintain its participation in the Borrower Loans, then the Issuer may, in order to avoid the relevant deductions, withholding or illegality but is not obliged to, (i) use its reasonable endeavours to arrange the substitution of a company incorporated under the laws of another jurisdiction approved by the Bond Trustee as principal debtor under the Bonds and as lender under the Borrower Loan Agreements and as obligor under the Finance Documents upon satisfying the conditions for substitution of the Issuer as set out in Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*) or (ii) convert any Bearer Bonds into Registered Bonds in accordance with Condition 2(a) (*Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds*) if such conversion will be effective to avoid the relevant deduction or withholding. If the Issuer is unable to arrange a substitution as described above having used reasonable endeavours to do so and a conversion of Bearer Bonds to Registered Bonds would not prevent any withholding or deduction and, as a result, the relevant deduction or withholding is continuing then the Issuer may, upon giving not more than 10 nor less than 5 days’ notice to the Bond Trustee, the Issuer Secured Creditors and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Bonds of the affected Class or Sub-Class on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Indexed Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio*)). Before giving any such notice of redemption, the Issuer shall provide to the Bond Trustee and the Issuer Secured Creditors and each Relevant Financial Guarantor a certificate signed by a director of the Issuer (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have been satisfied and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Bonds of the affected Class or Sub-Class and any amounts under the Security Agreement to be paid in priority to, or *pari passu* with, such Bonds under the Issuer Payment Priorities.

(f) **Early Redemption on Prepayment of Borrower Loan Agreements**

If:

- (i) a Borrower gives notice to the Issuer under a Borrower Loan Agreement that it intends to prepay all or part of any advance made under such Borrower Loan Agreement or a Borrower is required to prepay all or part of any advance made under a Borrower Loan Agreement (including (A) following a Designated Airport Disposal after the occurrence of a Trigger Event which is continuing and following the date on which an amount equal to the initial aggregate amount drawn under the Refinancing Facility has been repaid to the Refinancing Facility Providers or (B) following the delivery of a Loan Acceleration Notice out of any sums credited to the Debt Collateralisation Account);
- (ii) in each case, such advance was funded by the Issuer from the proceeds of the issue of a Class or Sub-Class of Bonds; and
- (iii) where applicable, no other Borrower has requested the Issuer to make such advance available to it in accordance with clause 7.2 of the relevant Borrower Loan Agreement,

the Issuer shall, upon giving not more than 10 nor less than 5 days’ notice to the Bond Trustee, the Issuer Secured Creditors, each Relevant Financial Guarantor and the Bondholders in accordance with Condition 17 (*Notices*), (where such advance is being prepaid in whole) redeem all of the Bonds of that Sub-Class or (where part only of such advance is being prepaid) the proportion of the relevant Sub-Class of Bonds which the proposed prepayment amount bears to the amount of the relevant advance.

In the case of a voluntary prepayment, the relevant Bonds will be redeemed at their Redemption Amount determined in accordance with Condition 8(d) (*Optional Redemption*) except that, in the case of Fixed Rate Bonds and Indexed Bonds, for the purposes of this Condition 8(f), “**Reference Date**” means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(f), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

In the case of any prepayment out of the net proceeds of a Designated Airport Disposal following the occurrence of a Trigger Event which is continuing and after the date on which an amount equal to the initial aggregate amount drawn under the Refinancing Facility has been repaid to the Refinancing Facility Providers, (i) Call Protected Floating Rate Bonds of any Sub-Class will be redeemed at an amount (the “**Par Redemption Amount**”) equal to their Principal Amount Outstanding or the relevant portion thereof available for redemption, plus accrued but unpaid interest on the Principal Amount Outstanding or the relevant portion thereof available for redemption to (but excluding) the date of redemption and (ii) Fixed Rate Bonds and Indexed Bonds of any Sub-Class will be redeemed at an amount (the “**Modified Redemption Amount**”) equal to the lower of (x) the Principal Amount Outstanding of the relevant Bonds or the relevant portion thereof available for redemption and (y) (in the case of Fixed Rate Bonds or Indexed Bonds denominated in Sterling) an amount calculated by multiplying the Principal Amount Outstanding of such Bonds or the relevant portion thereof available for redemption by that price (expressed as a percentage) (as reported in writing to the Issuer and the Bond Trustee by a financial adviser nominated by the Issuer and approved by the Bond Trustee) (and rounded to three decimal places (0.0005 being rounded upwards)) at which the Gross Redemption Yield on the Bonds on the Reference Date is equal to the Redemption Rate or (in the case of Fixed Rate Bonds denominated in euro) at the Redemption Amount calculated in accordance with Condition 8(d)(iv) provided that the reference in such calculation to the Bund Rate shall be construed as a reference to the Redemption Rate or (in the case of Fixed Rate Bonds denominated in a currency other than Sterling or euro or Indexed Bonds denominated in a currency other than Sterling) the Alternative Redemption Amount calculated in accordance with the relevant Final Terms, plus, in any case, accrued but unpaid interest (in the case of Indexed Bonds, as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) on the Principal Amount Outstanding or the relevant portion thereof available for redemption to (but excluding) the date of redemption.

Notwithstanding the foregoing, no redemption of Call Protected Floating Rate Bonds, Fixed Rate Bonds or Indexed Bonds shall be made in respect of any Sub-Class of Call Protected Floating Rate Bonds, Fixed Rate Bonds or Indexed Bonds at such Par Redemption Amount or, as the case may be, Modified Redemption Amount unless sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class of Call Protected Floating Rate Bonds, Fixed Rate Bonds or Indexed Bonds, duly convened and held in accordance with the Bond Trust Deed.

For the purposes of this Condition 8(f), “**Alternative Redemption Amount**” means the amount specified as such in the relevant Final Terms (if any); “**Call Protected Floating Rate Bonds**” means any Floating Rate Bonds, the Final Terms in respect of which, at the proposed date of redemption, would oblige the Issuer to pay a premium to par upon the optional early redemption of such Floating Rate Bonds; “**Redemption Rate**” means the sum of the Relevant Swap Mid Curve Rate and 0.50 per cent. per annum or, if the Relevant Swap Mid Curve Rate is not able to be determined, the sum of such rate as may be approved by the Bond Trustee and 0.50 per cent. per annum; “**Gross Redemption Yield**” has the meaning given to it (in the case of Fixed Rate Bonds) in Condition 8(d)(i) or (in the case of Indexed Bonds) in Condition 8(d)(iii); “**Relevant Swap Mid Curve Rate**” means the mid-point of the bid-side and offer-side rates for the fixed leg of a hypothetical interest rate swap with a notional profile equal to the interest profile applicable to the relevant Sub-Class of Bonds to be redeemed to (but excluding) the Scheduled Redemption Date, with the same payment dates as the relevant Bonds, against a floating leg of the Relevant Interest Rate, with no spread, where such hypothetical interest rate swap is between two highly-rated (AA- or equivalent or higher) and fully collateralised market counterparties (the Relevant Swap Mid Curve Rate shall be determined by a financial adviser (nominated by the Issuer and approved by the Bond Trustee) using its standard valuation methodology (as at the date of calculation) as at or about the time for determining interest rate quotation in the currency of the relevant Bonds in accordance with market practice on the Reference Date; and “**Relevant Interest Rate**” means the rate of interest for deposits in the currency of the relevant Bonds and of a duration equal to the length of the Interest Period (other than the first or last Interest Period, if different) of the relevant Bonds as determined as at or about the time for determining interest rate quotation in the currency of the relevant Bonds in accordance with market practice on the Reference Date by reference to the Reuters screen (if the relevant Bonds are denominated in Sterling) LIBOR01, (if the relevant Bonds are denominated in euro) EURIBOR01 or (if the relevant Bonds are denominated in a currency other than Sterling or euro) specified in the relevant Final Terms or such other page as may replace such page or, if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Bond Trustee) as may replace the Reuters screen.

(g) **Early Redemption on exercise of Subordinated Creditor Call Option**

Following the delivery of a Loan Enforcement Notice, if the Borrower Security Trustee gives notice to the Issuer that the Subordinated Secured Creditors have given notice that they intend to exercise their right under the Senior/Subordinated Intercreditor Agreement to require the transfer to them (or a nominee) of all, but not part, of the Senior Liabilities (as defined in the Senior/Subordinated Intercreditor Agreement) by, in respect of the Issuer, paying an amount equal to all amounts outstanding under the Borrower Loans at that time to the relevant Issuer Account, the Issuer shall, upon giving not more than 10 nor less than 5 days' notice to the Bond Trustee, the Issuer Secured Creditors, each Relevant Financial Guarantor and the Bondholders in accordance with Condition 17 (Notices), redeem all of the Bonds of each Sub Class. The relevant Bonds will be redeemed at their Redemption Amount determined in accordance with Condition 8(d) (*Optional Redemption*) except that, in the case of Fixed Rate Bonds and Indexed Bonds, for the purposes of this Condition 8(g), "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(g), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

For the purposes of this Condition 8(g), "**Senior/Subordinated Intercreditor Agreement**" means the intercreditor agreement dated 6 April 2006 as amended and restated on or about the Initial Issue Date and from time to time between, *inter alios*, the Obligors, each Borrower Secured Creditor, the Borrower Security Trustee and the Subordinated Creditors and "**Subordinated Secured Creditors**" means the secured parties under the subordinated facility agreement dated 7 April 2006 as amended from time to time.

(h) **Early redemption following Loan Enforcement Notice**

If the Issuer receives (or is to receive) any monies from any Obligor following the service of a Loan Enforcement Notice in repayment of all or any part of a Borrower Loan, the Issuer shall, upon giving not more than 10 nor less than 5 days' notice to the Bond Trustee, the Issuer Secured Creditors, each Relevant Financial Guarantor and the Bondholders in accordance with Condition 17 (*Notices*) apply such monies in accordance with the Issuer Pre-Enforcement Priority of Payments or the Issuer Post-Enforcement Priority of Payments, as applicable, and redeem (to the extent of such monies as are available in accordance with the relevant Issuer Priority of Payments) each Sub-Class of the then outstanding Bonds (corresponding to the advance under the Borrower Loan Agreement which is prepaid in accordance with the provisions of the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payment, if applicable) at their Principal Amount Outstanding plus accrued but unpaid interest on the next Interest Payment Date (or, if sooner, Maturity Date). In the event that there are insufficient monies to redeem all of the Bonds outstanding of a particular Class, the Bonds of such Class shall be redeemed in part in the proportion which the Principal Amount Outstanding of such Class to be redeemed bears to the Principal Amount Outstanding of such Class.

(i) **Early redemption of Zero Coupon Bonds**

Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Bond at any time before the Maturity Date shall be an amount equal to the sum of:

- (i) the Reference Price; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Bond becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 8(i) or, if none is so specified, a Day Count Fraction of 30/360.

In these Conditions, "**Accrual Yield**" and "**Reference Price**" have the meanings given to them in the relevant Final Terms.

(j) **Purchase of Bonds**

The Issuer may, provided that no Bond Event of Default has occurred and is continuing, purchase Bonds (provided that all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

If not all the Bonds which are in registered form are to be purchased, upon surrender of the existing Individual Bond Certificate, the Registrar shall forthwith upon the written request of the Bondholder concerned issue a new Individual Bond Certificate in respect of the Bonds which are not to be purchased and despatch such Individual

Bond Certificate to the Bondholder (at the risk of the Bondholder and to such address as the Bondholder may specify in such request).

While the Bonds are represented by a Global Bond or Global Bond Certificate, the relevant Global Bond or Global Bond Certificate will be endorsed to reflect the Principal Amount Outstanding of Bonds to be so redeemed or purchased.

(k) ***Redemption by Instalments***

Unless previously redeemed, purchased and cancelled as provided in this Condition 8, each Bond which provides for Instalment Dates (as specified in the relevant Final Terms) and Instalment Amounts (as specified in the relevant Final Terms) will be partially redeemed on each Instalment Date at the Instalment Amount.

(l) ***Cancellation***

Any Bearer Bonds or Registered Bonds purchased by or on behalf of the Issuer or by an Obligor using the net proceeds of a Designated Airport Disposal pursuant to paragraph 6(b)(ii) of part 3 of schedule 3 to the Common Terms Agreement, shall be surrendered to or to the order of the Principal Paying Agent or the Registrar, as the case may be, for cancellation and, if so surrendered, will, together with all Bonds redeemed by the Issuer, be cancelled forthwith (together with, in the case of Bearer Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

(m) ***Partly Paid Bonds***

Partly Paid Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

## 9. **Payments**

(a) ***Bearer Bonds***

Payments to the Bondholders of principal (or, as the case may be, Redemption Amounts or other amounts payable on redemption) and interest (or, as the case may be, Interest Amounts) in respect of Bearer Bonds will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payment of Instalment Amounts other than on the due date for final redemption and provided that the Receipt is presented for payment together with its relative Bond), Bonds (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States of America by transfer to an account denominated in the currency in which such payment is due with, or (in the case of Bonds in definitive form only) a cheque payable in that currency drawn on, a bank in (i) the principal financial centre of that currency provided that such currency is not euro, or (ii) the principal financial centre of any Participating Member State if that currency is euro.

No payment of principal and/or interest in respect of a Bearer Bond with an original maturity of more than 365 days will be made by a transfer of funds into an account maintained by the payee in the United States or by mailing a cheque to an address in the United States, except as provided in Condition 9(c) (*Payments in the United States of America*).

(b) ***Registered Bonds***

Payments of principal (or, as the case may be, Redemption Amounts) in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation and surrender of the relevant Registered Bond at the specified office of the Registrar and in the manner provided in Condition 9(a) (*Bearer Bonds*).

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond at the specified office of the Registrar in the manner provided in Condition 9(a) (*Bearer Bonds*) above and annotation of such payment on the Register and the relevant Bond Certificate.

Interest (or, as the case may be, Interest Amounts) on Registered Bonds payable on any Interest Payment Date will be paid to the holder (or the first named if joint holders) on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payment of interest or Interest Amounts on each Registered Bond will be made in the currency in which such payment is due by cheque drawn on a bank in (a) the principal financial centre of the country of the currency concerned, provided that such currency is not euro, or (b) the principal financial centre

of any Participating Member State if that currency is euro and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the Bondholder to the specified office of the Registrar before the relevant Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in (a) the principal financial centre of the country of that currency provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro.

A record of each payment so made will be endorsed on the schedule to the Global Bond or the Global Bond Certificate by or on behalf of the Principal Paying Agent or the Registrar, as the case may be, which endorsement shall be prima facie evidence that such payment has been made.

**(c) *Payments in the United States of America***

Notwithstanding the foregoing, if any Bearer Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

- (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bonds in the manner provided above when due;
- (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and
- (iii) such payment is then permitted by the law of the United States of America, without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

**(d) *Payments subject to fiscal laws; payments on Global Bonds and Registered Bonds***

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of this Condition 9. No commission or expenses shall be charged to the Bondholders, Couponholders or Receiptholders (if any) in respect of such payments.

The holder of a Global Bond or Global Bond Certificate shall be the only person entitled to receive payments of principal (or Redemption Amounts) and interest (or Interest Amounts) on the Global Bond or Global Bond Certificate (as the case may be) and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond or Global Bond Certificate in respect of each amount paid.

**(e) *Appointment of the Agents***

The Paying Agents, the Agent Bank, the Transfer Agents, the Exchange Agent and the Registrar (the “**Agents**”) appointed by the Issuer (and their respective specified offices) are listed in the Agency Agreement. Any Calculation Agent will be listed in the relevant Final Terms and will be appointed pursuant to a Calculation Agency Agreement. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right, with the prior written consent of the Bond Trustee at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, provided that the Issuer will at all times maintain (i) a Principal Paying Agent (in the case of Bearer Bonds), (ii) a Registrar (in the case of Registered Bonds), (iii) an Agent Bank or Calculation Agent (as specified in the relevant Final Terms) (in the case of Floating Rate Bonds or Indexed Bonds), (iv) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive; and (v) if and for so long as the Bonds are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent, Transfer Agent or Registrar in any particular place, a Paying Agent, Transfer Agent and/or Registrar, as applicable, having its specified office in the place required by such listing authority, stock exchange and/or quotation system, which, while any Bonds are admitted to the Official List of the UK Listing Authority and/or admitted to trading on the London Stock Exchange – Regulated Market shall be in London. Notice of any such variation, termination or appointment will be given in accordance with Condition 17 (*Notices*).

**(f) *Unmatured Coupons and Receipts and Unexchanged Talons***

- (i) Subject to the provisions of the relevant Final Terms, upon the due date for redemption of any Bond which is a Bearer Bond (other than a Fixed Rate Bond, unless it has all unmaturing Coupons attached), unmaturing Coupons and Receipts relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.

- (ii) Upon the date for redemption of any Bond, any unmatured Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iii) Upon the due date for redemption of any Bond which is redeemable in instalments, all Receipts relating to such Bond having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iv) Where any Bond, which is a Bearer Bond and is a Fixed Rate Bond, is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, a sum equal to the aggregate amount of the missing unmatured Coupons will be deducted from the amount of principal due for payment and, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Bond is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) ***Non-Business Days***

Subject as provided in the relevant Final Terms, if any date for payment in respect of any Bond, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “business day” means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in London and in the relevant place of presentation and in the cities referred to in the definition of Business Days and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET system is open.

(h) ***Talons***

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13 (*Prescription*)).

## 10. **Taxation**

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Issuer, any Paying Agent, the Registrar, the Bond Trustee or, in respect of Wrapped Bonds, the Relevant Financial Guarantor or, in respect of the BAA Guaranteed Bonds, by the Bond Guarantor) without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer, any Paying Agent or the Registrar or, where applicable, the Bond Trustee or the Relevant Financial Guarantor or the Bond Guarantor is required by applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer, such Paying Agent, the Registrar, the Bond Trustee, the Relevant Financial Guarantor or the Bond Guarantor, as the case may be, shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, any Paying Agent, the Registrar, the Bond Trustee, the Relevant Financial Guarantor or the Bond Guarantor will be obliged to make any additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Issuer, any Paying Agent, the Registrar, the Bond Trustee, the Relevant Financial Guarantor or the Bond Guarantor may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

If the Issuer is obliged to make any such deduction or withholding, the amount so deducted or withheld is not guaranteed by any Relevant Financial Guarantor.

## 11. **Bond Events of Default**

(a) ***Bond Event of Default***

Each and any of the following events shall be treated as a “**Bond Event of Default**”:

- (i) *Non-payment*: default is made by the Issuer in the payment of principal in respect of any Sub-Class or Tranche of the Most Senior Class of Bonds when due in accordance with these Conditions, or default is



made by the Issuer for a period of 3 Business Days in the payment of interest on any Sub-Class or Tranche of the Most Senior Class of Bonds when due in accordance with these Conditions;

- (ii) *Breach of other obligations*: default is made by the Issuer in the performance or observance of any other obligation, condition, provision, representation or warranty binding upon or made by it under the Bonds or the Issuer Transaction Documents (other than any obligation whose breach would give rise to the Bond Event of Default provided for in this Condition 11(a)) and, except where in the opinion of the Bond Trustee the such default is not capable of remedy, such default continues for a period of 30 Business Days;
- (iii) *Insolvency Event*: an Insolvency Event occurs in relation to the Issuer; or
- (iv) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds or the Trust Documents.

(b) ***Delivery of Bond Enforcement Notice***

If any Bond Event of Default occurs and is continuing and, in the case of the Bond Event of Default described in Condition 11(a)(ii) above, the Bond Trustee has certified in writing that, in its opinion, the happening of such event is materially prejudicial to the interests of the holders of each sub-class of the Most Senior Class of Bonds, the Bond Trustee (i) may, at any time, at its discretion and (ii) shall, upon being so directed in writing by Issuer Qualifying Creditors together holding or representing 25 per cent. or more of the Issuer Qualifying Debt, deliver a Bond Enforcement Notice to the Issuer provided that, in either case, it is indemnified and/or secured to its satisfaction.

(c) ***Confirmation of no Bond Event of Default***

The Issuer, pursuant to the terms of the Bond Trust Deed, shall provide written confirmation to the Bond Trustee, on an annual basis, that no Bond Event of Default has occurred.

(d) ***Consequences of the delivery of a Bond Enforcement Notice***

Upon delivery of a Bond Enforcement Notice in accordance with Condition 11(b) (*Delivery of Bond Enforcement Notice*): (i) all Classes of the Bonds then outstanding shall immediately become due and repayable at their respective Principal Amount Outstanding (in the case of Indexed Bonds, as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) plus accrued but unpaid interest (other than in the case of Zero Coupon Bonds) and, in the case of Indexed Bonds, as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*) and (ii) the Issuer Security shall become enforceable by the Bond Trustee in accordance with the Issuer Deed of Charge provided that the OFCA Floating Security shall only become enforceable in accordance with the Obligor Floating Charge Agreement.

(e) ***“Issuer Qualifying Creditors” means, in respect of Issuer Qualifying Debt:***

- (i) for so long as any Class A Bonds remain outstanding, the holders of the Class A Unwrapped Bonds, (for so long as no FG Event of Default has occurred in respect of a Relevant Financial Guarantor) the Relevant Financial Guarantor in relation to each Sub-Class or Tranche of the Class A Wrapped Bonds, (in respect of any Tranche or Sub-Class of Class A Wrapped Bonds in relation to which an FG Event of Default is continuing) the holders of such Tranche or Sub-Class of Class A Wrapped Bonds and each Cross Currency Hedge Counterparty that is party to a Cross Currency Hedging Agreement in respect of the Class A Bonds;
- (ii) if there are no Class A Bonds then outstanding and for so long as any Class B Bonds remain outstanding, the holders of the Class B Unwrapped Bonds, (for so long as no FG Event of Default has occurred in respect of a Relevant Financial Guarantor) the Relevant Financial Guarantor in relation to each Sub-Class or Tranche of the Class B Wrapped Bonds, (in respect of any Tranche or Sub-Class of Class B Wrapped Bonds in relation to which an FG Event of Default is continuing) the holders of such Tranche or Sub-Class of Class B Wrapped Bonds and each Cross Currency Hedge Counterparty that is party to a Cross Currency Hedging Agreement in respect of the Class B Bonds;
- (iii) if there are no Class A Bonds or Class B Bonds then outstanding, the holders of the Subordinated Bonds and each Cross Currency Hedge Counterparty that is party to a Cross Currency Hedging Agreement in respect of the Subordinated Bonds.

(f) ***“Issuer Qualifying Debt” means:***

- (i) for so long as any Class A Bonds remain outstanding, the sum of (i) the Principal Amount Outstanding of the Class A Bonds and (ii) the mark-to-market value of all transactions arising under Cross Currency

Hedging Agreements in respect of the Class A Bonds to the extent that such value represents an amount which would be payable to the relevant Cross Currency Hedge Counterparties if an early termination date was designated at such time in respect of such transactions;

- (ii) if there are no Class A Bonds then outstanding and for so long as any Class B Bonds remain outstanding, the sum of (i) the Principal Amount Outstanding of the Class B Bonds and (ii) the mark-to-market value of all transactions arising under Cross Currency Hedging Agreements in respect of the Class B Bonds to the extent that such value represents an amount which would be payable to the relevant Cross Currency Hedge Counterparties if an early termination date was designated at such time in respect of such transactions; or
- (iii) if there are no Class A Bonds or Class B Bonds then outstanding, the sum of (i) the Principal Amount Outstanding of the Subordinated Bonds and (ii) the mark-to-market value of all transactions arising under Cross Currency Hedging Agreements in respect of the Subordinated Bonds to the extent that such value represents an amount which would be payable to the relevant Cross Currency Hedge Counterparties if an early termination date was designated at such time in respect of such transactions.

## **12. Enforcement Against Issuer**

No Bondholder, Receiptholder, Couponholder or other Issuer Secured Creditor is entitled to take any action against the Issuer or, in the case of the holders of Wrapped Bonds, against the Relevant Financial Guarantor, or against any assets of the Issuer or any Relevant Financial Guarantor to enforce its rights in respect of the Bonds or to enforce any of the Issuer Security or to enforce any Financial Guarantee unless the Bond Trustee, having become bound so to proceed, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Bond Trustee shall, subject to being indemnified and/or secured to its satisfaction against all fees, costs, expenses, liabilities, claims and demands to which it may thereby become liable or which it may incur by so doing, upon being so directed in writing by Issuer Qualifying Creditors together holding or representing 25 per cent. or more of the Issuer Qualifying Debt, enforce the Issuer Security in accordance with the Issuer Deed of Charge.

Neither the Bond Trustee, the Bondholders, the Receiptholders, the Couponholders or the other Issuer Secured Creditors may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding up, re-organisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a Receiver pursuant to the terms of the Issuer Deed of Charge) or other proceeding under any similar law for so long as any Bonds are outstanding or for two years and a day after the latest Maturity Date on which any Bond of any Series is due to mature.

## **13. Prescription**

Claims against the Issuer for payment in respect of the Bonds, Receipts or Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Bond Relevant Date (as defined in Condition 6(i) (*Definitions*)) in respect thereof.

## **14. Replacement of Bonds, Coupons, Receipts and Talons**

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and requirements of the London Stock Exchange (in the case of listed Bonds) (and each other listing authority, stock exchange and or quotation system upon which the relevant Bonds have then been admitted to listing, trading and/or quotation), at the specified office of the Principal Paying Agent or, as the case may be, the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **15. Meetings of Bondholders, Modification, Waiver and Substitution**

### **(a) Meetings of Bondholders, Modifications and Waiver**

The Bond Trust Deed contains provisions for convening meetings of Bondholders of a Sub-Class, Class or Classes to consider matters affecting their interests, including the modification of these Conditions, the Bond Trust Deed and (in the case of Wrapped Bonds) the Financial Guarantees relating to such Wrapped Bonds and any other Issuer Transaction Document to which the Bond Trustee is a party or in relation to which it holds security. Subject to Condition 15(d), any modification may (except in relation to any Ordinary Voting Matter or Extraordinary Voting Matter or matter giving rise to an Entrenched Right (as described in further detail in Condition 15(b) below), SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction

Notice, Direction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice and subject to the provisions concerning ratification and/or meetings of particular combinations of Sub-Classes of Bonds as set out in Condition 15(c) and the Bond Trust Deed), be made if sanctioned by a resolution passed at a meeting of the Bondholders of the relevant Sub-Class, Class or Classes duly convened and held in accordance with the Bond Trust Deed by a majority of not less than three quarters of the votes cast (an “**Extraordinary Resolution**”) of such Bondholders. Such a meeting may be convened by the Bond Trustee or the Issuer, or by the Issuer (failing which the Bond Trustee) upon the request in writing of the Bondholders holding not less than one tenth of the aggregate Principal Amount Outstanding of the relevant outstanding Bonds.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of the relevant outstanding Bonds or, at any adjourned meeting, one or more persons being or representing Bondholders, whatever the Principal Amount Outstanding of the relevant outstanding Bonds held or represented, provided however, that certain proposals (the “**Basic Terms Modifications**”) in respect of the holders of any particular Sub-Class of Bonds being any proposal:

- (i) to change any date fixed for payment of principal or interest in respect of such Sub-Class of Bonds, to reduce the amount of principal or the rate of interest payable on any date in respect of such Sub-Class of Bonds or (other than as specified in Conditions 7 and 8) to alter the method of calculating the amount of any payment in respect of such Sub-Class of Bonds on redemption or maturity;
- (ii) other than pursuant to Condition 15(d), to effect the exchange, conversion or substitution of such Sub-Class of Bonds for, or their conversion into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;
- (iii) to change the currency in which amounts due in respect of such Sub-Class of Bonds are payable other than pursuant to redenomination into euro pursuant to Condition 19;
- (iv) having the effect of adversely changing the Issuer Payments Priorities or application thereof in respect of such Sub-Class of Bonds provided that alterations to introduce the Subordinated Bonds will not be deemed to affect any Sub-Class of Class A Bonds or Class B Bonds where “**adversely**” means, in respect of any change to the Issuer Payments Priorities, a change which has the effect of changing the priority of the Issuer Secured Creditors relative to each other provided that the creation of payments which rank subordinate to an Issuer Secured Creditor shall not be an adverse change in respect of an Issuer Secured Creditor;
- (v) in relation to any Sub-Class of Wrapped Bonds, to approve the release of the Relevant Financial Guarantee or the substitution of the Relevant Financial Guarantor;
- (vi) to change the quorum required at any meeting or the majority required to pass an Extraordinary Resolution; or
- (vii) to amend this definition or this Condition,

may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class or Sub-Classes of Bonds at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate Principal Amount Outstanding of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Bondholders, Receiptholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of Bondholder meetings under the Bond Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

A meeting of such Bondholders will also have the power (exercisable by Extraordinary Resolution) to advise or instruct the Bond Trustee in connection with the exercise by the Bond Trustee of any of its rights, powers and discretions under the Issuer Transaction Documents including, to appoint any persons (whether Bondholders or not) as a committee to represent the interests of such Bondholders and to confer upon such committee any powers which such Bondholders could themselves exercise by Extraordinary Resolution and, where requested by the Bond Trustee, in relation to voting or providing directions under or in connection with the STID.

(b) ***Relationship with Borrower Secured Creditors***

*STID Proposals:* The STID provides that in respect of, among other things, Ordinary Voting Matters and Extraordinary Voting Matters, SSA Instruction Notices, Emergency SSA Instruction Notices, Intercreditor Instruction Notices, Direction Notices, Enforcement Instruction Notices and Further Enforcement Instruction Notices (each as defined in the STID) the Most Senior Class of holders of Unwrapped Bonds shall be entitled to instruct the Bond Trustee to vote and (other than following an FG Event of Default in relation to the Relevant

Financial Guarantor), each Relevant Financial Guarantor will vote in respect of each Class or Sub-Class of Wrapped Bonds in respect of which it has provided a Financial Guarantee instead of the Issuer.

In respect of any Unwrapped Bonds (or following the occurrence of an FG Event of Default, the relevant Wrapped Bonds), any Bondholder who is a Bondholder of the Most Senior Class of Unwrapped Bonds (or following the occurrence of an FG Event of Default, the relevant Wrapped Bonds) will vote solely by instructing the Bond Trustee to vote on its behalf as its Secured Creditor Representative (as defined in the STID) in connection with the STID Proposal, SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notices, Direction Notices, Enforcement Instruction Notice or Further Enforcement Instruction Notice. Voting in connection with such STID Proposal, SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notices, Direction Notices, Enforcement Instruction Notice or Further Enforcement Instruction Notice shall be determined on a pound-for-pound basis by reference to the Outstanding Principal Amount owed to each of the relevant Participating QBS Creditors, so that all votes in favour of the proposal and against the proposal from the Participating QBS Creditors, each Relevant Financial Guarantor and the other Participating QBS Creditors who are not Bondholders or Relevant Financial Guarantors are considered on an aggregated basis, irrespective of whether a majority of such holders of Unwrapped Bonds and Relevant Financial Guarantors are in favour of or against the proposal.

For the purpose of voting in connection with a STID Proposal, SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notice, Direction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice, the Security Group Agent (in the case of a STID Proposal) or, as the case may be, the Borrower Security Trustee shall send a copy of such proposal or request for instructions to the Secured Creditor Representatives of the Issuer. The Bond Trustee shall promptly forward a copy of such notice to the Qualifying Bondholders in accordance with Condition 17 (*Notices*) requesting them to instruct the Bond Trustee how to vote. After obtaining the instruction of the Qualifying Bondholders, the Bond Trustee will vote in relation to the relevant STID Voting Request in accordance with such instructions.

**Irrespective of the result of voting in relation to a proposed STID Proposal in respect of an Ordinary Voting Matter or an Extraordinary Voting Matter or in relation to an SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notice, Direction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice, any such STID Proposal or decision in respect of an SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notice, Direction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice approved in accordance with the provisions of the STID shall be binding on all of the Bondholders, Receiptholders and Couponholders.**

If a STID Proposal gives rise to an Entrenched Right whereby the Issuer is an Affected Borrower Secured Creditor, the Bond Trustee shall forthwith, in accordance with the Bond Trust Deed, convene a meeting of (i) the holders of each Class, Sub-Class or Tranche of Unwrapped Bonds, (ii) if an FG Event of Default is continuing in respect of a Financial Guarantor the holders of the relevant Class, Sub-Class or Tranche of Wrapped Bonds, and (iii) in respect of an Entrenched Right which constitutes a Basic Terms Modification, the holders of each Class, Sub-Class or Tranche of Wrapped Bonds then outstanding and affected by such Entrenched Right.

**No STID Proposal that gives rise to an Entrenched Right whereby the Issuer is an Affected Borrower Secured Creditor can be approved, in accordance with the terms of the STID, unless it has previously been approved by an Extraordinary Resolution of the holders of the relevant Classes, Sub-Classes or Tranches of Bonds, or relevant Financial Guarantor, if applicable, affected by the Entrenched Right.**

(c) ***Relationship between Classes***

In relation to each Sub-Class of Bonds:

- (i) no Extraordinary Resolution involving a Basic Terms Modification that is passed by the holders of one Sub-Class of Bonds shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other Sub-Classes of Bonds (to the extent that there are Bonds outstanding in each such other Sub-Class); and
- (ii) no Extraordinary Resolution to approve any matter other than a Basic Terms Modification of any Sub-Class of Bonds shall be effective unless it is sanctioned by (i) an Extraordinary Resolution of the holders of each of the other Sub-Classes of Bonds ranking equally or senior to such Sub-Class (to the extent that there are Bonds outstanding ranking equally or senior to such Sub-Class) unless the Bond Trustee considers that the interests of the holders of the other Sub-Classes of Bonds ranking equally or senior to such Sub-Class would not be materially prejudiced by the implementation of such Extraordinary Resolution, and for the avoidance of doubt as regards ranking, Class B Bonds are subordinate to the Class A Bonds or (ii), in respect of any Sub-Class of Wrapped Bonds in respect of which no FG Event of Default is continuing in respect of the Relevant Financial Guarantor, the Relevant Financial Guarantor;
- (iii) Conditions 15(a) and (b) in respect of meetings are subject to the further provisions of the Bond Trust Deed.

(d) ***Modification, waiver and substitution***

As more fully set out in the Bond Trust Deed and the Issuer Deed of Charge (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders of any Sub-Class or (subject as provided below) any other Issuer Secured Creditor, concur with the Issuer or any other relevant parties in making (i) any modification to the Conditions or the Issuer Transaction Documents (subject as provided in the STID in relation to any Common Documents) or other document to which it is a party or in respect of which it holds security if in the opinion of the Bond Trustee such modification is made to correct a manifest error, or an error in respect of which an English court would reasonably be expected to make a rectification order, or is of a formal, minor, administrative or technical nature or (ii) any modification (other than in respect of a Basic Terms Modification) to the Conditions or any Issuer Transaction Document (subject as provided in the STID in relation to any Common Documents) or other document to which it is a party or in respect of which it holds security if the Bond Trustee is of the opinion that such modification is not materially prejudicial to the interests of the Bondholders of the Most Senior Class of Bonds then outstanding provided that to the extent such modification under (ii) above relates to an Issuer Secured Creditor Entrenched Right, each of the affected Issuer Secured Creditors has given its prior written consent.

As more fully set out in the Issuer Deed of Charge (and subject to the conditions and qualifications therein), if the Issuer proposes to issue Subordinated Bonds, the Bond Trustee may, provided that it has received a Ratings Confirmation in relation to the then ratings of the outstanding Bonds, without the consent or sanction of the Bondholders, the Receiptholders or the Couponholders of any Sub-Class or any other Issuer Secured Creditor other than any Relevant Issuer Secured Creditor at any time and from time to time concur with the Issuer and any other relevant parties in making any modifications proposed by the Issuer (other than in respect of a Basic Terms Modification or an Entrenched Right) to (i) the Issuer Payment Priorities set out in the Issuer Deed of Charge and the Issuer Cash Management Agreement and (ii) to the Master Definitions Agreement to give effect to any amendments to or to incorporate any additional defined terms relating to the Subordinated Bonds provided that each of the Relevant Issuer Secured Creditors (if any) has given its prior written consent to such modifications.

The Bond Trustee is authorised to execute and deliver on behalf of each Issuer Secured Creditor other than the Relevant Issuer Secured Creditors all documentation required to implement such modification and such execution by the Bond Trustee shall bind each of the Bondholders, the Receiptholders, the Couponholders and such Issuer Secured Creditors as if (in the case of such Issuer Secured Creditors) such documentation had been duly executed by it.

As more fully set out in the Bond Trust Deed and the Issuer Deed of Charge (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders of any Sub-Class or (subject as provided below) any other Issuer Secured Creditor and without prejudice to its rights in respect of any subsequent breach or Bond Event of Default, from time to time, and at any time but only if and in so far as in its opinion the interests of the Bondholders of the Most Senior Class of Bonds then outstanding shall not be materially prejudiced thereby, waive or authorise any breach or proposed breach by the Issuer of any of the covenants or provisions contained in the Conditions or any Issuer Transaction Document (other than a Common Document) to which it is a party or in respect of which it holds security or determine that any event which would otherwise constitute a Bond Event of Default shall not be treated as such for the purposes of the Bond Trust Deed provided that to the extent such event, matter or thing relates to an Issuer Secured Creditor Entrenched right, each of the affected Issuer Secured Creditors has given its prior written consent and provided further that the Bond Trustee shall not exercise such powers in contravention of any express direction given by Extraordinary Resolution of the holders of the Most Senior Class of Bonds then outstanding or of a request in writing made by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class of Bonds then outstanding, but no such direction or request shall affect any waiver or authorisation previously given or made or so as to authorise or waive any such proposed breach or breach relating to any Basic Terms Modification.

Any such modification, waiver or authorisation shall be binding on the Bondholders of that Sub-Class, Class or Classes and the holders of all relevant Receipts and Coupons and the other Issuer Secured Creditors and, unless the Bond Trustee agrees otherwise, notice thereof shall be given by the Issuer to the Bondholders of that Sub-Class, Class or Classes as soon as practicable thereafter.

Notwithstanding that none of the Bond Trustee, the Bondholders or the other Issuer Secured Creditors may have any right of recourse against the Rating Agencies in respect of any Ratings Confirmation given by them and relied upon by the Bond Trustee, the Bond Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to the Bonds or any Issuer Transaction Document, that such exercise will not be materially prejudicial to the interests of the Bondholders if the Rating Agencies have provided a Ratings Confirmation. Without prejudice to the foregoing, the Bondholders are deemed to agree for the benefit of the Rating Agencies only that a credit rating is, however, an assessment of credit and does not address other matters that may be of relevance to Bondholders. The Bond Trustee and the Bondholders agree and acknowledge that being entitled to rely on the fact that the Rating Agencies have delivered a Ratings Confirmation does not impose or extend any actual or contingent liability for the Rating Agencies to the Bond

Trustee, the Bondholders, any other Issuer Secured Creditor or any other person or create any legal relations between the Rating Agencies and the Bond Trustee, the Bondholders, any other Issuer Secured Creditor or any other person whether by way of contract or otherwise.

As more fully set forth in the Bond Trust Deed (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders of any Sub-Class or any other Issuer Secured Creditor, also agree with the Issuer, subject, for as long as there are any Wrapped Bonds outstanding, to the prior written consent of each Relevant Financial Guarantor (in respect of which no FG Event of Default is continuing), to the substitution of another corporation in place of the Issuer as principal debtor in respect of the Bond Trust Deed and the Bonds of all Series and subject to the Class A Wrapped Bonds continuing to carry the unconditional guarantee of the Relevant Financial Guarantor.

## **16. Bond Trustee Protections**

### **(a) Trustee considerations**

Subject to Condition 16(b) (*Exercise of rights by Bond Trustee*), in connection with the exercise, under these Conditions, the Bond Trust Deed, any Financial Guarantee, any BAA Bond Guarantee or Issuer Transaction Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Bond Trustee shall have regard to the interests of the holders of the Most Senior Class of Bonds then outstanding provided that, if, in the Bond Trustee's opinion, there is a conflict of interest between the holders of two or more Tranches or Sub-Classes of Bonds of the same Class (or, if there are no Class A or Class B Bonds outstanding, the Subordinated Bonds), it shall have regard to the interests of the holders of the Tranche or Sub-Class of such Class (or the Subordinated Bonds, as the case may be) then outstanding with the greatest Principal Amount Outstanding and will not have regard to the consequences of such exercise for the holders of other Tranches or Sub-Classes of Bonds or for individual Bondholders, resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Bond Trustee shall not be entitled to require from the Issuer or any Relevant Financial Guarantor, nor shall any Bondholders be entitled to claim from the Issuer, any Relevant Financial Guarantor or the Bond Trustee, any indemnification or other payment in respect of any consequence (including any tax consequence) for individual Bondholders of any such exercise.

### **(b) Exercise of rights by Bond Trustee**

Except as otherwise provided in these Conditions, the STID and the Bond Trust Deed, when exercising any rights, powers, trusts, authorities and discretions relating to or contained in these Conditions or the Bond Trust Deed or any other Issuer Transaction Document (other than in determining or in respect of any Ordinary Voting Matter or Extraordinary Voting Matter relating to the Bonds, in respect of which the relevant Financial Guarantor shall be required to vote in accordance with the STID, or any Basic Terms Modification, which shall require the vote of the relevant Bondholders), which affect or relate to any Class A Wrapped Bonds and/or Class B Wrapped Bonds, the Bond Trustee shall only act on the instructions of the Relevant Financial Guarantor(s) (provided no FG Event of Default has occurred and is continuing) in accordance with the provisions of the Bond Trust Deed and the Bond Trustee shall not be required to have regard to the interests of the Bondholders in relation to the exercise of such rights, powers, trusts, authorities and discretions and shall have no liability to any Bondholders as a consequence of so acting. As a consequence of being required to act only on the instructions of the Relevant Financial Guarantor(s) in the circumstances referred to in the previous sentence, the Bond Trustee may not, notwithstanding the provisions of these Conditions, be entitled to act on behalf of the holders of any Sub-Classes of Bonds.

Subject as provided in these Conditions and the Bond Trust Deed, the Bond Trustee will exercise its rights under, or in relation to, the Bond Trust Deed, the Conditions, any Financial Guarantee and any Issuer Transaction Documents in accordance with the directions of the relevant Bondholders, but the Bond Trustee shall not be bound as against the Bondholders to take any such action unless it has (i) (a) been so requested in writing by the holders of at least 25 per cent. in nominal amount of the relevant Sub-Classes of Bonds outstanding or (b) been so directed by an Extraordinary Resolution and (ii) been indemnified and/or furnished with security to its satisfaction.

## **17. Notices**

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to Bondholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the Financial Times). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Bonds are for the time being listed. Any such notice (other than to holders of Registered

Bonds as specified above) 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 is made. Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Bonds in accordance with this Condition 17.

So long as any Bonds are represented by Global Bonds or Global Bond Certificates, notices in respect of those Bonds may be given only by delivery of the relevant notice to Euroclear Bank S.A./N.V. as operator of the Euroclear System or Clearstream Banking, société anonyme, DTC or any other relevant clearing system as specified in the relevant Final Terms for communication by them to entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Bondholders on the day of delivery to such clearing systems.

The Bond Trustee will provide each Rating Agency, at its request, from time to time and provided that the Bond Trustee will not contravene any law or regulation in so doing, with all notices, written information and reports that the Bond Trustee makes available to the Bondholders of any Class or Sub-Class except to the extent that such notices, information or reports, contain information confidential to third parties.

## 18. Indemnification Of The Bond Trustee

### (a) *Indemnification of the Bond Trustee*

The Bond Trust Deed contains provisions for indemnification of the Bond Trustee, and for its relief from responsibility, including provisions relieving it from taking any action including taking proceedings against the Issuer, any Relevant Financial Guarantor and/or any other person unless indemnified and/or secured to its satisfaction. The Bond Trustee or any of its affiliates (as defined in Condition 7 (*Indexation*)) are entitled to enter into business transactions with the Issuer, any Relevant Financial Guarantor, the other Issuer Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit resulting therefrom. Save as otherwise provided in these Conditions or any Issuer Transaction Document the Bond Trustee will only be required to take any action under or in relation to, or to enforce or protect the Issuer Security, or a document referred to therein, if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of then outstanding Bonds or if so requested in writing by holders of at least 25 per cent. in nominal amount of the holders of the Most Senior Class of then outstanding Bonds (or in respect of the Wrapped Bonds, the relevant Financial Guarantor) and in all cases if indemnified and/or secured to its satisfaction provided that the Bond Trustee has agreed that it is indemnified to its satisfaction in respect of the OFCA Floating Security as described in the Obligor Floating Charge Agreement.

### (b) *Directions, Duties and Liabilities*

The Bond Trustee, in the absence of its own wilful misconduct, gross negligence or fraud, and in all cases when acting as directed by or subject to the agreement of the holders of the Most Senior Class of Unwrapped Bonds and in respect of the Wrapped Bonds, each relevant Financial Guarantor (and following the occurrence of an FG Event of Default which is continuing or, in respect of any direction relating to a Basic Terms Modification, the holders of the most Senior Class of Wrapped Bond, then outstanding) shall not in any way be responsible for any loss, costs, damages or expenses or other liability, which may result from the exercise or non-exercise of any consent, waiver, power, trust, authority or discretion vested in the Bond Trustee pursuant to the Issuer Deed of Charge or any ancillary document.

## 19. European Economic and Monetary Union

### (a) *Notice of redenomination*

The Issuer may, without the consent of the Bondholders, and on giving at least 30 days' prior notice to the Bondholders, the Relevant Financial Guarantors, the Bond Trustee and the Principal Paying Agent, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Bonds falling on or after the date on which the UK becomes a Participating Member State.

### (b) *Redenomination*

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

- (i) the Bonds of each Sub-Class denominated in sterling (the "**Sterling Bonds**") shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Bond equal to the principal amount of that Bond in sterling, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty establishing the European Union, as amended, (including compliance with rules

relating to rounding in accordance with European Community regulations), provided, however, that, if the Issuer determines, with the agreement of the Bond Trustee, that the then current market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Bondholders, the London Stock Exchange and any stock exchange (if any) on which the Bonds are then listed and the Principal Paying Agent of such deemed amendments;

- (ii) if Bonds have been issued in definitive form:
  - (A) all Bonds denominated in sterling will become void with effect from the date (the “**Euro Exchange Date**”) on which the Issuer gives notice (the “**Euro Exchange Notice**”) to the Bondholders and the Bond Trustee that replacement Bonds denominated in Euro are available for exchange (provided that such Bonds are available) and no payments will be made in respect thereof;
  - (B) the payment obligations contained in all Bonds denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Bonds in accordance with this Condition 19) shall remain in full force and effect; and
  - (C) new Bonds denominated in Euro will be issued in exchange for Sterling Bonds in such manner as the Principal Paying Agent or the Registrar, as the case may be, may specify and as shall be notified to the Bondholders in the Euro Exchange Notice;
- (iii) all payments in respect of the Sterling Bonds (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by cheque drawn on, or by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and
- (iv) a Bond may only be presented for payment on a day which is a business day in the place of presentation.

(c) **Interest**

Following redenomination of the Bonds pursuant to this Condition 19:

- (i) where Sterling Bonds have been issued in definitive form, the amount of interest due in respect of the Sterling Bonds will be calculated by reference to the aggregate principal amount of the Sterling Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01; and
- (ii) the amount of interest payable in respect of each Sub-Class of Sterling Bonds for any Interest Period shall be calculated by applying the Interest Rate applicable to the Sub-Class of Bonds denominated in Euro ranking *pari passu* to the relevant Sub-Class.

**20. Subordinated Bonds**

The Issuer shall be at liberty, without the consent of the Bondholders, the Couponholders or the Receiptholders or any other Issuer Secured Creditor, but subject always to the provisions of these Conditions, the Issuer Deed of Charge and the Bond Trust Deed, to raise funds, from time to time, on any date through the creation and issue of subordinated bonds which rank subordinate to the Class A Bonds and the Class B Bonds provided that:

- (a) the aggregate principal amount of Subordinated Bonds to be issued on such date is not less than £5,000,000 (or the Equivalent Amount);
- (b) Ratings Confirmation is obtained in relation to the then ratings of the Class A Bonds and the Class B Bonds;
- (c) the Subordinated Bonds shall not rank, in point of payment or security, ahead of the Subordinated Step-Up Fee Amounts, the Issuer Subordinated Hedge Amounts or the Liquidity Subordinated Amount;
- (d) the Bond Trustee has received a legal opinion in form and substance satisfactory to it in relation to the enforceability and the ranking of the obligations of the Issuer under the Subordinated Bonds from a reputable London law firm; and
- (e) no Bond Event of Default is outstanding or would occur as a result of such issue.



## 21. Limited Recourse

Each of the Bondholders agrees with the Issuer that notwithstanding any other provision of the Issuer Transaction Documents, all obligations of the Issuer to the Bondholders, including its obligations under the Bonds and the Issuer Transaction Documents, are limited in recourse as set out below:

- (a) it will have a claim only in respect of the Issuer Charged Property;
- (b) the aggregate amount of all sums due and payable to the Bondholders in respect of the Issuer's obligations to such Bondholders shall reduce by the amount by which the aggregate amount of sums due and payable to the Bondholders exceeds the aggregate amounts received, realised or otherwise recovered by or for the account of the Issuer in respect of the Issuer Charged Property (after payment of any sums which are payable by the Issuer in accordance with the Issuer Payment Priorities in priority to or *pari passu* with sums payable to such Bondholders), whether pursuant to enforcement of the Issuer Security or otherwise; and
- (c) upon the Bond Trustee giving written notice to the Bondholders that it has determined in its sole opinion that there is no reasonable likelihood of there being any further realisations in respect of the Issuer Charged Property (whether arising from an enforcement of the Issuer Security or otherwise) which would be available to pay amounts outstanding under the Issuer Transaction Documents and the Bonds, the Bondholders shall have no further claim against the Issuer in respect of any such unpaid amounts and such unpaid amounts shall be discharged in full.

## 22. Miscellaneous

### (a) *Governing Law*

The Bond Trust Deed, the Issuer Deed of Charge, the Bonds, the Coupons, the Receipts, the Talons (if any), each Financial Guarantee (if any) and the other Issuer Transaction Documents are, and all matters arising from or in connection with such documents shall be governed by, and shall be construed in accordance with, English law.

### (b) *Jurisdiction*

The courts of England are to have exclusive jurisdiction to settle any dispute that may arise out of or in connection with the Bond Trust Deed, the Issuer Deed of Charge, the Bonds, the Coupons, the Receipts, the Talons, each Financial Guarantee (if any) and the other Issuer Transaction Documents and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons, the Receipts, the Talons (if any) the relevant Financial Guarantee (if any) and/or the Finance Documents may be brought in such courts. The Issuer has in each of the Finance Documents to which it is a party irrevocably submitted to the jurisdiction of such courts.

### (c) *Third Party Rights*

No person shall have any right to enforce any term or condition of the Bonds or the Bond Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

### (d) *Rights Against Issuer*

Under the Bond Trust Deed, persons shown in the records of DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to interests in the Bonds will (subject to the terms of the Bond Trust Deed) acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Bond or Global Bond Certificate became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

### (e) *Clearing System Accountholders*

References in the Conditions of the Bonds to "**Bondholder**" are references to the bearer of the relevant Global Bond or the person shown in the records of the relevant clearing system as the holder of the Global Bond Certificate.

Each of the persons shown in the records of DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, as being entitled to an interest in a Global Bond or a Global Bond Certificate (each an "**Accountholder**") must look solely to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or, in the case of Wrapped Bonds, each Relevant Financial Guarantor, to such

Accountholder and in relation to all other rights arising under the Global Bond or Global Bond Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Bond or Global Bond Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system (as the case may be) from time to time. For so long as the relevant Bonds are represented by a Global Bond or Global Bond Certificate, Accountholders shall have no claim directly against the Issuer or, in the case of Wrapped Bonds, the Relevant Financial Guarantor in respect of payments due under the Bonds and such obligations of the Issuer and, in the case of Wrapped Bonds, the Relevant Financial Guarantor will be discharged by payment to the bearer of the Global Bond or the registered holder of the Global Bond Certificate, as the case may be.

## FORMS OF THE BONDS

Bonds may, subject to all applicable legal and regulatory requirements, be issued in Series comprising either Bonds in bearer form (“**Bearer Bonds**”) or Bonds in registered form (“**Registered Bonds**”), as specified in the relevant Final Terms.

### **Bearer Bonds**

Each Sub-Class of Bonds initially issued in bearer form will be issued either as a temporary global bond (the “**Temporary Global Bond**”), without Receipts, Coupons or Talons attached, or a permanent global bond (the “**Permanent Global Bond**”), without Receipts, Coupons or Talons attached, in each case as specified in the relevant Final Terms. Each Temporary Global Bond or, as the case may be, Permanent Global Bond (each a “**Global Bond**”) will be delivered on or prior to the Issue Date of the relevant Sub-Class of the Bonds to a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant Clearing System on or about the Issue Date of the relevant Sub-Class.

The relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the “**TEFRA D Rules**”) are applicable in relation to the Bonds.

### *Temporary Global Bond exchangeable for Permanent Global Bond*

If the relevant Final Terms specify the form of Bonds as being represented by “Temporary Global Bond exchangeable for a Permanent Global Bond”, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Bond, without Receipts, Coupons or Talons attached, not earlier than 40 days after the Issue Date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, payments of interest in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in a Temporary Global Bond is to be exchanged for an interest in a Permanent Global Bond, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Bond, duly authenticated, to the bearer of the Temporary Global Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Bond in accordance with its terms against:

- presentation and (in the case of final exchange) surrender of the Temporary Global Bond at the specified office of the Principal Paying Agent; and
- receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant Clearing System,

within seven days of the bearer requesting such exchange.

The principal amount of the Permanent Global Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Bond exceed the aggregate initial principal amount of the Temporary Global Bond and any Temporary Global Bond representing a fungible Sub-Class of Bonds with the Sub-Class of Bonds represented by the first Temporary Global Bond.

The Permanent Global Bond will be exchangeable in whole, but not in part, for Bonds in definitive form each, a Definitive Bond:

- if Euroclear or Clearstream, Luxembourg or any other relevant Clearing System is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
- any of the circumstances described in Condition 11(a) (*Events of Default*) occurs.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Receipts, Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

### ***Temporary Global Bond exchangeable for Definitive Bonds***

If the relevant Final Terms specifies the form of Bonds as being “Temporary Global Bond exchangeable for Definitive Bonds” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole but not in part, for Definitive Bonds not earlier than 40 days after the Issue Date of the relevant Sub-Class of the Bonds.

If the relevant Final Terms specifies the form of Bonds as being “Temporary Global Bond exchangeable for Definitive Bonds” and also specifies that the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for Definitive Bonds not earlier than 40 days after the Issue Date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Receipts, Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Bond so exchanged to the bearer of the Temporary Global Bond against the presentation (and in the case of final exchange, surrender) of the Temporary Global Bond at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the issue of such Bonds.

### ***Permanent Global Bond exchangeable for Definitive Bonds***

If the relevant Final Terms specifies the form of Bonds as being “Permanent Global Bond exchangeable for Definitive Bonds” and also specifies that the TEFRA C Rules are applicable or that TEFRA does not apply, then the Bonds will initially be in the form of a Permanent Global Bond which will be exchangeable in whole, but not in part, for Definitive Bonds:

- if Euroclear or Clearstream, Luxembourg or any other relevant Clearing System is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
- any of the circumstances described in Condition 11(a) (*Events of Default*) occurs.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Receipts, Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

In the event that a Global Bond is exchanged for Definitive Bonds, such Definitive Bonds shall be issued in Specified Denominations(s) only. Bondholders who hold Bonds in the relevant Clearing System in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the relevant date of exchange, a principal amount of Bonds such that their holding is an integral multiple of a Specified Denomination.

### ***Conditions applicable to the Bonds***

The Conditions applicable to any Definitive Bond will be endorsed on that Bond and will consist of the Conditions set out under “*Terms and Conditions of the Bonds*” above and the provisions of the relevant Final Terms which supplement, amend, vary and/or replace those Conditions.

The Conditions applicable to any Global Bond will differ from those Conditions which would apply to the Definitive Bond to the extent described under “*Provisions Relating to the Bonds while in Global Form*”.

### ***Legend concerning United States persons***

Global Bonds and Definitive Bonds having a maturity of more than 365 days and any Receipts, Coupons and Talons appertaining thereto will bear a legend to the following effect unless the relevant Final Terms specifies that the TEFRA C Rules are applicable or that TEFRA does not apply:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.”

The sections referred to in such legend provide that a United States person who holds a Bond, Receipt, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Receipt,

Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

### **Registered Bonds**

The Bonds of each Series sold in reliance on Regulation S under the Securities Act, as specified in the relevant Final Terms, will be represented on issue by one or more global certificates of such Class in fully registered form without interest coupons or principal receipts attached (each a “**Global Bond Certificate**”) which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Global Bond Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. See “*Book-Entry Clearance Procedure*”.

Beneficial interests in Global Bond Certificates will be subject to certain restrictions on transfer set out herein, in the relevant Final Terms, and in the Agency Agreement, and such Global Bond Certificates will bear the applicable legends regarding the restrictions set out in the relevant Final Terms.

Except in the limited circumstances described below, owners of beneficial interests in Global Bond Certificates will not be entitled to receive physical delivery of certificated Bonds.

#### ***Exchange for Individual Bond Certificates***

Each Global Bond Certificate will be exchangeable, free of charge to the holder, on or after its Individual Exchange Date (as defined below), in whole but not in part, for individual bond certificates in fully registered form (“**Individual Bond Certificates**”):

- if a Global Bond Certificate is held (directly or indirectly) on behalf of Euroclear and/or Clearstream, Luxembourg or an alternative Clearing System and any such Clearing System is closed for business for a continuous period of 14 days (other than by reason of legal holidays, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so; or
- any of the circumstances described in Condition 11(a) (*Bond Events of Default*) occurs.

The Registrar will not register the transfer of, or exchange of interests in, a Global Bond Certificate for Individual Bond Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the relevant Class, Sub-Class or Tranche of Bonds.

If only one of the Global Bond Certificates (the “**Exchanged Global Bond Certificate**”) becomes exchangeable for Individual Bond Certificates in accordance with the above paragraphs, transfers of Bonds may not take place between, on the one hand, persons holding Individual Bond Certificates issued in exchange for beneficial interests in the Exchanged Global Bond Certificate and on the other hand, persons wishing to purchase beneficial interests in the other Global Bond Certificate.

“**Individual Exchange Date**” means a day falling not less than 30 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar and any Transfer Agent is located.

In such circumstances, the relevant Global Bond Certificate shall be exchanged in full for Individual Bond Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Bond Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Bondholders. A person having an interest in a Global Bond Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Individual Bond Certificates.

#### ***Legends and Transfers***

The holder of an Individual Bond Certificate may transfer the Bonds represented thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of an Individual Bond Certificate bearing the legend referred to under “*Transfer Restrictions*” or upon specific request for removal of the legend on an Individual Bond Certificate, the Issuer will deliver only Individual Bond Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

### **Provisions Relating to the Bonds while in Global Form**

Global Bonds and Global Bond Certificates will contain provisions that apply to the Bonds which they represent, some of which modify the effect of the Conditions of the Bonds as set out in this Prospectus. The following is a summary of certain of those provisions:

- *Meetings:* The holder of a Global Bond or Global Bond Certificate shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, the holder of a Global Bond or Global Bond Certificate shall be treated as having one vote in respect of each minimum denomination of Bonds for which such Global Bond or Global Bond Certificate may be exchanged.
- *Cancellation:* Cancellation of any Bond represented by a Global Bond or Global Bond Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Bond or Global Bond Certificate.
- *Notices:* So long as any Bonds are represented by a Global Bond or Global Bond Certificate and such Global Bond or Global Bond Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other relevant Clearing System, notices to the Bondholders may be given, subject always to listing requirements, by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or any other relevant Clearing System for communication by it to entitled Accountholders in substitution for publication as provided in the Conditions. Such notices shall be deemed to have been received by the Bondholders on the date of delivery to such clearing systems.

## BOOK-ENTRY CLEARANCE PROCEDURE

*The information set out below has been obtained from the Clearing Systems (as defined herein) and the Issuer believes that such sources are reliable, but prospective investors are advised to make their own enquiries as to such procedures. The Issuer accepts responsibility for the accurate reproduction of such information from publicly available information. In particular, such information is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”) currently in effect and investors wishing to use the facilities of any of the Clearing Systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System.*

### **Euroclear and Clearstream, Luxembourg**

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of each Series of the Bonds and cross-market transfers of the Bonds associated with secondary market trading. Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Investors may hold their interests in Global Bonds and Global Bond Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**” and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

### **Book-entry ownership**

Each Global Bond will have an ISIN and a common code and will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. Each Global Bond Certificate will have an ISIN and a common code and will be registered in the name of a common depositary on behalf of Euroclear and Clearstream, Luxembourg.

### **Payments and relationship of participants with Clearing Systems**

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Bond represented by a Global Bond or a Global Bond Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Bond or Global Bond Certificate and in relation to all other rights arising under the Global Bond or Global Bond Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg. The Issuer expects that, upon receipt of any payment in respect of Bonds represented by a Global Bond or a Global Bond Certificate, the common depositary by whom such Bond is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant Clearing System with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Bond or Global Bond Certificate (as the case may be) as shown on the records of the relevant Clearing System or its nominee. The Issuer also expects that payments by Direct Participants in any Clearing System to owners of beneficial interests in any Global Bond or Global Bond Certificate held through such Direct Participants in any Clearing System will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are represented by such Global Bond or Global Bond Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Bond or Global Bond Certificate in respect of each amount so paid.

### **Settlement and transfer of Bonds**

Subject to the rules and procedures of each applicable Clearing System, purchases of Bonds held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Bonds on the Clearing System’s records. The ownership interest of each actual purchaser of each such Bond (the “**Beneficial Owner**”) will in turn be recorded on the Direct Participant and Indirect Participant’s records. Transfers of ownership interests in Bonds held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial owners will not receive certificates representing their ownership interests in such Bonds, unless and until interests in any Global Bond or Global Bond Certificate held within a Clearing System are exchanged for Definitive Bonds or Individual Bond Certificates.





		[delete if not Wrapped Bonds]
2	(iv) Series Number	[●]
	(v) Sub-Class Number:	[●]
	(If fungible with an existing Sub-Class, details of that Sub-Class, including the date on which the Bonds become fungible.)	
3	Relevant Currency or Currencies:	[●]
4	Aggregate Nominal Amount of Bonds admitted to trading:	
	(i) Series:	[●]
	(ii) Tranche:	[●]
	(iii) Sub-Class:	[●]
		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
5	(i) Issue Price:	
	(ii) Net proceeds (required only for listed issues):	[●]
		[€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Bonds in definitive form will be issued with a denomination above [€199,000].]
6	(i) Specified Denominations:	[●]
		[\$200,000 and integral multiples of [\$1,000] in excess thereof up to and including [\$299,000]. No Bonds in definitive form will be issued with a denomination above [\$299,000].]
		[£100,000 and integral multiples of [£1,000] in excess thereof up to and including [£199,000]. No Bonds in definitive form will be issued with a denomination above [£199,000].]
	(ii) Calculation Amount:	[●]
		(To avoid certain on going reporting obligations under the Transparency Directive and to fall within the wholesale debt securities regime, the minimum denomination should be Euro 100,000 or equivalent if Bonds to be listed on an EU regulated market. In the case of Registered Bonds, this means the minimum integral amount in which transfers can be made). Bonds (including Bonds denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the UK or whose issue otherwise constitutes a contravention of section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies.)
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date (if different from the Issue Date):	[●]
8	(i) Scheduled Redemption Date:	[Not applicable/specify]
	(ii) Maturity Date:	[●]
9	Instalment Date:	[Not applicable/specify]
10	Interest Basis:	[[●] per cent. Fixed Rate]
		[[specify reference] +/- [●] per cent. Floating Rate]
		[Zero Coupon]
		[Index Linked Interest]
		[specify other]
11	Redemption/Payment Basis:	[Redemption at par]
		[Index Linked Redemption]
		[Partly Paid]
		[Instalment]
		[Dual Currency]
		[specify other]
12	Change of Interest or Redemption/Payment Basis:	[Specify details of any provision for convertibility of Bonds into another interest or redemption/payment basis]
13	Put/Call Options:	Issuer Call Option [(further particulars specified below)]
14	(i) Status and Ranking:	[if Class A Wrapped Bonds or Class A Unwrapped Bonds]
		The Class A Wrapped Bonds and Class A Unwrapped

		Bonds rank <i>pari passu</i> among each other in terms of interest and principal payments and rank in priority to the Class B Bonds. [if Class B Bonds:] The Class B Wrapped Bonds and the Class B Unwrapped Bonds rank <i>pari passu</i> among each other and are subordinated in terms of interest and principal payments to the Class A Bonds. The Financial Guarantee will rank <i>pari passu</i> with all unsecured obligations of the Financial Guarantor. [Only required if Wrapped Bonds. Specify for Financial Guarantor]
	(ii) Status of the Financial Guarantee: (iii) FG Event of Default (if not [[Financial Guarantor[s]]])	[●] and [●] respectively]]
	[iv] [Date [Board] approval for issuance of Bonds obtained: 15 Listing: 16 Method of distribution:	(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Bonds) [London] [and other exchanges as applicable] [Syndicated/Non-syndicated]
	<b>PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE</b>	[Applicable/Not Applicable]
17	Fixed Rate Bond Provisions:	(If not applicable, delete the remaining sub-paragraphs of this paragraph) [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(i) Interest Rate: (ii) Screen Rate Determination: – Relevant Rate: – Interest Determination Date(s): – Page: – Relevant Time: ISDA Determination: – Floating Rate Option: – Designated Maturity: – Specified Duration: – Reset Date: (iii) Step-Up Fixed Fee Rate:	[Floating rate provisions to be specified for interest payable following Scheduled Redemption Date] [●] [●] [●] [local time when Relevant Rate set] [●] [●] [if other than the relevant Interest Period] [●] [●] per cent. per annum [●] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon – only relevant where day count fraction is Actual/Actual (ICMA)) [●] in each year [adjusted in accordance with [specify Business Day Convention and applicable Business Centre(s) for the definition of “Business Day”]/not adjusted]
	(iv) Interest Determination Date: (v) Interest Payment Date(s): (vi) First Interest Payment Date: (vii) Fixed Coupon Amount[(s)]:	[●] [●] per Calculation Amount [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]
	(viii) Broken Amount(s):	[Actual/Actual ICMA] [Actual/365 or Actual/Actual] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or bond basis] [30E/360 or Eurobond Basis]
	(ix) Day Count Fraction: (x) Other terms relating to the method of calculating interest for Fixed Rate Bonds: (xi) Reference Gilt: (xii) Comparable German Bund Issue: (xiii) Alternative Redemption Amount: – Reuters Screen:	Not Applicable/give details [●] [●] [Not Applicable/give details] [●]
18	Floating Rate Bond Provisions:	[Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Specified Period(s)/Specified Interest  
Payment Dates: [●]
- (ii) Specified Interest Payment Dates [●]
- (iii) First Interest Payment Date [●]  
[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (iv) Business Day Convention: [●]
- (v) Business Centre(s): [●]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other *(give details)*]
- (vii) Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and Redemption Amount (if not the Agent Bank): [Not applicable/Calculation Agent]
- (viii) Screen Rate Determination:  
– Relevant Rate: [●]  
– Interest Determination [●]
- Date(s): [●]  
– Page: [●]  
– Relevant Time: [*local time when Relevant Rate set*]
- (ix) ISDA Determination:  
– Floating Rate Option: [●]  
– Designated Maturity: [●]  
– Specified Duration: [*if other than the relevant Interest Period*]  
– Reset Date: [●]
- (x) Margin(s): [±][●] per cent. per annum
- (xi) Step-Up Floating Fee Rate: [●] per cent. per annum
- (xii) Minimum Rate of Interest: [Not Applicable]
- (xiii) Maximum Rate of Interest: [Not Applicable]  
[Actual/Actual ISMA] [Actual/365 or Actual/Actual] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis]
- (xiv) Day Count Fraction: [●]
- (xv) Additional Business Centre(s): [●]
- (xxv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Conditions: [●]
- (xvii) Relevant Financial Centre: [●]
- (xviii) Representative Amount: [●]  
[*if none specified, four major banks selected by Agent Bank/Calculation Agent*]
- (xix) Reference Banks: [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- 19 Zero Coupon Bond Provisions:  
(i) Accrual Yield: [●] per cent. per annum  
(ii) Reference Price: [●]  
(iii) Any other formula/basis of determining amount payable: [●]  
[Condition 8(e)/specify other]
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [*Consider applicable day count fraction if not U.S. dollar denominated*]  
[Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- 20 Indexed Bond Provisions:  
(i) Index/Formula: [UK Retail Price Index]  
[●]  
[*Floating rate provisions to be specified for interest payable following Scheduled Redemption Date*]
- (ii) Interest Rate:
- (iii) Screen Rate Determination:

	– Relevant Rate:	[●]
	– Interest Determination	
Date(s):		[●]
	– Page:	[●]
	– Relevant Time:	[local time when Relevant Rate set]
ISDA Determination:		
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Specified Duration:	[if other than the relevant Interest Period]
	– Reset Date:	[●]
(iv)	Step-Up Fixed Fee Rate:	[●] per cent. per annum
(v)	Party responsible for calculating the	
Rate(s) of Interest, Interest Amount and Redemption		
Amount(s) (if not the Agent Bank):		[Not applicable/Calculation Agent]
(vi)	Provisions for determining Coupon in	
the event of changes in circumstances, disruptions,		
cessation or fundamental changes to the Index:		Applicable – Condition 7(c) and 7(e)
(vii)	Interest or calculation period(s)	
	[●]	
(viii)	Interest Payment Dates:	[●]
(ix)	First Interest Payment Date:	[●]
		[Following Business Day Convention/Modified Following
		Business Day Convention/Preceding Business Day
(x)	Business Day Convention:	Convention/other (give details)]
(xi)	Business Centre:	[●]
(xii)	Minimum Indexation Factor:	[Not Applicable/specify]
(xiii)	Maximum Indexation Factor:	[Not Applicable/specify]
(xiv)	Base Index Figure:	[●]
(xv)	Limited Indexation Month(s):	[●]
(xvi)	Reference Gilt:	[●]
		[Actual/Actual ISMA] [Actual/365 or Actual/Actual]
		[Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or
		Bond Basis] [30E/360 or Eurobond Basis]
(xvii)	Day Count Fraction:	[Not Applicable/give details]
(xviii)	Alternative Redemption Amount:	[●]
	– Reuters Screen:	[Applicable/Not Applicable]
21	Dual Currency Bond Provisions:	[If not applicable, delete the remaining sub-paragraphs of
	(i) Rate of Exchange/method of	this paragraph]
calculating Rate of Exchange:		[Give details]
(ii)	Party responsible for calculating the	
Rate(s) of Interest, Interest Amount and Redemption		
Amount(s) (if not the Agent Bank):		[Not applicable/Calculation Agent]
(iii)	Provisions applicable where	
calculation by reference to Rate of Exchange impossible		
or impracticable:		[●]
(iv)	Person at whose option Specified	
Currency(ies) is/are payable:		[●]
<b>PROVISIONS RELATING TO REDEMPTION</b>		
22	Issuer Call Option:	Applicable in accordance with Condition 8(d)
		Any Interest Payment Date [falling on or after [●] and at a
		premium of [●] (delete for non-Floating Rate Bonds).]
(i)	Optional Redemption Date(s):	
(ii)	Optional Redemption Amount(s) and	
method, if any, of calculation of such amount(s):		[●] per Calculation Amount
(iii)	If redeemable in part:	
(iv)	Minimum Redemption Amount:	[Not applicable]
(v)	Maximum Redemption Amount:	[Not applicable]
(vi)	Notice period (if other than as set out	
in the Conditions):		[Not applicable]
23	Put Option:	[Not Applicable]
24	Final Redemption Amount of each Bond:	
	In cases where the Redemption Amount is	
Index-Linked or other variable-linked:		[●] per Calculation Amount

- (i) Index/Formula/variable: [give or annex details]
- (ii) Party responsible for calculating the Final Redemption Amount (if not the [Agent]): [●]
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Determination Date(s): [●]
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) Payment Date: [●]
- (vii) Minimum Final Redemption Amount: [●] per Calculation Amount
- (viii) Maximum Final Redemption Amount: [●] per Calculation Amount

25 **Early Redemption Amount:**

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions);

**GENERAL PROVISIONS APPLICABLE TO THE BONDS**

26 **Form of Bonds:**

- (i) If issued in Bearer form: [Bearer/Registered]  
[Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond.]  
[Temporary Global Bond exchangeable for Definitive Bonds on [●] days' notice.]  
[Permanent Global Bond exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond.]  
*(A Temporary Global Bond is required unless TEFRA C Rules apply or TEFRA is not applicable.)*  
*(If Temporary Global Bonds are exchangeable for Definitive Bonds upon notice, then such Definitive Bonds may only be issued in denominations equal to, or greater than, €50,000 (or equivalent) and integral multiples thereof.)*
- (ii) If Registered Bonds: [Global Bond Certificate exchangeable for Individual Bond Certificates]  
[Global Bond Certificate registered in the name of a common depositary for Euroclear and Clearstream, Luxembourg]

27 New Global Note: No

28 Relevant Financial Centre(s) or other special provisions relating to Payment Dates: [Not applicable/give details.]

29 Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature): [Yes/No. If yes, give details]

30 Details relating to Partly Paid Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Bonds and interest due on late payment: [Not applicable/give details]

31 Details relating to Instalment Bonds: [Not Applicable/give details]

- (i) Instalment Date: [●]
- (ii) Instalment Amount: [●]

32 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 19/annexed to this Final Terms apply]

33 Consolidation provisions: [Not Applicable/The provisions annexed to this Final Terms apply]

[Not Applicable/give details]

34 Other final terms: *(When adding any other final terms consideration should*

*be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

[TEFRA C/TEFRA D/Not applicable]

35 TEFRA rules:

### **BORROWER LOAN TERMS**

36 Interest rate on relevant Term Advance/Index

Linked Advances:

[●]

37 Term of relevant Term Advance/Index Linked

Advances:

[●]

38 Other relevant provisions:

[●]

### **DISTRIBUTION**

39 (i) If syndicated, names of Managers:

[Not Applicable/give names]

(ii) Stabilising Manager (if any):

[Not Applicable/give name]

40 If non-syndicated, name of Dealer:

[Not Applicable/give name]

41 Additional selling and transfer restrictions:

[Not Applicable/give details]

### **LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Bonds described herein pursuant to the listing of the Programme for the issuance of up to £50,000,000,000 of Bonds.

### **RESPONSIBILITY**

The Issuer and each Obligor accepts responsibility for the information contained in these Final Terms.

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer and each Obligor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

[[*Financial Guarantor*] accepts responsibility for any information in respect of [*Financial Guarantor*] contained in these Final Terms.]

\* Delete as applicable

Signed on behalf of the Issuer:

By:

Duly authorised

Signed on behalf of Heathrow Airport Limited:

By:

Duly authorised

Signed on behalf of Stansted Airport Limited:

By:

Duly authorised

Signed on behalf of Heathrow Express Operating Company Limited:

By:

Duly authorised

Signed on behalf of BAA (SP) Limited:

By:

Duly authorised

Signed on behalf of BAA (AH) Limited:

By:

Duly authorised

[Signed on behalf of [Financial Guarantor]]

By:

Duly authorised

## PART B – OTHER INFORMATION

### 1 Listing

(i) Listing

[London/Luxembourg/other (*specify*)/None]

[Application has been made for the Bonds to be admitted to trading on [●] with effect from [●].

(ii) Admission to trading:

[Not Applicable.]

(iii) Estimate of total expenses related

to admission to trading:

[●]

### 2 Ratings

The Bonds to be issued have been rated:

[S&P: [●]]

[Fitch: [●]]

[[*Insert credit rating agency*] is established in the European Community and has applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency*] is established in the European Community and registered under Regulation (EC) No 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009 but is endorsed by [*insert credit rating agency*] which is established in the European Union and registered under Regulation (EC) No 1060/2009.]

A rating must be issued by a credit rating agency established in the European Community and registered under the Regulation (EC) No 1060/2009 (the “CRA Regulation”) unless the rating is provided by a credit rating agency that operated in the European Community before 7 June 2010 and which has submitted an application for registration in accordance with the CRA Regulation and such application for registration has not been refused.

*(The above disclosure should reflect the rating allocated to Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

Ratings:

### 3 [Notification

The UK Listing Authority [has been requested to provide/has provided – *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]



**4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [“*Subscription and Sale*”], so far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer.”

**5 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

- (i) [Reasons for the offer: ]  
*(If reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)*
- (ii) [Estimated net proceeds: ]  
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding)]*
- (iii) [Estimated total expenses: ] *(Include breakdown of expenses.)*  
*(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above).<sup>(1)</sup>*

**6 [Fixed Rate Bonds only – YIELD Indication of yield:**

- The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

**7 [Index-Linked or other variable-linked Bonds only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation]<sup>(2)</sup>*

**8 [Dual currency Bonds only – PERFORMANCE OF RATE[S] OF EXCHANGE**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]<sup>(3)</sup>*

**9 Operational information**

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme and the relevant identification number(s):  
Delivery:  
Names and addresses of additional Paying Agent(s) (if any):  
ISIN Code:  
Common Code:

- [Not Applicable/give name(s) and member(s) and address(es)]  
Delivery [against/free of] payment

Notes:

- (1) Required for derivative securities
- (2) Required for derivative securities
- (3) Required for derivative securities

## DESCRIPTION OF HEDGE COUNTERPARTIES

**Banco Bilbao Vizcaya Argentaria, S.A.** Banco Bilbao Vizcaya Argentaria (“**BBVA**”) is a highly diversified international financial group, with strengths in the traditional banking businesses of retail banking, asset management, private banking and wholesale banking. BBVA is a company with limited liability whose registered office is Plaza de San Nicolás 4, 48005 – Bilbao, Spain and is a finance company authorised by the Spanish Central Bank (Banco de España) to perform banking operations.

**Banco Santander, S.A.** Banco Santander, S.A. is the parent bank of Grupo Santander, which is a financial group operating principally in Spain, the United Kingdom, Portugal, other European countries, Latin America and the United States, offering a wide range of financial products. Its registered office is at Paseo de Pereda 9-12, 39004 Santander, Spain.

**Barclays Bank PLC.** Barclays Bank PLC is a public limited company registered in England and Wales. It has its registered head office at 1 Churchill Place, London, E14 5HP. Barclays Bank PLC and its subsidiary undertakings constitute a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services.

**The BNP Paribas Group.** The BNP Paribas Group, of which BNP Paribas is the parent company, has one of the largest international banking networks, a presence in over 80 countries and more than 200,000 employees, including 160,000 in Europe. BNP Paribas’ three principal activities are Retail Banking, Investment Solutions and Corporate and Investment banking. Its registered office is at 16 boulevard des Italiens, 75009 Paris, France.

**Caja de Ahorros y Monte de Piedad de Madrid.** Caja Madrid Group is the fourth largest financial group in the Spanish market. The Caja Madrid Group offers a comprehensive range of products and services in retail, investment and private banking in all industry segments: families, small and medium-sized businesses, large corporations and public and private institutions. The group conducts its activity through parent entity Caja Madrid and a series of subsidiary companies, held directly or via Corporación Financiera Caja Madrid, engaging in different areas of the financial business. Its registered office is at Plaza de Celenque no. 2, 28013, Madrid, Spain. Authorised by the Spanish Central Bank (Banco de España), with finance company code 2038.

**Crédit Agricole Corporate and Investment Bank.** Crédit Agricole Corporate and Investment Bank is the Crédit Agricole group’s corporate and investment banking subsidiary. Crédit Agricole Corporate and Investment Bank is a company with limited liability whose registered office is 9 quai du Président Paul Doumer, 92920 Paris la Défense Cedex (France). Crédit Agricole Corporate and Investment Bank is a finance company authorised by the Comité des Etablissements de Crédit et des Entreprises d’Investissement and supervised by the Commission Bancaire in France.

**Citibank, N.A., London Branch.** Citibank, N.A. (“**Citibank**”) is a national banking association organised under the National Bank Act of 1864 of the United States. Citibank is an indirect wholly-owned subsidiary of Citigroup Inc. (“**Citigroup**”), a Delaware holding company. Citibank, N.A., London Branch was registered in the United Kingdom as a foreign company in July 1920. The principal offices of the London Branch are located at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England. The obligations of Citibank, N.A., London Branch under any Hedging Agreement will not be guaranteed by Citigroup or by any other affiliate.

**Deutsche Bank Aktiengesellschaft.** Deutsche Bank Aktiengesellschaft (“**Deutsche Bank**”) is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000 with its registered office at Theodor-Heuss-Allee 70, 60486 Frankfurt am Main, Germany. Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies.

**HSBC Bank plc.** HSBC Bank plc and its subsidiaries form a UK-based group providing a comprehensive range of banking and related financial services. HSBC Bank plc is a wholly owned subsidiary undertaking of HSBC Holdings plc, whose group head office is at 8 Canada Square, London E14 5HQ. HSBC Bank plc is regulated pursuant to the Financial Services and Markets Act 2000 and is authorised and regulated by the Financial Services Authority. HSBC Bank plc’s principal place of business in the United Kingdom is 8 Canada Square, London E14 5HQ.

**Merrill Lynch International Bank Limited.** Merrill Lynch International Bank Limited is a private limited company incorporated in Ireland with company registration number 229165 and is registered as a licensed bank pursuant to section 9 Central Bank Act 1971. The registered office of Merrill Lynch International Bank Limited is Central Park, Leopardstown, Dublin 18. Merrill Lynch International Bank Limited is regulated by the Central Bank of Ireland. The main activities of Merrill Lynch International Bank Limited are as principal for debt derivatives and foreign exchange transactions; advisory, lending, loan trading, institutional sales activity, collateralized lending, letters of credit, guarantees and accepts deposits from its clients.

**Morgan Stanley & Co. International plc.** Morgan Stanley & Co. International plc (“**Morgan Stanley International**”) is an indirect wholly-owned subsidiary of Morgan Stanley and a registered U.K. broker-dealer. Morgan Stanley International was incorporated in England in 1986 and its registered address is 25 Cabot Square, Canary Wharf,

London, E14 4QA. The principal activity of Morgan Stanley International is the provision of financial services to corporations, governments, financial institutions and individual investors. It is authorised and regulated by the U.K. Financial Services Authority.

***The Royal Bank of Scotland Group plc.*** The Royal Bank of Scotland Group plc (the “**RBS Group**”) is the holding company of a large global banking and financial services group. Headquartered in Edinburgh with its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB, the RBS Group operates in the United Kingdom, the United States and internationally through its two principal subsidiaries, The Royal Bank of Scotland plc and National Westminster Bank Plc. The RBS Group provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

## TAX CONSIDERATIONS

### UNITED KINGDOM TAXATION

The following is a summary of the UK withholding taxation treatment in relation to payments of principal and interest in respect of the Bonds as at the date of this Prospectus. The comments do not deal with other UK tax aspects of acquiring, holding or disposing of the Bonds. The comments relate only to the position of persons who are absolute beneficial owners of the Bonds. The summary set out below is a general guide and should be treated with appropriate caution. Prospective purchasers who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK should consult their professional advisors. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

#### *UK Withholding Tax on UK source interest*

The Bonds issued by the Issuer will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. HM Revenue & Customs’ website indicates that the London Stock Exchange has been designated as a recognised stock exchange for these purposes. The Bonds will be treated as listed on the London Stock Exchange if they are admitted to the Official List of the UK Listing Authority and are admitted to trading on the London Stock Exchange. HM Revenue & Customs have confirmed that securities that are admitted to trading on the Professional Securities Market satisfy the condition of being admitted to trading on the London Stock Exchange. While the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of UK income tax.

In all cases falling outside the exemption described above, interest on the Bonds will be paid under deduction of UK income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or, in certain circumstances, where an exemption for payments between certain UK companies and partnerships contained in section 930 of the Income Tax Act 2007 applies.

However, this withholding will not apply if the relevant interest is paid on Bonds with a maturity of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Bonds part of a borrowing with a total term of a year or more.

If UK withholding tax is imposed, then the Issuer will not pay additional amounts in respect of the Bonds.

#### *Provision of Information by UK Paying and Collecting Agents*

Persons in the UK (i) paying interest to or receiving interest on behalf of another person who is an individual (whether resident in the UK or elsewhere), or (ii) paying amounts due on redemption of any Bonds which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual (whether resident in the UK or elsewhere), may be required to provide certain information to HM Revenue & Customs regarding the payment and the identity of the payee or person entitled to the interest and, in certain circumstances such information may be exchanged with tax authorities in other countries. However, in practice no information will be required to be provided in respect of redemption amounts for the year 2010 – 2011.

For the above purposes, “interest” should be taken, for practical purposes, as including payments made by each Relevant Financial Guarantor in respect of interest on the Wrapped Bonds. The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Bonds which were not issued at a discount but where the amount payable on redemption is greater than the issue price of the Bonds.

#### *Payments by each Relevant Financial Guarantor under the Financial Guarantees*

If any Relevant Financial Guarantor makes any payments in respect of interest on the Wrapped Bonds (or other amounts due under the Wrapped Bonds other than the repayment of amounts subscribed for such Bonds) such payments may be subject to UK withholding tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty. Such payments by any Relevant Financial Guarantor may not be eligible for any of the other exemptions described in “– UK Withholding Tax on UK source interest” above. If UK withholding tax is imposed, then each Relevant Financial Guarantor will not pay any additional amounts under the Financial Guarantees.

### ***Other Rules relating to UK Withholding Tax***

Bonds may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Bonds will not be subject to any UK withholding tax pursuant to the provisions mentioned in “– *UK Withholding Tax on UK source interest*” above, but may be subject to reporting requirements as outlined in “– *Provision of Information by UK Paying and Collecting Agents*” above.

Where Bonds are issued with a redemption premium, as opposed to being issued at a discount, then any element of such premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax and reporting requirements as outlined above.

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

The references to “interest” above mean “interest” as understood in UK tax law. The statements above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation.

The above description of the UK withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 15(d) (*Modification, Waiver and Substitution*) of the Bonds and does not consider the tax consequences of any such substitution.

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to, or collected by such person for, an individual resident, or certain limited types of entity established, in that other Member State. Similar income for this purpose includes payments on redemption of Bonds representing any discount on the issue of Bonds or any premium payable on redemption. However, for a transitional period, Austria and Luxembourg may instead impose a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. Belgium previously operated a withholding system, but announced that it would instead operate information reporting from 1 January 2010. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of other countries and territories have adopted similar measures to the EC Directive.

On 13 November 2008 the European Commission published a proposal to amend the Directive. The proposal has been considered by the European Parliament and is under discussion by the European Council. If adopted, the proposal may amend or broaden the scope of the requirements described above.

## **JERSEY TAXATION**

The following summary of Jersey taxation law in relation to the holding, sale or other disposition of Bonds by holders of Bonds (other than Jersey residents) and the payment of interest in respect of the Bonds to holders of Bonds (other than residents of Jersey) is based on Jersey taxation law as it is understood to apply at the date of this Prospectus. It does not constitute legal or tax advice. Holders of Bonds should consult their professional advisers on the implications of acquiring, buying, holding, selling or otherwise disposing of Bonds under the laws of the jurisdictions in which they may be liable to taxation. Holders of Bonds should be aware that tax laws, rules and practice and their interpretation may change.

Under the Income Tax (Jersey) Law 1961 (the “**Jersey Income Tax Law**”), the Issuer will be regarded as not resident in Jersey under Article 123(1) of the Jersey Income Tax Law provided that (and for so long as) it satisfies the conditions set out in that provision in which case the Issuer will not (except as noted below) be liable to Jersey income tax.

If the Issuer derives any income from the ownership or disposal of land in Jersey, such income will be subject to tax at the rate of 20%. It is not expected that the Issuer will derive any such income.

The Issuer will be able to pay interest in respect of the Bonds without any withholding or deduction for or on account of Jersey tax. Holders of any Bonds issued by the Issuer (other than residents of Jersey) will not be subject to any Jersey tax in respect of the holding, sale or other disposition of such Bonds.

### ***Goods and Services Tax***

The Issuer is an “international services entity” for the purposes of the Goods and Services Tax (Jersey) Law 2007 (the “**GST Law**”). Consequently, the Issuer is not required to:

- (a) register as a taxable person pursuant to the GST Law;
- (b) charge goods and services tax in Jersey in respect of any supply made by it; or

- (c) (subject to limited exceptions that are not expected to apply to the Issuer) pay goods and services tax in Jersey in respect of any supply made to it.

***European Union Directive on the Taxation of Savings Income***

As part of an agreement reached in connection with the European Union directive on the taxation of savings income in the form of interest payments, and in line with steps taken by other countries, Jersey introduced with effect from 1 July 2005 a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey. The retention tax system applies for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The retention tax system in Jersey is implemented by means of bilateral agreements with each of the EU Member States, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Policy and Resources Committee of the States of Jersey. Based on these provisions and the Issuer's understanding of the current practice of the Jersey tax authorities (and subject to the transitional arrangements described above) the Issuer would not be obliged to levy retention tax in Jersey under these provisions in respect of interest payments made by it to a paying agent established outside Jersey.

***Stamp Duty***

Stamp duty of up to 0.75 per cent. is payable on the grant of probate or letters of administration in Jersey in respect of a deceased natural person (i) who died domiciled in Jersey, on the value of the entire estate (including any Bonds or interests therein) and (ii) otherwise, on the value of so much of the estate (including any Bonds or interests therein) if any, as is situate in Jersey.

## SUBSCRIPTION AND SALE

### Dealership Agreement

Bonds may be sold from time to time by the Issuer to any one or more of Citigroup Global Markets Limited, The Royal Bank of Scotland plc, Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., BNP Paribas, London Branch, Caja de Ahorros y Monte de Piedad de Madrid, Crédit Agricole Corporate and Investment Bank, HSBC Bank plc and Royal Bank of Canada Europe Limited and any other dealer appointed from time to time (the “**Dealers**”) in each case acting as principal or to subscribers from whom subscriptions have been procured by the Dealers, in each case pursuant to the dealership agreement dated 3 December 2009 made between, amongst others, the Issuer, the Obligors, the Co-Arrangers and the Dealers (the “**Dealership Agreement**”). The arrangements under which a particular Sub-Class of Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers or subscribers are set out in the Dealership Agreement and the Subscription Agreements relating to each Sub-Class of Bonds. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Bonds, the price at which such Bonds will be purchased by the Dealers or subscribers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series, Class or Sub-Class of Bonds.

In the Dealership Agreement, the Issuer, failing whom the Borrowers, have each agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and maintenance of the Programme and the issue of Bonds under the Dealership Agreement and each of the Obligors has agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### *United States of America*

The Bonds and any guarantees in respect thereof have not been and will not be registered under the Securities Act or the securities laws of any other jurisdiction 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, or not subject to, the registration requirements of the Securities Act and, in each case, in circumstances that will not require the Issuer to register under the Investment Company Act. Terms used in this paragraph have the meaning given to them in Regulation S.

Bearer Bonds 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 United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Unless otherwise provided in the relevant Final Terms, the Bonds will be offered, sold and delivered only outside the United States, to persons who are not U.S. persons, in offshore transactions in reliance on Regulation S.

Each Dealer has agreed that it has offered and sold, and it will offer and sell, Regulation S Bonds of any Series (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Regulation S Bonds are a part, as determined and certified to the Principal Paying Agent by the relevant Dealer (or in the case of a sale of an identifiable tranche of Regulation S Bonds to or through more than one relevant Dealer, by each of such relevant Dealers as to the Regulation S Bonds of such identifiable tranche purchased by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all such relevant Dealers have so certified), only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts in the United States with respect to Regulation S Bonds, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer and its affiliates will also agree that, at or prior to confirmation of sale of Regulation S Bonds to a distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Regulation S Bonds from it during the distribution compliance period it will send to such purchaser a confirmation or notice stating that such purchaser is subject to the foregoing restrictions on offers and sales. Terms used in this paragraph have the meanings given to them by Regulation S.

Due to the restrictions set forth above and in the relevant Final Terms, purchasers of the Bonds are advised to consult legal counsel prior to making an offer to purchase or to re-sell, pledge or otherwise transfer the Bonds.

Purchasers of Bonds shall be deemed to have made the representations set forth under “*Transfer Restrictions*”.

### *European Economic Area*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation**”

**Date**) it has not made and will not make an offer of Bonds to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### ***United Kingdom***

Each Dealer has represented, warranted and agreed that:

- (a) ***No deposit-taking***: in relation to any Bonds having a maturity of less than one year:
  - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
  - (ii) it has not offered or sold and will not offer or sell any Bonds other than to persons:
    - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
    - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Bonds would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

- (b) ***Financial Promotion***: 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 Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Bond Guarantor; and
- (c) ***General Compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

### ***Jersey***

Each Dealer has severally represented to, and agreed with, the Issuer that Bonds may not be offered to, sold to or purchased or held by or for the account of persons (other than financial institutions in the normal course of business) resident for income tax purposes in Jersey. A financial institution for these purposes includes, without limitation, a bank, finance house, insurance company, investment trust or fund, mutual fund or society, pension fund and other institution of a like nature.

### ***General***

Each Dealer acknowledges that other than having obtained the approval of the Prospectus by the UKLA in accordance with Part VI of the FSMA for the Bonds to be admitted to listing on the Official List of the UKLA and to trading on the Market or the Professional Securities Market of the London Stock Exchange and the obtaining of the consent of the Jersey registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, no action has been or will be taken in any jurisdiction by the Issuer or any of the other parties that would permit a public offering of Bonds, or possession or distribution of the Prospectus or any other offering material, in any jurisdiction



where action for that purpose is required. Each Dealer shall to the best of its knowledge comply with all applicable laws and regulations in each jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute the Prospectus or any other offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific country or jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in the official interpretation, after the date of the Dealership Agreement, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Sub-Class of Bonds) or (in any other case) in a supplement to this Prospectus.

## TRANSFER RESTRICTIONS

The Bonds and any guarantees in respect thereof have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction, and the Issuer has not registered and does not intend to register as an investment company under the United States Investment Company Act of 1940, as amended (the “**Investment Company Act**”). Accordingly, to ensure compliance with applicable laws, including the Securities Act and the Investment Company Act, transfers of the Bonds (or beneficial interests therein) will be subject to restrictions and to certification requirements as set forth below (as the same may be amended, supplemented or modified in respect of a particular Series pursuant to the relevant Final Terms).

Each purchaser or transferee of any Bonds (or beneficial interest therein) will be deemed to have represented, warranted, acknowledged and agreed for the benefit of the Issuer and the Bond Trustee as follows:

1. In connection with the purchase of the Bonds (a) none of the Issuer, the Co- Arrangers, the Dealers, the Bond Trustee, or any affiliate thereof or any person acting on behalf of the foregoing, is acting as a fiduciary or financial or investment advisor for the purchaser; (b) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuer, the Co-Arrangers or the Dealers or any affiliate thereof, the Bond Trustee, or any person acting on behalf of the foregoing, other than in the Final Terms and the Prospectus and any representations expressly set forth in a written agreement with such party; (c) none of the Issuer, the Co-Arrangers or the Dealers or any affiliate thereof, the Bond Trustee, or any person acting on behalf of the foregoing, has given to the purchaser (directly or indirectly through any other person) any assurance, guarantee or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Bonds; (d) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Bond Trust Deed) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the Issuer, the Co-Arrangers or the Dealers or any affiliate thereof, the Bond Trustee, or any person acting on behalf of the foregoing; (e) the purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Bonds with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks; (f) the purchaser is a sophisticated investor; and (g) the purchaser understands that these acknowledgements, representations, and agreements are required in connection with U.S. securities laws and it agrees to indemnify and hold harmless the Issuer, the Co-Arrangers, the Dealers, the Bond Trustee and any affiliates thereof from and against all losses, liabilities, claims, costs, charges and expenses which they may incur by reason of its failure to fulfil any of the terms, conditions or agreements set forth above or by reason of any breach of its representations and warranties herein.
2. It is, and the person, if any, for whose account it is acquiring the Bonds is, located outside the United States and is neither a U.S. person nor a U.S. resident and is purchasing for its own account or one or more accounts, each of which is neither a U.S. person nor a U.S. resident and as to each of which the purchaser exercises sole investment discretion, in an offshore transaction in accordance with Regulation S, and is aware that the sale of the Bonds to it is being made in reliance on the exemption from registration provided by Regulation S.
3. It understands that unless the Issuer determines otherwise in compliance with applicable law, such Bonds will bear a legend as follows:

THE BOND REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), AND THE ISSUER THEREOF HAS NOT AND DOES NOT INTEND TO REGISTER UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “**INVESTMENT COMPANY ACT**”). THIS BOND (AND ANY BENEFICIAL INTEREST THEREIN) MAY NOT BE REOFFERED, RESOLD, PLEDGED, EXCHANGED OR OTHERWISE TRANSFERRED EXCEPT IN A TRANSACTION EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT UNDER CIRCUMSTANCES THAT WOULD NOT REQUIRE THE ISSUER TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT AND IN COMPLIANCE WITH ANY OTHER APPLICABLE SECURITIES LAWS.

EACH PERSON WHO PURCHASES OR OTHERWISE ACQUIRES THIS BOND (OR A BENEFICIAL INTEREST THEREIN) BY ACCEPTING DELIVERY HEREOF (OR OF AN INTEREST HEREIN) IS DEEMED TO REPRESENT, WARRANT, ACKNOWLEDGE AND AGREE FOR THE BENEFIT OF THE ISSUER AND THE BOND TRUSTEE THAT IT, AND EACH PERSON FOR WHICH IT IS ACTING, WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS BOND OR ANY BENEFICIAL INTEREST HEREIN EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND EXCEPT: (1) TO THE ISSUER; (2) IN THE UNITED STATES, OR TO OR FOR

THE ACCOUNT OF A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”), OR A U.S. RESIDENT (AS DETERMINED FOR PURPOSES OF THE INVESTMENT COMPANY ACT), ONLY TO A PERSON WHO IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 2(a)(51) OF THE INVESTMENT COMPANY ACT (A “**QP**”) WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (A “**QIB**”) WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS ALSO A QP AS TO WHICH THE PURCHASER EXERCISES SOLE INVESTMENT DISCRETION IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; OR (3) OUTSIDE THE UNITED STATES, TO A PERSON WHO IS NEITHER A U.S. PERSON (AS DEFINED IN REGULATION S) NOR A U.S. RESIDENT (AS DETERMINED FOR PURPOSES OF THE INVESTMENT COMPANY ACT) IN AN OFFSHORE TRANSACTION (AS DEFINED IN REGULATION S) PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S; AND IN EACH CASE IN A PRINCIPAL AMOUNT (FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH SUCH PURCHASER IS ACTING) OF NOT LESS THAN THE MINIMUM DENOMINATION SPECIFIED FOR THIS BOND PURSUANT TO THE BOND TRUST DEED.

4. It understands that these acknowledgements, representations, and agreements are required in connection with U.S. securities laws and it agrees to indemnify and hold harmless the Issuer, the Co-Arrangers, the Dealers, the Bond Trustee and any affiliates thereof from and against all losses, liabilities, claims, costs, charges and expenses which they may incur by reason of its failure to fulfil any of the terms, conditions or agreements set forth above or by reason of any breach of its representations and warranties herein.
5. It understands that the Bonds have not been and will not be registered under the Securities Act and that the Issuer has not registered and will not register under the Investment Company Act. It agrees, for the benefit of the Issuer and the Bond Trustee that, if it decides to resell, pledge or otherwise transfer such Bonds (or any beneficial interest or participation therein) purchased by it, unless otherwise specified in the relevant Final Terms, any offer, sale or transfer of such Bonds (or any beneficial interest therein) will be made in compliance with the Securities Act and only (i) within the United States, or to or for the account of a U.S. person (as defined in Regulation S under the Securities Act) or a U.S. resident (as determined for purposes of the Investment Company Act), to a QP who the seller reasonably believes is a QIB purchasing for its own account or for the account of one of more QIBs each of which is also a QP as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A; or (ii) outside the United States, to a person who is neither a U.S. person nor a U.S. resident in an offshore transaction (and not to or for the account or benefit of a U.S. person or a U.S. resident) complying with Rule 903 or Rule 904 of Regulation S; and in the case of (i) and (ii) above, in accordance with all applicable securities laws including the securities laws of any state of the United States.
6. With respect to such Bond (or beneficial interest therein), either (a) such purchaser or transferee is not, and for so long as such Bond (or beneficial interest therein) is held will not be (i) an “employee benefit plan” as defined in section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”) that is subject to Title I of ERISA, (ii) a “plan” that is subject to section 4975 of the Code or (iii) any entity whose underlying assets include (or are deemed for the purposes of ERISA or Section 4975 to include) “plan assets” by reason of such plan investment in the entity (an “**ERISA plan**”), or (b) such purchaser’s or transferee’s purchase and holding of such Bond will not constitute or result in a prohibited transaction under section 406 of ERISA or section 4975 of the Code for which an exemption is not available. Any purported transfer of a Bond (or beneficial interest therein) to a purchaser that does not comply with the requirements of this paragraph (6) will be of no force and effect, will be void *ab initio* and the Issuer will have the right to direct the purchaser to transfer such Bond (or beneficial interest therein), as applicable, to a person who meets the foregoing criteria.
7. It understands that before any interest in a Global Bond Certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Bond Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Bond Trust Deed as to compliance with the transfer restrictions described herein.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Bonds thereunder have been duly authorised by resolutions of the Board of Directors of the Issuer passed at a meeting of the Board held on 9 July 2008. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.

### Listing of Bonds

It is expected that each Sub-Class of Bonds which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a Global Bond or Bonds initially representing the Bonds of such Sub-Class. The listing of the Programme in respect of Bonds is expected to be granted on or around 23 March 2011.

However, Bonds may also be issued pursuant to the Programme which will not be listed on the Market or any other Stock Exchange or which will be listed on such Stock Exchange as the Issuer and the relevant Dealer(s) may agree.

### Documents Available

For so long as the Programme remains in effect or any Bonds shall be outstanding, copies of the following documents may (when published) be inspected during normal business hours (in the case of Bearer Bonds) at the specified office of the Principal Paying Agent, (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Bond Trustee:

- (a) the Memorandum and Articles of Association of each of the Issuer and the Obligors;
- (b) the audited financial statements of the Issuer and the Obligors for the year ended 31 December 2009 and the year ended 31 December 2010;
- (c) a copy of this Prospectus, including all documents incorporated by reference herein;
- (d) each Final Terms relating to Bonds which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. (In the case of any Bonds which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by the relevant Bondholders.);
- (e) each Investor Report; and
- (f) the Bond Trust Deed.

### Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg as specified in the relevant Final Terms. The appropriate Common Code and ISIN for each Sub-Class of Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Bonds are to clear through an additional or alternative clearing system (including Sicovam) the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

### Significant or Material Change

There has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2010.

There has been no significant change in the financial or trading position of BAA (SP) Limited and/or any of its subsidiaries since 31 December 2010.

There has been no material adverse change in the prospects of BAA (SP) Limited and/or any of its subsidiaries since 31 December 2010.

### Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) within a period of 12 months preceding the

date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer.

Heathrow (including its subsidiaries) is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Heathrow is aware) within a period of 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of Heathrow or its subsidiaries.

Stansted is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Stansted is aware) within a period of 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of Stansted.

BAA (SP) Limited (including its subsidiaries) is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which BAA (SP) Limited is aware) within a period of 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of BAA (SP) Limited.

BAA (AH) Limited (including its subsidiaries) is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which BAA (AH) Limited is aware) within a period of 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of BAA (AH) Limited.

Heathrow Express is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Heathrow Express is aware) within a period of 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of Heathrow Express.

### **Availability of Financial Statements**

The audited annual financial statements of the Issuer and each Obligor will be prepared as of 31 December in each year. The Issuer has not published and does not intend to publish any interim financial information, but each Borrower and BAA (SP) Limited provide semi-annual unaudited financial information to various parties under the terms of the Common Terms Agreement. The unaudited interim financial information of each Borrower and BAA (SP) Limited will be prepared as of 30 June in each year. All future audited annual financial statements (and any published interim financial information) of the Issuer and each Borrower will be available free of charge in accordance with “–*Documents Available*” above.

### **Auditors**

The financial statements as at and for the year ended 31 December 2009 incorporated by reference in this Prospectus have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports. With effect from 1 April 2010, the Issuer appointed Deloitte LLP, chartered accountants of 2 New Street Square, London, EC4A 3BZ as their auditors, replacing PricewaterhouseCoopers LLP. The financial statements as at and for the year ended 31 December 2010 incorporated by reference in this Prospectus have been audited by Deloitte LLP.

### **Legend**

Bearer Bonds, Receipts, Talons and Coupons appertaining thereto will bear a legend substantially to the following effect: “**Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.**” The sections referred to in such legend provide that a United States person who holds a Bearer Bond, Coupon, Receipt or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Bond, Coupon, Receipt or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

### **Information in respect of the Bonds**

The issue price and the amount of the relevant Bonds will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Bonds, but BAA Airports as Security Group Agent (on behalf of the Borrower Group) is required to produce an Investor Report semi-annually.

### **Material Contracts**

None of Heathrow, Stansted or BAA (SP) Limited has entered into contracts outside the ordinary course of its business, which could result in Heathrow, Stansted or BAA (SP) Limited or any member of its group being under an obligation or

entitlement that is material to a Borrower's ability to meet its obligation to the Issuer under the Borrower Loan Agreement.

**Third party information**

Third party information referred to in the sections entitled "*Business*" has been accurately reproduced and as far as the Issuer and each Obligor are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with (i) the audited financial statements of each of the Issuer, Heathrow, Stansted and BAA (SP) Limited for the years ended 31 December 2009 and 31 December 2010 and (ii) the Common Terms Agreement, the STID, the Security Agreement, the Obligor Floating Charge Agreement, the Bond Trust Deed and the Master Definitions Agreement, which have been previously published and which have been filed with the National Storage Mechanism of the Financial Services Authority and which shall be deemed to be incorporated in, and to form part of, this Prospectus; provided, however, that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any further information or documents incorporated by reference in the documents incorporated by reference above does not form part of this Prospectus.

Each of the Issuer, Heathrow, Stansted and BAA (SP) Limited will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the registered offices of the Issuer, Heathrow, Stansted and BAA (SP) Limited, as the case may be, as set out in the section entitled “*Description of the Obligors and the Issuer*”.

Copies of the documents deemed to be incorporated by reference in this Prospectus may be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>. For convenience, copies of the documents deemed to be incorporated by reference in this Prospectus are also available at <http://www.baa.com/financialinformation> (the “**Special Purpose Website**”). The information contained on the Special Purpose Website must be considered together with all the information contained elsewhere in this Prospectus. The Special Purpose Website does not form part of BAA’s website, and BAA’s website does not form any part of this Prospectus. The Special Purpose Website is provided for convenience only, and its content does not form any part of this Prospectus for the purpose of the listing rules of the UK Listing Authority. The information incorporated by reference into this Prospectus is an important part of this Prospectus.

The list below sets out the details of each of the documents incorporated by reference in this Prospectus.

### Cross Reference List

- Audited annual non-consolidated financial statements of the Issuer for the financial year ended December 2009 (all pages).
- Audited annual non-consolidated financial statements of the Issuer for the financial year ended December 2010 (all pages).
- Audited annual non-consolidated financial statements of Heathrow for the financial year ended December 2009 (all pages).
- Audited annual non-consolidated financial statements of Heathrow for the financial year ended December 2010 (all pages).
- Audited annual non-consolidated financial statements of Stansted for the financial year ended December 2009 (all pages).
- Audited annual non-consolidated financial statements of Stansted for the financial year ended December 2010 (all pages).
- Audited annual consolidated financial statements of BAA (SP) Limited for the financial year ended December 2009 (all pages).
- Audited annual consolidated financial statements of BAA (SP) Limited for the financial year ended December 2010 (all pages).
- Common Terms Agreement dated 18 August 2008 between, among others, the Obligors, the Issuer and the Borrower Security Trustee (all pages).
- Security Trust and Intercreditor Deed dated 18 August 2008 between, among others, the Borrower Security Trustee, the Obligors and the Bond Trustee (all pages).
- Security Agreement dated 18 August 2008 between, among others, the Obligors and the Borrower Security Trustee (all pages).
- Obligor Floating Charge Agreement dated 18 August 2008 between the Issuer, the Borrower Security Trustee, the Bond Trustee and the Obligors (all pages).

- Bond Trust Deed dated 18 August 2008 between, among others, the Issuer and the Bond Trustee (all pages).
- Master Definitions Agreement dated 18 August 2008 between, among others, the Obligors, the Issuer, the Bond Trustee and the Borrower Security Trustee (all pages).



## INDUSTRY SOURCES AND TERMINOLOGY

This Prospectus contains certain statistical and other information regarding Heathrow Airport and Stansted Airport and the markets they serve.

Unless otherwise indicated, the information contained in this Prospectus relating to the Airports' market shares and the size of the relevant market sectors is based on the Airport Operators' own internal estimates based on regulatory and analyst reports, special surveys and information published or provided by airlines and other companies, as well as the Airport Operators' own knowledge of the market.

References in this Prospectus to an Airport's number of "**passengers**" refer to the sum of all arriving and departing passengers, other than in-transit passengers.

Information in this Prospectus relating to an Airport's percentage of "**international**" passengers is based on the number of that airport's passengers arriving from and departing to destinations that are not in the United Kingdom, Channel Islands or the Isle of Man, relative to the total number of passengers served by that airport. Information in this Prospectus relating to an Airport's percentage of "**domestic**" passengers is based on the number of that airport's passengers arriving from and departing to destinations that are in the United Kingdom, Channel Islands or the Isle of Man, relative to the total number of passengers served by that airport. Accordingly, the information reflects the place of origin or destination of passengers as opposed to their residence.

All information in this Prospectus relating to an Airport's percentage of "**business**" passengers is based on the number of that airport's passengers who are travelling for reasons related to such passengers' employment, based on surveyed information, relative to the total number of passengers served by that airport. All information relating to an Airport's percentage of "**leisure**" passengers is based on the number of that airport's passengers who are not business passengers, relative to the total number of passengers served by that airport.

"**European**" flights are flights arriving from or departing to other destinations in Europe (other than domestic flights but including North African charter flights). International "**long haul**" flights are all flights other than European flights and domestic flights.

"**Hub airport**" refers to an airport where a significant proportion of passengers transfer between flights in being transported to their final destination.

"**Transfer**" traffic relates to passengers who use an airport for the sole purpose of connecting from one aircraft to another. They are counted as both arriving and departing passengers. "**Transit**" or "**In-transit**" traffic refers to passengers who arrive and depart on the same aircraft within 24 hours. "**Point-to-point**" or "**origin and destination**" traffic refers to any traffic that is not transfer or transit traffic and originates from or terminates at a particular airport.

"**Pier**" refers to an airport passenger building which is connected to a terminal and which houses gate rooms where passengers wait to board and disembark from their aircraft. "**Satellite**" refers to an airport passenger building which is connected to a terminal and which houses not only gate rooms but also other passenger handling facilities (for example, retail facilities) and serves as an extension to the departure lounge.

"**Gate room**" refers to the area where passengers board and disembark from their aircraft.

"**Apron**" means an area of airfield infrastructure which is typically adjacent to an airport terminal and is used for aircraft manoeuvring and parking but is separate from the runway and taxiway system.

"**Stand**" means an aircraft parking stand; these can be "**pier-served**", which means they are adjacent to the terminal, enabling passengers to walk directly on and off aircraft parked on the stand, or they can be "**remote**," which requires passengers to be transported by coach between the stand and the terminal.

"**Air transport movement**" means a flight carried out for commercial purposes and includes scheduled flights operating according to a published timetable, charter flights and all-cargo flights. Air transport movement does not include empty positioning flights and private non-commercial flights.

"**Maximum allowable yield**" refers to the maximum amount of aeronautical income per passenger that an Airport Operator may charge in each regulatory year from services subject to price regulation by the CAA.

References to the "**Heathrow Express rail service**" refer to both the express (non-stop) service and the stopping service, Heathrow Connect, unless specifically stated otherwise.

Where reference is made to CAA publications or data, efforts have been made to ensure data is reproduced and presented in a similar style to aid comparison and cross-reference but may not be identical as a result of modifications made for presentational purposes.

**REGISTERED OFFICE  
OF THE ISSUER**

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**REGISTERED OFFICE OF THE OBLIGORS**

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**BOND TRUSTEE AND BORROWER SECURITY TRUSTEE**

**Deutsche Trustee Company Limited**

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1 Great Winchester Street  
London EC2N 2DB

**PRINCIPAL PAYING AGENT  
AND AGENT BANK**

**Deutsche Bank AG, London Branch**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**REGISTRAR, TRANSFER AGENT,  
PAYING AGENT AND EXCHANGE AGENT**

**Deutsche Bank Trust Company Americas**

c/o Deutsche Bank National Trust Company

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*To the Issuer as to Jersey law*

**Mourant Ozannes**

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*To the Co-Arrangers, the Dealers  
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as to English law*

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*To the Issuer and the Obligors*

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**CO-ARRANGERS**

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Canary Wharf  
London E14 5LB

**The Royal Bank of Scotland plc**

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London EC2M 3UR

## DEALERS

<b>Banco Bilbao Vizcaya Argentaria, S.A.</b> Via de los Poblados sn 28033 Madrid Spain	<b>Banco Santander S.A.</b> Ciudad Grupo Santander Edificio Encinar Avenida de Cantabria s/n 28660, Boadilla del Monte Madrid, Spain	<b>BNP Paribas, London Branch</b> 10 Harewood Avenue London NW1 6AA United Kingdom
<b>Caja de Ahorros y Monte de Piedad de Madrid</b> Paseo de la Castellana 189 Madrid Spain	<b>Crédit Agricole Corporate and Investment Bank</b> Broadwalk House 5 Appold Street London EC2A 2DA United Kingdom	<b>Citigroup Global Markets Limited</b> Citigroup Centre Canada Square Canary Wharf London E14 5LB United Kingdom
<b>HSBC Bank plc</b> 8 Canada Square London E14 5HQ United Kingdom	<b>Royal Bank of Canada Europe Limited</b> 71 Queen Victoria Street London EC4V 4DE United Kingdom	<b>The Royal Bank of Scotland plc</b> 135 Bishopsgate London EC2M 3UR United Kingdom