

## **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 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. THE ISSUER HAS NOT REGISTERED AND DOES NOT INTEND TO REGISTER AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”). IN ORDER TO BE ELIGIBLE TO READ THE PROSPECTUS OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES DESCRIBED THEREIN, YOU MUST EITHER (1) BE NEITHER A “U.S. PERSON” AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (A “U.S. PERSON”) NOR A “U.S. RESIDENT” AS DETERMINED FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT (A “U.S. RESIDENT”) OR (2) BE BOTH A “QUALIFIED INSTITUTIONAL BUYER” WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A “QIB”) AND A “QUALIFIED PURCHASER” WITHIN THE MEANING OF SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT AND THE RULES AND REGULATIONS THEREUNDER (A “QP”) ACTING FOR YOUR OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB THAT IS A QP.**

**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 either (1) neither a U.S. Person nor a U.S. Resident or (2) both a QIB and a QP acting for your own account or for the account of another QIB that is a QP; 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 the lead manager or any affiliate of the lead manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the lead manager 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 Citigroup Global Markets Limited, The Royal Bank of Scotland plc, nor any person who controls the joint lead arrangers 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**”) will establish a multicurrency programme for the issuance of Bonds (the “**Programme**”). Certain Tranches or Sub-Classes of the Bonds may be guaranteed by the Bond Guarantor as specified in the relevant Final Terms.

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 “*Overview of the Programme – The Parties*” 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.

Neither the United States Securities and Exchange Commission (the “**SEC**”) nor any state securities commission in the United States nor any other United States regulatory authority has approved or disapproved the Bonds or determined that this Prospectus is truthful or complete. Any representation to the contrary is a criminal offence in the United States.

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 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**”), in reliance on the exemption provided in section 3(c)(7) thereof. The Bonds may be offered, sold or delivered (i) outside the United States to persons who are neither “U.S. persons” as defined in Regulation S under the Securities Act (“**Regulation S**”) (each, a “U.S. person”) nor “U.S. residents” as determined for the purposes of the Investment Company Act (each, a “U.S. resident”) in offshore transactions in reliance on Regulation S (the “**Regulation S Bonds**”) and/or (ii) within the United States in reliance on Rule 144A under the Securities Act (“**Rule 144A**”) only to persons that are both “qualified institutional buyers” (each a “**QIB**”) within the meaning of Rule 144A and “qualified purchasers” within the meaning of section 2(a)(51) of the Investment Company Act and the rules and regulations thereunder (each a “**QP**”) acting for their own account or for the account of another QIB that is a QP (the “**Rule 144A Bonds**”). 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. The Bonds are subject to other restrictions on transferability and resale as set forth in “*Transfer Restrictions*” in this Prospectus.

Notwithstanding any provision in this Prospectus to the contrary, each prospective investor (and each employee, representative or other agent of each such prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and U.S. federal income tax structure of any transaction contemplated in this Prospectus and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such U.S. federal income tax treatment and U.S. federal income tax structure.

Please see “*Risk Factors*” to read about certain factors you should consider before buying any Bonds.

### Co-Arrangers

Citi		The Royal Bank of Scotland
<b>Dealers</b>		
Banco Bilbao Vizcaya Argentaria, S.A.	BNP PARIBAS	Caja Madrid
CALYON	Citi	HSBC
RBC Capital Markets	Santander Global Banking & Markets	The Royal Bank of Scotland

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, (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 Prospectus*” 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 or the PSM (as defined below) 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.

Bonds issued under the Programme will be issued in series on each Issue Date (each a “**Series**”) and initially each Series may comprise one or more of four classes (each a “**Class**”). The wrapped Bonds will be designated as either “**Class A Wrapped Bonds**” or “**Class B Wrapped Bonds**”. The unwrapped Bonds will be designated as either “**Class A Unwrapped Bonds**” or “**Class B Unwrapped 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).

The Class A Bonds and the Class B Bonds are expected on issue to have the following credit ratings:

	Standard & Poor's	Fitch
Class A Wrapped Bonds.....	AAA	AAA
Class B Wrapped Bonds.....	AAA	AAA
Class A Unwrapped Bonds.....	A-	A-
Class B Unwrapped Bonds.....	BBB	BBB

Class A Wrapped Bonds and Class B Wrapped Bonds will be unconditionally and irrevocably guaranteed as to scheduled or ultimate payments of principal and scheduled interest (as adjusted for indexation, as applicable, but excluding any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and Subordinated Step-up Fee Amounts, as defined below (the “**FG Exceeded Amounts**”)) pursuant to Financial Guarantees (and the endorsements thereto) to be issued by a financial institution with the Requisite Financial Guarantor Rating (each such financial institution, a “**Financial Guarantor**”). The Financial Guarantor issuing a Financial Guarantee in respect of any Class, Sub-Class or Tranche of Class A Wrapped Bonds or Class B Wrapped Bonds is referred to as the “**Relevant Financial Guarantor**” in respect of such Class, Sub-Class or Tranche. The credit rating of such Class A Wrapped Bonds and such Class B Wrapped Bonds will be based upon the financial strength of the Relevant Financial Guarantor. None of the Class A Unwrapped Bonds or Class B Unwrapped Bonds will benefit from a Financial Guarantee or the guarantee of any other financial institution.

One or more Classes or Sub-Classes of the Class A Bonds to be issued by the Issuer and exchanged for existing bonds issued by BAA will be guaranteed by BAA Limited as the “**Bond Guarantor**”), pursuant to the BAA Bond Guarantee. No other Bonds will be guaranteed by the Bond Guarantor.

See “*Overview of Financing Structure – Figure 2 – Overview of the Programme*” and “*Use of Proceeds*” for further details of the exchange of existing bonds issued by BAA for new Bonds.

For any Sub-Class of Wrapped Bonds issued under the Programme, a new Financial Guarantee dated as of the Issue Date of such Sub-Class of Wrapped Bonds will be entered into by the Relevant Financial Guarantor in respect of such Bonds as set out in full in a supplementary prospectus published on or before the date of publication of the Final Terms or Drawdown Prospectus, as the case may be in respect of such Bonds. The identity of any Financial Guarantors for any Series of Bonds will be set out in the applicable Final Terms.

In the case of each Sub-Class of Wrapped Bonds, admission to the Official List and trading on the Market is subject to the issue by each Relevant Financial Guarantor of a Financial Guarantee in respect of such Sub-Class.

Ratings ascribed to all of the Bonds reflect only the views of Standard & Poor’s, 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 Senior Creditors).

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.

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, €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.

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.

If issued under the relevant Final Terms, Regulation S 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 depository 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 or to the effect that the holder is a U.S. person who purchased in a transaction that did not require registration under the Securities Act 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.

If issued under the relevant Final Terms, Regulation S Bonds that are Registered Bonds will be represented on issue by beneficial interests in one or more global certificates (each a “**Regulation S 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. If issued under the relevant Final Terms in addition, or as an alternative, to Regulation S Bonds that are Registered Bonds, as specified in the relevant Final Terms, Rule 144A Bonds will be represented on issue by either (1) beneficial interests in one or more global certificates (each a “**Rule 144A EC 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 or (2) beneficial interests in one or more global certificates (each a “**Rule 144A DTC Global Bond Certificate**”), in fully registered form, without interest coupons attached, which will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company (“**DTC**”). Ownership interests in the Regulation S Global Bond Certificates, the Rule 144A EC Global Certificates and the Rule 144A DTC Global Bond Certificates (the Rule 144A EC Global Bond Certificates and the Rule 144A DTC Global Bond Certificates, collectively the “**Rule 144A Global Bond Certificates**” and, together with the Regulation S Global Bond Certificates, the “**Global Bond Certificates**”) will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear, Clearstream, Luxembourg and DTC (as applicable), 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.

If issued under the relevant Final Terms the Rule 144A Global Bond Certificates will bear a legend to the effect that such Rule 144A Global Bond Certificates, or any interest therein, may only be transferred in compliance with the transfer restrictions set out in such legend. No beneficial interest in a Rule 144A Global Bond Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Regulation S Global Bond Certificate unless a corresponding Regulation S Global Bond Certificate is also issued in respect of such Sub-Class of Bonds (as stated in the relevant Final Terms) and, in such case, only if the transfer is to a person who is neither a U.S. person nor a U.S. resident in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with written certification thereof. No beneficial interest in a Regulation S Global Bond Certificate may be transferred to a person that takes delivery in the form of a beneficial interest in a Rule 144A Global Bond Certificate unless a corresponding Rule 144A Global Bond Certificate is also issued in respect of such Sub-Class of Bonds (as stated in the relevant Final Terms) and, in such case, only if the transfer is to a person that is a QIB that is also a QP in a transaction in reliance on Rule 144A and the transferor provides the Registrar with written certification thereof. See “*Transfer Restrictions*” and the applicable Final Terms.

If any Rule 144A Bonds are issued, purchasers of such Rule 144A Bonds are hereby notified that the Issuer may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act. Until 40 days after the commencement of the offering, an offer or sale of the Bonds in the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in compliance with Rule 144A or pursuant to another exemption from the registration requirements of the Securities Act.

## 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*”).

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 Financial Guarantors, 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 Financial Guarantor, any member of the Security 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, the Obligors and each Relevant Financial Guarantor 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, each Relevant Financial Guarantor and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and on distribution of this Prospectus, see “*Subscription and Sale*” below. 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.

#### **NOTICE TO U.S. INVESTORS**

Each prospective purchaser of Rule 144A Bonds or beneficial interests therein, by accepting delivery of this Prospectus and the relevant Final Terms shall be deemed to have acknowledged and agreed that such Prospectus and Final Terms are personal to it and do not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire such Bonds other than pursuant to Rule 144A. Distribution of this Prospectus and the Final Terms, or disclosure of any of their contents to any person other than such offeree and those persons, if any, retained to advise it with respect thereto is unauthorised and any disclosure of any of their contents, without the prior written consent of the Issuer, is prohibited. Notwithstanding anything herein to the contrary, except as reasonably necessary to comply with applicable securities laws, investors (and each employee, representative or other agent of the investors) may disclose to any and all persons, without limitation of any kind, the U.S. federal tax treatment and U.S. federal tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to the investors relating to such U.S. federal tax treatment and U.S. federal tax structure (as such terms are defined for purposes of sections 6011, 6111 and 6112 of the U.S. Internal Revenue Code and the Treasury Regulations promulgated thereunder).

Additionally, each purchaser of any of the Bonds will be deemed to have made the representations, warranties and acknowledgements that are described in “*Transfer Restrictions*” and those, if any, included in the relevant Final Terms. For a description of certain further restrictions on resale or transfer of the Bonds, see the applicable Final Terms.

Offers and sales of the Bonds in the United States will be made by the Dealers through their affiliates which are registered broker-dealers under the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), or in accordance with Rule 15a-6 thereunder.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

#### **NOTICE TO INVESTORS IN SWITZERLAND**

As a matter of Swiss law requirements regarding a public offering of the Bonds in Switzerland, this Prospectus is not complete unless copies of all the information about the Issuer specified under “*Documents Incorporated by Reference*” below, are considered with it.



## AVAILABLE INFORMATION

If any Rule 144A Bonds are issued, the Issuer will agree that, for so long as any of the Bonds are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to and in compliance with the reporting requirements of section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act to any holder or beneficial owner of such restricted securities or to any prospective purchaser designated by such holder or beneficial owner of such restricted securities in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of such restricted securities or any interest therein, in each case at the request of such holder or beneficial owner.

By requesting copies of the documents referred to herein or by making any other requests for additional information relating to the issue of the Bonds or to the Issuer, each potential investor agrees to keep confidential the various documents and all written information which from time to time has been or will be disclosed to it, to the extent that such documents or information are not otherwise publicly available, and agrees not to disclose any portion of such information to any person except in connection with the proposed resale of the Bonds or as required by law.

## FORWARD-LOOKING STATEMENTS

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.

## ENFORCEABILITY OF JUDGMENTS

A judgment of a court of the United States is not directly enforceable in Jersey. Whilst there is no recent conclusive authority in Jersey law, the Jersey courts are likely to recognise as valid a final judgment for a liquidated sum of money, which is not in respect of taxes, fines, penalties or other similar fiscal or revenue liabilities, rendered against the Issuer by any competent superior court in the United States, provided that such judgment is obtained without fraud, in accordance with the principles of natural justice, is not contrary to public policy, and that the proceedings in the court of the United States were duly served.

Where a foreign court (being a court of any country or territory outside the United Kingdom other than one for whose international relations the United Kingdom is responsible) has given a judgment for multiple damages against a qualifying defendant the amount which may be payable by such defendant may be limited by virtue of the Protection of Trading Interests Act 1980 (as extended to Jersey by the Protection of Trading Interests Act 1980 (Jersey) Order, 1983) which provides that such qualifying defendant may be able to recover such amount paid by it as represents the excess in such multiple damages over the sum assessed as compensation by the court that gave the judgment.

The Issuer is a public company incorporated with limited liability in Jersey. Most of its assets are located outside the United States. In addition, all of its officers and directors reside outside the United States and most of the assets of these persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons not residing in the United States with respect to matters arising under the federal or state securities laws of the United States, or to enforce against any of them judgments of the courts of the United States predicated upon the civil liability provisions of such securities laws. There is a doubt as to the enforceability in Jersey, in original actions or in actions for the enforcement of judgements of U.S. courts, of civil liabilities predicated solely upon such securities laws.

## 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, profit and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (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.

Each Obligor (as defined below) accepts responsibility for the information concerning itself in the sections contained in “*Documents Incorporated by Reference*”, “*Industry Sources and Terminology*”, “*Overview of the Programme – The Parties*”, “*Overview of Financing Structure*”, “*Risk Factors*”, “*Use of Proceeds*”, “*Selected Financial Data*”, “*Business*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, “*Unaudited Combined Financial Information of the Operating Companies for the Year Ended 31 March 2008*”, “*Unaudited Forecast Financial Data and Pro Forma Financial Ratios for the Year Ended 31 March 2009*”, “*Airport Regulation*”, “*Description of the Operating Companies, the Shared Services Provider and the Issuer*”, “*Summary of the Financing Agreements*”, and in the paragraphs relating to each such Obligor under the headings “*Significant or Material Change*”, “*Litigation*”, “*Auditors*”, “*Availability of Financial Statements*” and “*Material Contracts*” in “*General Information*” (the “**Obligor Information**”). To the best of the knowledge and belief of each Obligor (each of which has taken all reasonable care to ensure that such is the case), the Obligor Information is in accordance with the facts and does not omit anything likely to affect the import of such information. No Obligor accepts responsibility for any other information contained in this Prospectus. Save for the Obligor Information, no Obligor has separately verified the information contained herein. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Obligor as to the accuracy or completeness of any information contained in this Prospectus (other than the Obligor Information) or any other information supplied in connection with the Programme or distribution of any Bonds issued under the Programme.

BAA accepts responsibility for the information which it has identified as having provided in this Prospectus as well as the information concerning itself and the guarantee it provides in the sections contained in “*Documents Incorporated by Reference*”, “*Industry Sources and Terminology*”, “*Overview of the Programme – The Parties*”, “*Overview of Financing Structure*”, “*Risk Factors*”, “*Selected Financial Data*”, “*Business*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, “*Unaudited Combined Financial Information of the Operating Companies for the Year Ended 31 March 2008*”, “*Unaudited Forecast Financial Data and Pro Forma Financial Ratios for the Year Ended 31 March 2009*”, “*Airport Regulation*”, “*Description of the Operating Companies, the Shared Services Provider and the Issuer*”, “*Summary of the Financing Agreements*”, and in the paragraphs relating to BAA under the headings “*Significant or Material Change*”, “*Litigation*”, “*Auditors*”, “*Availability of Financial Statements*” and “*Material Contracts*” in “*General Information*” (the “**BAA Information**”). To the best of the knowledge and belief of BAA (which has taken all reasonable care to ensure that such is the case), the BAA Information is in accordance with the facts and does not omit anything likely to affect the import of such information. BAA does not accept responsibility for any other information contained in this Prospectus. Save for the BAA Information, BAA has not separately verified the information contained herein. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by BAA as to the accuracy or completeness of any information contained in this Prospectus (other than the BAA Information) or any other information supplied in connection with the Programme or distribution of any Bonds issued under the Programme.

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 Security Group (as defined below) or of the Group (as defined below), any Financial Guarantor, the Bond Guarantor, 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 Security Group or of the Group, any Financial Guarantor, the Bond Guarantor, 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 Security Group or the Group or any Financial Guarantor 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, Financial Guarantor, 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 BAA, the Issuer and the Obligors) (each as defined below and, together, the “**Other Parties**”) as to the accuracy or completeness of the information contained 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, the Obligors and each Relevant Financial Guarantor. Each person receiving this Prospectus acknowledges that such person has not relied on any Co-Arranger, Dealer, Financial Guarantor, 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.

## 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 relevant 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 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 any Issuer shall be required to prepare a supplemental prospectus pursuant to section 87G of the Financial Services and Markets Act 2000 (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 supplemental prospectus as required by the UK Listing Authority 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 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 terms and conditions applicable to any particular Tranche of Bonds which is the subject of Final Terms are the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Final Terms.

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

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with:

- the audited financial statements of each of BAA, Heathrow Airport Limited (“HAL”), Gatwick Airport Limited (“GAL”) and Stansted Airport Limited (“STAL”) for the financial periods ended 31 March 2006, 30 June 2006 (with respect to HAL only), 31 December 2006 and 31 December 2007; and
- the unaudited interim financial statements for HAL, GAL and STAL for the three months ended 31 March 2008;

which have been previously published or are published simultaneously with this Prospectus and which have been filed with the Document Viewing Facility 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 BAA, HAL, GAL and STAL 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 BAA, HAL, GAL and STAL, as the case may be, as set out in the section entitled “*Description of the Operating Companies, the Shared Services Provider 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/en-gb/pricesnews/marketnews>. 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**”) and also on the CD-ROM included along with this Prospectus (the “**Financials CD-ROM**”). The information contained in the Financials CD-ROM and on the Special Purpose Website must be considered together with all the information contained elsewhere in this Prospectus. If the CD-ROM was not received in a sealed package, there can be no assurance that it remains in its original format and should not be relied upon for any purpose. Each of the Special Purpose Website and the Financials CD-ROM contains only the documents deemed to be incorporated by reference in this Prospectus, and, in the case of 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 and the Financials CD-ROM are provided for convenience only, and their 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.

For more details, see “*Presentation of Financial and Other Information*”.

The list below sets out the details of each of the documents incorporated by reference in this Prospectus.

### **Cross Reference List**

Audited annual financial statements of BAA for the financial year ended March 2006 (all pages).

Audited financial statements of BAA for the financial period ended December 2006 (all pages).

Audited annual financial statements of BAA for the financial year ended December 2007 (all pages).

Audited annual financial statements of HAL for the financial year ended March 2006 (all pages).

Audited financial statements of HAL for the financial period ended June 2006 (all pages).

Audited financial statements of HAL for the financial period ended December 2006 (all pages).

Audited annual financial statements of HAL for the financial year ended December 2007 (all pages).

Unaudited financial statements of HAL for the financial period ended March 2008 (all pages).

Audited annual financial statements of GAL for the financial year ended March 2006 (all pages).  
Audited financial statements of GAL for the financial period ended December 2006 (all pages).  
Audited annual financial statements of GAL for the financial year ended December 2007 (all pages).  
Unaudited financial statements of GAL for the financial period ended March 2008 (all pages).  
Audited annual financial statements of STAL for the financial year ended March 2006 (all pages).  
Audited financial statements of STAL for the financial period ended December 2006 (all pages).  
Audited annual financial statements of STAL for the financial year ended December 2007 (all pages).  
Unaudited financial statements of STAL for the financial period ended March 2008 (all pages).

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

With effect from 1 April 2006, BAA and each of the Operating Companies changed its financial year-end closing from 31 March to 31 December for all subsequent financial years in order to align BAA and the Operating Companies' financial year-end to that of their holding company, Airport Development & Investment Limited's ("ADIL"), financial-year end. Accordingly, the audited financial statements and unaudited interim financial statements for BAA and each of the Operating Companies relate to the following periods:

- as at and for the 12 months ended 31 March 2006<sup>1</sup>;
- in relation to HAL only, as at and for the three months ended 30 June 2006 and as at and for the six months ended 31 December 2006 (with the presentation of these periods combined in this Prospectus for discussion purposes as the nine months ended 31 December 2006);
- in relation to BAA, GAL and STAL only, as at and for the nine months ended 31 December 2006;
- as at and for the 12 months ended 31 December 2007; and
- in relation to HAL, GAL, STAL only, the interim period consisting of the three months ended 31 March 2008, with comparatives for the three months ended 31 March 2007.

(collectively, the "**Operating Companies' Financial Statements**"). See "*Documents Incorporated by Reference*".

The following additional information is included in this Prospectus:

- the unaudited combined financial information of the Operating Companies as of and for the 12 months ended 31 March 2008; and
- the unaudited forecast financial data of both the Operating Companies and the combined Group as of and for the 12 months to 31 March 2009 and the *pro forma* financial ratios of the combined Group as of and for the 12 months to 31 March 2009.

For a discussion of the basis of presentation for the unaudited combined financial information and unaudited financial data and *pro forma* financial ratios, see "*Unaudited Combined Financial Information of the Operating Companies for the Year Ended 31 March 2008*" and "*Unaudited Forecast Financial Data and Pro Forma Financial Ratios for the Year Ended 31 March 2009*", respectively.

The Operating Companies' Financial Statements and the combined financial information have been prepared in accordance with generally accepted accounting principles in the United Kingdom ("**UK GAAP**"), as applied in the accounting policies set forth in the individual financial statements of BAA and the Operating Companies. UK GAAP differs in certain significant respects from accounting principles generally accepted in the United States or other jurisdictions, and thus the Operating Companies' Financial Statements may not be comparable to the financial statements of companies in the United States or in such other jurisdictions. The Operating Companies' Financial Statements, with the exception of the interim financial statements for the three month periods ended 31 March 2007 and 2008, constitute the statutory accounts within the meaning of the Companies Act for BAA or the relevant Operating Company.

HAL, GAL and STAL (collectively, the "**Airport Operators**" and each, an "**Airport Operator**") are subject to price regulation by the CAA and are required to regularly provide the CAA with certain historical and projected operating and financial data. The Airport Operators are required to prepare this data on the basis of a 31 March year-end, whereas they currently prepare their financial statements for accounting purposes on a calendar year-end basis. In this Prospectus, references to annual regulatory periods are indicated with the four digits of the first year in which the regulatory period begins, followed by a forward slash and then the last two digits of the year in which the relevant annual regulatory period ends. For example, "2007/08" refers to the annual regulatory period from 1 April 2007 to 31 March 2008.

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<sup>1</sup> In the case of HAL, the financial statements for the 12 months ended 31 March 2006 incorporate a re-statement due to the adoption of the presentation provisions of FRS 25 "Financial Instruments disclosure and presentation". For further information, see HAL's statutory accounts for the three months ended 30 June 2006 incorporated by reference herein.

Some financial information in this Prospectus has been rounded and, as a result, the numerical figures shown as totals in this Prospectus may vary slightly from the exact arithmetic aggregation of the figures that precede them.

In this Prospectus, the Operating Companies present certain financial measures, including EBITDA and adjusted EBITDA, EBITDA margin and adjusted EBITDA margin, in each case that are not recognised under UK GAAP, and they should not be considered as substitutes for the information contained in the historical financial statements of the Operating Companies, incorporated by reference in this Prospectus. Management believes that EBITDA is a measure commonly reported and widely used by investors in comparing performance without regard to depreciation, which can vary significantly depending upon accounting principles, interest expense or taxation, or non operating factors. EBITDA has been disclosed in this Prospectus to permit a more complete and comprehensive analysis of the Operating Companies' operating performance. Because companies do not calculate adjusted EBITDA identically, the Operating Companies' presentation of adjusted EBITDA may not be comparable to similarly titled measures used by other companies.

Adjusted EBITDA is calculated by adding back to EBITDA exceptional operating costs other than accelerated depreciation charges, which have been added back in the calculation of non-adjusted EBITDA. Management believes that adjusted EBITDA allows for a comparison of the Operating Companies' performance on a consistent basis without regard to a non-recurring expense that management believes does not reflect the regular operating performance of the Operating Companies' businesses.

## INDUSTRY SOURCES AND TERMINOLOGY

This Prospectus contains certain statistical and other information regarding Heathrow, Gatwick and Stansted airports and the markets they serve (collectively, the “**Designated Airports**” and each, a “**Designated Airport**”).

Unless otherwise indicated, the information contained in this Prospectus relating to the Designated Airports’ market shares and the size of the relevant market sectors is based on the Airport Operators’ own internal estimates using information published by the CAA, airlines and industry analysts. Internal analyses conducted by the Airport Operators are 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. While these sources of information are believed to be reliable, they have not been independently verified, and the Airport Operators do not make any representation as to the accuracy of such information.

References in this Prospectus to a Designated 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 a Designated 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 a Designated 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 a Designated 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 a Designated 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.

International “**short haul**” flights are flights arriving from or departing to other destinations in Europe (other than domestic flights). International “**long haul**” flights are all flights other than international short-haul flights and domestic flights.

“**Hub**” refers to an airport that an airline uses as a transfer point between two flights in transporting passengers to their final destination. A hub airport is part of a “**hub-and-spoke**” model, where travellers moving between airports not served by direct flights change aircraft en route to reach their destinations.

“**Connecting**” traffic refers to passengers who arrive on a flight commencing at another airport and depart on a different aircraft whose service originates at one of the Designated Airports. “**Transit**” or “**In-transit**” traffic refers to passengers who arrive and depart on the same aircraft within 24 hours. “**Point-to-point**” traffic refers to any traffic that is not connecting or transit traffic and originates from the Designated Airports.

“**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 departures lounge.

“**Apron**” means an area of airfield infrastructure which is 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. In counting the number of stands, it should be noted that stands can be configured for different aircraft sizes (for example, a stand could be capable of accommodating one large aircraft or

two smaller ones). Where stands can be configured to accommodate either one large aircraft or two smaller aircraft, they are counted as a single stand and not as two stands.

“**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 “**Heathrow Express**” and/or “**HEX**” 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.

BAA has generated its current business plan for Heathrow and Gatwick based upon the CAA’s March 2008 Price Determination (the “**Price Determination**”). The aeronautical charges (aeronautical income per passenger) were set by the CAA for the 2008/09 to 2012/13 regulatory period, subject to indexation based on the UK Retail Price Index. The capital expenditure programme proposed by BAA was agreed with the airlines and included by the CAA in the Price Determination.

The price determination for Stansted has been deferred by one year. For business planning purposes, the final year of the current regulatory period (2008/09) has been forecast using an aeronautical charges assumption of RPI +/- 0per cent. and reflecting the previously determined return on RAB. See “*Airport Regulation – Stansted Price Regulation – Current Regulation at Stansted*”.

## OVERVIEW OF THE PROGRAMME

The following does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the Conditions of any particular Tranche of Bonds, the applicable Final Terms. Words and expressions not defined in this section shall have the same meanings as defined in “*The Bonds*”.

### THE PARTIES

<b>The Issuer</b>	BAA Funding Limited, a public company incorporated in Jersey with limited liability with registered number 99529, is the funding vehicle for raising funds to support the long term debt financing requirements of the Borrowers (the “ <b>Issuer</b> ”). The Issuer is a 100 per cent. subsidiary of the Security Parent.
<b>HAL</b>	Heathrow Airport Limited, a company incorporated in England and Wales with limited liability (registered number 01991017) (“ <b>HAL</b> ”). HAL is a 100 per cent. subsidiary of Asset Holdco.
<b>GAL</b>	Gatwick Airport Limited, a company incorporated in England and Wales with limited liability (registered number 01991018) (“ <b>GAL</b> ”). GAL is a 100 per cent. subsidiary of Asset Holdco.
<b>STAL</b>	Stansted Airport Limited, a company incorporated in England and Wales with limited liability (registered number 01990920) (“ <b>STAL</b> ”). STAL is a 100 per cent. subsidiary of Asset Holdco.
<b>Borrowers</b>	For so long as each of them remains a member of the Security Group, each of HAL, GAL and STAL, as owners of a Designated Airport together with any company which accedes to the Common Terms Agreement and the STID as a Borrower in accordance with the terms of the Finance Documents, shall be the “ <b>Borrowers</b> ” and each a “ <b>Borrower</b> ”.
<b>Obligors</b>	Pursuant to the terms of the Security Agreement, each Borrower, Asset Holdco, HEX Opco and the Security Parent (the “ <b>Obligors</b> ”) will guarantee the obligations of each other under each Finance Document in favour of the Borrower Security Trustee.
<b>Security Parent</b>	BAA (SP) Limited, a company incorporated in England and Wales with limited liability (registered number 06458621), (the “ <b>Security Parent</b> ”). The Security Parent is a 100 per cent. subsidiary of Sub Holdco which is a 100 per cent. indirect subsidiary of BAA.
<b>Asset Holdco</b>	BAA (AH) Limited, a company incorporated in England and Wales with limited liability (registered number 06458657) (“ <b>Asset Holdco</b> ”). Asset Holdco is a 100 per cent. subsidiary of the Security Parent.
<b>HEX Opco</b>	Heathrow Express Operating Company Limited, a company incorporated in England and Wales with limited liability (registered number 03145133) (“ <b>HEX Opco</b> ”). On or prior to the Initial Issue Date, HEX Opco will become a 100 per cent. subsidiary of HAL.
<b>Security Group</b>	The “ <b>Security Group</b> ” comprises the Security Parent and its subsidiaries from time to time (other than the Issuer).
<b>Operating Companies</b>	HAL, GAL, STAL and HEX Opco are referred to as the (“ <b>Operating Companies</b> ”).

<b>BAA</b>	BAA Limited <sup>2</sup> , a company incorporated in England and Wales (registered number 01970855) (“ <b>BAA</b> ”) which is a holding company of Sub Holdco, Designated Sub Holdco and the Security Group.
<b>Sub Holdco</b>	BAA (SH) Limited, a company incorporated in England and Wales with limited liability (registered number 06458635) (“ <b>Sub Holdco</b> ”). Sub Holdco is a 100 per cent. subsidiary of Designated Sub Holdco and a 100 per cent. indirect subsidiary of BAA.
<b>Designated Sub Holdco</b>	BAA (DSH) Limited, a company incorporated in England and Wales with limited liability (registered number 06458597) (“ <b>Designated Sub Holdco</b> ”). Designated Sub Holdco is a 100 per cent. direct subsidiary of BAA.
<b>Shared Services Provider</b>	BAA will provide certain services to each of the Operating Companies in its capacity as “ <b>Shared Services Provider</b> ” pursuant to the shared services agreement to be dated on or about the Initial Issue Date between the Operating Companies, the Shared Services Provider and the Borrower Security Trustee (the “ <b>Shared Services Agreement</b> ”). See “ <i>Description of the Operating Companies, the Shared Services Provider and the Issuer – Shared Services Agreement</i> ” below.
<b>BSC</b>	BAA Business Support Centre Limited, a company incorporated in England and Wales with limited liability (registered number 03065139) (“ <b>BSC</b> ”). The Shared Services Provider will delegate certain central services, including cash management, to BSC pursuant to an agreement to be dated on or about the Initial Issue Date between BAA and BSC (the “ <b>BSC Services Agreement</b> ”). See “ <i>Description of the Operating Companies, the Shared Services Provider and the Issuer – BSC Services Agreement</i> ” below.
<b>Co-Arrangers</b>	Citigroup Global Markets Limited and The Royal Bank of Scotland plc are the co-arrangers of the Programme (the “ <b>Co-Arrangers</b> ”).
<b>Dealers</b>	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, CALYON, HSBC Bank plc and Royal Bank of Canada Europe Limited will act as dealers (together with any other dealer appointed from time to time by the Issuer either generally with respect to the Programme or in relation to a particular Tranche, Sub-Class, Class or Series of Bonds) (the “ <b>Dealers</b> ”).
<b>Financial Guarantors</b>	A financial guarantor (a “ <b>Financial Guarantor</b> ”) which meets the Financial Guarantor Criteria may agree to issue financial guarantees in respect of Class A Wrapped Bonds and/or Class B Wrapped Bonds in favour of the Bond Trustee and may be appointed in respect of a Class, Sub-Class or Tranche of Class A Wrapped Bonds and/or Class B Wrapped Bonds or in respect of other Wrapped Debt issued or raised under an Authorised Credit Facility. Each such Financial Guarantor will unconditionally and irrevocably guarantee the scheduled or ultimate payment of principal and scheduled payment of interest (as adjusted for indexation, as applicable, but excluding the FG Excepted Amounts) in respect of each Tranche or Tranches of such Class A Wrapped Bonds and/or such Class B Wrapped Bonds specified in the relevant Final Terms and pursuant to a Financial Guarantee.

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<sup>2</sup> Note that BAA may change its name to BAA Services Limited.

Details of any Financial Guarantor and its Financial Guarantee will be set out in a supplementary or drawdown prospectus published on or before the date of the publication of the Final Terms in respect of such Bonds. See “*The Financial Guarantors and Financial Guarantees*”.

**Bond Guarantor**

BAA will provide a guarantee in respect of certain of the Class A Bonds to be issued by the Issuer on the Initial Issue Date in exchange for all classes of existing BAA bonds with a Scheduled Redemption Date of no later than 2018 (in such capacity, the “**Bond Guarantor**”). The Bond Guarantor will unconditionally and irrevocably guarantee all payments in respect of those Class A Bonds identified as BAA Guaranteed Bonds in the relevant Final Terms. See “*Risk Factors – The BAA Bond Guarantee*” and “*Summary of the Financing Agreements – The BAA Bond Guarantee*” in relation to the issues arising with respect to the BAA Bond Guarantee.

**Initial Hedge Counterparties**

Citibank, N.A. acting through its London Branch, The Royal Bank of Scotland plc, Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., BNP Paribas, Caja de Ahorros y Monte de Piedad de Madrid, CALYON, and HSBC Bank plc together with any other financial institution named as an Initial Issuer Hedge Counterparty or an Initial Borrower Hedge Counterparty (the “**Initial Hedge Counterparties**” and each an “**Initial Hedge Counterparty**”).

**Issuer Hedge Counterparties**

Each of the Initial Hedge Counterparties and each other financial institution which is named as an Issuer Hedge Counterparty in the Final Terms relating to any Class or Sub-Class of Bonds to be issued on the Initial Issue Date (together, the “**Initial Issuer Hedge Counterparties**” and, together with any counterparties to future Issuer Hedging Agreements specified in the relevant Final Terms, the “**Issuer Hedge Counterparties**”). The Initial Issuer Hedge Counterparties are under no obligation to enter into any further Treasury Transactions or Issuer Hedging Agreements. See “*Summary of the Financing Agreements – Issuer Hedging Agreements*” below.

**Issuer Liquidity Facility Providers**

The financial institution specified in the relevant Final Terms with the Liquidity Facility Requisite Rating which enters into an Issuer Liquidity Facility Agreement with the Issuer on or prior to the Initial Issue Date (the “**Initial Issuer Liquidity Facility Provider**” and together with any further liquidity facility providers, the “**Issuer Liquidity Facility Providers**”) will provide the Issuer with revolving credit facilities for interest requirements on the Class A Bonds and, within certain sub-limits, for interest requirements on the Class B Bonds, together with certain obligations of the Issuer in priority thereto. The Initial Issuer Liquidity Facility Provider is under no obligation to provide any further Issuer Liquidity Facilities. See “*Summary of the Financing Agreements – Issuer Liquidity Facility Agreements*” below.

**Bond Trustee**

Deutsche Trustee Company Limited (or any successor trustee appointed pursuant to the Bond Trust Deed) will act as trustee (the “**Bond Trustee**”) for itself and on behalf of the holders of each Class, Sub-Class and Tranche of Bonds of each Series (each a “**Bondholder**”) and will also hold the security granted by the Issuer under the Issuer Deed of Charge on trust for all of the Issuer Secured Creditors.

<b>Borrower Security Trustee</b>	Deutsche Trustee Company Limited (or any successor trustee appointed pursuant to the STID) will act as security trustee for itself and on behalf of the Borrower Secured Creditors (as defined below) (the “ <b>Borrower Security Trustee</b> ”) and will hold, and will be entitled to enforce, the Borrower Security (other than the OFCA Floating Security) subject to the terms of (for as long as any amounts are outstanding under the Subordinated Facility Agreement) the Senior/Subordinated Intercreditor Agreement and (following the repayment in full of the Subordinated Facility Agreement) the STID.
<b>Borrower Secured Creditors</b>	The Borrower Secured Creditors comprise any person who is a party to, or has acceded to (including, where applicable, through its representative), the STID as a Borrower Secured Creditor.
<b>Borrower Hedge Counterparties</b>	Each of the Initial Hedge Counterparties and each other financial institution which enters into a Borrower Hedging Agreement with a Borrower on the Initial Issue Date (together, the “ <b>Initial Borrower Hedge Counterparties</b> ” and, together with any counterparties to future Borrower Hedging Agreements, and specified in the relevant Final Terms, the “ <b>Borrower Hedge Counterparties</b> ”). The Initial Borrower Hedge Counterparties are under no obligation to enter into any further Treasury Transactions or Borrower Hedging Agreements. See “ <i>Summary of the Financing Agreements – Borrower Hedging Agreements</i> ” below.
<b>Borrower Liquidity Facility Providers</b>	The financial institution specified in the relevant Final Terms with the Liquidity Facility Requisite Rating which enters into a Borrower Liquidity Facility Agreement with the Borrowers on or prior to the Initial Issue Date (the “ <b>Initial Borrower Liquidity Facility Provider</b> ” and together with any further liquidity facility providers to the Borrowers, the “ <b>Borrower Liquidity Facility Providers</b> ”) will provide the Borrowers with revolving credit facilities and/or a letter of credit facility to fund shortfalls in respect of amounts available to meet interest payment obligations in respect of Supported EIB Facilities or the Refinancing Facility or under any Treasury Transaction entered into by a Borrower under a Borrower Hedging Agreement (other than in respect of unscheduled amounts including termination payments). The Initial Borrower Liquidity Facility Provider is under no obligation to provide any further Borrower Liquidity Facilities.
<b>Capex Providers</b>	Certain financial institutions (the “ <b>Initial Capex Providers</b> ”) and together with further capex providers (the “ <b>Capex Providers</b> ”) will provide the Borrowers with credit facilities to fund their capital expenditure requirements maturing in 2013. The Initial Capex Providers are under no obligation to provide any further Capex Facilities. See “ <i>Summary of the Financing Agreements – Additional Resources Available – Initial Credit Facilities Agreement</i> ”.
<b>Working Capital Facility Providers</b>	Certain financial institutions (the “ <b>Initial Working Capital Facility Providers</b> ” together with any further working capital facility providers, the “ <b>Working Capital Facility Providers</b> ”) will provide the Borrowers, Asset HoldCo and the Security Parent with credit facilities to fund working capital requirements. The Initial Working Capital Facility Providers are not under any obligation to provide further Working Capital Facilities. See “ <i>Summary of the Financing Agreements – Borrower Cash Management – Additional Resources Available – Initial Credit Facilities Agreement</i> ”.



<b>Initial Credit Facility Providers</b>	The Initial Capex Providers and the Initial Working Capital Facility Providers (together, the “ <b>Initial Credit Facility Providers</b> ”) will enter into the Initial Credit Facilities Agreement on or about the Initial Issue Date. See “ <i>Summary of the Financing Agreements – Borrower Cash Management – Additional Resources Available – Initial Credit Facilities Agreement</i> ”.
<b>Initial Credit Facility Agent</b>	The Royal Bank of Scotland plc as agent for the finance parties under the Initial Credit Facilities Agreement (the “ <b>Initial Credit Facility Agent</b> ”).
<b>Non-Migrated Bond Facility Providers</b>	Certain financial institutions (the “ <b>Non-Migrated Bond Facility Providers</b> ”) will provide the Borrowers with credit facilities which enable the BAA Group to fund any early redemption of the Non-Migrated Bonds in certain circumstances. See “ <i>Summary of the Financing Agreements – Borrower Cash Management – Additional Resources Available</i> ”.
<b>Non-Migrated Bond Facility Agent</b>	The Royal Bank of Scotland plc as agent for the finance parties under the Non-Migrated Bond Facility Agreement (the “ <b>Non-Migrated Bond Facility Agent</b> ”).
<b>Refinancing Facility Providers</b>	Certain financial institutions (the “ <b>Refinancing Facility Providers</b> ”) will provide the Borrowers with credit facilities to, among other things, refinance the Senior Facility Agreement. See “ <i>Summary of the Financing Agreements – Borrower Cash Management – Additional Resources Available</i> ”.
<b>Refinancing Facility Agent</b>	The Royal Bank of Scotland plc as agent for the finance parties under the Refinancing Facility Agreement (the “ <b>Refinancing Facility Agent</b> ”).
<b>EIB</b>	The European Investment Bank (“ <b>EIB</b> ”) in its capacity as lender pursuant to the certain existing term facilities made available to BAA, which will be novated on the Initial Issue Date to HAL (the “ <b>EIB Facilities</b> ”).
<b>Non-Migrated Bond Trustee</b>	Prudential Trustee Company Limited in its capacity as trustee (the “ <b>Non-Migrated Bond Trustee</b> ”) for and on behalf of the holders of each class of Non-Migrated Bonds (as defined below) (each a “ <b>Non-Migrated Bondholder</b> ”).
<b>Subordinated Security Trustee</b>	The Royal Bank of Scotland plc as security trustee (the “ <b>Subordinated Security Trustee</b> ”) for the secured parties including the Subordinated Lenders (the “ <b>Subordinated Secured Creditors</b> ”) under the Subordinated Facility Agreement.
<b>Subordinated Lenders</b>	Banco Santander Central Hispano, S.A., London Branch, Citigroup Global Markets Limited, The Royal Bank of Scotland plc, HSBC Bank plc and Calyon, Sucursal en España as mandated lead arrangers and each lender (together, the “ <b>Subordinated Lenders</b> ”) as providers of a subordinated debt facility, the outstanding amount of which will be £1,566,000,000 as at the Initial Issue Date to Sub Holdco pursuant to the subordinated facility agreement dated 7 April 2006 as amended and novated from time to time (the “ <b>Subordinated Facility Agreement</b> ”). See “ <i>Summary of the Financing Agreements – Senior/Subordinated Intercreditor Agreement</i> ”.
<b>Paying Agents</b>	Deutsche Bank AG, London Branch acts and will act as principal paying agent (the “ <b>Principal Paying Agent</b> ” and, together with the U.S. Paying Agent any other paying agents appointed by the Issuer, the “ <b>Paying Agents</b> ”) to provide certain issue and paying agency services to the Issuer in respect of the Bearer Bonds.

<b>Agent Bank</b>	Deutsche Bank AG, London Branch will act as agent bank (the “ <b>Agent Bank</b> ”) under the Agency Agreement.
<b>Borrower Account Bank</b>	The Royal Bank of Scotland plc, acting through its office at 135 Bishopsgate, London EC2M 3UR or any person for the time being acting as Borrower Account Bank (pursuant to the Borrower Account Bank Agreement) (the “ <b>Borrower Account Bank</b> ”). The Royal Bank of Scotland plc is a company incorporated in Scotland with registered number 90312 and has its registered office at 36 St Andrew Square, Edinburgh EH2 2YB.
<b>Borrower Cash Manager</b>	BAA will act pursuant to the terms of the cash management provisions of the Common Terms Agreement and the Shared Services Agreement as cash manager in respect of moneys credited from time to time to the Obligor Accounts (as defined below) (the “ <b>Borrower Cash Manager</b> ”).
<b>Issuer Account Bank</b>	The Royal Bank of Scotland plc, acting through its office at 35 New Broad Street, London EC2P 2EF or any person for the time being acting as Issuer Account Bank (pursuant to the Issuer Account Bank Agreement) (the “ <b>Issuer Account Bank</b> ”). The Royal Bank of Scotland plc is a company incorporated in Scotland with registered number 90312 and has its registered office at 36 St Andrew Square, Edinburgh EH2 2YB.
<b>Issuer Cash Manager</b>	BAA will act pursuant to the terms of the Issuer Cash Management Agreement as cash manager in respect of moneys credited from time to time to the Issuer Accounts (as defined below) (the “ <b>Issuer Cash Manager</b> ”).
<b>Registrar</b>	Deutsche Bank Trust Company Americas will act as registrar (the “ <b>Registrar</b> ”) and will provide certain registrar services to the Issuer in respect of the Registered Bonds.
<b>U.S. Paying Agent</b>	Deutsche Bank Trust Company Americas will act as the U.S. paying agent for the Bonds (the “ <b>U.S. Paying Agent</b> ”) pursuant to the terms of the Agency Agreement.
<b>U.S. Transfer Agent</b>	Deutsche Bank Trust Company Americas will act as U.S. transfer agent for the Bonds (the “ <b>U.S. Transfer Agent</b> ” and, together with any other transfer agent appointed under the Agency Agreement, the “ <b>Transfer Agents</b> ”) pursuant to the terms of the Agency Agreement. The Transfer Agents will provide certain transfer agency services to the Issuer in respect of the Registered Bonds.
<b>Exchange Agent</b>	Deutsche Bank Trust Company Americas will act as exchange agent for the Bonds (the “ <b>Exchange Agent</b> ”).
<b>Common Depositary</b>	Global Bonds, Regulation S Global Bond Certificates and Rule 144A EC Global Bond Certificates in respect of Bonds will be deposited with (and, in the case of Bond Certificates, registered in the name of) an agent of the International Central Securities Depositories (in such capacity, the “ <b>Common Depositary</b> ”), which will act as the common depositary for Euroclear and Clearstream, Luxembourg in respect of such Bonds.
<b>Issuer Corporate Administration Provider</b>	Mourant & Co Ltd will act as corporate services provider (the “ <b>Issuer Corporate Administration Provider</b> ”) in accordance with the terms of the Issuer Corporate Administration Agreements. Pursuant to the Issuer Corporate Administration Agreements, the Issuer Corporate Administration Provider will provide certain UK resident directors and certain other corporate services to the Issuer.

## CHARACTERISTICS OF THE BOND PROGRAMME

<b>Description</b>	Bond Programme.
<b>Programme Size</b>	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.
<b>Issuance in Classes</b>	<p>Bonds issued under the Programme will be issued in Series, with each Series initially comprising one of four Classes. The Wrapped Bonds will be designated as either Class A Wrapped Bonds or Class B Wrapped Bonds. The Unwrapped Bonds will be designated as either Class A Unwrapped Bonds or Class B Unwrapped 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. Under the Programme, the Issuer may issue Subordinated 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.</p> <p>The specific terms of each Tranche of Bonds will be set out in the applicable Final Terms.</p> <p>On each Issue Date, the Issuer will issue the Sub-Classes of Bonds set out in the Final Terms (each, a “Series”) published on the relevant Issue Date.</p>
<b>Issue Dates</b>	The date of issue of a Tranche of Bonds as specified in the relevant Final Terms (each, an “Issue Date”).
<b>Certain Restrictions</b>	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> ”.
<b>Distribution</b>	<p>Bonds may be distributed outside the United States to persons other than U.S. persons and U.S. residents by way of private or public placement and in each case on a syndicated or non-syndicated basis subject to the restrictions set out in “<i>Subscription and Sale</i>”.</p> <p>Bonds may also be distributed in reliance on Rule 144A to persons that are QIBs that are also QPs subject to the restrictions set forth in “<i>Subscription and Sale</i>”.</p>
<b>Currencies</b>	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.
<b>Final Terms or Drawdown Prospectus</b>	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. The terms and conditions applicable to any particular Tranche of Bonds will be the Terms and Conditions of the Bonds as supplemented, amended and/or replaced to the extent described in the relevant Final Terms or, as the case may be the relevant Drawdown Prospectus.

<b>Redenomination</b>	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.
<b>Maturities</b>	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.  <b>Bonds with a maturity of less than one year</b>  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.
<b>Issue Price</b>	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.
<b>Interest</b>	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.
<b>Form of Bonds</b>	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.
<b>Fixed Rate Bonds</b>	Fixed Rate Bonds bear interest at a fixed rate of interest payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, as specified in the relevant Final Terms.
<b>Floating Rate Bonds</b>	Floating Rate Bonds bear interest at a rate determined. <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Sub-Class); or</li> <li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer,</li> </ul> in each case as specified in the relevant Final Terms.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Sub-Class of Floating Rate Bonds and will be specified in the relevant Final Terms.

**Indexed Bonds**

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Indexed Bonds (including Limited Indexed Bonds as defined in Condition 7(a) (*Indexation – Definitions*)) may be calculated in accordance with Condition 7 by reference to the UK Retail Price Index or such other index and/or formula as the Issuer and the relevant Dealer may agree (as specified in the relevant Final Terms).

**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).

**Dual Currency Bonds**

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree, as specified in the relevant Final Terms.

**Zero Coupon Bonds**

Zero Coupon Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.

**Partly Paid Bonds**

Partly Paid Bonds will be issued in the amount as specified in the relevant Final Terms and further instalments will be payable in the amounts and on the dates as specified in the relevant Final Terms.

**Instalment Bonds**

The applicable Final Terms may provide that Bonds may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable 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, upon the exercise of the call option pursuant to Condition 8(g) (*Early Redemption on exercise of Subordinated Creditor Call Option*) by the Subordinated Secured Creditors 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 shall be redeemed on the Scheduled Redemption Date as specified in the applicable Final Terms to the extent of the amount that the Issuer has received in repayment of the related advance in accordance with the provisions of a Borrower Loan Agreement.

**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) (*Application of the Index Ratio*)) plus accrued interest on the Maturity Date as specified in the applicable Final Terms.

**Redemption for Index Event,  
Taxation or Other Reasons**

Upon the occurrence of certain index events (as set out in Condition 8(e) (*Redemption for Index Event, Taxation or Other Reasons*)), the Issuer may redeem the Indexed Bonds at their Principal Amount Outstanding together with accrued but unpaid interest and amounts in respect of indexation. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Sub-Classes of Indexed Bonds linked to the same underlying Index are also redeemed.

In addition, in the event of (i) the Issuer becoming obliged to make any deduction or withholding from payments in respect of the Bonds (although the Issuer will not be obliged to pay any additional amounts in respect of such deduction or withholding); (ii) a Borrower becoming obliged to make any withholding or deduction from payment in respect of a Borrower Loan Agreement; (iii) the Issuer or an Issuer Hedge Counterparty becoming obliged to make any withholding or deduction from payment in respect of an Issuer Hedging Agreement; or (iv) by reason of a change law (or the application or official interpretation thereof), which change became effective on or after the Initial Issue Date, 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 the Borrower Loan, the Issuer may but is not obliged to (a) use its reasonable endeavours to arrange for the substitution of another company incorporated in an alternative jurisdiction (subject to certain conditions as set out in the Conditions of the Bonds; (b) 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, or (c) redeem (subject to certain conditions as set out in Condition 8(e) (*Redemption for Index Event, Taxation or Other Reasons*) of the Bonds) all (but not some only) of the affected Class or Classes or Sub-Class of Bonds at their Principal Amount Outstanding (plus, in the case of Indexed Bonds, amounts in respect of indexation) together with accrued but unpaid interest.

In the event of a Borrower electing to prepay an advance (in whole or in part) under a Borrower Loan Agreement, other than by way of a Reallocation Prepayment pursuant to the Borrower Loan Agreement, the Issuer shall be obliged to redeem all or the relevant part of the Sub-Class of Bonds corresponding to such advance(s) or the proportion of the relevant Sub-Class which the proposed prepayment amount bears to the amount of the relevant advance under the relevant Borrower Loan Agreement.

In the event that the Issuer receives, or is to receive, any monies from any Obligor following the delivery of a Loan Enforcement Notice, the Issuer shall be obliged to redeem (to the extent of such monies and in accordance with the Issuer Pre-Enforcement Priority of Payments or Issuer Post-Enforcement Priority of Payments, as the case may be) the relevant Sub-Class of the then outstanding Bonds relating to the relevant advances under the Borrower Loan Agreements that have been repaid at their Principal Amount Outstanding plus accrued but unpaid interest on the next Interest Payment Date (or, if sooner, Maturity Date).

The Financial Guarantors will not guarantee any of the amounts payable by the Issuer upon an early redemption, and their obligation will be to continue 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 had such early redemption not occurred.

The Issuer shall only be permitted to exercise the option to redeem the Bonds to the extent that in so doing it will not cause a Bond Event of Default to occur or subsist.

#### **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, save that (i) 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 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 Bonds; and (ii) the minimum denomination of each Bond will be such 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 relevant Specified Currency. Bonds may be issued in such denomination and higher integral multiples of a smaller amount specified in the relevant Final Terms. See “– *Maturities – Bonds with a maturity of less than one year*” above.

#### **Taxation**

Payments in respect of Bonds or under the relevant Financial Guarantee or under the BAA Bond Guarantee 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 and, to the extent there is a claim under the relevant Financial Guarantee, the relevant Financial Guarantor and, to the extent there is a claim under the BAA Bond Guarantee, the Bond Guarantor will make payments subject to the appropriate withholding or deduction. No additional amounts will be paid by the Issuer or, to the extent there is a claim under the relevant Financial Guarantee, by the relevant Financial Guarantor or, to the extent there is a claim under the BAA Bond Guarantee, the Bond Guarantor in respect of any withholdings or deductions, unless otherwise specified in the applicable Final Terms.

#### **Status of the Bonds**

The Bonds to be issued under the Programme will constitute secured obligations of the Issuer. Bonds of each class rank *pari passu* without preference or priority in point of security amongst themselves.

The Bonds represent the right of the holders of such Bonds to receive interest (where applicable) and principal payments from (a) the Issuer in accordance with the terms and conditions of the Bonds and the bond trust deed to be dated on or before the Initial Issue Date as amended from time to time (the “**Bond Trust Deed**”) to be entered into by the Issuer and the Bond Trustee in connection with the Programme, and upon accession thereto, each Relevant Financial Guarantor, (b) in the case of the Wrapped Bonds only, the Relevant Financial Guarantor in certain circumstances in accordance with the relevant Financial Guarantee and (c) in the case of BAA Guaranteed Bonds only and following delivery of a Bond Enforcement Notice, the Bond Guarantor.

The Class A Wrapped Bonds and the Class A Unwrapped Bonds to be issued under the Programme will rank *pari passu* with respect to payments of interest and principal. However, only the Class A Wrapped Bonds will have the benefit of the relevant Financial Guarantee. All claims in respect of the Class A Wrapped Bonds and the Class A Unwrapped Bonds will rank in priority to payments of interest and principal due on the Class B Wrapped Bonds and the Class B Unwrapped Bonds.

The Class B Wrapped Bonds and the Class B Unwrapped Bonds issued under the Programme will rank *pari passu* with respect to payments of interest and principal. However, only the Class B Wrapped Bonds will have the benefit of the relevant Financial Guarantee.

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.

Only the BAA Guaranteed Bonds will be guaranteed by the Bond Guarantor.

#### **Covenants**

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 “*Summary of the Financing Agreements – Bond Trust Deed*”.

#### **Status of Financial Guarantees in relation to Wrapped Bonds**

Each Financial Guarantee issued in favour of the Bond Trustee in relation to each Sub-Class of Wrapped Bonds will be a direct, unsecured obligation of the 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, pursuant to which the Relevant Financial Guarantor will guarantee the timely payment of interest and principal (other than the FG Excepted Amounts) on the relevant Sub-Class of Wrapped Bonds. See “*The Financial Guarantors and the Financial Guarantees*”.

#### **Status of the BAA Bond Guarantee in relation to BAA Guaranteed Bonds**

The BAA Bond Guarantee issued in favour of the Bond Trustee in relation to each Tranche of BAA Guaranteed Bonds will be 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, pursuant to which the Bond Guarantor will guarantee payments on the relevant Sub-Class or Tranche of BAA Guaranteed Bonds. See “*Risk Factors – The BAA Bond Guarantee*” in relation to the issues arising with respect to the BAA Bond Guarantee.

#### **Reimbursement**

The Issuer will be obliged, pursuant to the terms of the guarantee and reimbursement deed with the Relevant Financial Guarantors in respect of any Sub-Class or Sub-Classes of Wrapped Bonds or any other Wrapped Debt, among other things, to reimburse such Financial Guarantor in respect of payments made by it under the relevant Financial Guarantee or Financial Guarantees of such Sub-Class or Sub-Classes of Bonds. Each such Financial Guarantor will be subrogated to the rights of the relevant Class A Wrapped Bondholders or Class B Wrapped Bondholders, as the case may be, against the Issuer in respect of any payments made under such Financial Guarantees. See “*Summary of the Financing Agreements*” under “*Financial Guarantor Documents*”. Each Obligor will



indemnify such reimbursement obligations of the Issuer by way of a facility fee under the relevant Borrower Loan Agreement. 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.

#### **Subordinated Bonds**

The Issuer will be entitled (but not obliged) at its option at any time, without the consent of Bondholders, to raise further funds through the issue of bonds of a new class (the "**Subordinated Bonds**") which may be in bearer or registered form and rank below the Class A Bonds and the Class B Bonds. The Issuer will only be entitled to make payments of interest and principal in respect of any Subordinated Bonds to the extent that certain conditions are met. It shall be a condition precedent to the issue of Subordinated Bonds that the Rating Agencies confirm in writing to the Bond Trustee that the then current rating of the Bonds then outstanding will not be adversely affected by the proposed issue of Subordinated Bonds.

#### **Issuer Liquidity Facility**

The Issuer Liquidity Facility Providers will make available to the Issuer credit facilities for the purpose of meeting certain shortfalls in revenues for the Issuer to meet, among other things, its obligations to pay interest on the Class A Bonds and the Class B Bonds. The Obligors will be obliged, pursuant to the Common Terms Agreement, to procure that the Issuer maintains through an Issuer Liquidity Facility (or Issuer Liquidity Facilities and/or the Issuer Liquidity Reserve Account) an amount or amounts which is/are at least equal to the aggregate of projected interest payments and equivalent finance charges on the Class A Bonds, the Interest Rate Hedging Agreements entered into by the Issuer and the Cross-Currency Hedging Agreements in respect of the Class A Bonds (the "**Issuer Senior Debt**") and all recurring amounts ranking above the Issuer Senior Debt for the succeeding 12 months and projected interest payments and equivalent finance charges on the Class B Bonds and Cross-Currency Hedging Agreements in respect of the Class B Bonds (the "**Issuer Junior Debt**") for the succeeding 6 months.

#### **Listing**

It is anticipated that the Bonds to be issued on the Initial Issue Date will be admitted to the Official List and admitted to trading on the Market. 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.

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).

#### **No U.S. Registration**

The Bonds have not been, and will not be, registered under the Securities Act. The Issuer has not been and will not be registered under the Investment Company Act. Any Rule 144A Bonds will be offered in the United States only to QIBs that are also QPs. The Issuer is relying on the exemption from the requirements of the Investment Company Act provided by section 3(c)(7) thereof. Any Regulation S Bonds will be offered, outside the United States, to persons who are neither U.S. persons nor U.S. residents in accordance with Regulation S. See "*Transfer Restrictions*".

**Ratings**

The ratings assigned to Class A Wrapped Bonds and Class B Wrapped Bonds to be issued under the Programme will be based primarily on the debt rating of the Relevant Financial Guarantor or Relevant Financial Guarantors of such Class or Sub-Class and reflect only the views of the Rating Agencies. The rating of the BAA Guaranteed Bonds is not dependent on the rating of BAA. The ratings assigned to the Class A Unwrapped Bonds and the Class B Unwrapped Bonds by the Rating Agencies reflect only the views of the Rating Agencies. The ratings will be specified in the relevant Final Terms.

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 or, in the case of the Class A Wrapped Bonds and/or Class B Wrapped Bonds, of the Relevant Financial Guarantor or Relevant Financial Guarantors. A rating may be subject to suspension, change or withdrawal at any time by the assigning Rating Agency.

**Governing Law**

The Bonds will be governed by, and construed in accordance with, English law.

**ERISA**

For a discussion of certain ERISA-related restrictions on ownership and transfer of the Bonds, see “*ERISA*”.

**Selling Restrictions**

There are restrictions on the offer, sale and transfer of the Bonds in the United States, the United Kingdom, Jersey and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Sub-Class of Bonds. See “*Subscription and Sale*” and the Final Terms for any particular series of Bonds.

**Investor Information**

The Borrower Cash Manager (on behalf of the Borrowers) is required to produce an Investor Report (the “**Investor Report**”) semi-annually. The Security Group Agent is also required to make available to the Borrower Security Trustee, the Issuer, the Bond Trustee and each relevant Financial Guarantor; (a) consolidated audited annual financial statements of the Security Group and the Issuer together, prepared as if they constituted a statutory group for consolidation purposes, and related auditors’ opinion, (b) consolidated, unaudited semi-annual financial statements of the Security Group and the Issuer together for the first financial half-year in each financial year, prepared as if they constituted a statutory group for consolidation purposes, and (c) the Regulatory Accounts of each Borrower. See “*Summary of the Financing Agreements – Common Terms Agreement – Covenants – Information*”.

## OVERVIEW OF FINANCING STRUCTURE

### Issue Dates

The Issuer is establishing the Programme in order to enable the Security Group and the Issuer to raise debt in the bank and bond markets to refinance existing indebtedness under the Senior Facility Agreement and Subordinated Facility Agreement and to raise new indebtedness to fund, among other things, the on-going capital expenditure programme that the Security Group is undertaking over the coming years. On each Issue Date, the Issuer will issue the Sub-Classes of Bonds set out in the Final Terms produced in respect of the Tranches of Bonds to be issued on such date (each a “Series”).

On the Initial Issue Date, it is expected that the Series of Bonds to be issued will include those Series (the “**Replacement Bonds**”) that will be subscribed by BAA initially for debt left outstanding referred to herein as the BAA Payables and then delivered to BAA’s existing bondholders in exchange for such existing bondholders delivering their existing bonds back to BAA as part of completion of a consent solicitation process undertaken by BAA in connection with the refinancing of its then existing bond indebtedness. The Issuer will assign its rights in respect of the BAA Payables to the Borrowers for a purchase price which will be settled by the Issuer and the Borrowers entering into a Borrower Loan Agreement and advances being made thereunder which correspond to the Replacement Bonds.

The Issuer may also issue Bonds for the purpose of creating a liquidity reserve. The proceeds of any Bonds issued for the purpose of creating such a liquidity reserve will be deposited in the Issuer Liquidity Reserve Account. The economic cost of any liquidity reserve created by the Issuer through the issuance of Bonds will be borne by the Borrowers.

In addition, on the Initial Issue Date, the Issuer may issue one or more Series of new Bonds which will be subscribed or placed initially by the Dealers. The Issuer will apply the proceeds of such issuance to make advances to the Borrowers under the Borrower Loan Agreement to be entered into on such date, which will reflect the corresponding amount and terms of borrowing by the Issuer of each Sub-Class of Bonds issued and, to the extent that such borrowing by the Issuer is hedged under an Issuer Hedging Agreement, the terms of such Issuer Hedging Agreement.

In connection with the issue of certain Classes of Replacement Bonds in exchange for certain series of BAA’s existing bonds on the Initial Issue Date, BAA will grant a guarantee to the holders of such Classes as described in “*Overview of the Programme – Characteristics of the Bond Programme – Status of BAA Bond Guarantee in relation to BAA Guaranteed Bonds*” above. The BAA Bond Guarantee will be granted in order that, to the extent that credit default swaps have been traded specifying BAA as reference entity thereunder, a bond obligation still linked to BAA will remain in issue notwithstanding the exchange and cancellation of BAA’s existing bonds. However, no assurance is given by the Issuer or BAA as to whether or in what circumstances the BAA Guaranteed Bonds would constitute an “Obligation” or “Deliverable Obligation” with respect to BAA as “Reference Entity” for the purposes of any credit default swap or similar transaction. Investors should, in any event, take into account the statements made in “*Risk Factors – The BAA Bond Guarantee*” when assessing the worth of such BAA Bond Guarantee.

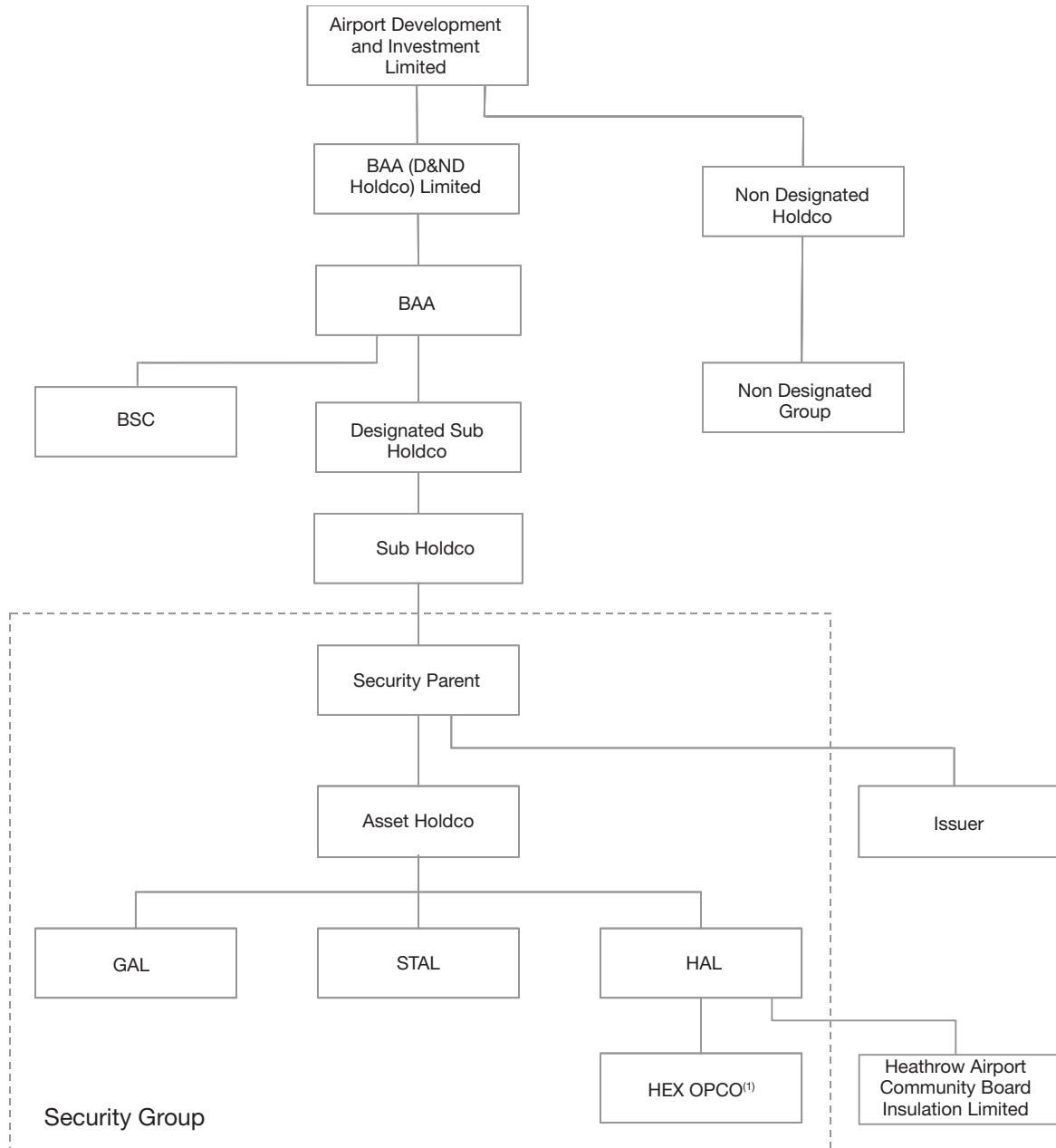
### Capital Structure of Issuer and the Security Group Anticipated on the Initial Issue Date

	Rating (S&P/Fitch)	£m (equivalent)
<b>Senior</b>		
Replacement Bonds.....	A-/A-	4,503
Additional Senior Debt <sup>(1)</sup> .....	A-/A-	3,839
Total.....		8,342
<b>Junior</b>		
Junior Debt <sup>(2)</sup> .....	BBB/BBB	1,000
Total Debt.....		9,342

1 Includes Refinancing Facility, Borrower Loans in respect of new Class A Bonds and EIB Facility.

2 Includes Refinancing Facility and Borrower Loans in respect of new Class B Bonds.

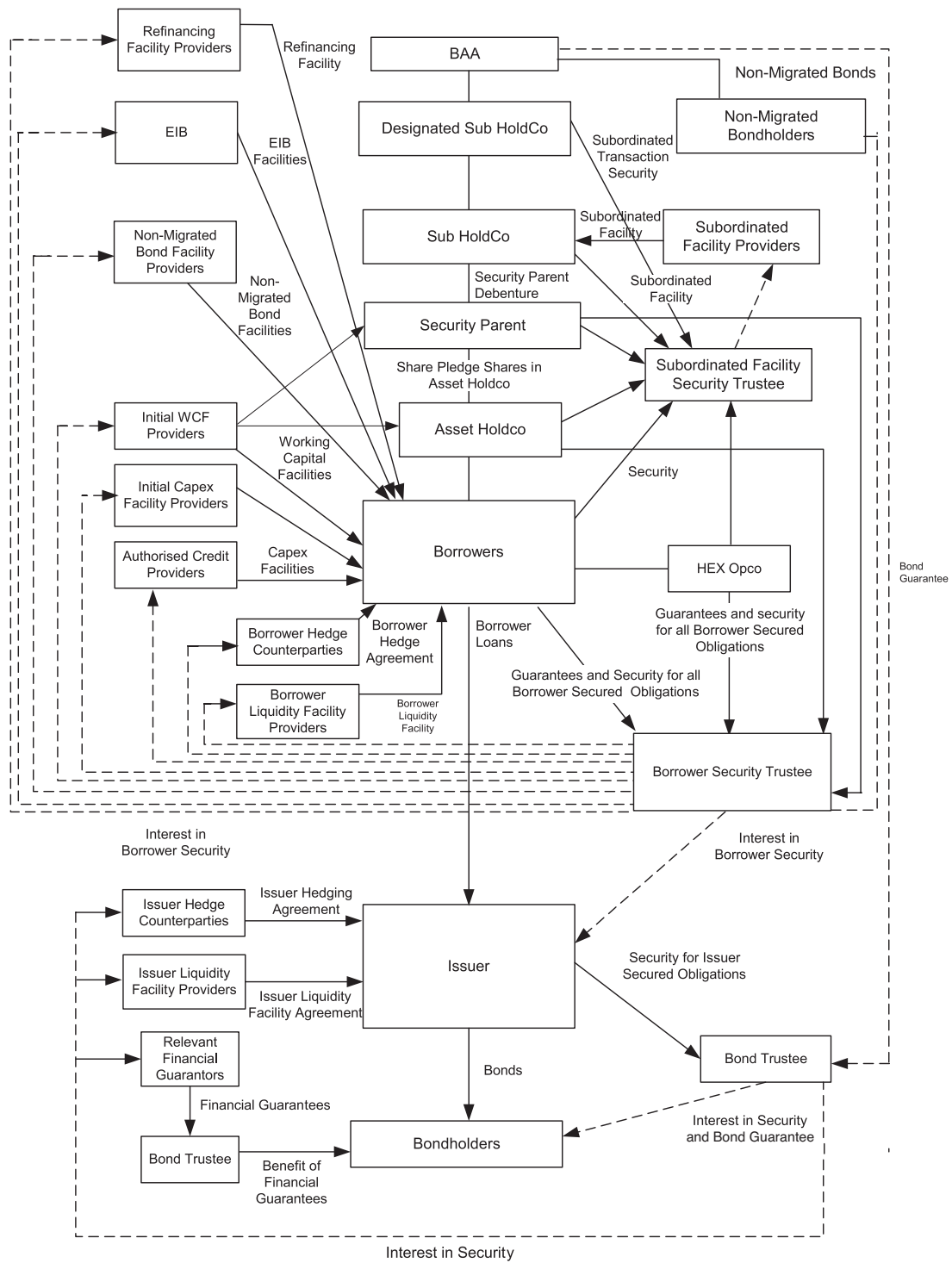
**FIGURE 1 – OWNERSHIP STRUCTURE**



(1) HEX Opco is not a subsidiary of HAL at the date of this Prospectus, please see description of HEX Opco in “Overview of the Programme” and the risk factor entitled “Consent required for transfer of HEX Opco” for further information.

**FIGURE 2 – OVERVIEW OF THE PROGRAMME**

The anticipated financing structure is as follows:



**FIGURE 2 – PROVIDES AN OVERVIEW OF THE PROGRAMME, AS FOLLOWS:**

- The Issuer may under the Programme issue Class A Wrapped Bonds (guaranteed as to scheduled principal and interest by a Relevant Financial Guarantor), Class A Unwrapped Bonds, Class B Wrapped Bonds (guaranteed as to scheduled principal and interest by a Relevant Financial Guarantor), Class B Unwrapped Bonds and Subordinated Bonds.
- On the Initial Issue Date, certain Tranches of the Class A Bonds which will replace existing bonds issued by BAA may have the benefit of the BAA Bond Guarantee from BAA as Bond Guarantor.
- The terms under which the Issuer and/or the Borrowers may incur financial indebtedness, including, in respect of the Issuer, issuing Bonds under the Programme, are set out respectively in the Bond Trust Deed and the Common Terms Agreement.
- The Issuer shall on-lend to the Borrowers the proceeds of each Series of Bonds, pursuant to Borrower Loan Agreements. All indebtedness owing by the Borrowers to the Issuer under each Borrower Loan Agreement will reflect the corresponding amount and terms of borrowing by the Issuer under the relevant Sub-Class of Bonds and, where such borrowing by the Issuer is hedged under an Issuer Hedging Agreement, the notional amount and terms of such Issuer Hedging Agreement.
- The Issuer and the Borrowers may hedge their interest rate, inflation rate and currency exposure in respect of specified levels of the Senior Debt and Junior Debt by entering into interest rate, inflation-linked and currency swap agreements and other hedging arrangements with the Issuer Hedge Counterparties or the Borrower Hedge Counterparties, as appropriate, in accordance with the Hedging Policy.
- 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 the Borrowers under the Borrower Loan Agreements. Each Borrower Loan Agreement will provide for payments to become due from the Borrowers to the Issuer on dates and in aggregate amounts that match the obligations of the Issuer to its various financiers under its financial arrangements.
- Each Borrower may also borrow money from Authorised Credit Providers under Authorised Credit Facilities for funding the working capital and capital expenditure requirements of the Borrowers, to service and repay the Borrowers' indebtedness and for the Borrowers' general corporate purposes. HAL may borrow from EIB under the EIB Facility Agreement for funding certain capital expenditures and infrastructure projects of the Borrowers. The Borrowers may draw under the Refinancing Facility on the Initial Issue Date to refinance existing indebtedness. The Borrowers may draw under the Non-Migrated Bond Facility, notwithstanding the occurrence of a Trigger Event or a Non-Migrated Bond Excluded Default, in an amount equal to the aggregate principal amount outstanding of the Non-Migrated Bonds (after taking account of the impact of all cross currency Treasury Transactions entered into in relation thereto), if any, to meet their obligations following any scheduled or early redemption of the Non-Migrated Bonds (including following exercise of a put option by Non-Migrated Bondholders or an event of default under the Non-Migrated Bonds excluding an event of default caused by a cross default following the occurrence of a Loan Event of Default). The Borrowers may draw under any Borrower Liquidity Facility to meet any shortfall in the amounts available to them to meet payments due to the Borrower Hedge Counterparties under the Borrower Hedging Agreements and to fund any shortfalls in respect of amounts available to meet interest payment obligations in respect of Supported EIB Facilities and the Refinancing Facility to the extent permitted pursuant to the Borrower Liquidity Facility Agreement and the Common Terms Agreement.
- The Issuer may, subject to certain limits, draw under any Issuer Liquidity Facility to meet any shortfall in the amounts available to it to meet interest payments on the Class A Bonds and the Class B Bonds together with other senior expenses ranking in priority to or *pari passu* with the Class A Bonds and the Class B Bonds (excluding, among other things, any principal repayments and Subordinated Class A Step-up Fee Amounts on Class A Bonds and any principal repayments and Subordinated Class B Step-up Fee Amounts on Class B Bonds).
- The respective obligations of the Borrowers to the Issuer and the other Borrower Secured Creditors are guaranteed by the other Obligors in favour of the Borrower Security Trustee pursuant to the Security Agreement and the Obligor Floating Charge Agreement.

- The obligations of each of the Obligors are secured in favour of the Borrower Security Trustee under the terms of the Security Agreement and in favour of the Issuer pursuant to a separate floating charge over all their assets under the Obligor Floating Charge Agreement.
- The guarantees and security (other than the OFCA Floating Security) granted by the Obligors are held (a) prior to the repayment of amounts outstanding under the Subordinated Facility Agreement by the Borrower Security Trustee for itself and on behalf of the Borrower Secured Creditors and by the Junior Security Trustee for itself and on behalf of the Subordinated Secured Creditors in accordance with the terms of the Senior/Subordinated Intercreditor Agreement and (b) thereafter, by the Borrower Security Trustee for itself and on behalf of the Borrower Secured Creditors under the terms of the STID, which regulates the rights and claims of the Borrower Secured Creditors against the Obligors and the duties and discretions of the Borrower Security Trustee.
- As part of the consent solicitation process, described under “*Overview of Financing Structure*”, it is possible that one or more series of existing BAA bonds may not vote in favour of the extraordinary resolution to exchange such bonds for the Bonds to be issued by the Issuer as a result of which certain holders of the existing bonds may retain the existing bonds issued by BAA. Such existing bonds (if any) are currently unsecured obligations of BAA guaranteed as to payment by each Borrower. As from the Initial Issue Date, the guarantees of the Borrowers will become secured obligations and the existing bonds, referred to as the Non-Migrated Bonds (if any), will benefit from the Borrower Security and will rank in point of payment and security *pari passu* with the Borrower Loans relating to the Class A Bonds.
- On the Initial Issue Date, amounts outstanding under the Subordinated Facility Agreement will be novated from ADIL to Sub Holdco. The Borrower Security will also be granted by the Borrowers to the Subordinated Security Trustee on behalf of the Subordinated Secured Creditors. Pursuant to the terms of the Senior/Subordinated Intercreditor Agreement. The rights of the Subordinated Security Trustee to enforce such security on behalf of the Subordinated Secured Creditors are subordinated and postponed to the rights of the Borrower Security Trustee on behalf of the Borrower Secured Creditors.

See more information on each of the above in “*Summary of the Financing Agreements*”.

## RISK FACTORS

*The following sets out certain aspects of the Programme documentation and the activities of the Security 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:*

- (a) *a Loan Event of Default;*
- (b) *a Trigger Event;*
- (c) *a Bond Event of Default;*
- (d) *non-payment of scheduled principal and/or interest in respect of the Class A Wrapped Bonds or Class B Wrapped Bonds (if, additionally, the Relevant Financial Guarantor were to default on its obligations under any Financial Guarantee);*
- (e) *non-payment of unguaranteed amounts under the Class A Wrapped Bonds or Class B Wrapped Bonds;*
- (f) *non-payment of amounts in respect of the Class A Unwrapped Bonds or the Class B Unwrapped Bonds; and*
- (g) *in the case of BAA Guaranteed Bonds, non-payment of amounts by the Bond Guarantor under the BAA Bond Guarantee.*

*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 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. Bondholders may lose the value of their entire investment in certain circumstances.*

*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, or from a Relevant Financial Guarantor in respect of the Class A Wrapped Bonds or Class B Wrapped Bonds or from the Bond Guarantor in respect of any BAA Guaranteed Bonds, on a timely basis or at all.*

### Regulatory Risks

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

This Prospectus sets out the regulatory framework that currently applies to the Security Group's operations at the Designated Airports (see, in particular, "*Airport Regulation*" and "*Management's Discussion And Analysis Of Financial Condition And Results Of Operations – Factors Having A Significant Influence On Results Of Operations – Income – Aeronautical Income*"). There are, however, two ongoing investigations that may lead to a change in the regulatory framework applicable to the Designated Airports:

- the Competition Commission ("**CC**") is currently undertaking a market enquiry into the supply of airport services by BAA. The CC published its Emerging Thinking report on 22 April 2008 (the "**Emerging Thinking**") and indicated, among other things, that the current regulatory regime may, in combination with other factors, adversely affect competition. The CC is expected to publish its provisional findings in August 2008 and its final conclusions in December 2008. See "*CC investigation into BAA's ownership of UK airports*" below; and
- on 22 April 2008, the Department for Transport ("**DfT**") announced a separate review of the economic regulation of UK airports. This review of the current regulatory framework complements the ongoing CC market enquiry and will inform the Secretary of State's consideration of potential legislative changes to the framework of airport regulation.

See "*– CC investigation into BAA's ownership of UK airports*" below for further detail on the DfT review, and "*Airport Regulation*" for further details of these ongoing investigations.

It is difficult to predict the final outcome of these two investigations and, consequently, what impact any relevant changes to the regulatory framework would have on the Security Group. However, possible changes may include, amongst other things:



- the introduction of an operating licence for the Designated Airports, similar to the licence in place in certain other regulated sectors such as water and electricity, which may place duties and obligations upon the Airport Operators. Such a licence could impose restrictions or requirements in relation to the owner of each Airport Operator, possibly including a prior consent requirement to changes in ownership and/or a requirement on the Airport Operators to maintain an investment grade rating;
- the introduction of an alternative insolvency regime in the event of insolvency of one or all of the Airport Operators such as the special administration regime found in the regulation of the UK water and gas sectors; and
- changes to both the statutory duties of the regulator, presently the CAA, and to the principles and detail of economic regulation, which could alter the basis on which airport charges are currently levied by the Designated Airports. Such changes could also include a requirement for the CAA to approve future refinancing plans.

Changes such as these would require primary legislation to be implemented. In the event that there is a proposed or actual change in law or regulation which has the effect of (i) restricting the ability of the Borrowers to grant or to allow to subsist security over all or any of the material assets of the Designated Airports, (ii) restricting the ability of the Borrower Security Trustee to appoint a receiver to any of the Borrowers or (iii) establishing an alternative insolvency regime for all or any of the Borrowers and such proposed or actual change directly results in the occurrence of any Trigger Event, any Restricted Loan Event of Default or Restricted Potential Loan Event of Default which would otherwise occur at such time will be deemed not to have occurred for a certain period. See “*Summary of the Financing Agreements – Common Terms Agreement*”. During this period, remedies available to the Borrower Security Trustee (acting on behalf of the Borrower Secured Creditors, including the Issuer) will be limited, which may adversely affect the Bondholders’ ability to recover the full amount of the security to repay the Bonds.

#### ***Civil Aviation Authority regulation***

The Security Group’s operations at the Designated 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, following a reference by the CAA to the CC. This regulatory review generally takes place every five years. In March 2008, the CAA announced the price caps for Heathrow and Gatwick for the five year regulatory period (each known as a quinquennium), commencing 1 April 2008, known as Q5 (“**Q5**”). The permitted return on the regulatory asset base which is referred to as the RAB for Heathrow and Gatwick approved by the CAA for Q5 is lower than it was for the prior quinquennium. For further information on how the RAB is determined for each Designated Airport, see “*Airport Regulation – Principles of Economic Regulation – Regulatory Asset Base*”.

The CAA had previously announced its decision to extend the price cap for Stansted for the five-year quinquennium ending 31 March 2008 by one year to 31 March 2009. As a result, the CAA made a separate price control reference to the CC in respect of Stansted in April 2008. The CC published on 30 May 2008 its issues statement on the CAA’s reference. The CC will review the CAA pricing options for Stansted and whether Stansted has pursued, in the last five years, any conduct which has actually or potentially operated against the public interest. Therefore, the permitted return on Stansted’s RAB for the next relevant regulatory period is currently under review. There can be no assurance that the operations of the Designated Airports with passenger and traffic charges at the current maximum permitted level will be profitable, or that any lowering of price caps for the Designated Airports or changes to the methodology of the review process at subsequent reviews in respect of the current or any future quinquennia would not have a material adverse effect on income of the Borrowers, which could in turn adversely affect their ability to make timely payments of interest and principal under each Borrower Loan Agreement and, ultimately, adversely affect the Issuer’s ability to make timely payment of interest and principal on the Bonds.

#### ***CC investigation into BAA’s ownership of UK airports***

The CC released its Emerging Thinking in April 2008, and its provisional findings are expected in August 2008. Although the Borrowers remain of the view that the structure of the BAA Group has benefited both passengers and airline customers and that the case has not been made for separate ownership, there can be no assurance that the outcome of any such investigation or imposition of any remedies by the CC would not have adverse consequences for the Security Group. In particular, the

CC has stated in its Emerging Thinking that it considers that separate ownership would create a greater incentive to expand capacity at the three airports. Any possible ruling of the CC requiring the disposal of one or more of the Designated Airports could lead to an early repayment of a portion of the loans advanced under each Borrower Loan Agreement and to redemption of some of the Bonds then outstanding earlier than their planned maturity. Sale of one or more of the Designated Airports would leave the Security Group with a smaller asset pool and may require significant management time and resources to be expended during any transitional period prior to and following any such disposition which could adversely affect revenues for the remaining Borrowers. The three Airport Operators provide services to the entire London aviation market comprising a number of clear market segments, mainly full service airlines at Heathrow, low cost carriers at Stansted and a mix of scheduled, charter carriers and low cost operators at Gatwick. In the event that the Security Group is required to divest one of the airports, the remaining Security Group will service a less diversified customer base and will become more exposed to a more limited number of market segments.

If the disposal proceeds received on a Designated Airport Disposal are insufficient to enable the Borrowers to prepay the Senior Debt and the Junior Debt in such amount as to ensure that the Senior RAR will not exceed 0.70 (or after 1 April 2018 is 0.725) and the Junior RAR will not exceed 0.85, then a Trigger Event will occur. Such inability to prepay Senior Debt and Junior Debt to the requisite levels could adversely affect the Borrowers' ability to make timely payments of interest and principal under the Borrower Loan Agreements and, ultimately, the Issuer's ability to make timely payments of interest and principal under the Bonds.

For more information on the market investigation, see "*Airport Regulation – Principles of Economic Regulation – Regulatory Asset Base*".

#### ***Judicial review of CAA's Q5 price decision***

The CAA, being a public body, can be judicially reviewed by interested parties such as airlines in respect of price determinations. In March 2008 the CAA released its decision on prices that Heathrow and Gatwick can charge for aeronautical activities for Q5. The decision reflects price increases that are higher than those envisaged in the CAA's draft proposal of November 2007. A number of airlines have reacted negatively to the price increase decision of the CAA and have called for regulatory reform. On 23 May 2008 easyJet formally sought leave for judicial review of the CAA price settlement in relation to Gatwick. easyJet claims the CAA gave insufficient weight to the views of the CC, failed to adopt a fair and lawful approach to the handling of late operating expenditure claims by Gatwick and ignored the CC's public interest recommendations in relation to awarding bonuses for overperformance on SQRs. No further applications for judicial review were made by 11 June 2008, the end of the relevant statutory deadline to challenge the CAA's Q5 decision. If the CAA were required as a consequence of judicial review to reconsider its price settlement and, as a result, decreases the prices that can be charged at Heathrow and/or Gatwick, there could be a material adverse effect on the income of the Security Group and ultimately, on the Issuer's ability to make timely payments of interest and principal under the Bonds. For more information, see "*Airport Regulation – Heathrow and Gatwick Price Regulation – Judicial Review*".

Following the CAA's price decision of March 2008, easyJet threatened to withhold part of the aeronautical charges payable by it. In the end they paid the charges in full.

Ryanair has notified BAA that they are withholding £1.14 per passenger from the departing passenger charge at Stansted. Ryanair maintains that Stansted is charging excessive prices as a result of the extension of the Q4 regulatory settlement for an additional year.

While other airlines have been paying aeronautical charges at Heathrow and Gatwick even after the CAA's price decision, there is a risk that airlines could decide to refuse to do so in the future, which would have a material adverse effect on the income of the Borrowers, which in turn would affect the Issuer's ability to service its obligations under the Bonds.

#### ***Capital Expenditure Triggers***

To encourage timely and efficient delivery of capital expenditure projects, the CAA places triggers linked to airport charges against certain capital investment milestones (the "**Trigger Projects**"). The trigger system in place for Q5 requires a reduction in income from airport charges, for all Trigger Projects that the Borrowers do not deliver within three months of a scheduled completion date. There are 24 Trigger Projects at Heathrow and 10 Trigger Projects at Gatwick for Q5, representing about 60 per cent. of the capital investment plans of HAL and GAL during the regulatory period. If the

Borrowers were unable to meet delivery requirements on any Trigger Project, they would experience a reduction in income from airport charges (up to 5 per cent. of Heathrow's aeronautical income and 4.3 per cent. of Gatwick's aeronautical income), which could adversely affect the Borrowers' ability to make timely payment of interest and principal under the Borrower Loan Agreements and, ultimately, the Issuer's ability to make timely payments of interest and principal under the Bonds. There is not currently a Capital Expenditure Trigger scheme in place for Stansted. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Capital Investment Triggers*".

#### ***Service Quality Rebate***

The CAA's Service Quality Rebate (the "SQR") scheme imposes on Heathrow and Gatwick targets designed to improve the passenger experience and to create an incentive for airport management teams. The SQR targets relate to critical aspects of service provided by the relevant Borrower to either airlines or passengers. These service aspects include, for example, cleanliness of airport facilities, queue times in security lanes and availability of stands and jetties for aircraft. Failure to meet the specified targets on a monthly basis results in the relevant Borrower paying a compensatory rebate of approximately 7 per cent. on aeronautical revenues. There is not currently a SQR scheme in place for Stansted, however the CC has stated that it will be investigating the quality of service at Stansted in Q4 and, if appropriate, will recommend an SQR scheme at Stansted for Q5. If a Borrower fails to meet the targets under the SQR, the required rebate and concomitant reduction in income could adversely affect that Borrower's ability to make timely payment of interest and principal under its Borrower Loan Agreement and, ultimately, the Issuer's ability to make timely payments of interest and principal under the Bonds. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Service Quality Rebate Scheme*".

#### ***Regulation of Stansted***

Following the UK Government's decision in January 2008 not to remove Stansted from the regulatory framework applicable to the other Designated Airports, the CAA is required to set a price cap for the airport for the regulatory period from 1 April 2009 to 31 March 2014. Principal considerations for the CAA in this determination include STAL's proposed capital expenditure projects and input from the main airlines operating at Stansted. Currently, a number of airlines operating at Stansted are opposed to STAL's plans for a second runway and associated infrastructure. A reference to the CC was made in April 2008, but the CAA has not yet made a definitive recommendation to the CC. Rather, the CAA has made a series of proposals to the CC for consideration by the CC. There is a risk that the price cap the CAA sets for Stansted for the regulatory period from 1 April 2009 to 31 March 2014 would not be adequate to undertake the proposed capital expenditure projects at Stansted. Inadequate price caps at Stansted may adversely impact the business of STAL and therefore reduce the amounts available to the Borrowers to satisfy their obligations under the Borrower Loan Agreements, which could, ultimately adversely affect the ability of the Issuer to make timely payment of interest and principal under the Bonds. For more information, see "*Airport Regulation – Stansted Price Regulation*".

#### ***CAA review of financing arrangements***

Although the CAA does not have power to approve or prohibit changes in the financial structure of the Borrowers (see "*Airport Regulation – Principles of Economic Regulation – No Restrictions on Financing Arrangements*"), it is a condition of each Borrower's permission to levy airport charges that it must report in its accounts details of any borrowings or sums raised by its respective airport and details about the guaranteeing or giving of any other form of security by any person or authority for the repayment of the principal of, or the payment of interest on, any sums borrowed or raised by the Borrower in any currency. The CAA has been consistent in its view that the choice of such financing arrangements is a matter for each Designated Airport's management and shareholders to decide, and, therefore, the risks associated with financing arrangements, including any risk of regulatory change should be borne by the airport's shareholders and lenders, rather than by the users of the airports.

#### ***Consent required for transfer of HEX Opco***

On or before the Initial Issue Date, all of the shares in HEX Opco will be transferred from BAA to HAL. Under the terms of the Passenger Train Licence granted to HEX Opco by the Secretary of State under section 8 of the Railway Act 1993 (as amended) ("PTL"), this transaction represents a

change of control. Consequently, this transfer is subject to the consent of the Secretary of State for Transport, which BAA and HAL have applied for. The Secretary of State for Transport has not yet given consent to this transaction, and there is a risk that the Secretary of State ultimately will not consent to this transfer. Whilst the company has no reason to believe that such consent will not be received, if consent of the Secretary of State for Transport is not obtained, then the Secretary of State can revoke the PTL on 3 months notice if the change of control is not reversed within 3 months of notice given by the Secretary of State requiring the same, which notice must be given within one month of the change of control coming to his notice. Operating the service without a PTL would constitute a criminal offence under the Railway Act 1993. Consequently, the revocation of the licence could have a material adverse effect on the income of the Security Group and could adversely affect the Borrowers' ability to make timely payment of interest and principal under each Borrower Loan Agreement and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds.

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

Apart from changes to regulatory pricing, the Borrowers' income could be affected by changes to the UK Government's aviation policy. Operations at the Designated Airports could be adversely affected by changes in policies regarding route licensing, security and safety, immigration and border controls, airport development, environmental policy and the provision of airport capacity. For example, changes to the UK Government's security rules have, in the past, imposed significant additional costs on the Borrowers in relation to their operation of the Designated Airports, which the Borrowers have not recovered in full through the regulatory regime for aeronautical revenues. In addition, changes in tax, duty and other applicable regulatory regimes could also affect operations at the Designated Airports. A failure to implement the second phase of the EU-US Open Skies Agreement, which would require the United States to permit foreign ownership of US airlines, could lead to a revocation of the existing EU-US Open Skies Agreement arrangements. Any of these changes could ultimately have a material adverse effect on the income of the Borrowers, which could adversely affect the Borrowers ability to make timely payment of interest and principal under the Borrower Loan Agreements and, ultimately, the Issuer's ability to make timely payments of interest and principal under the Bonds. For more information, see "*Airport Regulation – Airport Regulation Generally – Open Skies*".

#### ***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;
- energy use and efficiency;
- risks, including delay and costs relating to surface access to airports; and
- lack of adequate surface access to airports.

Costs and other obligations associated with compliance requirements under, or constraints imposed by, environmental, health and safety, and planning laws or agreements or by the relevant authorities, may be substantial, involve time-consuming procedures or otherwise impede or prevent, or increase

the operating costs involved in, the continuation of the Borrowers' existing activities and operations. New or revised, or changes to existing policies or laws or in the enforcement of, environmental, health and safety or planning laws may also require the Borrowers or their customers to implement significant changes in their operations or activities or to incur increased costs, any of which could have a material adverse effect on the Borrowers' results of operations or financial condition. Current and future operational and development constraints that could require substantial costs include:

- noise, air quality, buildings and other emissions and climate change, and mitigation measures related to these, including restrictions on runway capacity and use, the payment of compensation and, in relation to expansion of capacity, planning and compulsory purchase costs and delays, uncertainties for new runways and terminals (including as a result of third party opposition and appeals and public inquiries and judicial proceedings) and the costs and uncertainties of surface transport improvements; and
- contamination and flooding related measures.

These costs and other constraints may arise either in respect of the Borrowers' existing businesses or in respect of future capital expenditure projects or new business activities at the Designated Airports. Noise and air quality mitigation and compensation costs for capacity expansion of the Designated Airports have not been fully estimated. 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 Designated Airport and setting the airport charges. There can be no assurance such costs and other constraints will not have a material adverse effect on the Borrowers' results of operations or financial condition. This, in turn, could adversely affect the Borrowers' ability to make timely payment of interest and principal under the Borrower Loan Agreements, and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds. For more information, see "*Business – Environmental Regulation*".

## **Competition Risks**

### *Alternative airports and modes of transport*

The Designated Airports' market share may be adversely affected by competing UK and non-UK airports developing or increasing their capacity or expanding their catchment area.

With regard to competition in the market for transfer passengers who represented approximately 23 per cent. of the Designated Airports' total customers and 34 per cent. of Heathrow's customers in volume terms during 2007, Heathrow currently competes in the market for long-haul international hub air traffic with the major European and Middle Eastern airports. Factors affecting competition for international hub traffic include the number of connecting flight destinations, the number and frequency of connection flights, connection times and the efficiency of baggage-transfer systems. While HAL intends to invest in improvements at Heathrow over the next five years in order to significantly increase capacity, there can be no assurance that Heathrow will not lose hub traffic to other airports.

The expansion or development of surface transport links, such as motorways and high-speed rail, that improve access and reduce travelling time between competing airports and the Designated Airports' current major catchment areas may also affect the Designated Airports' market share. The development of efficient and viable alternatives to air travel, including the improvement or expansion of existing surface transport systems or the introduction of new transport links or technology, could also reduce the level of passengers and airlines using the Designated Airports.

A decrease in the Designated Airports' market share or in the number of passengers and airlines using the Designated Airports could have a material adverse effect on the Borrowers' income. This in turn, could adversely affect the Borrowers' ability to make timely payment of interest and principal under the Borrower Loan Agreements and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds. See "*Business – Competition*".

### *Improvements in communication technology*

Significant improvements are being made to the quality and affordability of communications links such as video-conferencing, with business and other meetings through remote link ups becoming increasingly common. With improvements in the quality and affordability of remote conferencing technologies, the number of business passengers at the Designated Airports may decline, resulting in a reduction in passenger and aircraft traffic and income at the Designated Airports.

## **Construction and Planning Risks**

The Security Group's capital investment programme includes major construction projects at the Designated Airports and is subject to a number of risks. Difficulties in obtaining any requisite permits, 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. For example, the CAA consults with, and considers the wishes of, airlines and other users of the Designated Airports in deciding whether and to what extent the costs of capital investments will be included in each Designated Airport's RAB. To the extent that the Borrowers are not able to achieve a consensus amongst their airline customers in support of capital expansion projects, this could affect the willingness of the CAA to include the costs of such projects in the Designated Airports' RAB. In addition, there can be no assurance that the Borrowers will be able to deal with environmental concerns (such as noise and air quality) of regulators and/or local residents in a manner that will enable them to obtain the necessary approvals for their expansion plans or other capital projects, including, amongst others, for the construction of a third runway at Heathrow and a second runway at Stansted, or that any such approvals will not contain conditions that make the implementation of these plans commercially unviable. See "*Regulatory Risks – Environmental, health and safety and planning considerations*". In addition, due to the number of major construction projects relating to the 2012 Olympics in London, 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 Designated Airport's RAB, and possible shortages of equipment, materials and labour. Further, the Borrowers may not have access to sufficient funds to undertake one or more major construction projects. See "*Additional debt to finance the Security Group's capital investment programme*" below and "*Business – Overall Strategy – Raising Service Levels*".

The failure of any Borrower to recognise, plan for and manage the extent of the impact of construction projects on its Designated Airport could result in projects overrunning budgets, operational disruptions, unsatisfactory facilities at the relevant Designated Airport, safety and security operational deficiencies and higher than expected operating costs. Any of these could affect the Designated Airport's day to day operations.

The commencement of commercial operation of a newly constructed facility (for example, Terminal 5) may also give rise to start up problems, such as the breakdown or failure of equipment or processes or lack of readiness of operators and may, in certain cases, result in injury to persons using the airport, consequential claims against the Designated Airports, closure of certain facilities at the Designated Airports and disruptions of operations, including related airline operations, adverse media coverage with potentially global reputational damage, degradation of customer service negatively impacting traffic (especially transfer traffic) and risk of further review by regulatory authorities. In addition, the lengthy process of on-going renovations, particularly at Heathrow, may adversely affect public opinion among passengers, leading them to seek alternative airports.

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 issues arising in relation to the capital expenditure projects, including losses in the event of defects arising out of breach of contract, liquidated damages for delay or other contractor default. This could adversely affect the Borrowers' ability to make timely payments of interest and principal under the Borrower Loan Agreements and ultimately, on the Issuer ability to make timely payment of interest and principal under the Bonds.

## **Commercial and Financial Risks**

### *Aeronautical income*

The Borrowers generate aeronautical income from airport fees and traffic charges for the use of airport infrastructure at the Designated Airports. These charges are typically 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 and depend, therefore, on the number of passengers, aircraft traffic levels and aircraft type as this affects the aircraft's weight. There are no specific operating contracts between the Borrowers and any of the airlines operating at the Designated Airports. As is common practice in the airline industry, airlines use the Designated Airports in accordance with each airport's published conditions of use. As airlines have no obligations to the Borrowers to have a given passenger load capacity, to provide a specific number of flights to and from the Designated Airports or to use a

particular type of aircraft, there can be no assurance as to the level of the Borrowers' future aeronautical income from any one or more airline operators. A decrease in the number of, or demand for, flights to and from the Designated Airports could have a material adverse effect on the Borrower's aeronautical income.

The number of passengers using the Designated Airports may be affected by a number of factors, including:

- general economic conditions;
- demographic changes and changes in travel preferences;
- environmental, taxation or regulatory conditions;
- overall airline costs, including fuel costs;
- industrial action in the aviation sector, including industrial action involving employees of airports, airlines, air traffic control service providers or companies supplying goods or services to the airlines or the Designated Airports;
- the number of airlines using the Designated Airports;
- mergers or alliances between airlines;
- competition from other airports;
- competition from other modes of transport, between airlines or from alternative travel destinations;
- the quality of surface transport access;
- environmental regulation and levies;
- airline ticket prices;
- currency exchange rate fluctuations;
- mix of domestic and international passengers;
- terrorist acts and sovereign and political risks;
- outbreaks of contagious diseases;
- natural disasters that affect travel behaviour; and
- international trade liberalisation developments such as "Open Skies" initiatives.

In addition, a deterioration in the quality of the services and facilities at the Designated Airports may also lead to a decline in passenger numbers.

A depressed or impaired market for air travel or any other decrease in the number of passengers using the Designated Airports could have a material adverse effect on the Security Group's future income and financial condition and, ultimately, adversely affect the Issuer's ability to make timely payment of principal and interest on the Bonds. For more information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on the Results of Operations – Aeronautical Income*".

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

The Security Group's principal sources of non-aeronautical income include retail income (including car park charges), property rental income and income from the provision of operational facilities and utilities.

Retail income is driven by passenger numbers and propensity of passengers to spend in the shops at the Designated Airports. Factors affecting the number of passengers using the Designated Airports are discussed under "*– Aeronautical Income*" above. There is a risk that the Security Group's expected levels of retail income at the Designated Airports will not be achieved as a result of:

- changes in passenger profile or tastes;
- economic factors;
- reductions in advertising income;

- reductions in retail spend per customer due to reduced competitiveness of the airport retail offering or to stricter hand luggage and other carry on restrictions; and
- reduced shopping time as a result of more rigorous and time consuming security procedures.

A reduction in retail income, or in other non aeronautical income, could adversely affect the Borrowers' ability to make timely payment of interest and principal under the Borrower Loan Agreements and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds. For more information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on the Results of Operations – Retail Income*".

#### ***Security and terrorism risks***

The global nature of the aviation industry has made it a target for international terrorists since the early 1970s. As at the date of this Prospectus, the UK Government has assessed the threat to interests within the UK, including aviation, as "Severe", the second highest threat level. This threat level is based upon the UK Government's assessment of the aspirations and capability of international terrorists to mount an attack within the United Kingdom.

In the current climate of continuing threats of terrorist activity, there can be no assurance that the BAA Group, and in particular the Security Group, will not suffer the adverse consequences of any future terrorist attacks. These consequences may include decreased passenger confidence in the use of air travel, fewer airlines and passengers using the Designated Airports and the potentially significant costs of minimising the exposure to or impact of such an attack or of repairing damage resulting from such an attack.

In addition, the discovery of potential terrorist plots against airlines could lead to a decrease in the Security Group's income. For example, the discovery in August 2006 of an alleged terrorist plot to attack transatlantic flights originating in the United Kingdom led to the cancellation and delay of flights at Heathrow and Gatwick.

The delivery of highly effective security precautions at the Designated Airports is not only required by both UK and international laws but is also a service airlines and passengers demand. The Designated Airports have been operating heightened security measures since September 2001 and were required to introduce additional security measures following the discovery of the August 2006 terrorist plot. The Security Group's results of operations have also been negatively affected by the costs of measures to reduce queues at security checkpoints following the implementation of security measures. The implementation of additional security measures at the Designated Airports in the future could lead to additional limitations on airport capacity, overcrowding, increases in operating costs and unavoidable delays to passenger movement through the Designated Airports which could have an impact on the mode of transport or airport that passengers choose to use for travel.

Any of these consequences could adversely affect the Borrowers' ability to make timely payment of interest and principal under each Borrower Loan Agreement and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds.

#### ***Delays and disruptions in completing capital expenditure projects***

The Borrowers could experience delays and prolongation costs in completing planned capital expenditure projects at the Designated Airports and delays and disruptions in such projects becoming fully operational. Such delays and disruptions may affect planned airline and retailer relocations as well as the timing and scheduling of further capital expenditure projects. This could result in the Borrowers failing to meet capital expenditure triggers and, thus, a reduction in aeronautical income under the Trigger Project scheme. In addition, delays in relocations could cause airline and retailer dissatisfaction as well as a loss of retail income during any period of disruption.

As a result of operational issues related to the opening of Terminal 5 in March and April of 2008, there have been delays in implementing the second phase of BA's movement to Terminal 5. This in turn will result in delays in the planned upgrading of other facilities and planned other airline relocations. Some airlines and retailers have indicated they may consider legal action against BAA to recover compensation for losses arising from the opening of Terminal 5 and subsequent delays in airline relocation. Although BAA does not believe the airlines and retailers have a legal basis for such claims, there can be no assurance that the delays and disruptions related to the opening of Terminal



5 and other delays and disruptions would not have a material adverse effect on the income of the Borrowers and, consequently, on the ability of the Issuer to meet its obligations under the Bonds.

## **Other Risks to the Designated Airports' Operations and Income of the Designated Airports**

### ***Airlines***

Actions taken by airlines that affect passenger numbers at the Designated Airports could materially adversely affect the financial performance of the Borrowers. For example, traffic levels at the Designated Airports could be adversely affected by the decisions of airlines to change flight times, airline ticket prices, the aircraft used and flight routes. Likewise, financial difficulties or failure of a significant airline customer for example, as a result of rising costs of fuel or otherwise could lead to a reduction or cessation of flights from the Designated Airports. In addition, the decision by regulators to withdraw an airline's landing rights at a Designated Airport also could affect passenger numbers at the airport. Decisions of airlines that have a major presence at a Designated Airport, such as British Airways at Heathrow and Gatwick and Ryanair at Stansted, could have a particularly strong adverse effect on the Borrowers. In addition, the highly competitive nature of the airline industry subjects airlines to a high level of commercial and financial risks, which have resulted in insolvencies or mergers of airlines in recent years. The airlines that use the Designated Airports are not subject to any contractual or other obligation to maintain a certain minimum volume of flights to or from the airports. Consequently, airlines may choose to reduce or discontinue their flights at the Designated Airports at any time and for any reason (including as the result of financial difficulties or insolvency of an airline). Such a reduction in flights at the Designated Airports could adversely affect the Borrowers' ability to make timely payment of interest and principal under the Borrower Loan Agreements and ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds. See "*Business – Customers*".

### ***Political events***

Major disturbances at the destination countries or regions of airlines using the Designated Airports, such as wars, riots, strikes, blockades, health scares, natural disasters and acts of terrorism, have the potential to adversely affect passenger traffic and have a material adverse effect on net income of the Security Group. This could adversely affect the Borrowers' ability to make timely payment of interest and principal under each Borrower Loan Agreement and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds.

### ***Industrial relations***

Industrial action could materially disrupt the Designated Airports' operations. For example, if key employees were to strike all flights at the affected airports would have to be cancelled. The Security Group could also be adversely affected by industrial action that does not relate to staff working at the Designated Airports who are employed by the Borrowers or on the Borrowers' behalf. For example, industrial action by Gate Gourmet, an airline catering company, in August 2005 led to the cancellation of hundreds of flights at Heathrow, as long haul services were not permitted to take off without adequate food for passengers. In addition, strikes by employees of airlines could cause the Designated Airports' income to decline. Any of these circumstances could adversely affect the Borrowers' ability to pay interest and principal under the Borrower Loan Agreements and ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds. For more information, see "*Business – Employees*".

### ***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 a Designated Airport's facilities and may have an ongoing impact on passenger traffic levels at the Designated Airports.

Moreover, any aircraft accident or incident involving an airline using the Designated Airports could create a public perception that the Designated Airports are less safe or reliable than other airports, which could cause airlines and passengers to lose confidence in the Designated Airports and to switch to other airports or other means of transportation. A loss of passenger confidence in the Designated Airports could have a material adverse effect on the Security Group's results of operations and financial condition, the Borrowers' ability to pay interest and principal under the Borrower Loan

Agreements and, ultimately, the Issuer's ability to make timely payments of principal and interest under the Bonds.

### *Insurance*

Although the Borrowers, through the BAA Group insurance programme to which they are party pursuant to the Shared Services Agreement, currently benefit from insurance cover to protect against key insurable risks, such cover may not, in certain circumstances, be adequate to cover lost income, reinstatement costs, increased expenses or other liabilities that may arise in connection with certain events. Moreover, there can be no assurance that such insurance cover will be available in the future at commercially reasonable rates or at all. Certain types of insurance cover may be cancellable on short notice by the relevant insurer, including for reasons other than non-payment of premium or breach by the insured, such as in the event of terrorism. In the event of termination of insurance cover, it may not be commercially reasonable or possible for the BAA Group or the Borrowers to obtain replacement cover immediately or to the same extent as previous cover. See "*Business – Insurance*".

The Borrowers may not have, or may cease to have, insurance cover in respect of a loss 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, in respect of a loss that would otherwise be insured, the relevant insurer successfully avails itself of defences available to it, such as breach of disclosure duties, breach of warranty, breach of condition precedent, breach of policy condition, non-disclosure or misrepresentation in connection with "basis of contract" clauses or failure to give notice of a claim in accordance with the policy.

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.

Due to the group-wide nature of the BAA Group insurance programme, there is also a risk that the Borrowers' insurance cover could be negatively affected by the conduct of any other insureds that are members of the BAA Group but not Borrowers as well as other third parties, for example:

- the breach of duty under or the breach of any term or condition of an insurance policy by one insured may affect the insurance cover of another insured;
- an insurance policy may be subject to a maximum limit of liability which, once exhausted, would result in each of the Borrowers being unable to claim in respect of any subsequent losses under the policy, irrespective of whether the maximum limit of liability was reached as a result of claims made by the Borrowers or by another insured in the BAA Group;
- the BAA Group insurance programme is serviced and administered by BAA acting through its BAA Risk and Insurance Department. To the extent BAA acts as agent of the Borrowers in relation to insurance policies under the programme, any acts or omissions of BAA would be attributed to the Borrowers and could result in insurance cover being denied by the relevant insurers;
- a broker may make an error that is deemed attributable to any or all of the insureds, giving the insurer a ground for denying claims under the relevant insurance policy. The Borrower's recourse against the broker may be limited in these circumstances; and
- a captive insurance company may not have in place reinsurance arrangements or may commit an error in relation to these arrangements that provides the reinsurer with a ground for denying claims. The Borrowers' recourse against the captive may be limited in these circumstances.

If the Borrowers are exposed to a significant loss which is not covered by insurance or if there is a significant delay in payment of any insurance, this could adversely affect the Borrowers' ability to make timely payment of interest and principal under the Borrower Loan Agreements and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds. See "*– Risks relating to BAA as Shared Services Provider under the Shared Services Agreement – Reliance on BAA as Shared Services Provider*".

### *Pensions*

Under the Shared Services Agreement, BAA is entitled to pass pension costs on to the Operating Companies calculated on a basis linked to pensionable payroll. These costs relate to BAA's obligation to fund the BAA Pension Scheme and represent a proportion of all deficit in the BAA Pension Scheme. The BAA Pension Trustee determines the level of such funding on the advice of an actuary and after having consulted BAA. The level of this funding may vary from time to time, thereby affecting the level of the Security Group's pension costs. If the BAA Pension Trustee were to increase the level of funding required this could adversely affect the liquidity position of the Borrowers and thus their ability to make timely payments of interest and principal under the Borrower Loan Agreements and, ultimately, adversely affect the Issuer's ability to make timely payment of interest and principal on the Bonds.

Notwithstanding (a) the termination of the Shared Services Agreement (where the Operating Companies continue to be controlled by BAA) or (b) the partial termination of the Shared Services Agreement in respect of an Operating Company that ceases, following its sale, to be controlled by BAA, the Operating Companies (in the case of (a)) or the Operating Company which has been sold (in the case of (b)) will be obliged either to (i) continue to meet ongoing pension costs which BAA may pass onto them under a schedule in the Shared Services Agreement which shall survive termination or, as the case may be, partial termination of that agreement or (ii) make a lump sum payment (a proportion of BAA Pension Scheme shortfall calculated on a buy-out basis) to the BAA Pension Trustee to commute that ongoing payment obligation. If the remaining Operating Companies choose to continue to pay their share of any past service deficit (or the remaining Operating Company chooses to continue to pay its share), these payments would not result in any increased liquidity risks described above unless the BAA Pension Trustee was to increase the level of funding (e.g. by revaluing any past service deficit). In the case of any lump sum payment, such amount is likely to be significant but, notwithstanding the amount paid, it is possible that the BAA Pension Trustee could consider it inadequate at the relevant time and, as a result, could increase the ongoing contributions for the remaining Operating Companies, which could increase the liquidity risks described above. However, any lump sum payment payable by an Operating Company that has been sold is effectively capped at a level to ensure that, following the application of net disposal proceeds arising from the sale of such Operating Company, the Senior RAR and the Junior RAR will be maintained below the Trigger Event level. The Maximum Pension Liability Amount of the BAA Pension Trustee will be reduced (in proportion to the reduction in RAB following the disposal of the relevant company) to reflect the lump sum payment. The Operating Company will also have the ability to reduce any lump sum payment by agreeing to the transfer of some or all of the relevant pension liabilities (and a corresponding share of pensions assets) to another pension scheme outside of the Security Group.

The BAA Pension Trustee is a Borrower Secured Creditor pursuant to the STID and ranks equally with the Issuer in an amount of up to the Maximum Pension Liability Amount. See "*Summary of the Financing Agreements – Security Trust and Intercreditor Deed*".

In addition, there is a risk that the Issuer and members of the Security Group could be required to contribute to or provide other financial support to the BAA Pension Scheme on the basis that they are parties "connected" to or "associated with" BAA. The Pensions Regulator may require connected parties to make contributions to a pension scheme that has a deficit where:

- in the Pensions Regulator's opinion, one of the main purposes of any act that a connected party has been involved in is to prevent the recovery of the whole or any part of a statutory debt obligation that might become due in relation to the BAA Pension Scheme; or
- the net assets of BAA fall below half of the cost of buying out the BAA Pension Scheme's liabilities with insurance policies and a member of the Security Group has resources that are not less than the difference between the net assets of the employer and the cost of buying such insurance policies.

In both of these circumstances, before the Pensions Regulator may require a connected/associated party to support the BAA Pension Scheme, the Pensions Regulator needs to be of the opinion that it is reasonable to do so. In April 2008, the UK Government published a consultation on extending the Pensions Regulator's powers in this regard. The UK Government and the Pensions Regulator have confirmed that the focus of their attention is business models that may sever the link between the pensions scheme and the employer in order to operate schemes for a profit, not legitimate corporate

transactions. However, if enacted as currently proposed, these changes would extend the Pension Regulator's ability to require the Issuer and members of the Security Group to support the BAA Pension Scheme in various circumstances, notably where the effect (regardless of the intention) of any transaction is to materially weaken the BAA Pension Scheme and where the Security Group (viewed as whole) has sufficient resources. If the Pensions Regulator imposes a contribution requirement on the Security Group or the Issuer, this could give rise to a liquidity strain in the Security Group or the Issuer and thereby adversely affect each Borrower's ability to make timely payment of principal and interest under the Borrower Loan Agreements and, ultimately, adversely affect the Issuer's ability to make timely payment of principal and interest under the Bonds.

#### ***Operational risks***

The operation of an airport is a complex undertaking that is subject to a number of factors outside the control of the Security Group. These factors include weather conditions, variable aircraft movements, traffic congestion, third party reliance on technical equipment, airline hub requirements and procedures and aircraft design limitations. Given the nature of these factors, it is not possible to accurately predict their future impact on airport operations from past performance. In addition, the importance and unpredictability of these factors could increase in the future, potentially driven by increases in the overall level of air traffic in the United Kingdom and elsewhere. These and other factors could significantly affect income or significantly increase operating costs at the Designated Airports. This could adversely affect the Borrowers' ability to make timely payment of interest and principal under the Borrower Loan Agreements and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds.

#### ***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. The Borrowers are not aware of any material outstanding claims under these contracts or of any material claims that are likely to be made under the contracts but such claims may arise in due course. Depending on the size of such claims, they may affect the relevant Borrower's ability to make timely payments of interest and principal under the Borrower Loan Agreement and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds.

### **Risks relating to BAA as Shared Services Provider under the Shared Services Agreement**

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

The Borrowers are dependent on BAA as Shared Services Provider to operate the Designated Airports. See "*Description of the Operating Companies, the Shared Services Provider and the Issuer – The Shared Services Agreement*". Each Borrower owns the real estate assets that comprise its Designated Airport and has in its own name the permission to levy airport charges at its Designated Airport. In addition, by virtue of it owning the real estate assets, each Borrower has the right to the income derived from such real estate, including income arising under concession contracts with retailers and any lease or licence income arising under leases or licences of parts of the Designated Airports to, for example, airlines. In addition each Borrower enters into capital expenditure contracts relating to projects at the Designated Airport that it owns.

However, none of the Borrowers employ the staff working at their Designated Airports directly. Instead, BAA employs the staff and provides them to the Designated Airports. In addition, BAA also provides certain central services functions to the Borrowers in connection with the daily operation of the Designated Airports as well as to HEX Opco in connection with the operation of HEX.

To continue these staffing and services arrangements following the Initial Issue Date, the Operating Companies will enter into a Shared Services Agreement with BAA and the Borrower Security Trustee on or about the Initial Issue Date. Pursuant to the Shared Services Agreement, BAA will agree to act as Shared Services Provider and, in such capacity, to provide various management, administration, cash management and operational services, including the provision of IT services and staff, to the Operating Companies in return for payment of a fee as described in more detail in "*Description of the Operating Companies, the Shared Services Provider and the Issuer – The Shared Services Provider*" and "*Description of the Operating Companies, the Shared Services Provider and the Issuer – The Shared Services Agreement*".

The Shared Services Agreement contains provisions regarding the transfer of the employees and service functions of BAA in the event the agreement is terminated. If the Shared Services Agreement were terminated, it is intended that employees employed by BAA would transfer under the UK Transfer of Undertakings (Protection of Employment) Regulations 2006 (“TUPE”), or by offer and acceptance in those circumstances where TUPE does not apply, either to the relevant Borrower to whom the employee provides services or to a replacement provider of employment services to the Security Group. If employees transfer to the Operating Companies by operation of TUPE they must continue to be employed on their existing terms and conditions of employment, including any rights to enhanced redundancy payments and early retirement pensions under the BAA Pension Scheme. Whilst the right to continued accrual under the BAA Pension Scheme would not transfer with employees, in respect of a TUPE transfer, the Operating Companies would need to provide, as a minimum, an alternative scheme meeting minimum statutory requirements to transferring employees in respect of their future employment with the Operating Companies. 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, there can be no assurance that transfers will be effected in a manner that does not adversely affect the business of the Operating Companies and their ability to make timely payments of amounts due under the Borrower Loan Agreements, which, in turn, could adversely affect the Issuer’s ability to make timely payments of interest and principal under the Bonds. For more information, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-Group Charges*”.

In addition, BAA does not provide services exclusively to the Security Group. Personnel of BAA may perform similar services on behalf of other persons, including the Non-Designated Group, at the same time as providing services to the Operating Companies under the Shared Services Agreement. Whilst the agreement provides that BAA may only provide such services to the Non-Designated Group on terms similar to, and no better than, the terms of the Shared Services Agreement, BAA may be faced with inherent conflicts in allocating resources between the Security Group and the Non-Designated Group.

#### ***Ability to procure services upon termination of the Shared Services Agreement***

In addition, senior management and strategic direction for the Operating Companies is provided by BAA. If BAA does not, or is unable to, perform its obligations under the Shared Services Agreement, the Security Group may be unable to procure certain services formerly provided by BAA in a timely manner or at all, which could have a material adverse effect on the Borrowers and, ultimately, the Issuer’s ability to make timely payment of interest and principal under the Bonds.

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

Unlike contractual arrangements that the Borrowers have entered into directly with third parties, a significant number of contracts for third party IT systems and IT support important to the Security Group’s operations are in the name of BAA. A significant number of these contracts are terminable by the contract counterparties if BAA 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 a BAA insolvency if the contract counterparties do in fact elect to terminate their contracts and replacement systems and service providers cannot be procured in a timely manner. For historical information regarding the amounts paid to BAA by the Borrowers, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-Group Charges*”. An inability of one or more of the Borrowers to access IT systems or support at an equivalent cost to that currently paid could adversely affect the Borrowers’ ability to make timely payment of interest and principal under the Borrower Loan Agreements and, ultimately, the Issuer’s ability to make timely payment of interest and principal under the Bonds.

#### ***Reliance on BSC as agent of BAA***

BAA as Shared Services Provider may delegate the performance of part of its duties under the Shared Services Agreement at its own cost but will remain ultimately liable for the performance of these duties notwithstanding any delegation. BAA will delegate certain central services, including cash

management, to BAA Business Support Centre Ltd pursuant to the BSC Services Agreement. If BSC does not, or is unable to, perform its obligations under the BSC Services Agreement, BAA or the Security Group will need to find, in a timely manner, a replacement sub-contractor with the relevant expertise to conduct the services delegated to BSC. Inability to do so could have a material adverse effect on the Borrowers' operations and, consequently, on the Borrowers' ability to make timely payments under the Borrower Loan Agreements and, ultimately, the Issuer's ability to make timely payments of interest and principal under the Bonds.

#### ***Impact of the Non-Designated Group on BAA***

Although the Security Group is structured so that it is not dependent on the Non-Designated Group for maintenance of its income, as BAA will depend on the Non-Designated Group to the extent that it provides services to the Non-Designated Group under a separate shared services agreement, any event or series of events affecting any one, several or all members of the Non-Designated Group could have a material adverse effect on BAA and BSC. The principal consequence of this adverse effect for the purposes of the Security Group is likely to be a potential delay, reduction or cessation of service under the Shared Services Agreement. Under such circumstances, if the Security Group is unable to find a replacement provider or providers for the services provided by BAA under the Shared Services Agreement at about (or below) the cost charged by BAA, the additional cost or delay or reduction of service could adversely affect the Borrowers' ability to make timely payments of amounts due under the Borrower Loan Agreements and the Issuers' ability to meet its payment obligations under the Bonds.

#### **Hedging Risks**

In order to address interest rate risks, inflation rate risks and/or currency risks the Security Group and the Issuer will, in accordance with the Hedging Policy, enter into Issuer Hedging Agreements and/or Borrower Hedging Agreements as described further in "*Summary of the Financing Agreements – Hedging Agreements*". Further, the Borrowers will be permitted to enter into hedges (including, but not limited to, index-linked instruments) to hedge their forecast operating revenues or operating or capital expenditures (including, but not limited to, electricity price hedging and hedging in respect of materials required for projects). However, there can be no assurance that the Issuer Hedging Agreements and Borrower Hedging Agreements will adequately address the hedging risks that the Issuer and the Borrowers will face from time to time. In addition, the Security Group may find itself over- or under-hedged, which could lead to financial stress.

Pursuant to the Common Terms Agreement, the Security Group will covenant to ensure that a minimum percentage of debt is either fixed or fully hedged for interest rate risk over the current and subsequent Regulatory Periods in compliance with the terms of the Hedging Policy. Accordingly, a proportion of the floating rate debt outstanding at any time may remain unhedged. To the extent that interest rates rise, this unhedged interest rate exposure could have an adverse effect on the financial condition of the Security Group. For more information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosure about Financial Market Risk*".

Furthermore, pursuant to the Hedging Policy, the Security Group and the Issuer are permitted to over-hedge their aggregate exposure to interest rate risk up to a maximum of 102.5 per cent. of the sum of the Relevant Debt of the Group from time to time. In addition, the Security Group and the Issuer will be entitled to enter into derivative instruments such as forward starting interest rate swap transactions, forward starting inflation rate swap transactions and fixed rate agreements (in each case with an effective date no later than 24 months from the date of entry into such transactions), in each case in relation to Financial Indebtedness which is projected to be incurred within 24 months from the date of entry into such transactions. Prior to any Loan Event of Default, such transactions as described above will not count towards, or be limited by reference to, the Hedging Limit prior to the applicable effective date of the relevant transaction. Consequently, the Security Group and the Issuer may have more Treasury Transactions in place from time to time than are required by reference to the Relevant Debt of the Group at such time. However, if the Financial Indebtedness projected to be incurred is not incurred at the relevant effective date or at all and the related swap transaction is terminated, the relevant Borrower or the Issuer may be required to make a termination payment to the relevant Hedge Counterparty in respect of such swap transaction.

If the anticipated Financial Indebtedness is not taken on (for example, because the capital investment projects that it was intended to finance have been cancelled and the related forward starting hedge

becomes effective and is taken into account in calculating the hedging limit of 102.5 per cent., described above), the relevant member of the Security Group and Issuer may need to terminate the forward starting hedge entered into in respect of such finance, if it would breach such 102.5 per cent. threshold, which could lead to a requirement on that entity to make a termination payment to the relevant Hedge Counterparty. Such a termination payment could adversely affect the ability of the Borrowers to make timely payments of interest and principal under the Borrower Loan Agreements, and ultimately, the ability of the Issuer to make timely payments of interest and principal under the Bonds.

If there were to be an enforcement event against a Borrower or the Issuer, the claims of the Borrower Hedge Counterparties and/or the Issuer Hedge Counterparties in respect of interest and inflation rate Treasury Transactions would effectively rank ahead of the principal claims of the Bondholders, and, in the case of scheduled payments additionally rank ahead of the claims of the Bondholders to interest. Broadly, termination payments owing to Borrower Hedge Counterparties and/or Issuer Hedge Counterparties in respect of interest and inflation rate Treasury Transactions would rank *pari passu* with interest due to Bondholders. The claims of Borrower Hedge Counterparties and/or the Issuer Hedge Counterparties in respect of cross-currency Treasury Transactions would rank *pari passu* with the claims of the Bondholders in respect of interest and principal. The claims of the Borrower Hedge Counterparties and/or the Issuer Hedge Counterparties could therefore reduce the amounts available from the Borrowers to satisfy the obligations under the Borrower Loan Agreements and the Issuer in respect of the amounts due to Bondholders under the Bonds. In this context, it should be noted that on or about the Initial Issue Date certain existing interest and inflation rate and cross-currency hedges will be novated by BAA to the Borrowers and/or the Issuer for fair market value. It is expected that certain of these hedges may be out of the money for the Borrowers and the Issuer.

The Issuer and the Borrowers may be left exposed to interest rate risk, inflation rate risk or currency risk in the event that there is an early termination of any Issuer Hedging Agreement or Borrower Hedging Agreement, respectively. A Hedging Agreement may be terminated in the circumstances set out in “*Summary of the Financing Agreements – Hedging Agreements*”, including where the Issuer Hedge Counterparty or Borrower Hedge Counterparty, as applicable, is required to gross up for, or receive, payments from which tax has been required to be deducted or withheld by law, which requirement has not been able to be avoided, notwithstanding the Issuer and the Issuer Hedge Counterparty or Borrower and Borrower Hedge Counterparty, as applicable, having used reasonable efforts so to do in accordance with the relevant Hedging Agreement or where a Hedge Counterparty fails to pay the Issuer or a Borrower (as applicable) under the relevant Hedging Agreement. The risk that a Hedge Counterparty may fail to pay amounts due from it under a Hedging Agreement is addressed by the fact that there are certain obligations imposed on a Hedge Counterparty under such Hedging Agreement in the event of the relevant Hedge Counterparty being subject to a Hedge Counterparty Downgrade. Nonetheless, if an Issuer Hedge Counterparty defaults on these obligations or for any other reason, an Issuer Hedging Agreement is terminated and the Issuer is unable to find a replacement Issuer Hedge Counterparty, then the funds available to the Issuer may be insufficient to meet fully its obligations under the Bonds, as a result of adverse fluctuations in interest rates, inflation rates or exchange rates or making any termination payment to the Issuer Hedge Counterparty, which payment will be in accordance with the Issuer Payments Priorities (see “*Summary of the Financing Agreements – Issuer Cash Management and Issuer Account Bank Agreement*”). If a Borrower Hedging Agreement is terminated and the relevant Borrower is unable to find a replacement Borrower Hedge Counterparty, then the funds available to the Borrower may be insufficient to meet fully its obligations under the Authorised Credit Facilities, including the Borrower Loans, as a result of adverse fluctuations in interest rates and exchange rates or making any termination payment to the Borrower Hedge Counterparty.

#### ***The Borrower Liquidity Facilities***

The Borrower Liquidity Facilities are intended to cover certain shortfalls in the ability of the Borrowers to service payments in relation to certain Borrower Secured Obligations, including on the Initial Issue Date, the Borrower Hedging Agreements on any Payment Date as well as any EIB Liquidity Shortfalls under certain Supported EIB Facilities to the extent permitted under the Common Terms Agreement and shortfalls in amounts payable to pay interest and other finance charges (excluding, for the avoidance of doubt, principal) under the Refinancing Facility Agreement. However, there can be no assurance that funds available under the Borrower Liquidity Facilities will

be sufficient to cover any such shortfalls on any such Payment Date, which may lead to an early termination of one or more Borrower Hedging Agreements or a default under the facilities supported by the Borrower Liquidity Facilities and, subsequently, a default under the Common Terms Agreement. Any such default could adversely affect the ability of the Borrowers to make payments to the Issuer under the Borrower Loan Agreements and adversely affect the Issuer's ability to pay under the Bonds.

#### ***Refinancing Risks in respect of the Liquidity Facilities***

Pursuant to the terms of the Issuer Liquidity Facility Agreement and the Borrower Liquidity Facility Agreement, each Issuer Liquidity Facility Provider and each Borrower Liquidity Facility Provider (each, a "**Liquidity Facility Provider**") has the option to renew its commitment on an annual basis if so requested by the Issuer or the Borrowers, as applicable. To the extent that a Liquidity Facility Provider elects not to renew its commitment on any annual renewal date and the Issuer in respect of the Issuer Liquidity Facility Agreement or, as the case may be, the Borrowers in respect of the Borrower Liquidity Facility Agreement are unable to replace such Liquidity Facility Provider, the Issuer, or as the case may be, the relevant Borrower is required to make a Standby Drawing in respect of the available commitment of the relevant Liquidity Facility Provider.

Following the making of a Standby Drawing of the available commitment of a Liquidity Facility Provider, the available commitment of any such Liquidity Facility Provider will only be available to fund Issuer Liquidity Shortfalls in respect of Class A Bonds and Class B Bonds (as well as certain expenses ranking in priority thereto) issued prior to the applicable Fifth Anniversary, or as the case may be, Borrower Liquidity Shortfalls in respect of any Treasury Transactions outstanding under Borrower Hedging Agreements as at such Fifth Anniversary and in respect of the principal amount outstanding under any Supported EIB Facilities and the Refinancing Facility as at the applicable Fifth Anniversary.

Moreover, neither the Issuer in respect of the Issuer Liquidity Facilities nor the Borrowers in respect of the Borrower Liquidity Facilities are permitted to procure the provision of additional commitments from any alternative liquidity facility provider without the prior written consent of the existing Liquidity Facility Providers if the accession of the relevant financial institution as a Liquidity Facility Provider would cause the aggregate of the total commitments under the Borrower Liquidity Facility Agreement and the total commitments under the Issuer Liquidity Facility Agreement to exceed £900,000,000.

The Issuer, and/or the Borrowers may request an extension of the Fifth Anniversary but if the Fifth Anniversary is not extended and the Issuer and/or the Borrowers do/does not replace the relevant Liquidity Facility Provider that refuses to so extend, at any time after the Fifth Anniversary with respect to a Liquidity Facility Provider, the Issuer will not be permitted to issue further Bonds and the Borrowers are not permitted to incur any further Senior Net Indebtedness or Junior Indebtedness (other than any indexation accrued on existing liabilities or indexation accretion in respect of any inflation-linked Hedging Agreement) or in either case, procure the provision of additional commitments without the prior written consent of the relevant Liquidity Facility Provider. To the extent that the Issuer or, as the case may be, the Borrowers, are unable to replace a Liquidity Facility Provider which does not renew its commitment, the Issuer may be unable to refinance outstanding Bonds through the issuance of further Bonds and the Borrower may be unable to refinance maturing Financial Indebtedness which could result in the occurrence of a Bond Event of Default or, as the case may be, a Loan Event of Default.

#### **Leverage Risks**

##### ***High Leverage***

The Borrowers have and, following the Initial Issue Date, will continue to have a substantial amount of outstanding indebtedness with significant debt service requirements. In addition, the Borrowers intend to incur additional indebtedness in the future to finance their capital investment programmes. This significant leverage could have important consequences for Bondholders, including:

- making it more difficult for the Borrowers to satisfy their obligations under the Borrower Loan Agreements and therefore for the Issuer in respect of the Bonds;
- requiring the Borrowers to dedicate a substantial portion of their cash flow from operations to payments on their debt obligations, thus reducing the availability of their cash flow to fund growth and for other general corporate purposes; and



- increasing the Borrowers' vulnerability to a downturn in their business or economic or industry conditions.

#### ***Additional debt to finance the Security Group's capital investment programme***

The Security Group proposes to undertake a significant capital investment programme during the period from 2008/09 to 2017/18. For information about the nature and expected costs of the capital investment programme, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Expenditure – Planned Capital Expenditures*". This investment programme will require the raising of significant additional debt financing over the course of the programme. As described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", the ability of the Borrowers to increase revenue is limited by caps on aeronautical charges set by the CAA in respect of each regulatory period and current charges are close to such caps. As a result, the Borrowers have little or no room to increase aeronautical charges over the next five years to cover the cost of servicing the Borrowers' interest and debt repayment obligations under the additional borrowings needed to finance the investment programme. In addition, the CAA in setting charges is not required to take into account the Borrowers' financing arrangements or any changes in those arrangements. This may adversely affect the Borrowers' ability to raise all of the debt necessary to complete the investment programme as currently planned which could impact its ability to make payments under its Borrower Loan Agreements and, ultimately, on the Issuer's ability to make timely payments of interest and principal under the Bonds.

#### ***Refinancing risk***

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

- finance future capital expenditure or refinance any debt incurred to fund capital expenditure;
- enable the Issuer to refinance Bonds; and
- refinance any other debt (including the Refinancing Facility and any other debt incurred for liquidity, capital expenditure or working capital purposes) the terms of which have become inefficient or at scheduled, partial or final maturity.

Whilst the Common Terms Agreement sets forth the terms and conditions on, and circumstances under, which additional debt can be raised by the Security Group, there can be no assurance that the Security Group will be able to raise sufficient funds necessary to refinance such indebtedness on terms that are economically viable. An inability to refinance maturing indebtedness would result in a default thereunder, which would lead to the occurrence of a Bond Event of Default in respect of the Bonds. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*".

#### **Title Considerations**

##### ***Defects in title***

The vast majority of the land at the Designated Airports is registered land in respect of which the Airport Operators are the registered owners, apart from parts of the Longford Watercourse (see "*Twin Rivers – The Longford Watercourse*" below). There is thought to be little or no unregistered freehold title at the Designated Airports, save possibly *de minimis* areas as may arise due to mapping discrepancies. Statutory declarations are to be given confirming that the relevant Borrower or its predecessor has been in unchallenged control and possession of the land for sufficient time to be able to claim possessory title to any missing gaps by adverse possession.

The Borrowers will provide certain representations and warranties to the Issuer and the Borrower Security Trustee in the Common Terms Agreement in relation to the real property making up the Designated Airports and the Leased Premises, the nature of the title that the Borrowers have to the Designated Airports and the existence of any restrictions or other encumbrances over the Designated Airports. However, there is a risk that there are minor defects in the title of the Borrowers to the Designated Airports and consequently the security may take effect subject to the rights of any person having a better claim to the land in question.

##### ***Leasehold titles within the Designated Airports***

Consent is required from certain landlords to create the security over the leasehold titles within the Designated Airports and the Leased Premises pursuant to the Security Documents. In most cases,

these leases stipulate that the landlord may not unreasonably withhold such consent. The Borrowers are obliged under the Security Agreement to use all reasonable endeavours to obtain the relevant landlord's consent where this is required for the grant of security over any leasehold property owned by the Borrowers at the Initial Issue Date and to obtain any necessary consents in respect of any operationally sensitive or particularly important property (as designated by the Security Group) they subsequently acquire. To the extent that any such consents are not obtained, the security granted by the Borrowers may not extend to all operationally sensitive or important property comprising the Designated Airports.

#### *Twin Rivers – The Longford Watercourse*

Certain land within the area now constituting Terminal 5 at Heathrow airport comprises the route of the Longford Watercourse prior to its diversion in several stages since 1954 (the “**Land**”). Counsel to HAL has advised that the Crown has title to the Land. HAL acquired rights to enter to carry out the relevant works on the Land pursuant to a licence for works entered with the Secretary of State for Culture, Media and Sport dated 22 October 2002 (the “**2002 Licence**”) and supplemental licences granted under the terms of the 2002 Licence. Parts of the Longford Watercourse have been the subject of one of the supplemental licences. Although the licences are expressed to be revocable on 3 months' notice, the Crown, HAL and the Secretary for Culture, Media and Sport have always proceeded on the assumption that HAL would ultimately acquire title to the Land. HAL has obtained an opinion of counsel that, in this context, it is clear that the Crown would be prevented from revoking the 2002 Licence and HAL's right to occupy the area.

HAL is now seeking a transfer of the Land from the Crown. Whilst the Crown has asserted that it has transfer rights and is the correct body to transfer the freehold, there is a risk that the Land is still subject to management powers vested in the Royal Parks Agency, which would prevent a transfer by the Crown. In addition, the valuation of the Land and, consequently, the amount of compensation to be paid by HAL to the Crown on transfer of the Land, is subject to a dispute between HAL and the Crown. There can be no guarantee that the Land will eventually be transferred to HAL or at what price it would be transferred.

The Crown has declined to make any formal offer. Negotiations have continued since 2006. In November 2006 the Crown's representatives gave an indicative figure of £32m and also made reference to an additional sum of £100m but this was during an exchange of “without prejudice” correspondence rather than a formal offer. On a separate subsequent occasion a representative of the Crown verbally and informally indicated that they were looking for a figure of several million pounds. On 1st July 2008 HAL put forward an offer to acquire the Crown's interests within the boundary of Heathrow Airport. The offer comprised a payment of £760,000 (in line with HAL's advice as to proper transfer value) plus an interest for the Crown in the newly diverted Longford River as well as reimbursement of the Crown's reasonable legal and surveying costs. If HAL had to pay the full amount indicated by the Crown, despite the protections embedded in regulatory procedures, payment of such amount could adversely affect its financial position which could impact on its ability to make payments under its Borrower Loan Agreement and ultimately on the Issuers' ability to make timely payments of interest and principal under the Bonds.

#### *Mortgagee in possession liability*

Where the Borrower Security Trustee takes enforcement proceedings under the Security Documents and, in respect of the Designated Airports, if there is a physical entry into possession of any Designated 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 a Designated Airport, unless the Borrower Security Trustee is satisfied at the time that it is adequately indemnified by the Borrower Secured Creditors (including the Issuer and the Bondholders). Each Borrower will agree to indemnify the Borrower Security Trustee for liabilities as a mortgagee in possession under the Security Documents. However, if a Loan Event of Default has occurred, it is likely that the Borrowers will not be able to meet indemnity obligations and, if significant, the Issuer's ability to make timely payment of interest and principal on the Bonds could be adversely affected.

## **Tax Risks**

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

The Issuer will be incorporated in Jersey and resident for tax purposes in the UK. The Issuer is expected to 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, as amended in 2007 (the "**Securitisation Regulations**"). Accordingly, the Issuer should be subject to corporation tax in the UK in accordance with the special regime for securitisation companies as provided for by these regulations.

For accounting periods beginning on or after 1 January 2005, the statutory accounts of UK tax-resident companies, such as the Issuer, with listed debt are required to comply with International Financial Reporting Standards ("**IFRS**") or UK generally accepted accounting principles including FRS 25 and 26, which are based on IFRS ("**New UK GAAP**"). Unless otherwise stated, references below to IFRS include references to New UK GAAP. If taxed on the basis of their accounts, the tax position of special purpose companies such as the Issuer might be different from their cash position. HM Revenue & Customs ("**HMRC**") has indicated that, as a policy matter, it does not wish the tax neutrality of securitisation special purpose companies in general to be disrupted as a result of the transition to IFRS and has accordingly introduced a special corporation tax regime for securitisation companies in the form of the Securitisation Regulations.

In the Tax Deed of Covenant, the Tax Covenantors, the members of the Security Group and the Issuer make certain representations and give covenants not to do anything, or permit anything to be done, that would result in the Issuer ceasing to satisfy the conditions for qualifying as a securitisation company within the scope of the Securitisation Regulations. However, 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 on the Bonds. See "*Tax Considerations – United Kingdom Taxation*".

The Securitisation Regulations may be the subject of further amendment. There can be no assurance that the official interpretation of, or amendments to, these regulations will not have a material adverse effect on the Issuer's UK tax position.

### ***Potential secondary tax liabilities of the members of the Security 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.

Under the Tax Deed of Covenant, the Tax Covenantors, the members of the Security Group and the Issuer represent that nothing has been done, and covenant that nothing will be done by them, which might reasonably be expected to give rise to any secondary tax liability in any member of the Security Group or the Issuer. The Tax Deed of Covenant also contains a covenant from the Tax Covenantors to discharge certain secondary tax liabilities that could theoretically arise to members of the Security Group as a result of acts or omissions of persons who are neither members of the Security Group nor Tax Covenantors. If, however, any such secondary tax liabilities do 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 Security 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. Following the Initial Issue Date, neither the Issuer nor any member of the Security Group will remain grouped for VAT purposes with any company that is not a member of the Security Group or the Issuer and a new VAT group will be formed whose members will be the Issuer and the members of the Security Group. In addition, steps will be taken to cause the Issuer to cease to form part of any VAT group with effect from three months after the Initial Issue Date. Nevertheless, the members of a VAT group are jointly and severally liable for any VAT due from the representative member of the group and remain so liable (in respect of liabilities arising during their period of membership) after ceasing to be members of that VAT group. Therefore, the Issuer and members of the Security Group will continue to have exposure to VAT liabilities of other members of the wider BAA group that arose prior to the Initial Issue Date. If any such amounts are significant, it could adversely affect the Borrower's ability to make payments of interest and principal under the

Borrower Loan Agreements and the Issuer's ability to make payments of interest and principal under the Bonds.

***Withholding tax in respect of the Bonds, the Financial Guarantees and the Hedging Agreements***

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. If such a withholding or deduction is required to be made, the Issuer will have the option (but not the obligation, unless the Borrowers have exercised their right to prepay the advances outstanding under the Borrower Loan Agreement in such circumstances) of redeeming all outstanding Bonds in full at their 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. Neither the Bond Trustee nor Bondholders nor, if Definitive Bonds are issued, Couponholders, will have the right to require the Issuer to redeem the Bonds in these circumstances.

Likewise, in the event withholding taxes are imposed in respect of payments due under the Wrapped Bonds and the relevant Financial Guarantor is called upon under its Financial Guarantee or Financial Guarantees to make payments in respect of such payments, such Financial Guarantor will not be obliged to gross-up or otherwise compensate the holders of such Wrapped Bonds for the reduction in cash amounts to be received by such Wrapped Bondholders. The relevant Financial Guarantor will also not be obliged to gross up or otherwise compensate holders of Wrapped Bonds in respect of any withholding it is required to make in respect of payments under the Financial Guarantees.

See "*Tax Considerations*" for a discussion of the risk of withholding taxes applying in respect of payments under the Bonds and the Financial Guarantees.

The Issuer and each Borrower that is a party to a Hedging Agreement believe that all payments to be made under any Hedging Agreement can be made without withholding or deduction for or on account of any tax. In the event that any such withholding or deduction is required to be made from any payment due under a Hedging Agreement by the Hedge Counterparty, the amount to be paid will be increased to the extent necessary to ensure that, after any such withholding or deduction has been made, the amount received by the party to which that payment is being made is equal to the amount that that party would have received had such withholding or deduction not been required to be made. In the event that any such withholding or deduction is required to be made from any payment due under a Hedging Agreement by the Issuer or by a Borrower, the Issuer or that Borrower will make payment subject to that withholding or deduction but will not be required to pay any additional amount to any Hedge Counterparty in respect thereof. If a Hedge Counterparty is obliged to pay an increased amount as a result of its being obliged to make such a withholding or deduction, or if the Issuer or a Borrower makes a payment to it subject to such a withholding or deduction, the Hedge Counterparty may terminate the transactions under the relevant Hedging Agreement, subject to the Hedge Counterparty's obligation to use its reasonable efforts to transfer its rights and obligations under that Hedging Agreement to a third party swap provider such that payments made by and to that third party swap provider under that Hedging Agreement can be made without any withholding or deduction for or on account of tax. If a transaction under a Borrower Hedging Agreement is terminated and not replaced, the relevant Borrower may also be required to make a termination payment to the Hedge Counterparty. Subject to certain exceptions, any such payment under an Interest Rate Hedging Agreement would rank *pari passu* with interest payments required to be made to the Issuer under any Borrower Loan Agreement in respect of the Class A Bonds and any such payment under a Cross Currency Hedging Agreement would rank *pari passu* with principal payments required to be made to the Issuer under any Borrower Loan Agreement in respect of the Class A Bonds. If a transaction under an Issuer Hedging Agreement is terminated and not replaced, the Issuer may be unable to meet its obligations under the Bonds, with the result that the Bondholders may not receive all of the payments of principal and interest due to them in respect of the Bonds. The Issuer may be required to make a termination payment to the Hedge Counterparty, which payment under an Interest Rate Hedging Agreement would be *pari passu* to interest payments owed to the Bondholders in respect of the Class A Bonds and which payment under a Cross Currency Hedging Agreement would rank *pari passu* with principal payments required

to be made by the Issuer in respect of the class of Bonds to which such Cross Currency Hedging Agreement relates.

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

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

The structure of the transaction and, *inter alia*, the issue of the Bonds and the ratings that are to be assigned to them, including in the light of an assessment of relevant investment considerations, are based on English law in effect as at the date of this Prospectus (having regard also to Jersey law in effect as at that date). No assurance can be given as to the effect of any possible judicial decision or change to English or Jersey law or the administrative practice of any jurisdiction after the date of this Prospectus. For example, on 21 June 2007 HM Treasury and HMRC began a joint consultation with the issue of a paper entitled "Taxation of the foreign profits of companies: a discussion document", raising, among other things, the possibility that the amount of interest relief available to the UK members of a multinational group might be restricted by reference to the group's total consolidated external finance costs. Such changes, if enacted, might adversely affect the ability of the Issuer to meet its payment obligations under the Bonds. See "*Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies and Judgements*" for a discussion of the impact of changes to the tax regime for Industrial Buildings Allowances which are included in the Finance Bill 2008 currently before the UK Parliament.

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

##### ***Neither Borrower Security Trustee nor Issuer to monitor compliance***

The STID will provide 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 but will (unless expressly informed to the contrary by a Borrower) rely on the Investor Reports and Compliance Certificates to determine whether a Trigger Event, Loan Event of Default or Potential Loan Event of Default has occurred. A Loan Event of Default or Potential Loan Event of Default will include a breach of any representation or warranty which is made or repeated by the Obligors under any of the Finance Documents where such breach would or would reasonably be expected, in the case of certain representations and warranties only, to have a Material Adverse Effect or a breach by an Obligor of any covenant or undertaking under any Finance Document where such breach would or would reasonably be expected to have a Material Adverse Effect and, in either case, to the extent not remedied within any applicable grace period, where such breach is capable of remedy.

Moreover, as the Issuer is a special purpose company, it will not, nor does it possess the resources to, actively monitor whether a Trigger Event, Loan Event of Default or a Potential Loan Event of Default has occurred, including, for this purpose, the continued accuracy of the representations and

warranties made by the Obligors and compliance by the Obligors with their covenants and undertakings.

Accordingly, it will fall to the Obligors themselves to make these determinations. In this context, a number of these representations, warranties, covenants, undertakings and Loan Events of Default and Potential Loan Events of Default will be qualified by reference to a relevant fact, matter or circumstance having a Material Adverse Effect. Whilst the criteria set out in the definition of “Material Adverse Effect” is on its face objective, it will fall to the Obligors themselves (or BAA on their behalf) to determine whether or not the relevant fact, matter or circumstance falls within any of the criteria and, as such, the determination will be subjective for so long as such determination is made by the Obligors.

However, the Common Terms Agreement will require the Borrowers to inform the Borrower Security Trustee of the occurrence of any Trigger Event, Loan Event of Default and Potential Loan Event of Default promptly upon becoming aware of the same. In addition, the Borrowers are required to confirm in each Investor Report and each Compliance Certificate, each of which will be delivered to, among other recipients, the Issuer and the Borrower Security Trustee whether or not any Trigger Event, Loan Event of Default or Potential Loan Event of Default has occurred (and, if one has, what action is being, or proposed to be, taken to remedy it). Failure to promptly identify a Trigger Event or Loan Event of Default could have a material adverse effect on Bondholders’ abilities to recover the full amount under the Bonds.

#### ***Compliance is measured against non-objective measures***

The calculation of the Senior RAR and the Junior RAR will derive from a determination by the Borrowers of the Regulatory RAB (and to the extent that an airport ceases to be regulated, Transfer RAB).

The CAA publishes the Regulatory RAB determined by it for each Designated Airport at the start of each quinquennium and BAA (on behalf of the relevant Designated Airport) updates the Regulatory RAB during the quinquennium. The Regulatory RAB is not independently verified although regulatory accounts are periodically provided to (but not explicitly approved by) the CAA. If the Regulatory RAB for a Designated Airport at any time as determined by BAA is greater than the value of the Regulatory RAB that is ultimately determined by the CAA at the end of the quinquennium, the Obligors may incorrectly appear to be in compliance with their financial triggers and not to have caused the occurrence of a Trigger Event. This may prevent or delay the Bondholders from becoming aware of financial difficulties within the Security Group and may ultimately impair their ability to recover the full value of the Bonds.

If, in determining the Regulatory RAB at the start of each quinquennium, the CAA does not take into account all expenditure that the Obligors have already taken into account in determining the Regulatory RAB, this may lead to the occurrence of a Trigger Event. This may impair the ability of the Borrowers to meet their obligations under the Borrower Loan Agreements and, ultimately, adversely affect the Issuer’s ability to repay the Bondholders.

#### **Unsecured Creditors of the Security Group**

Unsecured creditors of the Security Group, such as trade creditors and suppliers, will not become parties to the Common Terms Agreement or the STID and will have rights of action in respect of their debts which are independent from those of the Borrower Secured Creditors. Although the aggregate amount of unsecured debt that the Security Group can incur will be restricted under the Common Terms Agreement, any unsecured creditor will be able to petition for a winding-up or administration of any Obligor who is liable for such debts if any such Obligor fails to make payments thereunder when they fall due. Any such action may result in the occurrence of an Insolvency Event which constitutes a Loan Event of Default and may lead to delivery of a Loan Enforcement Notice and prepayment of the Borrower Loans. To the extent that the Borrowers have insufficient sums to meet all obligations in full, this could adversely affect the Borrowers’ ability to make payments of interest and principal under the Borrower Loan Agreements and ultimately, the Issuer’s ability to make payments of interest and principal under the Bonds.

#### **Independent Enforcement Rights of Non-Migrated Bondholders**

It is anticipated that all of the bonds currently in issue by BAA will migrate to the Issuer on or about the Initial Issue Date. See “*Overview of Financing Structure*” above. However, it is possible that

certain holders of the existing bonds may decide to retain the existing bonds issued by BAA and any such bonds which remain in issue following the Initial Issue Date will be referred to in this Prospectus as the Non-Migrated Bonds. The Non-Migrated Bonds are currently unsecured obligations of BAA guaranteed as to payment by each Borrower. The Non-Migrated Bonds contain certain independent rights which will not be regulated pursuant to the STID. Such rights include (1) the right to declare the Non-Migrated Bonds due and payable immediately at par if default is made in the payment of any principal or interest due on such Non-Migrated Bonds or failure to perform or observe any of the other obligations of BAA, HAL, GAL or STAL, in each case, within the prescribed grace period and (2) for certain tranches of Non-Migrated Bonds, the right to put the Non-Migrated Bonds to BAA at par if (a) operating airports ceases to be the major part of the business of BAA and its subsidiaries taken as a whole or (b) in respect of certain tranches of existing bonds of BAA which may become Non-Migrated Bonds, there is a change of control of BAA.

However, for so long as the Non-Migrated Bonds remain outstanding, the Obligors will maintain a Non-Migrated Bond Facility in an amount equal to the aggregate principal amount outstanding of the Non-Migrated Bonds plus interest for one period and provided the relevant Non-Migrated Bonds are being redeemed, any applicable default interest (after taking account of the impact of all cross currency Treasury Transactions entered into in relation thereto) which will be available to the Borrowers prior to the occurrence of a Loan Event of Default (other than a Non Migrated Bond Excluded Default) to meet their obligations under the Non-Migrated Bonds in the event of an early redemption of the Non Migrated Bonds in the circumstances described above.

However, if the Non-Migrated Bond Facility is unavailable for any reason and the Non-Migrated Bondholders take Independent Enforcement Action, this could lead to the occurrence of an Insolvency Event in respect of the Borrowers and may adversely affect the Borrowers' ability to make timely payments of interest and principal under the Borrower Loan Agreements and, ultimately, the Issuer's ability to make timely payments of interest and principal under the Bonds. For more information in respect of the Non-Migrated Bond Facility Agreement, see "*Summary of the Financing Agreements – Additional Resources Available – Non-Migrated Bond Facility Agreement*".

### **Financial Forecast**

The financial forecast for the 12 months ended 31 March 2009 set out in "*Unaudited Forecast Financial Data and Pro Forma Financial Ratios for the Year Ended 31 March 2009*" have been prepared for illustrative purposes only. Actual events and circumstances may vary materially from the assumptions made. No representation is made or intended, nor should any be inferred, with respect to the likely occurrence or existence of any particular fact or circumstance. If facts or circumstances occur which are less favourable than those projected, or if the assumptions used in formulating the financial projections prove to be incorrect, the Borrowers may be unable to satisfy their obligations under the Borrower Loan Agreements, which may result in turn in the Issuer being unable to meet its obligations under the Bonds.

This forecast financial information was not prepared with a view toward compliance with published guidelines of the SEC and has not been audited or reported on or the guidelines established by the American Institute of Certified Public Accountants for preparation or presentation of prospective financial information.

Potential investors should regard the assumptions and projections with considerable caution and are urged to evaluate the potential for any assumption to deviate from those set out in "*Unaudited Forecast Financial Data and Forecast Pro Forma Financial Ratios for the Year Ended 31 March 2009*" and the implications of deviations in different assumptions on other assumptions and the income and cashflows of the Security Group.

### **Security Granted by Obligors to Subordinated Security Trustee**

The Obligors will grant the same security over their assets that they provide to the Borrower Security Trustee additionally to the Subordinated Security Trustee in respect of the obligations of Sub Holdco under the Subordinated Facility Agreement. In addition, Sub Holdco will grant security over its shares in the Security Parent. Following the occurrence of an event of default under the Subordinated Facility Agreement, the Subordinated Security Trustee may enforce the share security granted over the shares in Security Parent which may lead to a change of control of the Security Group such that it would cease to be controlled by BAA. Any such change of control may lead to an automatic termination event under the Shared Services Agreement within six months of such change of control

occurring. See “– *Risks relating to BAA as Shared Services Provider under the Shared Services Agreement – Reliance on BAA as Shared Services Provider*” and “*Summary of the Financing Agreements-Senior/Subordinated Intercreditor Agreement*”.

## **Insolvency Considerations**

### ***The Issuer***

The Issuer is incorporated in Jersey; however it will be tax resident in England (from where it will be controlled and all management functions will be operated).

Under the EC Regulation on Insolvency Proceedings 2000 (the “**EUR**”), “main” insolvency proceedings in respect of a debtor should be opened in the member state in which its centre of main interest (“**COMI**”) is located. There is a rebuttable presumption in the EUR that a company or legal person’s COMI is in the member state in which its registered office is located. Although, following a recent decision of the European Court of Justice, it is difficult to rebut this presumption (and noting for the avoidance of doubt that Jersey is not a member state for the purposes of the EUR), it is nevertheless likely that given the fact that the Issuer is managed and operated from England, and this should be ascertainable to a third party creditor (such that a creditor would assume that the Issuer’s COMI was in England), it is likely that the Issuer’s COMI is in England as opposed to Jersey. If this is the case, the Issuer may be subject to English administration, company voluntary arrangement, and certain liquidation proceedings. Alternatively, English insolvency law may also be applicable to the Issuer if a request for assistance is made by the Jersey court to the English court under section 426 of the Insolvency Act or if it were to be an unregistered company under Part V of the Insolvency Act.

In general terms under English insolvency law, it is not possible for a creditor holding a floating charge either by itself or with other fixed security over the whole or substantially the whole of a company’s assets (unless such charge was created prior to 15 September 2003) to prevent the appointment of an administrator to that company by appointing an administrative receiver. Administration is a collective insolvency regime run for the benefit of creditors generally by the courts. Receivership is a private arrangement available to secured creditors under which security can be enforced principally for the benefit of a secured creditor. However, there are certain exceptions to this general principle, including an exception for qualifying floating charges provided in respect of capital markets arrangements. It is anticipated that the issuance of Bonds by the Issuer would qualify as capital markets arrangements under the Insolvency Act. See “– *Enterprise Act*”.

Even if the Issuer’s COMI were in England, or section 426 or Part V applied, however, 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 exception described in more detail below. This is because, notwithstanding the fact that its COMI may be in England, the Issuer is unlikely to be considered to be a “company” for the purposes of section 29 of the Insolvency Act since it is not formed under one of the Companies Acts. Although there has been some case law to suggest that an administrative receiver may be appointed in respect of a foreign company, it is more likely that no administrative receiver may be appointed over such a company.

Under Jersey law, a creditor of a Jersey company/the Issuer can apply to the Royal Court of Jersey for a declaration of *désastre* in relation to the Issuer under Article 6 of the Bankruptcy (Désastre) Jersey Law 1990. If successful, all the property and powers of the Jersey company would vest in the Viscount (an officer of the court) immediately upon the making of the declaration. This relates to all property, whether situated in Jersey or overseas, whether present or future and of whatever nature. However, any property held by the Issuer in trust for any other person will not vest in the Viscount (although the Viscount will, as officer of the court, take such steps as may be necessary to protect such property, pending direction of the Royal Court). A declaration of *désastre* could have a material adverse effect on the Issuer’s ability to make payments under the Bonds.

### ***Enterprise Act***

The provisions of the Enterprise Act 2002 (the “**Enterprise Act**”) restrict the right of the holder of a floating charge to appoint an administrative receiver (unless the security was created prior to 15 September 2003 or an exception applies) and instead give primacy to collective insolvency procedures (in particular, administration).

The Insolvency Act contains provisions that continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant



exception provides that the appointment of an administrative receiver is not prohibited if it is made in pursuance of an agreement (being, in respect of the transactions described in this Prospectus, the Obligor Floating Charge Agreement) which is or forms part of a capital market arrangement (as defined in the Insolvency Act) under which a party (such as the Obligors) incurs or, when such agreement was entered into was expected to incur, a debt of at least £50,000,000 and if the arrangement involves the issue of a capital market investment (also defined in the Insolvency Act, but generally a rated, listed or traded debt instrument).

Although there is yet no case law on how this exception will be interpreted, the exception should be applicable so far as concerns the floating charges created by the Obligors and given to the Issuer under the Obligor Floating Charge Agreement (the Issuer's rights under which, and the debts which such floating charges secure, having been assigned by way of security to the Bond Trustee). However, the Secretary of State for Business, Enterprise and Regulatory Reform may, by secondary legislation, modify the exceptions to the prohibition on appointing an administrative receiver and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this document, will not be detrimental to the interests of the Bondholders.

The Insolvency Act also contains an out-of-court route into administration for a qualifying floating chargeholder, the directors or the relevant company itself. If the appointment is to be made by a qualifying floating chargeholder, it must give at least two business days' written notice of its intention to appoint an administrator to any prior qualifying floating chargeholder, or obtain its written consent. If notice is given, a copy of that notice should be filed at court. Upon such filing, an interim moratorium on enforcement of the relevant security will take effect. That moratorium lasts for five business days beginning with the date of filing, or until an administrator is appointed (whichever is earlier). If the appointment is to be made by the company or its directors, they must give at least five business days' written notice of their intention to appoint to any person who is or may be entitled to appoint an administrative receiver and to any person who is or may be the holder of any qualifying floating charge entitled to appoint an administrator out-of-court. A copy of that notice must be filed at court. Upon such filing, an interim moratorium on enforcement of the relevant security will take effect. That moratorium lasts for ten business days beginning with the date of filing of the notice, or until an administrator is appointed (whichever is earlier). During the notice period, the holder of a qualifying floating charge can appoint its own insolvency practitioner, rather than the company's or directors' chosen insolvency practitioner, as administrator. If a person entitled to receive a notice of intention to appoint does not respond to the notice of intention to appoint, the appointor's chosen administrator will take office after the notice period has elapsed and upon a notice of intention to appoint being filed at court. Where the holder of a qualifying floating charge within the context of a capital market transaction retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court based procedure) by appointing an administrative receiver prior to the appointment of the administrator being completed. These provisions of the Insolvency Act give primary emphasis in relation to administration to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. No assurance can be given that the primary purpose of the new provisions will not conflict with the interests of Bondholders were the Issuer or any Obligor ever subject to administration in England.

The Enterprise Act inserted a new section 176A into the Insolvency Act which provides unsecured creditors, as opposed to floating charge holders, certain benefits of this change. Under this provision the unsecured creditors will have recourse to the company's net property (which is the amount of its property which would otherwise be available for satisfaction of claims of holders of debentures secured by, or holders of, any floating charge created by the company) up to a fixed amount (the "**prescribed part**") in priority to the holder of the floating charge concerned. The amount of the prescribed part is set by regulations made pursuant to the Insolvency Act; however, this provision is unlikely to be of practical significance in the case of special purpose entities such as the Issuer, which is subject to substantial restrictions on its activities. As a result of those restrictions the Issuer will only have a limited ability to incur unsecured liabilities (as would any holding company of the Issuer which is subject to similar restrictions including Asset Holdco).

#### *Small companies moratorium*

Certain "small companies", as part of the company voluntary arrangement procedure in England, may seek Court protection from their creditors by way of a moratorium (which will, amongst other

things, restrict a creditor's ability to enforce security, prevent the appointment of an administrator or liquidator and restrict proceedings being commenced or continued against the company) for a period of up to 28 days, with the option for creditors to extend this protection for up to a further two months (although the Secretary of State for Business, Enterprise and Regulatory Reform may, by order, extend or reduce the duration of either period).

A "small company" is defined for these purposes by reference to whether the company meets certain tests contained in Section 382(3) of the Companies Act 2006, relating to a company's balance sheet, total turnover and average number of employees in a particular period. The position as to whether or not a company is a "small company" may change from period to period, depending on its financial position and average number of employees during that particular period. The Secretary of State for Business, Enterprise and Regulatory Reform may by regulations also modify the qualifications for eligibility of a company for a moratorium and may also modify the present definition of a "small company". Accordingly, the Issuer may, at any given time, come within the ambit of the "small companies" provisions, such that the Issuer may (subject to the exemptions referred to below) be eligible to seek a moratorium, in advance of a company voluntary arrangement.

Certain companies which qualify as small companies for the purposes of these provisions may, nonetheless, be excluded from being so eligible for a moratorium. Companies excluded from eligibility for a moratorium include those which are party to a capital market arrangement, under which a debt of at least £10,000,000 is incurred and which involves the issue of a capital market investment. The definitions of "capital market arrangement" and "capital market investment" are broad and are such that, in general terms, any company which is a party to an arrangement which involves at least £10,000,000 of debt, the granting of security to a bond trustee, and the issue of a rated, listed or traded debt instrument, is excluded from being eligible for a moratorium. The Secretary of State for Business, Enterprise and Regulatory Reform may modify the criteria by reference to which a company otherwise eligible for a moratorium is excluded from being so eligible.

Accordingly, the provisions described above will serve to limit the Bond Trustee's ability to enforce the Issuer Security to the extent that, first, the Issuer falls within the criteria for eligibility for a moratorium at the time a moratorium is sought; second, if the directors of the Issuer seek a moratorium in advance of a company voluntary arrangement; and, third, if the Issuer is considered not to fall within the capital market exception (as expressed or modified at the relevant time) or any other applicable exception at the relevant time; in those circumstances, the enforcement of any security by the Bond Trustee will be for a period prohibited by the imposition of the moratorium. In addition, the other effects resulting from the imposition of a moratorium described above may impact the transaction in a manner detrimental to the Bondholders.

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

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

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

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

If the fixed security interests are recharacterised as floating security interests, the claims of (i) the unsecured creditors of the relevant Obligor or, as the case may be, the Issuer in respect of that part of the Obligor's or, as the case may be, the Issuer's net property which is ring-fenced as a result of the Enterprise Act (see "*Enterprise Act 2002*") and (ii) certain statutorily defined preferential creditors of the relevant Obligor or, as the case may be, the Issuer, 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 of such security. As a result, the full amount of the proceeds of enforcement of the security may not be available to repay Bonds.

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

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Buchler & Another v. Talbot & Ors* [2004] UKHL 9. Accordingly, it is now the case that the costs and expenses of a liquidation (including corporation tax on capital gains) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain limited circumstances, the court). If the Borrower Security Trustee were prohibited from appointing an administrative receiver by virtue of the amendments made to the Insolvency Act by the Enterprise Act, or failed to exercise its right to appoint an administrative receiver within the relevant notice period and any Obligor or, as the case may be, the Issuer (in respect of which an administrative receiver is unlikely to be able to be appointed) were to go into administration, the expenses of the administration would also rank ahead of the claims of the Borrower Security Trustee or Bond Trustee as floating charge holder. Furthermore, in such circumstances, the administrator would be free to dispose of floating charge assets without the leave of the court, although the Borrower Security Trustee or Bond Trustee (as the case may be) would have the same priority in respect of the property of the company representing the floating charge assets disposed of, as it would have had in respect of such floating charge assets. This disposal could adversely affect Bondholders.

Section 245 of the Insolvency Act provides that, in certain circumstances, a floating charge granted by a company may be invalid in whole or in part. If a floating charge is held to be wholly invalid then it will not be possible to appoint an administrative receiver of such company and, therefore, it will not be possible to prevent the appointment of an administrator of such company. The risk is, if a liquidator or administrator is appointed to the Issuer or the relevant Obligor within a period of 2 years (the "relevant time") commencing upon the date on which the Issuer or that Obligor, as the case may be, grants a floating charge, the floating charge granted by the Issuer or that Obligor, as the case may be, will be invalid pursuant to Section 245 of the Insolvency Act except to the extent of the consideration received by the relevant chargor at the time of or after the creation of the floating charge. The Issuer will have received consideration (namely, the Issuer will issue Bonds on the Initial Issue Date and will receive the subscription monies therefor) and each of the Obligors will have received such consideration (namely, the Borrowers will (on or about the Initial Issue Date) draw under the Borrower Loan Agreement and the Initial Credit Facilities Agreement and the Issuer will lend to each Obligor (other than a Borrower) the sum of £1,000 in consideration of such Obligor executing or acceding to the OFCA). As such, during the relevant time the floating charge granted by the Issuer will be valid to the extent of the amount of Bonds issued by the Issuer, the floating charges granted by the Borrowers will be valid to the extent of the amount drawn by the Borrowers under the Borrower Loan Agreement and the floating charge granted by each of the other Obligors will be valid to the extent of the fee paid to the other Obligors but not valid for the full amount of the property charged. However, such limitation on the validity of the floating charges will not of itself affect the ability of the Borrower Security Trustee to appoint an administrative receiver to the Obligors. After the relevant time it will not be possible for the floating charges granted by each of the Issuer, the Borrowers or the Obligors to be invalidated under Section 245 of the Insolvency Act.

## **Issuer and Bond Considerations**

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

Although the Class A Wrapped Bonds and Class B Wrapped Bonds will have the benefit of the relevant Financial Guarantee and the BAA Guaranteed Bonds will have the benefit of the BAA Bond Guarantee, none of the Bonds will be obligations of, nor will they be guaranteed by, any of the Other Parties or any company in the Security 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 with no business operations other than raising external funding through the issuance of the Bonds and borrowing under the Issuer Liquidity Facilities and entering into various Issuer Hedging Agreements. 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 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 security***

Although the Bond Trustee will hold the benefit of the Issuer Security on trust for the Bondholders, 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, *inter alios*, the Bond Trustee (in its individual capacity), the Issuer Hedge Counterparties, 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 – Issuer Deed of Charge*"). To the extent that significant amounts are owing to any such persons, the amounts available to Bondholders will be reduced.

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

Payments under the Class A Wrapped Bonds and the Class A Unwrapped Bonds (each of whatever Sub-Class) will rank in priority to payments of principal and interest due on all Sub-Classes of the Class B Bonds. The Class A Wrapped Bonds and the Class A Unwrapped Bonds (each of whatever Sub-Class) will rank *pari passu*. Payments under the Class B Wrapped Bonds and Class B Unwrapped Bonds (each of whatever Sub-Class) will rank in priority to payment of principal and interest due on any Classes of Subordinated Bonds. The Class B Wrapped Bonds and the Class B Unwrapped Bonds (each of whatever Sub-Class) will rank *pari passu*. Payments under any Class or tranche of Subordinated Bonds which may be issued will rank in priority to payment of the Subordinated Class A Step-Up Fee Amounts and the Subordinated Class B Step-Up Fee Amounts, if any.

If, on any Interest Payment Date, prior to the delivery of a Bond Enforcement Notice, there are insufficient funds available to the Issuer to pay accrued interest or scheduled principal on the Class B Unwrapped Bonds (after taking into account any amounts available to be drawn under any Issuer Liquidity Facility), the Issuer's liability to pay such accrued interest and scheduled 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 Issuer Payment Priorities, sufficient funds available 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 specified in the relevant Final Terms as the maturity date for such Bonds. Interest will, however, accrue on such deferred amounts.

Notwithstanding the subordination of, and credit enhancement provided by, the Class B Bonds and the Subordinated Bonds to the Class A Wrapped Bonds and Class A Unwrapped Bonds, the Issuer may, subject to certain conditions, optionally redeem some or all of the Bonds subordinated and providing credit enhancement to other Classes of Bonds. See "*The Bonds – Terms and Conditions of the Bonds – Condition 8 “Redemption, Purchase and Cancellation”*".

It should be noted that all of the Payment Dates for the various different types of Senior Debt, Junior Debt and Subordinated Bonds will not necessarily coincide and that prior to the delivery of a Bond Enforcement Notice there is no obligation to ensure that a payment made to a holder of a Class B Bond (or any other Junior Debt Provider pursuant to any other Junior Debt) or a holder of a Subordinated Bond will not lead to a deficiency of funds to make payments in respect of Senior Debt that falls due on a later date.

### **The Issuer Liquidity Facilities**

The Issuer Liquidity Facilities are intended to cover certain shortfalls in the ability of the Issuer to service scheduled interest payments in relation to the Issuer Senior Debt and Issuer Junior Debt on

any Interest Payment Date (excluding the repayment of principal under the Bonds and the payment of any Subordinated Step-up Fee Amounts) together with any amounts ranking or *pari passu* with above such interest payments in the Issuer Pre-Enforcement Priority of Payments. However, on any such Interest Payment Date, there are no assurances that any such shortfalls will be met in whole or in part by the Issuer Liquidity Facilities. See also “– *Refinancing Risks in respect of the Liquidity Facilities*” above. If such shortfalls cannot be met, the Issuer may not have sufficient funds to make timely payments of interest and principal under the Bonds.

### **Risks Relating to the Financial Guarantee and the Relevant Financial Guarantor**

#### ***Dependence of rating and market value of the Wrapped Bonds on the Financial Guarantee***

To the extent that the Issuer fails to make payments of interest due under the Wrapped Bonds and no further amounts are available under the Issuer Liquidity Facility to make payments of scheduled interest on the Wrapped Bonds or fails to make payments of scheduled principal due under the Wrapped Bonds, the payment of the Guaranteed Amounts (as defined below) will be dependent on, among other things, the Relevant Financial Guarantor performing its obligations under its relevant Financial Guarantee. Consequently, the ratings and market value of the Wrapped Bonds are and will be based primarily on the Financial Guarantee issued by each Relevant Financial Guarantor. The payment of the Guaranteed Amounts will therefore depend upon the Relevant Financial Guarantor performing its obligations under its Financial Guarantee, which is dependent upon its creditworthiness. Consequently, Bondholders of the Wrapped Bonds are relying for payment not only on the creditworthiness of the Issuer (and therefore ultimately the Operating Companies), but also on the creditworthiness of the Relevant Financial Guarantor and the performance of its obligations under its relevant Financial Guarantee.

Because investors from time to time distinguish among financial guarantors on the basis of various factors, including rating agency assessment, size, insured portfolio concentration and financial performance, these distinctions may affect the market value of the Wrapped Bonds. Likewise, the market value of the Wrapped Bonds will depend upon the perception of market participants as to the creditworthiness of the Issuer and the Relevant Financial Guarantor and to the likelihood of the performance by the Relevant Financial Guarantor of its obligations under its relevant Financial Guarantee.

The insolvency, or perceived threat of insolvency or other financial difficulties, of a Relevant Financial Guarantor, or a default, or perceived threat of default, by such Relevant Financial Guarantor under the relevant Financial Guarantee, would adversely affect the likelihood of Bondholders of the Wrapped Bonds receiving Guaranteed Amounts and could result in a downgrade of the ratings, and/or a decline in market value, of the Class A Wrapped Bonds or Class B Wrapped Bonds.

#### ***Scope of the Financial Guarantee only includes Scheduled Interest on and Scheduled or Ultimate Principal of the Wrapped Bonds***

Pursuant to its Financial Guarantee, the Relevant Financial Guarantor will guarantee scheduled or ultimate payments of principal and scheduled interest under the Wrapped Bonds specified in the Final Terms in respect of such Wrapped Bonds (the “**Guaranteed Amounts**”).

No Financial Guarantee will guarantee any amount other than the Guaranteed Amounts that may become payable, including payments that become due upon the early redemption of the Class A Bonds or Class B Bonds pursuant to Condition 7 (*Redemption, Purchase and Cancellation*), an accelerated payment following the occurrence of a Bond Event of Default pursuant to Condition 11 (*Bond Events of Default*), broken funding indemnities, penalties, premia, default interest or interest upon interest. In these circumstances, the obligations of the Relevant Financial Guarantor will be to pay the Guaranteed Amounts as they fall Due for Payment (as defined in each Financial Guarantee) on each Interest Payment Date.

No Financial Guarantee will guarantee any amounts other than Guaranteed Amounts. In the event that any withholding or deduction for, or on account of, any taxes, duties, assessments or other governmental charges withheld or assessed by the UK is required to be made from any payment due by a Relevant Financial Guarantor in respect of Guaranteed Amounts (or, where applicable, Accelerated Payments) under the Financial Guarantee, the Relevant Financial Guarantor will make payments subject to the appropriate withholding or deductions and is not obligated to pay any amount in respect of the amount of such withholding or deduction.

### ***Third party reinsurance risk***

Each Relevant Financial Guarantor may reinsure with third parties (including other financial guarantors) a significant portion of the liabilities assumed by such Relevant Financial Guarantor under certain financial guarantees. Such reinsurance does not alter or limit, but is used as a hedge of, the Relevant Financial Guarantor's obligations under any financial guarantee. Each Relevant Financial Guarantor is therefore exposed to the risk of a default by, and insolvency of, any of its third party reinsurers.

### ***Regulation***

Each Relevant Financial Guarantor will be authorised by the UK Financial Services Authority to carry out and effect "credit", "suretyship" and "miscellaneous financial loss" insurance in the United Kingdom and, pursuant to the EC third non life insurance directive (No. 92/49/EEC), various European countries (such authorisation being the "**Insurance Business Authorisation**").

Such Insurance Business Authorisation may be revoked, withdrawn or restrictively modified by the UK Financial Services Authority. Such revocation, withdrawal or restrictive modification could have a material adverse impact on the Relevant Financial Guarantor, including its ability to generate new business or increased costs of regulatory compliance.

### ***Change in Rating Agency capital methodology***

The rating agencies assess "capital charges" on individual credits within the guaranteed portfolios of the Relevant Financial Guarantors. These charges are based on a variety of factors, including the nature of the credits, their underlying ratings, their tenor and their expected and actual performance. In the event of an actual or perceived deterioration in any of these factors (e.g., due to a change in rating methodology with respect to the underlying credits), or a change in the rating agencies' respective models for determining capital charges, a Relevant Financial Guarantor may be required to hold more capital in reserve against credits in its guaranteed portfolio. These additional capital requirements could arise whether or not any losses actually occur within the Relevant Financial Guarantor's guaranteed portfolio. In addition, the rating agencies could change their rating methodology for financial guarantors. An increase in capital charges resulting from any of the above or for other reasons could reduce the amount of capital available to support the Relevant Financial Guarantor's rating and result in a withdrawal or downgrade of the ratings of the relevant Wrapped Bonds.

### **Limited Recourse Against PricewaterhouseCoopers LLP**

Each of the audit reports of PricewaterhouseCoopers LLP in relation to the Operating Companies' Financial Statements, incorporated by reference in this Prospectus, purports to limit the scope of PricewaterhouseCoopers LLP's duty of care in relation to such reports and the UK GAAP financial information to which it relates. If a court were to give effect to this limiting language, the recourse that investors in the Bonds may have against PricewaterhouseCoopers LLP based on their report could be limited.

### **The BAA Bond Guarantee**

As described in "*Summary of the Financing Agreements – The BAA Bond Guarantee*", the Bond Guarantor will provide the BAA Bond Guarantee in respect of the BAA Guaranteed Bonds to be issued by the Issuer in exchange for certain classes of the existing BAA Bonds on the Initial Issue Date. Although the BAA Bond Guarantee will constitute an unsecured, unconditional and irrevocable guarantee of all payments in respect of the BAA Guaranteed Bonds, the BAA Bond Guarantee will only have economic value to the extent of the assets of BAA which would be available to meet any calls under the BAA Bond Guarantee taking into account any other liabilities of BAA at such time. As explained in "*Description of the Operating Companies, the Shared Services Provider and the Issuer*", BAA's assets will, following the Initial Issue Date, consist predominantly of the shares in Designated Sub HoldCo but the assets in Designated Sub HoldCo and the assets in and shares of the companies below Designated Sub HoldCo (including the Security Group companies) have all been charged in support of the Borrower Secured Debt and the Subordinated Debt. The only other assets owned by the Bond Guarantor are of uncertain value and there are no contractual or other restrictions on how BAA should deal with its assets going forward. Accordingly, availability of any assets in BAA to support any claim under the BAA Bond Guarantee should not be relied upon. Holders of the BAA Guaranteed Bonds should therefore approach their investment on the basis that the BAA Bond

Guarantee cannot be assumed to provide any credit support to the holders of such BAA Guaranteed Bonds.

### **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 regards to the interests of the holders of the Tranche or Sub-Class of such Class then outstanding with the greatest Principal Amount Outstanding.

To the extent that the exercise of any rights, powers, trusts and discretions of the Bond Trustee affects or relates to any Class A Wrapped Bonds or Class B Wrapped Bonds (and does not relate to any Basic Terms Modifications or Entrenched Rights under the STID), the Bond Trustee shall only act with the consent of the Relevant Financial Guarantor(s) in accordance with the Bond Trust Deed.

So long as any of the Bonds remain outstanding, in the exercise of its rights, authorities and discretions under the Bond Trust Deed, the Bond Trustee is only required to have regard to the interests of the Bondholders or, as the case may be, the holders of the Most Senior Class of Bonds then outstanding and not to the interests of the other Issuer Secured Creditors.

### **Changes to the Provisions of the Common Documents and Issuer Transaction Documents**

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

BAA, as Security Group Agent, may request the Borrower Security Trustee to agree to any modification to, or to give its consent to any event, matter or thing relating to, or grant any waiver in respect of, the Common Documents without any requirement to seek the approval of any Borrower Secured Creditor or any of their Secured Creditor Representatives in respect of a Discretion Matter.

The Borrower Security Trustee is entitled to exercise its discretion to approve a Discretion Matter if in the opinion of the Borrower Security Trustee, approval of the STID Proposal (i) is required 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) is not materially prejudicial to the interests of Qualifying Borrower Secured Creditors. The Borrower Security Trustee is not obliged to exercise discretion and if it chooses not to do so the voting category selection procedures set out in the STID and described in the section "*Summary of the Financing Agreements – Security Trust and Intercreditor Deed*" below, will apply.

The Issuer may also request the Bond Trustee to agree to any modification to, or to give its consent to any event, matter or thing, or grant any waiver in respect of the Issuer Transaction Documents (subject as provided in the STID in relation to any Common Documents) without the consent or sanction of the Bondholders, the Receiptholders or the Couponholders of any Sub-Class or (subject as provided below) any other Issuer Secured Creditor.

The Bond Trustee may 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.

The Bond Trustee may, 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 (subject as provided in the STID in relation to any Common Documents) 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.

If the Issuer notifies the Bond Trustee that it proposes to issue Subordinated Bonds, the Bond Trustee may, provided that it has received a Ratings Confirmation in relation to the then current rating of the outstanding Bonds (or in the case of Wrapped Bonds, the underlying credit rating), without the consent or sanction of the Bondholders, Receiptholders, or the Couponholders of any Sub-Class or any other Issuer Secured Creditor other than any Relevant Issuer Secured Creditors 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 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.

Pursuant to the Issuer Deed of Charge, the Bond Trustee will be authorised to execute and deliver on behalf of each such Issuer Secured Creditor (other than the Relevant Issuer Secured Creditors) all documentation required to implement such modification and such execution and delivery by the Bond Trustee will bind each of the Issuer Secured Creditors as if such documentation had been duly executed by it.

There can be no assurance that any modification, consent or waiver in respect of the Common Documents or Issuer Transaction Documents will be favourable to all Bondholders (or any Class or Sub-Class thereof). Such changes may be detrimental to the interests of some or all Bondholders (or any Class or Sub-Class thereof), despite the ratings of such Bonds being affirmed.

The STID also provides that the Borrower Security Trustee shall seek the approval of Bondholders (through the Bond Trustee as a Secured Creditor Representative of the Issuer), along with all other holders of Qualifying Borrower Debt in respect of those matters which are not Discretion Matters or Extraordinary Voting Matters (each such matter, an “**Ordinary Voting Matter**”) as a condition to concurring in making modifications to or granting waivers in respect of such Ordinary Voting Matters. Resolutions in respect of Ordinary Voting Matters may be passed by a simple majority of the Qualifying Borrower Secured Creditors which participate in the vote (the “**Participating QBS Creditors**”) on a pound-for-pound basis by reference to the Outstanding Principal Amount then owed to the relevant Participating QBS Creditors so that all votes for and against the relevant proposal (across the Unwrapped Bondholders, the Relevant Financial Guarantors (or Wrapped Bondholders if an FG Event of Default exists) and the other Qualifying Borrower Secured Creditors) are considered on an aggregated basis subject to the Qualifying Borrower Debt of such Participating QBS Creditors representing in aggregate at least 20 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt.

The procedures and requirements for a STID Proposal in respect of an Extraordinary Voting Matter shall be the same as for Ordinary Voting Matters except (a) the Decision Period shall be not less than 15 Business Days; (b) the Quorum Requirement shall initially be 50 per cent. (namely that the Qualifying Borrower Debt of the Participating QBS Creditors must represent at least 50 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt), provided that if the Quorum Requirement has not been met within the Decision Period, the Quorum Requirement for Participating QBS Creditors shall be reduced to 20 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt and the Decision Period for voting in respect of such Extraordinary Voting Matter shall be extended for a period of a further 10 calendar days from the



expiry of the initial Decision Period; and (c) the majority required to pass the resolution shall be 75 per cent. of the Participating QBS Creditors by reference to the Outstanding Principal Amount of the aggregate Qualifying Borrower Debt of such Participating QBS Creditors.

In respect of the Qualifying Borrower Debt owed to the Issuer, each Relevant Financial Guarantor shall vote in respect of the entire Principal Amount Outstanding of each tranche or sub-Class of Wrapped Bonds wrapped on a primary basis by it where no FG Event of Default is subsisting. Votes in respect of the Class A Unwrapped Bonds will be made by holders of the Class A Unwrapped Bonds in accordance with the voting procedures set out in schedule 6 of the Bond Trust Deed and in the STID. The voting procedures would apply equally to the holders of Class A Wrapped Bonds in respect of the Class A Wrapped Bond tranche following the occurrence of an FG Event of Default which is continuing in respect of the Relevant Financial Guarantor and in respect of Entrenched Rights in respect of which they are an Affected Issuer Secured Creditor and in respect of any Basic Terms Modification. For further detail on the voting procedures, see “*Summary of the Financing Agreements – Bond Trust Deed*”.

In respect of modifications, waivers or consents in respect of the provisions of the Common Documents other than those in respect of Basic Terms Modifications (as defined in Condition 15), the votes of the Class A Bondholders or, following redemption in full of the Class A Bonds, the Class B Bonds will be treated as a single class on a pound for pound basis with the other Qualifying Borrower Secured Creditors. There is a risk that the votes of the Bondholders of the relevant Class may not constitute a majority in respect of any Ordinary Voting Matter or Extraordinary Voting Matter on this basis. Such risk is increased due to the fact that only the votes of those Bondholders who participate within the specified decision period will be taken into account. Further, a vote in respect of the entire Outstanding Principal Amount of Senior Debt outstanding under certain other Authorised Credit Facilities (such as the Refinancing Facility and the Capex Facilities) will be taken in respect of any Ordinary Voting Matter, Extraordinary Voting Matter, SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice. It is possible that the interests of certain Qualifying Borrower Secured Creditors will not be aligned with the interests of a Class or Tranche of Bondholders, and it is possible that, in relation to votes on certain matters, owing to the relative size of Qualifying Borrower Debt that is capable of being voted by Authorised Credit Providers other than the Issuer, the Borrower Security Trustee is given an instruction which is not in the interests of Bondholders.

Prior to repayment in full of the Senior Debt, the Qualifying Borrower Junior Creditors (including the holders of the Class B Bonds) will not be entitled to vote (other than in respect of a Basic Terms Modification in relation to the Bonds or an Entrenched Right). Irrespective of the result of voting at a meeting of Bondholders in relation to a proposed STID Proposal, any STID Proposal duly approved shall be binding on all of the Bondholders, Receiptholders and Couponholders. See “*Summary of the Financing Agreements – Security Trust and Intercreditor Deed*”.

#### ***Rights of the Subordinated Secured Creditors***

The terms of the intercreditor arrangements include certain rights for the benefit of the Subordinated Secured Creditors with respect to amendments to the Finance Documents (other than the Senior/ Subordinated Intercreditor Agreement itself or any Security Document). Broadly speaking, where Borrower Secured Creditors wish to amend the Finance Documents (other than as aforesaid), the consent of the Majority Subordinated Creditors may be required to be obtained prior to the making of any such amendment or, in certain cases, a rating confirmation in respect of the debt outstanding under the Subordinated Facility Agreement may be required to be obtained in relation to the proposed amendment. Consequently, it is possible that an amendment to a Finance Document may not be able to be made, notwithstanding that the Borrower Secured Creditors wish to make it where such consent of the Majority Subordinated Creditors is not given to such amendment or the required rating confirmation is not obtained, which may give rise to adverse consequences for the Borrower Secured Creditors and/or the Security Group. See “*Summary of the Financing Agreements – Senior/ Subordinated Intercreditor Agreement*”.

#### ***Change to covenants subject to Ratings Confirmation***

Certain changes can be made to certain covenants provided that the Borrowers obtain a Ratings Confirmation in respect of the particular change.

Where a particular matter involves the Rating Agencies being requested to provide a Ratings Confirmation, such Ratings Confirmation may or may not be given at the sole discretion of the Rating Agencies. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that the Rating Agencies cannot provide their confirmation in the time available or at all, 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 and in the context of cumulative changes to the transaction since the Initial Issue Date. 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 (or any change, whether a Ratings Confirmation is given or not) will not have an adverse impact upon the business of the Borrowers.

Notwithstanding that none of the Borrower Security Trustee, Bond Trustee or the Bondholders may have any right of recourse against the Rating Agencies in respect of any confirmation given by them and relied upon by the Borrower Security Trustee or Bond Trustee in exercising any discretion under the Transaction Documents or the Issuer Transaction Documents, as the case may be, the Borrower Security Trustee and 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 Transaction Documents, the Issuer Transaction Documents or the Bonds (as applicable), that such exercise will not be materially prejudicial to the interests of the Bondholders if the Rating Agencies have confirmed in writing that the then current rating of the Bonds would not be adversely affected by such exercise. Pursuant to the Transaction Documents, the Issuer Transaction Documents and the Conditions, the parties will agree and acknowledge that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to Bondholders.

In being entitled to rely on the fact that the Rating Agencies have confirmed that the then current rating of the relevant Class or Sub-Class of the Bonds would not be adversely affected, the parties will expressly agree and acknowledge and further to the Conditions, the Bondholders are expressly notified that the above does not impose or extend any actual or contingent liability for the Rating Agencies to the Borrower Security Trustee, the Bond Trustee, the Bondholders or any other person or create any legal relations between the Rating Agencies and the Borrower Security Trustee, the Bond Trustee, the Bondholders or any other person whether by way of contract or otherwise.

### **Rating of the Bonds**

The ratings assigned by the Rating Agencies to the Class A Wrapped Bonds and any Class B Wrapped Bonds to be issued are based primarily on the claims paying ability of the applicable Financial Guarantor and reflect only the views of the Rating Agencies. The ratings assigned by the Rating Agencies to the Class A Unwrapped Bonds and the Class B Unwrapped 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.

The basis of the rating of each Class or Tranche of Bonds will be set out in the relevant Final Terms. The ratings do not address the likelihood the principal will be redeemed or interest will be paid on the Bonds as expected on the Scheduled Redemption Date.

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 or, in the case of the Wrapped Bonds, of the relevant Financial Guarantor from time to time.

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 (or any of them) 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.

### **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 the 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, the performance and financial condition of the Borrowers, developments and trends in the airport industry and regulation generally and events in respect of Heathrow, Gatwick and Stansted airports.

Investors should note that, in view of prevailing and widely reported global credit market conditions (which continue at the date hereof), the secondary market for the Bonds may be illiquid. The Issuer is not able to express a view as to when these circumstances will change. Accordingly, an investor disposing of a Bond prior to maturity may suffer a loss for reasons unrelated to the credit quality of the underlying Bonds.

### **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 or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent.. 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 non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

### **European Monetary Union**

Prior to the maturity of the Bonds, the UK may become a participating member state in the Economic and Monetary Union and the euro may become the lawful currency of the UK. Adoption of the euro by the UK may have the following consequences:

- (i) all amounts payable in respect of the sterling denominated Bonds may become payable in euro;
- (ii) the introduction of the euro as the lawful currency of the UK may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Bonds or changes in the way those rates are calculated, quoted and published or displayed; and
- (iii) the Issuer may choose to redenominate the Bonds into euro and take additional measures in respect of the Bonds. (See "*The Bonds*" under "*Terms and Conditions of the Bonds*".) The introduction of the euro could also be accompanied by a volatile interest rate. It cannot be said with certainty what effect, if any, adoption of the euro by the UK will have on investors in the Bonds.

The potential costs to the Borrowers of implementing procedures to deal with any possible future adoption of the euro by the UK are unclear but could be significant.

### **Changes in financial reporting standards**

Certain provisions of the Transaction Documents contain certain conditions and/or triggers which are based upon an assessment of the financial condition of the Security Group calculated by reference to

the financial statements produced in respect of the companies in the Security Group. These financial and other covenants have been set at levels which are based on the current accounting principles, standards, conventions and practices adopted by the relevant companies.

It is possible that any future changes in these accounting principles, standards, conventions and practices which are adopted by the companies in the Security Group (and any change in applicable law affecting the same) may result in significant changes in the reporting of its financial performance (e.g. “FRS26: Financial Instruments: Measurement” and the introduction of International Financial Reporting Standards). This, in turn, may necessitate that the terms of the conditions and triggers referred to above are renegotiated.

#### **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 (Directives numbers 2006/48/EC and 2006/49/EEU (“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, €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 will therefore not be able to receive principal, or interest or Subordinated Step-up Fee Amounts in respect of such Bonds. In such a case of Bondholder who, as a result of trading such amounts, holds a principal amount of less than the Minimum Denomination may not receive a Definitive Bond in respect of such holdings (should Definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to a Specified Denomination.

#### **Restriction of transfer of Bonds**

The Bonds have not been and will not be registered under the Securities Act or any US state securities laws. The Issuer has not registered and does not intend to register as an investment company under the Investment Company Act. The Bonds may not be offered, sold or delivered in the United States or to or for the account or benefit of US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable US state securities laws, in each case under circumstances that would not require the Issuer to register as an investment company under the Investment Company Act. Furthermore, Bonds in bearer form are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations.

Subject to the relevant Final Terms, the Conditions of the Bonds and the Bond Trust Deed will contain provisions that restrict (i) the Rule 144A Bonds from being offered, sold or otherwise transferred except to persons that are both QIBs and QPs, or persons who are neither US persons nor US residents in offshore transactions in accordance with Regulation S, and (ii) the Regulation S Bonds from being offered, sold or otherwise transferred except to persons that are neither US persons nor US residents in offshore transactions in accordance with Regulation S. See “*Transfer Restrictions*”.

The Bonds have not been and will not be registered under any other country’s securities laws. It is the obligation of Bondholders to ensure that offers, sales or subsequent transfers of Bonds within the United States and other countries comply with all applicable laws.

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

The Regulation S Bonds will initially only be issued in global certificated form and deposited with a common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Bonds will initially only be issued in global certificated form and, in the case of Rule 144A EC Global Bond Certificates, will be deposited with a common depository for Euroclear and Clearstream, Luxembourg, and in the case of Rule 144A DTC Global Bond Certificates, will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Beneficial interests in a Rule 144A Global Bond Certificate may only be held through Euroclear, Clearstream, Luxembourg (in the case of Rule 144A EC Global Bond Certificates) or DTC (in the case of Rule 144A DTC Global Bond Certificates) or their participants at any time.

Interests in the Global Bonds and Global Bond Certificates will trade in book-entry form only. Bonds in definitive registered form, or definitive bearer form, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners of the Bonds. The common depository, or its nominee, for Euroclear and Clearstream, Luxembourg or DTC will be the sole registered holder of the global Bonds representing the Bonds. Payments of principal, interest and other amounts owing on or in respect of the global Bonds representing the Bonds will be made to the Paying Agent and/or the US Paying Agent, as applicable, which will make payments to Euroclear and Clearstream, Luxembourg. Thereafter, these payments will be credited to participants' accounts that hold book-entry interests in the Global Bonds representing the Bonds and credited by such participants to indirect participants. After payment to the common depository for Euroclear and Clearstream, Luxembourg or DTC, as applicable, the Issuer will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, owners of book-entry interests must rely on the procedures of Euroclear and Clearstream, Luxembourg or DTC, as applicable, and non-participants in Euroclear or Clearstream, Luxembourg or DTC 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. Instead, owners of book-entry interests will be permitted to act only to the extent they have received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg or DTC, as applicable. The procedures implemented for the granting of such proxies may not be sufficient to enable owners of book-entry interests to vote on a timely basis. Except as set forth otherwise in "*Book-Entry Clearance Procedure*" below, holders of the Bonds 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 Global Bonds or Global Bond Certificates, 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.

Similarly, upon the occurrence of a Bond Event of Default, unless and until definitive registered Bonds are issued in respect of all book-entry interests, owners of book-entry interests will be restricted to acting through Euroclear and Clearstream, Luxembourg or DTC, as applicable. The procedures to be implemented through Euroclear and Clearstream, Luxembourg or DTC may not be adequate to ensure the timely exercise of rights under the Bonds.

## USE OF PROCEEDS

The gross proceeds from each issue of Bonds (other than the Replacement Bonds and any Bonds issued for the purpose of creating a liquidity reserve) issued under the Programme will be on-lent to the Borrowers under the terms of the Borrower Loan Agreements to be applied by each Borrower for its general corporate purposes or used to repay or service the Financial Indebtedness of the Security Group or to be passed up to repay existing debt outside the Security Group. In relation to the Replacement Bonds issued on the Initial Issue Date, they will be issued initially to BAA for debt left outstanding (the “**BAA Payables**”) in connection with their exchange for BAA’s existing bonds. The Issuer will assign its rights in respect of such BAA Payables to the Borrowers for a purchase price which will be settled by the Issuer and the Borrowers entering into a Borrower Loan Agreement on the Initial Issue Date and advances being made thereunder which correspond to the Replacement Bonds. The Borrowers and BAA will then set off the BAA Payables against part of the existing intercompany indebtedness owed by the Borrowers to BAA on such date. In relation to any Bonds issued by the Issuer for the purpose of creating a liquidity reserve, the proceeds of the issue of such Bonds will be deposited in the Issuer Liquidity Reserve Account. The economic cost of any liquidity reserve created by the Issuer through the issuance of Bonds will be borne by the Borrowers.

## SELECTED FINANCIAL DATA

The tables below present selected profit and loss and other financial data for each of the Airport Operators. This data has been derived from the Airport Operators' financial statements. Readers should regard the summary financial information below as an introduction and should base their investment decision on a review of the entire Prospectus.

### Profit and Loss Data

	12 months ended 31 March 2006 <sup>(1)</sup>	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2007	3 months ended 31 March 2008
				(unaudited)	(unaudited)
	----- (£ millions) -----				
<b>HAL</b>					
<b>Income</b> .....	<b>1,195.4</b>	<b>957.1</b>	<b>1,324.8</b>	<b>294.9</b>	<b>312.6</b>
Operating costs – ordinary .....	(754.9)	(631.5)	(892.7)	(202.0)	(249.6)
Operating costs – exceptional ...	(25.4)	(37.9)	(154.2)	(9.4)	(43.8)
<b>Operating profit</b> .....	<b>415.1</b>	<b>287.7</b>	<b>277.9</b>	<b>83.5</b>	<b>19.2</b>
<b>Net interest payable</b> .....	<b>(94.9)</b>	<b>(128.3)</b>	<b>(185.6)</b>	<b>(42.6)</b>	<b>(46.1)</b>
<b>Profit/(loss) on ordinary activities before taxation</b> .....	<b>320.2</b>	<b>159.4</b>	<b>92.3</b>	<b>40.9</b>	<b>(26.9)</b>
Tax on (profit)/loss on ordinary activities .....	(96.3)	(52.2)	81.8	(12.2)	7.9
<b>Profit/(loss) on ordinary activities after taxation</b> .....	<b>223.9</b>	<b>107.2</b>	<b>174.1</b>	<b>28.7</b>	<b>(19.0)</b>
<b>GAL</b>					
<b>Income</b> .....	<b>361.5</b>	<b>312.9</b>	<b>409.7</b>	<b>77.9</b>	<b>85.9</b>
Operating costs – ordinary .....	(262.9)	(216.5)	(312.2)	(71.9)	(89.1)
Operating costs – exceptional ...	(18.0)	(7.2)	(16.7)	(0.2)	(0.0)
<b>Operating profit</b> .....	<b>80.6</b>	<b>89.2</b>	<b>80.8</b>	<b>5.8</b>	<b>(3.2)</b>
<b>Net interest payable</b> .....	<b>(4.7)</b>	<b>(16.3)</b>	<b>(25.3)</b>	<b>(5.9)</b>	<b>(6.7)</b>
<b>Profit/(loss) on ordinary activities before taxation</b> .....	<b>75.9</b>	<b>72.9</b>	<b>55.5</b>	<b>(0.1)</b>	<b>(9.9)</b>
Tax on (profit)/loss on ordinary activities .....	(23.6)	(23.9)	53.5	0.0	2.9
<b>Profit/(loss) on ordinary activities after taxation</b> .....	<b>52.3</b>	<b>49.0</b>	<b>109.0</b>	<b>(0.1)</b>	<b>(7.0)</b>
<b>STAL</b>					
<b>Income</b> .....	<b>176.5</b>	<b>149.7</b>	<b>241.8</b>	<b>41.0</b>	<b>52.2</b>
Operating costs – ordinary .....	(127.1)	(107.6)	(156.1)	(36.2)	(42.4)
Operating costs – exceptional ...	(3.4)	(3.5)	(9.1)	(0.2)	0.0
<b>Operating profit</b> .....	<b>46.0</b>	<b>38.6</b>	<b>76.6</b>	<b>4.6</b>	<b>9.8</b>
<b>Net interest payable</b> .....	<b>(7.5)</b>	<b>(5.5)</b>	<b>(11.6)</b>	<b>(2.5)</b>	<b>(3.3)</b>
<b>Profit on ordinary activities before taxation</b> .....	<b>38.5</b>	<b>33.1</b>	<b>65.0</b>	<b>2.1</b>	<b>6.5</b>
Tax on profit on ordinary activities .....	(12.6)	(11.2)	23.5	(0.6)	(1.9)
<b>Profit on ordinary activities after taxation</b> .....	<b>25.9</b>	<b>21.9</b>	<b>88.5</b>	<b>1.5</b>	<b>4.6</b>

(1) In the case of HAL, the financial statements for the 12 months ended 31 March 2006 incorporate a re-statement due to the adoption of the presentation provisions of FRS 25 "Financial Instruments disclosure and presentation". For further information, see HAL's statutory accounts for the three months ended 30 June 2006 incorporated by reference herein.

## Other Financial Data

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2007	3 months ended 31 March 2008
				(unaudited)	(unaudited)
	----- (£ millions, except percentages) -----				
<b>HAL</b>					
Net capital expenditure .....	1,272.2	837.7	878.8	249.4	199.2
EBITDA <sup>(1)(2)</sup> .....	583.6	440.9	547.8	135.5	92.6
EBITDA margin <sup>(3)</sup> .....	48.8%	46.1%	41.3%	45.9%	29.6%
Adjusted EBITDA <sup>(2)</sup> .....	609.0	461.8	635.7	139.1	114.4
Adjusted EBITDA margin <sup>(4)</sup> .....	50.9%	48.2%	48.0%	47.2%	36.6%
<b>GAL:</b>					
Net capital expenditure .....	81.2	68.0	90.0	33.2	31.1
EBITDA <sup>(1)(2)</sup> .....	131.4	130.6	137.3	19.5	12.2
EBITDA margin <sup>(3)</sup> .....	36.3%	41.7%	33.5%	25.0%	14.2%
Adjusted EBITDA <sup>(2)</sup> .....	149.4	137.8	154.0	19.7	12.2
Adjusted EBITDA margin <sup>(4)</sup> .....	41.3%	44.0%	37.6%	25.3%	14.2%
<b>STAL:</b>					
Net capital expenditure .....	56.7	86.5	89.0	14.7	32.6
EBITDA <sup>(1)(2)</sup> .....	74.9	60.5	105.7	11.5	17.4
EBITDA margin <sup>(3)</sup> .....	42.4%	40.4%	43.7%	28.0%	33.3%
Adjusted EBITDA <sup>(2)</sup> .....	78.3	64.0	114.8	11.7	17.4
Adjusted EBITDA margin <sup>(4)</sup> .....	44.4%	42.8%	47.5%	28.5%	33.3%

(1) EBITDA, or earnings before interest, taxes, depreciation and amortisation, is not a measure of performance under UK GAAP and should not be considered as an alternative to:

- operating profit or profit/(loss) on ordinary activities after taxation (as determined in accordance with generally accepted accounting principles), or as a measure of the Airport Operators' operating performance;
- cash flows from operating, investing or financing activities (as determined in accordance with generally accepted accounting principles), or as a measure of the Airport Operators' ability to meet cash needs; or
- any other measures of performance under generally accepted accounting principles. EBITDA may not be indicative of the Airport Operators' historical operating results, nor is it meant to be a projection or forecast of their future results.

(2) The following table reconciles profit/(loss) on ordinary activities after taxation to EBITDA and adjusted EBITDA for the periods indicated:

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2007	3 months ended 31 March 2008
				(unaudited)	(unaudited)
	----- (£ millions) -----				
<b>HAL</b>					
Profit/(loss) on ordinary activities after taxation .....	223.9	107.2	174.1	28.7	(19.0)
Depreciation .....	168.5	136.2	203.6	46.2	51.4
Accelerated depreciation <sup>(a)</sup> .....	0.0	17.0	66.3	5.8	22.0
Net interest payable .....	94.9	128.3	185.6	42.6	46.1
Tax on (profit)/loss on ordinary activities .....	96.3	52.2	(81.8)	12.2	(7.9)
<b>EBITDA</b> .....	<b>583.6</b>	<b>440.9</b>	<b>547.8</b>	<b>135.5</b>	<b>92.6</b>
Other operating costs – exceptional <sup>(b)(c)</sup> .....	25.4	20.9	87.9	3.6	21.8
<b>Adjusted EBITDA</b> .....	<b>609.0</b>	<b>461.8</b>	<b>635.7</b>	<b>139.1</b>	<b>114.4</b>
<b>GAL:</b>					
Profit/(loss) on ordinary activities after taxation .....	52.3	49.0	109.0	(0.1)	(7.0)
Depreciation .....	50.8	41.4	56.5	13.7	15.4
Net interest payable .....	4.7	16.3	25.3	5.9	6.7
Tax on (profit)/loss on ordinary activities .....	23.6	23.9	(53.5)	0.0	(2.9)
<b>EBITDA</b> .....	<b>131.4</b>	<b>130.6</b>	<b>137.3</b>	<b>19.5</b>	<b>12.2</b>
Operating costs – exceptional <sup>(b)</sup> .....	18.0	7.2	16.7	0.2	0.0
<b>Adjusted EBITDA</b> .....	<b>149.4</b>	<b>137.8</b>	<b>154.0</b>	<b>19.7</b>	<b>12.2</b>
<b>STAL:</b>					
Profit on ordinary activities after taxation .....	25.9	21.9	88.5	1.5	4.6
Depreciation .....	28.9	21.9	29.1	6.9	7.6
Net interest payable .....	7.5	5.5	11.6	2.5	3.3
Tax on profit on ordinary activities .....	12.6	11.2	(23.5)	0.6	1.9
<b>EBITDA</b> .....	<b>74.9</b>	<b>60.5</b>	<b>105.7</b>	<b>11.5</b>	<b>17.4</b>
Operating costs – exceptional <sup>(b)</sup> .....	3.4	3.5	9.1	0.2	0.0
<b>Adjusted EBITDA</b> .....	<b>78.3</b>	<b>64.0</b>	<b>114.8</b>	<b>11.7</b>	<b>17.4</b>

(a) Accelerated depreciation is recorded in HAL's statutory accounts under "Operating costs-exceptional". Accelerated depreciation relates to additional depreciation charges taken in relation to Heathrow's Terminal 1 and Terminal 2 due to the expected impact of the Heathrow East terminal complex project, which will shorten the lives of these assets. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Factors Having a Significant Influence on Results of Operations – Operating Costs – Operating Costs – Exceptional".

(b) For information about operating costs-exceptional, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations-Factors Having a Significant Influence on Results of Operations – Operating Costs – Operating Costs – Exceptional".

(c) Does not include the additional accelerated depreciation charges for Terminal 1 and Terminal 2 that are included above in the table under "Accelerated depreciation".

(3) EBITDA margin is calculated by dividing EBITDA by income, expressed as a percentage.

(4) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by income, expressed as a percentage.



# BUSINESS

## 1. OVERVIEW

### 1.1 Overview of the Security Group

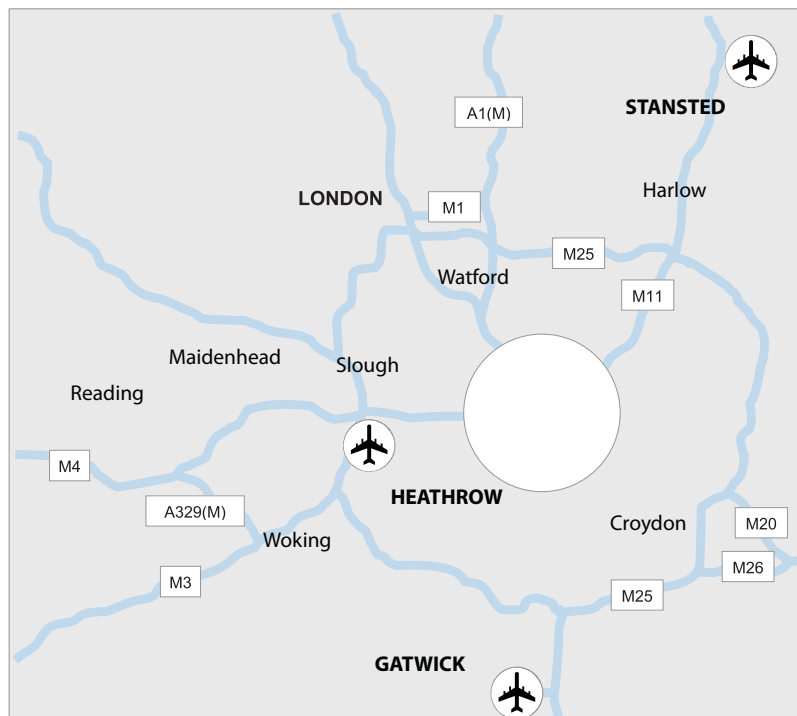
The Security Group is comprised of, among others, the operators of Heathrow, Gatwick and Stansted airports (collectively, the “**Designated Airports**” and each, a “**Designated Airport**”) and Heathrow Express, an express rail service between Heathrow and Central London. The Designated Airports operate in one of the world’s busiest air traffic markets. The Security 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 concession fees charged to third-party retailers for the use of airport space for their operations and from other services supplied by the Airport Operators. The Security Group also generates income from the Heathrow Express rail operations.

In 2007, the Designated Airports handled 91 per cent. of all passengers using airports within a 50-mile radius of London. (Source: CAA Annual UK Airport Statistics, 2007.) Heathrow is the world’s third busiest airport in terms of total passengers and the world’s busiest airport in terms of international passengers, handling 13 per cent. more international passengers than its nearest rival, Paris Charles de Gaulle. (Source: ACI Statistics Report.) Gatwick is the world’s tenth busiest airport in terms of international passengers in 2007. (Source: ACI Statistics Report.) Stansted is a major base for low-cost airlines in Europe. Heathrow Express runs every 15 minutes from Central London to Heathrow and carries an average of 15,000 passengers per day.

### 1.2 Operations of the Designated Airports

Heathrow, Gatwick and Stansted represent essential infrastructure for the Greater London area, one of the busiest air traffic markets in the world. The Designated Airports’ position in the Greater London market provides a steady stream of both business and leisure travellers. The Designated Airports serve approximately 380 destinations worldwide. London is one of the world’s most important financial centres and the number-one city destination in the world for international travel (Source: London Tourist Board). In 2006, London welcomed a record 15.6 million overseas visitors, with 15.4 million visitors estimated for 2007. (Source: London Tourist Board.)

The map below shows the location of the Designated Airports:



## 2. HISTORY, STRUCTURE AND REGULATION

### 2.1 *Historical Overview of the Operating Companies and Company Restructuring*

HAL, the operator of Heathrow, GAL, the operator of Gatwick, and STAL, the operator of Stansted are indirect subsidiaries of BAA, the entity formed following the privatisation of the British Airports Authority in 1987. In June 2006, a consortium consisting of Ferrovial Infraestructuras, S.A. and Lernamara, S.L. (subsidiaries of Grupo Ferrovial, S.A.), Britannia Airport Partners L.P., a Caisse de dépôt et placement du Québec-controlled vehicle and Baker Street Investment Pte, an investment vehicle of the Government of Singapore Investment Corporation, acquired BAA.

BAA is currently the owner and operator of seven airports in the United Kingdom, including the three Designated Airports. BAA also has a 65 per cent. interest in Naples airport in Italy, manages retail operations in the United States at airports in Boston, Pittsburgh and Baltimore and has recently been awarded a contract for managing retail operations at Cleveland Hopkins Airport.

As part of a restructuring, at or prior to the Initial Issue Date, the Airport Operators and HEX Opco (the entity which operates Heathrow Express) will be made part of the Security Group and BAA's current holdings that comprise the Non-Designated Group will be acquired from BAA by ADIL. Following this restructuring, BAA's primary operating companies will be its indirect interests in the Airport Operators and HEX Opco.

### 2.2 *Economic Regulation*

The Designated Airports are subject to economic regulation that has some similarity to that applying to utility industries in the UK such as rail, gas, electricity, and water. The effect of this regulation is to provide a predictable capital investment programme and revenue streams which are sufficient to fund the airports' requirements and provide a regulated 'rate of return' on those assets engaged in the business which are included within a 'regulatory asset base', referred to as RAB.

The prices charged to airline customers at the Designated Airports are subject to regulation by the CAA under the UK Airports Act 1986 ("**Airports Act**"). Under the Airports Act, the CAA is required to carry out its statutory function of setting the price controls for the relevant regulatory periods (generally five years) on the airport charges levied at designated airports. For more information on economic regulation, see "*Airport Regulation*".

The statutory objectives of the CAA are 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 these functions.

In addition to its statutory duties, when setting the price caps the CAA needs to be mindful of UK government policy as expressed in the UK Government's 2003 Air Transport White Paper (the "**White Paper**"). The White Paper provides a strategic framework for the growth in UK airport capacity within which airport operators could plan future investments for the next thirty years.

It is noteworthy that other regulators in the UK have duties to encourage competition, while the focus on the CAA is to encourage investments and promote efficient, economic and profitable operations of airports.

Any change to these objectives would require primary legislation to be enacted by the UK Parliament.

As a consequence of price regulation, the Airport Operators are permitted to recover defined levels of both capital and operating expenditures through the CAA's regulatory price setting mechanism, significantly reducing income risk to them during each five-year regulatory period. This is particularly important in a capital-intensive business. See "*Risk Factors – Regulatory Risks*".

## 2.3 Overview of the Designated Airports

### (a) Heathrow

<b>HEATHROW AIRPORT<sup>(1)</sup></b>											
<b>General Description</b>											
Opened in.....	1946										
Location.....	15 miles west of Central London										
Number of runways.....	2 (currently operated under segregated mode)										
Runway length (metres).....	Northern: 3,902; Southern: 3,658										
Number of terminals.....	5										
Total land area.....	1,227 hectares										
<b>Facilities</b>											
Opening RAB 1 April 2008.....	£8,978 million <sup>(2)</sup>										
	Opened in	Gates	Piers	Stands <sup>(3)</sup>	Check-in desks <sup>(4)</sup>	Security lanes	Passengers (millions)	Total space (m <sup>2</sup> ) <sup>(5)</sup>	Total retail space (m <sup>2</sup> ) <sup>(6)</sup>	Total office space (m <sup>2</sup> )	
Terminal 1.....	1968	29	4	29	130	25	23.0	96,473	12,143	31,174	
Terminal 2.....	1955	16	2	16	76	7	8.3	45,662	6,555	13,628	
Terminal 3.....	1961	29	3	28	226	19	19.9	101,188	11,882	41,591	
Terminal 4.....	1986	17	2	20	96	13	16.7	47,757	8,449	16,623	
Terminal 5.....	2008	32	—	32	158	22	n/a	202,600	23,013	65,994	
<b>Total.....</b>		<b>123</b>	<b>11</b>	<b>125</b>	<b>686</b>	<b>86</b>	<b>67.9</b>	<b>493,680</b>	<b>62,042</b>	<b>169,011</b>	
<b>Passenger statistics and air transport movements</b>											
<b>Passenger profile</b>											
International/domestic.....	91% (long haul: 50%; short haul: 41%) / 9%										
Business/leisure.....	36%/64%										
Full-cost/low-cost/charter.....	100 %/-/-										
Airlines.....	Approximately 90 (main airlines: British Airways, Virgin Atlantic Airways and bmi)										
Destinations.....	Approximately 180										
Air transport movement allowed capacity.....	480,000										
Air transport movements.....	475,713										
Passengers.....	67.9 million										
Cargo (metric tonnes).....	1,313,644										
Source: BAA.											
(1) Except as otherwise indicated, data as of 31 December 2007 or for the year ended 31 December 2007.											
(2) Source: CAA, March 2008 Price Determination, 2007/08 prices.											
(3) Heathrow also has 67 remote stands on the airfield.											
(4) As of 31 March 2008. Excludes transfer desks (airside area).											
(5) Terminal areas are based on floor area excluding piers and satellites.											
(6) Heathrow also has additional retail space of 3,566 m <sup>2</sup> outside of its terminals.											

Located 15 miles west of Central London, Heathrow is the principal airport for long haul routes in the United Kingdom. Heathrow is currently Europe's busiest airport in terms of passengers and handles more international passengers than any other airport in the world. For the year ended 31 December 2007, 67.9 million passengers travelled through Heathrow, of which approximately 9 per cent. were domestic passengers, 50 per cent. were international long haul passengers and 41 per cent. were international short haul passengers. Heathrow hosts most of the world's major international airlines, including the three principal alliances of oneworld, SkyTeam and Star Alliance. Approximately 66 per cent. of Heathrow's passenger traffic is point-to-point traffic and 34 per cent. is connecting traffic. With approximately 180 destinations served, Heathrow is one of Europe's major transfer hubs. Heathrow is the worldwide hub of British Airways and the main European hub of the oneworld alliance. British Airways is the principal airline at Heathrow, representing approximately 41 per cent. of the aeronautical income of HAL in 2007.

Heathrow is served by two parallel runways of over 3,600 metres in length each that are currently operated in the “segregated mode”, whereby one runway is used for arriving aircraft and the other for departing aircraft. The runways together have a maximum permitted runway capacity of 480,000 air transport movements per year in compliance with a movements cap set by the UK Department for Transport. For the 12 months ended 31 December 2007, actual air transport movements at Heathrow totalled 475,713. With the opening of Terminal 5 on 27 March 2008, the number of passengers the airport’s terminals can serve increased to over 90 million passengers per year. Heathrow’s terminals provide a wide range of passenger services, including passenger-handling facilities, shops, bars, restaurants and more than 19,000 public car park spaces owned by HAL. Heathrow is also served by extensive local and express bus services, London Underground services and the dedicated Heathrow Express rail link from London Paddington Station. HAL generated income of £1,324.8 million and EBITDA of £547.8 million for the year ended 31 December 2007.

(b) Gatwick

<u>GATWICK AIRPORT<sup>(1)</sup></u>										
<b><u>General Description</u></b>										
Opened in.....	1936									
Location.....	29 miles south of Central London									
Number of runways.....	1									
Runway length (metres).....	3,316									
Number of terminals .....	2									
Total land area .....	678 hectares									
<b><u>Facilities</u></b>										
<b>Opening RAB 1 April 2008 .....</b>	<b>£1,524 million<sup>(2)</sup></b>									
	<u>Opened in</u>	<u>Gates</u>	<u>Piers</u>	<u>Stands<sup>(3)</sup></u>	<u>Check-in desks</u>	<u>Security lanes</u>	<u>Passengers (millions)</u>	<u>Total space (m<sup>2</sup>)<sup>(4)</sup></u>	<u>Total retail space (m<sup>2</sup>)<sup>(5)</sup></u>	<u>Total office space (m<sup>2</sup>)</u>
South Terminal....	1958	20	3	32	191	22	21.1	120,000	13,396	21,300
North Terminal....	1988	16	3	32	126	17	14.1	75,000	14,310	18,072
<b>Total.....</b>		<b>36</b>	<b>6</b>	<b>64</b>	<b>317</b>	<b>39</b>	<b>35.2</b>	<b>195,000</b>	<b>27,706</b>	<b>39,373</b>
<b><u>Passenger statistics and air transport movements</u></b>										
<b><u>Passenger profile</u></b>										
International/domestic .....	88% (long haul: 33%; short haul: 55%) / 12%									
Business/leisure.....	18% / 82%									
Full-cost/low-cost/charter.....	51% / 25% / 24%									
<b>Airlines .....</b>	Approximately 75 (main airlines: British Airways, easyJet, TUI Travel and Virgin Atlantic Airways)									
<b>Destinations .....</b>	Approximately 195									
<b>Air transport movement estimated capacity .....</b>	275,000									
<b>Air transport movements.....</b>	258,795									
<b>Passengers .....</b>	35.2 million									
<b>Cargo (metric tonnes) .....</b>	171,233									
Source: BAA.										
(1) Except as otherwise indicated, data as of 31 December 2007 or for the year ended 31 December 2007.										
(2) Source: CAA, March 2008 Price Determination, 2007/08 prices.										
(3) Gatwick also has 44 remote stands on the airfield.										
(4) Terminal areas are based on floor area excluding piers and satellites.										
(5) Gatwick also has additional retail space of 1,218 m <sup>2</sup> outside of its terminals.										

Located 29 miles south of Central London, Gatwick is, in terms of passengers, the second busiest airport in the United Kingdom, the sixth busiest airport in Europe and the world's busiest single runway airport. For the year ended 31 December 2007, 35.2 million passengers travelled through Gatwick, of which approximately 12 per cent. were domestic passengers, 33 per cent. were international long haul passengers and 55 per cent. were short haul international passengers. Gatwick serves primarily leisure travellers and hosts approximately 75 airlines, including full-service airlines, low-cost carriers and charter airlines. British Airways is Gatwick's largest airline customer, measured by income, representing approximately 20 per cent. of the aeronautical income of GAL in 2007. Gatwick's passenger traffic is 89 per cent. point-to-point traffic and 11 per cent. connecting traffic. Unlike Heathrow and Stansted, Gatwick does not have any imposed regulatory restrictions on air transport movements; however, GAL has estimated that Gatwick's maximum operational capacity is 275,000 air transport movements per year. For the 12 months ended 31 December 2007, actual air transport movements at Gatwick totalled 258,795. Gatwick's facilities include two terminals that offer a wide range of passenger services, including shops, bars and restaurants and more than 44,000 public car park spaces (more than 30,500 of which are owned by GAL). Gatwick is also served by extensive local and express bus services, train services and the dedicated Gatwick Express rail link from London Victoria Station. GAL generated income of £409.7 million and EBITDA of £137.3 million for the year ended 31 December 2007.

(c) Stansted

<u>STANSTED AIRPORT<sup>(1)</sup></u>										
<b><u>General Description</u></b>										
Opened in.....	1966									
Location.....	30 miles northeast of Central London									
Number of runways.....	1									
Runway length (metres).....	3,048									
Number of terminals .....	1									
Total land area .....	957 hectares									
<b><u>Facilities</u></b>										
<b>Opening RAB 1 April 2008 .....</b>	<b>£1, 167 million<sup>(2)</sup></b>									
	<b>Opened in</b>	<b>Gates</b>	<b>Piers</b>	<b>Stands<sup>(3)</sup></b>	<b>Check-in desks</b>	<b>Security lanes</b>	<b>Passengers (millions)</b>	<b>Total space (m<sup>2</sup>)<sup>(4)</sup></b>	<b>Total retail space (m<sup>2</sup>)<sup>(5)</sup></b>	<b>Total office space (m<sup>2</sup>)</b>
Terminal.....	1991	52	3	64	127	21	23.8	86,920	7,976	9,791
<b><u>Passenger statistics and air transport movements</u></b>										
<b>Passenger profile</b>										
International/domestic .....	89% (long haul: 3%; short haul: 86%) / 11%									
Business/leisure .....	19% / 81%									
Full-cost/low-cost/charter .....	3% / 93% / 4%									
<b>Airlines .....</b>	Approximately 30 (main airlines: Ryanair and easyJet)									
<b>Destinations .....</b>	Approximately 160									
<b>Air transport movement allowed capacity .....</b>	241,000									
<b>Air transport movements .....</b>	191,488									
<b>Passengers allowed capacity .....</b>	25 million									
<b>Passengers .....</b>	23.8 million									
<b>Cargo (metric tonnes).....</b>	206,602									
Source: BAA.										
(1) Except as otherwise indicated, data as of 31 December 2007 or for the year ended 31 December 2007.										
(2) 2007/08 prices.										
(3) Stansted also has 37 remote stands on the airfield.										
(4) Terminal areas are based on floor area excluding piers, but including satellites as they enhance operational areas, passenger capacity and/or retail space.										
(5) Stansted also has additional retail space of 75 m <sup>2</sup> outside of its terminal.										

Located 30 miles northeast of Central London, Stansted is London's and the United Kingdom's third busiest airport and Europe's thirteenth busiest airport, in terms of passengers. For the year ended 31 December 2007, 23.8 million passengers travelled through Stansted, of which approximately 11 per cent. were domestic passengers, 3 per cent. were international long haul passengers and 86 per cent. were international short haul passengers. Stansted's traffic is predominantly point-to-point traffic, serving destinations within the United Kingdom, Europe, North Africa and North America. Stansted is 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, representing 57 per cent. of STAL's aeronautical income in 2007. Stansted's single runway has a maximum allowed capacity of 241,000 air transport movements per year. Stansted, in contrast to Heathrow and Gatwick, is subject to planning restrictions limiting its passenger throughput, currently to 25 million. For the 12 months ended 31 December 2007, actual air transport movements at Stansted totalled 191,488. Stansted has applied for planning permission to increase its runway capacity to 264,000 movements per year. Stansted's runway is served by a modern passenger terminal. Stansted is currently awaiting planning consents to increase its capacity to 35 million passengers, with a decision expected in 2008. Stansted also offers a full range of passenger services, with shops, bars, restaurants and nearly 26,000 public car park spaces owned by STAL. Stansted is also served by extensive local and express bus services, train services and the dedicated Stansted Express rail link from London Liverpool Street Station. STAL generated income of £241.8 million and EBITDA of £105.7 million for the year ended 31 December 2007.

### 3. STRENGTHS

**The Designated Airports serve the South East of England, a market with growing demand for air travel and limited airport capacity.**

- Between April 1999 and March 2008, the total number of passengers travelling by air through the three Designated Airports has grown by 2.9 per cent. p.a. on a C.A.G.R. basis. For the 12 months ended 31 December 2007, the Designated Airports accounted for 91 per cent. of the passenger traffic of the five airports serving the South East of England. Other than the recent opening of Heathrow's Terminal 5, there has been no significant increase in the runway or terminal capacity at any of these airports during the last ten years. As a result of the passenger demand exceeding airport supply in the South East of England, Heathrow has been operating at or over capacity for a number of years, and Gatwick has been operating at or near capacity in peak hours.
- This supply shortfall is expected to continue. In the White Paper, the DfT, in 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 by 2030, compared to approximately 140 million in 2007. The White Paper expressly ruled out the development of new airports in this region in the near and medium term in favour of making best use of existing airport capacity. In its March 2008 decision, the CAA forecast passenger traffic of 78.2 million and 37.7 million at Heathrow and Gatwick, respectively, in 2012/13, compared to 68.0 million and 35.6 million, respectively, in 2007/8. The major airlines using the Designated Airports predicted higher increases in passenger numbers in their submissions to the CAA than BAA's own forecasts.

**The Designated Airports have a strong position in the South East of England, one of the most important air travel catchments in the world. The Designated Airports benefit from strong origin and destination travel demand, and Heathrow benefits from substantial transfer traffic as it acts as a hub for many of its airlines at the airport.**

- London is one of the world's leading financial centres, driving significant global business travel into and out of the region. In addition, in 2006 the UK ranked sixth for international tourism earnings (Source: Visit Britain), with much of the international air traffic coming through the London area. Events such as the upcoming 2012 Olympics are expected to further drive air travel in London. Given the importance of air travel to the London market and London's gateway status, the Designated Airports represent essential transport infrastructure for the South East of England and the entire United Kingdom.
- "Point-to-point" passenger traffic accounted for 66 per cent. of Heathrow's, 89 per cent. of Gatwick's and 91 per cent. of Stansted's passenger traffic. Point-to-point traffic reflects the strong underlying demand characteristics and travel preferences of the Designated Airports' catchment population.

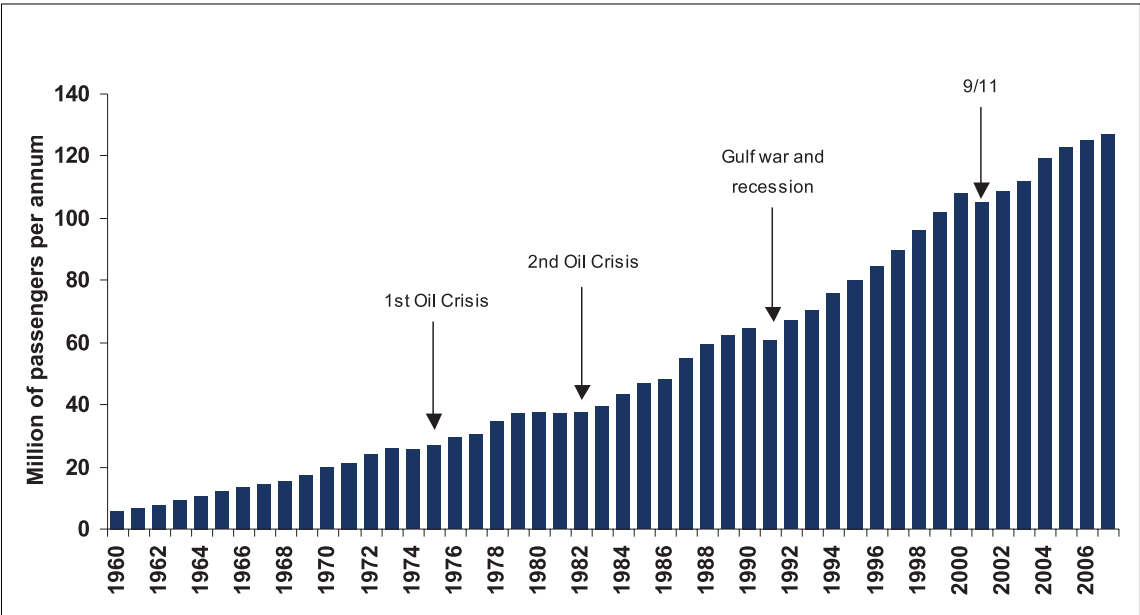
**Price regulation of the Airport Operators helps provide predictability of income levels and provides a stable environment for business and investment planning.**

- As a consequence of price regulation, the Airport Operators are permitted to recover predetermined levels of both capital and operating expenditures through the CAA’s regulatory price setting mechanism, significantly reducing income risk to the Airport Operators during each regulatory period, which is particularly important in a capital-intensive business.
- This price-setting mechanism seeks to take into account all significant sources of both income and expenditures at the Designated Airports.
- The statutory objectives guiding the CAA’s functions and decision-making are determined by the Airports Act. Any change to these objectives requires primary legislation by the UK Parliament.

**The Airport Operators’ business has proven to be relatively resilient to shocks and economic downturns.**

- The Airport Operators’ business has been largely resilient to recent downturns and other changes in the air travel market. The air travel market has been characterised in recent years by swings in demand as a result of wars, acts of terrorism and the threat of SARS. The Airport Operators have been able to quickly adapt to these changes as evidenced by the general growth in passenger numbers at each of the Designated Airports in the past regulatory period. In recent years, demand for air travel in the United Kingdom has tended to return relatively quickly to or above historic levels following external shocks, suggesting a level of demand resilience.
- The graph below shows that demand shocks in the United Kingdom, such as the terrorist attacks of 11 September 2001, SARS and the second Gulf war have been followed by periods of renewed growth bringing passenger numbers back to the pre-shock trend.

**Historic Passenger Levels at Heathrow, Gatwick and Stansted**



Source: BAA

**The Airport Operators benefit from a diversified range of income sources and serve a variety of market segments.**

- The Airport Operators earn income from a variety of sources, including:
  - charges to airlines;
  - retail income from concession fees charged to concession holders, such as operators of shops and restaurants, direct income from car parks and advertising revenue;
  - income from the rental of premises at the airports such as aircraft hangars, cargo storage facilities, maintenance facilities and office premises;

- income from the provision of facilities such as baggage handling and passenger check-in; and
- income from the operation of Heathrow Express.
- Although British Airways has historically been the main airline at both Heathrow and Gatwick, overall the Designated Airports:
  - serve a relatively diversified range of major airlines, including Virgin Atlantic Airways, bmi, easyJet and Ryanair;
  - serve a proportionately smaller main customer base at Heathrow (British Airways,), based on management estimates, than Paris CDG (Air France/KLM), Amsterdam (Air France/KLM) or Frankfurt (Lufthansa);
  - serve a range of market segments, including both business and leisure travellers, long and short haul routes, and full-cost, low-cost and charter carriers, and provide access to approximately 380 destinations around the world; and
  - serve both point-to-point and hub-and-spoke routes.

**The Airport Operators have a strong track record of successfully executing capital-intensive projects.**

- The Airport Operators have implemented a variety of large-scale, capital-intensive projects at the Designated Airports, including Terminal 5 at Heathrow, Pier 6 at Gatwick and the terminal extension at Stansted. No penalties for late delivery of capital projects were suffered in the last regulatory period and apart from one small project all of the capital expenditure plans for the 2008/09 to 2012/13 regulatory period met the criteria for inclusion in the RAB.
- The Airport Operators, working together with the management team at BAA, have developed significant experience and know-how delivering recent large-scale projects, such as Terminal 5. As a result, the Airline Operators have forged relationships with key contractors and suppliers and have developed project management processes, which the Airport Operators believe will enable them to undertake major future capital projects effectively and efficiently.

## **4. STRATEGY**

### *4.1 Overall Strategy*

The overall objective of each of the Airport Operators is to enhance the value of the Designated Airports and to provide world-class airports to serve the United Kingdom's capital city.

With the opening of Terminal 5 in March 2008, one of the most important UK infrastructure projects in recent history, Heathrow has a state-of-the-art, world-class facility that will provide a significant increase in the quality of services offered to passengers, once the initial operational issues have been resolved.

The Airport Operators are committed to improving the Designated Airports' performance within existing facilities to the standards of Terminal 5 and to assuring sustained investment levels sufficient to renew these airports by focussing on the three strategic priorities for the Designated Airports:

- putting the passenger first;
- delivering new runway and terminal capacity; and
- taking advantage of synergies and best practices among the Airport Operators to ensure consistent standards and best practices across the Designated Airports.

#### **(a) Putting the Passenger First**

##### *Improving Security Performance*

The first element of the Airport Operators' strategy of putting the passenger first is to deliver optimal security and check-in with minimal queuing. The Airport Operators have undertaken the following security-related measures at the Designated Airports since August 2006:

- recruited 2,252 new security officers (including 581 new security officers for Terminal 5);



- added 52 new security lanes (including 22 new security lanes for Terminal 5); and
- invested in new archway metal detectors and X-ray screening equipment to improve security-screening processes.

Taken together, these measures have increased the Designated Airports' overall capacity to process passengers through security while meeting safety guidelines. The Airport Operators are committed to the further implementation of improved procedures and new technology to continue improving security and reduce queuing times.

#### *Raising Service Levels*

The second element of the Airport Operators' putting the passenger first strategy is to provide high-quality, passenger-oriented service at the Designated Airports and to ensure the reliability of equipment that passengers use, such as lifts, escalators and travelators. Through effective work scheduling to minimise inconvenience and disruptions and the deployment of best practices across the Designated Airports in maintenance procedures, the Airport Operators intend to continue their improvements in the areas of reliability and availability of equipment for passengers.

In addition, the delivery of the Airport Operators' capital investment plans is expected to substantially improve the passenger service at the airports. HAL's capital plans are expected to enable 70 per cent. of Heathrow's passengers to enjoy new terminal facilities by 2013. STAL's capital plans to expand Stansted's capacity to 35 million passengers per year by 2015, if approved, are ultimately expected to enable service to a wider choice of destinations. There is significant expenditure planned at Gatwick for service level improvement and asset renewal. For a review of construction risks, see "*Risk Factors – Construction and Planning Risks*".

#### *Enhancing Overall Cleanliness and Appearance*

The third element of the Airport Operators' putting the passenger first strategy is to focus on enhancing the overall cleanliness and appearance of the Designated Airports.

#### (b) Delivering New Runway and Terminal Capacity

To better serve their passengers and airline customers, the Airport Operators are seeking ways to increase the capacity of the Designated Airports over the longer term. The Airport Operators have been working to develop proposals for the new capacity envisaged by the UK Government in its White Paper on the future of air transport and this is likely to involve the construction of new runways and terminals. The White Paper sets forth an airport policy for the whole of the United Kingdom through to 2030. In addition to making the fullest use of the country's existing runways, the UK Government proposed the construction of two new runways in the South East of England by 2030. The UK Government recommended that the first runway (to be constructed as soon as possible) would be at Stansted and the second would be at Heathrow, subject to meeting environmental constraints. If the environmental constraints cannot be met (a decision by the DfT is expected later in 2008), then the White Paper recommended that a second runway should be constructed at Gatwick, but it could not be developed before 2019, due to an agreement with the local council. While not legally binding as a policy matter, the White Paper ruled out the development of a competing hub to BAA's three London airports.

At Stansted, STAL has been working on the development of proposals for a second runway to increase the airport's capacity. This process has involved extensive public consultation and the lodging of a planning application. A planning inquiry is expected to begin in early 2009. However, construction of the additional runways at Stansted and Heathrow is still subject to significant uncertainties. See "*Risk Factors – Construction and Planning Risks*".

#### (c) Synergies and Best Practices

With BAA as the Shared Services Provider, the Airport Operators intend to pursue operational efficiencies and best practices across the Designated Airports to provide a consistent and improved quality of service to passengers. This includes the recently announced reorganisation of BAA to more closely focus on the Heathrow operations. Each of the Airport Operators' wider management teams have extensive experience in running airports, in particular, Heathrow and Gatwick, two of the world's busiest and most congested airports.

## 4.2 Investment Strategies of the Individual Designated Airports

### (a) Heathrow

HAL's medium-term investment strategy aims to ensure that by 2013, approximately 70 per cent. of Heathrow's passengers will be using new, and 30 per cent. using newly refurbished, terminals.

Not only has Terminal 5 provided immediate relief to the passenger congestion at Heathrow's other four terminals, it has provided Heathrow with the unprecedented opportunity to re-develop and renovate these terminals to improve customer service. The additional capacity to service passengers, airlines and retail operations provided by Terminal 5 allows Heathrow to progressively modernise its other terminals and begin the process of renovating and rebuilding these facilities, which have been operating at or beyond their optimal capacity for a number of years.

HAL intends to renovate part of Heathrow's Central Terminal Area by constructing the Heathrow East terminal complex ("**Heathrow East**"). HAL has received outline planning approval from the local planning authority for Heathrow East. The first step envisaged in the construction of Heathrow East would be to shut down and demolish Terminal 2 and the adjoining Queens Building beginning in 2009. Terminal 2 is Heathrow's oldest terminal building, having opened in 1955. Following the completion of phase one of the construction of Heathrow East, HAL intends to progressively re-develop the eastern apron of Heathrow to expand Heathrow East so that it can also eventually replace Terminal 1 as well. While Heathrow East is not currently expected to increase Heathrow's existing passenger capacity, it would enable HAL to provide a higher standard of customer service to both passengers and airlines.

Other planned improvements at Heathrow are designed to ensure that all airlines and airline alliances are able to operate efficiently. These improvements include:

- co-locating airlines in alliances within the same terminals (see "*Customers*");
- completing Terminal 5's second satellite by 2011; and
- developing baggage systems to improve the connectivity between Heathrow's terminals.

Heathrow's long term investment strategy is also designed to set the way forward for the successful development of a third runway and sixth terminal and growth in passenger numbers to approximately 125 million passengers per year.

HAL will also continue to focus on reducing queuing times at security checkpoints in order to meet Heathrow's target of queuing times five minutes or less 95 per cent. of the time and ten minutes or less 99 per cent. of the time.

For more information about HAL's capital expenditure plans, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Expenditures – Planned Capital Expenditures*". For a description of certain risks associated with HAL's capital expenditure plans, see "*Risk Factors – Construction and planning risks*" and "*Risk Factors – Environmental, health and safety and planning considerations*".

### (b) Gatwick

GAL's long term investment programme for Gatwick is aligned to the UK Government's policy set forth in the White Paper of maximising the use of the United Kingdom's existing airport facilities and is focussed on increasing the number of passengers to over 40 million passengers per year in 2018 from 35 million per year in 2007.

GAL's future development strategy is aimed at providing flexible capacity and significantly improving service levels across Gatwick. This strategy is intended to deliver new and upgraded facilities to provide a substantially enhanced travel experience for passengers at both of Gatwick's terminals and, at the same time, improve airline efficiency subject to receipt of, and satisfaction of the conditions of, the requisite local planning permissions. The strategy will concentrate on:

- maximising airfield and runway capacity through changes to airfield infrastructure to facilitate the introduction of larger aircraft to Gatwick and to prepare for delivery of additional pier service;
- upgrading the South Terminal facilities to improve service quality, operating environment and passenger experience at existing passenger capacity levels;

- expanding the North Terminal facilities to accommodate additional passengers and providing appropriate aircraft pier service with the construction of further pier infrastructure;
- working with Network Rail, the owner and operator of the fixed infrastructure assets of the UK rail network, to create a new public transport interchange for the airport; and
- refurbishing Gatwick's assets through an asset renewal programme focussed on ensuring the safety, integrity and operating performance of assets by, for example, replacing the airport's inter-terminal transit system, to deliver a clean and efficient airport.

GAL will also continue to focus on investment in security processes, equipment and staff to reduce queuing times at security checkpoints in order to meet Gatwick's target of queuing times five minutes or less 95 per cent. of the time and 15 minutes or less 98 per cent. of the time.

For more information about GAL's capital expenditure plans, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Expenditures – Planned Capital Expenditures*". For a description of certain risks associated with GAL's capital expenditure plans, see "*Risk Factors – Construction and planning risks*" and "*Risk Factors – Environmental, health and safety and planning considerations*".

(c) Stansted

STAL believes that Stansted is a strong location for growth of the low-cost carrier sector, particularly as a number of Stansted's existing base carriers continue to expand their operations.

Stansted's long term investment programme strategy falls broadly into two phases:

- The first phase relates to the delivery of a growth plan to achieve a passenger throughput of 35 million passengers per year by 2015 by providing additional terminal space and aircraft-handling facilities, thereby maximising the use of Stansted's existing single runway. Subject to receipt of, and conditions of, the requisite planning consents, these improvements include:
  - the completion of the extension of Stansted's arrivals hall in 2008;
  - the completion of an upgrade of the terminal baggage system in 2010;
  - the completion of the extension of Stansted's departure facilities by 2011; and
  - the construction of Satellite 4 from 2013 to 2015.
- The second phase relates to the delivery of Stansted "Generation 2", the development proposal announced in January 2007 for a second runway and associated facilities at Stansted, split into a series of phases, including:
  - a new runway and taxiways;
  - additional aircraft stands and aprons;
  - the initial phase of a new passenger terminal and piers; and
  - additional car parking and surface-access improvements.

In its planning application to develop Stansted Generation 2, STAL explained that the new runway should be available at around the time that Stansted is expected to be handling 35 million passengers per year. This figure is expected to be reached around 2015 – 2016.

In the most recent forecasts prepared and published in May 2008 in support of its 10 year capital investment programme and submitted to the Competition Commission, BAA revised downward the short term forecast for traffic at Stansted but still concluded that a figure of around 35 million passengers per year would be reached in 2015-2016.

In concluding that 2015-16 remains the appropriate date to target the opening of a second runway at Stansted, STAL based its view not only on the "indigenous" growth of Stansted traffic but also on a set of assumptions and considerations over, among others, evolution of fuel prices, the growth in the combined air travel demand at the London area airports as a whole, the runway capacity available in that area and the resulting overspill traffic to Stansted.

The circumstances and assumptions supporting STAL's plans for Stansted Generation 2 may change over time as a result of, among other things, changes in general economic conditions, a decrease in the expected demand for flights into and out of Stansted and/or the broader London airport system,

inadequate regulatory conditions to support the investment. As a result, and given the uncertainties, STAL's plans and/or timing continue to remain under review at the date of this Prospectus.

The later phases of Stansted Generation 2 that will follow are expected to progressively increase Stansted's passenger capacity in segregated operating mode for the two runways to about 68 million passengers per year by 2030.

STAL will also continue to focus on reducing queuing times at security checkpoints with the aim of achieving queuing times of ten minutes or less 95 per cent. of the time.

For more information about Stansted's capital expenditure plans, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Expenditures – Planned Capital Expenditures*". For a description of certain risks associated with STAL's capital expenditure plans, see "*Risk Factors – Construction and planning risks*" and "*Risk Factors – Environmental, health and safety and planning considerations*".

## **5. OPERATIONS AT THE DESIGNATED AIRPORTS**

### *5.1 The Role of the Airport Operators*

One of the key roles of the Airport Operators is to co-ordinate the activities of the numerous companies and organisations that are involved in both the landside and airside provision of services to passengers, airlines and other airport users. These 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;
- developing commercial areas at the Designated Airports to provide for passenger needs (such as shops, restaurants and car parks), and determining the optimal mix and location of retail services offered at the airports;
- maintaining and developing airport infrastructure to meet evolving airline and passenger demands, including delivering a "master plan" for the future development of each Designated Airport;
- ensuring that the Designated Airports are served by appropriate and adequate public and ground transport services;
- maximising the capacity of the airfields at the Designated Airports through timely investments and good airfield management and setting airport capacity constraints in consultation with National Air Traffic Services ("NATS") (a privately held entity), the airlines and Airport Co-ordination Limited ("ACL"), an independent organisation owned and managed by several major UK airlines (with actual take-off and landing slots being allocated by ACL, not the Airport Operators); and
- assigning airlines to terminals at the Designated Airports in consultation with the airlines, ACL and NATS, the air traffic control authority (with the allocation of airlines among the Designated Airports being subject to a series of agreements between the UK Government, the European Union and other countries).

Each Airport Operator must address the specific needs of each category of airline that uses its airport. The following table shows the main airline categories and outlines their main requirements:

Segment	Description	Main Requirements
Alliances <i>Examples: oneworld, SkyTeam, Star Alliance</i>	Groups of regular airline companies operating interconnected networks with joint sales and marketing, to provide worldwide service. They mainly operate via hubs.	<ul style="list-style-type: none"> <li>Members grouped together within the same terminal to maximise economies of scale</li> <li>Short connecting times (notably for connecting baggage services)</li> <li>High-quality ground services</li> </ul>
Low cost <i>Examples: Ryanair, easyJet, Air Berlin</i>	Scheduled airlines offering mainly point-to-point services within Europe. Average income per passenger is generally lower than for conventional airlines, but they also offer limited onboard services.	<ul style="list-style-type: none"> <li>Minimise aircraft turnaround time</li> <li>Pier Service</li> <li>Marketing</li> </ul>
Regular independent airlines <i>Examples: Emirates, Air China, Virgin Atlantic Airways</i>	Airlines that choose not to join alliances, operating a differentiation strategy based on the quality of service or a geographic positioning centred on their own hub.	<ul style="list-style-type: none"> <li>Personalised treatment and services</li> <li>Dedicated facilities</li> </ul>
Charter airlines <i>Examples: Monarch, Thomas Cook Airlines, TUI Travel and XL Airways</i>	Airlines that do not generally offer scheduled services and are partially or fully chartered, mainly providing seasonal or on demand flights, most often to medium and long haul vacation destinations.	<ul style="list-style-type: none"> <li>High-volume passenger processing facilities</li> <li>Dedicated facilities</li> </ul>

### 5.2 Cargo and Mail Carriers

Cargo and mail carriers, including cargo forwarding agents, cargo airlines, express cargo services and the Royal Mail, are responsible for handling merchandise and packages at the Designated Airports, including delivery to cargo warehouses, customs procedures and clearance, aircraft loading and unloading, sorting and transport to the final destination.

The bulk of cargo and mail at the Designated Airports is carried in the cargo holds of scheduled aircraft rather than by dedicated cargo aircraft, the exception being at Stansted where Federal Express has a main cargo and mail hub facility.

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.

### 5.3 Government Services and Agencies

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

- Air traffic control: This service is 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 Designated Airports. NATS also works closely with the Airport Operators and airlines in determining the declaration of scheduling capacity having regard to the physical configuration of each of the Designated Airports.
- Security operations: The UK Government is directly responsible for certain aspects of air transport security at the Designated Airports, such as background checks on persons authorised to enter restricted areas and the supervision and control of security operations carried out by airfield operators and other service providers.
- Public order and policing services: Policing operations at the Designated Airports are the responsibility of the local police authority, including Metropolitan Police at Heathrow, Sussex Police at Gatwick and Essex Constabulary at Stansted. Each Airport Operator pays the local police authority 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.
- Border controls: The UK Home Office's Border and Immigration Agency is responsible for the control of persons, mainly as part of immigration controls, while HM Revenue & Customs is responsible for the control of goods.

#### 5.4 Air Service Agreements

The allocation of airlines between the Designated Airports is subject to a series of air service agreements between the UK Government, the European Union and other countries. The last major constraint on the designation of airports for airline use by European and US airlines has recently been removed as a result of the Open Skies Agreement concluded between the European Union and the United States that entered into force on 30 March 2008 (the “EU-US Open Skies Agreement”). The first phase of this agreement allows any European or US airline to fly any route between any city in the European Union and any city in the United States. A second phase of the agreement, if implemented, is expected to allow foreign ownership of U.S.-based airlines. For more information on air service agreements, see “*Airport Regulation*”.

## 6. INCOME

Each Airport Operator owns the real estate assets that comprise its respective Designated Airport and has in its own name the permission to levy airport charges at its Designated Airport. This includes aeronautical income from air carriers, income arising under concession contracts with retailers and others and lease or licence income arising under leases or licences of parts of the airport to, among others, airlines and baggage handling companies.

Below is a table which presents income by source for all three Airport Operators and provides a percentage of total combined income for each source, for the 12 months ended 31 December 2007:

### Total Income by Source and as a Percentage of Total Income of the Airport Operators

	12 months ended 31 December 2007	
	(£ millions)	(%)
Aeronautical Income.....	939.8	47.6%
Retail Income.....	575.8	29.1%
Operational Facilities and Utilities Income.....	162.8	8.2%
Property Rental Income .....	116.2	5.9%
Rail Income .....	79.5	4.0%
Other Income <sup>(1)</sup> .....	102.2	5.2%
<b>Total Income of the Airport Operators .....</b>	<b>1,976.3</b>	<b>100%</b>
Thereof: HAL .....	1,324.8	67.0%
Thereof: GAL .....	409.7	20.7%
Thereof: STAL .....	241.8	12.3%

(1) Includes income received from BAA, mostly related to IT lease costs, which HAL charged to BAA and BAA, in turn, re-charges to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Other Income*”.

## 6.1 Aeronautical Income

Aeronautical income includes airport fees and other traffic charges paid by airlines to the Airport Operators for the use of airport facilities. The CAA currently regulates these fees and charges by setting a maximum allowable yield per passenger, expressed in pounds sterling, for each Designated Airport, typically on a five-year basis. For each of the years during each five-year period, the CAA stipulates the maximum level of airport charges, expressed in terms of a maximum allowable yield, by reference to a formula related to changes in inflation as measured by the UK retail price index (“RPI”), plus or minus an additional factor, known as “X”, although the Airport Operators may charge less than the maximum allowable yield. For more information on historical and current maximum allowable yields, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Regulation of Airport Charges*”.

The high level of demand and limited capacity, particularly at Heathrow and Gatwick, generally allow those Airport Operators to recover all or substantially all of the maximum allowable yield at those Designated Airports. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Recovery of Allowable Yields*”. The Airport Operators recover the allowable yield through three types of airport fees and traffic charges:

- 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 in-transit and crew members working on the flight. As the Airport Operators incur lower per-passenger costs for domestic flights than for international flights, departing passenger charges are lower for domestic flights than for international flights. Connecting passengers are charged the same applicable rate as departing passengers. Airlines are given a rebate on the per passenger charge if departing passengers do not have the use of an air jetty to access their aircraft in order to compensate airlines for the need to provide coaches to transport passengers to remote aircraft parking stands. Every aircraft is charged a minimum departure charge regardless of the number of passengers on board.
- 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 in accordance with each aircraft’s noise-rating, its emissions and the time of day, with landing charges being higher during peak traffic times than off-peak traffic times.
- Parking charges are calculated on a per aircraft basis in accordance with the length of time an aircraft is parked, its weight and time of day.

The Airport Operators do not levy any specific charges based on cargo or mail volumes. Aircraft carrying cargo and mail are charged each Designated Airport’s standard landing and parking fees. To the extent these aircraft do not carry passengers, they are also levied an additional minimum departure charge.

Airlines operate in accordance with each of the relevant Designated Airport’s published Conditions of Use, which outline the terms of use and applicable charges for the airport.

For further information on aeronautical income of the Airport Operators, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income*”.

The table below sets forth a breakdown of total aeronautical income generated by each of the Airport Operators, both in absolute terms and as a percentage of aeronautical income of each Airport Operator, for the year ended 31 December 2007:

### Aeronautical Income by Source

	12 months ended 31 December 2007							
	HAL		GAL		STAL		Total	
	(£ millions)	(%)	(£ millions)	(%)	(£ millions)	(%)	(£ millions)	(%)
Passenger charges....	438.6	69.1%	129.0	72.7%	91.4	71.6%	659.0	70.1%
Landing and parking charges .....	186.0	29.3%	45.9	25.9%	35.8	28.0%	267.7	28.5%
Other charges <sup>(1)</sup> .....	10.0	1.6%	2.6	1.4%	0.5	0.4%	13.1	1.4%
<b>Aeronautical Income</b>	<b>634.6</b>	<b>100%</b>	<b>177.5</b>	<b>100%</b>	<b>127.7</b>	<b>100%</b>	<b>939.8</b>	<b>100%</b>

(1) Other charges relate primarily to the provision of fixed electrical ground power and pre-conditioned air to aircraft.

## 6.2 Retail Income

### (a) Overview

The following table sets forth retail income generated by each of the Airport Operators for the year ended 31 December 2007, both in absolute terms and as a percentage of total retail income of all of the Airport Operators together:

### Retail Income by Airport Operator

	12 months ended 31 December 2007	
	(£ millions)	(%)
HAL.....	324.9	56.4%
GAL.....	159.9	27.8%
STAL .....	91.0	15.8%
<b>Total.....</b>	<b>575.8</b>	<b>100%</b>

Third parties operate all bars, restaurants, specialist shop retailers, duty free and tax free retailers and other paid merchant services at the Designated Airport under concessions granted by the Airport Operators. The term of concession contracts for retail outlets is generally three or five years, although some major contracts are for longer periods, including the duty free concession to World Duty Free which is for 12 years. Most concession contracts are terminable by either party on six months' prior notice although this does not apply to the World Duty Free contract.

Concession holders pay the Airport Operators concession fees that are partly proportionate to their sales but generally underpinned by a guaranteed minimum rental payment. The retail income of the Airport Operators is therefore closely linked to the gross receipts of the concession holders, which, in turn, are influenced by the amount of passenger traffic at the Designated Airports.

The Airport Operators also receive income from their public car parks, which provide short stay, long stay and business parking services. Car parks at the Designated Airports are usually operated by third parties under management contracts for short stay car parks (for which the Airport Operators receive the value of sales less management fees) and concession fee contracts for long stay contracts.

The Airport Operators also generate retail income from advertising space within the Designated Airports through agreements with two primary advertising sales companies, who are responsible for the marketing and sale of advertising space on behalf of the Designated Airports. An agreement with J.C. Decaux Airport UK Ltd. covers advertising media space and infrastructure within the airports,



and an arrangement with Sponsorship Branding International Limited covers advertising space on the air jetties.

The table below shows the breakdown of retail income generated by each of the Airport Operators for the year ended 31 December 2007, by main product or service type. Retail income is of particular importance to the Airport Operators as it is the largest component of non aeronautical income they generate. The CAA forecasts levels of non aeronautical income at each Designated Airport for each five year regulatory period and includes this forecast when determining the maximum allowable yield per passenger for the airport for the regulatory period. This approach, known as “single till” regulation, is described in more detail in “*Airport Regulation*”.

### **Retail Income by Source**

12 months ended 31 December 2007								
	HAL		GAL		STAL		Total	
	(£ millions)	(%)	(£ millions)	(%)	(£ millions)	(%)	(£ millions)	(%)
Car parking .....	67.8	20.9%	47.1	29.5%	40.4	44.4%	155.3	27.0%
Duty and tax-free	74.5	22.9%	38.7	24.2%	11.1	12.2%	124.3	21.6%
Airside specialist shops.....	53.2	16.4%	15.9	9.9%	4.4	4.8%	73.5	12.8%
Bureaux de change.....	29.2	9.0%	13.2	8.3%	10.6	11.6%	53.0	9.2%
Catering .....	26.0	8.0%	16.3	10.2%	10.0	11.0%	52.3	9.1%
Landside shops and bookshops....	20.7	6.4%	13.5	8.4%	6.7	7.4%	40.9	7.1%
Advertising .....	25.8	7.9%	4.4	2.8%	1.7	1.9%	31.9	5.5%
Car rental .....	10.6	3.3%	3.4	2.1%	2.4	2.6%	16.4	2.8%
Other.....	17.1	5.2%	7.4	4.6%	3.7	4.1%	28.2	4.9%
<b>Retail income .....</b>	<b>324.9</b>	<b>100%</b>	<b>159.9</b>	<b>100%</b>	<b>91.0</b>	<b>100%</b>	<b>575.8</b>	<b>100%</b>

For further information on retail income for the Airport Operators, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Retail Income*”.

#### (b) Heathrow Retail Facilities

With the opening of Terminal 5 in March 2008, Heathrow has a total of over 60,000 square metres of retail space served by approximately 120 retail clients operating 577 retail outlets, although, with the closure of Terminal 2, the number would decrease to 496.

Terminal 5, with over 23,000 square metres of retail space operated by 63 retailers, has significantly increased Heathrow’s overall retail portfolio. As a measure of the scarcity value of retail opportunities at the new terminal, the bulk of Terminal 5’s 113 retail units were contracted almost a year in advance of the terminal’s opening.

Terminal 5’s retail facilities were designed in consultation with incoming retailers to achieve a more customer-focussed and experience-based approach to maximising commercial yields at Heathrow. Some of the new retailers Terminal 5 has attracted to Heathrow include Carluccio’s, Dior, Gordon Ramsay, Prada, Tiffany and Wagamama.

Heathrow has more than 19,000 HAL-owned public car park spaces that are available to travellers and the general public.

All terminals at Heathrow are served by car rental operators that provide bus shuttle services to collection points located on the perimeter of the airport.

Heathrow’s terminals and their approaches represent some of the most attractive and desired advertising space at UK airports. Terminal 5, with over 400 high quality advertising media sites, has attracted a number of new advertisers to Heathrow.

(c) Gatwick Retail Facilities

Gatwick has a total of over 27,000 square metres of retail space dedicated to restaurants, bars, specialist shops and duty free and tax free shopping. Gatwick has approximately 75 retail clients operating 244 retail outlets. Gatwick has a total of more than 44,000 car park spaces. Both terminals at Gatwick are served by car rental concessions with the main support facilities for these activities located at the South Terminal.

(d) Stansted Retail Facilities

Stansted has approximately 8,000 square metres of retail space, with approximately 65 retail clients operating 114 retail outlets. The main retail facilities are located in Stansted's core terminal building and supplemented by additional outlets located within the airport's three boarding satellites. Stansted has approximately 26,000 STAL-owned public car park spaces.

6.3 *Operational Facilities and Utilities Income*

The Airport Operators also generate income from the provision of operational facilities and utilities for airlines and other businesses operating at the Designated Airports. This includes primarily rental charges for check in and baggage-handling facilities and charges for the provision of electricity and water. The provision of operational facilities and utilities is classified as specified activities within the UK airport regulatory framework. Therefore, the price that the Designated Airports may charge for, and the costs incurred in providing, these services are subject to certain transparency and reporting conditions as set out by the CAA in its regulatory review. See "*Airport Regulation*". The CAA's price setting policy is generally aimed at allowing the Designated Airports to recover the cost of supply, including associated infrastructure costs and a reasonable rate of return on assets engaged in the supply.

The following table sets out the income from the provision of operational facilities and utilities generated by each of the Airport Operators for the year ended 31 December 2007, both in absolute terms and as a percentage of total operational facilities and utilities income of all of the Airport Operators together:

**Operational Facilities and Utilities Income by Airport Operator**

	12 months ended 31 December 2007	
	(£ millions)	(%)
HAL.....	115.9	71.2%
GAL.....	34.0	20.9%
STAL.....	12.9	7.9%
<b>Total.....</b>	<b>162.8</b>	<b>100%</b>

As from 1 April 2008, certain charges for baggage and fuel delivery infrastructure at HAL and GAL have been reclassified and included within the regulatory-approved maximum passenger yield and will be reflected under aeronautical income.

For further information on operational facilities and utilities income of the Airport Operators, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Operational Facilities and Utilities Income*".

6.4 *Property Rental Income*

The Airport Operators generate property rental income from the tenants of cargo storage, aircraft hangars and maintenance facilities, light industrial units and office premises at their airports.

The following table sets out the property rental income generated by each of the Airport Operators for the year ended 31 December 2007, both in absolute terms and as a percentage of total property rental income of all of the Airport Operators together:

**Property Rental Income by Airport Operator**

	12 months ended 31 December 2007	
	(£ millions)	(%)
HAL.....	81.8	70.4%
GAL.....	27.0	23.2%
STAL.....	7.4	6.4%
<b>Total.....</b>	<b>116.2</b>	<b>100%</b>
Thereof: Income from rental properties classified as “investment properties” for accounting purposes .....	57.8	49.7%
Thereof: Income from other rental properties.....	58.4	50.3%

The Airport Operators use a range of property rental agreements depending on the type of property and its use. These agreements range from standard institutional ground leases, stand-alone office and warehouse premise leases for terms of five to 50 years as well as short term licence agreements for information desks in terminal buildings. However, the most common property rental agreement is the standard indefinite tenancy, which may be terminated by the tenant with three-to-six months’ prior notice. Details of the main lease and property agreement types are:

Category	Typical Agreement Types
Hangars and airside maintenance areas.....	Ground leases or leases, depending on whether the tenant or the Airport Operator constructs the facilities. The ground leases are generally for a term of up to 50 years, subject to rent reviews at five-year intervals. Where the Airport Operator constructs and leases the facility, the term is up to 25 years, subject to rent reviews at five-year intervals. It is rare to have break clauses in these agreements.
Office .....	Standard indefinite tenancy, which is a periodic tenancy subject to rent reviews at three-year intervals and terminable at any time with three-months’ notice by the tenant or six-months’ notice by the Airport Operator.
Airline and other lounges.....	Leases for terms of up to nine years and subject to rent reviews at three-year intervals. These leases generally include three-year break clauses for the Airport Operators or the tenant.
Fuel farms .....	Ground leases (except where the Airport Operator owns the infrastructure) for terms of approximately 30 years, subject to rent reviews at five-year intervals.
Industrial .....	Leases for terms of up to nine years, subject to rent reviews at three-year intervals and generally include three-year break clauses.
Residential .....	Assured short hold tenancies for terms of up to 12 months.
Other sites and compounds.....	Leases for terms of up to nine years, subject to rent reviews at three-year intervals. Generally terminable on one month’s notice at any time.

The Airport Operators classify certain rental properties as “investment” properties for accounting purposes and record these at their open market value at the appropriate balance sheet date. The table below shows the total amount of rental space at the Designated Airports at 31 December 2007 that is classified as investment property and the associated rental income and investment values at 31 December 2007.

### Rental Property classified as Investment Properties

	Rental space <sup>(1)</sup>	Rental income	Capital value
	(m <sup>2</sup> thousands)	(£ millions)	(£ millions)
Hangars and airside maintenance areas .....	1,043.4	20.7	443.8
Office .....	75.7	15.4	234.6
Airline and other lounges .....	19.4	11.5	142.4
Fuel farms .....	94.6	5.3	107.4
Industrial .....	77.3	3.2	44.9
Residential .....	58.8	0.5	14.5
Other sites and compounds .....	1,068.3	1.2	34.8
<b>Total</b> .....	<b>2,437.5</b>	<b>57.8<sup>(2)</sup></b>	<b>1,022.4<sup>(3)</sup></b>

(1) Source: BAA.

(2) Does not include rental income that is generated by other rented areas, such as offices or workshops, that are contained within operational buildings and are not classified as investment properties for accounting purposes.

(3) Does not include car parks and advertising sites that are classified as investment properties, with values of £1.52 billion and £58 million, respectively. Income generated from these assets is recorded under retail income.

For further information on property rental income of the Airport Operators, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Property Rental Income*”.

#### 6.5 Rail Income

In addition to the other income above, HAL generates rail income from its ownership of the Heathrow Express rail service, which is operated on behalf of HAL by HEX Opco. For the 12 months ended 31 December 2007, income from Heathrow Express was £79.5 million.

HAL owns all of the Heathrow Express rolling stock, the Heathrow Express terminal stations at Heathrow that are in the Central Terminal Area, Terminal 4 and Terminal 5 and all track and tunnels located at Heathrow up to the “airport junction” (the point of connection with assets owned by Network Rail).

HAL’s right to use the train paths to run Heathrow Express is governed by a 30-year track-access agreement with Network Rail, the owner and operator of the fixed infrastructure assets of the UK rail networks, that HAL entered into in August 1993.

The agreement is for the use of Network Rail’s train paths between London Paddington Station and the airport junction at Heathrow in return for the payment by HAL of an inflation-indexed annual fee. This annual fee under the agreement in 2007/2008 was £6.95 million.

While HAL is entitled to all receipts and income relating to Heathrow Express, the day-to-day operation of Heathrow Express is undertaken by HEX Opco on behalf of HAL. For providing these services, HAL pays HEX Opco a management fee and reimburses all of its operating costs.

For further information on rail income of HAL, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Rail Income*”.

#### 6.6 Other Income

For the 12 months ended 31 December 2007, other income at the Designated Airports amounted to £102.2 million, including inter-company income and income from the provision of staff car parking at the Designated Airports, waiting areas and taxi allocation services at the Designated Airports, “fast track” check-in and security services for premium customers of airlines.

Other income includes inter-company income received from BAA, mostly related to IT lease costs, which HAL charges to BAA and which BAA, in turn, recharges to its businesses (including HAL, GAL and STAL).

For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Other Income”.

**7. DESIGNATED ASSET INFRASTRUCTURE AND ACCESS**

*7.1 Heathrow*

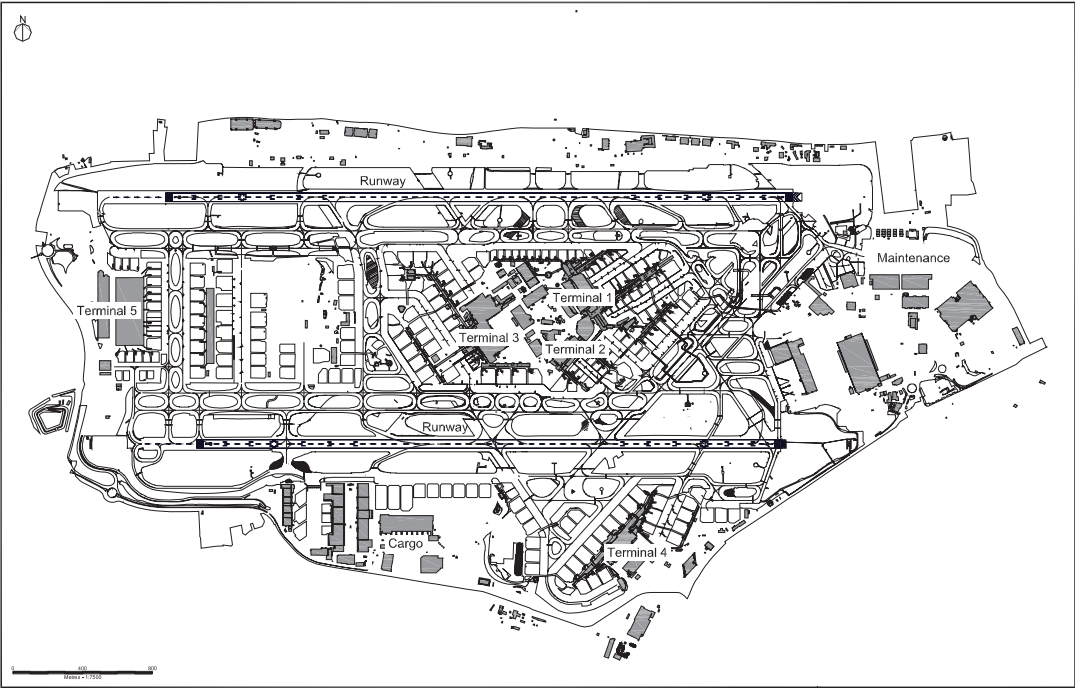
(a) Overview

Heathrow, a former military airfield, commenced operations as London’s principal commercial airport in 1946, following the end of the Second World War. Heathrow’s first permanent terminal was opened in 1955 and comprised the Queens Building complex, which is now designated Terminal 2. The introduction of jet aircraft and the substantial growth in the demand for air transport throughout the 1960s and 1970s saw the development of much of the core infrastructure at Heathrow’s Central Terminal Area, 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 an original capacity of 8 million passengers per year. At that time, Heathrow’s expected ultimate maximum capacity was approximately 45 million passengers.

With the opening of Terminal 5’s main facilities in March 2008, Heathrow has acquired additional terminal passenger capacity for 30 million passengers per year. This number is expected to grow to 35 million as further investment projects at Terminal 5 are completed. By drawing on BAA’s and HAL’s understanding of the airports business and passenger needs, the new terminal provides what HAL believes is an industry-leading infrastructure for customer space and comfort. British Airways is expected to have relocated substantially all of its operations from Terminals 1 and 4 to Terminal 5 by the end of 2008.

The opening of Terminal 5 has provided immediate relief to Heathrow’s other four terminals, which have all been operating beyond what management believes is their optimal capacity. The additional capacity to service passengers, retail operations and airlines provided by Terminal 5 enables HAL to progressively shut down and/or renovate parts of its other four terminals to begin the process of rebuilding and renovating these facilities. Ultimately these projects are expected to expand Heathrow’s terminal capacity to between 90 million and 95 million passengers per year. However, the achievement of these levels of passenger throughput is dependent on the efficient use of HAL’s capacity-constrained runways by increasing the average number of passengers carried on each aircraft.

The diagram below shows the layout of Heathrow:



## (b) Runways

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

HAL currently has 125 aircraft parking stands, including 32 at Terminal 5, with air-jetty access directly from the airport's terminals, in addition to 67 remote aircraft parking stands where aircraft are served by bus operations from and to the terminals.

Heathrow is currently permitted to schedule up to 480,000 air transport movements per year. Heathrow's runways currently operate at 99 per cent. of their permitted capacity, leaving little room for growth in air transport movements.

Due to its close proximity to residential areas, Heathrow has a strict night movement curfew and has also initiated a voluntary grant programme to assist local homeowners in covering the costs of home insulation to mitigate the impact of airport noise.

The White Paper recommended that a third runway be constructed at Heathrow provided stringent environmental conditions could be met, including conditions relating to local air pollution and the proportion of airport traffic using public transport rather than private cars. Following the completion of further reviews, the UK Government announced in December 2006 that it believes that the environmental conditions for the construction of the third runway can be met. As a result, the UK Government started a public consultation on a new third runway at Heathrow in November 2007. This consultation was completed in February 2008, with the UK Government expected to make a decision on the construction of the third runway later in 2008. The addition of a third runway would require the construction of a sixth terminal building to support the increase in passenger numbers resulting from the increase in air transport movements.

HAL currently estimates that a third runway and sixth terminal would allow Heathrow to handle a total of 702,000 air transport movements per year by approximately 2030, an increase of approximately 45 per cent. above the current limit, and over 120 million passengers a year, an increase of approximately 80 per cent. above the current level. Subject to government policy, future planning approval and regulatory support, HAL believes the earliest a third runway could be operational is in 2020, with capacity expected initially to be constrained to around 600,000 movements per year by noise limits. HAL believes that could be increased steadily thereafter as newer, quieter aircraft replace older aircraft in existing airline fleets, thus reducing the level of noise caused by aircraft and allowing Heathrow to handle more movements.

The UK Government is also currently undertaking a public consultation on how the two existing runways at Heathrow might be used more effectively by switching to a "mixed-mode" method of operation in which the two runways would be used simultaneously for both landings and take-offs. The UK Government is considering two different alternatives for mixed-mode operations:

- mixed-mode with no increase in the number of annual air transport movements above the current 480,000 limit but with more flexibility to schedule additional flights at peak periods when aircraft passenger load capacities are generally higher, by 2010 at the earliest; or
- full mixed-mode in which the number of annual air transport movements would be allowed to grow to 540,000 by 2015.

The cost of moving to mixed-mode is estimated at £482 million (in 2007/08 prices), £294 million (in 2007/08 prices) of which is already incorporated into the capital expenditure budget for the 2008/09 to 2012/13 regulatory period. The UK Government has stated that it believes that either of the alternatives would over time be environmentally acceptable. The UK Government's policy decision regarding mixed-mode operation is expected in the summer of 2008 at the earliest, when the UK Government is also expected to release its recommendation on the third runway at Heathrow. The UK Government's approval of the full mixed-mode alternative would increase the number of air transport movements at Heathrow by up to 12.5 per cent. and enable up to 105 million passengers to use the airport each year. HAL believes the main benefit of mixed-mode operation would be to provide more robust operations at Heathrow through the ability to increase the arrival or departure rate to more effectively manage delays on the ground or in the air. Mixed-mode operation is also

expected to give Heathrow more flexibility and operational resilience, for example, in recovering from extreme adverse weather conditions or other incidents.

Upon the opening of the third runway at Heathrow, HAL expects that the two existing runways would revert to segregated operations, although it is expected that the third runway would be operated in mixed mode.

(c) Access to Heathrow

Heathrow’s extensive ground transport links provide easy access to the airport for passengers, cargo transporters and airport personnel:

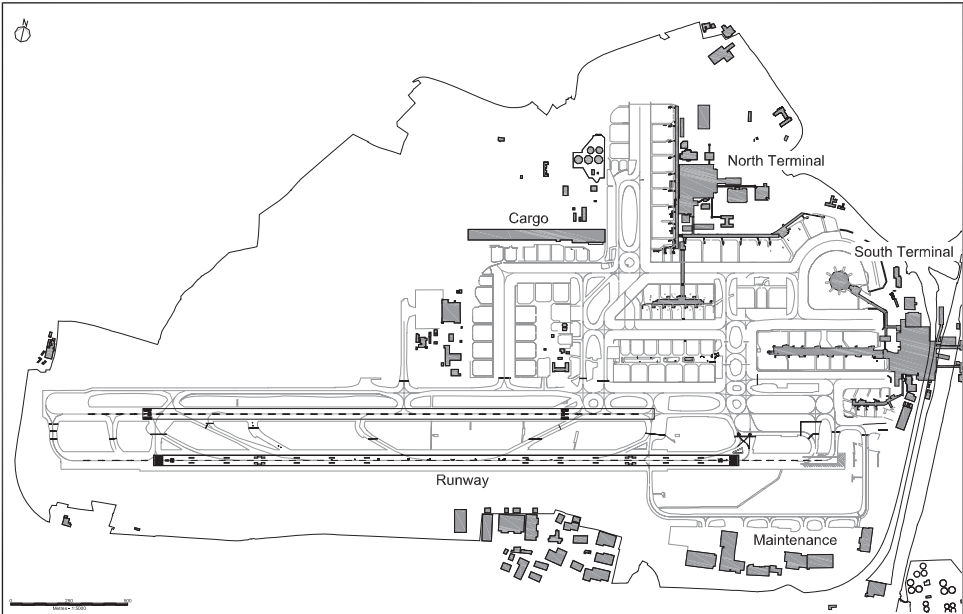
- Heathrow is located just off the M4 motorway and London’s orbital motorway, the M25.
- Heathrow Express offers non-stop rail service from London Paddington Station, with trains leaving every 15 minutes for the 15 minute journey to Heathrow’s Central Terminal Area. This service has been supplemented by the Heathrow Connect “stopping service”, which provides connections with trains operating services on the UK’s western main line as well as additional local access to the airport. Additional direct rail connections to Heathrow are expected in the future following the completion of Airtrack, to link the airport to the South and West of London, and Crossrail, an underground rail line that will directly link the West and East of London.
- The London Underground Piccadilly Line has stations serving each of the terminals at Heathrow. The standard journey time from Heathrow to Central London is 45 to 50 minutes.
- Long distance coach services operated by National Express provide fast and frequent services from Heathrow 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.

7.2 Gatwick

(a) Overview

Gatwick is the oldest of the three Designated Airports, having started commercial passenger operations in the mid 1930s. Gatwick was extensively expanded in the 1950s and 1960s with the completion of the upgrading of the South Terminal in 1958. In 1988, Gatwick’s second terminal, the North Terminal, was opened. GAL anticipates that with further capital investment in terminals and related infrastructure, Gatwick could serve up to 40 million passengers per year, up from 35 million currently.

The diagram below shows the layout of Gatwick:



### (b) Runway

Gatwick is the world's busiest single runway airport. To serve this traffic, Gatwick's South Terminal has three piers with a total of 32 pier-served aircraft stands, and the North Terminal has three piers with a total of 32 pier-served aircraft stands. Gatwick also has 44 remote aircraft parking stands.

Air transport movements at Gatwick have increased from 244,300 in the year to March 1999 to 260,600 in the year to March 2008 and its runway operates at 95 per cent. of its estimated maximum capacity, leaving little room for growth in air transport movements during the peak operating hours of the day. Gatwick is prohibited by an agreement reached with its local council from constructing a second runway prior to 2019. In the White Paper, the UK Government stated that it would not seek to overturn this agreement and would hold open options for beyond 2019 if a third runway at Heathrow does not proceed.

Gatwick operates a strict night noise quota system and prohibits some older, noisier aircraft types from landing at all between certain night-time hours. GAL carefully monitors this night quota to maximise Gatwick's capacity but with consideration for the local community.

### (c) Access to Gatwick

Gatwick is located a short distance from junction 9 of the M23 motorway, nine miles from the M25, offering road access for passengers and cargo carriers to London and other surrounding areas.

The Gatwick Airport railway station is located next to the South Terminal and provides fast and frequent connections to London Victoria Station and London Bridge Station. Gatwick Express provides non-stop rail services directly to London Victoria Station, with trains leaving every 15 minutes for the 30-minute journey.

In addition, a number of coach companies provide express services to Gatwick from London and other towns in the South East and South West of England, the Midlands and East Anglia. Coach services also provide a high-frequency transfer between Gatwick and Heathrow, facilitating the connection of passengers between the two airports.

## 7.3 *Stansted*

### (a) Overview

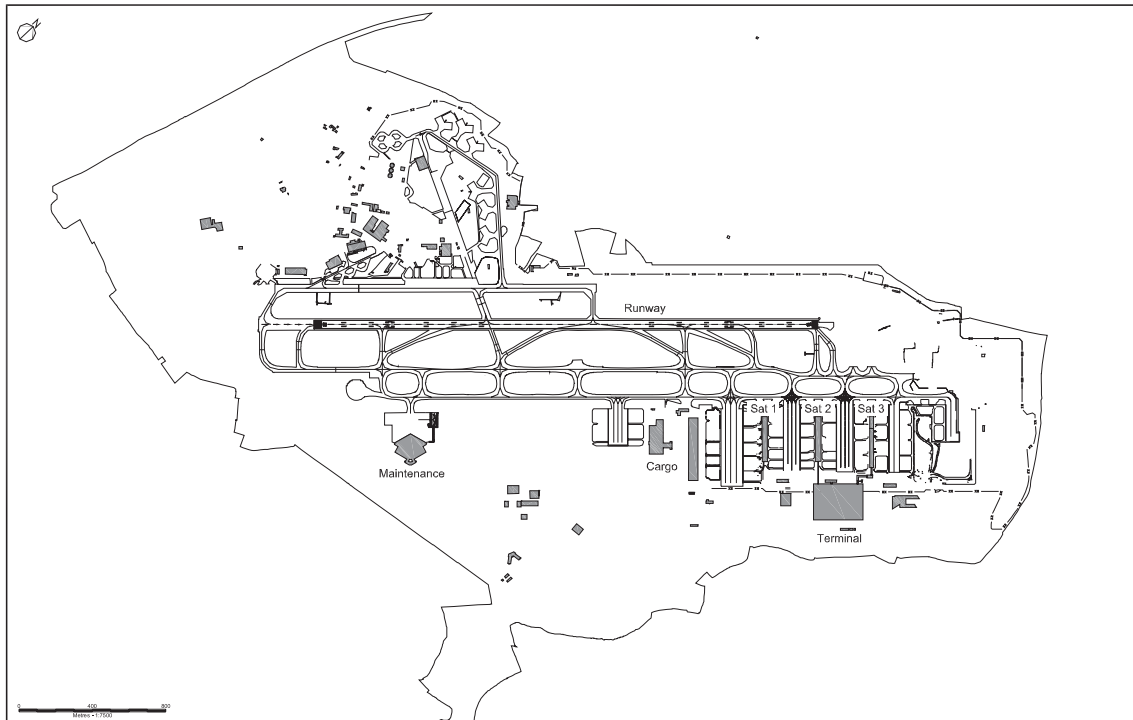
Commercial operations began in 1966 at Stansted, which had been originally constructed as a military airfield in the Second World War. Until the completion of new terminal facilities designed by Norman Foster in 1991, Stansted was regarded as a small regional airport. Today the airport is the third busiest airport serving London and the UK.

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 has seen a rapid expansion of both passenger and aircraft movement numbers driven largely by the growth of low-cost carriers offering short haul flights to European destinations. The number of passengers using Stansted increased from 7.4 million in 1999 to 23.5 million in the year to 31 March 2008, and air transport movements increased from 115,100 to 188,700 over the same period.



The diagram below shows the layout of Stansted:



#### (b) Runway

While Stansted's capacity is currently limited by planning restrictions to a maximum throughput of 25 million passengers per year, STAL believes that Stansted could accommodate 35 million passengers per year by 2015 if these restrictions were lifted and Stansted were granted permission to make full use of its runway. In November 2006, Stansted's local district council rejected its application to remove the current limit on passenger numbers and increase the number of permitted air transport movements. Stansted appealed against the decision, and a public inquiry considered the appeal from May to October 2007. The inspector for that inquiry submitted his report to the UK Government at the beginning of January 2008, and the UK Government is expected to make a decision later in 2008.

One of the two runways proposed in the White Paper for South East England is for Stansted. STAL submitted a planning application to the local authorities for Stansted Generation 2, the development proposal for a second runway and associated infrastructure, in March 2008. A public inquiry on the application is expected to commence in late 2008, with a decision expected two years later. If the outcome of the public inquiry is positive and the requisite planning approvals are forthcoming, the second runway could open as early as 2015.

STAL estimates that a second runway, together with the lifting of the current limit of 25 million passengers per year, would allow Stansted to cater by 2030 for a total of 495,000 movements per year, an increase of more than 100 per cent. above current levels, and 68 million passengers per year, an increase of 170 per cent. above current levels.

#### (c) Access to Stansted

Stansted is located at the junction of the M11 motorway and the A120 dual carriageway, just 20 minutes from the M25 motorway.

In addition to road access, Stansted has a railway station located below its terminal building. Stansted Express trains run to and from Liverpool Street Station in Central London every 15 minutes, with a 45-minute journey time. There are also hourly rail services from Stansted to Cambridge, Leicester and the Midlands.

Scheduled express coach services run to Stansted from the London bus terminals at Stratford, Victoria Station, Liverpool Street Station and Golders Green.

## 8. TRAFFIC

### 8.1 Historic Growth in Passenger Traffic at the Designated Airports

Each of the Designated Airports has displayed different levels of growth in its air passenger traffic in the past ten years. The tables below present historic growth levels in passenger numbers and air transport movements at each of the Designated Airports between 1998/99 and 2007/08.

#### Number of Passengers

12 months ended 31 March										
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
----- (in millions) -----										
Heathrow .....	61.0	62.3	64.3	60.4	63.0	64.3	67.7	67.4	67.3	68.0
Gatwick .....	29.5	30.4	32.1	30.5	29.6	30.1	32.0	32.8	34.4	35.6
Stansted .....	7.4	9.9	12.3	14.1	16.7	19.4	21.2	22.2	23.8	23.5
<b>Total .....</b>	<b>97.9</b>	<b>102.6</b>	<b>108.7</b>	<b>105.0</b>	<b>109.3</b>	<b>113.8</b>	<b>120.9</b>	<b>122.4</b>	<b>125.5</b>	<b>127.1</b>

Source: BAA.

#### Percentage Growth in Number of Passengers

12 months ended 31 March										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2008
----- (percentage growth p.a.) -----										(C.A.G.R.) <sup>(1)</sup>
Heathrow.....	2.1%	3.3%	(6.1)%	4.3%	2.1%	5.3%	(0.3)%	(0.2)%	1.0%	1.2%
Gatwick .....	3.0%	5.6%	(5.1)%	(2.8)%	1.4%	6.5%	2.6%	4.7%	3.4%	2.1%
Stansted .....	33.7%	23.8%	14.9%	18.9%	15.9%	9.1%	5.0%	7.2%	(1.3)%	13.7%
<b>Total .....</b>	<b>4.7%</b>	<b>5.9%</b>	<b>(3.5)%</b>	<b>4.2%</b>	<b>4.0%</b>	<b>6.2%</b>	<b>1.4%</b>	<b>2.5%</b>	<b>1.2%</b>	<b>2.9%</b>

(1) Compound Annual Growth Rate ("C.A.G.R.")

#### Number of Air Transport Movements

12 months ended 31 March										
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
----- (in thousands) -----										
Heathrow .....	442.1	454.2	459.5	455.9	461.1	460.7	469.6	473.0	470.7	475.7
Gatwick .....	244.3	247.4	251.9	238.8	237.3	234.2	245.1	254.0	254.2	260.6
Stansted .....	115.1	139.7	147.5	150.2	161.9	173.2	176.8	180.7	192.1	188.7
<b>Total .....</b>	<b>801.5</b>	<b>841.3</b>	<b>858.9</b>	<b>844.9</b>	<b>860.3</b>	<b>868.1</b>	<b>891.5</b>	<b>907.7</b>	<b>917.0</b>	<b>925.0</b>

Source: BAA.

#### Percentage Growth in Air Transport Movements

12 months ended 31 March										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2008
----- (percentage growth p.a.) -----										(C.A.G.R.)
Heathrow .....	2.7%	1.2%	(0.8)%	1.2%	(0.1)%	1.9%	0.7%	(0.5)%	1.1%	0.8%
Gatwick .....	1.3%	1.8%	(5.2)%	(0.6)%	(1.3)%	4.6%	3.6%	0.1%	2.5%	0.7%
Stansted .....	21.3%	5.6%	1.9%	7.8%	7.0%	2.1%	2.2%	6.3%	(1.8)%	5.6%
<b>Total .....</b>	<b>5.0%</b>	<b>2.1%</b>	<b>(1.6)%</b>	<b>1.8%</b>	<b>0.9%</b>	<b>2.7%</b>	<b>1.8%</b>	<b>1.0%</b>	<b>0.9%</b>	<b>1.6%</b>

With the increase in total air transport movements limited at Heathrow and Gatwick by existing constraints, the overall passenger growth at these airports over the past ten years has been largely

driven by airlines increasing their passenger loads, or number of passengers per aircraft, and introducing larger aircraft to their fleets.

Stansted's growth over the past ten years reflects not only increased passenger loads but also an increase in air transport movements (5.6 per cent. C.A.G.R.), driven primarily by the growth in low-cost carriers. Notably, the expansion of Ryanair's and easyJet's operations accounted for much of the growth at Stansted from 1999.

The terrorist attacks on the United States in 2001 and their aftermath resulted in a major upheaval to transatlantic services and a reduction in 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. Despite these impacts, the passenger throughput at Heathrow and increased by 4.3 per cent. in 2002/03. Passenger throughput at Heathrow returned to pre-9/11 levels by January 2003.

Uncertainties in the lead up to the war in Iraq as well as its aftermath and the outbreak of SARS resulted in a decrease in the number of air transport movements at Gatwick in 2002/03 and 2003/04 as airlines cut back their flight schedules or moved certain of their flight operations from Gatwick to Heathrow. Despite this reduction in air transport movements, the number of passengers at Gatwick and Heathrow grew in 2003/04 as a result of higher average passenger loads.

The minor declines at Heathrow in the number of passengers in 2005/06 and 2006/07 were the result of, among other things, increasing fuel prices and air passenger duty, airlines increasing their ticket prices in response to the limited capacity of Heathrow to handle more air transport movements, as well as airlines extending their business- and premium-class offerings by providing more flat beds and leg room. These offerings reduce the number of seats and thus potential passengers per aircraft. As Heathrow generally operates close to 99 per cent. of its aircraft movement capacity, it is unable to increase the number of flights to offset such reductions.

The decline in the number of passengers at Heathrow in 2005/06 also reflects passenger apprehension in cancelled flight bookings as a result of the 7 July 2005 terrorist bombings that hit London's public transport system. The decline in the number of passengers at Heathrow in 2006/07 reflects a decrease in passenger confidence following the imposition of heightened security measures in August 2006 as well as the cancellation of flights around the pre-Christmas holiday season as a result of heavy fog.

## 8.2 Current Traffic

The following table provides passenger data by passenger type for each of the Designated Airports for the periods indicated:

	<u>Number of Passengers</u>	
	12 months ended 31 March	
	2007	2008
	----- (in millions) -----	
<b>Heathrow</b>		
<b>Total passengers</b> .....	<b>67.3</b>	<b>68.0</b>
Domestic .....	5.9	5.7
International long haul .....	33.0	34.0
International short haul .....	28.4	28.3
<b>Gatwick</b>		
<b>Total passengers</b> .....	<b>34.4</b>	<b>35.6</b>
Domestic .....	4.1	4.0
International long haul .....	11.4	11.7
International short haul .....	18.9	19.9
<b>Stansted</b>		
<b>Total passengers</b> .....	<b>23.8</b>	<b>23.5</b>
Domestic .....	2.7	2.5
International long haul .....	0.5	0.6
International short haul .....	20.6	20.4
<b>Total</b> .....	<b>125.5</b>	<b>127.1</b>

Source: BAA.

The following table provides information on the number of air transport movements for each of the Designated Airports for the periods indicated:

	<b>12 months ended 31 March</b>	
	<b>2007</b>	<b>2008</b>
----- (in thousands) -----		
<b>Heathrow</b>		
<b>Total air transport movements</b> .....	<b>470.7</b>	<b>475.7</b>
Domestic .....	57.6	60.0
International long haul .....	155.0	159.3
International short haul .....	258.1	256.4
<b>Gatwick</b>		
<b>Total air transport movements</b> .....	<b>254.2</b>	<b>260.6</b>
Domestic .....	49.5	49.1
International long haul .....	56.9	56.9
International short haul .....	147.8	154.6
<b>Stansted</b>		
<b>Total air transport movements</b> .....	<b>192.1</b>	<b>188.7</b>
Domestic .....	29.4	26.8
International long haul .....	8.1	9.1
International short haul .....	154.6	152.8
<b>Total</b> .....	<b>917.0</b>	<b>925.0</b>

Source: BAA.

The mix of domestic, international short haul and international long haul air transport movements at each Designated Airport reflects the relevant airport's hub position and the markets the airport serves. In addition, long haul passengers tend to spend more on retail activities than other passengers largely for two reasons. First, long haul passengers tend to arrive at airports earlier for their departing flights than other passengers and therefore have more time available for retail activities. Second, long haul passengers fly to destinations outside the European Union and consequently are permitted to purchase duty-free goods at airports. International short haul passengers flying to destinations within the European Union and domestic passengers are not permitted to purchase duty-free goods.

### 8.3 Accommodating New Aircraft Models

Recent trends in aircraft manufacturing have brought an increase in development of larger aircraft. Notably, the Airbus A380, the world's largest passenger aircraft in terms of wingspan and number of seats (average 555 passengers), is expected to become more widely used for long haul flights as Airbus builds more aircraft to fill airline demand requirements.

The large size of A380 entails further consideration in design and configuration of taxiways, aprons, piers and runway upgrades. Capital investments at Heathrow, including Terminal 5, have been designed with these considerations in mind, and Heathrow's existing infrastructure can now accommodate the A380. Capital expenditure already incurred in preparations for the A380 has been included in the RAB, and the A380 commenced scheduled services from Heathrow on 18 March 2008.

The A380 is expected to be particularly attractive to major network carriers that serve hubs that are at or near maximum permitted runway capacity, including Heathrow, because it will allow these carriers to serve more passengers with their existing runway slots. See "*Management's Discussion and Analysis – Capital Expenditures – Historical Capital Expenditures*".

## 9. CUSTOMERS

The following table gives an overview of the main airline customers, in terms of aeronautical income, for each of the Designated Airports in the year ended 31 December 2007:

### Main Airline Customers

	12 months ended 31 December 2007			
	Passengers <sup>(1)</sup>	Air transport <sup>(1)</sup> movements	Aeronautical <sup>(2)</sup> income	Percentage of <sup>(2)</sup> total aeronautical income
	(in millions)	(in thousands)	(£ millions)	(%)
<b>Heathrow</b>				
British Airways .....	27.9	194.9	254.4	40.7%
Virgin Atlantic Airways.....	3.9	16.2	37.9	6.1%
bmi.....	4.4	53.1	36.6	5.9%
<b>Gatwick</b>				
British Airways .....	6.7	67.2	34.6	19.8%
easyJet.....	6.1	47.7	27.7	15.8%
TUI Travel.....	3.4	16.7	16.0	9.1%
Virgin Atlantic Airways.....	1.5	4.1	7.8	4.5%
<b>Stansted</b>				
Ryanair .....	15.1	103.8	72.8	57.2%
easyJet.....	4.7	38.4	22.7	17.8%

(1) Source: BAA.

(2) Excludes other charges, related primarily to the provision of fixed electrical ground power and pre-conditioned air to aircraft. See “– Income – Aeronautical Income”.

The largest customer at Heathrow and Gatwick is British Airways, which has its global hub at Heathrow and its second London base at Gatwick. British Airways is a full-service airline operating a wide range of domestic, international short haul and international long haul services. British Airways offers a two-class passenger service on most short haul flights and a three- or four-class passenger service on long haul flights. As a result, British Airways requires a wide range of terminal space and facilities to support its different service offerings. HAL is currently negotiating a joint operating agreement with British Airways to provide the framework for future cooperation. British Airways is the sole airline occupant at Terminal 5.

In the 12 months ended 31 December 2007, easyJet, bmi and Virgin Atlantic Airways together accounted for approximately 20.6 million passengers at the Designated Airports and contributed in excess of £132.0 million in aeronautical income to the Airport Operators. HAL has entered into memoranda of understanding with Virgin Atlantic Airways and bmi and its alliance partners regarding future terminal occupancy. Virgin Atlantic Airways operates multi-class flights to long haul destinations from Heathrow’s Terminal 3 and Gatwick South Terminal. easyJet is Europe’s second-largest low-cost airline operating short haul services with around 50 aircraft based between Stansted and Gatwick. easyJet’s operations require infrastructure that allows rapid aircraft turnarounds. bmi operates mainly a mix of short and medium-haul services from Heathrow, where it is the main feeder airline to the Star Alliance.

Ryanair is Stansted’s largest customer and has grown its Stansted operations substantially over the last five years. Ryanair is Europe’s largest low-cost carrier and requires airport facilities that allow rapid aircraft turnarounds to enable optimum aircraft utilisation. Ryanair has publicly indicated its disagreement with the UK Government’s proposals to develop Stansted’s capacity and the associated increase in costs to the airport’s users.

TUI Travel was recently formed from the merger of Thomsonfly and First Choice and is the largest of GAL’s vertically integrated tour operators. TUI Travel carries substantial numbers of travellers on charter and scheduled flights to a range of short and medium haul destinations and a growing number of long haul destinations.

Consultations were held with the airline communities at both Gatwick and Heathrow to agree the key drivers such as service levels and capital investment plans for the 2008/09 to 2012/13 regulatory period. This practice of community-wide discussions will continue beyond the regulatory settlement in order to monitor the progress and any adverse impacts of the implementation of the agreed plans. These fora will also be used to manage and agree any change to the plans arising from changing circumstances. In addition to airport-wide groups there are structures for consultation at both alliance and terminal level at Heathrow. At Heathrow these groups will also cover the issues arising from the airline relocations plans following British Airways' move into Terminal 5.

This complex re-organisation will relocate many of Heathrow's airlines either to different terminals or to new, improved facilities within their current terminals. On completion, the airlines of the three principal airline alliances will have consolidated their alliance airlines into common locations, providing shorter connect times to transferring passengers and more streamlined and efficient terminal operations. The creation of Heathrow as a three-alliance hub airport will be unique among the world's leading airports.

For a description of certain risks relating to the airline customers of the Designated Airports, see "Risk Factors – Other Risks to the Designated Airports' Operations and Income of the Designated Airports – Airlines".

## 10. EMPLOYEES

All of the staff working for the Airport Operators at each of the Designated Airports are employed and provided by BAA.

HEX Opco employs its staff directly with the exception of a small number of senior management who are employed by BAA.

The following table sets out the average full-time equivalent staff numbers provided by BAA for each Airport Operator for the periods indicated:

	<b><u>Average Full-Time Equivalent Staff<sup>(1)</sup></u></b>	
	<b>12 months ended 31 December 2007</b>	<b>3 months ended 31 March 2008</b>
		(unaudited)
HAL.....	4,317	5,088
GAL.....	1,841	2,081
STAL.....	1,131	1,241
<b>Total.....</b>	<b>7,289</b>	<b>8,410</b>

(1) Excludes corporate office employees at BAA and BSC and contract/agency staff. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Operating Costs – Employment Costs".

The following table sets out the number of full-time equivalent staff provided by BAA to each of the Airport Operators as of the dates indicated:

	<b><u>Period Ended Full-Time Equivalent Staff<sup>(1)</sup></u></b>	
	<b>As of 31 December 2007</b>	<b>As of 31 March 2008</b>
		(unaudited)
HAL.....	4,683	5,312
GAL.....	2,019	2,158
STAL.....	1,221	1,251
<b>Total.....</b>	<b>7,923</b>	<b>8,721</b>

(1) Excludes corporate office employees at BAA and BSC and contract/agency staff. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operation – Operating Costs – Employment Costs".

To formalise the staffing arrangement between BAA and the Operating Companies, the Operating Companies will enter into a Shared Services Agreement with BAA and the Borrower Security Trustee on or about the Initial Issue Date. For information about the terms of the Shared Services Agreement, see “*Description of the Operating Companies, The Shared Services Provider and the Issuer – The Shared Services Agreement*”. For a description of certain risks associated with the Shared Services Agreement, see “*Risk Factors – Risks relating to BAA as Shared Services Provider under the Shared Services Agreement*”.

BAA’s employees are represented by the following unions: Unite, Prospect and PCS. HEX Opc employees are represented separately by ASLEF and RMT. For a discussion of other risks relating to airport employees see “*Risk Factors – Other Risks to the Designated Airports’ Operations and Income of the Designated Airports – Industrial relations*”.

## **11. SUPPLIERS**

In addition to BAA as the Shared Services Provider, the Airport Operators work with numerous external suppliers for the delivery of services relating to the day-to-day operation of the Designated Airports, as well as for the construction of capital projects.

EDF Energy (Services) Ltd (formerly London Electricity Services) (“**EDF**”) provides all of the electrical power distribution for each of the Designated Airports pursuant to an agreement under which the Airport Operators transferred the electricity distribution systems at the Designated Airports to EDF in 1993. This transfer was made by way of an 90-year lease expiring in 2083. The distribution system includes plant, apparatus (excluding all telemetry), pits, ducts and metering equipment. The Airport Operators have entered into a distribution agreement with EDF to manage this distribution system, under which EDF receives an annual fee for which the Airport Operators are jointly and severally liable, with BAA guaranteeing payment of the fee. The level of fee payable is index-linked and may be increased to reflect the cost of investments made by EDF in the electrical distribution systems. The total fee paid to EDF was £30.7 million in the year ended 31 December 2007.

With effect from 27 November 2007, the Airport Operators entered into a five-year agreement with Logica CMG for the provision of IT-application support services. In connection with this agreement, the staff who formerly carried out these services at BAA were transferred to Logica CMG.

With effect from 1 November 2007, the Operating Companies entered into an outsourcing agreement with Computacenter for the provision of IT end-user services, including service-desk activities, product management and desktop support. In connection with this agreement, the staff who formerly carried out these services at BAA were transferred to Computacenter.

For information about BAA’s role as a Shared Services Provider, see “*Description of the Operating Companies, the Shared Services Provider and the Issuer – The Shared Services Provider*”.

## **12. COMPETITION**

Heathrow is the world’s busiest single airport in terms of international passengers, handling nearly 13 per cent. more international passengers than its nearest rival, Paris CDG. (Source: ACI Statistics Report.) Gatwick was the world’s tenth busiest airport in terms of international passengers in 2007. (Source: ACI Statistics Report). Stansted is a large base for low-cost airlines in Europe. In 2007, the Designated Airports handled 91 per cent. of all passengers using airports within a 50-mile radius of London. (Source: CAA Annual UK Airport Statistics – 2007.)

In the 12 months ended 31 December 2007, approximately 34 per cent. of Heathrow’s passengers used the airport for connecting flights. Of those passengers, 77 per cent. were connecting from one international flight to another. As a connecting hub, Heathrow’s competitive strength lies primarily in its location between the European Continent and North America.

Heathrow’s major European competitors for long haul international hub air traffic are Paris CDG, Amsterdam, Frankfurt and Madrid. In the future, Heathrow could experience competition from hub airports in the Middle East, such as the current and planned future airports in Dubai.

The Designated Airports also face competition from London Luton Airport and London City Airport in the air travel market in the South East of England and other forms of travel (e.g., the Eurostar high-speed train service connecting London with Paris and Brussels).

For more information about the competition risks the Designated Airports face, see “*Risk Factors – Competition Risks*”.

### **13. ENVIRONMENTAL REGULATION**

The activities of the Designated Airports are subject to UK environmental regulations, UK Government-adopted international protocols and EU legislation.

The UK Department for Transport has direct control over aircraft noise at Heathrow, Gatwick and Stansted. In June 2006, the Secretary of State published its long term statutory environmental noise objectives for these airports, as set out in statutory notices and published in the UK Aeronautical Information Package.

The UK Department for Environment, Food and Rural Affairs “*Air Quality Strategy for England, Scotland, Wales and Northern Ireland*” report dated July 2007 sets health-based air quality targets and objectives for the levels of a range of pollutants to be assessed and managed by local authorities. The local authority for Heathrow and one of the local authorities adjoining Gatwick have declared “air quality management areas” to manage nitrogen dioxide levels in the vicinity of these airports.

The relevant local authorities for the Designated Airports have also:

- imposed noise and local air pollutants controls as part of the planning system, including annual aircraft movement limits and noise contour area limits; and
- implemented 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 Airport Operators have implemented a number of measures in relation to the environmental sustainability of their businesses, including pricing regimes that penalise noisier and higher emitting aircraft, airfield operation protocols relating to engine noise and other emissions, the provision of fixed ground power and pre-conditioned air, the use of cleaner airside vehicles and fuels, investments in systems to monitor and track noise levels of aircraft, local noise insulation schemes and, in respect of STAL, a noise blight property purchase scheme.

The Airport Operators have also adopted strategies to reduce emissions from energy use in airport buildings by 15 per cent. by 2010 and 30 per cent. by 2020 from 1990 levels and also have strategies in respect of water quality, waste, biodiversity, land quality and materials usage.

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

### **14. RELATED PARTY TRANSACTIONS**

The Airport Operators have entered into, and may from time to time in the future enter into, transactions with certain affiliates of ADIL and its shareholders, including Ferrovial Infraestructuras and its affiliates Ferrovial-Agroman, Amey, Swissport, and Cintra. The Airport Operators and/or BAA have entered, amongst others, into the following agreements:

- agreement between Ferrovial Infraestructuras, SA and BAA for advisory services with a maximum financial value of £5 million per year;
- agreement for provision of car park management and coaching at Stansted awarded to a joint venture between National Express and Cintra. The contract is for five years and has a value of £10 million;
- agreement between Ferrovial Agroman Airport (UK) and HAL for construction of the early stands at Terminal 5’s second satellite with a contract value of approximately £3.6 million;
- agreements between BAA/HAL and Amey Plc for consultancy in respect of lifts, conveyors and escalators and Terminal 5 mechanical, electrical and building fabric maintenance

The Airport Operators may enter into further service supply contracts with those related parties going forward. 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.

### **15. INSURANCE**

BAA provides risk management, insurance and claims handling services to the Operating Companies, as well as to other members of the BAA Group. BAA arranges an annual insurance programme on a



group-wide basis for the BAA Group. In addition to its participation in this insurance programme, HEX Opco has separate public liability insurance cover. The Airport Operators, through BAA, have entered, and may in the future enter, into separate policies designed to protect against certain specific types of damages resulting from certain risks. For example, a separate policy was arranged to protect against construction risks in connection with the construction of Heathrow's Terminal 5.

Save as detailed below, the BAA Group insurance programme runs until the end of March 2009 and includes the following insurance cover:

- **property damage and business interruption insurance** that covers all physical real estate assets against the risks of, *inter alia*, fire, explosion, lightning, storms, electrical damage, natural disasters and terrorist acts and resultant loss of revenue and/or increased costs of maintaining normal business activities. The main coverage has a combined property damage and business interruption limit of £1 billion per occurrence less the relevant deductibles and a maximum indemnity period for business interruption losses of 24 months. There is also a separate policy covering specified tenanted properties, which provides cover on the basis of individual property sums insured and runs until 27 September 2008;
- **general liability insurance**, including aviation liability, aviation war/terrorism, public/product liability, providing up to US\$1.75 billion of cover per occurrence (limited to US\$1 billion per occurrence and per year for war/terrorism) less the relevant deductibles; public liability with regard to the HEX train service, providing £180 million of cover per occurrence less the relevant deductibles; and construction third-party liability, providing up to £50 million of cover per occurrence less the relevant deductibles;
- **construction all-risks insurance** (including terrorism), providing up to £60 million of cover per project less the relevant deductibles;
- **motor third-party liability insurance**, providing up to £50 million of cover per occurrence for third-party property damage (unlimited for third party death or bodily injury or passenger liability) less the relevant deductibles;
- **third-party financial loss and professional indemnity insurance**, providing up to £30 million of cover per occurrence and per year less the relevant deductibles; and
- **employers' liability insurance**, providing up to £75 million of cover per occurrence less the relevant deductibles.

Insurance cover for the Security Group 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 shareholders.

Currently some insurance cover for the Security Group is provided by BAA's own captive insurance company, BAA Insurance Services Ltd (the "**Captive**"), which was formed in 1992. 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 currently underwrites some group-wide risks and provided some of the insurance cover in connection with the construction of Heathrow's Terminal 5. The Captive also currently funds some of the BAA Group's self-insured retention.

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

## 16. PENSIONS

All BAA employees working at the Designated Airports are eligible to join the BAA Pension Scheme. HEX employees directly employed by HEX Opco are not entitled to join the BAA Pension Scheme but can join a defined contribution scheme.

As at 30 September 2007, the BAA Pension Scheme had 9,510 current members, 7,140 pensioners, 3,554 deferred pensioners, assets of £2,200,000,000 and scheme liabilities of £2,204,500,000 as reported under the International Accounting Standard IAS19. The 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 BAA Pension Trustee is currently undertaking a formal valuation of the BAA Pension Scheme as at 30 September 2007 with results anticipated in September/October 2008. There are ongoing discussions between BAA and the BAA Pension Trustee over both the funding basis and assumptions to be used and it should be noted that the eventual outcome could differ from either the IAS19 numbers indicated above or the numbers reported in the Group's Financial Statements under the International Financial Reporting Standards as at 31 December 2007 which showed assets of £2,267,000,000 and liabilities of £2,123,000,000 although BAA and the BAA Pension Trustee have reached an agreement on funding in principle.

In October 2007, BAA announced its intention to close the BAA Pension Scheme to new employees and replace it with a defined contribution scheme. Following consultation with the trade unions that represent BAA employees, this scheme was closed to new members from 1 July 2008. Going forwards, new employees will be offered the opportunity to participate in a defined contribution scheme.

For additional information, see "*Risk Factors – Other Risks to the Designated Airports' Operations and Income of the Designated Airports – Pensions*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Operating Costs – Employment Costs*".

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis is derived from, and should be read in conjunction with, the Operating Companies' Financial Statements and the related notes and other financial information included elsewhere or incorporated by reference in this Prospectus.*

*The following discussion is based upon and includes information for the financial periods that are incorporated by reference and included on the attached CD-ROM. Investors should note that such periods are not directly comparable and thus a period-to-period comparison may not fully reflect trends in financial results. Accordingly, the following discussion includes an analysis of factors that had a significant influence on financial results for each of the relevant periods (see “– Factors Having a Significant Influence on Results of Operations”) rather than a comparison of such periods. This discussion is followed by a comparison of the 12 months ended 31 December 2007 with the 12 months ended 31 March 2006 (not consecutive periods) and the three months ended 31 March 2008 with the three months ended 31 March 2007 (see “– Results of Operations”).*

*The results of HEX Opco are not separately discussed below because, during the periods under review, they were effectively included in HAL's results of operations. Under a management agreement, HAL (i) is entitled to all income generated from the operation of Heathrow Express and recognises this income under “rail income” in its accounts and (ii) reimburses HEX Opco for its operating costs and pays HEX Opco a management fee and records these amounts under other intra-group charges in its accounts. It is expected that at or prior to the Initial Issue Date, HEX Opco will become a wholly owned direct subsidiary of HAL.*

*The discussion below contains forward looking statements that reflect the Operating Companies' management's current judgment regarding conditions that management expects to exist and the course of action that management expects to take in the future. Even though management believes that its expectations regarding future events are based on reasonable assumptions, forward looking statements are not guarantees of future performance. Management's assumptions rely on management's operational analysis and expectations for the operating performance of each of the Operating Companies' assets based on their historical operating performance and management expectations as described below. Factors within and beyond the Operating Companies' control could cause actual results to vary materially from the expectations discussed below. Certain of these factors are discussed in “Risk Factors” and elsewhere in this Prospectus. Prospective investors are cautioned that the prospective operating and financial data included below are not fact and should not be relied upon as being necessarily indicative of future results, and prospective investors are cautioned not to place undue reliance on this prospective operating and financial data.*

### 1. OVERVIEW

HAL, GAL and STAL own and operate Heathrow, Gatwick and Stansted, respectively. The Airport Operators generate the substantial majority of their income from two sources: aeronautical income and the retail component of non-aeronautical income. Aeronautical income is generated from airport and other traffic charges paid by airlines for the use of airport facilities. Retail income is generated from fees charged to third-party retailers for the use of airport space to operate their retail outlets.

The following table sets forth aeronautical income, retail income and other non-aeronautical income as a percentage of total income for each of the Airport Operators for the 12 months ended 31 December 2007:

	Aeronautical Income	Non-Aeronautical Income	
		Retail Income	Other
HAL .....	48%	25%	27%
GAL .....	43%	39%	18%
STAL .....	53%	38%	9%

Aeronautical income is generated from fees charged to airlines and, as such, is principally driven by the number and type of aircraft movements and the level of passenger volume at the Designated Airports, with increases in air traffic movements and passenger volume generally increasing income from aeronautical services. Aeronautical income is also affected by the maximum yield that the

Airport Operators are allowed for each regulatory period under the price regulation system established by the CAA.

Retail income is principally affected by passenger volume, the amount of time that passengers have to enjoy retail offerings prior to departure and per-passenger spending levels. The Airport Operators expect that recent improvements in the efficiency of the check-in and security processes at the Designated Airports will allow for shorter queuing times and therefore could allow passengers to spend more time enjoying retail offerings. As the Designated Airports have provisions linking the rent which retailers pay to the Airport Operators to sales, increases in passenger volume and per passenger spending generally lead to increased retail income. Retail income is not directly subject to the system of price regulation established by the CAA but is taken account of in settling the maximum allowable yield per passenger.

For further information on the business of the Airport Operators and HEX Opco, see “*Business*” and “*Airport Regulation*”.

## 2. FACTORS HAVING A SIGNIFICANT INFLUENCE ON RESULTS OF OPERATIONS

### 2.1 Income

The following table provides a breakdown of the total income by Airport Operator for the periods indicated:

<b>Total Income by Airport Operator</b>				
	<b>12 months ended 31 March 2006</b>	<b>9 months ended 31 December 2006</b>	<b>12 months ended 31 December 2007</b>	<b>3 months ended 31 March 2008</b>
	(unaudited)			
	----- (£ millions) -----			
HAL .....	1,195.4	957.1	1,324.8	312.6
GAL .....	361.5	312.9	409.7	85.9
STAL .....	176.5	149.7	241.8	52.2
<b>Total Income of the Airport Operators .....</b>	<b>1,733.4</b>	<b>1,419.7</b>	<b>1,976.3</b>	<b>450.7</b>

The main driver of total income growth for the 12 months ended 31 December 2007 was aeronautical income, which primarily reflects higher airport charges as a result of the increase in maximum allowable yield per passenger and an increase in the number of passengers at the Designated Airports. STAL’s increase, which is particularly significant, is explained by the expiry of discounts to certain airlines on airport charges with effect from 1 April 2007 and an increase in passengers during the period.

The table below presents income by source for all three Airport Operators and, for each source, provides a percentage of total income for the three Airport Operators for each source, for the periods indicated.

<b>Total Income by Source and as a Percentage of Total Income of the Airport Operators</b>								
	<b>12 months ended 31 March 2006</b>		<b>9 months ended 31 December 2006</b>		<b>12 months ended 31 December 2007</b>		<b>3 months ended 31 March 2008</b>	
	(unaudited)							
	<b>(£ millions)</b>	<b>(%)</b>	<b>(£ millions)</b>	<b>(%)</b>	<b>(£ millions)</b>	<b>(%)</b>	<b>(£ millions)</b>	<b>(%)</b>
Aeronautical Income .....	768.4	44.3%	656.7	46.3%	939.8	47.6%	208.5	46.3%
Retail .....	537.9	31.0%	430.9	30.4%	575.8	29.1%	128.9	28.6%
Operational Facilities and Utilities .....	147.9	8.5%	116.9	8.2%	162.8	8.2%	38.5	8.5%
Property Rental .....	109.8	6.3%	88.3	6.2%	116.2	5.9%	29.4	6.5%
Rail .....	74.5	4.3%	57.9	4.1%	79.5	4.0%	19.7	4.4%
Other Income <sup>(1)</sup> .....	94.9	5.6%	69.0	4.8%	102.2	5.2%	25.7	5.7%
<b>Total Income of the Airport Operators .....</b>	<b>1,733.4</b>	<b>100%</b>	<b>1,419.7</b>	<b>100%</b>	<b>1,976.3</b>	<b>100%</b>	<b>450.7</b>	<b>100%</b>

(1) Includes income received from BAA, mostly related to IT lease costs, which HAL charged to BAA and BAA, in turn, re-charges to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). See “*Other Income*”.

The following tables detail income by source for each of the Airport Operators and, for each source, provides a percentage of total income of that type for the respective Airport Operator, for the periods indicated:

#### **HAL Income by Source and as a Percentage of HAL's Total Income**

	12 months ended 31 March 2006		9 months ended 31 December 2006		12 months ended 31 December 2007		3 months ended 31 March 2008	
	(£ millions)	(%)	(£ millions)	(%)	(£ millions)	(%)	(unaudited) (£ millions)	(%)
Aeronautical Income .....	539.7	45.1%	457.6	47.8%	634.6	47.9%	145.4	46.5%
Retail .....	311.3	26.0%	240.2	25.1%	324.9	24.5%	75.2	24.1%
Operational Facilities and Utilities .....	111.8	9.4%	85.4	8.9%	115.9	8.7%	29.0	9.3%
Property Rental .....	77.3	6.5%	58.0	6.1%	81.8	6.2%	20.9	6.7%
Rail .....	74.5	6.2%	57.9	6.0%	79.5	6.0%	19.7	6.3%
Other Income <sup>(1)</sup> .....	80.8	6.8%	58.0	6.1%	88.1	6.7%	22.4	7.1%
<b>Total Income .....</b>	<b>1,195.4</b>	<b>100%</b>	<b>957.1</b>	<b>100%</b>	<b>1,324.8</b>	<b>100%</b>	<b>312.6</b>	<b>100%</b>

(1) Includes income received from BAA, mostly related to IT lease costs, which HAL charged to BAA and BAA, in turn, re-charges to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). See “–Other Income”.

#### **GAL Income by Source and as a Percentage of GAL's Total Income**

	12 months ended 31 March 2006		9 months ended 31 December 2006		12 months ended 31 December 2007		3 months ended 31 March 2008	
	(£ millions)	(%)	(£ millions)	(%)	(£ millions)	(%)	(unaudited) (£ millions)	(%)
Aeronautical Income .....	155.9	43.1%	134.8	43.1%	177.5	43.3%	35.2	41.0%
Retail .....	144.8	40.1%	123.0	39.3%	159.9	39.0%	34.9	40.6%
Operational Facilities and Utilities .....	25.3	7.0%	22.1	7.1%	34.0	8.3%	6.4	7.5%
Property Rental .....	26.2	7.2%	25.4	8.1%	27.0	6.6%	6.7	7.8%
Other Income <sup>(1)</sup> .....	9.3	2.6%	7.6	2.4%	11.3	2.8%	2.7	3.1%
<b>Total Income .....</b>	<b>361.5</b>	<b>100%</b>	<b>312.9</b>	<b>100%</b>	<b>409.7</b>	<b>100%</b>	<b>85.9</b>	<b>100%</b>

(1) Includes inter-company income received from BAA. See “– Other Income”.

#### **STAL Income by Source and as a Percentage of STAL's Total Income**

	12 months ended 31 March 2006		9 months ended 31 December 2006		12 months ended 31 December 2007		3 months ended 31 March 2008	
	(£ millions)	(%)	(£ millions)	(%)	(£ millions)	(%)	(unaudited) (£ millions)	(%)
Aeronautical Income .....	72.8	41.2%	64.3	43.0%	127.7	52.8%	27.9	53.4%
Retail .....	81.8	46.3%	67.7	45.2%	91.0	37.6%	18.8	36.0%
Operational Facilities and Utilities .....	10.8	6.1%	9.4	6.3%	12.9	5.3%	3.1	5.9%
Property Rental .....	6.3	3.6%	4.9	3.3%	7.4	3.1%	1.8	3.4%
Other Income <sup>(1)</sup> .....	4.8	2.8%	3.4	2.2%	2.8	1.2%	0.6	1.3%
<b>Total Income .....</b>	<b>176.5</b>	<b>100%</b>	<b>149.7</b>	<b>100%</b>	<b>241.8</b>	<b>100%</b>	<b>52.2</b>	<b>100%</b>

(1) Includes inter-company income received from BAA. See “– Other Income”.

(a) **Aeronautical Income**

The table below sets forth the total airport and other traffic charges, which are referred to collectively as “aeronautical income”, generated by each of the Airport Operators, for the periods indicated:

<b>Aeronautical Income by Airport Operator</b>				
	<b>12 months ended 31 March 2006</b>	<b>9 months ended 31 December 2006</b>	<b>12 months ended 31 December 2007</b>	<b>3 months ended 31 March 2008</b>
	(unaudited)			
	----- (£ millions)-----			
HAL.....	539.7	457.6	634.6	145.4
GAL.....	155.9	134.8	177.5	35.2
STAL.....	72.8	64.3	127.7	27.9
<b>Total.....</b>	<b>768.4</b>	<b>656.7</b>	<b>939.8</b>	<b>208.5</b>

(i) **Regulation of Airport Charges**

The Airport Operators charge airlines for the use of airport facilities. The terms and conditions of use and applicable airport charges are published annually in each airport’s Conditions of Use document. The CAA regulates airport charges at the Designated Airports by setting a maximum allowable yield per passenger, expressed in pounds sterling, typically on a five – year cycle, or quinquennium. See “*Risk Factors – Regulatory Risks – Civil Aviation Authority regulation*” and “*Airport Regulation*”. For each of the years during a quinquennium, the CAA stipulates the level of airport charges, expressed in terms of a maximum allowable yield per passenger, by reference to a formula related to changes in inflation as measured by the UK Retail Price Index (“**RPI**”) plus or minus a multiplier, known as “**X**”. This is known as the RPI +/- X formula. Each Airport Operator’s non-aeronautical income (i.e., all income other than aeronautical income), as well as an allowance for each Airport Operator’s operating costs, depreciation and a regulatory rate of return that is permitted to be recovered on the Airport Operator’s RAB is taken into account by the CAA in setting the opening yield and RPI +/- X formula.

Under the price control conditions set by the CAA, there are the following components for the maximum allowable yield at the Designated Airports:

- The “**S factor**” relates to an adjustment designed to recover in subsequent regulatory years within the relevant five-year regulatory period additional new security costs incurred in prior regulatory years in that period as a result of new UK or European Commission security directives issued by or through the UK Government. For the Q4 regulatory period (2003/04 to 2007/08), the Airport Operators were permitted to recover 75 per cent. of any such additional security costs incurred above thresholds of £14 million at Heathrow, £6 million at Gatwick and £3 million at Stansted (nominal prices). For the Q5 regulatory period (2008/09 to 2012/13) at Heathrow and Gatwick, 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 and £7 million at Gatwick (nominal prices). Any claims for additional costs at the end of Q4 of meeting the additional security requirements have been rolled forward into the Q5 operating expenditure forecasts at the 75 per cent. rate.
- 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. 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. It cannot be applied to the year after it is incurred because the actual under or over recovery would not be known until after that year’s prices have been set. However, the Airport Operators

bear the benefit and risk of variations in aircraft traffic and passenger volumes. Therefore, reductions in income caused by actual reductions in aircraft traffic and passenger volumes compared to those forecast in the CAA regulatory settlement may not subsequently be recovered under this correction factor. The formula also allows for recovery in Q5 of any over/under recoveries in the last two years of Q4.

- There is also a capital expenditure “trigger” term built into the formula, with provision for the maximum allowable yield to be reduced if specified projects are not delivered on time. In Q4 at Heathrow and Gatwick, all the trigger projects were met and, hence, the trigger term remained at zero. For more information on the Q5 trigger conditions, see “– *Capital Investment Triggers*”.
- In Q5 at Heathrow and Gatwick, in addition to the existing service quality rebate scheme, there is now a bonus element. For more information, see “– *Service Quality Rebate Scheme*”.

(ii) Historical Maximum Allowable Yields

The following tables show the historical maximum allowable yields per passenger after the adjustments referred to above, in nominal terms, at each of the Designated Airports for the periods indicated:

**Maximum Allowable Yield Per Passenger**

	12 months ended 31 March		
	2006	2007	2008
Heathrow .....	£7.83	£8.51	£9.28
Gatwick.....	£4.65	£4.73	£4.91
Stansted <sup>(1)</sup> .....	£5.64	£5.83	£6.44

Source: Regulatory accounts of each Airport Operator and the CAA

(1) The maximum allowable yields excluding the K factor at Stansted were £5.18, £5.32 and £5.50, respectively.

(iii) Current Maximum Allowable Yields

The CAA has set the following maximum allowable yields per passenger for the five year regulatory period 2008/09 to 2012/13 at Heathrow and Gatwick:

- At Heathrow, the 2008/09 maximum allowable yield per passenger is £12.80 in 2007/08 prices. HAL is then allowed to apply an increase of RPI+7.5 per cent. for each of the following four regulatory years.
- At Gatwick, the 2008/09 maximum allowable yield per passenger is £6.79 in 2007/08 prices. GAL is then allowed to apply an increase of RPI+2.0 per cent. for each of the following four regulatory years.

The CAA has extended the Stansted 2003/04 to 2007/08 Q4 regulatory period by another 12 months to 31 March 2009. The maximum allowable yield per passenger for Stansted for 2008/09 has not yet been agreed. It is expected that this will be confirmed as £6.65, equivalent to £6.50 in 2007/08 prices, including K factor and an ‘X’ of 0 per cent. for the 12 months ended 31 March 2009. This excludes non passenger flights. The CAA is expected to set the maximum allowable yield at Stansted for the five-year regulatory period 2009/10 to 2013/14 prior to 31 March 2009.

Throughout Q4 to date, Stansted’s actual yield has been below the maximum allowable yield for two reasons. First, the airport charges tariff in place at the start of Q4 was not at a level sufficient to generate the maximum allowable yield. Rather than apply a one-time step increase to the tariff in the first year of Q4, which would have generated an actual gross yield equivalent to the maximum allowable yield, BAA’s policy at Stansted was to increase the tariff more gradually using annual increments, such that by 2007/08 the tariff had reached the level necessary to generate the maximum allowable yield (excluding K factor) for that year. Second, Stansted has operated a discounting policy aimed at stimulating traffic and passenger growth. The majority of these discounts had expired by the end of 2006/07. The actual 2007/08 yield is expected to be in line with the maximum

allowable yield (excluding K factor from 2005/06) notwithstanding any concentration or dilution resulting from volume mix changes or the effect of any residual discounts still in place.

The forecast yield for Stansted for the 12 months ended 31 March 2009, in 2007/08 prices, including £0.46 for ANS recovery, £0.33 for non passenger flights (cargo charges) and an 'X' of 0 per cent., is £6.39.

(iv) Recovery of Allowable Yields

The actual revenue yields realised by the Airport Operators are calculated by dividing total aeronautical income by total airport passengers. However, the actual aeronautical income is generated by application of a detailed tariff structure which applies in different proportions to both type of aircraft and departing passengers. These tariffs are reset annually by the relevant Airport Operator based on a set of volume forecasts. Throughout Q4 at Heathrow and Gatwick, these tariffs have been set with the aim of generating an actual revenue yield equal to the maximum allowable yield. In 2007/08 Stansted also set prices to recover the maximum allowable yield per passenger, excluding K factor.

At each of the Designated Airports the tariff structure consists of three elements: the landing charge, departing passenger charge, and parking charge.

The landing charge is calculated in accordance with the following factors:

- time of day;
- weight;
- noise category; and
- emissions element (Heathrow & Gatwick only).

From 1 April 2008, Air Navigation Services ("ANS"), which are provided by NATS, are being included within airport charges. Heathrow, Gatwick and Stansted have re-weighted their landing charges to reflect the costs associated with ANS.

The departing passenger charge is based on the number of passengers on board an aircraft and is levied in respect of all departing passengers other than those in direct transit 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.

There is also a per passenger rebate which applies when an aircraft uses a designated remote stand. This rebate applies to both arriving and departing passengers. There is also a minimum departure charge regardless of the number of passengers on board.

There is an aircraft parking charge which relates to each aircraft's ground stay at each airport. The charge is 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 and Gatwick 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, 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 (including any remote stand rebate) falls below this minimum level. In the 12 months ended 31 December 2007, there were 2,968 all-cargo air transport movements at Heathrow, 167 at Gatwick and 10,527 at Stansted.



(v) Service Quality Rebate Scheme

The CAA imposed a service quality rebate scheme at Heathrow and Gatwick for the 2003/04 to 2007/08 five year regulatory period and recently redefined the structure and targets for this scheme for the 2008/09 to 2012/13 five year regulatory period. The service quality rebate scheme sets defined service standards for a range of passenger facilities, such as piers, lifts, escalators and people movers, as well as for congestion on the airfield and security queuing times. To the extent Heathrow or Gatwick do not meet the defined standards, they are required to provide rebates to airlines on the per-passenger charges for the month in which the standards are not met.

For the 2008/09 to 2012/13 five year regulatory period, the CAA has extended the scope of the service quality rebate scheme and added a bonus element whereby Heathrow and Gatwick are permitted to levy higher airport charges by an additional percentage amount to the extent they exceed certain of the service quality standards. There are no service quality criteria set in respect of Stansted during the 2003/04 to 2008/09 regulatory period.

The following tables describe the service quality rebates and bonuses approved by the CAA for Heathrow and Gatwick for the periods indicated:

**Heathrow Service Quality Rebates and Bonuses**

	Maximum Rebates 2008/09 – 2012/13			Maximum Bonus 2008/09 – 2012/ 13 <sup>(2)</sup>
	Maximum Rebates 2005/06 – 2007/08 <sup>(1)</sup>	Terminals 1, Heathrow East, 3 and 4 <sup>(8)</sup>	Terminal 5	
(% of aeronautical income)				
Passenger-facing measures covered by QSM <sup>(3)</sup> .....	0.50%	1.44%	1.44%	1.44%
Passenger-sensitive equipment <sup>(4)</sup> ..	0.14%	0.40%	0.40%	0.40%
Central passenger security queuing <sup>(5)</sup>	0.27%	0.77%	0.77%	n/a
New elements <sup>(6)</sup> .....	n/a	1.80%	1.98%	n/a
Other airline-facing measures <sup>(7)</sup> ...	1.09%	1.60%	1.44%	0.40%
Aerodrome congestion .....	1.00%	1.00%	1.00%	n/a
<b>Total</b> .....	<b>3.00%</b>	<b>7.01%</b>	<b>7.03%</b>	<b>2.24%</b>

Source: CAA

- (1) The total percentage at risk in 2003/04 and 2004/05 was 2 per cent. as the aerodrome congestion term did not apply.
- (2) For the 2003/04 to 2007/08 regulatory period, the quality service rebate scheme did not include a bonus element.
- (3) The passenger-facing measures covered by Quality of Service Monitor (“QSM”) are departure lounge seat availability; cleanliness; way-finding; and flight information.
- (4) Passenger-sensitive equipment includes lifts, escalators and moving walkways, measured as a percentage of time available.
- (5) Central passenger security queuing is penalised unless 95 per cent. or 99 per cent. of passenger wait times in security queues are shorter than or equal to five minutes or ten minutes, respectively.
- (6) New elements include priority passenger-sensitive equipment and provision of stand-entry guidance, transfer search, staff search, Terminal 5 Transit Systems and control posts search.
- (7) Airline-facing measures include pier service and the serviceability of stands, jetties, arrivals baggage carousels, fixed electrical ground power and pre-conditioned air, measured as a percentage of time available. The only measure linked to the bonus payment is arrivals baggage carousel serviceability.
- (8) While Terminal 2 remains open, the targets will remain the same as in 2007/08. The CAA has increased the amounts at risk but, because no new SQR elements are included at Terminal 2, the total amount at risk in that terminal is 5.2 per cent..

## Gatwick Service Quality Rebates and Bonuses

	Maximum Rebates 2005/06 – 2007/08 <sup>(1)</sup>	Maximum Rebates 2008/09 – 2012/13		Maximum Bonus 2008/09 – 2012/13 <sup>(2)</sup>
		South Terminal	North Terminal	
(% of aeronautical income)				
Passenger-facing measures covered by QSM <sup>(3)</sup> .....	0.50%	1.44%	1.44%	1.44%
Passenger-sensitive equipment <sup>(4)</sup> ...	0.14%	0.40%	0.40%	0.40%
Central passenger security queuing <sup>(5)</sup>	0.27%	0.77%	0.77%	n/a
New elements <sup>(6)</sup> .....	n/a	1.60%	1.42%	n/a
Other airline-facing measures <sup>(7)</sup> ....	1.09%	1.80%	1.95%	0.40%
Aerodrome congestion.....	1.00%	1.00%	1.00%	n/a
<b>Total</b> .....	<b>3.00%</b>	<b>7.01%</b>	<b>6.98%</b>	<b>2.24%</b>

Source: CAA

- (1) The total percentage at risk in 2003/04 and 2004/05 was 2 per cent. as the aerodrome congestion term did not apply. The relative percentages changed slightly during the five year period due to technical changes to the Gatwick scheme.
- (2) For the 2003/04 to 2007/08 regulatory period, the quality service rebate scheme did not include a bonus element.
- (3) The passenger-facing measures covered by QSM are departure lounge seat availability; cleanliness; way-finding; and flight information.
- (4) Passenger-sensitive equipment includes lifts, escalators and moving walkways, measured as a percentage of time available.
- (5) Central passenger security queuing is penalised unless 95 per cent. or 98 per cent. of passenger wait times in security queues are shorter than or equal to five minutes or fifteen minutes, respectively.
- (6) New elements include priority passenger-sensitive equipment and provision of stand-entry guidance, transfer search, staff search, Gatwick inter-terminal transit system and control posts search.
- (7) Airline-facing measures include pier service and the serviceability of stands, jetties, arrivals baggage carousels and fixed electrical ground power, measured as a percentage of time available. The only measure linked to the bonus payment is arrivals baggage carousel serviceability.

The following table shows the amounts included in the Financial Statements of HAL and GAL in respect of Service Quality Rebates to airline customers for the periods indicated:

### Service Quality Rebates

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007
<b>HAL</b>			
Rebates .....	£1,737, 197	£2,101,884	(£71,145) <sup>(1)</sup>
<b>GAL</b>			
Rebates .....	£298,946	£70,265	£1,215,583

- (1) Includes release of a prior year accrual of £1.45 million for anticipated rebates during the implementation of the new hand luggage regulations.

The table below shows the potential maximum financial impact at HAL and GAL in relation to 2008/09 if they fail to meet their service standards commitments under the service quality rebate scheme, as forecast by the CAA, both in absolute terms and as a percentage of forecast airport charge:

<b>Potential Maximum Financial Impact</b>				
<b>(2007/08 Prices)</b>				
<b>Rebates</b>	<b>Maximum Allowable Yield</b>	<b>Passengers per annum</b>	<b>Maximum per cent. of airport charges at risk</b>	<b>Maximum payments in relation to 2008/09</b>
	<b>(£)</b>	<b>(millions)</b>		<b>(£ millions)</b>
HAL.....	12.80	70.4	7.0%	63
GAL.....	6.79	35.9	7.0%	17
<b>Bonuses</b>	<b>Maximum Allowable Yield</b>	<b>Passengers per annum</b>	<b>Maximum % of Bonus</b>	<b>Maximum payments in relation to 2008/09</b>
	<b>(£)</b>	<b>(millions)</b>		<b>(£ millions)</b>
HAL.....	12.80	70.4	2.24%	20
GAL.....	6.79	35.9	2.24%	5

Source: Annex H, CAA Decision, 11 March 2008.

(vi) Capital Investment Triggers

The CAA also imposed capital investment triggers at Heathrow and Gatwick for the 2003/04 to 2007/08 five-year regulatory period and recently redefined these triggers for the 2008/09 to 2012/13 five-year regulatory period. If HAL or GAL fail to complete certain capital investment projects within the timeframes set forth in capital expenditure plans provided to the CAA in connection with regulatory price cap reviews, they are generally restricted in the amount by which they may increase their airport charges to reflect the capital expenditures associated with the delayed projects during the remainder of the relevant five-year regulatory period.

The CAA selects capital investment projects for triggers based on whether:

- the projects contain events with demonstrable benefit to airport users;
- HAL or GAL have management control or substantial influence over the success of the projects;
- whether successful performance can be measured objectively; and
- the risk associated with completing the project on time is the best use of the Airport Operator's ability to bear risk.

For the 2003/04 to 2007/08 five-year regulatory period, the capital investment triggers related to the delivery of key parts of Terminal 5 at Heathrow and Pier 6 at Gatwick. Through careful management of capital projects, neither HAL nor GAL incurred any penalties for failing to deliver capital projects against the capital triggers set by the CAA during the five-year regulatory period ended 31 March 2008.

For the 2008/09 to 2012/13 five-year regulatory period, the CAA has concluded that a substantially greater proportion of the investment programme at Heathrow and Gatwick should be covered by triggers and that a greater amount of aeronautical income (linked to the capital expenditure on each trigger project) will be at risk during this regulatory period than was the case in the 2003/04 to 2007/08 regulatory period. There are 24 triggers at Heathrow and 10 at Gatwick, which relate to approximately 60 per cent. of HAL's and GAL's capital investment plan during this regulatory period.

The following table presents the potential capital investment trigger payments at Heathrow for the 2008/09 to 2012/13 five-year regulatory period:

### **Heathrow – Potential Capital Investment Trigger Payments<sup>(1)</sup>**

Project	Trigger Month	Monthly Penalty	Maximum Annual Penalty (£ millions, 2007/08 prices)					Total
			2008/09	2009/10	2010/11	2011/12	2012/13	
Terminal 5 Satellite C .....	May 2011	1.47	—	—	—	14.73	17.67	32.40
Terminal 4 check-in extension .....	June 2009	0.10	—	0.80	1.20	1.20	1.20	4.40
	January 2010	0.10	—	0.20	1.20	1.20	1.20	3.80
Terminal 4 new CIP lounge .....	February 2009	0.10	0.10	1.20	1.20	1.20	1.20	4.90
Terminal 4 baggage sorter .....	January 2009	0.10	0.20	1.20	1.20	1.20	1.20	5.00
Terminal 4 A380 jetty facilities .....	May 2009	0.10	—	1.10	1.20	1.20	1.20	4.70
Terminal 3 integrated baggage system .....	March 2012	1.19	—	—	—	—	14.28	14.28
Terminal 3 refurbishment .....	July 2009	0.10	—	0.80	1.20	1.20	1.20	4.40
	August 2009	0.10	—	0.70	1.20	1.20	1.20	4.30
	March 2010	0.10	—	—	1.20	1.20	1.20	3.60
	March 2011	0.16	—	—	—	1.92	1.92	3.84
Heathrow East Terminal Phase 1 .....	June 2010	2.78	—	—	—	33.36	33.36	66.72
	February 2012	3.03	—	—	—	3.03	36.36	39.39
	November 2012	1.22	—	—	—	—	4.84	4.84
Terminal 1 bmi Nose Building Facility .....	January 2009	0.10	0.20	1.20	1.20	1.20	1.20	5.00
Midfield Pier North .....	January 2010	0.50	—	1.00	6.00	6.00	6.00	19.00
Midfield Pier Centre .....	November 2012	0.67	—	—	—	—	2.68	2.68
	November 2012	0.31	—	—	—	—	1.24	1.24
Outer pier northern section .....	January 2012	0.49	—	—	—	0.98	5.89	6.87
Eastern Maintenance Base Redevelopment .....	March 2010	0.17	—	—	2.04	2.04	2.04	6.12
Post Terminal 5: Transfer Baggage System .....	November 2011	0.79	—	—	—	3.16	9.48	12.64
	June 2012	0.41	—	—	—	—	3.69	3.69
Terminal 4 and Terminal 1 refurbishment .....	January 2009	0.10	0.20	1.20	1.20	1.20	1.20	5.00
HET MSCP .....	March 2013	0.48	—	—	—	—	—	—
<b>Annual Total .....</b>			<b>0.70</b>	<b>9.43</b>	<b>42.15</b>	<b>73.67</b>	<b>152.40</b>	<b>278.35</b>

Source: CAA Decision, 11 March 2008.

(1) The triggers do not include expenditure related to the “Project for the Sustainable Development of Heathrow”. For more information, see “– Capital Expenditures – Planned Capital Expenditures – Projects for 2008/09 to 2012/13-Heathrow”. The trigger payments will take effect in the following month.

The following table presents the potential capital investment trigger payments at Gatwick for the 2008/09 to 2012/13 five-year regulatory period:

### **Gatwick – Potential Capital Investment Trigger Payments<sup>(1)</sup>**

Project	Trigger Month	Monthly Penalty	Maximum Annual Penalty (£ millions, 2007/08 prices)					Total
			2008/09	2009/10	2010/11	2011/12	2012/13	
North West Zone .....	January 2010	0.25	—	—	2.25	3.00	3.00	8.25
North Terminal Check-in Extension .....	November 2011	0.30	—	—	—	1.20	3.60	4.80
North Terminal Reclaim Extension .....	November 2011	0.14	—	—	—	0.56	1.68	2.24
Pier 7 .....	January 2012	1.01	—	—	—	2.02	12.12	14.14
South Terminal Baggage .....	January 2013	0.53	—	—	—	—	1.06	1.06
South Terminal Check-in Environment .....	June 2010	0.10	—	—	0.90	0.20	1.20	2.30
North Terminal Short Term Parking (MSCP6) .....	April 2011	0.14	—	—	—	1.54	1.68	3.22
Inter-terminal Transit System .....	October 2010	0.19	—	—	0.95	2.28	2.28	5.51
South Terminal Forecourt .....	June 2009	0.26	—	2.34	3.12	3.12	3.12	11.70
Pier 1 .....	June 2010	0.10	—	—	0.90	1.20	1.20	3.30
<b>Annual Total .....</b>			<b>0.00</b>	<b>2.34</b>	<b>8.12</b>	<b>15.12</b>	<b>30.94</b>	<b>56.52</b>

Source: CAA Decision, 11 March 2008.

(1) The trigger payments will take effect in the following month.

In the event that the specified projects were not delivered at all in the 2008/09 to 2012/13 regulatory period, maximum penalties at risk (as determined by the CAA), as a percentage of airport charges in the 2008/09 to 2012/13 regulatory period, would be 5 per cent. and 4.3 per cent. of HAL's and GAL's aeronautical income, respectively.

For additional information regarding the CAA's regulatory price setting policies, see "Airport Regulation". For additional information on factors which could impact the Airport Operators' ability to complete trigger projects, see "Risk Factors – Construction Risks".

(vii) Air Traffic Levels

A significant portion of each Airport Operator's income depends directly or indirectly on the level of air traffic at the Designated Airports:

- Aeronautical income is directly dependent on air traffic measured in terms of the number of departing passengers and air transport movements, as well as on the rates for such fees and charges, which are subject to price caps imposed by the CAA.
- Retail income is closely correlated with passenger volumes but also depends on other factors that are discussed below.

The following tables show number of passengers and air transport movements at the Designated Airports for the periods indicated:

<b>Number of Passengers</b>				
	<b>12 months ended 31 March 2006</b>	<b>9 months ended 31 December 2006</b>	<b>12 months ended 31 December 2007</b>	<b>3 months ended 31 March 2008</b>
----- (in millions) -----				
<b>Heathrow</b>				
<b>Total passengers</b> .....	<b>67.4</b>	<b>52.0</b>	<b>67.9</b>	<b>15.4</b>
Domestic .....	6.6	4.5	5.8	1.3
International long haul .....	32.1	25.2	33.8	8.0
International short haul .....	28.7	22.3	28.3	6.1
<b>Gatwick</b>				
<b>Total passengers</b> .....	<b>32.8</b>	<b>27.4</b>	<b>35.2</b>	<b>7.4</b>
Domestic .....	3.9	3.2	4.1	0.9
International long haul .....	10.9	8.7	11.7	2.7
International short haul .....	18.0	15.5	19.4	3.8
<b>Stansted</b>				
<b>Total passengers</b> .....	<b>22.2</b>	<b>18.8</b>	<b>23.8</b>	<b>4.8</b>
Domestic .....	2.6	2.1	2.6	0.6
International long haul .....	0.4	0.4	0.6	0.1
International short haul .....	19.2	16.3	20.6	4.1
<b>Total</b> .....	<b>122.4</b>	<b>98.2</b>	<b>126.9</b>	<b>27.6</b>

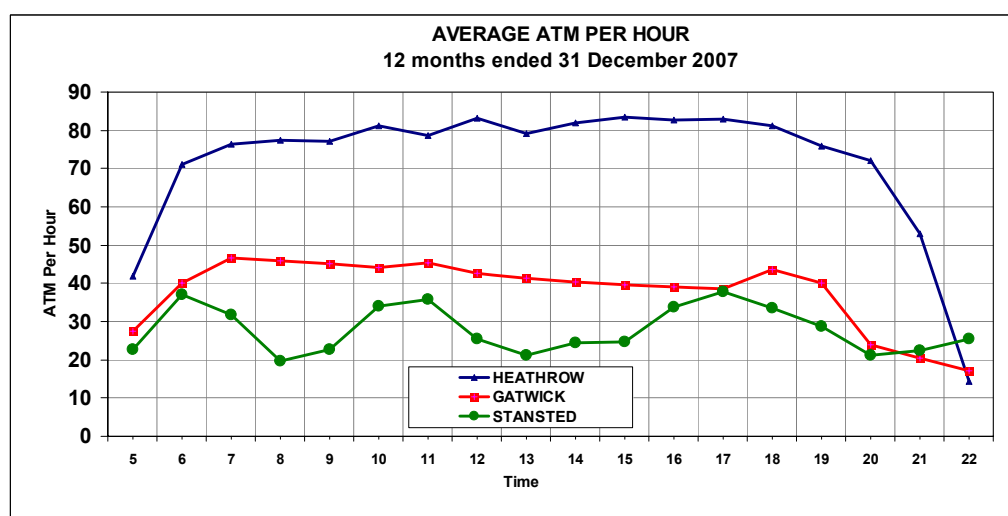
Source: BAA.

## Number of Air Transport Movements

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008
------(in thousands)-----				
<b>Heathrow</b>				
Total air transport movements.....	473.0	355.3	475.7	115.4
Domestic .....	63.0	43.1	59.6	15.0
International long haul .....	147.9	117.1	158.0	39.1
International short haul.....	262.1	195.1	258.1	61.3
<b>Gatwick</b>				
Total air transport movements.....	254.0	197.6	258.8	58.4
Domestic .....	49.8	37.5	49.0	12.0
International long haul .....	54.0	42.8	57.3	13.8
International short haul.....	150.2	117.3	152.5	32.6
<b>Stansted</b>				
Total air transport movements.....	180.7	147.4	191.5	41.9
Domestic .....	28.9	22.1	27.7	6.5
International long haul .....	6.4	6.2	9.0	1.9
International short haul.....	145.4	119.1	154.8	33.5
<b>Total .....</b>	<b>907.7</b>	<b>700.3</b>	<b>926.0</b>	<b>215.7</b>

Source: BAA.

The following chart shows the average number of air transport movements per hour from 5:00 a.m. to 10:00 p.m., as night movements are extremely limited under the night noise quota system, for the 12 months ended 31 December 2007:



During the 12 months ended 31 December 2007, the average ATMs per hour during peak hour were: 79 at Heathrow (from 6:00 a.m. to 8:00 p.m.), 42 at Gatwick (from 6:00 a.m. to 7:00 p.m.) and 28 at Stansted (from 5:00 a.m. to 10:00 p.m.).

ACL is responsible for slot allocation and schedules runway limits per hour twice a year (winter and summer). The Airport Operators operate at or close to these scheduled capacity limits established by ACL. Additionally, Heathrow is currently constrained as a result of a Terminal 5 statutory planning condition by the annual 480,000 air transport movements cap, leaving no headroom to increase the scheduled capacity limits per hour. The Airport Operators and airlines work together to optimise the use of their runways within existing scheduling limits.

For the summer period, defined for this analysis as from 1 April 2007 to 31 October 2007, the following air transport movements as a proportion of ACL's schedule limits were recorded: Heathrow 96 per cent., Gatwick 83 per cent. and Stansted 57 per cent..

As part of the CAA's regulatory oversight process, the Airport Operators are required to publish traffic forecasts for future regulatory periods. The published passenger traffic forecasts for each of the Designated Airports for the 2008/09 to 2012/13 regulatory period as well as the actual figures for 2007/08 are set forth in the tables below.

### Number of Passengers

	12 months ended 31 March					
	2008 <sup>(1)</sup>	2009 <sup>(2)</sup>	2010 <sup>(2)</sup>	2011 <sup>(2)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>
	------(in millions)-----					
Heathrow.....	68.0	70.4	72.5	74.5	76.2	78.2
Gatwick.....	35.6	35.1	35.7	36.0	37.1	37.4
Stansted.....	23.5	22.7	23.5	24.7	26.6	28.5
<b>Total.....</b>	<b>127.1</b>	<b>128.2</b>	<b>131.7</b>	<b>135.2</b>	<b>139.9</b>	<b>144.1</b>

Source: BAA.

(1) Actual

(2) Forecast.

### Percentage Growth in Number of Passengers (Forecast)

	12 months ended 31 March					
	2009	2010	2011	2012	2013	2008-2013
	------(percentage growth p.a.)-----					
	(C.A.G.R.)					
Heathrow.....	3.5%	3.0%	2.8%	2.3%	2.6%	2.8%
Gatwick.....	(1.4)%	1.7%	0.8%	3.1%	0.8%	1.0%
Stansted.....	(3.4)%	3.5%	5.1%	7.7%	7.1%	3.9%
<b>Total.....</b>	<b>0.9%</b>	<b>2.7%</b>	<b>2.7%</b>	<b>3.5%</b>	<b>3.0%</b>	<b>2.5%</b>

The forecast growth of passengers at Heathrow in 2008/09 principally reflects the following:

- the continuation in force of the EU-US Open Skies Agreement, which came into effect on 30 March 2008. This agreement opens Heathrow to greater competition and passenger choices on routes to the USA and is expected to result in the re-distribution of traffic from Gatwick to Heathrow along with the creation of new services to the USA by airlines already located at Heathrow;
- the easing of restrictions on cabin baggage, imposed during 2006 in response to terrorism-related activities; and
- the opening of Terminal 5 which, once fully operational, will allow Heathrow to offer a greater degree of service quality in its passenger terminals and is expected to stimulate transfer traffic for British Airways.

Passenger volume growth at Heathrow is projected through the rest of the 2008/09 to 2012/13 regulatory period (including further US route additions from Gatwick). However, the growth of annual passenger throughput volume will be tempered by airport capacity constraints and, in particular, the Terminal 5 statutory planning condition capping annual air transport movements at 480,000 per year.

Heathrow's level of air traffic movements is currently in close proximity to this cap and is expected to reach 480,000 in 2011/12. Despite this constraint, management is forecasting that passenger volumes will increase as a result of a combination of the following:

- slot trading by airlines (for example, the EU-US Open Skies Agreement has been largely facilitated by the willingness of airlines flying relatively small aircraft on short-haul routes to provide slots to carriers seeking to expand their capacity to the USA);

- a changing market mix in favour of long-haul operations, which typically carry more passengers per aircraft than short-haul services;
- liberalisation and development in key long-haul markets, including India and China; and
- the introduction of new, larger aircraft, such as the Airbus A380.

Together, these factors are expected to allow an increasing quantum of passenger traffic to be handled at or within the annual flight level set by the statutory planning condition.

The forecast decline in passengers at Gatwick in 2008/09 reflects two expected key impacts:

- the EU-US Open Skies Agreement, which will see some of the US-bound flights from Gatwick moving to Heathrow. The flights that are re-distributed to Heathrow use larger aircraft than the average at Gatwick, and therefore offer relatively greater passenger capacity. The slots formerly used by these larger aircraft at Gatwick are primarily being replaced by smaller aircraft with relatively less passenger capacity.
- Consolidation in the UK charter airline market arising from the merger of some of the charter airlines operating out of Gatwick, including the recent merger of the holiday travel companies Thomas Cook and My Travel, is expected to reduce the number of charter flights at Gatwick.

Growth is expected to resume at Gatwick in 2009/10 in response to increases in demand. However, airport capacity constraints will impact passenger throughput growth, limiting the increase in volumes to an average of 1.0 per cent. per year through the period 2008/09 to 2012/13.

Traffic volumes at Stansted are forecast to decline in 2008/09 following the cessation of operations by some airlines, including Maxjet, Globespan and Sky Europe, and Air Berlin's discontinuation of domestic UK flights from Stansted. easyJet's winter 2007/08 flight schedule reductions are also expected to continue into summer 2008. However, growth is expected to resume from 2009/10 onwards in response to the pressure of increasing levels of air traffic demand across the London area as a whole, along with the impact of capacity constraints at Heathrow and Gatwick. Given the availability of spare capacity at Stansted, the airport will be increasingly well placed to serve traffic that could otherwise not be accommodated because of capacity constraints at Heathrow or Gatwick.

For further information on aeronautical income of the Airport Operators, see "*Business – Income – Aeronautical Income*".

#### (viii) Seasonality

Each Airport Operator's income varies from month to month within the financial year, and each Airport Operator experiences a somewhat different level of seasonality at different times. The main influences on the seasonality of income at the Designated Airports are primarily:

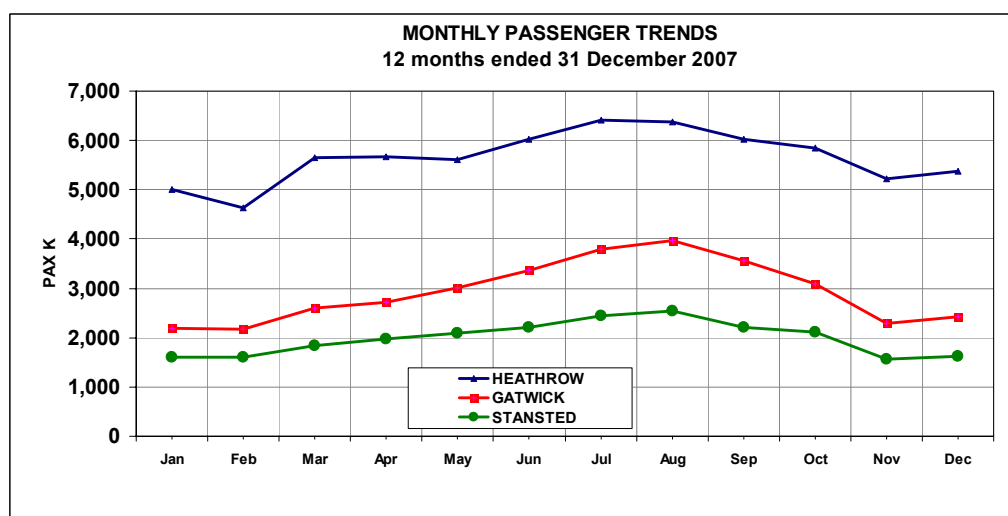
- the mix of business and leisure passengers;
- the timing of the peak UK holiday seasons and the associated seasonality in the charter airline market; and
- the proportion of transferring passengers served by the airport.

At each of the Designated Airports, the second and third quarters (April to September) of each calendar year have historically been stronger than the first (January to March) and fourth (October to December) quarters, with the first quarter being the weakest quarter, primarily reflecting the fall-off in passenger numbers following the UK winter holiday season. As Heathrow serves a higher percentage of business and transfer travellers than either Gatwick or Stansted, Heathrow has historically experienced the lowest level of seasonal fluctuations of the three Designated Airports. Gatwick is the UK's largest charter airport in terms of passengers, with passenger flows skewed towards the major holiday months. Therefore, Gatwick has historically experienced the highest level of seasonal fluctuations of the three Designated Airports. Stansted serves a relatively high proportion of leisure travellers and a market built around the emerging low-cost carriers that primarily



serve passengers seeking short getaways throughout the year to short-haul destinations. As a result, Stansted's seasonal fluctuations are less pronounced than Gatwick's but more pronounced than Heathrow's.

To illustrate the effect of seasonality on the Airport Operators, the following graph shows the seasonality in passenger numbers at each of the Designated Airports in 2007:



**(b) Retail Income**

The following table shows the retail income generated by each of the Airport Operators for the periods indicated:

**Retail Income by Airport Operator**

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008
	(unaudited)			
	----- (£ millions) -----			
HAL.....	311.3	240.2	324.9	75.2
GAL.....	144.8	123.0	159.9	34.9
STAL.....	81.8	67.7	91.0	18.8
<b>Total.....</b>	<b>537.9</b>	<b>430.9</b>	<b>575.8</b>	<b>128.9</b>

In setting the maximum allowable yield per passenger for each Designated Airport for each five-year regulatory period, the CAA takes into account its forecasts of the level of retail and all other non-aeronautical income expected to be generated by the relevant Airport Operator. To the extent that the actual level of retail and other non-aeronautical income generated by the Airport Operator exceeds the CAA's forecasted level in a given regulatory period, the benefits of this improved performance may generally be retained by the Airport Operator (although the CAA will take the improved performance in non-aeronautical income into account in setting the maximum allowable yield per passenger for the subsequent regulatory period). Accordingly, the Airport Operators have significant incentives to improve overall performance of non-aeronautical income within each regulatory period above the CAA's forecast levels.

The Airport Operators generate retail income from retail concession fees, car parking income and advertising income at the Designated Airports. Third parties operate all bars, restaurants, specialist shops, duty free and tax free outlets and other paid merchant services at the Designated Airports under concessions granted by the Airport Operators for the use of designated areas in public spaces.

The following table shows the percentage of retail income by category generated by each of the Airport Operators over total retail income for the periods indicated:

**Percentage of Total Retail Income**

	<b>12 months ended 31 March 2006</b>	<b>9 months ended 31 December 2006</b>	<b>12 months ended 31 December 2007</b>	<b>3 months ended 31 March 2008  (unaudited)</b>
<b><u>HAL</u></b>				
Car parking.....	21.2%	20.9%	20.9%	22.1%
Duty and tax free.....	22.9%	23.5%	22.9%	22.1%
Airside specialist shops.....	15.2%	15.6%	16.4%	16.6%
Bureaux de change.....	9.2%	8.7%	9.0%	8.5%
Catering.....	8.1%	8.2%	8.0%	8.0%
Landside shops and bookshops.....	7.2%	6.8%	6.4%	5.9%
Advertising.....	7.8%	7.5%	7.9%	9.2%
Car rental.....	3.1%	3.4%	3.3%	3.1%
Other.....	5.3%	5.4%	5.2%	4.5%
<b>Total.....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b><u>GAL</u></b>				
Car parking.....	26.2%	30.3%	29.5%	33.0%
Duty and tax free.....	24.2%	23.3%	24.2%	20.3%
Airside specialist shops.....	10.7%	9.4%	9.9%	9.7%
Bureaux de change.....	8.8%	8.8%	8.3%	9.7%
Catering.....	10.2%	9.8%	10.2%	10.0%
Landside shops and bookshops.....	9.4%	8.8%	8.4%	7.4%
Advertising.....	3.3%	3.0%	2.8%	3.7%
Car rental.....	2.1%	2.0%	2.1%	2.3%
Other.....	5.1%	4.6%	4.6%	3.9%
<b>Total.....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b><u>STAL</u></b>				
Car parking.....	46.0%	44.5%	44.4%	44.7%
Duty and tax free.....	11.0%	11.8%	12.2%	9.6%
Airside specialist shops.....	4.2%	4.1%	4.8%	5.3%
Bureaux de change.....	10.5%	11.1%	11.6%	11.2%
Catering.....	10.8%	11.4%	11.0%	10.6%
Landside shops and bookshops.....	8.3%	8.0%	7.4%	8.0%
Advertising.....	2.7%	2.4%	1.9%	3.7%
Car rental.....	2.3%	2.5%	2.6%	2.7%
Other.....	4.2%	4.2%	4.1%	4.2%
<b>Total.....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The following table provides information regarding each of the Airport Operators' retail facilities as of 31 March 2008:

### Retail Facilities by Airport Operator

	Retail space (m <sup>2</sup> ) <sup>(1)</sup>	Number of retail clients	Number of retail outlets	Number of car park spaces <sup>(2)</sup>
HAL <sup>(3)</sup> .....	62,042	118	577	19,351
GAL.....	27,706	75	244	30,680
STAL .....	7,976	65	114	25,854
<b>Total</b> .....	<b>97,724</b>	<b>258</b>	<b>935</b>	<b>75,885</b>

Source: BAA.

- (1) Includes only retail space inside the terminals. See “*Business – History, Structure and Regulation – Overview of the Designated Airports*”.
- (2) Includes only car park spaces owned by the Airport Operators. See “*Business – History, Structure and Regulation – Overview of the Designated Airports*”.
- (3) Includes Heathrow's Terminal 5, which was opened in March 2008. Terminal 5 includes over 23,013 square metres of retail space with 63 retail clients serving 113 retail outlets, as well as 7,100 public car park spaces.

The additional capacity to service passengers, retail operations and airlines provided by the opening of Heathrow's Terminal 5 in March 2008 has enabled HAL to implement an investment plan that involves progressively renovating parts of Heathrow's other terminals. Terminal 2 is expected to be closed in the first half of 2009 and demolished as a part of these investment plans. Terminal 2 currently has eight exclusive retail clients and a total of 81 outlets occupying 6,555 square metres of retail space. For more information about Heathrow's plans for renovating Terminals 1, 2, 3 and 4, see “– *Capital Expenditure – Planned Capital Expenditure*”.

The retail income of the Airport Operators is closely linked to the gross receipts of concession holders, whose income, in turn, is influenced by the amount of passenger traffic at the Designated Airports. The Airport Operators invoice the concession holders monthly based on monthly turnover certificates provided by the holders.

The amount of retail income generated by the Airport Operators from the concession holders depends significantly on the number of passengers passing through terminals, as well as passenger mix and profile, retail product and service offerings, and the amount of free time prior to boarding.

The amount of retail income generated by the Airport Operators from their car parks is dependent on the amount of time during which cars are parked, the occupancy rate of parking spaces and parking rates. The growth of income from car parks depends on the actual and perceived cost of parking to potential customers compared to other modes of transportation, as well as on quality factors, such as cleanliness, availability of spaces and access to car parks and terminals.

Per-passenger retail income at the Designated Airports has remained relatively flat during the periods under review. The following table shows per-passenger retail spending at each of the Designated Airports for the periods indicated:

### Per Passenger Retail Income

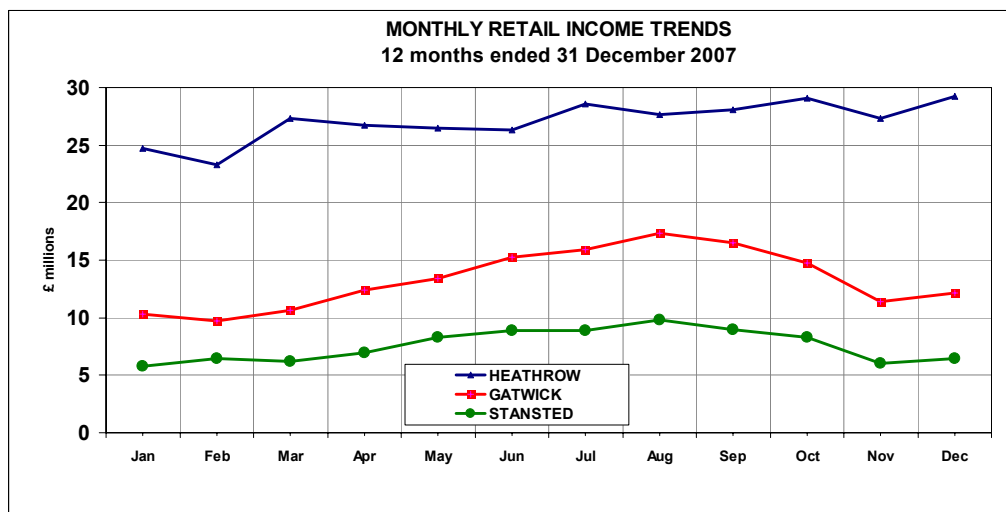
	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008
HAL.....	£4.62	£4.62	£4.78	£4.88
GAL.....	£4.41	£4.49	£4.54	£4.72
STAL .....	£3.68	£3.60	£3.82	£3.92

Source: BAA

The main factor that has caused per-passenger retail income to increase at a slower rate than expected has been the significant changes in security procedures that were announced by the UK Department for Transport, particularly since August 2006, as a result of terrorist incidents in the United Kingdom. The Airport Operators have responded to this challenge through the recruitment of a significant number of additional security personnel and the opening of additional security lanes to reduce security queue lengths and improve customer service. This has helped to generally restore the amount of time passengers have for retail activities in the Designated Airports. The general relaxation in the “one bag” cabin baggage restrictions since 6 January 2008 at Heathrow and Stansted and since 31 March 2008 at Gatwick has further supported a recovery in retail performance.

Despite the relatively flat performance in per-passenger retail income during the period under review, demand for retail space at the Designated Airports remains strong. For example, the bulk of the retail units at Heathrow’s Terminal 5 were contracted almost a year in advance of Terminal 5’s opening in March 2008.

Whilst retail income generated by the Airport Operators generally follows the level of passenger numbers over the year, per-passenger retail spending tends to be lower in the peak holiday months, primarily as a consequence of the higher percentage of child passengers travelling during these months, as well as increased terminal congestion, which tends to inhibit retail spending. Additionally, in peak holiday months there is a higher concentration of generally lower spending economy-class passengers compared to generally higher spending premium- and business-class travellers. This decline in certain peak holiday periods is offset generally during the Christmas holiday period, when per passenger retail spending increases compared to the rest of the year. However, the effect of lower per-passenger spending in peak non-Christmas holiday periods on overall retail income is generally more than compensated by higher passenger volumes. The following graph shows the retail income generated at each of the Designated Airports for each month in 2007:



The Airport Operators also generate retail income from advertising space within the Designated Airports through agreements with two primary advertising sales companies, who are responsible for the marketing and sale of advertising space on behalf of the Designated Airports. With the numerous new attractive advertising sites provided by Heathrow’s Terminal 5, HAL expects that the increase in advertising income generated at Terminal 5 will more than offset the loss of advertising income at Terminal 2 when it is shut down in the first half of 2009.

For further information on retail income for the Airport Operators, see “*Business – Income – Retail Income*”.

**(c) Operational Facilities and Utilities Income**

The Airport Operators also generate income from the provision of operational facilities and utilities to airlines and other businesses operating at the Designated Airports. This income includes rental of operational systems, such as check in and baggage-handling facilities, and charges for the provision of certain electricity, telecommunications services and water. The provision of certain operational facilities and utilities is classified as specified activities within the UK airport regulatory framework. Therefore, the price that the Airport Operators may charge for, and the costs incurred in providing, these services are subject to certain transparency and reporting conditions as set out by the CAA in its regulatory decision. The CAA's price setting policy is generally aimed at allowing the Airport Operators to recover the cost of supply, including associated infrastructure costs and a reasonable rate of return on assets engaged in the supply.

Income from the provision of operational facilities and utilities depends on the requirements of companies located in the Designated Airports for power, water and services. The development of new real estate projects, as well as the renovation of existing facilities, can also significantly affect the demand for operational facilities and utilities. Demand can also be affected by the existence of alternative sources of supply.

Charges for the specified activities are consulted upon annually between each Airport Operator and its user community. Each Airport Operator supplies these services to users pursuant to the terms set out in its price notification. Charges are principally based on forecasts of costs of supply and income at the time rates are set. To the extent that the actual income recovered throughout a year either exceeds or is less than the forecast costs of supply, the Airport Operators may make a pricing adjustment in the next pricing period. In periods of volatile utility prices, the Airport Operators may, in consultation with users, make adjustments to pass through additional or reduced costs.

The following table shows the operational facilities and utilities income generated by each of the Airport Operators for the periods indicated:

**Operational Facilities and Utilities Income by Airport Operator**

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
				(unaudited)
	----- (£ millions) -----			
HAL.....	111.8	85.4	115.9	29.0
GAL.....	25.3	22.1	34.0	6.4
STAL.....	10.8	9.4	12.9	3.1
<b>Total.....</b>	<b>147.9</b>	<b>116.9</b>	<b>162.8</b>	<b>38.5</b>

As from 1 April 2008, certain charges for baggage and fuel delivery infrastructure at HAL and GAL have been reclassified and included within the regulatory-approved maximum passenger yield and will be reflected under aeronautical income.

For further information on operational facilities and utilities income of the Airport Operators, see "*Business – Income – Operational Facilities and Utilities Income*".

**(d) Property Rental Income**

The Airport Operators generate property rental income from the tenants of cargo storage, aircraft hangars and maintenance facilities, light-industrial units and office premises at the Designated Airports. Growth in the property rental income depends principally on each Designated Airport's ability to develop new land and building areas for rental, as well as on the renovation and refurbishment of existing facilities. For existing leases, income depends on occupancy rates and rent levels. Typically, all leases contain an open market rent review provision. However, rent payable under HAL's leases for facilities in Heathrow's terminals are increased in line with a formula that takes into account increases in passenger numbers, the RPI

and the investment property databank index for Central, West and Outer London. The Airport Operators recognise property rental income on a straight-line basis over the term of the rental period.

The following table shows the property rental income generated by each of the Airport Operators for the periods indicated:

**Property Rental Income by Airport Operator**

	<u>12 months ended 31 March 2006</u>	<u>9 months ended 31 December 2006</u>	<u>12 months ended 31 December 2007</u>	<u>3 months ended 31 March 2008</u>
	(unaudited)			
	----- (£ millions) -----			
HAL.....	77.3	58.0	81.8	20.9
GAL.....	26.2	25.4	27.0	6.7
STAL.....	6.3	4.9	7.4	1.8
<b>Total.....</b>	<b><u>109.8</u></b>	<b><u>88.3</u></b>	<b><u>116.2</u></b>	<b><u>29.4</u></b>

Each of the Airport Operators have seen year-on-year growth in their rental income during the periods under review, largely due to a steady increase in rents per square foot, the leveraging of opportunities to let vacant space, the development of new service and product concepts for lettable space, such as new hotel-in-airport concepts at Heathrow and Gatwick, and maximising rental growth opportunities from existing tenants in connection with contract renewals and rent reviews. Despite the current volatility in the UK commercial real estate market, management believes that the Airport Operators' rental income will continue to grow due to the historically high demand for airport property by airlines and airline-service providers and the continued expansion of product and service offerings at the Designated Airports' rental property, such as branded airline lounges, managed meeting facilities and hotels.

For further information on property rental income at the Airport Operators, see “*Business – Income – Property Rental Income*” and “*– Results of Operations*”.

(e) **Rail Income**

HAL generates rail income from its ownership of the Heathrow Express rail service, which is currently operated on behalf of HAL by HEX Opco. HAL recognises rail income from Heathrow Express ticket sales at the time of ticket sale. The following table sets forth certain income and operating data for HEX Opco for the periods indicated:

**Rail Income by Source**

	<u>12 months ended 31 March 2006</u>	<u>9 months ended 31 December 2006</u>	<u>12 months ended 31 December 2007</u>	<u>3 months ended 31 March 2008</u>
	(unaudited)			
Rail fares (£ millions).....	71.0	55.7	76.8	18.4
Other income (£ millions) <sup>(1)</sup> .....	3.5	2.2	2.7	1.3
<b>Total.....</b>	<b><u>74.5</u></b>	<b><u>57.9</u></b>	<b><u>79.5</u></b>	<b><u>19.7</u></b>
Number of passengers (in millions) <sup>(2)</sup> ..	5.4	4.2	5.4	1.3
Rail fare yield <sup>(2)(3)</sup> .....	£13.19	£13.41	£14.21	£13.98

(1) Includes primarily advertising income.

(2) Source: BAA.

(3) Rail fares divided by number of passengers.

The changes in rail fare yields shown in the table above primarily reflect the increases in the price of a Heathrow Express single ticket of £0.50 with effect from 1 January 2006 and £0.50 with effect from 1 January 2007. No price increase for Heathrow Express tickets has been implemented for the year beginning 1 January 2008.

At or prior to the Initial Issue Date, HEX Opco will become a wholly owned subsidiary of HAL.

For further information on rail income of HAL, see “*Business – Income – Rail Income*”.

**(f) Other Income**

For the 12 months ended 31 December 2007, other income at the Designated Airports amounted to £102.2 million, including income from the provision of primarily inter-company income (£56.2 million); staff car parking to airlines, handling agents and tenants at the Designated Airports (£23.9 million); the provision of waiting areas and taxi-allocation services at the Designated Airports (£5.9 million); at Heathrow, income from the provision of “fast track” check-in and security services for, amongst others, premium customers of airlines (£3.6 million); and miscellaneous income (£12.6 million) derived from other services or goods (including petrol stations, vehicle fuel and the issuance of identity cards).

Inter-company income in HAL includes £42.2 million in respect of charges raised to BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group. BAA in turn re-charges this sum to the BAA businesses in proportion to their use. The amount charged is equal to the annual depreciation incurred on these assets plus an internal margin which approximates to the regulatory return on assets. In the year to 31 December 2007, £36.7 million of this charge relates to the designated airports and is recorded within each airport’s expenditure as ‘Intra-Group Charges’ with BAA (see “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-group Charges*”). £5.5 million was charged to BAA’s non designated businesses. The internal margin reflected by HAL amounted to £14.4 million, of which £1.9 million was earned from BAA’s non designated businesses.

In addition, both HAL and GAL receive inter-company rental income from BAA in respect of the space occupied by BAA’s corporate departments and central functions at Heathrow and Gatwick.

The following tables show the other income and inter-company income generated by each of the Airport Operators for the periods indicated:

**Other Income (Including Inter-company Income) by Airport Operator**

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008
				(unaudited)
	----- (£ millions) -----			
HAL.....	80.8	58.0	88.1	22.4
GAL.....	9.3	7.6	11.3	2.7
STAL.....	4.8	3.4	2.8	0.6
<b>Total.....</b>	<b>94.9</b>	<b>69.0</b>	<b>102.2</b>	<b>25.7</b>

**Inter-Company Income by Airport Operator**

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008
				(unaudited)
	----- (£ millions) -----			
HAL.....	48.0	32.7	52.0	11.0
GAL.....	3.5	2.7	4.0	0.9
STAL.....	0.2	0.1	0.2	0.0
<b>Total.....</b>	<b>51.7</b>	<b>35.5</b>	<b>56.2</b>	<b>11.9</b>

## 2.2 Operating Costs

The following table provides a break down of the operating costs by Airport Operator for the periods indicated:

<b>Operating Costs by Airport Operator</b>				
	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
	(unaudited)			
	----- (£ millions) -----			
HAL <sup>(1)</sup> .....	780.3	669.4	1,046.9	293.4
GAL <sup>(1)</sup> .....	280.9	223.7	328.9	89.1
STAL <sup>(1)</sup> .....	130.5	111.1	165.2	42.4

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). In the case of HAL, it also includes intra-group charges related to all operating expenses incurred by, and the management fee charged by, HEX Opco in running Heathrow Express. See “– Other Intra-group Charges”.

The increase in HAL’s operating costs in the 12 months ended 31 December 2007 mainly reflects higher depreciation due to the increase in the depreciable cost of operational assets, an increase in employment costs relating to new security measures, and higher intra-group charges related to a change in BAA’s re-charging policy for central and corporate services.

The large increase in HAL’s exceptional operating costs was due to accelerated depreciation as a result of the shortening of the accounting life of Terminal 2 and Terminal 1 in connection with the construction of Heathrow East, reorganisation costs principally related to severance payments and associated pension costs, and Terminal 5 commissioning costs.

For GAL and STAL, the main reasons for increases in operating costs were higher employment costs relating to new security measures and higher intra-group charges related to a change in BAA’s re-charging policy for central and corporate services. In addition, GAL and STAL recorded a significant increase in exceptional operating cost due to reorganisation costs principally related to severance payments and associated pension costs.

The following table provides a break down of the operating costs by item for each of the Airport Operators for the periods indicated:

<b>Operating Costs by Source</b>				
	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
	(unaudited)			
	----- (£ millions) -----			
<b>HAL</b>				
Employment costs.....	181.8	150.8	212.8	62.5
Depreciation .....	168.5	136.2	203.6	51.4
Maintenance expenditure.....	63.4	47.7	86.3	20.6
Utility costs.....	60.3	49.9	67.3	18.3
Rents and rates.....	55.4	46.3	65.7	15.9
General expenses.....	73.8	54.8	60.9	28.2
Retail expenditure.....	6.3	8.5	11.8	4.8
Other intra-group charges <sup>(1)</sup> .....	148.2	121.8	184.0	47.9
(Profit)/loss on disposals of tangible fixed assets..	(2.8)	15.5	0.3	0.0
Operating costs – ordinary .....	754.9	631.5	892.7	249.6
Operating costs – exceptional.....	25.4	37.9	154.2	43.8
<b>Total.....</b>	<b>780.3</b>	<b>669.4</b>	<b>1,046.9</b>	<b>293.4</b>

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL as well as other subsidiaries not within the Security Group). Also includes intra-group charges related to all operating expenses incurred by, and the management fee charged by, HEX Opco in running Heathrow Express. See “– Other Intra-group Charges”.



	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008  (unaudited)
----- (£ millions) -----				
<b>GAL</b>				
Employment costs.....	80.3	62.1	94.8	29.2
Depreciation .....	50.8	41.4	56.5	15.4
Maintenance expenditure.....	21.7	15.3	27.3	5.7
Utility costs.....	21.3	17.9	23.9	6.3
Rents and rates.....	20.4	16.5	23.1	5.6
General expenses.....	30.5	25.0	36.1	11.8
Retail expenditure.....	2.9	8.2	8.7	3.8
Other intra-group charges <sup>(1)</sup>	35.0	29.4	41.7	11.3
(Profit)/loss on disposals of tangible fixed assets..	0.0	0.7	0.1	0.0
Operating costs – ordinary .....	262.9	216.5	312.2	89.1
Operating costs – exceptional.....	18.0	7.2	16.7	0.0
<b>Total.....</b>	<b>280.9</b>	<b>223.7</b>	<b>328.9</b>	<b>89.1</b>

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL as well as other subsidiaries not within the Security Group). See “– Other Intra-group Charges”.

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008  (unaudited)
----- (£ millions) -----				
<b>STAL</b>				
Employment costs.....	42.3	37.3	53.4	13.6
Depreciation .....	28.9	21.9	29.1	7.6
Maintenance expenditure.....	11.7	8.2	12.0	2.6
Utility costs.....	9.6	8.4	11.7	3.1
Rents and rates.....	7.0	6.9	10.0	2.9
General expenses.....	15.0	12.7	12.9	5.1
Retail expenditure.....	0.7	1.3	1.9	0.8
Other intra-group charges <sup>(1)</sup>	11.7	11.1	25.2	6.7
(Profit)/loss on disposals of tangible fixed assets..	0.2	(0.2)	(0.1)	0.0
Operating costs – ordinary .....	127.1	107.6	156.1	42.4
Operating costs – exceptional.....	3.4	3.5	9.1	0.0
<b>Total.....</b>	<b>130.5</b>	<b>111.1</b>	<b>165.2</b>	<b>42.4</b>

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL as well as other subsidiaries not within the Security Group). See “– Other Intra-group Charges”.

The following table sets forth the ordinary operating costs as a percentage of income for each of the Airport Operators for the periods indicated:

#### **Operating Costs – Ordinary as a Percentage of Total Income**

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008  (unaudited)
HAL.....	63.2%	66.0%	67.4%	79.8%
GAL.....	72.7%	69.2%	76.2%	103.7%
STAL .....	72.0%	71.9%	64.6%	81.2%

As discussed under “– Aeronautical Income – Seasonality”, each Airport Operator’s income historically has been stronger in the second and third quarters of each calendar year than the first and fourth

quarters. As each Airport Operator incurs the majority of ordinary operating costs more evenly throughout the year, each of the Airport Operators generally record lower operating profits in the first and fourth quarters. Likewise, the Airport Operators show different levels of ordinary operating costs as a percentage of income for partial-year periods, such as the nine months ended 31 December 2006 and the three months ended 31 March 2008, as compared to whole-year periods, such as the 12 months ended 31 March 2006 and 31 December 2007.

As a percentage of income, HAL's ordinary operating costs remained almost the same for the 12 months ended 31 December 2007 compared to the nine months ended 31 December 2006.

The lack of partial-year and full-year comparability is most pronounced at GAL, given that Gatwick has historically experienced the highest level of seasonal fluctuations of the three Airport Operators.

The sizable decrease in STAL's ordinary operating costs as a percentage of its income in the 12 months ended 31 December 2007 compared to the nine months ended 31 December 2006 primarily reflects a higher rate of growth in STAL's income compared to its ordinary costs brought on by, among other things, the expiry with effect from 1 April 2007, of offering discounts to certain airlines.

(a) Employment Costs

Employment costs are the most significant operating cost item and include wages and salaries, social security costs, pension costs and other staff-related costs, including uniforms and training.

The following table sets forth the employment costs as a percentage of income for each of the Airport Operators for the periods indicated:

**Employment Costs as a Percentage of Total Income**

	<u>12 months ended 31 March 2006</u>	<u>9 months ended 31 December 2006</u>	<u>12 months ended 31 December 2007</u>	<u>3 months ended 31 March 2008</u>
				(unaudited)
HAL.....	15.2%	15.8%	16.1%	20.0%
GAL.....	22.2%	19.8%	23.1%	34.0%
STAL.....	24.0%	24.9%	22.1%	26.1%

The level of employment costs at each Designated Airport depends primarily on the airport's staffing requirements. As the table above indicates generally, the larger the airport, the lower employment costs are as a percentage of income on a year-to-year basis. The most important factor that has affected employment costs during the period under review is the UK Department for Transport's increased passenger security search regulations.

The following table provides a breakdown of employment costs by item for each of the Airport Operators for the periods indicated:

**Employment Costs by Source<sup>(1)</sup>**

	<u>12 months ended 31 March 2006</u>	<u>9 months ended 31 December 2006</u>	<u>12 months ended 31 December 2007</u>	<u>3 months ended 31 March 2008</u>
				(unaudited)
	----- (£ millions) -----			
<b><u>HAL</u></b>				
Wages, salaries and social security costs.....	137.0	115.6	168.9	48.9
Pension costs.....	32.6	27.4	31.5	8.9
Other staff-related costs.....	12.2	7.8	12.4	4.7
<b>Total.....</b>	<b>181.8</b>	<b>150.8</b>	<b>212.8</b>	<b>62.5</b>

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008
				(unaudited)
	----- (£ millions)-----			
<b><u>GAL</u></b>				
Wages, salaries and social security costs .....	61.9	47.5	76.8	22.6
Pension costs.....	13.7	11.6	13.7	3.8
Other staff-related costs.....	4.7	3.0	4.3	2.8
<b>Total.....</b>	<b>80.3</b>	<b>62.1</b>	<b>94.8</b>	<b>29.2</b>
<b><u>STAL</u></b>				
Wages, salaries and social security costs .....	33.6	28.7	43.0	11.2
Pension costs.....	6.3	6.7	8.1	1.7
Other staff-related costs.....	2.4	1.9	2.3	0.7
<b>Total.....</b>	<b>42.3</b>	<b>37.3</b>	<b>53.4</b>	<b>13.6</b>

(1) Includes the costs of contract/agency staff in terms of average full-time equivalent (“FTE”), it represents, for the year ended 31 December 2007, 71.1 for HAL, 28.1 for GAL and 13.0 for STAL.

The following table sets out the average full-time equivalent staff numbers for each Airport Operator for the periods indicated:

**Average Full-Time Equivalent Staff by Airport Operator<sup>(1)</sup>**

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008
				(unaudited)
HAL.....	3,845	4,010	4,317	5,088
GAL.....	1,815	1,740	1,841	2,081
STAL .....	964	1,018	1,131	1,241
<b>Total.....</b>	<b>6,624</b>	<b>6,768</b>	<b>7,289</b>	<b>8,410</b>

(1) Excludes corporate office employees at BAA and BSC and contract/agency staff. See “– Operating Costs – Other Intra-Group Charges”.

The following table sets out the number of FTE staff for each of the Airport Operators as of the dates indicated:

**Period Ended Full-Time Equivalent Staff by Airport Operator<sup>(1)</sup>**

	As of 31 March 2006	As of 31 December 2006	As of 31 December 2007	As of 31 March 2008
				(unaudited)
HAL.....	3,868	4,242	4,683	5,312
GAL.....	1,753	1,718	2,019	2,158
STAL .....	965	1,071	1,221	1,251
<b>Total.....</b>	<b>6,586</b>	<b>7,031</b>	<b>7,923</b>	<b>8,721</b>

(1) Excludes corporate office employees at BAA and BSC and contract/agency staff. See “– Operating Costs – Other Intra-Group Charges”.

Most significantly, the change in the regulations regarding hand luggage and the carrying of liquids on board aircraft, which came into effect without prior notice on 10 August 2006, led to a significant increase in staff numbers and overtime employment costs. As of 31 March 2008,

BAA employed 5,927 security officers at the Designated Airports, an increase of 2,252 staff, or 61 per cent., compared to the number employed on 10 August 2006. Whilst the majority of additional security officers were employed as a result of the change in security regulations, 581 security officers were deployed in the new Terminal 5 which opened at the end of March 2008.

The recruitment of additional security staff enabled a significant increase in the number of security lanes at each of the Designated Airports. The table below shows the position as of 10 August 2006 and the number of new security lanes added through 31 March 2008:

	<u>Security Lanes</u>			
	<u>HAL</u>	<u>GAL</u>	<u>STAL</u>	<u>Total</u>
Total as of 10 August 2006 .....	55	24	15	94
Additional security lanes <sup>(1)</sup> .....	9	15	6	30
Terminal 5 .....	22	—	—	22
<b>Total as of 31 March 2008</b> .....	<b>86</b>	<b>39</b>	<b>21</b>	<b>146</b>

Source: BAA

(1) Additional security lanes represents the number of security lanes added to cover additional security service requirements subsequent to 10 August 2006 and excludes security lanes in Heathrow's Terminal 5.

Under the terms of the Shared Services Agreement, pension costs under the BAA Pension Scheme will be charged to each of the Designated Airports in respect of the staff provided to them by BAA. These costs comprise the current service costs associated with the obligation for the Airport Operators to make additional payments sufficient to reimburse BAA for any pension deficit contributions. The Airport Operators will recognise such additional payments under UK GAAP accounting standard FRS 12, Provisions, Contingent Liabilities and Contingent Assets, as arising from an existing contractual obligation.

For a discussion of risks related to the BAA Pension Scheme, "*Risk Factors – Other risks to the Designated Airports' Operations and Income of the Designated Airports – Pensions*" and "*– Critical Accounting Policies and Judgements – Pension Obligations*".

(b) Depreciation

The following table shows each Airport Operator's depreciation charges for the periods indicated, as a percentage of income:

	<u>Depreciation as a Percentage of Total Income</u>			
	<u>12 months ended 31 March 2006</u>	<u>9 months ended 31 December 2006</u>	<u>12 months ended 31 December 2007</u>	<u>3 months ended 31 March 2008</u>
				(unaudited)
HAL.....	14.1%	14.2%	15.4%	16.4%
GAL.....	14.1%	13.2%	13.8%	17.9%
STAL .....	16.4%	14.6%	12.0%	14.6%

The Airport Operators' activities require them to make significant capital investments in airport infrastructure. For example, HAL has just completed the first phase of a major capital investment programme with the opening of Terminal 5 at Heathrow in March 2008. The Airport Operators have additional major capital investment programmes planned to increase their terminal or runway capacity and to improve the quality of their service, including the replacement of obsolete equipment and the refurbishment and renovation of facilities. Even in low-cycle periods, however, capital investment must be made to ensure the renewal and renovation of obsolete facilities and to continually renovate existing equipment in order to improve operational and commercial performance. For information about each Airport Operator's planned capital expenditures, see "*– Liquidity and Capital Resources – Planned Capital Expenditures*".

The decrease in STAL's depreciation charges as a percentage of income in the 12 months ended 31 December 2007 compared to the 12 months ended 31 March 2006 primarily reflects the higher income generated in the 12 months ended 31 December 2007. For more information on depreciation, see the financial statements of the Operating Companies incorporated by reference and included on the Financials CD-ROM.

(c) Maintenance Expenditure

Maintenance expenditures include preventive and corrective maintenance for facilities and equipment, such as buildings, runways, airfields, baggage-sorting equipment, passenger transportation systems (including elevators, walkways and escalators) and jetties, the cost of airport vehicle supplies and general engineering supplies and equipment costs. Maintenance expenditures vary depending on the age and condition of assets.

The following table gives an overview of the maintenance expenditure for each of the Airport Operators for the periods indicated as a percentage of income:

**Maintenance Expenditure as a Percentage of Total Income**

	<u>12 months ended 31 March 2006</u>	<u>9 months ended 31 December 2006</u>	<u>12 months ended 31 December 2007</u>	<u>3 months ended 31 March 2008</u> (unaudited)
HAL.....	5.3%	5.0%	6.5%	6.6%
GAL.....	6.0%	4.9%	6.7%	6.6%
STAL.....	6.6%	5.5%	5.0%	5.0%

In the 12 months ended 31 December 2007, each of the Airport Operators incurred a substantial increase in maintenance expenditure as part of the putting the passenger first strategy aimed at improving the efficiency and reliability of airport infrastructure, with a particular focus on airbridges, lifts, escalators and walkways. In connection with this strategy, the Designated Airports, particularly Heathrow and Gatwick, also made a significant improvement in equipment availability and the appearance of buildings.

The following table gives an overview of expenditures of the Airport Operators in delivering the "putting the passenger" first strategy for the 12 months ended 31 December 2007:

**Putting the Passenger First Strategy**

	<u>Maintenance expenditures</u>	<u>Capitalised expenditures</u>	<u>Total</u>
	----- (unaudited) -----		
	----- (£ millions) -----		
HAL.....	9.5	11.0	<b>20.5</b>
GAL.....	4.0	2.7	<b>6.7</b>
STAL.....	2.7	1.0	<b>3.7</b>
<b>Total</b> .....	<b>16.2</b>	<b>14.7</b>	<b>30.9</b>

Source: BAA

Capitalised expenditure is expenditure which has initially been recognised through the profit and loss account and subsequently allocated to the specific capital projects to which it relates.

The following table provides a breakdown of maintenance expenditures by category for the periods indicated:

### Maintenance Expenditure by Source

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
	(unaudited)			
	----- (£ millions) -----			
<b><u>HAL</u></b>				
Maintenance costs, equipment and computer services.....	41.0	30.6	39.7	14.3
Rechargeable Maintenance.....	21.5	16.1	23.2	5.8
Project costs and others.....	0.9	1.0	23.4	0.5
<b>Total.....</b>	<b><u>63.4</u></b>	<b><u>47.7</u></b>	<b><u>86.3</u></b>	<b><u>20.6</u></b>
<b><u>GAL</u></b>				
Maintenance costs, equipment and computer services.....	20.3	15.0	21.6	5.7
Rechargeable Maintenance.....	0.2	0.1	0.3	0.0
Project costs and others.....	1.2	0.2	5.4	0.0
<b>Total.....</b>	<b><u>21.7</u></b>	<b><u>15.3</u></b>	<b><u>27.3</u></b>	<b><u>5.7</u></b>
<b><u>STAL</u></b>				
Maintenance costs, equipment and computer services.....	10.9	7.9	11.4	2.7
Rechargeable Maintenance.....	0.6	0.2	0.2	0.1
Project costs and others.....	0.2	0.1	0.4	(0.2)
<b>Total.....</b>	<b><u>11.7</u></b>	<b><u>8.2</u></b>	<b><u>12.0</u></b>	<b><u>2.6</u></b>

Maintenance expenditure includes normal maintenance costs (including general engineering supplies, airport vehicle repairs and fuel), computer service costs, project costs, equipment costs and rechargeable maintenance. The latter includes the costs of airport vehicle supplies (repairs, fuel costs, etc.) and general engineering supplies and equipment costs.

(d) **Utility Costs**

Utility costs consist primarily of electricity, water, gas and telecommunications.

The following table shows utility costs (including distribution fees) for each of the Airport Operators for the periods indicated as a percentage of income:

### Utility Costs as a Percentage of Total Income

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
	(unaudited)			
HAL.....	5.0%	5.2%	5.1%	5.9%
GAL.....	5.9%	5.7%	5.8%	7.3%
STAL.....	5.4%	5.6%	4.8%	5.9%

The two primary factors affecting utility costs during the period under review are volumes consumed and price. Volumes consumed are largely dependent on passenger numbers and the overall level of airport activity. Construction activity at the Designated Airports also influences utility consumption.

Utility costs include a distribution fee paid by the Airport Operators in respect of the annual payment to EDF under an electricity distribution agreement. Under the terms of the distribution agreement, the fee is reassessed annually according to a pricing formula that takes account of inflation, the underlying asset base of the electrical distribution system at each airport and the usage of the system. For more information about the distribution agreement with EDF, see “*Business – Suppliers*”.

The following table provides a break-down of utility costs by category for the periods indicated:

<b>Utility Costs by Source</b>				
	<b>12 months ended</b>	<b>9 months ended</b>	<b>12 months ended</b>	<b>3 months ended</b>
	<b>31 March 2006</b>	<b>31 December 2006</b>	<b>31 December 2007</b>	<b>31 March 2008</b>
	(unaudited)			
	----- (£ millions) -----			
<b><u>HAL</u></b>				
Electricity .....	26.2	24.2	33.1	8.5
Distribution fee .....	22.3	16.5	21.3	5.3
Gas, telecommunications and others...	11.8	9.2	12.9	4.5
<b>Total.....</b>	<b>60.3</b>	<b>49.9</b>	<b>67.3</b>	<b>18.3</b>
<b><u>GAL</u></b>				
Electricity .....	9.4	8.8	11.3	2.3
Distribution fee .....	5.8	4.5	6.3	1.7
Gas, telecommunications and others...	6.1	4.6	6.3	2.3
<b>Total.....</b>	<b>21.3</b>	<b>17.9</b>	<b>23.9</b>	<b>6.3</b>
<b><u>STAL</u></b>				
Electricity .....	4.5	4.2	5.8	1.5
Distribution fee .....	2.3	2.1	3.1	0.8
Gas, telecommunications and others...	2.8	2.1	2.8	0.8
<b>Total.....</b>	<b>9.6</b>	<b>8.4</b>	<b>11.7</b>	<b>3.1</b>

The general increase in utility costs during the periods under review has been mainly driven by higher electricity costs. Electricity costs have increased as a result of the general overall trend of higher commodity prices.

The Airport Operators resell over 40 per cent. of the total utilities purchased to tenants and other customers at the Designated Airports.

(e) Rents and Rates

Rents and rates include business rates, which are basically taxes paid to local authorities and rents paid in respect of properties owned by third parties and leased by the Airport Operators on standard commercial terms and rents paid in respect of wayleaves for access rights over land, which are usually minor and relate to the location of runway-approach lighting and navigational aids.

Business rates are linked to the value of the asset base of each Airport Operator and are based on the hypothetical rental value of the assets, subject to a five-year re-valuation exercise, with the last such exercise having taken effect on 1 April 2005. This ensures that fluctuations in market conditions, by sector and/or location, are reflected in rate payers’ liabilities. For the past four re-valuations, the UK Government has introduced transitional phasing, which aims to provide protection to rate payers from significant liability increases arising from the re-valuation process.

In addition to the five-year re-valuations, the Airport Operators’ annual rate liability is impacted by inflation, the amount of space occupied by the Airport Operators and capital investments (additional facilities and the demolition of existing facilities).

The following table shows rents and rates as a percentage of income for each of the Airport Operators for the periods indicated as a percentage of income:

**Rents and Rates as a Percentage of Total Income**

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>  (unaudited)
HAL.....	4.6%	4.8%	5.0%	5.1%
GAL.....	5.6%	5.3%	5.6%	6.5%
STAL.....	4.0%	4.6%	4.1%	5.6%

The following table provides a break-down of rents and rates by category for each of the Airport Operators for the periods indicated:

**Rents and Rates by Source**

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>  (unaudited)
----- (£ millions)-----				
<b><u>HAL</u></b>				
Business rates.....	49.6	41.3	57.3	13.7
Rents, wayleaves and others.....	5.8	5.0	8.4	2.2
<b>Total.....</b>	<b><u>55.4</u></b>	<b><u>46.3</u></b>	<b><u>65.7</u></b>	<b><u>15.9</u></b>
<b><u>GAL</u></b>				
Business rates.....	19.9	15.9	22.5	5.5
Rents, wayleaves and others.....	0.5	0.6	0.6	0.1
<b>Total.....</b>	<b><u>20.4</u></b>	<b><u>16.5</u></b>	<b><u>23.1</u></b>	<b><u>5.6</u></b>
<b><u>STAL</u></b>				
Business rates.....	6.6	6.4	9.3	2.6
Rents, wayleaves and others.....	0.4	0.5	0.7	0.3
<b>Total.....</b>	<b><u>7.0</u></b>	<b><u>6.9</u></b>	<b><u>10.0</u></b>	<b><u>2.9</u></b>

The increases at HAL and GAL in rents and rates as a percentage of income in the 12 months ended 31 December 2007 compared to the 12 months ended 31 March 2006 were primarily due to the impact on rates of capital investments, inflation and to the absence of transitional relief.

STAL's rateable value increased from £12.7 million in the 12 months ended 31 March 2006 to £23 million in the 12 months ended 31 December 2007, largely as a result of the increase in passenger throughput. However, rents and rates as a percentage of income at STAL only increased slightly in the same period primarily due to the increase in STAL's income in the 12 months ended 31 December 2007 arising from the ending of discounts on traffic charges from April 2007.

(f) General Expenses

General expenses include primarily police costs and costs of cleaning, insurance, ground transport operations, as well as general consultancy fees, marketing, airport license fees and other general items. The credit for capitalisation of operating costs related to non-major investment projects is offset within "general expenses" in published accounts.



The following table shows the general expenses (net of capitalised operating costs) for each of the Airport Operators for the periods indicated as a percentage of income:

### General Expenses as a Percentage of Total Income

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
				(unaudited)
HAL.....	6.2%	5.7%	4.6%	9.0%
GAL.....	8.4%	8.0%	8.8%	13.7%
STAL.....	8.5%	8.5%	5.3%	9.8%

The following table provides a breakdown of general expenses by source for the periods indicated:

### General Expenses by Source

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
				(unaudited)
----- (£ millions) -----				
<b>HAL</b>				
Police.....	27.4	23.9	26.7	8.0
Cleaning.....	12.2	9.3	13.6	4.3
Insurance.....	10.4	7.1	11.3	3.2
Other general expenses.....	35.5	22.1	36.3	17.3
<b>Total.....</b>	<b>85.5</b>	<b>62.4</b>	<b>87.9</b>	<b>32.8</b>
<b>Capitalised costs.....</b>	<b>(11.7)</b>	<b>(7.6)</b>	<b>(27.0)</b>	<b>(4.6)</b>
<b>Total.....</b>	<b>73.8</b>	<b>54.8</b>	<b>60.9</b>	<b>28.2</b>
<b>GAL</b>				
Police.....	12.6	9.4	13.4	3.4
Cleaning.....	5.8	4.5	6.2	2.1
Insurance.....	3.8	2.7	4.1	1.0
Other general expenses.....	9.2	9.2	13.6	5.6
<b>Total.....</b>	<b>31.4</b>	<b>25.8</b>	<b>37.3</b>	<b>12.1</b>
<b>Capitalised costs.....</b>	<b>(0.9)</b>	<b>(0.8)</b>	<b>(1.2)</b>	<b>(0.3)</b>
<b>Total.....</b>	<b>30.5</b>	<b>25.0</b>	<b>36.1</b>	<b>11.8</b>
<b>STAL</b>				
Police.....	6.5	5.0	6.8	1.8
Cleaning.....	2.6	2.0	2.8	1.2
Insurance.....	2.4	2.0	2.1	0.7
Other general expenses.....	5.5	5.2	3.6	1.6
<b>Total.....</b>	<b>17.0</b>	<b>14.2</b>	<b>15.3</b>	<b>5.3</b>
<b>Capitalised costs.....</b>	<b>(2.0)</b>	<b>(1.5)</b>	<b>(2.4)</b>	<b>(0.2)</b>
<b>Total.....</b>	<b>15.0</b>	<b>12.7</b>	<b>12.9</b>	<b>5.1</b>

Other costs include primarily ground transport operations, professional consultant costs, marketing, airport licence fees and other general expenses. Ground transport operations include primarily bus and coach shuttle operations and forecourt operations. Costs relating to inter-terminal transfers of passengers and bags have also been reclassified in 2007 into the category of other general expenses.

The increased terrorist threat post 2001 required more police resources from 2002 onwards, making it more difficult to contain policing costs in an environment of increased security threat. Cleaning costs have risen due to the service levels established by the putting the passenger first strategy.

The reductions in general expenses (net of capitalised costs) as a percentage of income at HAL and STAL for the 12 months ended 31 December 2007 were primarily the result of a decrease in consultancy fees (other general expenses) and, at HAL, an increase in the capitalisation of operating costs.

(g) Retail Expenditures

Retail expenditures include the Public Car Parks Agency Fee (Short Stay, Mid Stay and Long Stay).

The following table shows retail expenditures for each of the Airport Operators for the periods indicated as a percentage of income:

**Retail Expenditures as a Percentage of Total Income**

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
				(unaudited)
HAL.....	0.5%	0.9%	0.9%	1.5%
GAL.....	0.8%	2.6%	2.1%	4.4%
STAL.....	0.4%	0.9%	0.8%	1.5%

At each of the Airport Operators, retail expenditures as a percentage of income in the three months ended 31 March 2008 have increased primarily as a result of extra costs due to a change in car park contracts (from a concession basis to a management contract basis).

(h) Other Intra-Group Charges

Other intra-group charges relate mainly to costs re-charged from the Airport Operators to each other or from BAA and BSC to the Airport Operators. These costs include:

- payments made to BAA for retail, supply-chain, project support and other services;
- allocation of central BAA costs and payments. Intra-group charges from BAA include a charge for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and recharged to BAA's subsidiaries in proportion to their use (see “– *Income – Other Income*”). The amount charged is equal to the annual depreciation incurred on these assets plus an internal margin which approximates the regulatory return on assets. £36.7 million has been included in respect of these charges to the Designated Airports in the 12 months ended 31 December 2007 (HAL £22.6 million; GAL £10.3 million; STAL £3.8 million) and £14.4 million included as internal margin in HAL of which £1.9 million was earned from BAA's non-designated businesses; and
- payments by the Airport Operators to BSC for central accounting transaction processing, human resource services, airport telephone enquiry and answering services and internal fault-desk services.

For HAL, other intra-group charges also include all operating expenses incurred by, and the management fee charged by, HEX Opco in running Heathrow Express. Costs re-charged from the Airport Operators to each other are minimal, representing less than £0.2 million in 2007.

The following table shows the other intra-group charges paid by each of the Airport Operators for the periods indicated, as a percentage of income:

**Other Intra-Group Charges as a Percentage of Total Income**

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
				(unaudited)
HAL.....	12.4%	12.7%	13.9%	15.3%
GAL.....	9.7%	9.4%	10.2%	13.2%
STAL.....	6.6%	7.4%	10.4%	12.8%

The following table provides a break-down of other intra-group charges for the periods indicated:

**Other Intra-Group Charges by Airport Operator**

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
	(£ millions)			
	(unaudited)			
<b><u>HAL</u></b>				
HEX Opco <sup>(1)</sup> .....	50.8	39.1	55.4	15.2
BAA .....	94.0	79.4	122.0	30.8
BSC .....	3.4	3.3	6.6	1.9
<b>Total</b> .....	<b>148.2</b>	<b>121.8</b>	<b>184.0</b>	<b>47.9</b>
<b><u>GAL</u></b>				
BAA .....	33.9	27.9	39.2	10.6
BSC .....	1.1	1.5	2.5	0.7
<b>Total</b> .....	<b>35.0</b>	<b>29.4</b>	<b>41.7</b>	<b>11.3</b>
<b><u>STAL</u></b>				
BAA .....	11.1	10.6	24.2	6.3
BSC .....	0.6	0.5	1.0	0.4
<b>Total</b> .....	<b>11.7</b>	<b>11.1</b>	<b>25.2</b>	<b>6.7</b>

(1) Includes all operating expenses incurred by, and the management fee charged by, HEX Opco in running Heathrow Express.

At each of the Airport Operators, intra-group charges increased as a percentage of income in the 12 months ended 31 December 2007 compared to the 9 months ended 31 December 2006 primarily as a result of:

- In the 12 months ended 31 December 2007, BAA changed to a policy where all of these costs are wholly allocated to all the UK airports and other divisions of BAA.
- Amounts payable to BSC increased due to the Airport Operators outsourcing additional services to BSC. These were offset by savings in other costs incurred by the Airport Operators.
- STAL's contribution to central costs (which are primarily allocated based on each Designated Airport's operating profit) increased as a result of STAL's improved performance following the discontinuation of aircraft charge discounts.

(i) **Operating Costs-Exceptional**

Exceptional costs during the periods under review have related primarily to:

- *Reorganisation costs.* These costs include the costs of implementing BAA's group-wide reorganisation programme designed to focus on improving customer services and the operational effectiveness and efficiency of the Designated Airports. The costs relate principally to severance payments and related pension costs. A provision for these costs was recorded in the 12 months ended 31 December 2007 without any cash impact and will be utilised with the corresponding effect on cash flows as the reorganisation is implemented during 2008 and 2009.
- *Accelerated depreciation.* Accelerated depreciation includes depreciation charges recorded by HAL as a result of the shortening of the accounting life of Terminal 2 following the decision to demolish this terminal and the shortening of the accounting life of Terminal 1 in anticipation of the significant re-configuration of this terminal, the first phase of which

is expected to be completed by 2013. HAL recorded accelerated depreciation in the 9 months ended 31 December 2006 in relation to Terminal 2 only and in the 12 months ended 31 December 2007 in relation to both Terminal 1 (£43.3 million) and Terminal 2 (£23.0 million).

- *Terminal 5 commissioning costs incurred by HAL.* These costs were associated with the opening of Terminal 5 to ensure smooth integration into Heathrow's existing operations and included costs for the fit-out, facilitation of the mobilisation of key contractors, recruitment of staff, tests to ensure the terminal's readiness, co-ordination of major overnight relocations activities and IT.

The following table provides a break-down of exceptional costs by category for the periods indicated:

#### Operating Costs – Exceptional by Airport Operator

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
	(unaudited)			
	----- (£ millions) -----			
<b><u>HAL</u></b>				
Reorganisation costs.....	25.4	14.6	43.1	—
Accelerated depreciation.....	—	17.0	66.3	22.0
Terminal 5 commissioning costs.....	—	6.3	44.8	21.8
<b>Total.....</b>	<b><u>25.4</u></b>	<b><u>37.9</u></b>	<b><u>154.2</u></b>	<b><u>43.8</u></b>
<b><u>GAL</u></b>				
Reorganisation costs.....	18.0	7.2	16.7	0.0
<b><u>STAL</u></b>				
Reorganisation costs.....	3.4	3.5	9.1	0.0

### 2.3 Operating Profit (Pre-Exceptional Costs)

The following table shows operating profit (pre-Exceptional items) for each of the Airport Operators for the periods indicated:

#### Operating Profit/(Loss) Pre-Exceptional Costs

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
	(unaudited)			
	----- (£ millions) -----			
HAL.....	440.5	325.6	432.1	63.0
GAL.....	98.6	96.4	97.5	(3.2)
STAL.....	49.4	42.1	85.7	9.8

At each of the Airport Operators, operating profit pre-exceptional costs decreased substantially in the three months ended 31 March 2008 compared to the 12 months ended 31 December 2007 primarily as a result of the increase of operating costs due to higher employment costs in meeting increased security requirements and higher maintenance costs (in connection with the putting the passenger first strategy) and, in the case of HAL, the increase of general expenses for the start-up of Terminal 5 and the airline relocations programme. For further information, see “– *Results of Operations – Three Months Ended 31 March 2008 compared with Three Months Ended 31 March 2007*”.

The following table gives an overview of the operating profit margin for each of the Airport Operators for the periods indicated. Operating profit margin reflects operating profit divided by total income.

#### Operating Profit/(Loss) Margin (Pre-Exceptional Costs)

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
				(unaudited)
HAL.....	36.8%	34.0%	32.6%	20.2%
GAL.....	27.3%	30.8%	23.8%	(3.7%)
STAL.....	28.0%	28.1%	35.4%	18.8%

#### 2.4 Net Interest Payable

Net interest costs include primarily net-interest payable and receivable on intra-group borrowings. BAA has during the periods under review provided central cash management and treasury services for the Airport Operators as described in more detail under “– *Liquidity and Capital Resources – Historical Liquidity and Capital Resources*”.

The following tables show the interest costs incurred and the amount of interest capitalised to capital projects by each of the Airport Operators for the periods indicated:

#### Interest Payable – Before Capitalisation

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
				(unaudited)
	----- (£ millions) -----			
HAL.....	238.7	258.3	437.5	113.9
GAL.....	8.1	18.5	27.4	7.1
STAL.....	8.0	7.1	13.6	3.6

The higher net interest payable at HAL in the 12 months ended 31 December 2007 and the three months ended 31 March 2008 compared to earlier periods primarily reflects the increase in debt brought about by the investment in Terminal 5.

The increase in interest payable at the GAL in the 12 months ended 31 December 2007 compared to earlier periods largely reflects investments in the construction of Pier 6.

#### Interest Capitalised

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
				(unaudited)
	----- (£ millions) -----			
HAL.....	143.8	130.0	251.9	67.8
GAL.....	3.4	2.2	2.1	0.4
STAL.....	0.5	1.6	2.0	0.3

During the construction of Terminal 5, HAL capitalised substantial amounts of interest against Terminal 5’s asset base. Most of this capitalisation ceased with the opening of Terminal 5 in March 2008.

#### 2.5 Tax on Profit on Ordinary Activities

Taxes consist mainly of UK corporate taxes, which are payable on the taxable profits of each of the Airport Operators, which are calculated after permitted deductions, allowances and interest costs and excluding any non-tax deductible costs.

Corporation tax liabilities are either settled directly by the Airport Operators or covered by tax losses surrendered by other companies in the same group as the Airport Operators for the purposes of surrendering group relief pursuant to Chapter IV of Part X of the Income and Corporation Taxes Act 1988 (the “**Tax Relief Group**”). Where losses are surrendered, this will normally be for a payment

(at the prevailing rate of corporation tax) for the value of the tax losses surrendered. The rate of corporate tax is 30 per cent. up to 31 March 2008 and 28 per cent. thereafter.

The table below shows a reconciliation of tax on profit on ordinary activities:

**Reconciliation of Tax on Profit/(Loss) on Ordinary Activities**

	<u>12 months ended</u> <u>31 March 2006</u>	<u>9 months ended</u> <u>31 December 2006</u>	<u>12 months ended</u> <u>31 December 2007</u>	<u>3 months ended</u> <u>31 March 2008</u>
	(unaudited)			
	----- (£ millions) -----			
<b><u>HAL</u></b>				
Profit/(Loss) on ordinary activities before tax .....	320.2	159.4	92.3	(26.9)
Tax on profit/(loss) on ordinary activities at 30% .....	96.0	47.8	27.7	(8.1)
Permanent differences .....	1.1	2.4	1.4	0.2
Adjustments to tax charge in respect of prior years .....	(0.8)	2.0	0.0	0.0
Deferred tax adjustments <sup>(1)</sup> .....	n/a	n/a	(110.9)	n/a
<b>Tax on profit/(loss) on ordinary activities .....</b>	<b><u>96.3</u></b>	<b><u>52.2</u></b>	<b><u>(81.8)</u></b>	<b><u>(7.9)</u></b>
<b><u>GAL</u></b>				
Profit/(Loss) on ordinary activities before tax .....	75.9	72.9	55.5	(9.9)
Tax on profit/(loss) on ordinary activities at 30% .....	22.8	21.9	16.7	(3.0)
Permanent differences .....	0.4	(0.6)	(0.5)	0.1
Adjustments to tax charge in respect of prior years .....	0.4	2.6	0.3	0.0
Deferred tax adjustments <sup>(1)</sup> .....	n/a	n/a	(70.0)	n/a
<b>Tax on profit/(loss) on ordinary activities .....</b>	<b><u>23.6</u></b>	<b><u>23.9</u></b>	<b><u>(53.5)</u></b>	<b><u>(2.9)</u></b>
<b><u>STAL</u></b>				
Profit/(Loss) on ordinary activities before tax .....	38.5	33.1	65.0	6.5
Tax on profit on ordinary activities at 30% .....	11.5	9.9	19.5	2.0
Permanent differences .....	0.3	0.4	0.6	(0.1)
Adjustments to tax charge in respect of prior years .....	0.8	0.9	0.1	0.0
Deferred tax adjustments <sup>(1)</sup> .....	n/a	n/a	(43.7)	n/a
<b>Tax on profit on ordinary activities .....</b>	<b><u>12.6</u></b>	<b><u>11.2</u></b>	<b><u>(23.5)</u></b>	<b><u>1.9</u></b>

(1) In the 12 months ended 31 December 2007, there were two major adjustments required to deferred tax as a result of changes in statute: (i) the abolition of industrial building balancing adjustments, reducing deferred tax liabilities by £71.0 million in HAL, £61.9 million in GAL and £38.1 million in STAL; and, (ii) remeasurement of the deferred tax liabilities from 30 per cent. to 28 per cent. following a change in the main corporation tax rate effective from 1 April 2008, reducing deferred tax liabilities by £38.4 million in HAL, £8.6 million in GAL and £5.7m in STAL. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies and Judgements – Taxation (Including Deferred Taxation)*”.

### 3. RESULTS OF OPERATIONS

The discussion below is aimed at providing investors with additional information regarding material historical movements in the Airport Operators' profit and loss accounts. Given the lack of comparable profit and loss accounts for periods prior or subsequent to the nine months ended 31 December 2006, the discussion below focuses on those periods for which comparable periods are available, namely:

- the 12 months ended 31 December 2007 compared to the 12 months ended 31 March 2006; and
- the three months ended 31 March 2008 compared to the three months ended 31 March 2007.

In reviewing the discussion below under “– 12 Months Ended 31 December 2007 compared with 12 Months Ended 31 March 2006”, investors should bear in mind that the 12 months ended 31 March 2006 and the 12 months ended 31 December 2007 are not consecutive periods.

Finally, investors should also bear in mind that this analysis focuses on the Operating Profit of each Operating Company. The changes in the remaining line items of the profit and loss account are mainly explained by the various investment strategies of the individual Airport Operators (net interest payable) and by changes in the UK tax regime (which affects the level of tax on profit on ordinary activities). For more information about the Airport Operators' capital expenditure plans, see “– Capital Expenditures – Planned Capital Expenditures”. For a description of UK corporate taxes, see “Tax Considerations – United Kingdom Taxation”.

#### 3.1 12 Months Ended 31 December 2007 compared with 12 Months Ended 31 March 2006

##### (a) HAL

HAL operates Heathrow Airport and Heathrow Express, the express rail service between Heathrow and Central London. HAL is entitled to all receipts and income relating to Heathrow Express but the day-to-day operation of Heathrow Express is undertaken by HEX Opco on behalf of HAL. For providing these services, HAL pays HEX Opco a management fee and reimburses all of its operating costs. The commentary below deals with HAL's airport's operations only and excludes any detailed commentary on the performance of Heathrow Express.

##### (i) Traffic

The following tables set forth the number of passengers and air transport movements at Heathrow for the periods indicated:

#### Number of Passengers – Heathrow

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	(in millions)		(%)	
<b>Total passengers</b> .....	<b>67.4</b>	<b>67.9</b>	<b>0.5</b>	<b>0.7%</b>
Domestic.....	6.6	5.8	(0.8)	(12.1%)
International long haul.....	32.1	33.8	1.7	5.3%
International short haul .....	28.7	28.3	(0.4)	(1.4%)

Source: BAA.

#### Number of Air Transport Movements – Heathrow

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	(in thousands)		(%)	
<b>Total air transport movements</b> .....	<b>473.0</b>	<b>475.7</b>	<b>2.7</b>	<b>0.6%</b>
Domestic.....	63.0	59.6	(3.4)	(5.4%)
International long haul.....	147.9	158.0	10.1	6.8%
International short haul .....	262.1	258.1	(4.0)	(1.5%)

Source: BAA.

The total number of passengers at Heathrow remained relatively constant at 67.9 million for the 12 months ended 31 December 2007 and 67.4 million for the 12 months ended 31 March 2006. Air transport movements also remained relatively constant at 475,700 for the 12 months ended 31 December 2007 and 473,000 for the 12 months ended 31 March 2006. Both indicators show the same trend: the overall volume of movements and passengers remaining relatively stable in absolute terms due to Heathrow operating close to maximum allowed capacity. However, the proportion and number of higher revenue generating international passengers have grown compared with domestic passengers, resulting in increased income. This change in mix has been primarily the result of airline strategies to cope with air transport movements capacity constraints. See “*Business – Traffic – Historic Growth in Passenger Traffic at the Designated Airports*”.

(ii) Profit and Loss Account

**Profit and Loss Account – HAL**

	12 months ended		Variances	
	31 March 2006	31 December 2007		(%)
	----- (£ millions) -----			
<b>Income</b> .....	1,195.4	1,324.8	129.4	10.8%
Operating costs – ordinary .....	(754.9)	(892.7)	(137.8)	(18.3%)
Operating costs – exceptional .....	(25.4)	(154.2)	(128.8)	*
<b>Operating profit</b> .....	<b>415.1</b>	<b>277.9</b>	<b>(137.2)</b>	<b>(33.1%)</b>

Although HAL achieved a 10.8 per cent. growth in income between the two periods this is more than offset by the increase in Operating costs – ordinary and the high level of exceptional charges in the 12 months to 31 December 2007 (discussed in more detail below). As a result HAL’s operating profit after exceptional items shows a decline of 33.1 per cent. (1.9 per cent. before exceptional items) between the two periods.

The percentage growth in exceptional costs has been omitted above as the very high increase (discussed below) and the non-comparability of the elements comprising exceptional costs in the two periods reduce the value of this measure.



(iii) Income

The following table sets forth HAL's total income items for the periods indicated, broken down by source, together with the period-to-period changes in those items:

<b>Total Income – HAL</b>				
<b>12 months ended</b>				
	<b>31 March 2006</b>	<b>31 December 2007</b>	<b>Variances</b>	
	<b>----- (£ millions) -----</b>			<b>(%)</b>
Aeronautical income .....	539.7	634.6	94.9	17.6%
Retail income .....	311.3	324.9	13.6	4.4%
Car parking .....	66.0	67.8	1.8	2.7%
Duty and tax-free .....	71.2	74.5	3.3	4.6%
Airside specialist shops.....	47.4	53.2	5.8	12.2%
Bureaux de change .....	28.5	29.2	0.7	2.5%
Catering.....	25.1	26.0	0.9	3.6%
Landside shops and bookshops	22.4	20.7	(1.7)	(7.6%)
Advertising .....	24.2	25.8	1.6	6.6%
Car rental .....	9.8	10.6	0.8	8.2%
Other .....	16.7	17.1	0.4	2.4%
Operational facilities and utilities				
income .....	111.8	115.9	4.1	3.7%
Property rental income .....	77.3	81.8	4.5	5.8%
Rail income .....	74.5	79.5	5.0	6.7%
Other income <sup>(1)</sup> .....	80.8	88.1	7.3	9.0%
<b>Total income .....</b>	<b>1,195.4</b>	<b>1,324.8</b>	<b>129.4</b>	<b>10.8%</b>

(1) Includes income received from BAA, mostly related to IT lease costs, which HAL charged to BAA and BAA, in turn, re-charges to its businesses (including HAL, GAL and STAL as well as other subsidiaries not within the Security Group). See “– Factors Having a Significant Influence on Results of Operations – Income – Other Income”.

HAL's total income increased by 10.8 per cent. to £1,324.8 million for the 12 months ended 31 December 2007 from £1,195.4 million for the 12 months ended 31 March 2006. This increase was primarily due to the £94.9 million (17.6 per cent.) growth in aeronautical income. This growth largely reflects the annual increase in the maximum allowable yield per passenger, as regulated by the CAA, that HAL may recover (£7.83 for the 2005/06 period, £8.51 for the 2006/07 period and £9.28 for the 2007/08 period). The favourable mix of passengers with higher numbers of international passengers generated increased income during the period. For information about HAL's maximum allowable yields, see “– Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Historical Maximum Allowable Yields”.

The favourable mix of passengers with higher numbers of international passengers in the period also resulted in higher retail income (mainly reflected in the income from airside specialists shops). Landside shops reflected a slight decline in performance primarily as a result of restriction on security hand baggage allowances and conversion of some landside retail areas into additional security search facilities. Other sources of income have grown primarily in accordance with the increase in RPI.

(iv) Operating Costs

The following table sets forth HAL's operating cost items for the periods indicated, together with the period-to-period changes in those items:

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	----- (£ millions) -----			(%)
Employment costs .....	181.8	212.8	31.0	17.1%
Depreciation .....	168.5	203.6	35.1	20.8%
Maintenance expenditure .....	63.4	86.3	22.9	36.1%
Utility costs .....	60.3	67.3	7.0	11.6%
Rents and rates .....	55.4	65.7	10.3	18.6%
General expenses .....	73.8	60.9	(12.9)	(17.5%)
Retail expenditure .....	6.3	11.8	5.5	87.3%
Other intra-group charges <sup>(1)</sup> .....	148.2	184.0	35.8	24.2%
(Profit)/loss on disposals of tangible fixed assets .....	(2.8)	0.3	3.1	110.7%
<b>Operating costs – ordinary .....</b>	<b>754.9</b>	<b>892.7</b>	<b>137.8</b>	<b>18.3%</b>
<b>Operating costs – exceptional .....</b>	<b>25.4</b>	<b>154.2</b>	<b>128.8</b>	<b>*</b>
<b>Total .....</b>	<b>780.3</b>	<b>1,046.9</b>	<b>266.6</b>	<b>34.2%</b>

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL as well as other subsidiaries not within the Security Group). Also includes intra-group charges related to all operating expenses incurred by, and the management fee charged by, HEX Opco in running Heathrow Express. See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-group Charges*”.

HAL's operating costs-ordinary increased by 18.3 per cent. to £892.7 million for the 12 months ended 31 December 2007 from £754.9 million for the 12 months ended 31 March 2006. This increase was primarily the result of the following factors:

- a £35.8 million (24.2 per cent.) increase in intra-group charges, largely due to the changes in BAA re-charging policy, from a policy where part of the central costs were retained by BAA to a policy where all of these costs are wholly allocated to all the UK airports and other divisions of BAA. Also, amounts payable to BSC have increased due to the outsourcing of additional services by HAL to the BSC with offsetting cost reductions in other expense lines. See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-Group Charges*”;
- a £35.1 million (20.8 per cent.) increase in depreciation has arisen from new assets brought into use from the major capital investment programmes including some ‘early release’ elements of Terminal 5 and A380 facilities at Terminal 3. See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Depreciation*”;
- a £31.0 million (17.1 per cent.) increase in employment costs, largely due to the increase in staff as a result of the UK Department for Transport's heightened passenger security search regulations. For the 12 months ended 31 December 2007, HAL had 4,317 average FTE staff, an increase of 472 (12.3 per cent.) compared to the number employed at 31 March 2006. The increase in these costs lines will largely be compensated by increases in the yields from aeronautical charges in the Q5 regulatory settlement. See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Employment Costs*”; and

- a £22.9 million (36.1 per cent.) increase in maintenances expenditure, largely due to costs incurred in connection with HAL's putting the passenger first strategy aimed at improving the efficiency and reliability of its airport infrastructure and improving the overall passenger experience. See “– Factors Having a Significant Influence on Results of Operations – Operating Costs – Maintenance Expenditure”.

HAL's operating costs-exceptional increased to £154.2 million for the 12 months ended 31 December 2007 from £25.4 million for the 12 months ended 31 March 2006. This increase was primarily the result of the following new costs in the 12 months ended 31 December 2007:

- £66.3 million in accelerated depreciation in relation to the shortening of the accounting life of Terminal 2 relating to the planned demolition of this terminal and the shortening of the accounting life of Terminal 1 relating to the planned reconfiguration of this terminal;
- £44.8 million in one-time Terminal 5 commissioning costs; and
- the £17.7 million increase in costs associated with implementing BAA's group-wide reorganisation programme at HAL.

See “– Factors Having a Significant Influence on Results of Operations – Operating Costs – Operating Costs – Exceptional”.

**(b) GAL**

**(i) Traffic**

The following tables set forth the number of passengers and air transport movements at Gatwick for the periods indicated:

**Number of Passengers – Gatwick**

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	(in millions)			(%)
<b>Total passengers .....</b>	<b>32.8</b>	<b>35.2</b>	<b>2.4</b>	<b>7.3%</b>
Domestic.....	3.9	4.1	0.2	5.1%
International long haul.....	10.9	11.7	0.8	7.3%
International short haul .....	18.0	19.4	1.4	7.8%

Source: BAA.

**Number of Air Transport Movements – Gatwick**

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	(in thousands)			(%)
<b>Total air transport movements .....</b>	<b>254.0</b>	<b>258.8</b>	<b>4.8</b>	<b>1.9%</b>
Domestic.....	49.8	49.0	(0.8)	(1.6%)
International long haul.....	54.0	57.3	3.3	6.1%
International short haul .....	150.2	152.5	2.3	1.5%

Source: BAA.

The total number of passengers at Gatwick increased 7.3 per cent. to 35.2 million for the 12 months ended 31 December 2007 from 32.8 million for the 12 months ended 31 March 2006. This increase reflects the relatively faster growth in the number of international passengers due to a change in the passenger mix similar to that experienced by Heathrow.

Air transport movements at Gatwick also increased to 258,800 for the 12 months ended 31 December 2007 from 254,000 for the 12 months ended 31 March 2006. The number of international long and short haul movements increased compared with domestic following the above-mentioned trend. For more information on air traffic levels, see “– *Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Air Traffic Levels*”.

(ii) Profit and Loss Account

**Profit and Loss Account – GAL**

	12 months ended		Variances	
	31 March 2006	31 December 2007		(%)
	----- (£ millions) -----			
<b>Income</b> .....	<b>361.5</b>	<b>409.7</b>	<b>48.2</b>	<b>13.3%</b>
Operating costs – ordinary .....	(262.9)	(312.2)	(49.3)	(18.8%)
Operating costs – exceptional .....	(18.0)	(16.7)	1.3	*
<b>Operating profit</b> .....	<b>80.6</b>	<b>80.8</b>	<b>0.2</b>	<b>0.2%</b>

GAL’s 13.3 per cent. growth in income between the two periods was offset by the increase in Operating costs – ordinary (which increased by 18.8 per cent.) driven mainly by changes in airport security levels. This was partly offset by lower exceptional charges in the 12 months to 31 December 2007 (both these elements are discussed in more detail below). As a result, GAL’s operating profit after exceptional items shows a slight increase of 0.2 per cent. (a decrease of 1.1 per cent. before exceptional items) between the two periods.

The percentage growth in exceptional costs has been omitted above as the very high increase (discussed below) and the non-comparability of the elements comprising exceptional costs in the two periods reduce the value of this measure.

(iii) Income

The following table sets forth GAL’s income items for the periods indicated, together with the period-to-period changes in those items:

**Total Income – GAL**

	12 months ended		Variances	
	31 March 2006	31 December 2007		(%)
	----- (£ millions) -----			
Aeronautical income .....	155.9	177.5	21.6	13.9%
Retail income .....	144.8	159.9	15.1	10.4%
Car parking .....	38.0	47.1	9.1	23.9%
Duty and tax-free .....	35.1	38.7	3.6	10.3%
Airsides specialist shops .....	15.5	15.9	0.4	2.6%
Bureaux de change .....	12.8	13.2	0.4	3.1%
Catering .....	14.7	16.3	1.6	10.9%
Landside shops and bookshops .....	13.6	13.5	(0.1)	(0.7%)
Advertising .....	4.8	4.4	(0.4)	(8.3%)
Car rental .....	3.1	3.4	0.3	9.7%
Other .....	7.2	7.4	0.2	2.8%
Operational facilities and utilities income .....	25.3	34.0	8.7	34.4%
Property rental income .....	26.2	27.0	0.8	3.1%
Other income <sup>(1)</sup> .....	9.3	11.3	2.0	21.5%
<b>Total income</b> .....	<b>361.5</b>	<b>409.7</b>	<b>48.2</b>	<b>13.3%</b>

(1) Includes inter-company income received from BAA. See “– *Factors Having a Significant Influence on Results of Operations – Income – Other Income*”.

GAL's total income increased by 13.3 per cent. to £409.7 million for the 12 months ended 31 December 2007 from £361.5 million for the 12 months ended 31 March 2006. This was primarily due to the following factors:

- The £21.6 million (13.9 per cent.) growth in aeronautical income. This growth largely reflects higher passenger fees and other traffic charges levied on air carriers (£4.65 for the 2005/06 period, £4.73 for the 2006/07 period and £4.91 for the 2007/08 period) as well as the increase in the number of passengers. For information about GAL's maximum allowable yields, see “– *Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Historical Maximum Allowable Yields*”.
- The £15.1 million (10.4 per cent.) growth in retail income. This growth largely reflects the increase in gross car park revenues and the move to a management rather than a commission-based contractual structure. Net car parking income shows a £3.3 million increase due to the re-opening of car parks following a refurbishment programme and stronger yield management. Other increases reflect the increase in passenger numbers.
- The £8.7 million (34.4 per cent.) increase in operational facilities and utilities income is due to higher rental fees for operational systems, such as check-in and baggage-handling facilities, and higher fees for the provision of electricity.

(iv) Operating Costs

The following table sets forth GAL's operating costs items for the periods indicated, together with the period-to-period changes in those items:

**Operating Costs – GAL**

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	----- (£ millions) -----			(%)
Employment costs .....	80.3	94.8	14.5	18.1%
Depreciation .....	50.8	56.5	5.7	11.2%
Maintenance expenditure .....	21.7	27.3	5.6	25.8%
Utility costs .....	21.3	23.9	2.6	12.2%
Rents and rates .....	20.4	23.1	2.7	13.2%
General expenses .....	30.5	36.1	5.6	18.4%
Retail expenditure .....	2.9	8.7	5.8	200.0%
Other intra-group charges <sup>(1)</sup> .....	35.0	41.7	6.7	19.1%
(Profit)/loss on disposals of tangible fixed assets .....	0.0	0.1	0.1	—
<b>Operating Costs – ordinary .....</b>	<b>262.9</b>	<b>312.2</b>	<b>49.3</b>	<b>18.8%</b>
<b>Operating Costs – exceptional .....</b>	<b>18.0</b>	<b>16.7</b>	<b>(1.3)</b>	<b>*</b>
<b>Total .....</b>	<b>280.9</b>	<b>328.9</b>	<b>48.0</b>	<b>17.1%</b>

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL as well as other subsidiaries not within the Security Group). See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-group Charges*”.

GAL's operating costs-ordinary increased by 18.8 per cent. to £312.2 million for the 12 months ended 31 December 2007 from £262.9 million for the 12 months ended 31 March 2006. This increase was primarily the result of the following factors:

- the £14.5 million (18.1 per cent.) increase in employment costs largely due to the increase of staff as a result of the UK Department for Transport's heightened passenger security search regulations. See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Employment Costs*”;

- the £6.7 million (19.1 per cent.) increase in intra-group charges, largely due to the changes in BAA's re-charging policy, from a policy where part of the central costs were retained by BAA to a policy where all of these costs are wholly allocated to all the UK airports and other divisions of BAA. Additionally, amounts payable to BSC have increased due to the outsourcing of additional services, which are offset by savings in other cost lines. See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-Group Charges*”;
- the £5.8 million (200.0 per cent.) increase in retail expenditures largely due to a change in the contractual structure for GAL's short term car parks which have moved from a commission-based to a management fee based contract (car park income is now booked gross and a charge is reflected in retail expenditure in respect of management fees paid to the car park operator);
- the £5.7 million (11.2 per cent.) increase in depreciation, largely due to recent capital projects, including the extension of the South Terminal arrivals baggage reclaim hall (£1.5 million), the construction of North Terminal Pier 6 (£1 million), the internal refurbishment of South Terminal Pier 3 (£0.5 million) and other items; and
- the £5.6 million (25.8 per cent.) increase in maintenances expenditure, largely due to costs incurred in connection with GAL's putting the passenger first strategy aimed at improving the efficiency and reliability of its airport infrastructure and improving the level of overall passenger experience. See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Maintenance Expenses*”.

GAL's operating costs-exceptional decreased to £16.7 million for the 12 months ended 31 December 2007 from £18.0 million for the 12 months ended 31 March 2006. This decrease was primarily the result of lower costs incurred in the 12 months to December 2007 compared to the previous period associated with implementing BAA's group-wide reorganisation programme. See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Operating Costs – Exceptional*”.

(c) **STAL**

(i) **Traffic**

The following tables set forth the number of passengers and air transport movements at Stansted for the periods indicated:

**Number of Passengers – Stansted**

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	(in millions)		(%)	
<b>Total passengers</b> .....	<b>22.2</b>	<b>23.8</b>	<b>1.6</b>	<b>7.2%</b>
Domestic.....	2.6	2.6	0.0	0.0%
International long haul.....	0.4	0.6	0.2	50.0%
International short haul .....	19.2	20.6	1.4	7.3%

Source: BAA.

**Number of Air Transport Movements – Stansted**

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	(in thousands)		(%)	
<b>Total air transport movements</b> .....	<b>180.7</b>	<b>191.5</b>	<b>10.8</b>	<b>6.0%</b>
Domestic.....	28.9	27.7	(1.2)	(4.2%)
International long haul.....	6.4	9.0	2.6	40.6%
International short haul .....	145.4	154.8	9.4	6.5%

Source: BAA.

The total number of passengers at Stansted increased 7.2 per cent. to 23.8 million for the 12 months ended 31 December 2007 from 22.2 million for the 12 months ended 31 March 2006. This trend was driven primarily by the 7.3 per cent. increase in international short haul passengers which make up 86.6 per cent. of Stansted's total passengers for the 12 months ended 31 December 2007. This trend was also reflected in air transport movements, which increased 6.0 per cent. to 191,500 for the 12 months ended 31 December 2007 from 180,700 for the 12 months ended 31 March 2006. For more information on air traffic levels, see “– *Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Air Traffic Levels*”.

(ii) Profit and Loss Account

**Profit and Loss Account – STAL**

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	----- (£ millions) -----			(%)
<b>Income</b> .....	<b>176.5</b>	<b>241.8</b>	<b>65.3</b>	<b>37.0%</b>
Operating costs – ordinary .....	(127.1)	(156.1)	(29.0)	(22.8%)
Operating costs – exceptional .....	(3.4)	(9.1)	(5.7)	*
<b>Operating profit</b> .....	<b>46.0</b>	<b>76.6</b>	<b>30.6</b>	<b>66.5%</b>

Despite the 22.8 per cent. increase in STAL's operating costs – ordinary (discussed below) and additional exceptional items, STAL's operating profit after exceptional items grew by 66.5 per cent. between the two periods. This has been driven primarily by the expiry of airline discounts in the 12 months to December 2007 resulting in significantly improved income.

The percentage growth in exceptional costs has been omitted above as the very high increase (discussed below) and the non-comparability of the elements comprising exceptional costs in the two periods reduce the value of this measure.

(iii) Income

The following table sets forth STAL's income items for the periods indicated, together with the period-to-period changes in those items:

**Total Income – STAL**

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	----- (£ millions) -----			(%)
Aeronautical income .....	72.8	127.7	54.9	75.4%
Retail income .....	81.8	91.0	9.2	11.2%
Car parking .....	37.6	40.4	2.8	7.4%
Duty and tax-free .....	9.0	11.1	2.1	23.3%
Airsides specialist shops .....	3.4	4.4	1.0	29.4%
Bureaux de change .....	8.6	10.6	2.0	23.3%
Catering .....	8.8	10.0	1.2	13.6%
Landside shops and bookshops .....	6.8	6.7	(0.1)	(1.5%)
Advertising .....	2.2	1.7	(0.5)	(22.7%)
Car rental .....	1.9	2.4	0.5	26.3%
Other .....	3.5	3.7	0.2	5.7%
Operational facilities and utilities income .....	10.8	12.9	2.1	19.4%
Property rental income .....	6.3	7.4	1.1	17.5%
Other income <sup>(1)</sup> .....	4.8	2.8	(2.0)	(41.7%)
<b>Total income</b> .....	<b>176.5</b>	<b>241.8</b>	<b>65.3</b>	<b>37.0%</b>

(1) Includes inter-company income received from BAA. See “*Factors Having a Significant Influence on Results of Operations – Income – Other Income*”.

STAL's income increased by 37.0 per cent. to £241.8 million for the 12 months ended 31 December 2007 from £176.5 million for the 12 months ended 31 March 2006. This increase was primarily the result of the following factors:

- the £54.9 million (75.4 per cent.) growth in aeronautical income. This growth primarily reflects the expiry of discounts on airport fees on a large scale with effect from 1 April 2007, coupled with the 7.2 per cent. increase in passengers. For more information, see “– *Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Current Maximum Allowable Yields*”;
- the £9.2 million (11.2 per cent.) growth in retail income, mainly as a result of the 7.2 per cent. increase in passengers and strong performance in passenger spend levels at car parking, duty and tax free, bureaux de change and catering outlets; and
- a £2.1 million (19.4 per cent.) increase in operational facilities and utilities income reflecting charges for new facilities provided and increased cost recoveries from the provision of utilities to airlines and property tenants.

(iv) Operating Costs

The following table sets forth STAL's operating cost items for the periods indicated, together with the period-to-period changes in those items:

**Operating Costs – STAL**

	12 months ended		Variances	
	31 March 2006	31 December 2007		
	----- (£ millions) -----			(%)
Employment costs .....	42.3	53.4	11.1	26.2%
Depreciation .....	28.9	29.1	0.2	0.7%
Maintenance expenditure .....	11.7	12.0	0.3	2.6%
Utility costs .....	9.6	11.7	2.1	21.9%
Rents and rates .....	7.0	10.0	3.0	42.9%
General expenses .....	15.0	12.9	(2.1)	(14.0)%
Retail expenditure .....	0.7	1.9	1.2	171.4%
Other intra-group charges <sup>(1)</sup> .....	11.7	25.2	13.5	115.4%
(Profit)/loss on disposals of tangible fixed assets .....	0.2	(0.1)	(0.3)	(150.0)%
<b>Operating costs – ordinary .....</b>	<b>127.1</b>	<b>156.1</b>	<b>29.0</b>	<b>22.8%</b>
<b>Operating costs – exceptional .....</b>	<b>3.4</b>	<b>9.1</b>	<b>5.7</b>	<b>*</b>
<b>Total .....</b>	<b>130.5</b>	<b>165.2</b>	<b>34.7</b>	<b>26.6%</b>

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-group Charges*”.

STAL's operating costs-ordinary increased by 22.8 per cent. to £156.1 million for the 12 months ended 31 December 2007 from £127.1 million for the 12 months ended 31 March 2006. This increase was primarily the result of the following factors:

- the £13.5 million (115.4 per cent.) increase in intra-group charges, largely due to the changes in BAA's re-charging policy, from a policy where part of the central costs were retained by BAA to a policy where all of these costs are wholly allocated to all the UK airports and other divisions of BAA. Also, amounts payable to BSC have increased due to the outsourcing of additional services by STAL. See “– *Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-Group Charges*”; and



- the £11.1 million (26.2 per cent.) increase in employment costs largely due to the increase of staff as a result of the UK Department for Transport's heightened passenger security search regulations. For the 12 months ended 31 December 2007, STAL had 1,131 average FTE staff, an increase of 167 (17.3 per cent.) compared to the number employed at 31 March 2006. See "*Factors Having a Significant Influence on Results of Operations – Operating Costs – Employment Costs*".

STAL's operating costs-exceptional increased to £9.1 million for the 12 months ended 31 December 2007 from £3.4 million for the 12 months ended 31 March 2006. This increase was primarily the result of the £5.7 million increase in costs associated with implementing BAA's group-wide reorganisation programme. See "*Factors Having a Significant Influence on Results of Operations – Operating Costs – Operating Costs – Exceptional*".

### 3.2 Three Months Ended 31 March 2008 compared with Three Months Ended 31 March 2007

Investors should bear in mind that at each of the Airport Operators, the second and third quarters (April to September) of each calendar year have historically been stronger than the first (January to March) and fourth (October to December) quarters, with the first quarter being the weakest quarter, primarily reflecting the fall-off in passenger numbers following the UK winter holiday season.

Additionally, the comparison of the three months ended 31 March 2008 and the three months ended 31 March 2007 reflects the cost of the new and improved security measures put in place since March 2007 and costs relating to the opening of Terminal 5. These incremental costs are expected to be recovered by increases in aeronautical charges in the regulatory period starting 1 April 2008. This mismatch of income compared to expenditure in the first three months of 2008 has therefore significantly suppressed operating profit compared to the prior period and, in the case of GAL, has resulted in a loss.

#### (a) HAL

Heathrow has historically experienced the lowest level of seasonal fluctuations of the three Airport Operators as it serves a higher percentage of business and transfer travellers than Gatwick and Stansted and is therefore less exposed to fluctuations around the UK peak family holiday periods.

#### (i) Traffic

The following tables set forth the number of passengers and air transport movements at Heathrow for the periods indicated:

#### Number of Passengers – Heathrow

	3 months ended 31 March		Variances	
	2007	2008		
	(in millions)			(%)
<b>Total passengers</b> .....	<b>15.3</b>	<b>15.4</b>	<b>0.1</b>	<b>0.7%</b>
Domestic.....	1.4	1.3	(0.1)	(7.1%)
International long haul.....	7.8	8.0	0.2	2.6%
International short haul .....	6.1	6.1	0.0	0.0%

Source: BAA.

### Number of Air Transport Movements – Heathrow

	3 months ended 31 March		Variances	
	2007	2008		
	(in thousands)		(%)	
<b>Total air transport movements.....</b>	<b>115.4</b>	<b>115.4</b>	<b>0.0</b>	<b>0.0%</b>
Domestic.....	14.5	15.0	0.5	3.4%
International long haul.....	37.9	39.1	1.2	3.2%
International short haul .....	63.0	61.3	(1.7)	(2.7%)

Source: BAA.

The number of passengers at Heathrow remained relatively constant at 15.4 million for the three months ended 31 March 2008 and 15.3 million for the three months ended 31 March 2007. Air transport movements remained constant at 115,400 for both three-month periods. Both indicators show the same trend: the overall volume of movements and passengers remaining relatively stable in absolute terms due to Heathrow operating close to its maximum allowed capacity. However, for the reasons set forth above under “– 12 months ended 31 December 2007 Compared with 12 months ended 31 March 2006 – HAL-Traffic”, the proportion and number of higher income generating international passengers have grown compared with domestic passengers, resulting in increased income. See “Business – Traffic – Historic Growth in Passenger Traffic at the Designated Airports”.

(ii) Profit and Loss Account

#### Profit and Loss Account – HAL

	3 months ended 31 March		Variances	
	2007	2008		
	(unaudited)		(%)	
	(£ millions)			
<b>Income .....</b>	<b>294.9</b>	<b>312.6</b>	<b>17.7</b>	<b>6.0%</b>
Operating costs – ordinary .....	(202.0)	(249.6)	(47.6)	(23.6%)
Operating costs – exceptional .....	(9.4)	(43.8)	(34.4)	*
<b>Operating profit .....</b>	<b>83.5</b>	<b>19.2</b>	<b>(64.3)</b>	<b>(77.0%)</b>

The quarter on quarter comparison between the three months ended 31 March 2007 and 31 March 2008 is affected by impacts relating to the opening of Terminal 5 and related re-location of airlines. Additionally the first quarter of 2008 reflects costs associated with increased security requirements which will not be recovered until later in the year. These are discussed more fully below; however, largely as a consequence of these factors, HAL’s overall operating profit after exceptional items shows a reduction of £64.3 million over the same period in the prior year.

\* The percentage growth in exceptional costs has been omitted above as the very high increase (discussed below) and the non-comparability of the elements comprising exceptional costs in the two periods reduce the value of this measure.

(iii) Income

The following table sets forth HAL's income items for the periods indicated, together with the period-to-period changes in those items:

**Total Income – HAL**

	3 months ended 31 March		Variances	
	2007	2008		
	(unaudited)			
	(£ millions)			(%)
Aeronautical income .....	130.6	145.4	14.8	11.3%
Retail income .....	75.4	75.2	(0.2)	(0.3%)
Car parking .....	16.5	16.6	0.1	0.6%
Duty and tax-free .....	16.1	16.6	0.5	3.1%
Airside specialist shops.....	12.1	12.5	0.4	3.3%
Bureaux de change .....	7.1	6.4	(0.7)	(9.9%)
Catering .....	5.9	6.0	0.1	1.7%
Landside shops and bookshops	4.8	4.4	(0.4)	(8.3%)
Advertising .....	6.5	6.9	0.4	6.2%
Car rental .....	2.3	2.3	0.0	0.0%
Other .....	4.1	3.5	(0.6)	(14.6%)
Operational facilities and utilities				
income .....	29.0	29.0	0.0	0.0%
Property rental income .....	19.5	20.9	1.4	7.2%
Rail income .....	18.9	19.7	0.8	4.2%
Other income <sup>(1)</sup> .....	21.5	22.4	0.9	4.2%
<b>Total income .....</b>	<b>294.9</b>	<b>312.6</b>	<b>17.7</b>	<b>6.0%</b>

(1) Includes income received from BAA, mostly related to IT lease costs, which HAL charged to BAA and BAA, in turn, re-charges to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). See “–Factors Having a Significant Influence on Results of Operations – Income – Other Income”.

HAL's total income increased by 6.0 per cent. to £312.6 million for the three months ended 31 March 2008 from £294.9 million for the three months ended 31 March 2007. This increase was primarily due to the £14.8 million (11.3 per cent.) growth in aeronautical income. This growth largely reflects the annual increase in the maximum yield per passenger, as regulated by the CAA, that HAL may recover (£8.51 for the 2006/07 period and £9.28 for the 2007/08 period). The favourable mix of passengers with higher numbers of international long haul passengers generated increased income during the period. For information about HAL's maximum allowable yields, see “– Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Historical Maximum Allowable Yields”.

Total retail income is slightly lower than the previous year reflecting the impact of disruption primarily arising from construction activities.

Property rental income improved by £1.4 million reflecting new property leases including the new Heathrow Control Tower.

(iv) Operating Costs

The following table sets forth HAL's operating cost items for the periods indicated, together with the period-to-period changes in those items:

	3 months ended 31 March		Variances	
	2007	2008		
	(unaudited)			
	(£ millions)		(%)	
Employment costs .....	46.6	62.5	15.9	34.1%
Depreciation .....	46.2	51.4	5.2	11.3%
Maintenance expenditure .....	10.9	20.6	9.7	89.0%
Utility costs .....	18.6	18.3	(0.3)	(1.6)%
Rents and rates .....	16.1	15.9	(0.2)	(1.2)%
General expenses .....	17.0	28.2	11.2	65.9%
Retail expenditure .....	2.4	4.8	2.4	100.0%
Other intra-group charges <sup>(1)</sup> .....	44.2	47.9	3.7	8.4%
(Profit)/loss on disposals of tangible fixed assets .....	0.0	0.0	0.0	0.0%
<b>Operating costs – ordinary .....</b>	<b>202.0</b>	<b>249.6</b>	<b>47.6</b>	<b>23.6%</b>
<b>Operating costs – exceptional .....</b>	<b>9.4</b>	<b>43.8</b>	<b>34.4</b>	<b>*</b>
<b>Total .....</b>	<b>211.4</b>	<b>293.4</b>	<b>82.0</b>	<b>38.8%</b>

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). Also includes intra-group charges related to all operating expenses incurred by, and the management fee charged by, HEX Opco in running Heathrow Express. See “–Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-group Charges”.

HAL's operating costs-ordinary increased by 23.6 per cent. to £249.6 million for the three months ended 31 March 2008 from £202.0 million for the three months ended 31 March 2007. This increase was primarily the result of the following factors:

- the £15.9 million (34.1 per cent.) increase in employment costs mainly due to increases in staff (as of 31 March 2008, an increase of 157 non-security period-end FTEs and an increase of 978 security FTEs compared to 31 March 2007), primarily relating to the increase of staff for the opening of Terminal 5, impact of additional security requirements in the other terminals, and the annual pay review of 2007;
- the £11.2 million (65.9 per cent.) increase in general expenses mainly due to airline relocations, build up to Terminal 5 opening costs (including cleaning, marketing, consultants, police, noise and blight costs) and additional bus services;
- the £9.7 million (89.0 per cent.) increase in maintenance expenditure due to increases in logistics, maintenance, Terminal 5 pre-opening baggage system maintenance, provision for the Terminal 4 baggage failure in February 2008 and increased general maintenance spend across terminals; and
- the £5.2 million (11.3 per cent.) increase in depreciation due to new assets brought into use from the capital investment programmes.

HAL's operating costs-exceptional increased to £43.8 million for the three months ended 31 March 2008 from £9.4 million for the three months ended 31 March 2007. This increase was due to:

- £20.8 million in Terminal 5 commissioning costs;
- £16.2 million in accelerated depreciation of Terminals 1 and 2 charged from April 2007 as a result of the shortening of the accounting life in connection with the planned reconfiguration of the terminals; and

- offset by £2.6 million decrease in reorganisation costs.

See “– Factors Having a Significant Influence on Results of Operations – Operating Costs – Operating Costs – Exceptional”.

**(b) GAL**

**(i) Traffic**

The following tables set forth the number of passengers and air transport movements at Gatwick for the periods indicated:

**Number of Passengers – Gatwick**

	3 months ended 31 March		Variances	
	2007	2008		
	(in millions)			(%)
<b>Total Passengers</b> .....	<b>7.0</b>	<b>7.4</b>	<b>0.4</b>	<b>5.7%</b>
Domestic.....	0.9	0.9	0.0	0.0%
International long haul.....	2.7	2.7	0.0	0.0%
International short haul .....	3.4	3.8	0.4	11.8%

Source: BAA.

**Number of Air Transport Movements – Gatwick**

	3 months ended 31 March		Variances	
	2007	2008		
	(in thousands)			(%)
<b>Total air transport movements</b> .....	<b>56.6</b>	<b>58.4</b>	<b>1.8</b>	<b>3.2%</b>
Domestic.....	12.0	12.0	0.0	0.0%
International long haul.....	14.1	13.8	(0.3)	(2.1%)
International short haul .....	30.5	32.6	2.1	6.9%

Source: BAA.

The number of passengers at Gatwick increased 5.7 per cent. to 7.4 million for the three months ended 31 March 2008 from 7.0 million for the three months ended 31 March 2007. This increase reflects an increase in the number of international short haul passengers.

Air transport movements at Gatwick also increased 3.2 per cent. to 58,400 for the three months ended 31 March 2008 from 56,600 for the three months ended 31 March 2007. The number of international short haul movements increased largely due to the continued growth of easyJet and higher British Airways traffic which have offset the 2.1 per cent. reduction in long haul services.

**(ii) Profit and Loss Account**

**Profit and Loss Account – GAL**

	3 months ended 31 March		Variances	
	2007	2008		
	(unaudited)			(%)
	(£ millions)			
<b>Income</b> .....	<b>77.9</b>	<b>85.9</b>	<b>8.0</b>	<b>10.3%</b>
Operating costs – ordinary .....	(71.9)	(89.1)	(17.2)	(23.9%)
Operating costs – exceptional .....	(0.2)	0.0	0.2	*
<b>Operating profit</b> .....	<b>5.8</b>	<b>(3.2)</b>	<b>(9.0)</b>	<b>(155.2%)</b>

GAL's operating profit after exceptional items declined by £9.0 million reflecting a loss of £3.2 million in the period. Costs increased by 23.9 per cent. compared to a 10.3 per cent. increase in income. As noted below, a high proportion of these costs relates to enhanced security and strategies to improve overall passenger experience and service levels.

The percentage growth in exceptional costs has been omitted above as the very high increase (discussed below) and the non-comparability of the elements comprising exceptional costs in the two periods reduce the value of this measure.

(iii) Income

The following table sets forth GAL's income items for the periods indicated, together with the period-to-period changes in those items:

	<b>3 months ended 31 March</b>			
	<b>2007</b>	<b>2008</b>		
	(unaudited)		<b>Variances</b>	
	(£ millions)			(%)
Aeronautical income .....	31.9	35.2	3.3	10.3%
Retail income .....	30.7	34.9	4.2	13.7%
Car parking .....	9.1	11.5	2.4	26.4%
Duty and tax-free .....	6.9	7.1	0.2	2.9%
Airside specialist shops.....	3.0	3.4	0.4	13.3%
Bureaux de change .....	2.9	3.4	0.5	17.2%
Catering .....	3.1	3.5	0.4	12.9%
Landside shops and bookshops	2.6	2.6	0.0	0.0%
Advertising .....	0.7	1.3	0.6	85.7%
Car rental .....	0.7	0.8	0.1	14.3%
Other .....	1.7	1.3	(0.4)	(23.5%)
Operational facilities and utilities				
income .....	5.5	6.4	0.9	16.4%
Property rental income .....	7.3	6.7	(0.6)	(8.2%)
Other income <sup>(1)</sup> .....	2.5	2.7	0.2	8.0%
<b>Total income .....</b>	<b>77.9</b>	<b>85.9</b>	<b>8.0</b>	<b>10.3%</b>

(1) Includes inter-company income received from BAA. See "Factors Having a Significant Influence on Results of Operations – Income – Other Income".

GAL's income increased by 10.3 per cent. to £85.9 million for the three months ended 31 March 2008 from £77.9 million for the three months ended 31 March 2007. This was primarily due to the following factors:

- the £4.2 million (13.7 per cent.) growth in retail income. Key influences have been the higher numbers of international passengers and the new security measures causing less disruption (shorter queue times) than anticipated and passengers therefore having longer airside dwell time. Strong car park performance as a result of a change to contractual relationships (moving to a management-based rather than concession-based contract) has been partly offset by a related increase of £1.6 million in retail costs; and
- the £3.3 million (10.3 per cent.) growth in aeronautical income. This growth largely reflects the annual increase in the maximum yield per passenger, as regulated by the CAA, that GAL may recover (£4.73 for the 2006/07 period and £4.91 for the 2007/08 period), as well as the increase in the number of passengers. For information about the maximum allowable yields, see "– Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Historical Maximum Allowable Yields".

(iv) Operating Costs

The following table sets forth GAL's operating costs items for the periods indicated, together with the period-to-period changes in those items:

**Operating Costs – GAL**

	3 months ended 31 March		Variances	
	2007	2008		
	(unaudited)			
	(£ millions)			(%)
Employment costs .....	21.1	29.2	8.1	38.4%
Depreciation .....	13.7	15.4	1.7	12.4%
Maintenance expenditure .....	6.0	5.7	(0.3)	(5.0)%
Utility costs .....	5.9	6.3	0.4	6.8%
Rents and rates .....	5.8	5.6	(0.2)	(3.4)%
General expenses .....	8.2	11.8	3.6	43.9%
Retail expenditure .....	2.2	3.8	1.6	72.7%
Other intra-group charges <sup>(1)</sup> .....	8.9	11.3	2.4	27.0%
(Profit)/loss on disposals of tangible fixed assets .....	0.1	0.0	(0.1)	(100.0)%
<b>Operating costs – ordinary .....</b>	<b>71.9</b>	<b>89.1</b>	<b>17.2</b>	<b>23.9%</b>
<b>Operating costs – exceptional .....</b>	<b>0.2</b>	<b>0.0</b>	<b>(0.2)</b>	<b>*</b>
<b>Total .....</b>	<b>72.1</b>	<b>89.1</b>	<b>17.0</b>	<b>23.6%</b>

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). See “– Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-group Charges”.

GAL's operating costs-ordinary increased by 23.9 per cent. to £89.1 million for the three months ended 31 March 2008 from £71.9 million for the three months ended 31 March 2007. This increase was primarily the result of the following factors:

- the £8.1 million (38.4 per cent.) increase in employment costs due to increases in staff, mainly related to security staff, with an increase of around 400 period-end FTEs, and £2.0 million provisions for redundancy cost;
- the £3.6 million (43.9 per cent.) increase in general expenses due to costs incurred to improve service quality standards (mainly cleaning), increased airport licence fees and police costs, and provision for disruption in the terminals due the intergation of a number of capital projects; and
- the £1.7 million (12.4 per cent.) increase in depreciation largely due to several capital investment projects completed during the period, mainly related to baggage facility improvements and South Terminal upgrades.

(c) STAL

Stansted's seasonal fluctuations are less pronounced than Gatwick's but more pronounced than Heathrow's as it serves a relatively high proportion of leisure travellers and short-haul destinations and has suffered the loss of certain airlines compared to the prior year.

(i) Traffic

The following tables set forth the number of passengers and air transport movements at Stansted for the periods indicated:

**Number of Passengers – Stansted**

	3 months ended 31 March		Variances	
	2007	2008		
	(in millions)			(%)
<b>Total passengers</b> .....	<b>5.0</b>	<b>4.8</b>	<b>(0.2)</b>	<b>(4.0%)</b>
Domestic.....	0.6	0.6	0.0	0.0%
International long haul.....	0.1	0.1	0.0	0.0%
International short haul .....	4.3	4.1	(0.2)	(4.7%)

Source: BAA.

**Number of Air Transport Movements – Stansted**

	3 months ended 31 March		Variances	
	2007	2008		
	(in thousands)			(%)
<b>Total air transport movements</b> .....	<b>44.7</b>	<b>41.9</b>	<b>(2.8)</b>	<b>(6.3%)</b>
Domestic.....	7.3	6.5	(0.8)	(11.0%)
International long haul.....	1.9	1.9	0.0	0.0%
International short haul .....	35.5	33.5	(2.0)	(5.6%)

Source: BAA.

The total number of passengers at Stansted decreased 4.0 per cent. to 4.8 million for the three months ended 31 March 2008 from 5.0 million for the three months ended 31 March 2007. This decrease is largely due to the impact of lost airlines including Maxjet declaring bankruptcy in December 2007, Globespan and Sky Europe leaving Stansted and Air Berlin ceasing domestic routes in late 2007. easyJet and Ryanair have also shown a decline in passenger numbers year on year following changes to route networks. Conversely, the introduction of American Airlines in October 2007, and equally Wizz and Cyprus Turkish Airlines, have offset some of the decline. The number of air transport movements also decreased to 41,900 for the three months ended 31 March 2008 from 44,700 for the three months ended 31 March 2007.

The number of international short haul movements decreased largely due to the loss of airlines mentioned above. For more information on air traffic levels, see “– Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Air Traffic Levels”.

(ii) Profit and Loss Account

**Profit and Loss Account – STAL**

	3 months ended 31 March		Variances	
	2007	2008		
	(unaudited)			(%)
	(£ millions)			(%)
<b>Income</b> .....	<b>41.0</b>	<b>52.2</b>	<b>11.2</b>	<b>27.3%</b>
Operating costs – ordinary .....	(36.2)	(42.4)	(6.2)	(17.1%)
Operating costs – exceptional .....	(0.2)	0.0	0.2	*
<b>Operating profit</b> .....	<b>4.6</b>	<b>9.8</b>	<b>5.2</b>	<b>113.0%</b>



Despite the 17.1 per cent. increase in Operating costs – ordinary (discussed below), STAL increased its overall profit in the period compared to the prior year by 113.0 per cent. to £9.8 million. The key driver for this has been the expiry of airline incentives reflected in a sharp increase in aeronautical income in the period.

The percentage growth in exceptional costs has been omitted above as the very high increase (discussed below) and the non-comparability of the elements comprising exceptional costs in the two periods reduce the value of this measure.

(iii) Income

The following table sets forth STAL’s income items for the periods indicated, together with the period-to-period changes in those items:

<b>Total Income – STAL</b>				
<b>3 months ended 31 March</b>				
	<b>2007</b>	<b>2008</b>	<b>Variiances</b>	
<b>(unaudited)</b>				
	<b>(£ millions)</b>		<b>(%)</b>	
Aeronautical income .....	16.8	27.9	11.1	66.1%
Retail income .....	18.5	18.8	0.3	1.6%
Car parking .....	8.5	8.4	(0.1)	(1.2%)
Duty and tax-free .....	1.8	1.8	0.0	0.0%
Airside specialist shops.....	0.9	1.0	0.1	11.1%
Bureaux de change .....	2.5	2.1	(0.4)	(16.0%)
Catering .....	1.9	2.0	0.1	5.3%
Landside shops and bookshops	1.4	1.5	0.1	7.1%
Advertising .....	0.3	0.7	0.4	133.3%
Car rental .....	0.5	0.5	0.0	0.0%
Other .....	0.7	0.8	0.1	14.3%
Operational facilities and utilities				
income .....	3.1	3.1	0.0	0.0%
Property rental income .....	2.0	1.8	(0.2)	(10.0%)
Other income <sup>(1)</sup> .....	0.6	0.6	0.0	0.0%
<b>Total income .....</b>	<b>41.0</b>	<b>52.2</b>	<b>11.2</b>	<b>27.3%</b>

(1) Includes inter-company income received from BAA. See “*Factors Having a Significant Influence on Results of Operations – Income – Other Income*”.

STAL’s total income increased by 27.3 per cent. to £52.2 million for the three months ended 31 March 2008 from £41.0 million for the three months ended 31 March 2007. This increase was primarily the result of the £11.1 million (66.1 per cent.) growth in aeronautical income. This growth primarily reflects the expiry of discounts on airport fees on a large scale with effect from 1 April 2007. For more information, see “– *Factors Having a Significant Influence on Results of Operations – Income – Aeronautical Income – Current Maximum Allowable Yields*”.

Retail income improved by 1.6 per cent. with weaknesses in bureaux de change offset by, among other things, improved advertising income.

(iv) Operating Costs

The following table sets forth STAL's operating cost items for the periods indicated, together with the period-to-period changes in those items:

**Operating Costs – STAL**

	3 months ended 31 March		Variances	
	2007	2008		
	(unaudited)			
	----- (£ millions) -----			(%)
Employment costs .....	12.5	13.6	1.1	8.8%
Depreciation .....	6.9	7.6	0.7	10.1%
Maintenance expenditure .....	2.8	2.6	(0.2)	(7.1%)
Utility costs .....	3.0	3.1	0.1	3.3%
Rents and rates .....	2.1	2.9	0.8	38.1%
General expenses .....	3.1	5.1	2.0	64.5%
Retail expenditure .....	0.4	0.8	0.4	100.0%
Other intra-group charges <sup>(1)</sup> .....	5.4	6.7	1.3	24.1%
(Profit)/loss on disposals of tangible fixed assets .....	0.0	0.0	0.0	0.0%
<b>Operating costs – ordinary .....</b>	<b>36.2</b>	<b>42.4</b>	<b>6.2</b>	<b>17.1%</b>
<b>Operating costs – exceptional .....</b>	<b>0.2</b>	<b>0.0</b>	<b>(0.2)</b>	<b>*</b>
<b>Total .....</b>	<b>36.4</b>	<b>42.4</b>	<b>6.0</b>	<b>16.5%</b>

(1) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). See “– Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-group Charges”.

STAL's operating costs-ordinary increased by 17.1 per cent. to £42.4 million for the 3 months ended 31 March 2008 from £36.2 million for the 3 months ended 31 March 2007. This increase was primarily the result of the following factors:

- a £2.0 million (64.5 per cent.) increase in general expenses due to cleaning, marketing and communication costs incurred to improve service quality standards in connection with the putting the passenger first strategy, support of the new airline marketing strategy to encourage long haul services and increases in bad debts as a result of the Maxjet bankruptcy;
- a £1.3 million (24.1 per cent.) increase in inter-company expenditure due to increases in corporate office charges, which is in line with the increased operating profit at Stansted (which is the basis used to allocate corporate office charges);
- a £1.1 million (8.8 per cent.) increase in employment costs mainly due to the average FTE profile growing by 177 in order to meet security requirements and improve customer service. In addition, there were rollout costs of a new uniform for security staff in the 3 months to 31 March 2008; and
- a £0.8 million (38.1 per cent.) increase in rents and rates expenditure due to the rates review during the year.

#### 4. LIQUIDITY AND CAPITAL RESOURCES

##### 4.1 Historical Liquidity and Capital Resources

Historically, BAA has provided central treasury services to each of its subsidiary companies in the BAA Group to optimise the overall cash position and minimise the interest costs of the BAA Group. As a result, the Operating Companies have relied on BAA to act on their behalf in providing funding for their working capital needs and capital investment programmes as well as for the day to day

management of their cash resources. BAA has also historically centrally managed all hedging and financial derivatives on behalf of the Airport Operators and other subsidiaries in the BAA Group.

To the extent the net cash received from operations by the Operating Companies was insufficient to fund their working capital and investment needs, BAA had secured a central bank overdraft facility and raised any additional funds needed by issuing bonds and drawing on bank facilities. While the Operating Companies have historically generated substantial cash resources from their trading activities, they have each needed to borrow additional funds through BAA to fund their capital investment programmes.

The funding relationship between BAA and the Operating Companies has historically been managed through a series of inter-company current and loan accounts. Each Operating Company has deposited funds with, and borrowed funds from, BAA on a daily basis through an automated bank-sweeping arrangement and has either charged to, or accrued from, BAA interest on such funds, based on the balance outstanding at the first of each month, at the Bank of England's Base Rate plus 1.5 per cent., with all such interest being accrued within the inter-company account between BAA and the Operating Company.

The Operating Companies have historically not prepared cash flow statements broken down by operating, investing and financing activities as part of their respective historical financial statements. In addition, each Operating Company's net borrowings from BAA for both working capital and financing purposes have generally been netted off from each other to provide net figures for purposes of preparing the relevant Operating Company's financial statements, making it difficult to reconstruct historical cash flows from operating activities, investing activities and financing activities for the Operating Companies individually or as a sub group under BAA.

#### ***4.2 Liquidity and Capital Resources After the Initial Issue Date***

Whilst BAA will continue to provide central treasury services (including day-to-day cash management) to the Operating Companies following the Initial Issue Date, each Operating Company will record separate operating, investing and financing cash flows for inclusion in its respective financial statements for financial periods ending after the Initial Issue Date. Each Operating Company will also maintain its own bank accounts and separately record 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. Interest and other charges will accrue on these loans at substantially the same rate as interest and other charges accrue under the underlying borrowings from which the proceeds of such loans are derived. However, BAA will continue to manage the administration of bank accounts for the Operating Companies.

The Borrower Loans will be created upon the issue of the Bonds in an amount equal to the outstanding principal amount of the Bonds and on substantially the same terms.

As a result of the migration, an equivalent amount of Financial Indebtedness of the Airport Operators to BAA will be cancelled. The proceeds from the issue of any Bonds for cash will be loaned to the Airport Operators on terms substantially equivalent to such Bonds. Such proceeds will be used by the Airport Operators for general corporate purposes or used to repay or service the Financial Indebtedness of the Security Group or be passed up to repay existing debt outside the Security Group. See "*Use of Proceeds*" above. In addition, the Airport Operators will have the Capex Facility available for capital expenditure purposes and the Refinancing Facility in an amount up to £4,400,000,000 which will be available to refinance Financial Indebtedness, repaying any amounts due to ineligible holders of Existing Bonds and paying the costs associated with the refinancing.

The Airport Operators' ability to pay interest on their indebtedness, including the Borrower Loans, and to satisfy their other debt obligations will depend upon their future operating performance and the availability of new indebtedness, which will be affected by prevailing economic conditions and financial, business and other factors, some of which are beyond the relevant Airport Operators' control.

The Airport Operators believe that their cash flows from operations, borrowings under the Working Capital Facility and the Capex Facility will be sufficient to satisfy the anticipated cash requirements associated with their existing operations during the next 12 months. See "*Risk Factors – Leverage Risks – Refinancing risk*".

For additional information about the Designated Airports' credit facilities and other material financing arrangements, see "*Summary of Financing Agreements*".

### 4.3 Cash flows

Net cash inflows from operations and increases in borrowings from BAA for the year ended 31 December 2007 have been utilised by the Airport Operators to fund interest payments, dividends, taxes and capital expenditure. The Airport Operators' increase in net debt has been funded by BAA which has provided central cash management and treasury services during the year for the Operating Companies as described in more detail under "*- Liquidity and Capital Resources - Historical Liquidity and Capital Resources*".

"*- Historical Liquidity and Capital Resources*" describes in further detail the funding relationship between BAA and the Airport Operators which has historically been managed through a series of inter-company loans. Each Airport Operator has borrowed funds from BAA and the Operating Companies have not maintained individual bank accounts in the recent past.

Interest payments included in the Airport Operators' cash flow statements reflect interest charged to the Airport Operators at average internal rates of interest. Future interest payments are therefore expected to increase due to the change in the debt structure whereby external debt will be recorded by each of the Airport Operators and interest paid at the relevant rate.

Historically, the Airport Operators' working capital levels have been relatively stable and have not exhibited any major volatility.

In the 12 months ended 31 December 2007, the average days sales outstanding was 27 days for the Airport Operators based on collections against the various payment terms. The average days purchases outstanding, including capital expenditure projects was approximately 63 days.

Payables in respect of capital expenditures are generally invoiced based on the value of work in progress on each project at the end of each month for settlement 30 days from the date of invoice. Historically, the Airport Operators have settled most of their capital expenditures approximately 45 days following the end of the month in which the expenditures have been incurred. See "*- Capital Expenditures - Planned Capital Expenditures*".

Items settled through BAA Limited current account relating to taxation, interest and fixed assets transfer, are treated as paid for the purposes of these summary cash flow statements.

The tables below summarise the cash flow information for each of the Airport Operators for the periods indicated and have been extracted and re-presented from the relevant statutory accounts.

(a) <b>HAL</b>	12 months ended 31 December 2007	3 months ended 31 March 2008
	(unaudited) ----- (£ millions) -----	
Operating Profit.....	277.9	19.2
Depreciation .....	269.9	73.4
Loss on disposal .....	0.3	0.0
Movement in working capital .....	33.1	13.7
Increase in amount owed to BAA Ltd.....	820.4	210.9
	<b>1,401.6</b>	<b>317.2</b>
Net interest paid.....	(432.3)	(114.3)
Corporation tax received/(paid) .....	(11.3)	0.0
Dividends paid.....	(71.9)	0.0
Net capital expenditure .....	(878.8)	(199.2)
<b>Cash outflow before use of liquid resources and financing .....</b>	<b>7.3</b>	<b>3.7</b>
<b>Net decrease in debt .....</b>	<b>(7.3)</b>	<b>(3.7)</b>
<b>Increase/(decrease) in cash in the period.....</b>	<b>—</b>	<b>—</b>

(b) <u>GAL</u>	12 months ended 31 December 2007	3 months ended 31 March 2008
	(unaudited) ----- (£ millions) -----	
Operating Profit.....	80.8	(3.2)
Depreciation .....	56.5	15.4
Loss on disposal.....	0.1	0.0
Movement in working capital .....	11.7	5.5
Increase in amount owed to BAA Ltd.....	48.0	20.5
	<b>197.1</b>	<b>38.2</b>
Net interest paid.....	(27.4)	(7.1)
Corporation tax received/(paid) .....	(15.1)	0.0
Dividends paid.....	(64.6)	0.0
Net capital expenditure .....	(90.0)	(31.1)
<b>Cash outflow before use of liquid resources and financing .....</b>	<b>0.0</b>	<b>0.0</b>
<b>Net decrease in debt .....</b>	<b>0.0</b>	<b>0.0</b>
<b>Increase/(decrease) in cash in the period.....</b>	<b>—</b>	<b>—</b>

(c) <u>STAL</u>	12 months ended 31 December 2007	3 months ended 31 March 2008
	(unaudited) ----- (£ millions) -----	
Operating Profit.....	76.6	9.8
Depreciation .....	29.1	7.6
(Profit)/Loss on disposal.....	(0.1)	0.0
Movement in working capital .....	(16.6)	7.7
Increase in amount owed to BAA Ltd.....	34.7	11.1
	<b>123.7</b>	<b>36.2</b>
Net interest paid.....	(13.6)	(3.6)
Corporation tax received/(paid) .....	(6.9)	0.0
Dividends paid.....	(14.2)	0.0
Net capital expenditure .....	(89.0)	(32.6)
<b>Cash outflow before use of liquid resources and financing .....</b>	<b>0.0</b>	<b>0.0</b>
<b>Net decrease in debt .....</b>	<b>0.0</b>	<b>0.0</b>
<b>Increase/(decrease) in cash in the period.....</b>	<b>—</b>	<b>—</b>

## 5. CAPITAL EXPENDITURES

### 5.1 Historical Capital Expenditures

The following table gives an overview of capital expenditures on property, plant and equipment and intangible assets for the periods indicated:

	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 December 2007	3 months ended 31 March 2008
	(unaudited) ----- (£ millions) -----			
HAL.....	1,414.2	930.5	1,126.8	321.4
Terminal 5.....	1,111.4	745.7	782.8	145.4
Excluding Terminal 5.....	302.8	184.8	344.0	176.0
GAL.....	87.5	66.5	92.9	50.1
STAL .....	66.4	87.7	109.3	29.0
<b>Total.....</b>	<b>1,568.1</b>	<b>1,084.7</b>	<b>1,329.0</b>	<b>400.5</b>

The capital expenditures for phase one of Terminal 5 through 31 March 2008 related largely to:

- the construction of the main terminal buildings, car parking facilities, aircraft stands, aprons and taxiways, baggage facilities and other support infrastructure;
- rail projects, including extensions to the current HEX and London Underground Piccadilly Line services from the Central Terminal Area to Terminal 5;
- construction of a spur road connecting Terminal 5 to the M25 at junction 14;
- relocating of Thames Water, a former site occupant, and a six-kilometre diversion of two rivers; and
- the construction of a new air traffic control tower.

In addition to expenditure on Terminal 5, the Airport Operators have invested in a wide range of projects during the three years from 1 April 2005. Much of this investment has involved works to upgrade or refurbish existing airport facilities for the benefit of passengers and airlines, including the provision of additional security measures in response to changes to security regulations introduced in August 2006, such as the installation of 52 additional security lanes across the Designated Airports (with 22 at Terminal 5) and of new x-ray machines, metal detectors and liquid-screening equipment.

Other major completed capital projects include:

At Heathrow:

- a new multi-storey car park in the Central Terminal Area;
- extensive airfield works, including the redevelopment of the eastern apron and southern and western taxiway works;
- reconfiguring the Terminal 3 forecourt and improve facilities for transferring passengers;
- investments in arrivals facilities in Terminal 3 to enable the terminal to handle A380 aircraft;
- works to upgrade facilities and enable the co-location of Star Alliance airlines in Terminal 1; and
- progression of the Heathrow East terminal project.

At Gatwick:

- development of a transfer baggage facility for the North Terminal;
- progression of the loading bridge replacement programme; and
- extensive airfield works, including runway resurfacing and reconstruction of various areas of the airfield.

At Stansted:

- runway rehabilitation and extension of the arrivals facilities;
- implementation of an asset replacement program and the reconfiguration of the hold baggage screening system;
- scoping of the development of the Generation 2 project to provide for a second runway and associated facilities.

## **5.2 Planned Capital Expenditures**

### **(a) Projects for 2008/09 to 2012/13**

The planned investment projects set forth below for:

- HAL and GAL are based on the capital investment plans for Heathrow and Gatwick, respectively, that were approved by the CAA for inclusion in HAL's and GAL's RAB for the 2008/09 to 2012/13 regulatory period; and
- STAL: in relation to the 2008/09 regulatory year numbers are based on the capital investment plans for Stansted that STAL submitted to the CC in May 2008 for approval for inclusion in STAL's RAB for that regulatory year and in relation to the regulatory years 2009/10 to 2013/14. The investment plans have not yet been approved by the CAA

for inclusion in Stansted's RAB for those years. As discussed above, the CAA extended STAL's 2003/04 to 2007/08 regulatory period by another year to 31 March 2009. Therefore, STAL does not yet know to what extent the CAA will approve the capital investment projects set forth below for the years 2009/10 to 2012/13 for inclusion in Stansted's RAB or what will be the exact nature of the regulatory approach that the CAA may elect to adopt for future regulatory periods. To the extent that STAL is not able to earn an expected reasonable rate of return on any of these projects, it may decide not to undertake the projects or may scale back the scope of such projects.

Following a review process involving input from a number of stakeholders, including the airlines, the CAA announced its final decision for Heathrow and Gatwick airports for the 2008/09 to 2012/13 regulatory period. In its decision, the CAA included capital expenditure on all significant projects undertaken by HAL and GAL in the 2003/04 to 2007/08 regulatory period in HAL's and GAL's respective RABs for the 2008/09 to 2012/13 regulatory period, with the singular exception of £22.5 million of expenditure on the personal rapid transit ("PRT") system at Heathrow. If BAA obtains user support during the 2008/09 to 2012/13 regulatory period for the further development of the PRT project and delivers the project efficiently, the CAA has stated that it would be open to considering the inclusion of capital expenditure on this project during the 2003/04 to 2007/08 and 2008/09 to 2012/13 regulatory periods within the opening RAB for the 2013/14 to 2017/18 regulatory period.

Although the capital expenditure plans at HAL and GAL have been agreed with the CAA, the actual amount of each Airport Operator's capital investments could be greater or smaller than the estimates below depending on future decisions of the Airport Operator, the requirements of the airlines or new obligations with which it might be required to comply.

Except as otherwise indicated, all cost estimates set forth below are at 2007/08 prices.

(i) Heathrow

The total cost of the Terminal 5 programme is expected to be £4.9 billion in 2007/08 prices. In connection with the completion of phase one of the programme with the opening of Terminal 5 in March 2008, approximately £4.6 billion of the £4.9 billion had been spent. The remainder is expected to be spent from 2008 to 2010 to complete the construction of Terminal 5's second satellite building.

In addition, Heathrow's Terminal 2 and Queens Building (situated in the Central Terminal Area) are to be replaced by the new Heathrow East terminal complex.

Heathrow's investment strategy has been developed in close consultation with its airline business partners and includes:

- a programme of asset renewal to maintain cost-effective levels of customer service;
- a range of developments to raise standards at Heathrow's other terminals and to improve the efficiency of the airlines and alliances operating at Heathrow, including:
- completing Terminal 5's second satellite by 2010;
- shutting Terminal 2 in the first half of 2009;
- completing the construction of phase one of Heathrow East Terminal complex by 2013;
- re-locating the Star Alliance from Terminal 2 and to Heathrow East, following its completion in 2013;
- co-locating other airlines and alliances within Terminals 3 and 4 following the completion of the renovation of these terminals by 2010; and
- developing baggage systems and improved connectivity between Heathrow's terminals.

The table below summarises the investment projects for Heathrow for the regulatory period 2008/09 to 2012/13 that the CAA have included in the price determination for this period:

### HAL Planned Capital Expenditures

	12 months ended 31 March					Total
	2009	2010	2011	2012	2013	
----- (£ millions 2007/08 prices) -----						
Eastern campus						
Interim Terminal 1 .....	51	1	—	—	—	52
Eastern piers and aprons.....	164	172	210	123	23	692
Heathrow East Terminal programmes	106	250	317	398	159	1,231
Total.....	321	423	527	521	182	1,974
Terminal 3						
Terminal 3 Refurbishment .....	29	31	16	—	—	76
Terminal 3 Piers and Aprons.....	10	10	15	1	4	40
Total.....	39	41	31	1	4	117
T4 southern campus						
Terminal 4 terminal.....	52	26	12	3	9	102
Terminal 4 piers and apron.....	12	—	—	—	2	13
Total.....	64	26	12	3	11	116
Terminal 5						
Terminal 5 Live.....	13	10	—	—	—	23
Terminal 5 piers & aprons .....	79	175	31	—	5	290
Total.....	92	185	31	—	5	313
Connections & baggage .....	140	221	174	64	32	631
Airline moves .....	92	12	6	—	—	111
Car parking/CTA.....	14	4	4	5	5	32
Land purchase to Thames Water .....	3	4	6	6	6	25
Other						
Airfield Total (Excl EA, WA & SA)	15	24	11	3	7	60
Utilities Total .....	1	1	3	9	16	29
IT Total.....	3	2	2	2	3	12
Retail Total.....	5	—	—	—	—	6
Security Total.....	16	35	8	3	3	64
HAL Minor Projects .....	30	30	30	30	30	150
Total.....	70	92	54	47	59	322
<b>HAL</b>	<b>834</b>	<b>1,008</b>	<b>846</b>	<b>647</b>	<b>304</b>	<b>3,639</b>
BAA IT .....	24	23	23	21	20	112
BAA Rail .....	28	35	33	29	26	151
<b>TOTAL</b> .....	<b>886</b>	<b>1,066</b>	<b>903</b>	<b>697</b>	<b>350</b>	<b>3,902</b>

Source: CAA Decision, 11 March 2008.

As part of its most-recent regulatory review, the CAA has given extensive consideration to how expenditure related to the progression of runway expansion at Heathrow, whether through mixed mode operation or a third runway, should be treated in the 2008/09 to 2012/13 period. The CAA concluded that it should allow HAL to receive a return on the £639 million expenditure forecast to be incurred in respect of the Project for the Sustainable Development of Heathrow (“PSDH”) during the 2008/09 to 2012/13 regulatory period. Additionally, the CAA has also provided some degree of certainty to HAL that the expenditure will ultimately be included in its RAB, (subject to appropriate protection for users) in the form of ex post tests to be applied to the 2008/09 to 2012/13 regulatory period PSDH expenditure. These ex post tests will be applied at both the CAA’s mid-quinquennial review for the 2008/09 to 2012/13 period and as part of the 2013/14 to 2017/



18 regulatory period review and will cover (i) best practice management and (ii) effective consultation in line with the processes for enhanced information disclosure and consultation. The CAA is also expected to apply a further ex post test to review whether the expenditure was necessary at the time it was incurred. The forecast expenditure for the PSDH is as follows:

	12 months ended 31 March					
	2009	2010	2011	2012	2013	Total
	----- (£ millions 2007/08 prices) -----					
PSDH expenditure .....	163	80	97	123	177	<b>639</b>

Source: CAA Decision, 11 March 2008.

For additional information about HAL's capital investment program, see "*Business – Strategy*".

(ii) Gatwick

To support GAL's projected passenger growth and the associated general customer needs, GAL intends to:

- maximise airfield and runway capacity through changes to airfield infrastructure to facilitate changes in airline fleet mix, and to deliver additional pier service;
- accommodate additional capacity in the North Terminal, which has the capacity available for the expansion of pier service and the development of new infrastructure, both to accommodate demand and to satisfy new flexible operating requirements, such as security processing directives and baggage system enhancements;
- improve service quality, operating environment and passenger experience in and around the South Terminal for existing passenger capacity levels; and
- refurbish assets through an asset renewal programme focussed on ensuring the safety, integrity and operating performance of assets throughout the airport in order to deliver a clean and efficient airport.

The table below summarises the investment projects for Gatwick for the period 2008/09 to 2012/13, that the CAA have incorporated into the price determination for the forthcoming period:

**GAL Planned Capital Expenditures**

	12 months ended 31 March					
	2009	2010	2011	2012	2013	Total
	----- (£ millions, 2007/08 prices) -----					
Service quality						
Pier 7 .....	15	45	67	35	25	187
South Terminal Check-In Environment..	5	13	—	—	—	18
South Terminal Forecourt .....	4	15	25	5	—	49
Pier 4 Segregation .....	—	—	—	1	—	1
Pier 3 Segregation .....	6	15	2	—	—	22
South Terminal Airside.....	5	5	—	—	—	10
Pier 1 .....	—	9	1	—	—	10
Southern Forecourt Enhancements.....	1	6	6	3	—	16
Total.....	36	107	101	43	25	312

	12 months ended 31 March					Total
	2009	2010	2011	2012	2013	
----- (£ millions, 2007/08 prices) -----						
Capacity growth						
Full North Terminal Extension Check-in	14	17	17	8	—	56
HMI Refurbish In Existing Footprint....	1	—	—	—	—	2
Full North Terminal Extension Reclaim	9	9	9	—	—	27
Airline Relocations.....	—	—	—	5	—	5
South Terminal Baggage/Factory .....	3	8	24	32	31	97
North Terminal Baggage Sorter .....	1	3	8	1	—	12
North Terminal Short-term Parking (MSCP6).....	1	12	12	—	—	25
North West Zone .....	16	18	13	—	—	46
Stand Reconfigurations.....	3	8	8	9	6	34
Early Bag Store.....	11	—	—	—	—	11
Roadway Improvements .....	—	5	5	—	—	10
Total.....	58	79	95	55	37	324
Airport integrity.....	97	54	29	38	20	238
<b>TOTAL.....</b>	<b>191</b>	<b>240</b>	<b>226</b>	<b>136</b>	<b>81</b>	<b>874</b>

Source: CAA Decision, 11 March 2008.

For additional information about GAL's capital investment program, see "*Business – Strategy*".

(iii) Stansted

One of the key elements of STAL's investment strategy for 2008/09 to 2012/13 is to expand Stansted so that the airport is able to handle up to 35 million passengers per year, compared to 25 million currently, prior to the opening of a second runway. The key projects needed to deliver terminal capacity to handle 35 million passengers per year are:

- the completion of the extension of the arrivals hall in 2008/09;
- the completion of an upgrade of the terminal baggage system in 2010/11;
- the completion of the extension of the departure facilities in 2010/11; and
- the construction of Satellite 4 from 2013 to 2015.

In parallel with the construction of additional space, Stansted intends to deliver improvements and capacity growth for Stansted's baggage-handling system. The investment programme for Stansted aims to make maximum use of existing space to defer additional capital expenditure as long as possible. Consultation is underway with airline and other partners at Stansted regarding their needs and traffic forecasts in setting the timing for the implementation of the investment programme, thereby helping to minimise the risk that Stansted will experience short-term capacity constraints and/or reduced service levels.

STAL intends to continue to pursue further improvements in connection with its strategy of encouraging passengers to travel to Stansted by public transport. STAL's investment plan continues to support investment in surface access given its importance in achieving airport growth. STAL's ongoing close relationships with the UK Highways Agency, the UK Department for Transport, rail-service providers and STAL's stakeholders is aimed at ensuring identification of the proper cost-effective infrastructure to enable Stansted's continued growth to around 35 million passengers per year.

STAL has budgeted £609 million during 2008/09 to 2012/13 for the Stansted Generation 2 project to deliver an additional runway and the passenger-handling facilities needed to serve this runway.

The table below summarises the investment projects for Stansted for the period 2008/09 to 2012/13.

### STAL Planned Capital Expenditures

	12 months ended 31 March					
	2009	2010	2011	2012	2013	Total
	----- (£ millions, 2007/08 prices) -----					
Arrivals extension .....	8	—	—	—	—	8
Terminal departures extension.....	6	36	16	—	—	58
Rump						
Cargo extension.....	—	—	—	—	1	1
'E' cul de sac.....	—	—	6	2	8	16
HBS replacement.....	2	—	—	—	—	2
Baggage system replacement.....	5	12	8	—	—	25
Fuel farm tanks.....	1	5	—	—	—	6
Car parks.....	4	2	10	7	—	22
Rail infrastructure.....	2	2	2	2	2	10
Upgrade LV distribution.....	—	9	—	—	—	9
Echo NE Part Depth .....	4	2	—	—	—	6
Other projects.....	67	29	8	10	8	123
<b>Total.....</b>	<b>84</b>	<b>60</b>	<b>35</b>	<b>21</b>	<b>19</b>	<b>219</b>
Stansted Generation 2						
Blight.....	6	3	(1)	31	9	48
Phase 1 detailed design .....	4	21	21	14	10	70
Phase 1 terminal and piers.....	—	—	—	40	74	114
Phase 1 baggage.....	—	—	—	5	8	13
Phase 1 airfield and infrastructure.....	—	—	—	61	111	173
Phase 1 utilities and landside.....	—	—	—	45	82	127
Phase 1 roads .....	—	—	—	15	15	29
Operational land .....	18	9	2	5	1	36
<b>Total.....</b>	<b>27</b>	<b>34</b>	<b>22</b>	<b>215</b>	<b>311</b>	<b>609</b>
<b>Total.....</b>	<b>126</b>	<b>130</b>	<b>72</b>	<b>236</b>	<b>330</b>	<b>895</b>

Source: BAA Submission to CC in May 2008.

For additional information about STAL's capital investment programme, see "*Business – Strategy*".

#### **(b) Projects for 2013/14 to 2017/18**

The capital investment projects discussed below have not been approved by the CAA for inclusion in the respective Airport Operator's RAB. Each of the Airport Operators might not implement any of these capital investment projects if the CAA does not agree to include the costs of these projects in the relevant Airport Operator's RAB.

All cost estimates set forth below are at 2007/08 prices.

##### **(i) Heathrow**

HAL's current estimate for capital investment projects at Heathrow for the regulatory period 2013/14 to 2017/18 is £2,665.5 million excluding any expenditure that may be incurred in connection with increasing the runway capacity at Heathrow. HAL is continuing to consult with the airline community at Heathrow to set the size and shape of HAL's capital investment programme in time for its submission to the CAA in 2011 in connection with the regulatory price setting review for the 2013/14 to 2017/18 period. A decision by HAL to proceed with the development of runway capacity at Heathrow through mixed-mode operations and/or a third runway at Heathrow will add significantly to these estimates.

For additional information about HAL’s capital investment programme, see “*Business – Strategy*”.

(ii) Gatwick

For the regulatory period 2013/14 to 2017/18, GAL is forecasting capital investment projects for Gatwick in the amount of £328 million at 2007/08 prices. The major driver of this expenditure is expected to be replacing operational assets, (although new capacity will also be provided), including £68 million specifically allocated to provide diversionary capability for Airbus A380 aircraft.

For additional information about GAL’s capital investment programme, see “*Business – Strategy*”.

(iii) Stansted

For the period 2013/14 to 2017/18, STAL is forecasting capital expenditure of £1,056 million, of which £852 million relates to the Stansted Generation 2 programme to deliver an additional runway and the passenger-handling facilities needed to serve this runway and £50 million relates to the construction of Satellite 4, Stansted’s fourth pier, in the period from 2013 to 2015. For additional information about STAL’s capital investment program, see “*Business – Strategy*”.

**5.3 Capital Commitments**

The following table sets forth the capital expenditure contracted commitments of the Designated Airports as of 31 December 2007:

**Capital Expenditure Commitments by Airport Operator**

	As of 31 December 2007
	(£ millions)
HAL .....	109.9
GAL .....	39.0
STAL .....	14.9

**6. OFF-BALANCE SHEET ARRANGEMENTS**

No member of the Security Group is a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on such member’s financial condition or results of operations.

**7. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL MARKET RISK**

**7.1 Index linked hedging risk**

The Security Group will be exposed to inflation risk on or about the Initial Issue Date on certain amounts of index linked swaps placed at the Issuer to synthetically swap fixed rate bonds into index linked bonds. Should these swaps be terminated before their maturity, a liability will arise if the swaps have a negative market value when cancelled.

**7.2 Interest rate risk**

The Airport Operators are exposed to interest rate risk on indebtedness that bears interest at floating rates and on the fair value of indebtedness that bears interest at fixed rates. To hedge this risk, interest rate derivatives will be transacted in compliance with the Hedging Policy for the Security Group, which requires hedging of at least 75 per cent. but not exceeding 102.5 per cent. of the floating rate debt and allows pre-hedging to be entered into to hedge future debt issuance which is projected to be incurred within 24 months from the date of entry into such pre-hedging transactions.

Upward fluctuations in interest rates increase the interest cost of variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the fixed rate debt obligations of the Airport Operators.

However, the Airport Operators’ sensitivity to decreases in interest rates and corresponding increases in the fair value of outstanding fixed rate indebtedness would unfavourably affect results and cash

flows only to the extent that the Airport Operators elected to repurchase or otherwise retire all or a portion of its fixed-rate debt portfolio at prices above carrying value.

### **7.3 Foreign exchange rate risk**

The functional and reporting currency of the Airport Operators is the Pound Sterling. For debt raised in foreign currencies, the Security Group will use cross-currency swaps to hedge the related interest and principal payments in compliance with the Hedging Policy.

### **7.4 Equity hedging risk**

Under certain employee award schemes, a number of BAA senior employees are granted options over Grupo Ferrovial, S.A.'s shares that are exercisable after a vesting period for a period of three years if BAA's performance targets are achieved. The exercise prices are set at the date the options are granted.

To mitigate the risk of any increase in the price of the shares between the date of grant and the exercise date, BAA currently enters into equity swaps to hedge the risk of price increases.

Specifically, as of 30 June 2008 the closing share price used in the mark-to-market valuation was 39.32 euros, entailing the recognition by BAA of a loss of £61 million, in financial results. Assuming share prices of 33.42 and 45.22 euros (variances of  $-/+$  15 per cent.), the financially reported loss would increase/decrease to £72 million and £51 million, respectively. However, it should be noted that these losses have not been realised and would incur a cash outlay only on termination of the swaps if the market share price were to be below the strike price.

Costs associated with the employee award scheme (including hedging costs on any mark-to-market costs on termination) form part of the total staff costs that will be charged by BAA to the Operating Companies under the Shared Services Agreement.

BAA currently does not hedge any equity exposures under Deferred Annual Bonus schemes as these are not material.

### **7.5 Counterparty Credit risk**

The Airport Operators have no significant concentrations of credit risk other than amounts owed by other BAA Group undertakings. The Airport Operators' exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, will be mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used.

## **8. CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS**

The Designated Airports prepare their statutory accounts in accordance with UK GAAP. The detailed accounting policies adopted in the preparation of these accounts are disclosed in the financial statements for each of the Operating Companies included or incorporated by reference in this Prospectus. In applying accounting policies, management has made estimates and judgements at the relevant balance sheet date in a number of key areas. Actual results may, however, differ from the estimates calculated and management believe that the following areas present the greatest level of uncertainty.

### **8.1 Capitalised Runway Development Costs**

Following the issue of the White Paper, Stansted Airport was designated as the preferred location for the next new runway in the South East of England. This development will be subject to a planning inquiry and consequently STAL is pressing ahead with the necessary preparation for a planning application and environmental impact assessment. The costs incurred to date have been capitalised as part of the runway development costs. This is based on management's belief that it is highly probable the necessary consents will be received and the project will be developed to achieve a successful delivery of an asset such that future benefits will flow to STAL.

Additionally, STAL has announced three voluntary schemes to compensate those people living near Stansted Airport whose homes will be affected by the airport expansion. These costs are also capitalised as part of the runway development costs.

If the development of a second runway at Stansted does not proceed, all of these costs will be expensed through STAL's profit and loss account.

A similar situation may arise at either Heathrow or Gatwick in the future in relation to possible runway developments at these airports.

## **8.2 Taxation (Including Deferred Taxation)**

Provisions for tax contingencies require management to make judgements and estimates in relation to tax issues and exposures. Amounts provided are based on management's interpretation of tax laws and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. In arriving at this position, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in current tax liabilities.

In accordance with FRS 19 ("**Deferred Tax**"), deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Under the UK tax regime the Airport Operators have benefited from tax relief for the cost of industrial buildings by being allowed a deduction against profits chargeable to corporation tax. The deduction is called Industrial Buildings Allowance ("**IBAs**") and relief was given at an annual rate of 4 per cent. of cost for 25 years.

The UK Government announced in March 2007 that IBAs would be abolished over 3 years from 1 April 2008. During the transitional period, the annual rate of allowance will be 3 per cent. in 2008/09, 2 per cent. in 2009/10, 1 per cent. in 2010/11 and the allowance will cease from 1 April 2011. Legislation implementing these changes was included in the Finance Bill 2008.

As a result of the withdrawal, management of BAA estimates that tax relief will not be available on capital expenditure which has already been incurred of approximately £3.5 billion for HAL, £0.4 billion for GAL and £0.3 billion for STAL.

The cash impact of the abolition on the Airport Operators in Q5 is relatively small due to the transitional period regime applicable through to 2011 and the low taxable income base of the Tax Relief Group. Under the existing regulatory framework and assuming no future change, the present value of the reduced cash flows over the next 25 years for the existing assets would be approximately £0.4 billion for HAL and less than £0.05 billion each for GAL and STAL. These reduced cash flows have already been allowed for in forward projections.

Under a literal application of paragraphs 15 and 5 of IAS 12, when UK GAAP converges with IFRS (which is assumed to be after 2009) the Airport Operators could be obliged to recognize an exceptional accounting loss in the form of a charge for deferred tax.

The accounting loss to be recognised on this change in accounting policy would be a liability for deferred tax calculated on the difference between the existing carrying amount of IBA assets in the accounts and the tax base for tax depreciation purpose (which after the abolition of IBA will be zero) multiplied by the current tax rate.

The accounting provision which the Airport Operators would have had to recognise as a charge to the profit and loss accounts at 31 December 2007, if these changes had applied then, would have amounted to £1.0 billion at HAL, £0.2 billion at GAL and £0.1 billion at STAL. This accounting impact however will be neutral in the long term as the provision will be progressively released back to the profit and loss account in the following years.

The Security Group and the associated Financing Agreements have been structured in such a way as to allow for this accounting loss by creating a significant pool of distributable reserves. The ability of the Issuer to make payment of interest and principal on the Bonds will not be affected.

### ***8.3 Pension Obligations***

All employees working at the Designated Airports are employed directly by BAA and are entitled to join the BAA Pension Scheme. BAA charges each of the Airport Operators the relevant amount of employment costs, including pension service costs, which are recorded in each Airport Operator's profit and loss account as incurred.

A Shared Services Agreement will be entered into between BAA and the Airport Operators under which BAA will be entitled to pass on to the Airport Operators the costs of the contributions to the Scheme including the costs of any deficit recovery plan.

### ***8.4 Investment Properties***

Investment properties are valued at a market value at each year end date. These valuations are carried out by qualified external valuers and the Head of BAA Professional Services, John Arbuckle BLE (Hons.) MRICS. These valuations are prepared in accordance with UK GAAP and the Appraisal and Valuation Standards manual issued by the Royal Institution of Chartered Surveyors. Valuations are carried out having regard to comparable market evidence. In assessing market value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence.

When UK GAAP converges with IFRS (which is assumed to be after 2009), the Airport Operators will be obliged to recognise changes in fair values of investment property through the profit and loss account.

**UNAUDITED COMBINED FINANCIAL INFORMATION OF THE OPERATING COMPANIES  
FOR THE YEAR ENDED 31 MARCH 2008**

BAA Limited (formerly BAA plc) currently prepares consolidated financial statements comprising the consolidated operating results and balance sheet for all companies in the BAA Group. Therefore, BAA Limited does not separately report on the combined results for the Operating Companies.

The Security Group comprises the Security Parent, Asset Holdco, the Operating Companies and the Issuer. At or prior to the Initial Issue Date, the Security Parent will directly hold 100 per cent. of Asset Holdco, which will directly hold 100 per cent. of the Borrowers, and HAL will directly hold 100 per cent. of HEX Opco. The Security Group has not prepared consolidated statements for any periods.

The unaudited combined profit and loss data, balance sheet data and other financial information set forth below has been prepared to show the results and financial position of the Operating Companies on a combined basis for the 12 months ended 31 March 2008. These results and financial position have been prepared for illustrative purposes only. Therefore, they do not represent the actual results or financial position of the Operating Companies had the books of account been maintained, and statutory accounts prepared, for these companies on a combined basis for the 12 months ended 31 March 2008.

The unaudited combined financial information does not include the historical results of the Security Parent, Asset Holdco or the Issuer and does not represent the actual results or financial position of the Security Group if it had been operating as a group for the 12 months ended 31 March 2008. The combined information therefore does not take account of any acquisition accounting by the Security Parent on transfer of the Operating Companies to the Security Group. Management does not believe that these adjustments would materially affect EBITDA in the consolidated accounts of the Security Parent had such accounts been prepared.

The interest charges and borrowings included in the unaudited combined financial information reflect the position as at 31 March 2008 and for the 12 months ended 31 March 2008. The combined financial information does not therefore reflect the issuance of the Bonds and the new financial structure of the Security Group.

The unaudited combined profit and loss information for the 12 months ended 31 March 2008 has been derived from audited information of the Operating Companies for the 12 months ended 31 December 2007, less the 3 months ended 31 March 2007 and adding the 3 months ended 31 March 2008 from the unaudited interim statements of the Operating Companies, subject to an adjustment to eliminate inter-company trading between HAL and HEX Opco.

The combined balance sheet data is an aggregation of the unaudited balance sheet information for each of the Operating Companies as of 31 March 2008, also subject to an adjustment to eliminate intra-group management fees between HAL and HEX Opco.

The unaudited combined profit and loss information and the combined balance sheet data have been compiled on a basis that is consistent with the accounting policies of the Operating Companies.

The tables below also set forth certain unaudited operational data that has been derived from the Operating Companies' operating systems and other non-financial sources. Prospective investors are cautioned that this operating data may not be indicative of the Operating Companies' historical or future results of operations.



**Combined Profit and Loss Data for the 12 Months Ended 31 March 2008**

	12 months ended 31 December 2007 <sup>(2)</sup>	3 months ended 31 March 2007 <sup>(3)</sup>	3 months ended 31 March 2008 <sup>(4)</sup>	12 months ended 31 March 2008
	----- (unaudited) -----			
	----- (£ millions) -----			
<b>Income</b> .....	<b>1,976.3</b>	<b>413.8</b>	<b>450.7</b>	<b>2,013.2</b>
Operating costs – ordinary .....	(1,356.3)	(309.0)	(379.8)	(1,427.1)
Operating costs – exceptional .....	(180.0)	(9.8)	(43.8)	(214.0)
<b>Operating profit</b> .....	<b>440.0</b>	<b>95.0</b>	<b>27.1</b>	<b>372.1</b>
<b>Net interest payable</b> .....	<b>(220.0)</b>	<b>(50.4)</b>	<b>(55.4)</b>	<b>(225.0)</b>
<b>Profit/(loss) on ordinary activities before taxation</b> .....	<b>220.0</b>	<b>44.6</b>	<b>(28.3)</b>	<b>147.1</b>
Tax on (profit)/loss on ordinary activities....	156.6	(13.3)	8.3	178.2
<b>Profit/(loss) on ordinary activities after taxation</b> .....	<b>376.6</b>	<b>31.3</b>	<b>(20.0)</b>	<b>325.3</b>

**Combined Balance Sheet Data as of 31 March 2008**

	As of 31 March 2008 <sup>(9)</sup>
	----- (unaudited) -----
	----- (£ millions) -----
<b>Fixed Assets</b>	
Tangible assets.....	12,705.0
<b>Current Assets</b>	
Stocks.....	8.4
Debtors: due within one year .....	787.8
due after more than one year .....	614.8
Cash at bank and in hand.....	–
Total current assets.....	1,411.0
Creditors: due within one year .....	(9,076.8)
Net current liabilities .....	(7,665.8)
<b>Total assets less current liabilities</b> .....	<b>5,039.2</b>
Creditors: amounts falling due after more than one year .....	(223.9)
Provisions for liabilities and charges .....	(737.0)
<b>Net Assets</b> .....	<b>4,078.3</b>

**Other Non-Financial Data for the 12 months ended 31 March 2008**

	12 months ended 31 December 2007	3 months ended 31 March 2007	3 months ended 31 March 2008	12 months ended 31 March 2008
Total Passengers (in millions).....	126.9	27.3	27.6	127.1
Total Air Transport Movements (in thousands) .....	926.0	216.7	215.7	925.0
Total Rail Passengers (in millions).....	5.4	1.3	1.3	5.4

## NOTES TO THE INCOME STATEMENT DATA

### 1. Basis of Preparation

The unaudited financial information presented herein should be read in conjunction with the statutory accounts and the unaudited interim financial statements for each of the Operating Companies, which have been incorporated by reference into this Prospectus and are included on the attached CD-ROM.

The unaudited combined financial information presented in the tables above has been prepared by combining the relevant financial information of the Operating Companies, extracted without adjustment from each of these companies' individual statutory accounts for the 12 months ended 31 December 2007 and their unaudited interim financial statements as of and for the 3 months ended 31 March 2007 and 2008, prepared in accordance with UK GAAP and incorporated by reference into this Prospectus.

### 2. Combined Profit and Loss Data for the year ended 31 December 2007

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
	----- (unaudited) -----				
	----- (£ millions) -----				
<b>Income</b> .....	<b>1,324.8</b>	<b>409.7</b>	<b>241.8</b>		<b>1,976.3</b>
Operating costs – ordinary.....	(892.7)	(312.2)	(156.1)	4.7	(1,356.3)
Operating costs – exceptional.....	(154.2)	(16.7)	(9.1)		(180.0)
<b>Operating profit</b> .....	<b>277.9</b>	<b>80.8</b>	<b>76.6</b>	<b>4.7</b>	<b>440.0</b>
<b>Net Interest (payable)/receivable</b> .....	<b>(185.6)</b>	<b>(25.3)</b>	<b>(11.6)</b>	<b>2.5</b>	<b>(220.0)</b>
<b>Profit on ordinary activities before taxation</b> .....	<b>92.3</b>	<b>55.5</b>	<b>65.0</b>	<b>7.2</b>	<b>220.0</b>
Tax on profit on ordinary activities	81.8	53.5	23.5	(2.2)	156.6
<b>Profit on ordinary activities after taxation</b> .....	<b>174.1</b>	<b>109.0</b>	<b>88.5</b>	<b>5.0</b>	<b>376.6</b>

### 3. Combined Profit and Loss Data for the 3 months ended 31 March 2007

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
	----- (unaudited) -----				
	----- (£ millions) -----				
<b>Income</b> .....	<b>294.9</b>	<b>77.9</b>	<b>41.0</b>		<b>413.8</b>
Operating costs – ordinary.....	(202.0)	(71.9)	(36.2)	1.1	(309.0)
Operating costs – exceptional.....	(9.4)	(0.2)	(0.2)		(9.8)
<b>Operating profit</b> .....	<b>83.5</b>	<b>5.8</b>	<b>4.6</b>	<b>1.1</b>	<b>95.0</b>
<b>Net Interest (payable)/receivable</b> .....	<b>(42.6)</b>	<b>(5.9)</b>	<b>(2.5)</b>	<b>0.6</b>	<b>(50.4)</b>
<b>Profit/(loss) on ordinary activities before taxation</b> .....	<b>40.9</b>	<b>(0.1)</b>	<b>2.1</b>	<b>1.7</b>	<b>44.6</b>
Tax on (profit)/loss on ordinary activities.....	(12.2)	0.0	(0.6)	(0.5)	(13.3)
<b>Profit/(loss) on ordinary activities after taxation</b> .....	<b>28.7</b>	<b>(0.1)</b>	<b>1.5</b>	<b>1.2</b>	<b>31.3</b>

#### 4. Combined Profit and Loss Data for the 3 months ended 31 March 2008

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
			(unaudited)		
			(£ millions)		
<b>Income</b> .....	<b>312.6</b>	<b>85.9</b>	<b>52.2</b>		<b>450.7</b>
Operating costs – ordinary.....	(249.6)	(89.1)	(42.4)	1.3	(379.8)
Operating costs – exceptional.....	(43.8)	0.0	0.0		(43.8)
<b>Operating profit</b> .....	<b>19.2</b>	<b>(3.2)</b>	<b>9.8</b>	<b>1.3</b>	<b>27.1</b>
<b>Net Interest (payable)/receivable</b> .....	<b>(46.1)</b>	<b>(6.7)</b>	<b>(3.3)</b>	<b>0.7</b>	<b>(55.4)</b>
<b>Profit/(loss) on ordinary activities before taxation</b> .....	<b>(26.9)</b>	<b>(9.9)</b>	<b>6.5</b>	<b>2.0</b>	<b>(28.3)</b>
Tax on (profit)/loss on ordinary activities.....	7.9	2.9	(1.9)	(0.6)	8.3
<b>Profit/(loss) on ordinary activities after taxation</b> .....	<b>(19.0)</b>	<b>(7.0)</b>	<b>4.6</b>	<b>1.4</b>	<b>(20.0)</b>

#### 5. Adjustment for HEX Opco

HEX Opco operates Heathrow Express on HAL's behalf under a management contract. Under the terms of this agreement, HAL is entitled to all revenues generated from the operation of Heathrow Express, which HAL recognises under "rail income" in its accounts. HAL reimburses HEX Opco for its operating costs and pays HEX Opco a management fee in the amount of 10 per cent. of such operating costs for managing Heathrow Express. In preparing the unaudited combined information, the inter-company management fee between HAL and HEX Opco has been eliminated.

## 6. Analysis of Other Financial Operating Data

The table below sets forth a break-down of income and operating costs for the 12 months ended 31 March 2008.

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
	(unaudited)				
	(£ millions)				
Aeronautical income.....	649.4	180.8	138.8		969.0
Retail .....	324.7	164.1	91.3		580.1
Operational facilities and utilities....	115.9	34.9	12.9		163.7
Property rental .....	83.2	26.4	7.2		116.8
Rail .....	80.3	—	—		80.3
Other income <sup>(1)</sup> .....	89.0	11.5	2.8		103.3
<b>Total income .....</b>	<b>1,342.5</b>	<b>417.7</b>	<b>253.0</b>	<b>0.0</b>	<b>2,013.2</b>
Employment costs .....	228.7	102.9	54.5		386.1
Depreciation .....	208.8	58.2	29.8		296.8
Maintenance expenditure .....	96.0	27.0	11.8		134.8
Utility costs .....	67.0	24.3	11.8		103.1
Rent and rates .....	65.5	22.9	10.8		99.2
General expenses .....	72.1	39.7	14.9		126.7
Retail expenditure .....	14.2	10.3	2.3		26.8
Other intra-group charges <sup>(2)</sup> .....	187.7	44.1	26.5	(4.9)	253.4
(Profit)/loss on disposals of tangible fixed assets.....	0.3	0.0	(0.1)		0.2
Operating costs – ordinary.....	940.3	329.4	162.3	(4.9)	1,427.1
Operating costs – exceptional.....	188.6	16.5	8.9		214.0
<b>Total operating costs.....</b>	<b>1,128.9</b>	<b>345.9</b>	<b>171.2</b>	<b>(4.9)</b>	<b>1,641.1</b>
<b>Total operating profit.....</b>	<b>213.6</b>	<b>71.8</b>	<b>81.8</b>	<b>4.9</b>	<b>372.1</b>

(1) Includes income received from BAA, mostly related to IT lease costs, which HAL charged to BAA and BAA, in turn, re-charges to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Other Income*”.

(2) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). In the case of HAL, it also includes intra-group charges related to all operating expenses incurred by, and the management fee charged by, HEX Opco in running Heathrow Express. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Operating Costs – Other Intra-group Charges*”.

## 7. Combined EBITDA and Adjusted EBITDA

EBITDA, or earnings before interest, taxes, depreciation and amortisation, has been defined previously (see “*Presentation of Financial and Other Information*”). Adjusted EBITDA is calculated by adding back to EBITDA exceptional operating costs other than accelerated depreciation charges, which have been added back in the calculation of non-adjusted EBITDA. Management believes that adjusted EBITDA allows for a comparison of the Operating Companies’ performance on a consistent basis without regard to a non-recurring expense that management believes does not reflect the regular operating performance of the Operating Companies’ businesses.

The following table sets forth Combined EBITDA and Combined Adjusted EBITDA for the Operating Companies for the 12 months ended 31 March 2008:

	12 months ended 31 December 2007	3 months ended 31 March 2007	3 months ended 31 March 2008	12 months ended 31 March 2008
	----- (unaudited) -----			
	----- (£ millions) -----			
<b>Profit/(loss) on ordinary activities after taxation</b> .....	<b>376.6</b>	<b>31.3</b>	<b>(20.0)</b>	<b>325.3</b>
Depreciation .....	289.2	66.8	74.4	296.8
Accelerated depreciation <sup>(1)</sup> .....	66.3	5.8	22.0	82.5
Net interest payable.....	220.0	50.4	55.4	225.0
Tax on (profit)/loss on ordinary activities....	(156.6)	13.3	(8.3)	(178.2)
<b>Combined EBITDA</b> .....	<b>795.5</b>	<b>167.6</b>	<b>123.5</b>	<b>751.4</b>
Other operating costs – exceptional <sup>(2)(3)</sup> .....	113.7	4.0	21.8	131.5
<b>Combined Adjusted EBITDA</b> .....	<b>909.2</b>	<b>171.6</b>	<b>145.3</b>	<b>882.9</b>

(1) Accelerated depreciation is recorded in HAL's statutory accounts under "Operating costs-exceptional". Accelerated depreciation relates to additional depreciation charges taken in relation to Heathrow's Terminal 1 and Terminal 2 due to the expected impact of the Heathrow East terminal complex project, which will shorten the lives of these assets. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Factors Having a Significant Influence on Results of Operations-Operating Costs-Operating Costs – Exceptional".

(2) For information about operating costs-exceptional, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Factors Having a Significant Influence on Results of Operations – Operating Costs – Operating Costs – Exceptional".

(3) Does not include the additional accelerated depreciation charges for Terminal 1 and Terminal 2 that are included above in the table under "Accelerated depreciation".

## 8. Other Non-Financial Data

	12 months ended 31 December 2007	3 months ended 31 March 2007	3 months ended 31 March 2008	12 months ended 31 March 2008
<b>Total Passengers (in millions)</b>				
HAL.....	67.9	15.3	15.4	68.0
GAL.....	35.2	7.0	7.4	5.6
STAL .....	23.8	5.0	4.8	23.5
<b>Total</b> .....	<b>126.9</b>	<b>27.3</b>	<b>27.6</b>	<b>127.1</b>
<b>Total Air Transport Movements (in thousands)</b>				
HAL.....	475.7	115.4	115.4	475.7
GAL.....	258.8	56.6	58.4	260.6
STAL .....	191.5	44.7	41.9	188.7
<b>Total</b> .....	<b>926.0</b>	<b>216.7</b>	<b>215.7</b>	<b>925.0</b>
<b>Total Rail Passengers (in millions)</b>				
HEX Opco.....	5.4	1.3	1.3	5.4

Source: BAA.

## NOTES TO THE BALANCE SHEET DATA

### 9. Basis of Preparation

The unaudited combined balance sheet information presented above has been prepared by aggregating the relevant financial information of the Operating Companies, extracted without adjustment from the Operating Companies' individual statutory balance sheets as of 31 December 2007 and the interim balance sheets as of 31 March 2008, prepared in accordance with UK GAAP, incorporated by reference into this Prospectus. In addition, the adjustment to eliminate inter-company trading between HAL and HEX Opco is also incorporated.

#### Combined Balance Sheet Data as of 31 March 2008

	<u>HAL</u>	<u>GAL</u>	<u>STAL</u>	<u>Adjustment for HEX Opco</u>	<u>Total</u>
	----- (unaudited) -----				
	----- (£ millions) -----				
<b>Fixed assets</b>					
Tangible assets.....	9,615.6	1,629.2	1,460.2		12,705.0
<b>Current assets</b>					
Stocks .....	2.4	4.2	1.8		8.4
Debtors: due within one year .....	576.9	173.2	35.1	2.6	787.8
due after more than one year.....	386.5	70.4	127.1	30.8	614.8
Cash at bank and in hand.....	—	—	—		—
<b>Total current assets</b> .....	<b>965.8</b>	<b>247.8</b>	<b>164.0</b>	<b>33.4</b>	<b>1,411.0</b>
Creditors : due within one year .....	(8,061.4)	(595.1)	(422.9)	2.6	(9,076.8)
Net current liabilities.....	(7,095.6)	(347.3)	(258.9)	36.0	(7,665.8)
<b>Total assets less current liabilities</b> ....	<b>2,520.0</b>	<b>1,281.9</b>	<b>1,201.3</b>	<b>36.0</b>	<b>5,039.2</b>
Creditors: amounts falling due after more than one year .....	(13.7)	(202.6)	(7.6)		(223.9)
Provisions for liabilities and charges	(617.0)	(70.4)	(49.6)		(737.0)
<b>Net Assets</b> .....	<b>1,889.3</b>	<b>1,008.9</b>	<b>1,144.1</b>	<b>36.0</b>	<b>4,078.3</b>

## UNAUDITED FORECAST FINANCIAL DATA AND PRO FORMA FINANCIAL RATIOS FOR THE YEAR ENDED 31 MARCH 2009

*The discussion below contains forward looking statements that reflect the current judgment of the management of the Borrowers and HEX Opco (collectively, the “Operating Companies”) regarding conditions that it expects to exist and the course of action that management expects to take in the future. Even though management believes that its expectations regarding future events are based on reasonable assumptions, forward looking statements are not guarantees of future performance. Management’s assumptions rely on its operational analysis and expectations for the operating performance of each of the Operating Companies’ assets based on their historical operating performance and management expectations as described below. Factors beyond management’s control could cause actual results to vary materially from the expectations discussed below. These factors are discussed in “Risk Factors” and elsewhere in this Prospectus. Prospective investors are cautioned that the prospective operating and financial data included below are not fact and should not be relied upon as being necessarily indicative of future results, and are cautioned not to place undue reliance on this forecast operating and financial data.*

*PricewaterhouseCoopers LLP has neither compiled nor performed any assurance procedures with respect to the forecast financial information contained herein and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance on the forecast financial information or its achievability. PricewaterhouseCoopers LLP assumes no responsibility for, and is not otherwise associated with, the forecast financial information and any other information derived therefrom included elsewhere in this Prospectus. The PricewaterhouseCoopers LLP reports included by reference in this Prospectus refer exclusively to the Operating Companies’ historical financial information. PricewaterhouseCoopers LLP reports do not cover any other information in this Prospectus and should not be read to do so.*

*This forecast financial information was not prepared with a view toward compliance with published guidelines of the SEC and has not been audited or reported on or the guidelines established by the American Institute of Certified Public Accountants for preparation or presentation of prospective financial information.*

### 1. Illustrative Financial Projections of the Operating Companies

This section sets out illustrative unaudited forecast combined financial data and *pro forma* financial ratios for the 12 months ended 31 March 2009 (the “Projections”). The Projections are the sole responsibility of the Operating Companies and have been prepared by them after due and careful consideration on the basis of:

A9.8.3

- assumptions that the Operating Companies consider to be reasonable at the date hereof based on their respective management’s present knowledge and expectations;
- estimates that the Operating Companies believe to be fair at the date hereof; and
- accounting policies that are consistent with the currently applied accounting policies of the Operating Companies and which are described in the annual reports and financial statements for the year ended 31 December 2007 for each of HAL, GAL and STAL.

The Projections have been prepared using the approved business plans for each of the Airport Operators.

While the Projections reflect management’s best assessment of expected developments during, and the likely outcome for, the 12 months ended 31 March 2009, none of the Operating Companies, the Issuer or any other person gives any warranty or any other form of comfort as to the likelihood that the Projections will prove to be reliable or accurate or as to the likely occurrence or existence of any particular fact or circumstance in the period covered by the Projections. The assumptions underlying the Projections are described in more detail below and are related to general business and economic conditions, material contingencies and other matters. Some or all of these assumptions may depend on subjective judgments, be inherently subject to significant uncertainties and be wholly outside the control of the Operating Companies. In addition, the Operating Companies’ businesses face a number of risks that, were they to crystallise, could cause the Operating Companies’ actual results to differ materially from those in the Projections. These risks are discussed in further detail in “Risk Factors” and include factors such as the impact of security threats, legislative or regulatory changes, adverse weather conditions, accidents and industrial disputes.

Potential investors should regard the Projections and the assumptions underlying the Projections with considerable caution and should evaluate the potential for actual results to deviate from those set out below and the implications of deviations in other assumptions, which could have been used in preparing the Projections, on the Operating Companies' results of operations, financial condition and the cash flows. If facts or circumstances were to occur that are less favourable than those assumed in preparing the Projections, the Security Group may be unable to satisfy its obligations under, among other things, the Borrower Loan Agreements, which may result in the Issuer being unable to meet its obligations under the Bonds.

The Projections also include certain unaudited forecast *pro forma* financial ratios, including the key components of these ratios. These ratios and key components have been provided for information purposes only and have been prepared to give effect to the following transactions (collectively, the "**Transactions**") as if they had occurred with effect as of 1 April 2008:

- the creation of the Security Group;
- the issuance of the Bonds and the drawing of the bank facilities; and
- the novation of the existing BAA bonds from BAA to BAA Funding Limited (the Issuer).

The forecast *pro forma* financial ratios, including their key components, have been prepared and presented below on a basis consistent with the definitions contained in the Common Terms Agreement and as described in "*Summary of the Financing Agreements*".

The forecast *pro forma* financial ratios are provided for information purposes only and should not be considered indicative of the actual results that would have been achieved had any of the Transactions been in effect as of 1 April 2008.

The forecast Senior Debt and Junior Debt interest payable excludes transaction costs arising from the re-financing of the securitised entities, which were assumed to be paid in the 12 months ended 31 March 2009. These transaction costs are assumed to be expensed through the interest payable line of the profit and loss account over the anticipated life of the debt. Under the terms of the Borrower Loan Agreements, such fees are excluded from the ICR calculations as required in the definitions of Senior Debt interest.

Prospective investors should base their investment decision on a review of the entire Prospectus and should review the following data in conjunction with "*Overview of Financing Structure*", "*Overview of the Programme*", "*Risk Factors*", "*Use of Proceeds*", "*Capitalisation*", "*Business*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Unaudited Combined Financial Information of the Operating Companies for the Year Ended 31 March 2008*."

## **2. Actual and Forecast Combined Financial Data and Forecast Pro Forma Financial Ratios**

The summary forecast information set out below is explained further in "*Notes to the Forecast Combined Financial Data*".



### Combined Financial Data

	<u>Actual Combined</u>	<u>Forecast</u>	
	<u>12 months ended 31 March 2008</u>	<u>12 months ended 31 March 2009</u>	
	----- (unaudited) ----- ----- (£ millions) -----		
Aeronautical income .....	969	1,334	Note 1
Non-aeronautical income .....	1,044	1,113	Note 2
<b>Total income</b> .....	<b>2,013</b>	<b>2,446</b>	
Operating costs (excluding depreciation and exceptional operating costs) .....	(1,130)	(1,432)	Note 3
<b>Adjusted EBITDA<sup>(1)</sup></b> .....	<b>883</b>	<b>1,015</b>	Note 4

(1) Adjusted EBITDA = EBITDA pre exceptionals.

### Forecast Combined Cash Flow from Operations, Net Capital Expenditure and Regulatory Asset Base (RAB)

	<u>Forecast</u>	
	<u>12 months ended 31 March 2009</u>	
	----- (unaudited) ----- ----- (£ million) -----	
Adjusted EBITDA <sup>(1)</sup> .....	1,015	
Movement in working capital .....	(50)	
<b>Cashflow from Operations<sup>(2)</sup></b> .....	<b>964</b>	Note 5
<b>Net capital expenditure</b> .....	<b>1,242</b>	Note 6
<b>RAB (as of 31 March 2009)</b> .....	<b>13,261</b>	Note 7

(1) Adjusted EBITDA = EBITDA pre exceptionals.

(2) Cashflow from Operations: measure used for proforma ratio calculation.

### Forecast Pro Forma Financial Ratios

	<u>Forecast</u>	
	<u>As of 31 March 2009</u>	
	----- (unaudited) ----- ----- (£ millions, except ratios) -----	
Pro forma Senior Debt .....	8,744	Note 8
Pro forma Junior Debt .....	1,162	Note 8
Pro forma Senior Debt cash interest payable .....	335	Note 9
Pro forma Junior Debt cash interest payable .....	73	Note 9
Senior ICR <sup>(1)</sup> .....	2.09x	
Junior ICR <sup>(2)</sup> .....	1.71x	
Senior RAR <sup>(3)</sup> .....	66%	
Junior RAR <sup>(4)</sup> .....	75%	
<b>Trigger Event Ratio Levels<sup>(5)</sup></b>		
Senior ICR .....	< 1.40x	
Junior ICR .....	< 1.20x	
Senior RAR <sup>(6)</sup> .....	> 70%	
Junior RAR .....	> 85%	
<b>Financial Covenants<sup>(7)</sup></b>		
Average Senior ICR <sup>(8)</sup> .....	n/a	
Senior RAR .....	> 92.5%	

(1) Senior ICR = (Cashflow from Operations – 2 per cent. x RAB – tax)/Pro Forma Senior Debt cash interest payable. It is projected that no corporation tax will be payable to HMRC during the relevant period.

(2) Junior ICR = (Cashflow from Operations – 2 per cent. x RAB – tax)/(Pro Forma Senior Debt cash interest payable + Pro Forma Junior Debt cash interest payable). It is projected that no corporation tax will be payable to HMRC during the relevant period.

(3) Senior RAR = Pro Forma Senior Debt/RAB.

(4) Junior RAR = (Pro Forma Senior Debt + Pro Forma Junior Debt)/RAB.

(5) For more information, see “*Summary of the Financing Agreements – Common Terms Agreement – Trigger Events*”.

(6) 72.5 per cent. from 1 April 2018.

(7) For more information, see “*Summary of the Financing Agreements – Common Terms Agreement – Loan Events of Default*”.

(8) It is not applicable as of 31 March 2009 because it is calculated as the average of the Senior ICR for the three previous Financial Years.

### 3. Notes to the Forecast and Combined Financial Data

#### **Actual Combined Financial Data for the 12 months ended 31 March 2008**

The combined information for the 12 months ended 31 March 2008 has been derived from audited information for the 12 months to 31 December 2007, less 3 months to 31 March 2007 and adding 3 months to 31 March 2008 from the unaudited interim statements, including an adjustment to remove the inter-company management fee paid by HAL to HEX Opco.

See “*Unaudited Combined Financial Information of the Operating Companies for the Year Ended 31 March 2008*”.

#### **Forecast Financial Data for the 12 months ended 31 March 2009**

The combined information for the 12 months ended 31 March 2009 has been prepared by extracting relevant information from the approved business plans for each of the companies. In order to display full 12 month results under the new financing arrangements, interest and tax charges have been included based on an assumption of a restructuring of the companies’ debt with effect from 1 April 2008.

The assumptions management has applied are based both on factors that management believes the Operating Companies can manage or influence and factors that are not in their control. Below are details of the assumptions made.

#### *Passenger Numbers*

The forecast number of passengers for each of the Airport Operators for the 12 months ended 31 March 2009 set forth in note 1 below are based on forecasts contained within the Airport Operators’ capital investment programmes.

The forecast assumptions include consideration of the following factors which influence the number of passengers using the airport, some of which are within managements’ control and influence whilst others are not, as set out below:

- (a) Management can influence those factors such as airport capacity, accessibility of the airports, airport facilities and customer service, where through careful planning, capital investment and effective resource management the Airport Operators’ management teams are able to ensure that their facilities encourage airlines to develop and promote services from the respective airports.

The forecast assumptions take account of the extent to which runway and terminal capacity is provided to meet airline and passenger demands; however, it should be noted that the Airport Operators’ forecast passenger levels are limited by existing capacity constraints and, in respect of HAL and STAL, absolute movement restrictions imposed through local government planning conditions.

- (b) Management has substantially less and in most cases no influence over those factors such as route networks, service frequencies, range of airlines and ticket prices, where the Airport Operators have only limited influence as the relevant decisions ultimately rest with the aircraft operators, although marketing tools and incentives may be used occasionally.

#### *Economic and Business Environment*

It has been assumed that no material change will occur in the economic, political, security or business environment in which the Airport Operators operate during the 12 months ended 31 March 2009 compared to the 12 months ended 31 March 2008.

Therefore, the forecasts do not include any assumptions relating to the occurrence of future unspecified events which may impact the Airport Operators’ results and over which the Airport Operators have no control or direct influence-for example, incidents similar to the Gate Gourmet strike in 2005 and the imposition of additional security requirements following the security alert in August 2006, both of which impacted passenger numbers and income.

However, management believes that the estimated impact of events in previous years which have an ongoing impact on the airports’ operating results during the 12 months to March 2008 have been fully reflected within the forecasts.

### Legislation

The combined forecast information has been prepared on the basis of the assumption that there will be no change in the 12 months ended 31 March 2009 to the principal legislative or regulatory provisions governing the Airport Operators' conduct of their business, including environmental and taxation laws and regulations and the provisions of the Airports Act. Management have little control or influence over most of these factors.

### Note 1 – Aeronautical Income

Aeronautical income comprises total airport and other traffic charges.

The table below sets forth the number of passengers and aeronautical income for each of the Airport Operators, both on an actual basis for the 12 months ended 31 March 2008 and on a forecast basis for the 12 months ended 31 March 2009. The forecast number of passengers set forth below is based on the Airport Operators' forecasts as published within their respective capital investment programmes.

#### Passengers and Aeronautical Income

	Actual combined		Forecast	
	12 months ended 31 March 2008		12 months ended 31 March 2009	
	Passengers	Aeronautical income	Passengers	Aeronautical income
	(in millions)	(£ millions)	(in millions)	(£ millions)
HAL.....	68	649	70	930
GAL.....	36	181	35	251
STAL.....	24	139	23	153
<b>Total.....</b>	<b>127</b>	<b>969</b>	<b>128</b>	<b>1,334</b>

The forecast growth of passengers at Heathrow in the 12 months ended 31 March 2009 includes assumptions as to the impact of the EU-US Open Skies Agreement, which came into force on 30 March 2008, opening Heathrow to greater competition and passenger choices on routes to the USA. It is assumed that the EU-US Open Skies Agreement will result in the re-distribution of traffic from Gatwick to Heathrow along with the creation of new services to the USA by airlines already located at Heathrow. The ultimate determination of which airlines will move to or commence operation from Heathrow as a result of the EU-US Open Skies Agreement however rests with the airlines themselves and not with the Airport Operators.

The forecasts assume a decline in passengers at Gatwick in the 12 months ended 31 March 2009 compared to the prior 12 month period reflected in the table above reflects two expected key impacts:

- The EU-US Open Skies Agreement, which will see some of the US-bound flights from Gatwick moving to Heathrow. It has been assumed that the flights that are re-distributed to Heathrow use larger aircraft than the average aircraft at Gatwick, and therefore offer relatively greater passenger capacity. The slots formerly used by these larger aircraft at Gatwick are assumed as primarily being replaced by smaller aircraft with relatively less passenger capacity.
- An assumption has been made within the forecasts as to the impact of consolidation in the UK charter airline market arising from the merger of some of the charter airlines operating out of Gatwick, including the recent merger of the holiday travel companies Thomas Cook and My Travel, is expected to reduce the number of charter flights at Gatwick. Details of any impact from these mergers has yet to emerge and will be the result of decisions made by those companies rather than the Airport Operators.

STAL has assumed within its forecasts a reduction in passenger numbers in the 12 months ended 31 March 2009 compared to the prior 12 month period, following the cessation of operations by some airlines, including Maxjet, Globespan and Sky Europe, and Air Berlin's discontinuation of domestic

UK flights from Stansted. easyJet's winter 2007/08 flight schedule reductions are also assumed to continue into summer 2008.

The forecast aeronautical income for the 12 months ended 31 March 2009 for HAL and GAL is based on the CAA's price control decision issued on 11th March 2008 (the "CAA's Q5 Decision"). In this decision, the CAA published the maximum allowable passenger yields permitted to be recovered by HAL and GAL for the regulatory period from 1 April 2008 through to 31 March 2013. Once established, the Airport Operators are unable to charge above the maximum allowable yield set by the CAA, although through the setting of the charges tariff can determine the mix of the 'yield' between the various elements e.g. passenger charges and landing and parking fees. The forecasts from HAL and GAL assume that the Airport Operators recover the maximum allowable yields.

The following table sets forth the maximum allowable yields for HAL and GAL for the regulatory years indicated as set by the CAA's Q5 Decision:

**Maximum Allowable Yield<sup>(1)</sup>**

	<u>2007/08 price cap</u>	<u>Reclassification<sup>(2)</sup></u>	<u>Adjusted 2007/08 price cap</u>	<u>% real increase of adjusted 2007/08 price cap to 2008/ 09 price cap</u>	<u>2008/09 price cap<sup>(3)</sup></u>
<b>HAL</b> .....	<b>£9.28</b>	£1.08	£10.36	23.5%	<b>£12.80</b>
<b>GAL</b> .....	<b>£4.91</b>	£0.70	£5.61	21.0%	<b>£6.79</b>

(1) At 2007/08 prices.

(2) Reclassification comprises Aerodrome Navigation Services, baggage and fuel costs.

(3) At nominal prices £13.13 for Heathrow and £6.97 for Gatwick.

The maximum allowable yield has been applied by HAL and GAL in their forecast for 2008/09.

As from 1 April 2008, certain income previously charged separately at HAL and GAL and additional charges for costs that were previously incurred directly by the airlines have been reclassified and included within the maximum allowable yield and will be reflected under aeronautical income:

- (a) Aerodrome Navigation Services (ANS), which is a pass-through cost from NATS to the airlines and which previously was billed directly by NATS. For the 12 months ended 31 March 2009, it is expected to amount to £52 million for HAL and £15 million for GAL at 2007/08 prices.
- (b) Baggage and fuel charges are a pass-through reclassification of revenues (previously in non-aeronautical income). For the 12 months ended 31 March 2009, it is expected to amount to £24.3 million for HAL and £9.5 million for GAL at 2007/08 prices.

The CAA extended the 2003/04 to 2007/08 regulatory period for Stansted Airport by another 12 months to 31 March 2009. The total yield per passenger assumed in the forecast for the 12 months ended 31 March 2009, in 2007/08 prices, is £6.39. It includes ANS of £0.46, cargo charges of £0.33 and the allowable increase of RPI as determined in the Q4 price control conditions.

The financial forecasts therefore assume that the amounts referred to above are fully recoverable.

## Note 2 – Non Aeronautical Income

Non aeronautical income comprises retail income, operational facilities and utilities income, property rental income and other income. HAL also generates rail income from its ownership of the Heathrow Express rail service.

The following table provides a break down of the non aeronautical income assumed by each of the Airport Operators on an actual basis for the 12 months ended 31 March 2008 and on a forecast basis for the 12 months ended 31 March 2009:

	<u>Actual Combined</u>	<u>Forecast</u>
	<u>12 months ended 31 March 2008</u>	<u>12 months ended 31 March 2009</u>
	----- (unaudited) ----- ----- (£ millions) -----	
HAL.....	693	759
GAL.....	237	236
STAL.....	114	118
<b>Total.....</b>	<b><u>1,044</u></b>	<b><u>1,113</u></b>

The forecast non aeronautical income reflects various assumptions:

- (a) Per passenger retail income is forecast to be £4.94 at HAL, £4.87 at GAL and £4.24 at STAL during the 12 months ended 31 March 2009, compared to £4.78, £4.61 and £3.88, respectively, during the 12 months ended 31 March 2008. The forecast increase in retail income at HAL is assumed to be driven primarily by the new retail opportunities made available by the opening of Heathrow's Terminal 5 in March 2008. The increase in retail income at the airports is also assumed to be driven by the recent security screening improvements implemented by the Airport Operators, which are expected to increase the amount of time passengers have available for retail activities, and the easing of carry-on baggage restrictions.
- (b) As noted above charges in respect of baggage and fuel systems previously included within 'non aeronautical income' have been re-classified within 'aeronautical income' from 1 April 2008.

Factors influencing retail income at the airports include:

- (a) those which can be influenced by the Airport Operators which recognise that by working with the concessionaires, to provide an appropriate range of outlets, with corresponding offers and merchandise to appeal to the passenger mix at each airport and providing the right ambience and the amount of time available for shopping the Airport Operators can influence, through provision of light, space and heating, and efficient passenger security processing the amount of retail income generated.
- (b) Other factors impacting retail spending, but which are outside the Airport Operators' influence. These include legislative measures, consumer lifestyle preferences, restrictions on quantities or values of goods allowed to be imported by the destination country, EU/non-EU destinations affecting potential for duty free shopping, exchange rates and the external economic environment. The forecast assumes that there is no change to the current trading conditions as a result of any future unspecified changes of this nature.

### Note 3 – Operating Costs Excluding Depreciation and Pre Exceptional Operating Costs

Operating costs (excluding depreciation and pre exceptional operating costs) consist of employment costs, maintenance expenditure, utility costs (including electrical distribution fees), rents and rates, general expenses, retail expenditure, and other intra-group charges.

The following table provides a break down of operational costs (excluding depreciation and pre exceptional operating costs) of each of the Operating Companies on an actual basis for the 12 months ended 31 March 2008 and on a forecast basis for the 12 months ended 31 March 2009:

#### Operating Costs (Excluding Depreciation and Exceptional Operating Costs)

	Actual Combined	Forecast
	12 months ended 31 March 2008	12 months ended 31 March 2009
	----- (unaudited) ----- ----- (£ millions) -----	
HAL.....	732	978
GAL.....	271	303
STAL.....	133	157
Adjustment for HEX Opco.....	(5)	(6)
<b>Total.....</b>	<b>1,130</b>	<b>1,432</b>

The assumptions behind the forecast operating costs (excluding depreciation) reflect a significant increase in the 12 months ended March 2009 compared to the 12 months ended March 2008 although it should be noted that most of these costs have been agreed with the CAA in the Q5 Price Control Settlement. The main assumptions are the following:

- additional staffing requirements to enhance airport security measures;
- additional expenditures related to servicing the forecast increase in passenger numbers and reflecting the change in billing for ANS;
- additional operating costs related to the operation of Heathrow's Terminal 5. With the opening of Terminal 5, HAL's operating costs are expected to increase by around £120 million per year. The cost increases mainly relate to employment costs, rates, maintenance and utilities expenditure; and
- It has been assumed that no material claims from either regulatory, legal or contractual provisions that may give rise to a liability for payment of compensation, fines or other penalties will arise during the forecast period.

Factors influencing costs at the airports include the quantity and/or volume of resources used, the condition and age of airport assets, unit costs and statutory requirements and obligations. Management can control and influence these costs in a number of ways although there are significant external variables such as legislation, aviation threat levels and general inflation which management cannot directly determine.

With regard to employment costs, there are statutory requirements to be adhered to in some areas which management has no influence over, e.g. CAA or Department for Transport requirements, specifically in airfield operations and security. However, wage rates, remuneration packages and staffing levels (where not determined by statute or regulation) are within management influence and for the 12 months ended 31 March 2009 the forecast includes the impact of the forward dated pay deal agreed in 2006.

Some maintenance costs are outside management influence such as those arising from health and safety legislation which will determine the scope and frequency of some elements of work to be undertaken. However, management can partially exert influence on contract prices through its supply chain and negotiation processes, and on maintenance activity by setting appropriate maintenance regimes, upgrading assets where appropriate as well as determining the initial build quality.

Other significant costs include policing costs, which are largely outside the Airport Operators' direct control, and rates costs which are determined by the relevant local government authority.

#### Note 4 – Adjusted EBITDA

Adjusted EBITDA is calculated by considering total income and operating costs (excluding depreciation and pre exceptional operating costs). Management believes that adjusted EBITDA allows for a comparison of the Operating Companies' performance on a consistent basis without regard to non-recurring expenses that management believes do not reflect the regular operating performance of the Operating Companies' businesses.

The following table sets forth adjusted EBITDA for the Airport Operators for the 12 months ended 31 March 2008 and forecast adjusted EBITDA for the 12 months ended 31 March 2009:

	Actual Combined	Forecast
	12 months ended 31 March 2008	12 months ended 31 March 2009
	----- (unaudited) ----- ----- (£ millions) -----	
HAL.....	611	711
GAL.....	147	184
STAL .....	121	114
Adjustment for HEX Opco .....	5	6
<b>Total.....</b>	<b>883</b>	<b>1,015</b>

#### Note 5 – Cashflow from Operations

The Cashflow from Operations is based on the forecast pre tax operating cash flows for the period that would be available for meeting interest on debt and is derived from forecast income, operating expenditure (excluding depreciation and pre exceptional operating costs) and working capital movement.

	Forecast
	12 months ended 31 March 2009
	(unaudited) (£ millions)
Adjusted EBITDA .....	1,015
Movement in working capital.....	(50)
<b>Total.....</b>	<b>964</b>

#### Note 6 – Net Capital Expenditure

The forecast capital expenditure cash flows set forth below for HAL and GAL are based on the assumption that the Airport Operators deliver the capital investment plans that have been approved by the CAA for inclusion in the relevant Airport Operator's RAB for the regulatory year ended 31 March 2009. Although the capital expenditure plans have been agreed with the CAA and the airlines at HAL and GAL, the actual amount of each Airport Operator's capital investments could be greater or smaller than the estimates below depending on new obligations with which the Airport Operators might be required to comply.

The level and timing of capital expenditure is largely in the control of the Airport Operators although external events, for example planning and environmental requirements, can impact these assumptions.

The Airport Operators consult carefully with the airline community in relation to the scope and detail of each project which can influence the total cost of delivery.

The tables below sets forth, for each of the Airport Operators, forecast capital expenditure, assumed movement in capital creditors and forecast net capital expenditure for the 12 months ended 31 March 2009. The forecast net capital expenditure figures are presented on a cash basis and therefore include an allowance for the increase or decrease in capital creditors during the period.

### Capital Expenditure

	Forecast
	12 months ended 31 March 2009
	(unaudited) (£ millions)
HAL (including HEX Opco) .....	1,092
GAL .....	199
STAL .....	132
<b>Total</b> .....	<b>1,423</b>

### Movement in Capital Creditors

	Forecast
	12 months ended 31 March 2009
	(unaudited) (£ millions)
HAL (including HEX Opco) .....	(190)
GAL .....	2
STAL .....	7
<b>Total</b> .....	<b>(181)</b>

### Net Capital Expenditure (Cash Outflow)

	Forecast
	12 months ended 31 March 2009
	(unaudited) (£ millions)
HAL (including HEX Opco) .....	902
GAL .....	202
STAL .....	138
<b>Total</b> .....	<b>1,242</b>

The large movement in capital creditors forecast for HAL is due to the phasing of total capital expenditure, whereby a higher level of capital expenditure is expected in the fourth quarter of the 12 months ended 31 March 2009 compared to the fourth quarter of the 12 months ended 31 March 2008. This is primarily explained by the PSDH project, connections and baggage, and Terminal 5 piers and aprons.

For more information about the Airport Operators' historical and forecast capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Expenditures".



## Note 7 – Regulatory Asset Base (RAB)

The combined regulatory asset base after indexation and profiling of the Airport Operators is forecast to amount to £13,261 million as of 31 March 2009:

	HAL (including HEX Opco)	GAL	STAL	Total
	----- (unaudited) -----			
	----- (£ millions) -----			
<b>Opening RAB as of 1 April 2008<sup>(1)</sup></b> .....	<b>8,978</b>	<b>1,524</b>	<b>1,167</b>	<b>11,669</b>
Capital Expenditure <sup>(1)</sup> .....	1,068	195	129	1,392
Depreciation <sup>(1)</sup> .....	(409)	(74)	(41)	(525)
Q4/Q5 Profiling <sup>(1)</sup> .....	205	—	4	209
Price smoothing adjustment <sup>(1)</sup> .....	24	(5)	—	19
Indexation <sup>(2)</sup> .....	385	64	49	498
<b>Closing RAB as of 31 March 2009<sup>(2)</sup></b> .....	<b>10,249</b>	<b>1,703</b>	<b>1,309</b>	<b>13,261</b>

(1) At 2007/08 prices. Figures for HAL (including HEX Opco) and GAL as presented by the CAA in the March 2008 Price Determination.

(2) At 2008/09 prices.

The forecast RAB for the period to 31 March 2009 has been based on the unaudited RAB as of 31 March 2008, based on actual capital expenditure, disposals and indexation at that date. This has then been rolled forward based on forecast capital expenditure, disposals and indexation to 31 March 2009. Depreciation and profiling adjustments are as set out in the CAA's Q5 Decision in respect of HAL and GAL indexed to the relevant price base. The figures for STAL are based on a submission to the CAA dated March 2008. It has been assumed that all capital expenditure incurred is included in the RAB.

As noted above the opening RAB is based on unaudited figures and will not be confirmed until completion of the Regulatory Accounts as at 31st March 2008. Management however believe that the opening RAB may be slightly higher than assumed although the difference is not expected to be material or have any significant impact on the loan agreements, financial ratios.

Allowable income can be transferred between quinquennia by increasing or decreasing allowable income in one quinquennium and unwinding this adjustment in the following quinquennium. This is known as "profiling". Profiling has been used by the CAA to smooth aeronautical price paths and advance income.

In its 2003 decision, the CAA determined that adjustments should be made to the RAB calculations for HAL and GAL to reflect, among other items, the advancement of income for expenditure on Heathrow's Terminal 5 in Q4 which was reflected in a corresponding reduction in RAB in that year. This profiling adjustment unwinds in Q5 as an increase in RAB and a corresponding reduction in revenues. The post profiled RAB is used for the calculation of certain financial trigger ratios.

## Note 8 – Pro Forma Senior Debt and Junior Debt

	Forecast
	As of
	31 March 2009
	(unaudited)
	(£ millions)
Pro forma Senior Debt .....	8,744
Pro forma Junior Debt .....	1,162
<b>Total Debt</b> .....	<b>9,906</b>

The assumed forecast *pro forma* Senior Debt and forecast *pro forma* Junior Debt include the effects of accretion of principal on index-linked issuance and RPI swaps as required by the documents and covenants.

## Note 9 – Forecast Pro Forma Cash Interest Payable

	Forecast
	12 months
	ending
	31 March 2009
	(unaudited)
	(£ millions)
Cash interest payable on Senior Debt .....	335
Cash interest payable on Junior Debt .....	73
<b>Total cash interest payable</b> .....	<b>408</b>

Interest payable has been included assuming that the new financing structure had been in place since 1 April 2008. The method of calculation has been to annualise these charges on the basis of the revised financing structure (effective from 1 April 2008) and adjusted for the movement in debt for the period 1 April 2008 to 31 March 2009.

Cash interest prepayment will be made under a hedging contract on or about the Initial Issue Date, which will have the effect of reducing proforma Senior Debt interest payable in the period by approximately £200 million.

The Security Group is also proposing to enter into RPI swaps that have the effect of converting the coupon paid on a number of tranches of existing bonds into a real coupon, indexing over time with RPI.

Index linked debt is appropriate because it provides a natural hedge to the revenues of the business which are linked to RPI under the regulatory framework.

These arrangements have been reflected in the cash interest payable forecast above.

# AIRPORT REGULATION

## 1. AIRPORT REGULATION GENERALLY

Airport charges are typically set for a five-year regulatory period by the Civil Aviation Authority (“CAA”). In setting the tariff, the CAA is required to observe its statutory objectives, detailed below. As with other UK regulated utilities, BAA’s price control is set on an RPI+/-X basis based on an allowed return on the Regulated Asset Base (referred to as the RAB). To the extent that costs rise or revenues fall due to unforeseen circumstances beyond management control or changes in assumed traffic volumes, these are addressed going forward when tariffs are re-set in the following regulatory period. However, there is not (usually) a retrospective adjustment of lost income. The airports are allowed to make a return on all investment achieved through the cost of capital. Tariffs are set on, *inter alia*, the anticipated growth in RAB from new investment agreed between BAA, CAA and the airlines through the regulatory engagement.

### 1.1 Regulatory Framework

The Airports Act sets out the regulatory framework for airports in the UK. Under the Airports Act, airports with an annual turnover of over £1 million must obtain permission from the CAA to levy airport charges. The CAA, in its capacity as the economic regulator for UK airports, is required to carry out its statutory function of setting five-year price controls on the airport charges levied by price regulated (“designated”) airports. Whether or not an airport is designated is a matter for HM Government. Until recently, there were four designated airports in the UK, namely Heathrow, Gatwick, Stansted (each owned by BAA) and Manchester (owned by a consortium of public authorities). In January 2008, the Secretary of State decided to de-designate Manchester, leaving only the three BAA London airports subject to CAA price control. The five-year regulatory period is referred to as a quinquennium.

### 1.2 The CAA and its statutory powers and objectives

The CAA is the independent aviation regulator in the UK, with responsibility for most civil aviation regulatory functions, i.e. economic regulation, airspace policy, safety regulation and consumer protection. Part IV (Sections 36 et seq) of the Airports Act sets out how the CAA shall perform its functions of economic regulation of airports. The CAA has a duty to perform its functions in setting price controls in a manner which it considers 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 CAA has no freedom to depart from the statutory objectives contained in the Airports Act. Any amendment to the CAA’s duties would require primary legislation.

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. No primacy is given, for example, to the duty to further the reasonable interests of users.

The CAA, unlike other (economic) regulators in the UK, has no concurrent powers with the Office of Fair Trading (“OFT”) and the Competition Commission (“CC”) to enforce competition rules under the Competition Act 1998 and the Enterprise Act 2002. However, the CAA has the power under Section 41 of the Airports Act to deal with certain anti-competitive courses of conduct by the airports.

In carrying out its statutory functions, the CAA also has to take account of the UK’s international obligations including Article 15 of the Chicago Convention, the Bermuda II Air Services Agreement (“ASA”) between the UK and US governments and other bilateral air services agreements between the UK and foreign governments. These agreements ensure, e.g., that airport charges for non-national aircraft are not higher than those paid by national aircraft

engaged in similar operations. Furthermore, the Bermuda II ASA includes a number of restrictions, including limits on which airlines can operate between Heathrow and US airports and at what frequency. See “– *Open Skies*”.

BAA also takes into account the International Civil Aviation Organisation (“ICAO”) guidance on charges for airport services. ICAO 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<sup>3</sup> including a reasonable rate of return on assets. ICAO also provide 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.

The European Commission proposed in January 2007 an EU directive on airport charges, taking as its starting point the ICAO guidance. The proposed EU directive remains subject to discussions between the EU Institutions, amendment and approval. It is likely that the earliest date for entry into force would be in 2010. It is not envisaged that the directive would have a significant impact on the Airport Operators as the transparency and consultation requirements it envisages are similar to those already in place at Heathrow, Gatwick and Stansted.

### **1.3 *Open Skies***

In April 2007, the European Community, its Member States and the USA signed the EU-US Open Skies Agreement, which came into effect on 30 March 2008. The Agreement is structured into two separate stages. The first stage started on 30 March 2008 and the parties launched their negotiations on the second stage on 15 May 2008 in Ljubljana. The agenda for the second stage negotiations includes the following items: (a) further liberalisation of traffic rights; (b) additional foreign investment opportunities; (c) effect of environmental measures and infrastructure constraints on the exercise of traffic rights; (d) further access to Government-financed air transportation; and (e) provision of aircraft with crew. The “second stage” of negotiations could lead to the removal of limits on services operated by carriers or investors within the other’s market.

It is expected to liberalise the transatlantic aviation market and, in particular, to remove some constraints on services between Heathrow and the USA. While aircraft traffic volumes at Heathrow are likely to remain constant (since they are capped at 480,000 movements), BAA expects that the change will have a broadly positive impact on traffic and passenger volumes at Heathrow, where new services to the US (using larger aircraft) will displace some existing services (using smaller aircraft), and a somewhat negative impact at Gatwick, where at least some of the existing US services will move to Heathrow but may be replaced by other services (albeit with a smaller number of passengers). Although the planning and forecasting is still at an early stage, it is expected that air traffic will increase as a result of the EU-US Open Skies Agreement. Upon entry into force, the “Open Skies” agreement shall supersede a number of bilateral air-services agreements between EU Member States and the USA, including Bermuda II ASA (see above), insofar as the UK is concerned.

In addition, airports are subject to the provisions of UK and European competition law. See “– *Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

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

The framework of airport regulation has not changed since the Airports Act was introduced 20 years ago. See “*Risk Factors – Regulatory Risk – Legal Framework of regulation liable to change*”.

The DfT announced on 22 April 2008 a review of economic regulation of the UK Airports system to be conducted by the DfT advised by a panel of experts chaired by Professor Martin Cave. The purpose of the review is to complement the next stage of the CC’s Market Enquiry review (see “– *Competition in the Air Transport Industry – Market Investigation Regime*”) and the independent Strategic Review of the CAA being undertaken by Sir Joseph Pilling and enable the DfT to provide well informed evidence to the CC and to respond to any relevant recommendations which follow from the CC Market Enquiry.

Any changes to the Airports Act would require primary legislation.

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3 ICAO’s policies on charges for airports and air navigation services, seventh editions – 2004, paragraph 21.

On 18 June 2008 the DfT issued a Memorandum on the review stating that:

*“...economic regulation should provide the right incentives to deliver timely, efficient and necessary investment and to ensure that the owners of UK airports are able to finance that investment. The Department for Transport supports these principles as essential components for delivering the capacity and investment envisaged under the 2003 Future of Air Transport White Paper.*

*Any resulting legislation will be put forward only after consultation, and will not make changes to the basis on which the current price caps at Heathrow and Gatwick are set, nor changes to the cap which will take effect at Stansted from 1 April 2009.*

*Consequently any changes to price caps resulting from the review would not take effect until 1 April 2013 at the earliest.*

*As part of the review, the Department wants to ensure that regulated UK airports maintain a robust financial profile in order to finance future investment. We note that other regulators in the UK have adopted a minimum investment grade threshold for regulated companies in order to preserve the financial flexibility to support required levels of investment.”*

## **2. LICENCES**

Airport Operators are currently not required to hold an operating licence, unlike in other regulated industries, such as energy, water, postal services and telecommunications. An Airport Operator is currently subject only to aerodrome licensing, which requires the operator to demonstrate that it is competent to conduct aerodrome operations safely.

More specifically, pursuant to the Air Navigation Order 2005 (SI 2005 No. 1970), the CAA must grant a licence in respect of any aerodrome in the UK 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.

While the Airport Operators are currently not required to hold an operating licence, there is a possibility that they could be required to do so in the future. See “*Risk Factors – Regulatory Risk*”. Any change in the operating licence framework for the airports would require a change in the Airports Act by primary legislation.

## **3. PERMISSIONS**

Airports with an annual turnover of over £1 million must obtain permission from the CAA to levy airport charges. The Security Group has obtained these permissions.

“Airport charges” are defined by Section 36 of the Airports Act as:

- charges levied on operators of aircraft in connection with the landing, parking or taking off of aircraft at the airport (including charges that are to any extent determined by reference to the number of passengers on board the aircraft, but excluding charges payable by virtue of section 73 of the Transport Act 2000 (charges for services)); and
- charges levied on aircraft passengers in connection with their arrival at, or departure from, the airport by air.

## **4. PRINCIPLES OF ECONOMIC REGULATION**

Under section 40 of the Airports Act, the CAA must impose conditions on the operators of Designated Airports to regulate the maximum amount they may levy in airport charges over a five-year period.

#### 4.1 The Price Cap

The CAA uses a “single till” regulatory building block approach in setting the price caps. Under this approach, aeronautical as well as commercial revenues and costs received and incurred by an airport are taken into account in assessing the appropriate maximum level of airport charges. In other words, the single till takes into account revenue, costs and assets from non-aeronautical activities when calculating the “price” of aeronautical activities, i.e. airport charges.

The regulated revenue requirement is the total revenue requirement less forecast other revenues (where other revenues are non-regulated income and commercial income) and is therefore calculated as the sum of operating expenditure less other revenue plus the required return on the RAB, plus depreciation and an adjustment for RPI Inflation. The cost of capital is applied to the RAB to identify the required return on the RAB. The resultant regulated revenue requirement is the airport charges income.

The price cap is defined as a yield figure. Thus, the regulated revenue requirement is divided by passenger numbers to identify the revenue per passenger required from airport charges to ensure that the airports can earn a reasonable rate of return on their investments.

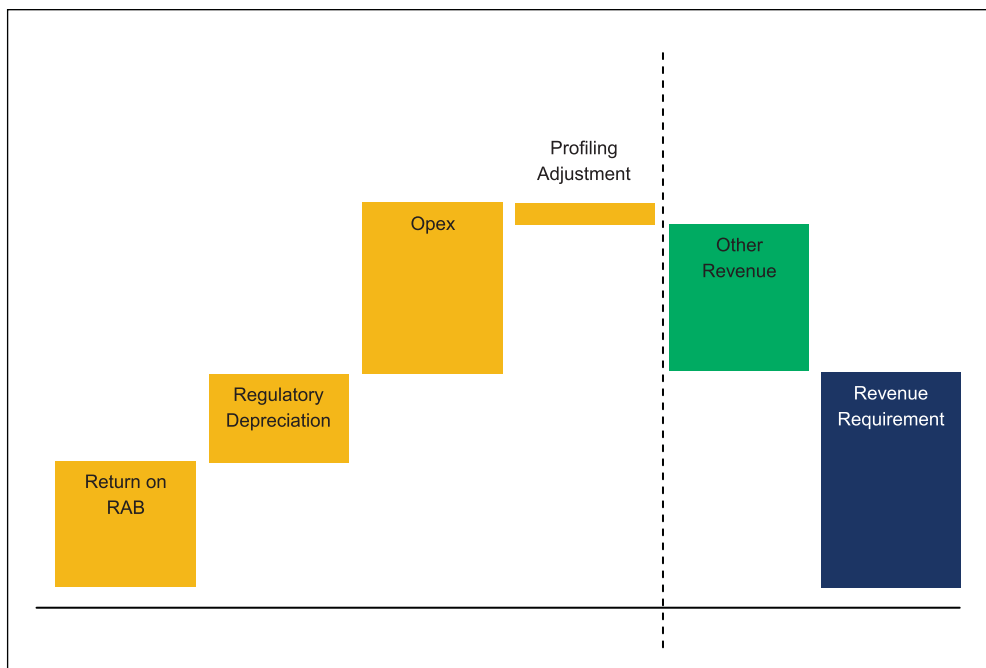
The key factors in determining the price cap are the RAB, the return on the RAB using the assumed cost of capital, regulatory depreciation, the projected levels of capital expenditure and operating costs, other revenues and passenger forecasts.

When setting the price cap the CAA can build in additional cost efficiency savings, higher revenue forecasts or a reduced capital expenditure budget compared to the airport business plan. The price controls are applied to generate a maximum allowable airport charges yield.

While the price cap places a limit on the increase in the airport charges yield, it does not set a floor on airport charges. Therefore, the Airport Operators can choose to price charges below the cap should circumstances suggest that this was a sensible approach. For example, if there is unused capacity, an Airport Operator may choose to set prices below the cap in order to stimulate demand.

This methodology can be represented by a simplified diagram:

#### **Regulatory Building Blocks: Setting Price Control**



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

The CAA calculates the value of the RAB at each airport over each year of the quinquennium. This is included in the CAA's RAB forecasts made at the time of the quinquennial decision.

There is no definitive list of assets which are included in or excluded from the RAB. The RAB does not, for example, match the fixed asset register. The notion that the RAB acts as a unit of regulatory value and as such need not correspond to statutory asset values is widely accepted in UK regulation.

The closing RAB for each year is taken to be the sum of the opening RAB, plus capital expenditure plus an adjustment for RPI inflation less projected depreciation (including the pricing profile adjustment) and less proceeds of disposal.

The CAA does not update the value of the RAB within each quinquennium. Rather, each Designated Airport is required to submit its RAB to the CAA at 31st March of each year as stated in its regulatory accounts. A decision as to whether the current period RAB has been appropriately updated by BAA (on behalf of the Designated Airport) during the current regulatory period is not made until the CAA sets the opening RAB for the next quinquennium shortly before its commencement.

Therefore, during a quinquennium the RAB is determined by BAA including for the purposes of determination of the Regulatory RAB component of the Senior RAR and Junior RAR calculations. The Regulatory RAB is not independently verified although the regulatory accounts are annually provided to (but not explicitly approved by) the CAA. In determining the Regulatory RAB, the Airport Operators are incentivised to ensure that only capital expenditure which is ultimately included in the RAB by the CAA is included in that calculation. If the CAA has stated in correspondence with an Airport Operator that any capital expenditure which such Airport Operator has accounted for or expects will be accounted for as regulatory capital expenditure will not be included in the RAB, the relevant Airport Operator will exclude such amount from the calculation. For the definition of "Regulatory RAB" see the "*Glossary of Common Terms*".

#### **4.3 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. Other aspects of the price control formula were not required to be consulted upon.

#### **4.4 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 CC pursuant to section 40(9) of the Airports Act.

The reference must be framed to require the CC to investigate, report and conclude on:

- the maximum amounts of airport charges that should be capable of being levied by the Airport Operator during the next five-year period; 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;
  - 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 CC concludes that the Airport Operator's course of conduct has had, or might be expected to have, adverse effects on the public interest, the CC 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)

#### *Interaction between the CC and the CAA*

The CAA reviews the CC's conclusions and recommendations before deciding on the final price caps to be applied. In setting the price caps the CAA must have regard to the CC's conclusions but is not bound by them. Similarly, in relation to CC 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 CC's report, unless the Secretary of State directs the CAA otherwise, and in doing so shall have regard to the CC's suggested conditions or modifications.

Where the CAA imposes conditions or modifications of conditions, which do not accord with the CC's recommendations, section 46(5) of the Airports Act requires the CAA to publish a statement of reasons for not implementing the CC's report.

The reference to the CC is currently a mandatory part of the regulatory review process for airports (unlike in other regulated industries). It would take primary legislation to remove the CC reference from this process. This means that there is no opportunity for an Airport Operator to appeal the CAA's final decision to the CC as the CC has already been involved in the process. Therefore, the only legal recourse for an Airport Operator in respect of the regulatory settlement is to seek judicial review.

#### **4.5 No Protected Land**

BAA is a private company, limited under UK company law, and, as such, it has the usual rights vis-à-vis title to land and buildings arising from its corporate legal personality. Unlike other certain regulated industries, there are currently no restrictions or augmentations of such rights set forth in the Airports Act or in the airport charges permission conditions imposed by the CAA. Therefore, a creditor would be entitled to enforce any security without giving prior notice or receiving approval from the CAA or the Secretary of State for Transport. See "*Risk Factors – CC investigation into BAA's ownership of UK airports*".

#### **4.6 No Special Administrative Regime**

Unlike other regulated companies, there is no special administration regime. It is possible that the DfT review of Economic Regulation will consider whether this is appropriate for the airports sector. That would need to be introduced through primary legislation. See "*Risk Factors – CC investigation into BAA's ownership of UK airports*".

#### **4.7 No Restrictions on Financing Arrangements**

The CAA currently has no powers under the Airports Act to approve (or indeed prohibit) changes in ownership or financial structure, although it is customary for BAA to discuss these arrangements with the CAA. Airports which are price regulated by the CAA are therefore entitled to grant security over their assets without notification to, or approval from, the CAA or the Secretary of State.

Ultimately the choice of financing arrangements falls to the owner of the Designated Airports, working within the regulatory framework set by the CAA in accordance with its statutory duties. Whilst the CAA is concerned with promoting the profitability of the airports to encourage investment in new facilities, it currently does not have a veto on how BAA decides the Airport Operators and Designated Airports should be financed. However, a number of airlines had expressed concerns regarding BAA's highly leveraged financial structure and suggested supplementary measures be introduced in the conditions attached to Heathrow and Gatwick.

The CAA's 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. The CAA has stated that it follows that – at the limit – the CAA would be prepared to let any one of the regulated airports fail. 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. See "*Risk Factors – Regulatory Risks*". This has been reaffirmed in the CAA decision of 11 March 2008.



#### 4.8 Interim Reviews

The price cap is typically set for a five-year period 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, although BAA has the right to apply to do so.

#### 4.9 Profiling

Allowable revenue can also be transferred between quinquennia ("Profiling") by increasing allowable revenue in one quinquennium but decreasing revenue in another quinquennium. Profiling is used to smooth airport charges that would have otherwise occurred due to major investments coming on line (e.g. Heathrow Terminal 5).

#### 4.10 Quinquennia

The table below shows the terms of Q3, Q4 and Q5 for Heathrow and Gatwick and Stansted:

Q3	1 April 1997 to 31 March 2003 (6 years)
Q4	Heathrow and Gatwick: 1 April 2003 to 31 March 2008 (5 years) Stansted: 1 April 2003 to 31 March 2009 (6 years)
Q5	Heathrow and Gatwick: 1 April 2008 to 31 March 2013 (5 years) Stansted: 1 April 2009 to 31 March 2014 (5 years)

Airport	2007/2008 Charges <sup>(1)</sup>	2008/2009 Charges	Price Cap 2008/2009 - 2012/2013 <sup>(2)</sup>	2012/2013 Charges
Heathrow	£10.36/passenger	£12.80/passenger One-off increase of 23.5%	RPI + 7.5%	£16.99
Gatwick	£5.61/passenger	£6.79/passenger One-off increase of 21.0%	RPI + 2%	£7.34

(1) Aerodrome air navigation service (ANS) and baggage infrastructure and fuel charges are included. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Unaudited Forecast Financial Data and Pro Forma Financial Ratios for the Year Ended 31 March 2009*".

(2) Year-on-year increase in maximum allowable yield.

## 5. HEATHROW AND GATWICK PRICE REGULATION

### 5.1 Key elements of CAA's Q5 Decision

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

- "single till" approach and continuity with current price control in terms of recognising commercial revenues and costs of the regulated airports, the definition of airport charges and the principal design of the price cap;
- WACC<sup>4</sup> of 6.2 per cent. pre-tax real for Heathrow and 6.5 per cent. at Gatwick;
- operating costs: lower projected operating costs than had been forecast by BAA;
- confirmation of regulatory intent that risks associated with specific financial arrangements adopted by the airports falling on the owners and their investors rather than users;

<sup>4</sup> The Weighted Average Cost of Capital (WACC) is the Regulator's assessment of the appropriate allowed blended cost of debt and return on equity to satisfy the requirements of capital providers over the quinquennium. The Regulator uses a notional capital structure to determine WACC.

- the ability of BAA to earn a return on the forecast Q5 expenditure of £639 million associated with runway 3 or mixed mode at Heathrow and a mechanism to provide a degree of certainty to BAA that such expenditure would be ultimately included in the RAB; and
- a cross-period revenue profile (i.e. bringing revenues forward from Q5 to Q4) was included in the Q4 regulatory settlement to avoid significant changes in prices that would otherwise have occurred due to major investments (in particular the Heathrow Terminal 5 Project). The CAA has unwound this profile in the Q5 regulatory statement. In addition, there is a 'Price profiling adjustment' within Q5 to smooth aeronautical price paths across the five years of the regulatory period.

## **5.2 Capital Investment**

BAA's capital investment plan at these airports in Q5 totals £5,415 million (in 2007/8 prices) which is broken down as follows: Heathrow: £4,541 million and Gatwick: £874 million. This increased investment programme for Heathrow and Gatwick has been agreed with the CAA and airlines through the "constructive engagement" process.

The CAA imposed a substantially broader set of investment triggers putting a greater amount of airport charges income at risk. There are 24 triggers at Heathrow and 10 at Gatwick, which together relate to approximately 60 per cent. of the investment plan in the regulatory period. The detailed triggers are set out in "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Aeronautical Income – Capital Investment Triggers*".

In the unlikely event that the specified projects were not delivered at all in the regulatory period, the maximum penalty at risk would be 5 per cent. of Heathrow's airport charges revenue and 4.3 per cent. of Gatwick's.

## **5.3 SQR Triggers**

The CAA also introduced a service quality rebate (SQR) scheme to set out defined service targets for a range of passenger facilities. To the extent the airports do not achieve the defined standards, rebates to airlines are required. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" for a detailed discussion of the scheme. The maximum total revenue at risk over the five-year regulatory period is 7 per cent. of total revenues of HAL and GAL. BAA can achieve 2.24 per cent. revenue upside out-performing the SQR regime.

## **5.4 RAB Adjustments**

The CAA has confirmed that, with the exception of the £22.5 million expenditure associated with Personal Rapid Transit (PRT), all the actual capital expenditure in Q4 at Heathrow and Gatwick has been included in the respective initial RABs for Q5. In addition, the CAA has made a number of RAB reductions related to the Terminal 5 Hotel site and the Q3 pensions holiday.<sup>5</sup>

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.

## **5.5 Judicial Review**

In May 2008, easyJet sought leave to apply for judicial review of the CAA's decision with respect to the Gatwick price cap. EasyJet claims the CAA gave insufficient weight to the CC's views, failed to adopt a fair and lawful approach to the handling of late operating expenditure claims by Gatwick and ignored the CC's public interest recommendations in relation to awarding bonuses for overperformance on SQRs. No further applications for judicial review were made by 11 June 2008, the end of the relevant statutory deadline to challenge the CAA's Q5 decision. A successful judicial review would result in the pricing decision being remitted back

<sup>5</sup> The CAA also disallowed certain operating costs in the maximum allowable yield calculations including severance provisions connected with the 'Simplification' programme and management incentive payments in corporate documents. The value of these adjustments is around 2 per cent. of the total operating costs of the airports in Q5.

to the CAA for reconsideration of the areas raised by easyJet in its application, in the light of the Court's conclusions on the legal principles and process. It is not necessarily the case that the price cap would be reduced as a result of a successful judicial review. See "*Risk Factors – Regulatory Risks – Judicial Review of CAA's Q5 price decision*".

### 5.6 Other Relevant Points coming out of the Settlement

The CAA will provide for an independent mid Q5 assessment of BAA's progress in achieving capital expenditure efficiency at each airport and its performance to date in consultation with users on airport development and investment. This will include BAA's consultation on, and efficient delivery of, preliminary capital expenditure associated with the expansion of airport capacity via mixed mode operations and/or a third runway at Heathrow. The CAA has proposed the outline terms of reference of the review, which it is envisaged will commence in April 2010 and report in December 2010. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

### 5.7 Maximum Levels of Airport Charges

Maximum levels of airport charges per passenger at Heathrow in Q5

£ million 2007/08 prices	2008/09	2009/10	2010/11	2011/12	2012/13	Q5 Total
Opening RAB.....	8,978	9,865	10,804	11,537	12,022	
Capital Expenditure .....	1,068	1,193	1,059	886	580	4,787
Depreciation .....	(409)	(420)	(442)	(455)	(488)	(2,214)
Q4/Q5 profiling.....	205	151	106	80	(13)	528
Price profiling adjustment	24	14	11	(27)	(22)	—
Closing RAB .....	9,865	10,804	11,537	12,022	12,079	—
Operating costs.....	851	837	841	846	853	4,226
Q4 Security claim .....	3	3	3	3	3	16
Depreciation .....	409	420	442	455	488	2,214
Q4/Q5 profiling.....	(205)	(151)	(106)	(80)	13	(528)
Price profiling adjustment ....	(24)	(14)	(11)	27	22	—
Cost of capital .....	567	621	672	708	725	3,293
Total revenue requirement ...	1,601	1,716	1,841	1,959	2,104	9,221
Commercial revenues.....	(385)	(407)	(428)	(443)	(462)	(2,125)
Non-regulated charges.....	(169)	(165)	(166)	(165)	(168)	(832)
Other revenues.....	(147)	(149)	(148)	(144)	(145)	(733)
Net revenue requirement .....	901	995	1,099	1,207	1,329	5,531
Passengers (millions).....	70.4	72.5	74.5	76.2	78.2	371.8
Yield per passenger (£).....	12.80	13.72	14.76	15.84	16.99	

Source: CAA Calculations

Maximum levels of airport charges per passenger at Gatwick in Q5

£ million 2007/08 prices	2008/09	2009/10	2010/11	2011/12	2012/13	Q5 Total
Opening RAB.....	1,524	1,639	1,806	1,965	2,028	
Capital Expenditure .....	195	249	239	147	90	920
Depreciation .....	(74)	(79)	(83)	(86)	(98)	(419)
Price profiling adjustment ....	(5)	(3)	2	3	4	—
Closing RAB .....	1639	1806	1965	2028	2024	
Operating costs.....	277	275	276	277	276	1,381
Q4 Security claim .....	4	4	4	4	4	18
Depreciation .....	74	79	83	86	98	419
Price profiling adjustment	(5)	(3)	2	3	4	—
Cost of capital .....	100	108	119	126	128	580
Total revenue requirement ...	459	469	479	489	501	2,398
Commercial revenues.....	(175)	(177)	(178)	(181)	(183)	(894)
Non-regulated charges.....	(37)	(37)	(37)	(37)	(37)	(185)
Other revenues.....	(4)	(4)	(4)	(4)	(4)	(20)
Net revenue requirement .....	244	252	260	268	277	1,300
Passengers (millions).....	35.9	36.4	36.8	37.2	37.7	184.0
Yield per passenger .....	6.79	6.92	7.06	7.20	7.34	

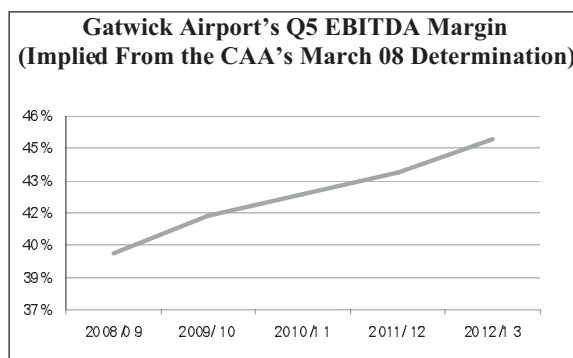
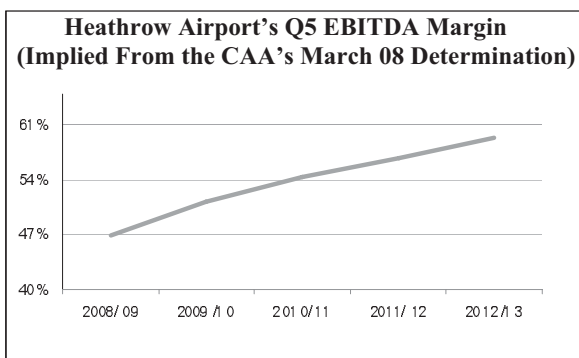
Source: CAA Calculations

### 5.8 EBITDA margin

The charts below present the EBITDA margin trend based on the forecast contained in the CAA's March 2008 Price Determination for Heathrow and Gatwick. EBITDA margin (defined as (Total revenue requirement minus Operating Costs)/Total revenue requirement) is forecast to progressively improve during the regulatory period 2008/09 to 2012/13. The main reason for this forecast increase in EBITDA margin is the way in which the revenue increases from the regulatory settlement have been phased over the period. Tariff increases are phased linearly over the Quinquennium to achieve the WACC set by the CAA although cost increases associated for example with enhanced security and maintenance are incurred from the commencement of the quinquennium. As a result revenues relative to operating costs are higher at the end of the regulatory period compared to the beginning of the regulatory period. Additionally the margins improve as the airports deliver the cost efficiencies imposed by the regulator.

It should be noted that the EBITDA margin should be analysed taking into account:

- each regulatory period, not any specific year;
- capital expenditure program for each regulatory period; and
- WACC set out by the CAA for each Quinquennium.



## 6. STANSTED PRICE REGULATION

### 6.1 Current Regulation at Stansted

STAL's allowed cost of capital is 7.75per cent. pre-tax real in the current regulatory period.

### 6.2 De-designation of Stansted

The CAA can propose but has no power to de-designate a UK airport. This power is reserved to the Secretary of State under the Airports Act. In relation to Stansted, the CAA recommended the de-designation of Stansted in its December 2006 initial proposals for the airport price review. The Secretary of State did not accept the CAA's advice but instead decided to retain Stansted's status as a designated airport.

### 6.3 Price cap extension for Stansted

In light of the prospect at that time of Stansted's de-designation, the CAA decided in March 2007 to extend the Q4 price controls in relation to Stansted to 31 March 2009. The recommendation and subsequent rejection of de-designation has meant that Stansted's regulatory price is now one year out of step with that of Heathrow's and Gatwick's. Under the circumstances the CAA's extension means that the 2008/09 price cap is the 2007/08 price cap increased by RPI+0.

The key dates are set out below:

January 2008	CAA issued its initial proposals for consultation.
March 2008	Close of consultation
April 2008	CAA published its price control reference to the CC in respect of Stansted
May 2008	CC published its issues statement
End October 2008	CC will publish its report and recommendations.
December 2008	CAA issues price cap proposals for consultation
February 2009	Final consultation period closes
March 2009	CAA will publish its final decision on Q5 price controls for Stansted for the period from 1 April 2009 to 31 March 2014.

### 6.4 CAA's approach to Q5

In its CC reference the CAA set out six options for price regulation, which attempt to address the identified challenges at Stansted.

**Option 1 – Augmented Building Block:** the “standard” cost based building-block price control calculation which is based on the regulator's assessment of projected traffic, services, capacity, investment and revenues.

This option would involve intensive regulatory oversight of the proposed second runway investment including “constructive engagement” between the BAA and the airlines with the CAA inevitably deciding the nature and timing of investment in the second runway.

**Option 2 – Legacy Price Cap:** “standard” cost based building-block approach would be applied to the existing airport assets, with the airport charge for any major increment of additional capacity or service to be set primarily by commercial considerations subject to a higher “backstop” precautionary price cap.

**Option 3 – Terminal Development Tendering:** the CAA would establish a competitive tender for the provision of additional terminal capacity associated with a second runway having specified the nature of the proposed runway investment and the access charges from the airport operator to the terminal developer.

**Option 4 – Market-led Price Cap:** the price cap would be set by forward-looking measures of long-run average incremental cost.

**Option 5 – Precautionary Price Cap:** the price cap would be set by forward looking measures of cost just below the level at which prices might be viewed as excessive under competition law with the strong expectation that competitive constraints would in practice hold charges some way beneath this cap.

**Option 6 – Default price cap:** a default price cap would be set based on the deemed efficient costs of the facilities and services which users currently require complemented by a comprehensive service quality regime. Airlines would be able to negotiate for additional facilities or changes in service levels with the prospect of competitive third party provision if agreement cannot be reached.

In its issues statement the CC has stated that it would also consider the option of keeping a RAB approach (amended as necessary) with assets entering the RAB when the cost is incurred (i.e. at construction) but only when airlines have approved it.

The CAA also discusses the potential for combining the current building block approach whilst putting prices onto a path towards long run incremental prices, and the potential for transitional arrangements.

The CAA is seeking the CC’s views on the degree of competition likely to be facing Stansted over Q5 and beyond, the impact of regulation on investment incentives and accordingly the best approach to price regulation in that light.

## **7. PUBLIC INTEREST CONDITIONS AT HEATHROW AND GATWICK**

7.1 As part of an airport charges reference to the CC, the CC examines and reports to the CAA on whether a course of conduct by an Airport Operator in the past five years has had effects adverse to the public interest which could be remedied by imposing or modifying any conditions. The CAA shall impose such conditions, or make such modifications to existing conditions, as it considers appropriate for the purpose of remedying or preventing the adverse effects specified by the CC. In its March 2008 decision the CAA has continued three public interest conditions imposed on:

- Heathrow – prohibiting quantitative restrictions on the use of employment agency staff;
- Heathrow – provision of airside information desks; and
- Heathrow and Gatwick – provision to users of information on charges for specified services,

through Q5 with additional modifications to the two latter conditions.

7.2 However, the most significant public interest condition relates to service quality. This was introduced in Q4 by the CAA. This followed the CC report in 2001 which had concluded that Heathrow and Gatwick had pursued a course of conduct which operated against the public interest in that prices paid did not sufficiently reflect the level of service provided. The CAA provided that Heathrow and Gatwick would pay rebates to airlines whenever its quality of service failed to meet specified service standards set by the CAA following consultation with the airports and their users.

In particular Heathrow and Gatwick are required to inform the CAA of their cost allocation systems and annually of their actual costs and revenues for a wide range of commercial services provided to airlines, tenants and users at the airports. If any price is changed, the airport must

provide to the CAA and users a statement of the pricing principles and if changes are not cost oriented, a statement of the principles on the basis of which charges have been set with full background information.

The airports must also provide the CAA and users with the relevant assumptions and cost details to verify that the changes derive from the pricing principles. Finally, if the forecast revenues for any of the facilities differ from the forecast for the price control review, the airports shall explain the differences to the CAA and users.

In its 2007 Report the CC concluded that Heathrow and Gatwick had displayed the same failings during Q4 and that in particular they had failed to manage security queuing and queue times to avoid unacceptable delays to passengers, crew and flights. It considered that the current condition should be extended and strengthened, and made a number of detailed recommendations to that effect. BAA can achieve 2.24per cent. revenue upside out-performing the SQR regime. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors Having a Significant Influence on Results of Operations – Income – Service Quality Rebate Scheme*”

- 7.3 The CC received a range of public interest complaints from airlines and other users, some of which were dismissed and others were held over to be dealt with in the market inquiry. In particular, the CC stated that the “financial structure and gearing levels of BAA, together with the remedial powers in relation to them”, were matters to which it would return in the market inquiry. In this context the CC commented that “We consider it desirable that they [i.e. Heathrow and Gatwick] and not the creditors of ADI should have control of the assets constituting Heathrow and Gatwick airports.”.

## 8. COMPETITION IN THE AIR TRANSPORT INDUSTRY

### 8.1 *The Competition Act*

The Competition Act 1998 (the “**Competition Act**”) contains two prohibitions concerning anti-competitive agreements and conduct, and powers of investigation and enforcement. These are known as the Chapter I and II Prohibitions, respectively.

The Chapter I Prohibition prohibits agreements between undertakings, which may affect trade within the UK and which have as their object or effect the prevention, restriction or distortion of competition within the UK. The Chapter II Prohibition prohibits the abuse of a dominant position, which may affect trade within the UK.

The OFT has power to apply and enforce the Competition Act to deal with anti-competitive agreements or abuses of dominance relating to airports, including the power to enforce directions to bring an infringement to an end and to impose fines of up to 10 per cent of the worldwide group turnover of the regulated Airport Operator involved. Also, any arrangement, which infringes the Competition Act, may be void and unenforceable and may give rise to claims for damages from third parties.

### 8.2 *EC Treaty*

The European Community Treaty (“**EC**”) contains two prohibitions concerning anti-competitive agreements and conduct, namely Articles 81 and 82 EC.

Article 81 EC prohibits all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the Common Market. All such arrangements are automatically null and void, unless found to benefit from the exception in Article 81(3) EC.

Under Article 82 EC, any abuse of a dominant position within the Common Market, or in a substantial part of it, is prohibited insofar as it may affect trade between Member States.

The European Commission has power to force undertakings to abandon anti-competitive agreements and conduct, and may impose fines upon the infringers of up to 10 per cent. of their preceding year worldwide turnover. Third parties who suffer loss as a result of the infringement may also be able to sue for damages in the national court.

### **8.3 Market Investigation Regime**

Where it appears to the OFT that any feature(s) of the airports markets or related services prevents, restricts or distorts competition, it may refer the matter to the CC. These powers relate to both structural and behavioural features. The CC will investigate the matter and, if such feature(s) exist(s) which have such an adverse effect on competition, the CC must consider what, if any, action should be taken to remedy or prevent them and may, if it thinks fit, order remedial action. The remedy may be implemented either by the giving of appropriate undertakings or by an order from the CC.

On 30th June 2006 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, the OFT in April 2007, and following consultation, formally made a reference to the CC for an investigation into the supply of airport services by BAA within the UK under Section 131 of the Enterprise Act 2006. The OFT reference identified competition issues resulting *inter alia* from:

- (i) BAA's ownership of Heathrow, Gatwick and Stansted in addition to Edinburgh and Glasgow Airports;
- (ii) development & planning restrictions; and
- (iii) the nature of the regulatory framework.

The CC has two years within which to make a decision, meaning that a decision has to be made by March 2009. The CC published its emerging thinking in April 2008 and is expected to report its provisional findings in August 2008.

### **8.4 Competition Commission Emerging Thinking**

In April 2008, the CC published its "Emerging Thinking" which contains the following themes relating to the Airports:-

- The CC considers that there is a real possibility of competition between south east airports given the willingness of passengers to switch between them;
- Even though competition is restricted (at least in short term) by capacity constraints there is some scope for competition – in the off-peak and through encouraging larger/fuller aircraft;
- The CC considers that separate ownership would create a greater incentive to expand capacity at the three London airports;
- Capacity constraints result partly from planning restrictions and government policy. Although the White Paper may have benefits, it may also have the unintended consequences for airport competition;
- BAA's behaviour may have contributed to the capacity constraints and thereby adversely affected competition between airports;
- The CC considers that there is widespread evidence of lack of responsiveness to airline needs;
- Common ownership makes regulation less effective.

BAA does not believe the case has been made for separate ownership. The present lack of spare capacity, combined with further year-on-year increases in demand, effectively prevents competition between BAA's airports in the South East. This position is reinforced by regulation which maintains airport charges well below market clearing levels. BAA is committed to delivering new runway capacity as quickly as possible to meet growing demand for air travel.

BAA agrees with the need for a review of economic regulation. In respect of the CC's arguments for regulatory reform, BAA believes that Heathrow's role as the UK's hub airport needs to be supported by a regulatory framework which ensures a high quality of customer service and provides investors with confidence to make major investments in new capacity. Service quality and investment are important issues at the other regulated airports.



### 8.5 Possible Remedies

Except for the statutory limits on the content of orders, there are no formal restrictions on the remedial action that the CC can take. However, possible remedies in relation to the Airports can be categorised as follows:

- Remedies designed to make a significant and direct change to the structure of a market by a requirement, for example, to divest a business or assets (which could include an order for the divestment of both or one of Gatwick and Stansted);
- Recommendations for changes to regulations found to have adverse effects on competition or detrimental effects on customers, for example, by limiting entry to a market to be taken up by the UK Government, the CAA or others;
- Recommendations to license the Designated Airports in similar ways to the UK water and energy companies that may amongst other things impose restrictions on financial structure and changes in ownership;
- Recommendations to introduce a “protected land” concept that prohibits the granting of security over certain assets similar to the UK water and energy sectors and/or introduce a special administration regime that applies on the insolvency of one or more of the Designated Airports;
- Recommendations to change the statutory duties of the CAA and the principles and details of economic regulation of Designated Airports;
- Remedies designed to restrain the way in which firms would otherwise behave; and
- Monitoring remedies, for example, a requirement to provide the CAA with information on prices or profits.

Ultimately any recommendations requiring legislative change will require the agreement of the Secretary of State and the enactment of primary legislation. See “– *Airport Regulation Generally – Potential Future Changes to the Regulatory Framework*”. The Government has given a commitment to consider any such recommendations and to give a public response within 90 days of publication of the CC’s report.

The CC’s report will contain sufficient detail on remedies to provide a firm basis for implementation by the CC through negotiated undertakings and/or the imposition of orders. The report may specify the timescale in which undertakings should be agreed before the CC considers imposing orders. However, all remedies involving recommendations would require primary legislation. The timetable of the market investigation is set out in the following table:

August 2008	Provisional findings and (if required) possible remedies notified.
September 2008	Remedies hearing(s) (if required).
September 2008	Final report published if no adverse effect on competition.
October 2008	Final remedies proposals published for consultation.
November 2008	Final deadline for all parties’ responses/submissions.
December 2008	Final report published.
28 March 2009	Statutory deadline.

Parties to an investigation who are aggrieved by the CC report and decision in relation to market investigation reference and decision may appeal to the Competition Appeal Tribunal (the “CAT”) for a judicial review of that decision within two months following formal notification of the CC Decision to them. The CC will have the right to submit a defence to the application for judicial review. Interested third parties may be given leave to intervene. CAT may give leave to the parties to submit additional written pleadings. An appeal against the CAT to the Court of Appeal is possible on any point of law.

### ***8.6 Discretionary conditions – anti-competitive conduct***

Under section 41(2) of the Airports Act, where it appears to the CAA that the Airport Operator engages in a specified conduct in relation to relevant activities (services or facilities for landing, parking or take off of aircraft, servicing of aircraft, passenger and cargo handling) such as unreasonable discrimination against, e.g., airport users or service providers or the fixing of below-cost charges which materially harm (or intend to materially harm) another Airport Operator's business, the CAA may impose such conditions as it considers appropriate for the purpose of remedying or preventing what it considers to be the adverse effects of such conduct. The CAA must, before imposing such conditions, notify the Airport Operator concerned of the conduct that it pursues in CAA's opinion and its proposed conditions; if the Airport Operator objects to the CAA's proposals within the set time-limit, the CAA will not proceed to implement its proposals and may instead make a reference to the CC.

### ***8.7 Compliance order and revocation of a permission***

Section 48 of the Airports Act sets out the circumstances in which the CAA may investigate a complaint alleging breach of a condition. In essence, if a complaint is made by an airline in respect of which airport charges have been levied or an operator of a competing airport, the CAA shall investigate the complaint. In the case of complaints made by other persons, the CAA has discretion whether or not to investigate.

Where the CAA having investigated a complaint is satisfied that an Airport Operator is failing to comply or has failed, and is likely again to fail to comply, with any condition, it shall, under section 48(3) of the Airports Act, either (a) by order make a provision to secure compliance with the condition and to remedy the sustained loss or damage or injustice by any person, or, (b) modify the condition in such manner as it considers appropriate in all the circumstances.

Where the CAA upon investigating a complaint is satisfied that an Airport Operator has in the past failed to comply with any condition attached to the permission, it may by order make such provision as it considers appropriate for remedying any loss or damage sustained, or injustice suffered, by any person in consequence of the failure to comply with that condition.

To date, no order under section 48 has been made against BAA.

Section 49 allows an Airport Operator to apply to the High Court to quash a compliance order made under section 48 on the grounds the order is not within the powers of section 48 or contravenes certain procedural orders. In addition, where an Airport Operator has contravened a compliance order and is unlikely to comply with it in the immediate future, section 49 of the Airports Act provides that the CAA may enforce compliance by either bringing civil proceedings or by revoking the permission in respect of the airport to which the contravention relates. Third parties, which have sustained loss or damages as a result of such breach have also the right to bring civil proceedings.

### ***8.8 The national security provisions***

The Secretary of State has the power under section 30 of the Airports Act to give to 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."

## **9. THE AIR TRANSPORT WHITE PAPER**

The Air Transport White Paper, published in 2003, provided a strategic framework for the growth in UK airport capacity within which Airport Operators could plan future investments over the next thirty years. While not legally binding, the White Paper ruled against the development of a competing hub to BAA's three London airports. In December 2006, the UK Government published a progress report in relation to the implementation of the White Paper, which, amongst other things, indicated the UK Government's support for the expansion of Heathrow as soon as possible, provided strict environmental conditions can be met, and noted the significant progress made in relation to the location, layout and operation of a second runway at Stansted where a planning application was submitted in March 2008. Annex B/Table B1 of the progress report summarises progress made between 2003 and 2006 on the main policies and issues covered by the White Paper. In the absence of Government policy confirmation, BAA put forward its Q5 price control proposals on the basis that Heathrow will grow within its existing planning limits. If progress is made on the expansion of

Heathrow beyond its existing limits, it is likely that there would be an adjustment made to allow associated costs to be recovered.

The CAA has recognised that further work is occurring on mixed mode and/or a third runway at Heathrow. The CAA has encouraged BAA and the airlines to constructively engage on the range of feasible options for mixed mode, and the latter are reported to have responded positively. The CAA has incorporated a return (at 6.2 per cent.) on BAA's indicative costs (some £639 million) for this work directly into the Q5 price cap for Heathrow.

The CAA have stated that "in the event of any conflict between exercising its statutory functions and the Government's policy objectives in the White Paper the former would necessarily have to prevail. In its role as economic regulator for airports, the CAA is not acting as an agency of Government but as a statutory body operating within the remit of the Airports Act."

## DESCRIPTION OF THE OPERATING COMPANIES, THE SHARED SERVICES PROVIDER 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. HAL's registered office is at 130 Wilton Road, London SW1V 1LQ and telephone number is 020 8745 9871. HAL is a wholly owned subsidiary of Asset Holdco and its authorised share capital is £770,200,100, divided into 380,200,100 £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 HAL 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 HAL'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.

On or prior to the Initial Issue Date, HAL will have two subsidiary companies, HEX Opco and Heathrow Airport Community Board Insulation Limited.

### Management and Employees

The current directors of HAL 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	130 Wilton Road, London SW1V 1LQ	Director
Luis Sánchez Salmerón	130 Wilton Road, London SW1V 1LQ	Director
Robert Herga (alternate)	130 Wilton Road, London SW1V 1LQ	Director

The company secretary is Susan Welch. As HAL will enter into the Shared Services Agreement, there may be potential conflicts of interest for Luis Sánchez Salmerón and José Leo who are each directors of BAA and HAL. Save as disclosed here, as at the date of this Prospectus there are no potential conflicts of interest between any duties owed to HAL and the private interests or any other duties of any of its directors.

BAA provides employees to HAL to undertake its operation of Heathrow and HAL does not employ any staff directly. As at 31 December 2007, 4683 full time equivalent BAA staff worked at Heathrow. Staff with permanent contracts of employment who are based at Heathrow are entitled to join the BAA Pension Scheme.

### Litigation

HAL 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 HAL 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 HAL. See "*Risk Factors – Regulatory Risks – Judicial Review of CAA's Q5 price decision*".

### Heathrow Express Operating Company Limited

HEX Opco, which on or prior to the Initial Issue Date will become a wholly owned subsidiary of HAL, undertakes the operation of HEX, for which it receives a management fee from HAL. HEX Opco's main operating costs relate to staff, train operation and maintenance and administration costs, all of which are offset against revenue generated by HEX before the balance, net of the management fee paid to HEX Opco, is paid to HAL.

HEX Opco 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. HEX Opco's registered office is at 130 Wilton Road, London SW1V 1LQ. Its authorised share capital is £100, divided into 100 £1 ordinary shares. HEX Opco does not have any subsidiary companies.

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

The current directors of HEX Opco are Luis Sánchez Salmerón, Brian Raven, Stephen Chambers, Benjamin Harding (non-executive) and Robert Smallwood (non-executive). The company secretary is Susan Welch.

HEX Opco employs most of its own staff directly (with some staff being provided by BAA) and as at 31 December 2007 had 341 staff. HEX Opco provides a defined contribution scheme for its employees.

### ***Litigation***

HEX Opco 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 HEX Opco 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 HEX Opco.

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

Heathrow Airport Community Board Insulation Limited, a wholly-owned subsidiary of HAL, 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. HAL funds the noise insulation and the administration of this body. HAL provides funding of up to £5 million in any full financial year to allow the board to carry out its role.

### **Gatwick Airport Limited**

Gatwick 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 01991018. GAL's registered office is at 130 Wilton Road, London SW1V 1LQ and telephone number is 020 8745 9871. GAL is a wholly owned subsidiary of Asset Holdco and its authorised share capital is £384,100,100 divided into 384,100,100 £1 ordinary shares. GAL does not have any subsidiaries.

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

The current directors of GAL and their respective business addresses and principal activities are set out below:

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Terence Morgan	130 Wilton Road, London SW1V 1LQ	Director
Andrew Flower	130 Wilton Road, London SW1V 1LQ	Director
José Leo	130 Wilton Road, London SW1V 1LQ	Director
Robert Herga (alternate)	130 Wilton Road, London SW1V 1LQ	Director

The company secretary is Susan Welch. GAL is managed through the Gatwick Senior Leadership Team led by senior managers responsible for Customer Services, Solutions Development, Finance, Strategy, Commercial and Human Resources. As GAL will enter into the Shared Services Agreement with BAA, there may be potential conflicts of interest for José Leo who is a director of BAA and GAL. Save as disclosed here, as at the date of this Prospectus there are no potential conflicts of interest between any duties owed to GAL and the private interests or any other duties of any of its directors.

BAA provides employees to GAL to undertake its operation of Gatwick and GAL does not employ any staff directly. As at 31 December 2007 there were 2,019 full time equivalent BAA staff working at Gatwick. Staff with permanent contracts of employment who are based at Gatwick are entitled to join the BAA Pension Scheme.

### ***Litigation***

easyJet has applied to the High Court for a judicial review of the CAA's decision in setting the price cap for charges at Gatwick Airport for 2008 to 2013. easyJet claims the CAA gave insufficient weight to the views of the CC, failed to adopt a fair and lawful approach to the handling of late operating expenditure claims by GAL and ignored the CC's public interest recommendations in relation to awarding bonuses for over performance on SQR's. If easyJet is granted permission to bring the judicial review and is subsequently successful in having the court overturn the CAA's decision the CAA will be required to reconsider its decision on these areas. It is not possible to quantify the impact any such decision would have on GAL. GAL intends to intervene in this action, should easyJet be granted such permission.

Apart from the judicial review discussed above, GAL 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 GAL 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 GAL.

### **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 under number 01990920. STAL's registered office is at 130 Wilton Road, London SW1V 1LQ and telephone number is 020 8745 9871. STAL is a wholly owned subsidiary of Asset Holdco and its authorised share capital is £520,000,000, divided into 520,000,000 £1 ordinary shares. STAL does not have any subsidiaries.

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

The current directors of STAL and their respective business addresses and principal activities are set out below:

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Terence Morgan	130 Wilton Road, London SW1V 1LQ	Director
José Leo	130 Wilton Road, London SW1V 1LQ	Director
Stewart Wingate	130 Wilton Road, London SW1V 1LQ	Director
Robert Herga (alternate)	130 Wilton Road, London SW1V 1LQ	Director

The company secretary is Susan Welch. STAL is managed through the Stansted Core Leadership Team led by senior managers responsible for Customer Services, Finance and Property, Strategy and Solutions, Communications, Retail, HR and HSE. As STAL will enter into the Shared Services Agreement on arm's length terms with BAA, there may be potential conflicts of interest for José Leo who is a director of BAA and STAL. Save as disclosed here, as at the date of this Prospectus there are no potential conflicts of interest between any duties owed to STAL and the private interests or any other duties of any of its directors.

BAA provides employees to STAL to undertake its operation of Stansted and STAL does not employ any staff directly. As at 31 December 2007 there were 1,221 full time equivalent BAA staff working at Stansted. Staff with permanent contracts of employment who are based at Stansted are entitled to join the BAA Pension Scheme (see “– *The Shared Services Provider – Pensions*” below for further details).

### ***Litigation***

STAL 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 STAL 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 STAL.

## **The Shared Services Provider**

### **1. OVERVIEW**

BAA<sup>6</sup> was incorporated under the Companies Act 1985 and registered in England and Wales on 13 December 1985 with the name Alnery No. 422 Limited under number 01970855. The Company changed its name to BAA plc on 2 July 1986 and further changed its name (and status to a private limited company) on 21 November 2006 to BAA Limited. BAA's registered office is at 130 Wilton Road, London SW1V 1LQ and its telephone number is 0208 745 9871. BAA's authorised share capital is £1.3 billion, divided into 1.3 billion ordinary shares.

In June 2006, a consortium consisting of Ferrovial Infraestructuras, S.A. and Lernamara, S.L. (subsidiaries of Grupo Ferrovial, S.A.), Britannia Airport Partners L.P., a Caisse de dépôt et placement du Québec-controlled vehicle and Baker Street Investment Pte an investment vehicle of the Government of Singapore Investment Corporation, acquired BAA. BAA is now owned by Airport Development & Investment Limited, an indirect subsidiary of the Consortium's investment vehicle.

In addition to Heathrow, Gatwick and Stansted, affiliate companies of BAA also operate and develop four further airports in the UK (Southampton, Aberdeen, Glasgow and Edinburgh). BAA also has a 65 per cent. interest in Naples airport in Italy, manages retail operations in the US at airports in Boston, Pittsburgh and Baltimore and has recently been awarded a contract for managing retail operations at Cleveland Hopkins Airport.

As BAA is an investment holding company, it is necessarily dependent on its subsidiaries and affiliates for its ongoing income. BAA's consolidated revenue totalled £2,247 million for the year ended 31 December 2007, of which £1,923m (85.6 per cent.) represented revenue generated by the airports owned by the Borrowers.

### **2. OPERATIONS**

BAA provides various central support services to its subsidiaries to assist with the running and management of the airports operated by such subsidiaries, in return for which it receives a fee. These services 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. The terms on which these services will be provided to the Security Group will be set out in the Shared Services Agreement. For information about the terms of the Shared Services Agreement, see "*The Shared Services Agreement*".

### **3. MANAGEMENT AND EMPLOYEES**

The current directors and secretary of BAA are set out below.

#### *Chief Executive Officer – Colin Matthews*

Colin was appointed Chief Executive Officer in April 2008. Prior to this he was Chief Executive Severn Trent, the UK water group which was radically restructured under his leadership. He previously headed the business services group Hays as chief executive and is a former director of technical operations at British Airways.

#### *Deputy Chief Executive Officer – Luis Angel Sánchez Salmerón*

Luis Sánchez Salmerón was appointed Deputy Chief Executive Officer of BAA in July 2006. Prior to this he was Managing Director of Ferrovial Airports, Madrid. He has held a number of senior appointments in the construction and finance sectors, including as Managing Director of Acciona Infrastructure Concession and as Finance Director of Concession Holding Valora.

#### *Chief Financial Officer – José Leo*

José Leo was appointed Chief Financial Officer of BAA in September 2006. He was previously Group Finance Director of Amey plc, a leading provider of integrated business and infrastructure services to the public and private sector in the UK and a subsidiary of Ferrovial and worked closely with central and local government to develop major projects in the education, health, transport and defence sectors. José was also formerly Managing Director of Ferrovial Telecomunicaciones, part of the Ferrovial Group, and responsible for managing the Ferrovial investments in the

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<sup>6</sup> BAA may change its name to BAA Services Limited.

telecommunication sector. He was also a Director of the Spanish telecommunication operators ONO and UNI2. Prior to that, he was Chief Finance Officer and Business Development Manager at the Spanish construction company Agroman.

The business address of the directors listed above is 130 Wilton Road, London SW1V 1LQ. As BAA will enter into the Shared Services Agreement with HAL, GAL and STAL, there may be potential conflicts of interest for Luis Sánchez Salmerón and José Leo who are each directors of BAA and either HAL, GAL or STAL.

#### *Non-Executive Directors*

The Non-Executive Directors of BAA are Sir Nigel Rudd, Inigo Meiras, Renaud Faucher, Lord Stevens, Nicolás Villén Jimenez, José María Pérez Tremps, Ghislain Gauthier, Richard Drouin, Eng Seng Ang and Stuart Baldwin.

#### *Company Secretary*

BAA's company secretary is Robert Herga.

#### *Employees*

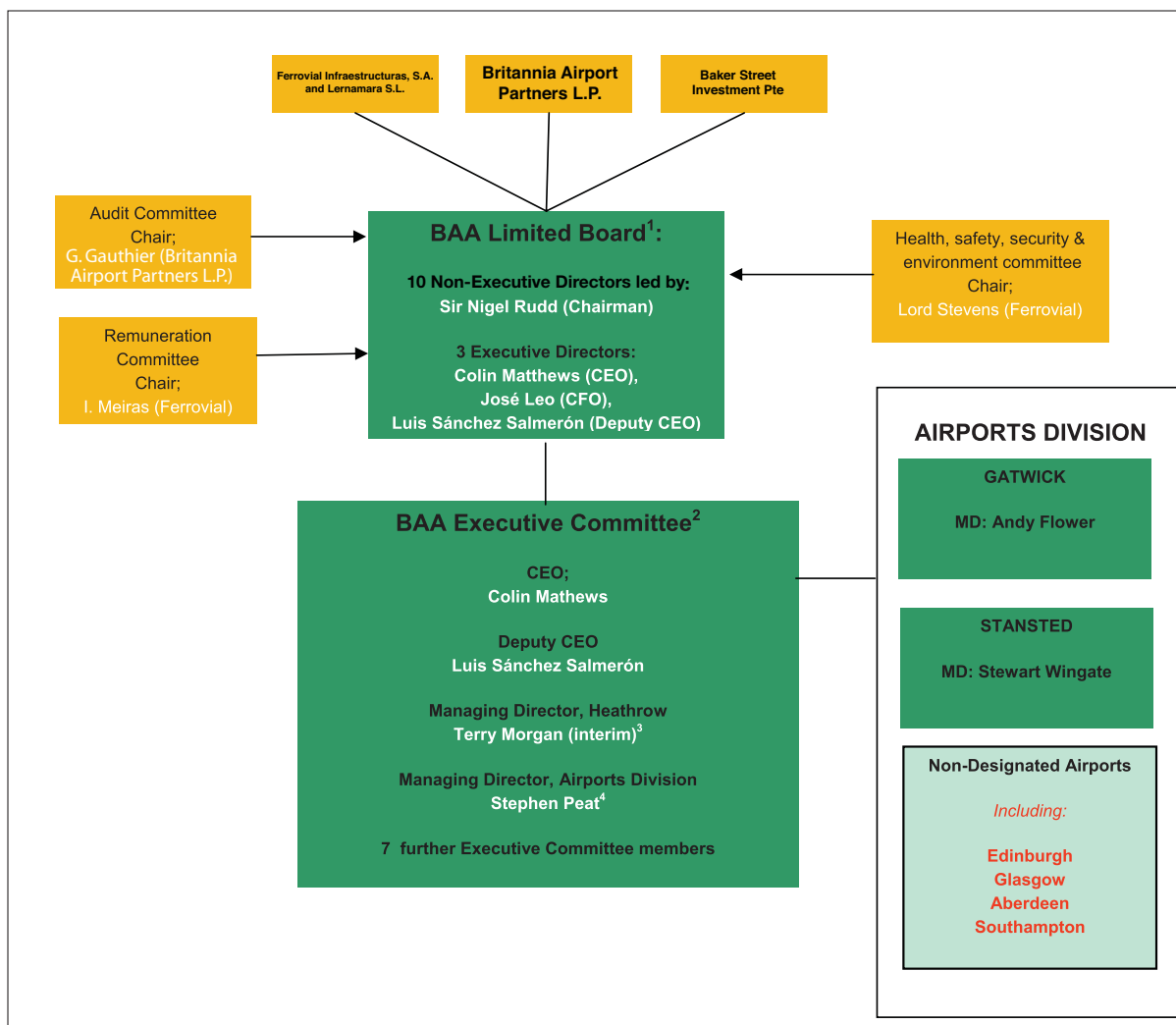
During the year ended 31 December 2007, BAA had an average of 12,786 staff, of whom 7,923 were permanently based at HAL, GAL and STAL. Approximately 2,000 employees provide central services to the various operating subsidiaries within the group. BAA provides a defined benefit pension scheme for its employees, further details of which are set out below.



## Corporate Governance

The chart below sets out the BAA Corporate Governance structure. BAA currently complies with recognised best practice in this area by:

- Separation between the Chairman and Chief Executive roles;
- Appointment of an appropriate number of suitably experienced non executive Directors; and
- Maintaining an Audit Committee a Remuneration Committee and Health Safety Security and Environment Committee.



### Notes:

1. Shareholder board members: Ferrovial x 6, Britannia Airport Partners L.P. x 3, Baker Street Investment Pte x 2
2. The BAA Executive Committee directly manages Heathrow Airport
3. To be replaced by Mike Brown from September 2008
4. Effective from July 2008

## Recent Appointments

Mike Brown will join BAA as Managing Director, Heathrow in September 2008.

## 4. SUPPLIERS & OUTSOURCING

BAA contracts with a number of suppliers for the delivery of services to the airports as well as for the construction of capital projects. Contracts are negotiated on an arms-length basis and, where applicable, subject to the requirements of EU legislation.

## 5. SHARED SERVICES SUB-CONTRACTOR

BAA Business Support Centre Ltd. was incorporated under the Companies Act 1985 and registered in England and Wales on 6 June 1995 as a private limited company under number 03065139. BSC's registered office is at 130 Wilton Road, London SW1V 1LQ. BSC is a wholly owned subsidiary of BAA and its authorised share capital is £100, divided into 100 ordinary shares of £1 each.

BSC's total revenue for the financial period ended 31 December 2007 was £21,070,000 with its main sources of revenue arising from fees payable to it in respect of services supplied to BAA.

Pursuant to the BSC Services Agreement between BAA and BSC, BSC will provide certain services to the Security Group, acting in the capacity of BAA's sub-contractor in return for which it will receive a fee. These services will consist largely of transaction processing of financial, cash accounting and HR data to the Security Group and other companies in the group. BSC also provides an information desk service for external customers for all airports within the group, other than Stansted.

The current directors of BSC are Amanda McMillan, Pablo Andres Monte and José Leo. The company secretary is Susan Welch.

During the year ended 31 December 2007, BSC had an average of 297 staff. Employees are entitled to join a defined contribution pension scheme provided by BSC.

For information about the terms of the Shared Services Agreement, see "*The Shared Services Agreement*".

### Shared Services Agreement

On or about the Initial Issue Date, the Operating Companies and the Borrower Security Trustee will enter into a shared services agreement (the "**Shared Services Agreement**") with BAA in its capacity as Shared Services Provider pursuant to which BAA will agree to provide certain services specified therein (the "**Services**") to each of the Operating Companies, as applicable, in accordance with the terms and conditions of the Shared Services Agreement. BAA will also enter into a shared services agreement with the Non-Designated Group pursuant to which BAA will agree to provide the services specified therein to certain Non-Designated Group companies on terms similar to the terms of the Shared Services Agreement.

BAA will also enter into the BSC Services Agreement with the BSC pursuant to which BAA will delegate to the BSC certain cash management and accounting services which BAA has agreed it will provide to the Security Group and the Non-Designated Group under the relevant shared services agreement.

### *Services to be provided by Shared Services Provider*

The Services to be provided by BAA to the Obligors include the following:

- (1) Designated Airport Services (i.e. services required to manage, administer and ensure the day to day running of the Designated Airports owned by the Borrowers);
- (2) Capital Project Services (i.e. services required to develop and manage, commission and deliver Capital Projects);
- (3) Centralised Airport Services (i.e. services required to manage and administer the business and operations of the airports within the BAA Group (including the Designated Airports) including central IT services, asset management, planning and corporate responsibility services, security, health and safety, Aeronautical/Retail support and marketing and executive services);
- (4) Administrative and Business Support Services (i.e. services required to deliver efficient, consistent administration services in respect of the business and operations of the BAA Group (including the Borrowers), including customer contact services, HR services, finance services, cash management and business systems and data management support systems); and
- (5) Corporate Services (i.e. services required to manage and administer the business and operations of the BAA Group (including the Borrowers) as a whole including executive services, taxation services, finance services, record keeping services, insurance, business assurance, facilities management, corporate and public affairs and regulatory and legal services).

As none of the Borrowers employs its own staff directly, the Shared Services Provider will agree to provide such employees as are necessary for each of the Borrowers to operate the Designated Airports in accordance with the terms and conditions of the Shared Services Agreement.

In providing the Services, the Shared Services Provider (and, if applicable, any sub-contractor appointed by the Shared Services Provider in accordance with the terms and conditions of the Shared Services Agreement) will be authorised to act as undisclosed or disclosed agent of the Obligors provided that in so doing, it acts in accordance with Good Industry Practice and in good faith.

***Fees payable to Shared Services Provider***

In consideration for the Services provided to it by the Shared Services Provider, each of the Operating Companies agrees to pay a fee to the Shared Services Provider which comprises the cost to the Shared Services Provider of providing the relevant Services to the Borrowers and, where applicable, the Obligors plus, in respect of centralised airport services, administrative and business support services and corporate services, an additional margin in respect of such costs determined in accordance with the provisions of the Shared Services Agreement. The relevant fees and other expenses payable by the Operating Companies, as the case may be, to the Shared Services Provider, shall be payable by the Borrowers on a joint and several basis or, to the extent that such fees and other expenses relate to a service provided by the Shared Services Provider to a specific Operating Company only, on a several basis, as applicable.

The Shared Services Provider will allocate the costs for providing centralised services between the Security Group and the Non-Designated Group on a fair and reasonable basis, having regard to certain allocation drivers set out in the Shared Services Agreement and the statements of any Regulator in relation to such allocation from time to time.

***Shared Services Provider's Undertakings***

Pursuant to the Shared Services Agreement, the Shared Services Provider undertakes to the Operating Companies that it will duly and punctually perform and discharge its obligations under any contract, arrangement or agreement entered into by the Shared Services Provider with any person or persons in connection with or for the purposes of the provision by the Shared Services Provider under the Shared Services Agreement and shall make all pension contributions when due and payable by the Shared Services Provider to the pension schemes in which the Shared Services Provider participates.

The Shared Services Provider further undertakes to the Borrower Security Trustee that it will not:

- (1) take any steps or pursue any action whatsoever for the purpose of recovering any debts whatsoever due or owing to it by the Operating Companies other than as provided under the Transaction Documents; or
- (2) petition or procure the petition for the winding up or administration (whether out of court or otherwise) of the Operating Companies or the appointment of an administrative receiver in respect of the Operating Companies or take or omit to take any steps whatever that may otherwise threaten or prejudice the security created in favour of the Borrower Security Trustee under the Security Documents other than as provided under the Transaction Documents,

unless and until all the amounts secured under the Security Documents have been satisfied in full.

***Termination of Shared Services Agreement***

Subject to the prior written consent of the Borrower Security Trustee (which shall be subject to an instruction of the relevant Qualifying Borrower Secured Creditors under the STID), the Operating Companies shall have the right to terminate the Shared Services Agreement immediately by written notice to the Shared Services Provider if:

- (1) the Shared Services Provider is in breach of its obligations under the Shared Services Agreement (other than a breach resulting directly or indirectly from force majeure) which has a material adverse effect and is not remedied within 30 days; or
- (2) certain insolvency related events, as detailed in the Shared Services Agreement, occur in respect of the Shared Services Provider; or
- (3) if it shall become illegal for either the Shared Services Provider or the Obligors to perform their obligations under the Shared Services Agreement.

The Shared Services Provider shall have the right, without prejudice to its other rights and remedies, to terminate the Shared Services Agreement by at least 30 days' written notice to the Operating Companies and the Borrower Security Trustee provided always that:

- (a) another member of the BAA Group (excluding any members of the Security Group) is appointed to act as replacement Shared Services Provider and such member of the BAA Group enters into an agreement with the Operating Companies on substantially the same terms and conditions to the terms and conditions of the Shared Services Agreement with effect from the date of such termination provided that, such member of the BAA Group:
  - (i) in BAA's reasonable opinion is capable of performing all of the BAA's obligations; and
  - (ii) has the requisite licences and authorisations required in order to perform such obligations; and
  - (iii) has, or has access to, all such IT systems, employees and assets as are necessary in order to perform such obligations; and
  - (iv) does not expose the Operating Companies or the Borrower Security Trustee to any greater liability (actual or contingent) than they would have been exposed to but for such transfer; or
- (b)
  - (i) the Borrower Security Trustee consents in writing to such termination (which consent shall be subject to an instruction of the relevant Qualifying Borrower Secured Creditors under the STID); and
  - (ii) a replacement Shared Services Provider approved by the Borrower Security Trustee is appointed, such appointment to be effective not later than the date of such termination; and
  - (iii) unless otherwise agreed by an Extraordinary Resolution of the Bondholders, a Ratings Confirmation is provided.

The Shared Services Provider will also have the right to terminate the Shared Services Agreement on five Business Day's notice if the Operating Companies fail to pay any amounts due and payable by them to the Shared Services Provider under the Shared Services Agreement when the same become due and payable, subject to a 30 Business Day grace period for amounts of £50,000 or more.

#### ***Partial Termination***

If there is a material breach on the part of the Shared Services Provider in relation to any one or more of the Services which is not remedied within 60 days of notice by the Operating Companies to the Shared Services Provider, the Operating Companies may, with the prior written consent of the Borrower Security Trustee, by notice to the Shared Services Provider, terminate or suspend any element of the Services affected by such material breach which can be terminated or suspended without having a material impact on the ability of the Shared Services Provider to provide the Services not affected by the material breach.

The SSA will terminate in respect of an Operating Company if such Operating Company ceases to be controlled by BAA (whether by reason of a restructuring of the BAA Group or the disposal of shares in such Operating Company by its holding company or any other reason). Unless otherwise agreed, such termination will take effect from the date that is 6 months from the date that such Operating Company so ceases to be controlled.

Under the Shared Services Agreement, BAA is entitled to pass pensions costs on to the Security Group calculated on a basis linked to pensionable payroll in respect of those employees that BAA makes available to the Operating Companies under the agreement. These pension costs relate to BAA's obligation to fund the BAA Pension Scheme.

Notwithstanding (a) the termination of the Shared Services Agreement (where the Operating Companies continue to be controlled by BAA) or (b) the partial termination of the Shared Services Agreement in respect of an Operating Company that ceases, following its sale, to be controlled by BAA, the Operating Companies (in the case of (a)) or the Operating Company which has been sold (in the case of (b)) will be obliged either to (i) continue to meet ongoing pension costs which BAA may pass onto them under a schedule in the Shared Services Agreement which shall survive termination or, as the case may be, partial termination of that agreement or (ii) make a lump sum

payment to the BAA Pension Trustee to commute that ongoing payment obligation. If the remaining Operating Companies choose to continue to pay their share of any past service deficit (or the remaining Operating Company chooses to continue to pay its share), these payments would not result in any increased costs unless the BAA Pension Trustee was to increase the level of funding (e.g. by revaluing any past service deficit). In the case of any lump sum payment, such amount is likely to be significant but, notwithstanding the amount paid, it is possible that the BAA Pension Trustee could consider it inadequate at the relevant time and, as result, could increase the ongoing contributions for the remaining Operating Companies. However, any lump sum payment payable by an Operating Company that has been sold is effectively capped at a level to ensure that, following the application of net disposal proceeds arising from the sale of such Operating Company, the Senior RAR and the Junior RAR will be maintained below the Trigger Event level. The Maximum Pension Liability Amount of the BAA Pension Trustee will be reduced (in proportion to the reduction in RAB following the disposal of the relevant Company) to reflect the lump sum payment. The Operating Company will also have the ability to reduce any lump sum payment by agreeing to the transfer of some or all of the relevant pension liabilities (and a corresponding share of pensions assets) to another pension scheme outside of the Security Group.

In the event of termination of the Shared Services Agreement, the Shared Services Provider will agree to use its reasonable endeavours to facilitate the transfer of the terminated Services from the Shared Services Provider 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. In particular, the Shared Services Provider will agree to:

- (a) hand over to the Operating Companies all books, registers, records, accounts, deeds, contracts, policies, licences, permissions, plans, specifications, models and other documents and things in its possession or control which relate to the Properties and the Operating Companies and the performance of the Services;
- (b) use its reasonable endeavours to take the necessary steps available to BAA to cease to be a signatory of any account of the Operating Companies in respect of which BAA acts as a signatory for the purposes of the Shared Services Agreement;
- (c) use its reasonable endeavours to co-operate with the Operating Companies for the transfer of the operation of their respective businesses to the Operating Companies or as the Operating Companies may direct;
- (d) not knowingly withhold or delay the provision of any information which the Operating Companies reasonably require during and for the purpose of any tender process; and
- (e) provide such other transitional services to facilitate the transfer of the management of the Properties in accordance with the provisions of the Shared Services Agreement as the Operating Companies may reasonably request.

In addition, the employment services provided by the Shared Services Provider will cease and the employment of relevant airport level staff is expected to pass (either under TUPE or via an offer and acceptance route) to the relevant Borrower to whom the staff provide services or to a replacement service provider if there is a termination of the Shared Services Agreement and the Security Group or a replacement service provider takes over provision of the services.

In no circumstances will the Borrower Security Trustee be required to perform any of the Services to be provided by the Shared Services Provider or any other person under or in accordance with the Shared Services Agreement.

### **BSC Services Agreement**

BAA will sub-contract certain administrative and business support services (including cash management services) to be provided by BAA to the Operating Companies under the Shared Services Agreement to BSC pursuant to the BSC Services Agreement.

The services sub-contracted under the BSC Services Agreement will include administration services required by the Operating Companies in respect of the business and operation of the Operating Companies, including:

- (a) customer contact services including flight information services;

- (b) human resources shared services including human resources advisory services, recruitment, referencing, payroll and benefits and pay reviews;
- (c) finance shared services including credit services, administering airport charges, retail income, property income and miscellaneous income, invoice management, procurement support, accounting and reporting and providing treasury and cash management functions and tax administration;
- (d) business systems and data management support services;
- (e) to the Borrowers only, cash management services; and
- (f) engineering and help desk.

In consideration for the services provided by BSC, BAA will pay a fee to BSC which comprises the cost to BSC of providing the relevant sub-contracted services to the Operating Companies and an additional margin in respect of such costs.

The BSC Services Agreement will terminate in the event of any termination of the Shared Services Agreement. In addition, BAA shall have the right to terminate the BSC Services Agreement if BSC is in breach of its obligations or is subject to certain insolvency events. BSC shall have the right to terminate the BSC Services Agreement in the event of non-payment of any amount due and payable under the BSC Services Agreement (subject to a 30 Business Days' grace period).

As part of the services to be provided by BSC under the BSC Services Agreement, BSC will manage the Operating Accounts. Each of the Operating Companies, the Borrower Security Trustee, BAA and BSC will enter into an appointment deed pursuant to which:

- (a) each of the Borrowers will appoint BSC to act as its agent in relation to the Operating Accounts;
- (b) BSC and BAA will agree with the Borrower Security Trustee not to amend the BSC Services Agreement in any material respect without the consent of the Borrower Security Trustee; and
- (c) if the BSC Services Agreement terminates as a result of a termination of the Shared Services Agreement following a breach by BAA under the Shared Services Agreement or an insolvency event affecting BAA, the Operating Companies will have the right to require BSC to enter into a new agreement for the provision of the sub-contracted services directly with the Operating Companies on substantially the same terms as the BSC Services Agreement.

See "*Risk Factors – Other Risks to the Designated Airports' Operations and Revenues of the Designated Airports-Pensions*" and "*Risk Factors – Risks related to BAA as Shared Services Provider under the Shared Services Agreement – Reliance on BSC as agent of BAA*".

## **SSA Ancillary Documents**

### ***Cross-Licensing Agreement***

Historically, all registrable intellectual property rights (including airport-specific intellectual property rights, e.g. the trade mark "HEATHROW AIRPORT") have been held centrally by BAA. On or before the Initial Issue Date:

- (a) BAA will assign airport-specific intellectual property rights to the airport company owner of the relevant airport (so that, for example, the trade mark "HEATHROW AIRPORT" will be assigned to HAL); and
- (b) BAA will assign all its right, title and interest in and to non-airport specific intellectual property rights to a special purpose vehicle (the "IP SPV") which will be a wholly owned subsidiary of BAA.

Under a cross-licensing agreement to be entered into between HAL, GAL, STAL, HEX Opco, Aberdeen Airport Limited, Edinburgh Airport Limited, Glasgow Airport Limited and Southampton Airport Limited (together, the "**CLA Operating Companies**"), the IP SPV and BAA on the date the Shared Services Agreement is entered into (the "**Cross-Licensing Agreement**"), each of the parties to the Cross-Licensing Agreement will license, on a royalty-free basis, its registered and unregistered intellectual property rights to each other party for use in their respective businesses. Under the Cross-Licensing Agreement, the CLA Operating Companies will agree to bear the costs of registering, maintaining and defending the intellectual property rights owned by the IP SPV, which will be

allocated to the CLA Operating Companies in proportion to each CLA Operating Company's passenger numbers for the relevant period.

The Cross-Licensing Agreement will terminate in respect of any party who leaves the group (subject to a run-down period of 30 days) or is subject to certain insolvency events (but will remain in force in respect of the other parties).

#### ***IT Hardware Lease Agreement***

Most of the group-wide hardware stored at data centres at Heathrow Airport and Gatwick Airport, as well as the personal hardware used at the Designated Airports, is owned by the Operating Companies directly. Under the Shared Services Agreement, BAA will covenant to lease hardware owned by BAA and used by any of the Operating Companies to the relevant Operating Company under a lease agreement in the form set out in the Shared Services Agreement (the "**IT Hardware Lease Agreement**"). Under the IT Hardware Lease Agreement, BAA will grant to the IP SPV a right to purchase the hardware if the IT Hardware Lease Agreement is terminated early.

#### **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, JE4 8PX and the telephone number is 01534 609000. The Issuer carries out all its business through a fixed place of business at 130 Wilton Road, London SW1V 1LQ.

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 the Security Parent. 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 published any financial statements, and 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 will enter 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 and company secretary 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	130 Wilton Road, London SW1V 1LQ	Director
Luis Sánchez Salmerón	130 Wilton Road, London SW1V 1LQ	Director
Vincent Michael Rapley	8th Floor, King William Street, London EC4N 7DZ	Director

Mourant & Co. Secretaries Limited, whose business address is 22 Grenville Street, St Helier, Jersey JE4 8PX, is the company secretary of the Issuer.

***Issuer Corporate Administration Agreements***

Pursuant to the terms of the Issuer Corporate Administration Agreements, the Issuer Corporate Administration Provider will provide certain corporate services to the Issuer and Mourant & Co Capital (SPV) Limited will provide an independent, UK-resident director to the Issuer, each in consideration for the payment by the Issuer of an annual fee to the Issuer Corporate Administration Provider and Mourant & Co. Capital (SPV) Limited, respectively.

Pursuant to the terms of the Issuer Corporate Administration Agreements, the appointment of the Issuer Corporate Administration Provider shall terminate (i) upon the expiration of 90 days, notice in writing given by the Issuer Corporate Administration Provider to the Issuer or by the Issuer to the Issuer Corporate Administration Provider and, if required under any consent granted pursuant to the Control of Borrowing (Jersey) Order 1958, as amended, to the Jersey Financial Services 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 Issuer Corporate Administrator's appointment; 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 the Issuer Corporate Administration Provider is declared en désastre or has committed any act or omission indicative of insolvency.

Upon the termination of its appointment, the Issuer Corporate Administration Provider is required within two working days of the Issuer's request, to deliver all information and data relating to the Issuer held by the Issuer Corporate Administration Provider, to the Issuer or, at the request of the Issuer to destroy the same.

The Issuer Corporate Administration Agreement between the Issuer and the Issuer Corporate Administration Provider will be governed by Jersey law. The Issuer Corporate Administration Agreement between the Issuer and Mourant & Co. Capital (SPV) Limited will be governed by the laws of England and Wales.



## SUMMARY OF THE FINANCING AGREEMENTS

### Security Trust and Intercreditor Deed

#### *General*

The intercreditor arrangements among the Borrower Secured Creditors of the Security Group (the “**Intercreditor Arrangements**”) are contained in the STID. The Intercreditor Arrangements bind each of the Borrower Secured Creditors (subject in the case of the Non-Migrated Bondholders and the Non-Migrated Trustee to the provisions set out under “– *Non-Migrated Bondholders*” below) and each of the Obligors. Pursuant to the terms of an intercreditor agreement dated 7 April 2006 as amended and restated on or about the Initial Issue Date (the “**Senior/Subordinated Intercreditor Agreement**”) the claims of the Subordinated Secured Creditors and the rights of the Subordinated Security Trustee to enforce the Borrower Security on behalf of the Subordinated Secured Creditors are subordinated and postponed to the claims of the Borrower Secured Creditors and the rights of the Borrower Security Trustee on behalf of the Borrower Secured Creditors. The following section describes only the Intercreditor Arrangements as among the Borrower Secured Creditors. For further information in relation to the position of the Subordinated Secured Creditors, see “–*The Senior/ Subordinated Intercreditor Agreement*” below.

Unsecured creditors (other than BAA or any Affiliate thereof which provides subordinated loans to a member of the Security 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; (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 Agreements, the Senior/Subordinated Intercreditor Agreement, the STID, the Master Definitions Agreement and the Tax Deed of Covenant (the “**Common Documents**”), in particular, the basis on which votes of the Borrower Secured Creditors will be counted for the purpose of determining whether the Borrower Security Trustee may provide such consent or waiver or approve such modification.

The Intercreditor Arrangements provide for the ranking in point of payment of the claims of the Borrower Secured Creditors, after delivery of a Loan Enforcement Notice, any enforcement of the Borrower Security, in the circumstances described in “–*Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payment*” below and 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 Security 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.

The Borrower Secured Creditors (other than the Non-Migrated Bondholders, the Non-Migrated Bond Trustee and other than in respect of the STID, the BAA Pension Trustee) will be bound by, and have the benefit of, the Common Documents. The Borrower Secured Creditors at the Initial Issue Date will be:

- (i) the Issuer as a lender of Senior Debt and Junior Debt under each Borrower Loan Agreement;
- (ii) the Borrower Security Trustee under the Security Agreement and the STID;
- (iii) the Initial WCF Providers, the Initial Capex Providers and the Initial Credit Facilities Agent under the Initial Credit Facilities Agreement;
- (iv) the Non-Migrated Bond Facility Providers and the Non-Migrated Bond Facility Agent under the Non-Migrated Bond Facility Agreement;
- (v) the Refinancing Facility Providers and the Refinancing Facility Agent under the Refinancing Facility Agreement;
- (vi) EIB under the EIB Facility Agreements;

- (vii) the Initial Borrower Liquidity Facility Provider and the Initial Borrower Liquidity Facility Agent under the Borrower Liquidity Facility Agreement;
- (viii) the Initial Borrower Hedge Counterparties under each Borrower Hedge Agreement;
- (ix) the BAA Pension Trustee;
- (x) the Borrower Account Bank under the Borrower Account Bank Agreement; and
- (xi) the Non-Migrated Bond Trustee (in its own capacity and as trustee for the Non-Migrated Bondholders) and the Non-Migrated Bondholders.

After the Initial Issue Date, subject to accession to the STID and Common Terms Agreement, Finance Lessors and other Authorised Credit Providers may become Borrower Secured Creditors. Any new Authorised Credit Provider will be required to accede to the STID and the Common Terms Agreement as a Borrower Secured Creditor.

The representatives of the Borrower Secured Creditors (each, a “**Secured Creditor Representative**”) will be, at the Initial Issue Date:

- (i) In respect of the Issuer:
  - (a) the Bond Trustee and any successor Bond Trustee in respect of itself and the holders of each Sub-Class of Unwrapped Bonds;
  - (b) each Financial Guarantor in respect of itself and the holders of each Sub-Class of Wrapped Bonds in respect of which such Financial Guarantor has provided a Financial Guarantee (or if an FG Event of Default is subsisting in respect of such Financial Guarantor, the Bond Trustee in respect of such Sub-Class of Wrapped Bonds);
  - (c) each Cross-Currency Hedge Counterparty in respect of any Cross Currency Hedging Agreements entered into by such Cross Currency Hedge Counterparty with the Issuer relating to any Wrapped Bonds or Unwrapped Bonds;
  - (d) the relevant Issuer Liquidity Facility Agent under the relevant Issuer Liquidity Facility Agreement in respect of each Issuer Liquidity Facility Provider;
  - (e) each other Issuer Secured Creditor in respect of itself;
- (ii) in the case of the Initial WCF, the Initial Credit Facility Agent;
- (iii) in the case of the Initial Capex Facility, the Initial Credit Facility Agent;
- (iv) in the case of the Non-Migrated Bond Facility, the Non-Migrated Bond Facility Agent;
- (v) in respect of the Refinancing Facility, the Refinancing Facility Agent;
- (vi) in respect of the BAA Pension Trustee and/or the BAA Pension Liabilities, the BAA Pension Trustee;
- (vii) in the case of the EIB Facilities, EIB;
- (viii) in the case of the Borrower Liquidity Facility, the relevant Borrower Liquidity Facility Agent thereunder;
- (ix) in respect of the Initial Borrower Hedging Agreements, each Initial Borrower Hedge Counterparty thereunder;
- (x) in respect of the Borrower Account Bank Agreement, the Borrower Account Bank;
- (xi) in the case of any Cross Currency Hedging Agreements entered into by such Cross Currency Hedge Counterparty with a Borrower relating to any Non-Migrated Bonds, such Cross Currency Hedge Counterparty; and
- (xii) in respect of the Borrower Security Trustee for itself, the Borrower Security Trustee.

From the relevant Non-Migrated Bond Accession Date (if any), the Non-Migrated Bond Trustee will be the Secured Creditor Representative in respect of the Non-Migrated Bondholders of each relevant tranche of Non-Migrated Bonds.

### *Non-Migrated Bondholders*

The Non-Migrated Bondholders (if any) and the Non-Migrated Bond Trustee will be Borrower Secured Creditors and if the Non-Migrated Bondholders so instruct the Non-Migrated Bond Trustee following a resolution of such Non-Migrated Bondholders to be considered at a meeting of Non-Migrated Bondholders convened by BAA Limited following the Initial Issue Date, the Non-Migrated Bond Trustee will accede to the STID on behalf of the Non-Migrated Bondholders and act as their Secured Creditor Representative thereunder. The Non-Migrated Bondholders will be entitled to vote through the Non-Migrated Bond Trustee as Qualifying Borrower Secured Creditors in respect of certain limited matters referred to below as Non-Migrated Bond Voting Matters and will have certain limited entrenched rights. The Non-Migrated Bondholders will only be entitled to vote on such matters or entrenched rights for so long as they hold Non-Migrated Bonds which form part of a tranche of Non-Migrated Bonds in respect of which no Independent Enforcement Action has been taken.

References in this Prospectus to the Non-Migrated Bond Trustee acting in its capacity as Secured Creditor Representative and to voting rights of the Non-Migrated Bondholders of any tranche(s) shall only apply from the date of accession of the Non-Migrated Bond Trustee to the STID following the passing of a resolution of the Non-Migrated Bondholders of the relevant tranche(s) to that effect as described above.

### *Finance Lessors*

Each Finance Lessor will be a Borrower Secured Creditor party to the STID and the Common Terms Agreement and all amounts arising under the Finance Leases will constitute Senior Debt or Junior Debt, as designated in each such Finance Lease.

### *Borrower Liquidity Facility Providers and Borrower Hedge Counterparties*

Each Borrower Liquidity Facility Provider and each Borrower Hedge Counterparty will be a Borrower Secured Creditor party to the STID and the Common Terms Agreement. The Borrower Liquidity Facility Providers and the Borrower Hedge Counterparties in respect of Interest Rate Hedging Agreements will not be Qualifying Borrower Secured Creditors. However, fees, interest and principal payable to the Borrower Liquidity Facility Providers will rank in the Borrower Post-Enforcement Priorities of Payments senior to interest and principal payments on the Borrower Loans relating to the Class A Bonds and scheduled payments due to the Borrower Hedge Counterparties under Interest Rate Hedging Agreements will rank in the Borrower Post-Enforcement Priorities of Payments senior to interest payments and principal payments on the Borrower Loans relating to the Class A Bonds and unscheduled amounts (including termination payments) will rank in the Borrower Post-Enforcement Priorities of Payments *pari passu* to interest payments and senior to principal payments on the Borrower Loans relating to the Class A Bonds.

#### **(a) Undertakings of Borrower Secured Creditors**

Pursuant to the terms of the STID, each Borrower Secured Creditor (other than the Borrower Security Trustee, the Non-Migrated Bondholders, the Non-Migrated Bond Trustee and, except in the case of paragraph (v) below, the BAA Pension Trustee) will undertake that it will not:

- (i) permit or require any Obligor to discharge any of the Borrower Secured Liabilities owed to it, save to the extent permitted by the Common Terms Agreement and/or the Finance Documents and/or the STID;
- (ii) accelerate, permit or require any Obligor to accelerate, cancel, pay, prepay, repay, redeem, purchase, early or voluntarily terminate or otherwise acquire any of the Borrower Secured Liabilities owed to it, save (a) to the extent permitted by the Common Terms Agreement and/or the STID and as specified in the Finance Documents to the extent such provisions of the Finance Documents are consistent with the relevant provisions of the Common Terms Agreement (b) in the case of any Borrower Liquidity Facility Agreement, to the extent permitted in such Borrower Liquidity Facility Agreement and (c) pursuant to a provision for prepayment upon illegality;
- (iii) take, accept or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against financial loss from any of the Obligors in respect of any of the Borrower Secured Liabilities owed to it, except the Borrower Security created under the Borrower Security Documents in respect of any other Permitted Financial Indebtedness;

- (iv) take, receive or recover from any of the Obligors by set-off, any right of combination of accounts, proceedings of any kind or in any other manner whatsoever (save where permitted in any of (i) to (iii) above) the whole or any part of the Borrower Secured Liabilities owed to it, save in respect of the Borrower Account Bank in relation to amounts in the Operating Accounts which are owed to the Borrower Account Bank, or to the extent permitted by the Common Terms Agreement and/or the Finance Documents and/or the STID; or
- (v) take any Enforcement Action in respect of the Borrower Security except in accordance with the provisions of the STID and the other Security Documents.

The provisions of the STID will not restrict the ability of the BAA Pension Trustee from exercising any rights it may have (a) against BAA as a matter of law or otherwise, or (b) against any Obligor except as explicitly restricted pursuant to the STID, in its capacity as trustee of the BAA Pension Scheme. Following the partial or full termination of the Shared Services Agreement for as long as a Borrower has a continuing obligation to make payments to the BAA Pension Trustee, nothing shall restrict the ability of the BAA Pension Trustee from exercising any rights it may have against such Borrower for non-payment of such amounts or for non-payment of any sum owing in respect of payment to commute such continuing obligation. The provisions of the STID will not restrict the ability of the Non-Migrated Bondholders or the Non-Migrated Bond Trustee on their behalf or for itself to exercise any rights or take any action, steps or proceedings which are specified to be Reserved Matters of the Non-Migrated Bondholders or Non-Migrated Bond Trustee.

Pursuant to the terms of the STID, each Borrower Secured Creditor (other than the Borrower Security Trustee) will agree that only the Borrower Security Trustee is entitled to deliver a Loan Enforcement Notice or Loan Acceleration Notice and only the Borrower Security Trustee or any Receiver appointed by the Borrower Security Trustee may take any action to enforce the Borrower Security against any Obligor (however, the Bond Trustee may enforce the OFCA Floating Security as described in “*Security Agreement and Obligor Floating Charge Agreement – Floating charges held by the Borrower Security Trustee and the Issuer*” below). The Borrower Security Trustee shall not be obliged to do any of the above unless it is instructed to do so by the Qualifying Borrower Secured Creditors and indemnified and/or secured to its satisfaction and the Bond Trustee shall not be obliged to enforce the OFCA Floating Security unless it is instructed in accordance with the Conditions (otherwise than as regards the appointment of an administrative receiver (see “*Security Agreement and Obligor Floating Charge Agreement – Floating charges held by the Borrower Security Trustee and the Issuer*” below)).

**(b) Undertakings of Obligors**

Pursuant to the terms of the STID, each Obligor undertakes that it will not:

- (i) discharge any of the Borrower Secured Liabilities owed by it, save to the extent contemplated in paragraph (i) of “*–Undertakings of Borrower Secured Creditors*” above;
- (ii) accelerate, cancel, pay, prepay, repay, redeem, purchase, terminate early or voluntarily terminate or otherwise acquire any of the Borrower Secured Liabilities owed by it, save to the extent contemplated in paragraph (ii) of “*–Undertakings of Borrower Secured Creditors*” above;
- (iii) (other than any Permitted Security Interest and the Non-Migrated Bond Guarantee) create or permit to subsist any Security Interest over any of its assets for, or any guarantee, indemnity or other assurance against financial loss in respect of, any of the Borrower Secured Liabilities owed by it, except pursuant to the Borrower Security created under the Borrower Security Documents; or
- (iv) (except as referred to in paragraph (iv) of “*–Undertakings of Borrower Secured Creditors*” above) discharge any of the Borrower Secured Liabilities by set-off, any right of combination of accounts or in any other manner whatsoever, save where permitted in any of (i) to (iii) above.

However, for so long as no Loan Event of Default (other than a Non-Migrated Bond Excluded Default) shall have occurred and be continuing, the Obligors shall not be restricted from making a Permitted Non-Migrated Bond Distribution to ensure the timely discharge of BAA’s

obligations under the Non-Migrated Bonds or to fund any early redemption or permitted purchase of the Non-Migrated Bonds by BAA and none of HAL, GAL or STAL shall be restricted from discharging its obligations under the Non-Migrated Bond Guarantee.

**(c) Ranking of Borrower Secured Liabilities**

The underlying principle of the Intercreditor Arrangements is that, following the delivery of a Loan Enforcement Notice the Senior Debt ranks in point of payment prior to the Junior Debt, see “*Risk Factors – Issuer and Bond – Subordination of the Class B Bonds and the Subordinated Bonds*” for further details.

**(d) STID Proposals**

The STID will set out the procedure for requesting any consent, modification or waiver under the Common Documents (including any release of security under the Borrower level security documents not contemplated by the Common Documents).

A request may only be made by or on behalf of the Security Group through the delivery of a proposal in an agreed form (the “**STID Proposal**”) to the Borrower Security Trustee. The consent, modification or waiver requires the approval of the Borrower Security Trustee before it can be implemented. In the Common Terms Agreement, each member of the Security Group will appoint BAA for so long as BAA is Shared Services Provider and thereafter HAL as its agent (the “**Security Group Agent**”) for the purpose of preparing and delivering notices under the Common Documents (including STID Proposals) on its behalf.

The STID will set out the basis on which the Borrower Security Trustee may approve or, as the case may be, reject the request set out in a STID Proposal; in particular, the STID will contain the terms on which the Borrower Security Trustee may choose to exercise its discretion and, where it does not, the procedures and requirements for seeking instructions from those Borrower Secured Creditors (through their Secured Creditor Representatives) who are holders of Qualifying Borrower Senior Debt (see paragraph (e) (*Qualifying Debt*) below) and thus entitled to participate in the decision process (these holders of Qualifying Borrower Senior Debt are referred to in this Prospectus as “**Qualifying Borrower Senior Creditors**”) and, following repayment in full of the Senior Debt, those Borrower Secured Creditors who are entitled to participate in the decision process constitute “**Qualifying Borrower Junior Creditors**” and, if applicable, those Affected Borrower Secured Creditors and/or the Affected Issuer Secured Creditors who have an Entrenched Right. These procedures and requirements fall into 3 categories: Discretion Matters, Ordinary Voting Matters and Extraordinary Voting Matters subject always to procedures and requirements with respect to Entrenched Rights and the Reserved Matters.

The Security Group Agent shall be initially responsible, in submitting a STID Proposal, for determining the voting category for the proposed consent, modification or waiver. The Security Group Agent shall in or as part of the STID Proposal, *inter alia*:

- (i) certify whether such STID Proposal is in respect of a Discretion Matter, an Ordinary Voting Matter or an Extraordinary Voting Matter, whether or not the STID Proposal is in respect of a Non-Migrated Bond Voting Matter, whether or not the STID Proposal gives rise to an Entrenched Right, and if it does, the Borrower Secured Creditors and, where the Issuer is an Affected Borrower Secured Creditor, the Issuer Secured Creditors in whose favour the STID Proposal gives rise to an Entrenched Right, whether or not the STID Proposal gives rise to a Subordinated Lender Consent Matter and, additionally, the basis on which such certification is made;
- (ii) propose the form of resolution(s), if applicable, to be put to the applicable Borrower Secured Creditors (acting through their Secured Creditor Representatives);
- (iii) specify the period of time within which the approval of the Borrower Security Trustee is sought (referred to as the “**Decision Period**”), which shall be not less than 10 Business Days from the date of delivery of the STID Proposal for any Discretion Matter or Ordinary Voting Matter or 15 Business Days for any Extraordinary Voting Matter, in each case including if the STID Proposal gives rise to an Entrenched Right, unless it is an Entrenched Right in respect of which the Issuer, the Non-Migrated Bond Trustee, the Non-Migrated Bondholders or the BAA Pension Trustee is the Affected Borrower Secured

Creditor, in which case the Decision Period shall not be less than 45 days. The Decision Period for an Extraordinary Voting Matter may be extended for a further period, if the required quorum for the applicable voting matter has not been met within the initial Decision Period (as described in more detail in paragraph (j)(iii) (*Extraordinary Voting Matters*) below); and

- (iv) provide such supporting information as in its reasonable opinion is necessary for the recipient of such STID Proposal to make an informed assessment of the matters addressed in the STID Proposal.

The Security Group Agent shall provide copies of the STID Proposal (a) in respect of an Ordinary Voting Matter or an Extraordinary Voting Matter, to the Secured Creditor Representative of each Borrower Secured Creditor (including in respect of a Non-Migrated Bond Voting Matter only, unless a Non-Migrated Bond Refusal Date has occurred in relation to such Non-Migrated Bonds, the Non Migrated Bondholders of each Eligible Tranche of Non-Migrated Bonds or, if a Non-Migrated Bond Accession Date has occurred in relation to such Non-Migrated Bonds, their Secured Creditor Representative and the holders of such Non-Migrated Bonds) and the Secured Creditor Representatives of the Issuer (including on behalf of the Wrapped Bondholders, the Unwrapped Bondholders and the Cross Currency Hedge Counterparties under the Issuer Hedging Agreements) and (b) in respect of an Entrenched Right, to the Secured Creditor Representative of each Borrower Secured Creditor (including in respect of a Non-Migrated Bond Entrenched Right, unless a Non-Migrated Bond Refusal Date has occurred in relation to such Non-Migrated Bonds, the Non Migrated Bondholders of each Eligible Tranche of Non-Migrated Bonds or, if a Non-Migrated Bond Accession Date has occurred in relation to such Non-Migrated Bonds, their Secured Creditor Representative and the holders of such Non-Migrated Bonds) and the Secured Creditor Representatives of the Issuer on behalf of each Issuer Secured Creditor (including, if relevant, the Bondholders) which is affected by such Entrenched Right and (c) in respect of a Subordinated Lender Consent matter to the Junior Security Trustee under the Senior/Subordinated Intercreditor Agreement and (c) where such STID Proposal gives rise to a Subordinated Lender Consent Matter, to the Junior Security Trustee under the Senior/Subordinated Intercreditor Agreement.

The determination made by the Security Group Agent of the voting category shall be binding on the Borrower Secured Creditors and the Issuer Secured Creditors unless the Borrower Security Trustee on the instruction of a Qualifying Borrower Secured Creditor (acting through its Secured Creditor Representative, if any) representing at least 10 per cent. of the Qualifying Borrower Debt (including in the case of the Issuer, any representative of the Issuer Secured Creditors) but excluding the Bond Trustee on behalf of the Bondholders (the “**Determination Dissenting Creditors**”) informs the Security Group Agent within 5 Business Days of receipt of the STID Proposal that the Determination Dissenting Creditors disagree with the determination of voting category made in the STID Proposal (the “**Determination Dissenting Notice**”) and states the alternative voting category which the Dissenting Creditors propose should apply.

The determination made by the Security Group Agent of whether or not a STID Proposal gives rise to an Entrenched Right in respect of a Borrower Secured Creditor (or where the Issuer is an Affected Borrower Secured Creditor, any Issuer Secured Creditor) or is in respect of a Non-Migrated Bond Voting Matter shall be binding on the Borrower Secured Creditors and, in the case of the Issuer, the Issuer Secured Creditors unless the Borrower Security Trustee on the instruction of a Borrower Secured Creditor (or where the Issuer may be an Affected Borrower Secured Creditor, the Issuer Secured Creditors) (in each case, acting through its Secured Creditor Representative, if any) (each, an “**Entrenched Right Dissenting Creditor**”, and together with the Determination Dissenting Creditors, the “**Dissenting Creditors**”) informs the Security Group Agent in writing within 5 Business Days of receipt of the STID Proposal that it disagrees with the determination of whether such STID Proposal gives rise to an Entrenched Right of such Borrower Secured Creditor (or where the Issuer is an Affected Borrower Secured Creditor, such Issuer Secured Creditor) or is in respect of a Non-Migrated Bond Voting Matter (the “**Entrenched Right Dissenting Notice**”) and stating, in respect of an Entrenched Right, the Borrower Secured Creditor (or if the Issuer is an Affected Borrower Secured Creditor, the Issuer Secured Creditor) whose Entrenched Right is affected.

If the Determination Dissenting Creditors or the Entrenched Right Dissenting Creditors, as the case may be, and the Security Group Agent are not able to agree on the voting category or as to whether or not a STID Proposal gives rise to an Entrenched Right within 5 Business Days of receipt of notice of such disagreement, they must instruct an expert(s) (at the cost of the Obligors) agreed upon by each Determination Dissenting Creditor or Entrenched Right Dissenting Creditor, as the case may be, and the Security Group Agent or, if no agreement can be reached, then an expert chosen by a third party (selected in accordance with the provisions of the STID) to determine the voting category and/or the Decision Period to be made in respect of the relevant STID Proposal or whether such STID Proposal gives rise to an Entrenched Right of the relevant Borrower Secured Creditor(s) (or, as applicable, Issuer Secured Creditor) or a Non-Migrated Bond Voting Matter and such determination will be binding on the Security Group and the Borrower Secured Creditors and the Issuer Secured Creditors. The period for approval of the resolution(s) set out in the STID Proposal shall be extended as applicable and shall be counted from the date on which the Determination Dissenting Creditors or the Entrenched Right Dissenting Creditors, as the case may be, and the Security Group Agent reach agreement on the applicable voting category or the date that is 5 Business Days after receipt of the relevant STID Proposal if the Borrower Security Trustee is not instructed to send the Determination Dissenting Notice or the Entrenched Right Dissenting Notice within 5 Business Days of receipt of the relevant STID Proposal.

**(e) Qualifying Debt**

“Qualifying Borrower Senior Debt” means at any time:

- (i) the principal amount outstanding under the Borrower Loan Agreements corresponding to the Wrapped Class A Bonds and the Unwrapped Class A Bonds;
- (ii) the amount owed by the Borrowers to the Issuer in respect of the mark-to-market value of any transaction or transactions arising under Cross Currency Hedging Agreements between a Cross Currency Hedge Counterparty and the Issuer 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 transaction or transactions;
- (iii) the mark-to-market value of any transaction or transactions arising under Cross Currency Hedging Agreements between a Cross Currency Hedge Counterparty and a Borrower in respect of the Non-Migrated Bonds denominated in euro 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 transaction or transactions;
- (iv) the principal amount outstanding under each Capex Facility at such time to the extent that such amount is designated Senior Debt (ranking *pari passu* with other Senior Debt);
- (v) the principal amount outstanding under any Working Capital Facility at such time;
- (vi) the principal amount outstanding under the Non-Migrated Bond Facility at such time;
- (vii) the principal amount outstanding under the Refinancing Facility at such time to the extent that such amount is designated Senior Debt (ranking *pari passu* with other Senior Debt);
- (viii) the principal amount outstanding to EIB under the EIB Facilities;
- (ix) (subject to applicable finance lessors under a Finance Lease acceding to the STID as Borrower Secured Creditors), the termination value of any Finance Leases designated as Senior Debt at such time;
- (x) in respect of any Non-Migrated Bond Voting Matter only and for the purposes of the definition of “Senior Debt” only, the principal amount outstanding under the Non-Migrated Bonds at such time; and
- (xi) the principal amounts outstanding under any other Authorised Credit Facility at such time ranking *pari passu* with the above (but excluding for the avoidance of doubt any Borrower Liquidity Facilities or Interest Rate Hedging Agreements with any Borrower Hedge Counterparties).

Amounts owed (whether actually or contingently) by a Borrower to the other Borrower Secured Creditors (such as the Borrower Account Bank, the Borrower Liquidity Facility Providers, Borrower Hedge Counterparties in respect of Interest Rate Hedging Agreements and the BAA Pension Trustee) will not form part of the Qualifying Borrower Senior Debt.

BAA will not be a Borrower Secured Creditor but will be party to the STID to subordinate and postpone any claims in respect of financial indebtedness that it may have against any member of the Security Group. For the avoidance of doubt, payments for goods and services provided by BAA including those under the Shared Services Agreement will not be subordinated or postponed.

“**Qualifying Borrower Junior Debt**” comprises:

- (i) the principal amount outstanding under the Borrower Loan Agreements corresponding to the Class B Bonds (wrapped and unwrapped);
- (ii) the amount owed by the Borrowers to the Issuer in respect of the mark-to-market value of any transaction or transactions arising under Cross Currency Hedging Agreements between a Cross Currency Hedge Counterparty and the Issuer 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 transaction or transactions;
- (iii) the principal amount outstanding under any Capex Facility at such time to the extent that such amount is designated Junior Debt (ranking *pari passu* with other Junior Debt);
- (iv) the principal amount outstanding under the Refinancing Facility at such time to the extent that such amount is designated Junior Debt (ranking *pari passu* with other Junior Debt),
- (v) (subject to applicable finance lessors under a Finance Lease acceding to the STID as Borrower Secured Creditors), the termination value of any Finance Leases designated as Junior Debt at such time; and
- (iv) the principal amounts outstanding under any other Authorised Credit Facility ranking *pari passu* with the above.

Upon repayment in full of the Qualifying Borrower Senior Debt, the Qualifying Borrower Junior Creditors may vote (through their Secured Creditor Representatives) in respect of the Outstanding Principal Amount of the Qualifying Borrower Junior Debt they are representing. The voting procedures and requirements for the Qualifying Borrower Senior Debt would apply *mutatis mutandis* to the Qualifying Borrower Junior Debt in such circumstances (including the tranching of votes of the Issuer).

If Subordinated Bonds are issued by the Issuer under the Programme, the holders of Subordinated Bonds will not be entitled to exercise any votes in respect of the principal amount outstanding under the Borrower Loan Agreements corresponding to the Subordinated Bonds unless and until the Senior Debt and the Junior Debt have been repaid in full provided that such holders will be entitled to vote in respect of (i) any Basic Terms Modifications relating to a Sub-Class of Subordinated Bonds or (ii) where the holders of such Subordinated Bonds are affected thereby, any Entrenched Right in respect of which the Issuer is an Affected Borrower Secured Creditor.

In this Prospectus, references to “**Qualifying Borrower Debt**” or “**Qualifying Borrower Secured Creditors**” shall be references to:

- (a) Qualifying Borrower Senior Debt or Qualifying Borrower Senior Creditors respectively prior to the repayment in full of the Senior Debt; and
- (b) Qualifying Borrower Junior Debt or Qualifying Borrower Junior Creditors respectively only following the repayment in full of the Senior Debt,

in each case subject to:

- (i) the rights of the Qualifying Borrower Junior Creditors and the relevant Issuer Secured Creditors in respect of Entrenched Rights;



- (ii) the Non-Migrated Bondholders of a tranche of Non-Migrated Bonds in relation to which no Non-Migrated Bond Refusal Date has occurred having no entitlement to vote on or direct the Borrower Security Trustee in relation to any matter under the STID other than a Non-Migrated Bond Voting Matter or a Non-Migrated Bond Entrenched Right where they are an Affected Borrower Secured Creditor;
- (iii) the Non-Migrated Bondholders of a tranche of Non-Migrated Bonds in relation to which a Non-Migrated Bond Refusal Date occurs having no entitlement to vote or direct the Borrower Security Trustee on any matter following such date; and
- (iv) the rights of the Borrower Liquidity Facility Providers, the Borrower Hedge Counterparties under the Interest Rate Hedging Agreements, the BAA Pension Trustee and the Borrower Account Bank in respect of their Entrenched Rights where they are an Affected Borrower Secured Creditor.

**(f) Tranching of Issuer's Vote**

- (i) In respect of any Ordinary Voting Matter, Extraordinary Voting Matter, SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notice, Direction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice, the Qualifying Borrower Senior Debt owed or deemed to be owed to the Issuer will be divided into separate voting tranches comprising a tranche per Financial Guarantor up to the aggregate Principal Amount Outstanding of Class A Wrapped Bonds wrapped on a primary basis by such Financial Guarantor and a tranche for the holders of Class A Unwrapped Bonds up to the aggregate Principal Amount Outstanding of Class A Unwrapped Bonds. In addition, each Cross Currency Hedge Counterparty in respect of the Class A Bonds will be entitled to vote the mark-to-market value of all transactions arising under the relevant Issuer Hedging Agreements entered into between the Issuer and the relevant Cross Currency Hedge Counterparty up to the amount which would be payable by the Borrowers to the Issuer under a Borrower Loan Agreement to compensate the Issuer for any amount which would be payable by the Issuer to the Cross Currency Hedge Counterparty if an early termination date was designated at the latest practicable time for the calculation thereof prior to the deadline for submitting its votes in respect of such particular matter (which shall be the Business Day prior to the last Business Day of the relevant Decision Period). Similarly, each Cross Currency Hedge Counterparty will be entitled to vote the mark-to-market value of all transactions arising under the relevant Borrower Hedging Agreements entered into between a Borrower and the relevant Cross Currency Hedge Counterparty in respect of the Non-Migrated Bonds denominated in euro up to the amount which would be payable by the relevant Borrower to the Cross Currency Hedge Counterparty if an early termination date was designated at the latest practicable time for the calculation thereof prior to the deadline for submitting its votes in respect of such particular matter (which shall be the Business Day prior to the last Business Day of the relevant Decision Period).
- (ii) In respect of any Ordinary Voting Matter, Extraordinary Voting Matter, SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notice, Direction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice, the Qualifying Borrower Junior Debt owed or deemed to be owed to the Issuer will be divided into separate voting tranches comprising a tranche per Financial Guarantor up to the aggregate Principal Amount Outstanding of Class B Wrapped Bonds wrapped on a primary basis by such Financial Guarantor and a tranche for the holders of Class B Unwrapped Bonds up to the aggregate Principal Amount Outstanding of Class B Unwrapped Bonds. In addition, each Cross Currency Hedge Counterparty will be entitled to vote the mark-to-market value of all transactions arising under the relevant Issuer Hedging Agreements entered into between the Issuer and the relevant Cross Currency Hedge Counterparty in respect of the Class B Bonds up to the amount which would be payable by the Borrowers to the Issuer under a Borrower Loan Agreement to compensate the Issuer for any amount which would be payable by the Issuer to such Cross Currency Hedge Counterparty if an early termination date was designated at the latest practicable time for the calculation thereof prior to the deadline for submitting its votes in respect of such particular matter which shall be the Business Day prior to the last Business Day of the relevant Decision Period. Similarly, each Cross Currency Hedge Counterparty will be

entitled to vote in respect of the mark-to-market value of all transactions arising under the relevant Borrower Hedging Agreements entered into between a Borrower and the relevant Cross Currency Hedge Counterparty in respect of the Non-Migrated Bonds denominated in euro up to the amount which would be payable by the relevant Borrower to such Cross Currency Hedge Counterparty if an early termination date was designated at the latest practicable time for the calculation thereof prior to the deadline for submitting its votes in respect of such particular matter which shall be the Business Day prior to the last Business Day of the relevant Decision Period.

- (iii) Voting in respect of each Class A Wrapped Bond tranche will be made by the applicable Financial Guarantor (prior to the occurrence of a FG Event of Default in respect of such Financial Guarantor) in respect of the entire Principal Amount Outstanding of the Class A Wrapped Bonds wrapped on a primary basis by it or, following repayment in full of the Senior Debt, (prior to the occurrence of a FG Event of Default in respect of such Financial Guarantor) the entire Principal Amount Outstanding of the Class B Wrapped Bonds wrapped on a primary basis by it without enfranchising the Bondholders of such class or classes of Class A Wrapped Bonds or Class B Wrapped Bonds, as the case may be. For the avoidance of doubt, the Bondholders of such class or classes of Class A Wrapped Bonds or Class B Wrapped Bonds, as the case may be, will not be entitled to vote other than in respect of an Entrenched Right which constitutes a Basic Terms Modification. Voting in respect of the Class A Unwrapped Bond tranche (or the Class B Unwrapped Bond tranche, as the case may be), will be made by holders of the Class A Unwrapped Bonds (or holders of the Class B Unwrapped Bonds, as the case may be), in accordance with the electronic voting procedures described in “*Bond Trust Deed – Bondholder Voting Mechanics*” below.
  - (iv) The electronic voting procedures for Ordinary Voting Matters, Extraordinary Voting Matters, SSA Instruction Notices, Emergency SSA Instruction Notices, Intercreditor Instruction Notices, Direction Notices, Enforcement Instruction Notices and Further Enforcement Instruction Notices will apply equally to the holders of Class A Wrapped Bonds in respect of the Class A Wrapped Bond tranche (or, following repayment in full of the Senior Debt, the holders of Class B Wrapped Bonds in respect of the Class B Wrapped Bond tranche) following an FG Event of Default in respect of the applicable Financial Guarantor.
- (g) **Majority Lenders in each Authorised Credit Facility bind all lenders of such Authorised Credit Facility**
- The votes of Participating QBS Creditors (as defined in paragraph (j)(ii) below) other than the Issuer will be cast by the applicable Participating QBS Creditors (through their Secured Creditor Representatives) subject to in the case of any Authorised Credit Facility provided other than on a bilateral basis any minimum quorum and voting majorities specified in the relevant Authorised Credit Facility. Accordingly, only a single vote by reference to the entire Outstanding Principal Amount of the Qualifying Borrower Senior Debt of the applicable Participating QBS Creditors will be counted for or, as the case may be, against the applicable STID Proposal, SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notice, Direction Notice, Enforcement Instruction Notice and Further Enforcement Instruction Notice.
- (h) **Voting of Non-Migrated Bonds by Non-Migrated Bondholders**
- The Non-Migrated Bond Trustee (for itself and on behalf of the Non-Migrated Bondholders) and the Non-Migrated Bondholders will be, from the Initial Issue Date, Borrower Secured Creditors and will have the benefit of the Borrower Security on the terms of the STID and the Senior/Subordinated Intercreditor Agreement and, in the event that any of the Borrower Security is enforced, will be entitled to receive payments from the realisation proceeds of the Borrower Security (or any amounts received under the Senior/Subordinated Intercreditor Agreement) in accordance with the applicable Borrower Post-Enforcement Priority of Payments notwithstanding that neither the Non-Migrated Bond Trustee nor the Non-Migrated Bondholders will be party to the STID at the Initial Issue Date and may never accede to the STID.

As soon as reasonably practicable following the Initial Issue Date, BAA will undertake to convene (or procure the convening of) a meeting of the Non-Migrated Bondholders of each tranche of Non-Migrated Bonds for the purpose of considering and voting on a Non-Migrated Bond Accession Resolution.

Prior to the Non-Migrated Bond Final Voting Date, the Security Group Agent will undertake not to deliver a STID Proposal which gives rise to a Non-Migrated Bond Voting Matter or a Non-Migrated Bond Entrenched Right where any Non-Migrated Bondholder is an Affected Borrower Secured Creditor or, if, prior to the Non-Migrated Bond Final Voting Date, the Securitisation Group Agent needs to deliver such a STID Proposal or a vote is required in respect of a matter that gives rise to a Non-Migrated Bond Voting Matter or a Non-Migrated Bond Entrenched Right, BAA undertakes to make the necessary arrangements to ensure that the Non-Migrated Bondholders of each Eligible Tranche of Non-Migrated Bonds (other than one in relation to which (a) a Non-Migrated Bond Refusal Date has occurred (the Non-Migrated Bondholders of which shall have no entitlement to vote) or (b) a Non-Migrated Bond Accession Date has occurred (the Non-Migrated Bondholders of which shall vote as described below)) are able to (should they choose to do so) participate in such vote as a Qualifying Borrower Senior Creditor and, in such case, the applicable Decision Period shall be extended for such period as is reasonably necessary to ensure that the relevant Non-Migrated Bondholders have the opportunity to participate in such vote.

Prior to the Non-Migrated Bond Tranche Decision Date in respect of each Eligible Tranche of Non-Migrated Bonds, voting in respect of such Eligible Tranche will be made by holders of such Eligible Tranche as described in the previous paragraph. A single vote by reference to the entire Principal Amount Outstanding of any such Eligible Tranche will be counted for or, as the case may be, against the applicable Non-Migrated Bond Voting Matter or Non-Migrated Bond Entrenched Right.

On or after the Non-Migrated Bond Accession Date (if any) in respect of each Eligible Tranche of Non-Migrated Bonds, voting in respect of such Eligible Tranche will be made by the holders of such Eligible Tranche, acting through their Secured Creditor Representative, in accordance with the terms and conditions of the relevant Non-Migrated Bonds and the relevant Non-Migrated Bond Trust Deeds (as modified by and pursuant to the relevant Non-Migrated Bond Accession Resolution) and the provisions of the STID. Only the Principal Amount Outstanding of Non-Migrated Bonds then owed to Non-Migrated Bondholders that vote on a proposed resolution within the Decision Period will be counted towards the Quorum Requirement. The Qualifying Borrower Debt of the Participating QBS Creditors of the relevant Eligible Tranche will be divided on a pound for pound basis between votes cast in favour and votes cast against. Votes cast in favour and votes cast against will then be aggregated by the Borrower Security Trustee with the votes cast for and against by the other Qualifying Borrower Secured Creditors.

On or after the Non-Migrated Bond Refusal Date (if any) in respect of each Eligible Tranche of Non-Migrated Bonds, the holders of such Eligible Tranche shall have no entitlement to vote on or instruct the Borrower Security Trustee in relation to any matter under the STID.

(i) **Voting of Cross Currency Hedging Agreements by Issuer Hedge Counterparties and Borrower Hedge Counterparties**

Voting in respect of the Cross Currency Hedging Agreements will be made by each Issuer Hedge Counterparty in respect of the mark-to-market value of all transactions arising under the Cross Currency Hedging Agreements, to which it is a party, in respect of the Class A Bonds (or following repayment in full of the Senior Debt, the Cross Currency Hedging Agreements, to which it is a party, in respect of the Class B Bonds). Only the mark-to-market value of all such transactions, to the extent that such value represents an amount which will be payable to the relevant Cross Currency Hedge Counterparty if any Early Termination Date (as defined in the relevant Cross Currency Hedging Agreement) was designated at the latest practicable time for the calculation thereof prior to the deadline for submitting its votes in respect of a particular matter (which shall be the Business Day prior to the last Business Day of the relevant Decision Period) in respect of such transactions will be counted towards the Quorum Requirement. In respect of each Issuer Hedge Counterparty, a single vote by reference to the aggregate of the mark-to-market value of all such transactions arising under such Cross Currency Hedging Agreements of such Issuer Hedge Counterparty will be counted for or against the applicable

STID Proposal, SSA Instruction Notice, Emergency SSA Instruction Notice, Enforcement Instruction Notice, Further Enforcement Instruction Notice or Intercreditor Instruction Notice or Direction Notice.

Voting in respect of the Cross Currency Hedging Agreements will be made by each Borrower Hedge Counterparty in respect of the mark-to-market value of all transactions arising under the Cross Currency Hedging Agreements, to which it is a party, in respect of the Non-Migrated Bonds denominated in euro. Only the mark-to-market value of all such transactions, to the extent that such value represents an amount which will be payable to the relevant Cross Currency Hedge Counterparty if any Early Termination Date (as defined in the relevant Cross Currency Hedging Agreement) was designated at the latest practicable time for the calculation thereof prior to the deadline for submitting its votes in respect of a particular matter (which shall be the Business Day prior the last Business Day of the relevant Decision Period) in respect of such transactions will be counted towards the Quorum Requirement. In respect of each Borrower Hedge Counterparty, a single vote by reference to the aggregate of the mark-to-market value of all such transactions arising under such Cross Currency Hedging Agreements of such Borrower Hedge Counterparty will be counted for or against the applicable STID Proposal, SSA Instruction Notice, Emergency SSA Instruction Notice, Enforcement Instruction Notice, Further Enforcement Instruction Notice or Intercreditor Instruction Notice or Direction Notice.

(j) **Voting Categories for STID Proposals**

(i) *Discretion matters*

- (A) A Discretion Matter is a matter in which the Borrower Security Trustee may exercise its discretion to approve any request made in a STID Proposal without any requirement to seek the approval of any Borrower Secured Creditor or any of their Secured Creditor Representatives. Under the STID, the Borrower Security Trustee will be entitled to exercise its discretion if in the opinion of the Borrower Security Trustee, approval of the STID Proposal (i) is required 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) is not materially prejudicial to the interests of the Qualifying Borrower Secured Creditors (where “**materially prejudicial**” means that such modification, consent or waiver would have a material adverse effect on the ability of the Obligors to repay the Qualifying Borrower Debt owed to the Qualifying Borrower Secured Creditors).
- (B) The Borrower Security Trustee shall be under no obligation to exercise its discretion in respect of any STID Proposal designated as a Discretion Matter and if it chooses not to do so the voting category selection procedures set out under “– *STID Proposals*” above shall apply.
- (C) Any exercise of discretion by the Borrower Security Trustee in respect of a Discretion Matter shall be binding on all of the Borrower Secured Creditors and their Secured Creditor Representatives.

(ii) *Ordinary Voting Matters*

Ordinary Voting Matters are matters which are not Discretion Matters or Extraordinary Voting Matters. The Decision Period shall not be less than 10 Business Days from the date of the STID Proposal for any Ordinary Voting Matter subject to paragraphs (g) (*Majority Lenders in each Authorised Credit Facility bind all lenders of such Authorised Credit Facility*) and (h) (*Voting of Non-Migrated Bonds by Non-Migrated Bondholders above*). Resolutions in respect of Ordinary Voting Matters may be passed by a simple majority of Qualifying Borrower Senior Creditors which participate in the vote (“**Participating QBS Creditors**”) on a pound for pound basis by reference to the Outstanding Principal Amount then owed to the relevant Participating QBS Creditors so that all votes for and against the relevant proposal (across the Unwrapped Bondholders, the Relevant Financial Guarantor (or Wrapped Bondholders if an FG Event of Default exists) and the other Qualifying Borrower Senior Creditors) are considered on an aggregated basis subject to the Qualifying Borrower Debt of such Participating QBS Creditors representing in aggregate at least 20 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt (such minimum representation, the “**Quorum Requirement**”).

(iii) *Extraordinary Voting Matters*

The procedures and requirements for a STID Proposal in respect of an Extraordinary Voting Matter shall be the same as for Ordinary Voting Matters except that:

- (A) the Decision Period shall be not less than 15 Business Days;
- (B) the Quorum Requirement shall initially be 50 per cent. (namely that the Qualifying Borrower Debt of the Participating QBS Creditors must represent at least 50 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt), provided that if the Quorum Requirement has not been met within the Decision Period, the Quorum Requirement for Participating QBS Creditors shall be reduced to 20 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt and the Decision Period for voting in respect of such Extraordinary Voting Matter shall be extended for a period of a further 10 days from the expiry of the initial Decision Period; and
- (C) the majority required to pass the resolution shall be 75 per cent. of the Participating QBS Creditors by reference to the Outstanding Principal Amount of the aggregate Voted Qualifying Debt of such Participating QBS Creditors.

(iv) *Entrenched Rights*

(A) Pursuant to the STID, “**Entrenched Rights**” are matters which:

- (1) would delay the date fixed for payment of principal, interest or Make-Whole Amount in respect of the relevant Borrower Secured Creditor’s debt or would reduce the amount of principal, the rate of interest or the Make-Whole Amount (if any) payable in respect of such debt;
- (2) would bring forward the date fixed for payment of principal, interest or Make-Whole Amount in respect of Borrower Secured Creditor’s debt or would increase the amount of principal, the rate of interest or any Make-Whole Amount payable on any date in respect of any Borrower Secured Creditor’s debt;
- (3) would have the effect of adversely changing any of the Borrower Post-Enforcement Priorities of Payments or application thereof in respect of a Borrower Secured Creditor (including, in the case of the Issuer, any Issuer Secured Creditor that would be adversely affected by such change);
- (4) would have the effect of adversely changing the application of any proceeds of enforcement of the OFCA;
- (5) would result in the exchange of the relevant Borrower Secured Creditor’s debt for, or the conversion of such debt into, shares, bonds or other obligations of any other person;
- (6) would change or would relate to the currency of payment due under the relevant Borrower Secured Creditor’s debt (other than due to the UK adopting the Euro);
- (7) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant Borrower Secured Creditor’s debt in the event of the imposition of withholding taxes (including, in the case of the Issuer, any Issuer Secured Creditor that would be adversely affected by such change);
- (8) would change or would have the effect of changing (i) any of the following definitions: Qualifying Borrower Debt, Qualifying Borrower Secured Creditors, Qualifying Borrower Senior Debt, Qualifying Borrower Junior Debt, STID Proposal, Discretion Matter, Ordinary Voting Matter, Extraordinary Voting Matter, Voted Qualifying Debt, Non-Migrated Bond Voting Matter, Non-Migrated Bond Excluded Default, Reserved Matter, Entrenched Right, Borrower Secured Liabilities, (ii) the Decision Period, Quorum Requirement or voting majority required in respect of any Ordinary Voting Matter, Extraordinary Voting Matter, SSA Instruction Notice, Intercreditor Instruction Notice,

Emergency SSA Instruction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice; (iii) any of the matters that give rise to Entrenched Rights under the STID or (iv) the scope of Entrenched Rights as described the STID;

- (9) would change or have the effect of changing the provisions of the STID relating to the voting of the Participating QBS Creditors;
- (10) would change or have the effect of changing the provisions of the STID relating to Reserved Matters;
- (11) in respect of each Hedge Counterparty,
  - (1) would change or would have the effect of changing any of the following definitions: Borrower Excess Hedge Collateral, Borrower Hedge Replacement Premium, Borrower Subordinated Hedge Amount, Issuer Excess Hedge Collateral, Issuer Hedge Replacement Premium, Issuer Subordinated Hedge Amount, Hedging Agreement, Revenue Collections or Issuer Secured Creditor Entrenched Right; or
  - (2) would change or have the effect of changing the definition of Hedging Limit or would change any term forming part of such definition other than where the effect of such change would be to decrease the Hedging Limit; or
  - (3) would change or have the effect of changing the definition of Permitted Hedge Termination or any of the Hedge Counterparties' rights to terminate the Hedging Agreements as set out in the Hedging Policy; or
  - (4) would change or have the effect of changing the clauses of the Common Terms Agreement in respect of Permitted Hedge Terminations; or
  - (5) would change or have the effect of changing the provisions of the STID in respect of Voting of Cross Currency Hedging Agreements by Cross Currency Hedge Counterparties);
  - (6) would change or have the effect of changing the definition of Loan Acceleration Notice or would change or have the effect of changing the provisions of the STID in respect of the consequences of delivery of a Loan Acceleration Notice;
  - (7) would change or have the effect of changing the purpose of the Borrower Liquidity Facility (which is to fund shortfalls in respect of interest and other finance charges due under the Refinancing Facility Agreement, the EIB Facility Agreements and all scheduled amounts payable to each Borrower Hedge Counterparty under the Borrower Hedging Agreements in an aggregate amount at least equal to the amount of liquidity required to prevent the occurrence of a Trigger Event);
  - (8) would change or have the effect of changing the purpose of the Issuer Liquidity Facility (which is to fund shortfall amounts scheduled to be paid by the Issuer in respect of items (i) – (vii) (inclusive) of the Issuer Pre-Enforcement Priority of Payments (excluding, for the avoidance of doubt, any termination payments and all other unscheduled amounts payable to any Issuer Hedge Counterparty) in an aggregate amount at least equal to the amount of liquidity required to prevent the occurrence of a Trigger Event);
  - (9) would change or have the effect of changing the provision of the Common Terms Agreement requiring the application of Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments in certain circumstances;
  - (10) would change or have the effect of changing certain provisions of the Senior/Subordinated Intercreditor Agreement which, (i) relate to the Hedging Agreements and/or the Hedge Counterparties or (ii) would have a material adverse effect on the Borrower Hedge Counterparties;

- (11) would change or have the effect of changing any provision of the Common Terms Agreement, a Borrower Loan Agreement or the STID that restricts the application of monies until after the payment or Collateralisation of any termination amounts or other unscheduled amounts due to a Hedge Counterparty under a Hedging Agreement;
- (12) in respect of each Borrower Liquidity Facility Provider, would change the effect of the provisions of the Common Terms Agreement relating to the application of the Borrower Post-Enforcement (Pre-Acceleration) Priority of Payments in certain circumstances of the pre-enforcement priority for Borrower Liquidity Facilities of the Common Terms Agreement, or would affect the ability of such Borrower Liquidity Facility Provider to enforce its rights under the Borrower Liquidity Facility Agreement;
- (13) in respect of each Finance Lessor, would have the effect of changing or would relate to (a) any sale, transfer or other disposal (whether deemed or otherwise) of any of the Equipment; (b) the creation or subsistence of any encumbrance, lien, mortgage or other Security Interest over any Equipment; (c) any of the covenants or representations and warranties set out in the Finance Documents which relate to the maintenance or condition of the Equipment; or (d) any provisions contained within the Finance Documents pertaining to any damage, destruction or total loss of any of the Equipment;
- (14) in respect of the BAA Pension Trustee, (i) may impose new, increased or additional obligations on or reduce the rights of the BAA Pension Trustee (provided, however, that with regard to any reduction of rights relating to the Borrower Post-Enforcement Priorities of Payments, the right of the BAA Pension Trustee shall be to rank *pari passu* with the repayments of principal in respect of the Borrower Loans relating to the Class A Bonds for an aggregate amount up to the Maximum Pension Liability Amount but the Borrower Post-Enforcement Priorities of Payments may otherwise be amended without the consent of the BAA Pension Trustee), (ii) would result in the BAA Pension Trustee being entitled to be paid an aggregate amount under the STID of less than the Maximum Pension Liability Amount, (iii) would have the effect of changing the provisions of the Shared Services Agreement in respect of the pension costs, (iv) would result in a grant of security by any Obligor to any person not being a Borrower Secured Creditor that would rank in priority to the security granted under the Security Documents and/or would change or would have the effect of changing the definitions of BAA Pension Liabilities or Maximum Pension Liability Amount;
- (15) in respect of a Non-Migrated Bondholder or the Non-Migrated Bond Trustee:
  - (1) would release any of the Borrower Security as security for the obligations of the Borrowers under the Non-Migrated Bond Guarantee other than in circumstances where the STID permits the Borrower Security Trustee to consent to such release without the requirement to obtain consent from the Borrower Secured Creditors or where all Borrower Secured Creditors are affected equally and rateably by such release;
  - (2) would adversely change the entitlement of the Non-Migrated Bondholders or the Non-Migrated Bond Trustee to participate in a vote relating to a Non-Migrated Bond Voting Matter; or
  - (3) would adversely change the ranking of the claims of the Non-Migrated Bondholders or the Non-Migrated Bond Trustee to any amounts received or recovered in respect of any of the Borrower Security, it being recognised that the addition of secured liabilities and secured parties that rank ahead of the Non-Migrated Bondholders shall not be deemed to be an adverse change where the Non-Migrated Bondholders continue to rank *pari passu* with the Senior Debt;

- (16) in respect of any Borrower Secured Creditor whose Senior Debt or Junior Debt is Collateralised, would result in the withdrawal of any amounts credited to the Debt Collateralisation Account to the extent represented by a credit on the DCA Ledger of such Borrower Secured Creditor, except where such amounts are to be applied in Actual Prepayment of such Senior Debt or, as the case may be, Junior Debt;
- (17) in respect of the Issuer would relate to the waiver of the Loan Event of Default set out in paragraph (q) under “– *Common Terms Agreement – Loan Events of Default*” below, provided that the Issuer (acting through its Secured Creditor Representative) shall be required to provide such waiver if, following delivery of an Enforcement Instruction Notice by the Borrower Security Trustee, no instruction to deliver a Loan Enforcement Notice, take any other kind of Enforcement Action or deliver a Loan Acceleration Notice is given by the Qualifying Borrower Secured Creditors in accordance with the procedures set out in the STID, the Issuer (or its Secured Creditor Representatives) is directed to do so in writing by Issuer Qualifying Creditors together holding or representing 25 per cent. or more of the Issuer Qualifying Debt; or
- (18) in respect of each Financial Guarantor, would result in any member of the Security Group entering into inflation-linked Treasury Transactions pursuant to a Hedging Agreement or would result in the Issuer entering into inflation-linked Treasury Transactions in respect of any Class B Bonds.

“**adversely**” means, in respect of any change to the Borrower Payment Priorities, a change which has the effect of changing the priority of the Borrower Secured Creditors relative to each other provided that the creation of payments which rank subordinate to a Borrower Secured Creditor shall not be an adverse change in respect of a Borrower Secured Creditor.

- (B) Where a STID Proposal gives rise to an Entrenched Right, the proposed resolution(s) may not be passed without additionally the approval of each Borrower Secured Creditor (through its respective Secured Creditor Representative) in respect of which the Entrenched Right arises by virtue of the applicable STID Proposal (such Qualifying Borrower Senior Creditors, the “**Affected Borrower Secured Creditors**”). The Issuer will be an Affected Borrower Secured Creditor if the applicable STID Proposal gives rise to an Entrenched Right that affects any Issuer Secured Creditor (an “**Affected Issuer Secured Creditor**”). An Issuer Secured Creditor will be affected by an Entrenched Right if the subject matter of such Entrenched Right gives rise to an Issuer Secured Creditor Entrenched Right.
- (C) The Issuer may not vote its Qualifying Borrower Debt in favour of a resolution giving rise to an Entrenched Right as an Affected Borrower Secured Creditor unless (i) the Bond Trustee has confirmed in writing to the Issuer and the Borrower Security Trustee that each Class or Sub-Class or Tranche of affected Unwrapped Bondholders (and each Class, Sub-Class or Tranche of Wrapped Bondholders following the occurrence of an FG Event of Default which is continuing or in respect of an Entrenched Right which constitutes a Basic Terms Modification) then outstanding has duly passed an Extraordinary Resolution to approve the resolution giving rise to an Entrenched Right (allowing for any reconvening of bondholder meetings and lower quorum requirements in accordance with the Bond Trust Deed); (ii) each Relevant Financial Guarantor which has wrapped the Sub-Classes of Wrapped Bonds on a primary basis that are affected (except where an FG Event of Default subsists for such Financial Guarantor) has also voted in favour of the proposed resolution or 10 Business Days have elapsed since it was notified of such Entrenched Right; (iii) each Cross Currency Hedge Counterparty under each Issuer Hedging Agreement affected by the STID Proposal has voted in favour of the relevant modification, consent or waiver or 10 Business Days have elapsed since it was notified of such Entrenched Right; and/or (iv) the Issuer has received the consent of each other Affected Issuer Secured Creditor in accordance with the terms of the Issuer Transaction Documents or 10 Business Days have elapsed since it was notified of such Entrenched Right.



- (D) In the case of any other Affected Borrower Secured Creditors, the Secured Creditor Representative on behalf of each such Affected Borrower Secured Creditor has confirmed its approval of such STID Proposal, subject to any required quorum and voting majorities specified in the relevant Authorised Credit Facilities or, in the case of the Non-Migrated Bondholders, the relevant trust deed constituting such Non-Migrated Bonds, or (in the case of an Affected Borrower Secured Creditor other than the Non-Migrated Bond Trustee, the Non-Migrated Bondholders or the BAA Pension Trustee) the time period referred to in the relevant STID Proposal has passed since each such Affected Borrower Secured Creditor was notified of such Entrenched Right or (in the case of an Affected Borrower Secured Creditor which is the Non-Migrated Bond Trustee, the Non-Migrated Bondholders or the BAA Pension Trustee) 45 days have elapsed since such Affected Borrower Secured Creditor was notified of such Entrenched Right.
- (E) Where a STID Proposal gives rise to a Subordinated Lender Consent Matter, the proposed resolution may not be passed without additionally the prior written consent of the Majority Subordinated Creditors or, in certain circumstances, certain Ratings Confirmations, in each case in accordance with the terms of the Senior/Subordinated Intercreditor Agreement.

(v) *Specific Variations in respect of Subordinated Bonds*

If the Issuer notifies the Borrower Security Trustee that it proposes to issue Subordinated Bonds, the Borrower Security Trustee may, without the consent or sanction of the Borrower Secured Creditors other than Relevant Borrower Secured Creditors at any time and from time to time concur with the Issuer, the Bond Trustee and any other relevant parties in making any modifications to the STID, the Common Terms Agreement, the Master Definitions Agreement and the Borrower Account Bank 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 Borrower Secured Creditors (if any) has given its prior written consent to such modifications.

Pursuant to the STID, the Borrower Security Trustee will be authorised to execute and deliver on behalf of each such Borrower Secured Creditor all documentation required to implement such modification and such execution and delivery by the Borrower Security Trustee will bind each of the Borrower Secured Creditors as if such documentation had been duly executed by it.

(k) **Acceleration and Enforcement**

- (i) The Security Agreement, the Obligor Floating Charge Agreement and the STID will provide that the Borrower Security will become enforceable following the delivery of a Loan Enforcement Notice.
- (ii) When the Borrower Security Trustee has actual notice of the occurrence of a Loan Event of Default under the Common Terms Agreement it shall promptly request by notice (an “**Enforcement Instruction Notice**”) an instruction from the Qualifying Borrower Secured Creditors as to whether the Borrower Security Trustee should deliver a Loan Enforcement Notice to enforce all or any of the obligations secured under the Borrower Security (other than the OFCA Floating Security) or take any other kind of Enforcement Action and/or deliver a Loan Acceleration Notice to accelerate all of the obligations secured under the Borrower Security (other than the OFCA Floating Security) (each, an “**Enforcement Action**”). The period of time within which the instruction is to be provided to the Borrower Security Trustee shall be not less than 10 Business Days from the date of delivery of the Enforcement Instruction Notice. At any time following the delivery of a Loan Enforcement Notice, the Borrower Security Trustee may and, following receipt of a BSC Instruction Notice by the Borrower Security Trustee (as described in (n) (*Borrower Secured Creditor Instructions*) below) shall promptly request an instruction (by a Further Enforcement Instruction Notice) from the Qualifying Borrower Secured Creditors (through their Secured Creditor Representatives) as to whether the Borrower Security Trustee should deliver a Loan Acceleration Notice to accelerate all of the obligations secured under the Borrower Security (other than the OFCA Floating Security).

- (iii) Following delivery of a Loan Enforcement Notice, the Borrower Security Trustee or any Receiver appointed by it will open in its name a surplus revenue collection account (the “**Surplus Revenue Collection Account**”).
- (iv) Following delivery of a Loan Enforcement Notice, the Borrower Security Trustee will deposit the net proceeds of any Designated Airport Disposal into the Disposal Proceeds Account.
- (v) Following delivery of a Loan Enforcement Notice, all monies standing to the credit of all Obligor Accounts shall only be withdrawn with the prior written consent of the Borrower Security Trustee or a Receiver.
- (vi) With respect to an Enforcement Instruction Notice (including any sent following receipt of a BSC Instruction Notice), the Borrower Security Trustee shall be bound to act in accordance with the instructions of not less than 25 per cent. of Participating QBS Creditors on a pound for pound basis (subject to paragraphs (g) (*Majority Lenders in each Authorised Credit Facility*) and (h) (*Voting of Non-Migrated Bonds by Non-Migrated holders*) above) by reference to the Outstanding Principal Amount then owed to the relevant Participating QBS Creditors subject to the Qualifying Borrower Debt of such Participating QBS Creditors representing at least 25 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt.
- (vii) If the Loan Event of Default under the Common Terms Agreement relates to non-payment under any Capex Facility or Refinancing Facility or failure to refinance a Capex Facility or Refinancing Facility at maturity then if the Participating QBS Creditors have instructed that no acceleration or Enforcement Action should be taken and such Loan Event of Default is continuing (disregarding any temporary waiver or standstill created by the decision not to accelerate or enforce), the relevant providers of Senior Debt under the relevant Capex Facility or Refinancing Facility (acting through their respective Secured Creditor Representative) will be entitled to instruct the Borrower Security Trustee to request an instruction by way of a further Enforcement Instruction Notice (each, a “**Further Enforcement Instruction Notice**”) on the date falling 18 months after the date of the occurrence of the Loan Event of Default. The Borrower Security Trustee shall be bound to act in accordance with the instructions of Participating QBS Creditors on a pound for pound basis by reference to the Outstanding Principal Amount then owed to the relevant Participating QBS Creditors representing at least 20 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Senior Debt. The Capex Provider or Refinancing Facility Provider will be entitled to request the Borrower Security Trustee issue a Further Enforcement Instruction Notice every 3 months thereafter if no acceleration or Enforcement Action has been taken if such Loan Event of Default is continuing (notwithstanding any temporary waiver or standstill created by the decision not to accelerate or enforce). In such circumstances, the majority of the Participating QBS Creditors on a pound for pound basis (subject to paragraphs (g) (*Majority Lenders in each Authorised Credit Facility*) and (h) (*Voting of Non-Migrated Bonds by Non-Migrated holders*) above) by reference to the Outstanding Principal Amount then owed to the relevant Participating QBS Creditors will reduce on a 3 monthly basis to 15 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Senior Debt after 21 months from the date of the Loan Event of Default and 10 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Senior Debt after 24 months from the date of the Loan Event of Default. For the avoidance of doubt, the Qualifying Borrower Secured Creditors will not be entitled to permanently waive the obligation of the Borrowers to remedy any non-payment under a Capex Facility or Refinancing Facility (including any failure to refinance a Capex Facility or Refinancing Facility at maturity).
- (viii) If the Loan Event of Default under the Common Terms Agreement relates to (a) an application for the appointment of an administrator in respect of an Obligor, (b) the giving of notice of intention of appointment of an administrator in respect of an Obligor or (iii) the filing of a notice of appointment of an administrator in respect of an Obligor with the court, the Bond Trustee (being the assignee by way of security of the OFCA Floating Security by virtue of the Issuer Deed of Charge) shall appoint an administrative receiver to such Obligor in accordance with the terms of the Obligor Floating Charge Agreement and shall promptly notify the Borrower Security Trustee of such appointment.

(l) **Instructions with respect to Termination Rights under the Shared Services Agreement**

- (i) If an event or circumstance occurs under the Shared Services Agreement which would entitle an Obligor or, in certain circumstances, BAA to terminate the Shared Services Agreement in whole or in part, the Borrower Security Trustee shall promptly upon becoming aware of the same request by notice (an “**SSA Instruction Notice**”) an instruction from the Qualifying Borrower Secured Creditors as to whether the Borrower Security Trustee should give its consent to the applicable Obligor(s) or, as the case may be, BAA to terminate the Shared Services Agreement and to the appointment of a replacement shared services provider, if any such consent is required and shall not act in the absence of such instruction. Except in the case of an Emergency SSA Instruction Notice (as defined below), the period of time within which the instruction is to be provided to the Borrower Security Trustee shall be not less than 10 Business Days from the date of delivery of the SSA Instruction Notice.
- (ii) With respect to any SSA Instruction Notice, the Borrower Security Trustee shall be bound to act in accordance with the instructions of not less than  $66\frac{2}{3}$  per cent. of Participating QBS Creditors on a pound for pound basis (subject to paragraphs (g) (*Majority Lenders in each Authorised Credit Facility*) and (h) (*Voting of Non-Migrated Bonds by Non-Migrated Bondholders*) by reference to the Outstanding Principal Amount then owed to the relevant Participating QBS Creditors subject to the Qualifying Borrower Senior Debt of such Participating QBS Creditors representing at least 50 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt.
- (iii) If the event or circumstance which occurs under the Shared Services Agreement and which entitles an Obligor to terminate the Shared Services Agreement relates to the insolvency of the Shared Services Provider or formal insolvency proceedings being commenced in respect of such Shared Services Provider, the Borrower Security Trustee shall promptly upon becoming aware of the same request by notice (an “**Emergency SSA Instruction Notice**”) an instruction from the Qualifying Borrower Secured Creditors as to whether the Borrower Security Trustee should give its consent to the relevant Obligor(s) to terminate the Shared Services Agreement and shall not act in the absence of such instruction. The period of time within which the instruction is to be provided to the Borrower Security Trustee shall be 5 Business Days from the date of delivery of the Emergency SSA Instruction Notice.
- (iv) With respect to an Emergency SSA Instruction Notice, the Borrower Security Trustee shall be bound to act in accordance with the instructions of a simple majority of Participating QBS Creditors on a pound for pound basis by reference to the Outstanding Principal Amount then owed to the relevant Participating QBS Creditors subject to the Qualifying Borrower Senior Debt of such Participating QBS Creditors representing at least 25 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Senior Debt.

(m) **Instructions with respect to consents pursuant to the Senior/Subordinated Intercreditor Agreement**

If an event or circumstance occurs which would require the consent or a waiver to be granted by the Majority Senior Creditors or the Senior Security Trustee (as such terms are defined in the Senior/Subordinated Intercreditor Agreement) pursuant to the Senior/Subordinated Intercreditor Agreement or which would require the Senior Security Trustee to act in accordance with any instructions given in accordance with the STID, the Borrower Security Trustee shall promptly upon becoming aware of the same request by notice (an “**Intercreditor Instruction Notice**”) an instruction from the Qualifying Borrower Secured Creditors as to whether and the manner in which the Borrower Security Trustee should act.

With respect to any Intercreditor Instruction Notice, the Quorum Requirement shall be one or more Participating QBS Creditors and the majority required to pass the resolution shall be  $66\frac{2}{3}$  per cent. of the aggregate Principal Amount Outstanding of all Qualifying Borrower Debt provided that as soon as the Borrower Security Trustee has received votes in favour of an Intercreditor Instruction Notice from the Participating QBS Creditors representing  $66\frac{2}{3}$  per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt, no further votes will be counted by the Borrower Security Trustee or taken into account notwithstanding

the fact that the Borrower Security Trustee has yet to receive votes from all Qualifying Borrower Secured Creditors (through their Secured Creditor Representatives) in respect of the relevant Qualifying Borrower Debt.

(n) **Borrower Secured Creditor Instructions**

Any Qualifying Borrower Secured Creditor (other than the Non-Migrated Bondholders or Non-Migrated Bond Trustee, except in relation to (iv) below) which by itself or together with any other Qualifying Borrower Senior Creditor(s) which is or are owed Qualifying Borrower Debt having an aggregate Outstanding Principal Amount of at least 10 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt then outstanding may by giving notice (a “**BSC Instruction Notice**”) to the Borrower Security Trustee instruct the Borrower Security Trustee to exercise any of the rights granted to it under the Common Documents including:

- (i) to investigate the calculations contained in any Compliance Certificate or accompanying statement and to call for other substantiating evidence if it certifies to the Security Group Agent that it has reason to believe that the historical or forward-looking ratios (or with respect to any Compliance Certificate confirmation of compliance with the financial ratios) set out in the statement are incorrect or misleading in accordance with of the Common Terms Agreement;
- (ii) to request certain further information pursuant to and subject to the terms of the Common Terms Agreement;
- (iii) to request further information for the purposes of investigating the Obligors’ compliance with the requirements of determining whether there have been any breaches of the provisions of schedule 11 (*Insurances*) of the Common Terms Agreement;
- (iv) following delivery of a Loan Enforcement Notice but prior to delivery of a Loan Acceleration Notice, to request the Borrower Security Trustee to send an Enforcement Instruction Notice or Further Enforcement Instruction Notice;
- (v) to require BAA to provide a Termination Plan in accordance with the provisions of the Shared Services Agreement if a Trigger Event continues for more than six months and/or to request BAA to assist with a review by an independent professional adviser of the Service Charge and to appoint such independent professional adviser in accordance with the provisions of the Shared Services Agreement;
- (vi) to investigate the calculations contained in a SSA Report or accompanying statement in accordance with the provisions of the Shared Services Agreement.

The Borrower Security Trustee shall exercise the above rights in accordance with the directions set out in the BSC Instruction Notice.

(o) **Reserved Matters**

Reserved Matters are matters in respect of which a Borrower Secured Creditor will be free to exercise its discretion in accordance with its own Authorised Credit Facility(ies). Generally, a Borrower Secured Creditor may agree to any modifications to and give consent or grant waiver in respect of its own Authorised Credit Facility with the Security Group without the consent of the Borrower Security Trustee provided that the modification, consent or waiver does not conflict with any provisions of the Common Terms Agreement and STID in which case the terms of the Common Terms Agreement and STID would prevail. Additionally (and for the avoidance of doubt) the terms of an Authorised Credit Facility (other than those terms incorporated by reference in the Common Terms Agreement) may not be amended without the consent of the relevant provider of the Authorised Credit Facility. The STID shall not prevent any Borrower Secured Creditor from exercising the rights, powers, authorities and discretions defined as “**Reserved Matters**”. These matters include in the case of the Non-Migrated Bond Trustee and the Non-Migrated Bondholders the right to exercise rights provided by applicable law or the terms of the Non-Migrated Bonds and the Non-Migrated Bond Guarantee or to take any action, step or proceeding under or in relation to the Non-Migrated Bonds and the Non-Migrated Bond Guarantee, including the right to take Independent Enforcement Action against BAA, HAL, GAL and/or STAL.

To the extent that the Borrower Security Trustee is a party to an Authorised Credit Facility for the greater preservation of its rights, the Borrower Security Trustee will agree if instructed in writing by the requisite majority of Authorised Credit Providers (through their Secured Creditor Representative) who are party to the relevant Authorised Credit Facility and indemnified to its satisfaction with any proposed amendment, modification or waiver to such Authorised Credit Facility provided that the requisite majority of the relevant Authorised Credit Provider(s) agrees to such amendment, modification or waiver and that the relevant amendment, modification or waiver does not contravene the provisions of the Common Documents. The Borrower Security Trustee shall have no duty to investigate if any provision of a Common Document is contravened.

(p) **Requests for direction**

The Borrower Security Trustee may seek instructions from the Qualifying Borrower Secured Creditors by notice to the Qualifying Borrower Secured Creditors (through their Secured Creditor Representatives) on any matter in respect of which the voting regime is not prescribed through a STID Proposal, SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notice, Enforcement Instruction Notice, Further Enforcement Instruction Notice or BSC Instruction Notice. The Borrower Security Trustee will act in accordance with the instructions of one or more Participating QBS Creditors holding a simple majority of Qualifying Borrower Debt.

(q) **Trust in respect of the Borrower Liquidity Reserve Account**

Pursuant to the Borrower Liquidity Reserve Account Trust Deed, the Borrower Security Trustee is the beneficiary of a beneficial interest in the Trust Property constituted thereunder. The Borrower Security Trustee will hold its beneficial interest in the Trust Property on trust for (a) the EIB (in respect of EIB Liquidity Shortfalls), (b) the Refinancing Facility Agent for and on behalf of the Refinancing Facility Providers (in respect of Refinancing Liquidity Shortfalls) and (c) the Borrower Hedge Counterparties (in respect of Hedging Liquidity Shortfalls), pursuant to the STID and (d) the Borrower Liquidity Facility Providers only in respect of amounts drawn under the Borrower Liquidity Facility and credited to the Borrower Liquidity Reserve Account.

(r) **Enforcement Action pursuant to Senior/Subordinated Intercreditor Agreement**

Prior to the delivery of a Loan Enforcement Notice, if the Borrower Security Trustee receives any amount as a result of the taking of Enforcement Action (as such term is defined in the Senior/Subordinated Intercreditor Agreement), each Borrower Secured Creditor agrees that such amount shall be applied in accordance with the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments. Each of the parties agrees that any amounts received by a Borrower Hedge Counterparty as a result of a Permitted Hedge Termination which occurs prior to the delivery of a Loan Enforcement Notice may be retained by such Borrower Hedge Counterparty and shall not be required to be turned over to the Borrower Security Trustee.

(s) **Post-Enforcement Revenue Prepayment Proposal**

During an Enforcement Period any Qualifying Borrower Secured Creditor which by itself or together with other Qualifying Borrower Secured Creditor(s) is or are owed Qualifying Borrower Debt having an aggregate Outstanding Principal Amount of at least 10 per cent. of the aggregate Outstanding Principal Amount of all Qualifying Borrower Debt may by giving notice to the Borrower Security Trustee instruct the Borrower Security Trustee to propose a resolution (a “**Post-Enforcement Surplus Revenue Prepayment Proposal**”) to all Qualifying Borrower Secured Creditors requiring that any Available Surplus Revenue Collections be applied on the next following Payment Date or other specified date to Actually Prepay or Collateralise Senior Debt (or following discharge in full of the Senior Debt, the Junior Debt) in accordance with the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments, as if such Available Surplus Revenue Collections were Principal Collections.

The procedures and requirements for a Post-Enforcement Surplus Revenue Prepayment Proposal shall be the same as for Ordinary Voting Matters except that:

- (A) the Decision Period shall be not less than 10 Business Days;

- (B) the Quorum Requirement shall be one or more Participating QBS Creditors representing in aggregate at least 20 per cent. of the entire Outstanding Principal Amount of all Qualifying Borrower Debt; and
- (C) a resolution (such resolution a “**Post-Enforcement Surplus Revenue Prepayment Resolution**”) in respect of a Post-Enforcement Surplus Revenue Prepayment Proposal may be passed by a simple majority of the Voted Qualifying Debt.

(t) **Borrower Post-Enforcement Priorities of Payments**

Each party to the STID agrees that:

- (i) obligations appearing in any one item in any Borrower Post-Enforcement Priorities of Payments are to rank *pari passu* and *pro rata* with each other provided that if obligations appearing in any one item which fall to be paid on the same Payment Date include obligations which benefit from the availability of the Borrower Liquidity Facility, the *pro rata* application of available funds shall be made *pro rata* to those Borrower Secured Creditors which do not benefit from the availability of the Borrower Liquidity Facility and to those Borrower Secured Creditors which do benefit from the availability of the Borrower Liquidity Facility but in respect of the latter having first taken into account and reduced by an equivalent amount the amount of the obligations which will be satisfied by the amount of the Borrower Liquidity Facility (or balance standing to the credit of the Borrower Liquidity Reserve Account) which is available to be drawn in respect of such amount on such date;
- (ii) if an amount referred to in any Borrower Post-Enforcement Priorities of Payments constitutes Borrower Secured Liabilities, the amount so referred to shall be deemed to include any amount payable by any other Obligor under the Guarantees in respect of such amount;
- (iii) the aggregate amount to be paid to the BAA Pension Trustee under the STID in accordance with the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments and the Borrower Post-Enforcement (Post-Acceleration) Priority of Payments shall;
  - (A) not exceed the Maximum Pension Liability Amount; and
  - (B) be payable whether or not the BAA Pension Trustee determines in its absolute and unfettered discretion to wind up the BAA Pension Scheme and buy out the benefits or otherwise apply the payment to fund contributions or other payments under the BAA Pension Scheme.

*Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments*

Under the STID, each Borrower Secured Creditor will agree that, after the delivery of a Loan Enforcement Notice and prior to the delivery of a Loan Acceleration Notice, each Borrower Secured Creditor’s claims will rank according to the relevant Borrower Post-Enforcement Priorities of Payments. In addition, if prior to the delivery of a Loan Enforcement Notice, (a) a Trigger Event as specified under paragraph (iii)(C) under “–*Common Terms Agreement – Trigger Events*” below occurs, (b) a Hedge Counterparty becomes entitled to terminate any Treasury Transaction under a Borrower Hedging Agreement due to non-payment of any amounts by a Borrower due and payable thereunder or due to the occurrence of an insolvency event at a time when no administrative receiver has been appointed, (c) on any Payment Date there are insufficient funds available to the Obligors to pay in full all Borrower Secured Liabilities falling due for payment on such date, or (d) any sale or disposal of all or substantially all of Heathrow or any sale or disposal of any shares in HAL or a Holding Company of HAL (and in the case of either sale or disposal whether voluntarily or as a result of the enforcement of security or in any other circumstances whatsoever whether in a single transaction or through a series of transactions and whether related or not), which results in, (i) a release of all or substantially all of Heathrow from the Security Interests held for the benefit of the Borrower Secured Creditors in accordance with the Security Documents other than in the case of a sale or disposal to another Obligor which simultaneously creates security over Heathrow in favour of the Borrower Security Trustee on terms which are in all respects equivalent to the released security; and/or (ii) a release, without the simultaneous taking of the benefit of an equivalent guarantee in respect of

obligations secured by such Security Interests from the owner of Heathrow; and/or (iii) a release of the shares in HAL from the fixed security held by the Borrower Security Trustee pursuant to the Security Agreement and in accordance with the STID for the benefit of the Borrower Secured Creditors other than in the case of a sale or disposal to another Obligor which simultaneously creates security over the shares in HAL in favour of the Borrower Security Trustee on terms which are in all respects equivalent to the released security; and/or (iv) a release, without the simultaneous taking of the benefit of an equivalent guarantee, of the guarantee in respect of the obligations secured by such fixed security from the Holding Company for the time being of HAL; and/or (v) any adverse change to the benefit, enjoyed by the Hedge Counterparties, of the security granted in favour of the Hedge Counterparties prior to such sale or disposal then for so long as any such event is continuing unremedied or unwaived, the Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments shall apply and the Borrower Cash Manager shall ensure that no amounts are applied in discharging any liabilities due to a Borrower Secured Creditor unless on the date such amounts are to be applied all sums then due and payable to each prior ranking Borrower Secured Creditor have been first discharged in full and, in connection with any sale of HAL or the assets of HAL as referred to above, no disposal proceeds may be applied in repaying or prepaying debt or making market purchases of Bonds until after the determination and payment of any termination amounts or other unscheduled amounts due to any Hedge Counterparty following the designation of an Early Termination Date (as defined in the relevant Hedging Agreement) in relation to the occurrence of such event. The claims of each Subordinated Borrower Secured Creditor will rank subordinate to Senior Debt, the BAA Pension Liabilities, the Junior Debt and the Borrower Loans relating to any Subordinated Bonds in accordance with the relevant Borrower Post-Enforcement Priorities of Payments.

If the proceeds received or recovered are insufficient to discharge an item in the Borrower Post-Enforcement (Pre-Acceleration) Priority of Payments in full, such item shall be discharged to the extent there are sufficient funds to do so and, where other items are ranked *pari passu* with such item, on a *pro rata* basis together with such item.

*Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments*

Subject to the preceding section “– *Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments*”, during an Enforcement Period, but prior to the delivery of a Loan Acceleration Notice by the Borrower Security Trustee and in the other circumstances described in the paragraph under “– *Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments*” above, (a) each Borrower Secured Creditor agrees that each Borrower Secured Creditor’s claims in respect of Revenue Collections shall rank according to the Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments below; and (b) all Revenue Collections shall be applied by or on behalf of the Borrower Security Trustee or, as the case may be, any Receiver, on each Payment Date in or towards satisfaction of any amounts due according to the Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments below.

All Revenue Collections shall, following the delivery of a Loan Enforcement Notice, but prior to the delivery of a Loan Acceleration Notice by the Borrower Security Trustee and in the other circumstances described in the paragraph under “– *Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments*” above, be applied (to the extent that it is lawfully able to do so and excluding, in respect of items (ii) to (xii) below, any Subordinated Borrower Secured Creditor) on each Payment Date (or, in the case of items (i) to (iii) below, on any day on which such amounts are due and payable by or on behalf of the Borrower Security Trustee, or as the case may be any Receiver, in accordance with the following “**Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments**” as set out below, without double counting:

- (i) *first, pro rata*, according to the respective amounts thereof in or towards satisfaction of (a) the fees, costs, charges, liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable to the Borrower Security Trustee or any Receiver and (b) to the Issuer by way of Ongoing Facility Fee, the amounts due in respect of the fees, costs, charges, liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable to the Bond Trustee and any Receiver appointed under any Issuer Transaction Document;

- (ii) *second, pro rata*, according to the respective amounts thereof in or towards satisfaction of
  - (a) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Borrower Account Bank incurred under the Borrower Account Bank Agreement and (b) to the Issuer by way of Ongoing Facility Fee, in or towards satisfaction, *pro rata* and *pari passu* of the amounts payable by the Issuer in respect of:
    - (A) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Agents incurred under the Agency Agreement or a Calculation Agency Agreement;
    - (B) the fees, other remuneration, indemnity payments, costs, charges, liabilities 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 Corporate Administration Provider under the Issuer Corporate Administration Agreements;
- (iii) *third, pro rata*, according to the respective amounts thereof, in or towards satisfaction of:
  - (a) prior to the delivery of a Bond Enforcement Notice only, an amount to the Issuer by way of Ongoing Facility Fee 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 elsewhere); and
    - (B) any amounts due and payable by the Issuer and for which the Issuer is primarily liable in respect of UK corporation tax 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, and other tax for which the Issuer is liable under the laws of any jurisdiction; and
  - (b) any amounts due and payable by an Obligor and for which such Obligor is primarily liable in respect of all UK corporation tax and any other tax;
  - (c) an amount in respect of payments of amounts due and payable to any third party creditors of the Obligors (including the Shared Services Provider) in respect of operating expenses (including, for the avoidance of doubt, pension costs payable under the Shared Services Agreement), or to become due and payable to any such third party creditors of the Obligors prior to the next Payment Date, of which the Borrower Cash Manager has notice prior to the relevant Payment Date, which amounts have been incurred without breach by the Obligors of the Transaction Documents to which they are a party (and for which payment has not been provided for elsewhere);
- (iv) *fourth, pro rata*, according to the respective amounts thereof, (a) to the Issuer by way of Ongoing Facility Fee in respect of all amounts due by the Issuer to any Issuer Liquidity Facility Provider (and any facility agent and arranger under any Issuer Liquidity Facility Agreement), (other than amounts in respect of principal corresponding to amounts drawn in respect of interest shortfalls arising under a Borrower Loan Agreement, due under any Issuer Liquidity Facility Agreement or in respect of any Liquidity Facility Subordinated Amounts), (b) all amounts of overdue interest due in respect of the Borrower Loans relating to the Class A Bonds and/or the Class B Bonds in respect of which the Issuer has made a drawing under any Issuer Liquidity Facility Agreement, (c) all amounts due to any Borrower Liquidity Facility Provider (and any facility agent and arranger under any Borrower Liquidity Facility Agreement), (other than in respect of any Liquidity Facility Subordinated Amounts), (d) to the Issuer by way of Ongoing Facility Fee in respect of the fees, other remuneration, indemnity payments (other than in respect of reimbursement sums payable to a Financial Guarantor in respect of payments made by it in respect of interest or principal on the Wrapped Bonds of any Sub-Class), costs, charges and expenses



of each Relevant Financial Guarantor pursuant to the G&R Deed and (e) the fees, other remuneration, indemnity payments, costs, charges and expenses of each facility agent under the relevant Authorised Credit Facility;

- (v) *fifth, pro rata* according to the respective amounts thereof, (a) all amounts in respect of all scheduled amounts payable to each Borrower Hedge Counterparty under any Interest Rate Hedging Agreement between a Borrower and a Borrower Hedge Counterparty (other than amounts in respect of Borrower Subordinated Hedge Amounts) and (b) to the Issuer such part of all amounts due in respect of the Borrower Loans relating to the Class A Bonds and the Class B Bonds (or pursuant to a back-to-back hedge agreement) as represents the scheduled amounts payable to each Issuer Hedge Counterparty under any Interest Rate Hedging Agreement between the Issuer and an Issuer Hedge Counterparty (other than in respect of Issuer Subordinated Hedge Amounts);
- (vi) *sixth, pro rata* according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of interest and commitment commissions due or overdue in respect of the Borrower Loans relating to the Class A Bonds (other than principal, amounts paid pursuant to paragraphs (iv)(b) and (v)(b) above and Subordinated Step up Fee Amounts) and, as part of the Ongoing Facility Fee, all indemnity payments due or overdue to the Issuer in respect of interest payable on Liquidity Bonds that are Class A Bonds; (b) (other than amounts paid pursuant to (vi)(a) above in meeting reimbursement sums) to the Issuer by way of Ongoing Facility Fee 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; (c) all amounts of interest, underwriting and commitment commissions due or overdue in respect of Senior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements) ; (d) any amounts due to a Finance Lessor in respect of any fixed interest funding obtained or assumed to be obtained by the Finance Lessor under the terms of a Finance Lease which is designated as Senior Debt; (e) first, any amounts payable to the Non-Migrated Bond Trustee under or in relation to the Non-Migrated Bond Guarantees and secondly, all amounts payable by the Borrowers under the Non-Migrated Bond Guarantees in respect of interest due or overdue in respect of the Non-Migrated Bonds of each Tranche then outstanding; (f) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back to back hedge agreement) in respect of all termination amounts or other unscheduled amounts payable to each Issuer Hedge Counterparty under any Interest Rate Hedging Agreement between the Issuer and an Issuer Hedge Counterparty (other than Issuer Subordinated Hedge Amounts); (g) all amounts in respect of all termination amounts or other unscheduled amounts payable to each Borrower Hedge Counterparty under any Interest Rate Hedging Agreement between a Borrower and a Borrower Hedge Counterparty (other than amounts in respect of Borrower Subordinated Hedge Amounts) and (h) all amounts in respect of all scheduled amounts (other than principal exchange amounts) payable to each Borrower Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Non-Migrated Bonds (other than in respect of Borrower Subordinated Hedge Amounts);
- (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 Borrower Loans relating to the Class A Bonds, and, as part of the Ongoing Facility Fee, all indemnity payments due or overdue to the Issuer in respect of principal payable on Liquidity Bonds that are Class A Bonds; (b) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) any termination amounts or other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Class A Bonds (other than in respect of Issuer Subordinated Hedge Amounts); (c) other than amounts payable pursuant to paragraph (vii)(a) to the Issuer by way of Ongoing Facility Fee 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; (d) all amounts of principal due or overdue in respect of Senior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements but including, in respect of Finance Leases which are designated as Senior Debt, those amounts (including any rental and capital sums) payable in respect thereof which do not fall within paragraph (vi) above

and do not fall due as a result of the operation of any indemnity or fee reimbursement provisions of a Finance Lease which is designated as Senior Debt; (e) *first*, any amounts payable to the Non-Migrated Bond Trustee under or in relation to the Non-Migrated Guarantee and *second*, all amounts payable by the Borrowers under the Non Migrated Bond Guarantees in respect of principal due or overdue in respect of the Non Migrated Bonds then outstanding; and (f) all scheduled principal exchange amounts and all termination amounts or other unscheduled sums due and payable by the Borrowers to each Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Non-Migrated Bonds (other than in respect of Borrower Subordinated Hedge Amounts);

- (viii) *eighth, pro rata* according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of interest and commitment commissions due or overdue in respect of the Borrower Loans relating to the Class B Bonds (other than principal, Subordinated Step up Fee Amounts and amounts paid pursuant to paragraph (iv)(b) and (v)(b) above) and, as part of the Ongoing Facility Fee, all indemnity payments due or overdue to the Issuer in respect of interest payable on Liquidity Bonds that are Class B Bonds, (b) (other than amounts payable pursuant to paragraph (viii)(a)) to the Issuer by way of Ongoing Facility Fee 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; (c) all amounts of interest, underwriting and commitment commissions due or overdue in respect of Junior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements); (d) any amounts due to a Finance Lessor in respect of any fixed interest funding obtained or assumed to be obtained by the Finance Lessor under the terms of a Finance Lease which is designated as Junior Debt);
- (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 Borrower Loans relating to the Class B Bonds; and, as part of the Ongoing Facility Fee, all indemnity payments due or overdue to the Issuer in respect of principal payable on Liquidity Bonds that are Class B Bonds, (b) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) any termination amounts or other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Class B Bonds (other than in respect of Issuer Subordinated Hedge Amounts); (c) other than monies payable pursuant to paragraph (ix)(a) to the Issuer by way of Ongoing Facility Fee 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 and (d) all amounts of principal due or overdue in respect of Junior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements but including, in respect of Finance Leases which are designated as Junior Debt, those amounts (including any rental and capital sums) payable in respect thereof which do not fall within paragraph (viii) above and do not fall due as a result of the operation of any indemnity or fee reimbursement provisions of a Finance Lease which is designated as Junior Debt);
- (x) *tenth*, so much of the interest under the Borrower Loan Agreements as relates to Subordinated Step Up Fee Amounts in respect of the Class A Bonds;
- (xi) *eleventh*, so much of the interest under the Borrower Loan Agreements as relates to Subordinated Step Up Fee Amounts in respect of the Class B Bonds;
- (xii) *twelfth, pro rata* according to the respective amounts thereof, (a) in or towards satisfaction of any Liquidity Subordinated Amount due to a Borrower Liquidity Facility Provider, and (b) to the Issuer by way of Ongoing Facility Fee, in respect of any Liquidity Subordinated Amount due to an Issuer Liquidity Facility Provider;
- (xiii) *thirteenth, pro rata* according to the respective amounts thereof, (a) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back to back hedge agreement) in respect of any Issuer Subordinated Hedge Amounts due or overdue to an Issuer Hedge Counterparty and any Borrower Subordinated Hedge Amounts due or overdue to a Borrower Hedge Counterparty;

- (xiv) *fourteenth, pro rata* according to the respective amounts thereof, all amounts payable by the Borrowers in respect of all amounts due or overdue (other than principal or amounts in respect of principal) to any Subordinated Borrower Secured Creditor and limited, in the case of amounts payable under any Borrower Loan Agreement or any Non-Migrated Bonds, to any Subordinated Tranches;
- (xv) *fifteenth*, to the Issuer by way of Ongoing Facility Fee in or towards satisfaction of the Issuer Profit Amount; and
- (xvi) *sixteenth*, any surplus (if any) shall be deposited promptly in the Surplus Revenue Collection Account.

*Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments*

During an Enforcement Period, but prior to the delivery of a Loan Acceleration Notice by the Borrower Security Trustee and in the circumstances set out under the paragraph entitled “– *Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payment*” above (a) each Borrower Secured Creditor agrees that each Borrower Secured Creditor’s claims in respect of Principal Collections shall rank according to the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments, (b) all Principal Collections shall be applied by or on behalf of the Borrower Security Trustee or, as the case may be, any Receiver, on each Payment Date in or towards satisfaction of any amounts due according to the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments; (c) following the passing of a Post-Enforcement Surplus Revenue Prepayment Resolution in accordance with the STID, all Available Surplus Revenue Collections shall be applied by or on behalf of the Borrower Security Trustee or, as the case may be, any Receiver, on the Payment Date immediately following the date of such resolution or on the date prescribed by such resolution as if they constituted Principal Collections in or towards satisfaction of any amounts due according to the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments; (d) for the purpose of the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments only, the full balance of the Outstanding Principal Amount in respect of Senior Debt and Junior Debt shall be treated as if it has become due and payable, irrespective of whether the relevant Senior Debt or Junior Debt has become due and payable in accordance with its terms and notwithstanding the fact that no Loan Acceleration Notice has been delivered; (e) to the extent funds are available to be applied towards amounts contained in item (iii) and (v) (in that order) of the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments (1) any Floating Rate Senior Debt or Floating Rate Junior Debt shall be Actually Prepaid; and (2) any Senior Debt or Junior Debt not falling within paragraph (1) above shall be Collateralised.

All Principal Collections and, following the passing of a Post-Enforcement Surplus Revenue Prepayment Resolution, all Available Surplus Revenue Collections shall, (a) subsequent to the delivery of a Loan Enforcement Notice and prior to the delivery of a Loan Acceleration Notice and (b) in the circumstances set out under the paragraph entitled “– *Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payment*” above, be applied (to the extent that it is lawfully able to do so and excluding, in respect of items (i) to (v) below, any Subordinated Borrower Secured Creditor) on each Payment Date or such other date as specified in any Post-Enforcement Surplus Revenue Prepayment Resolution by or on behalf of the Borrower Security Trustee, or as the case may be any Receiver, in accordance with the following “**Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments**” as set out below, without double counting:

- (i) *first*, in or towards making up any Senior Revenue Shortfall;
- (ii) *second*, on a *pari passu pro rata* basis, (a) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back to back hedge agreement) in respect of all unscheduled amounts (including termination amounts) payable to each Issuer Hedge Counterparty under any Interest Rate Hedging Agreement between the Issuer and an Issuer Hedge Counterparty (other than Issuer Subordinated Hedge Amounts) as a consequence of any prepayment made at paragraph (iii)(A) or (v)(A) below; and (b) all unscheduled amounts (including termination amounts) payable to each Borrower Hedge Counterparty under any Interest Rate Hedging Agreement between a Borrower and a Borrower Hedge Counterparty (other than amounts in respect of Borrower Subordinated Hedge Amounts) as a consequence of any prepayment made at (iii)(D) or (v)(D) below;

- (iii) *third*, on a *pari passu pro rata* basis:
  - (A) in Actual Prepayment or Collateralisation of the principal amounts outstanding under all Borrower Loans relating to the Class A Bonds (less any amounts which have already been repaid, Actually Prepaid or Collateralised);
  - (B) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement), all termination amounts or other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Class A Bonds (other than in respect of Issuer Subordinated Hedge Amounts);
  - (C) (other than amounts payable pursuant to paragraph (iii)(A)) to the Issuer by way of Ongoing Facility Fee 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;
  - (D) in Actual Prepayment or Collateralisation of the Outstanding Principal Amount in respect of Senior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements but including, in respect of Finance Leases which are designated as Senior Debt, those amounts which would fall to be repaid under paragraph (vii) of the Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments) (less any amounts which have already been repaid, Actually Prepaid or Collateralised);
  - (E) *first*, any amounts payable to the Non-Migrated Bond Trustee under or in relation to the Non-Migrated Bond Guarantees and *second*, in Actual Prepayment or Collateralisation the principal amount of claims outstanding under the Non-Migrated Bond Guarantees in respect of the Principal Amount Outstanding under each Tranche of Non-Migrated Bonds then outstanding (less any amounts which have already been repaid, Actually Prepaid or Collateralised);
  - (F) all amounts due to the BAA Pension Trustee in respect of the BAA Pension Liabilities in an amount up to the Maximum Pension Liability Amount; and
  - (G) all termination amounts or other unscheduled sums due and payable to each Borrower Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Non-Migrated Bonds (other than in respect of Borrower Subordinated Hedge Amounts);
- (iv) *fourth*, in or towards making up any Junior Revenue Shortfall;
- (v) *fifth*, on a *pari passu pro rata* basis:
  - (A) in Actual Prepayment or Collateralisation of the principal amounts outstanding under all Borrower Loans relating to the Class B Bonds (less any amounts which have been repaid, Actually Prepaid or Collateralised);
  - (B) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement), all termination amounts or other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Class B Bonds (other than in respect of Issuer Subordinated Hedge Amounts);
  - (C) (other than amounts payable pursuant to paragraph (v)(a)) to the Issuer by way of Ongoing Facility Fee 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; and
  - (D) in Actual Prepayment or Collateralisation of the Outstanding Principal Amounts in respect of Junior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements but including, in respect of Finance Leases which are designated as Junior Debt, those amounts which would fall to be repaid under paragraph (ix) of the Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments) (less any amounts which have already been repaid, Prepaid or Collateralised); and

- (vi) *sixth*, in Actual Prepayment or Collateralisation of any principal amounts owing to the Subordinated Borrower Secured Creditors (less any amounts which have already been repaid, Actually Prepaid or Collateralised, on a *pari passu* basis which, but for the taking of Independent Enforcement Action, would have been Actually Prepaid or Collateralised) under items (iii) or (v) above and limited, in the case of principal amounts owing under any Borrower Loan Agreement or any Non-Migrated Bonds, to any Subordinated Tranches.

“**Independent Enforcement Action**” means:

- (a) in the case of the Non-Migrated Bondholders of any Tranche of Non-Migrated Bonds:
- (i) the delivery of any notice from the Non-Migrated Bond Trustee or any Non-Migrated Bondholder to BAA and/or HAL and/or GAL and/or STAL pursuant to which all or any of the Non-Migrated Bonds are declared or become prematurely due and payable or fall to be redeemed prior to their specified maturity date; or
  - (ii) the taking of formal steps for the commencement of Insolvency Proceedings against BAA and/or HAL and/or GAL and/or STAL by the Non-Migrated Bond Trustee or any Non-Migrated Bondholder,
- in each case, prior to the date on which a Loan Acceleration Notice is delivered; and
- (b) in the case of any other Borrower Secured Creditor (other than the Borrower Security Trustee, the Non-Migrated Bond Trustee and the Non-Migrated Bondholders) and only for so long as there are any Non-Migrated Bonds outstanding, any breach by such Borrower Secured Creditor of certain undertakings of the Borrower Secured Creditors with respect to restrictions on enforcement, acceleration and instituting insolvency proceedings set out in the STID.

*Borrower Post-Enforcement (Post-Acceleration) Priority of Payments*

Under the STID, each Borrower Secured Creditor will agree that, following the delivery of a Loan Acceleration Notice by the Borrower Security Trustee, each Borrower Secured Creditor’s claims shall rank according to the Borrower Post-Enforcement (Post-Acceleration) Priority of Payments.

Upon the delivery of a Loan Acceleration Notice, amounts credited to the Debt Collateralisation Account will be applied by or on behalf of the Borrower Security Trustee (or any Receiver appointed by it) as soon as practicable in the permanent repayment of the claims that have been collateralised in accordance with the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments and will be treated as extinguishing *pro tanto* the principal amount of the claims of the relevant Borrower Secured Creditors for the purpose of applying the Borrower Post-Enforcement (Post-Acceleration) Priority of Payments.

All monies received or recovered by the Borrower Security Trustee (or the Receiver appointed by it) in respect of the Borrower Security and the guarantees held by the Borrower Security Trustee, together with all monies received or recovered by the Bond Trustee (or a Receiver appointed by it) and paid to the Borrower Security Trustee in respect of the enforcement of the OFCA Floating Security (other than (i) amounts standing to the credit of any Liquidity Standby Account in the name of the Borrowers, amounts standing to the credit of the Borrower Liquidity Reserve Account in respect of drawings made under a Borrower Liquidity Facility and all amounts recorded as a credit in the Standby Reserve Ledger of the Borrower Liquidity Reserve Account, which shall be repaid to the relevant Borrower Liquidity Facility Provider, (ii) amounts standing to the credit of the Borrower Hedge Collateral Accounts which will be paid directly to the relevant Borrower Hedge Counterparty, (iii) Borrower Hedge Replacement Premium (if any), which shall be paid to the relevant Borrower Hedge Counterparty and (iv) excluding in respect of items (ii) to (xii) below, any Subordinated Borrower Secured Creditor) shall, subsequent to the enforcement of the Borrower Security and the acceleration of the Borrower Secured Obligations, be applied (to the extent that it is lawfully able to do so) by or on behalf of the Borrower Security Trustee or, as the case may be, any Receiver, in accordance with the “**Borrower Post-Enforcement (Post-Acceleration) Priority of Payments**” as set out below, without double-counting:

- (i) *first, pro rata*, according to the respective amounts thereof in or towards satisfaction of (a) the fees, costs, charges, liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable to the Borrower Security Trustee or any Receiver and (b) to the Issuer by way of Ongoing Facility Fee, the amounts due in respect of the fees, costs, charges, liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable to the Bond Trustee and any Receiver appointed under any Issuer Transaction Document;
- (ii) *second, pro rata*, according to the respective amounts thereof in or towards satisfaction of (a) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Borrower Account Bank incurred under the Borrower Account Bank Agreement and (b) to the Issuer by way of Ongoing Facility Fee, in or towards satisfaction, *pro rata* and *pari passu* of the amounts payable by the Issuer in respect of:
  - (A) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Agents incurred under the Agency Agreement or any Calculation Agency Agreement;
  - (B) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Issuer Account Bank incurred under the Issuer Account Bank Agreement;
  - (C) the fees, other remuneration, indemnity payments, costs, charges, liabilities and expenses of the Issuer Corporate Administration Provider under the Issuer Corporate Administration Agreements;
- (iii) *third*, prior to the delivery of a Bond Enforcement Notice only, an amount to the Issuer by way of Ongoing Facility Fee 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 UK corporation tax other than UK corporation tax at the standard rate from the time on the Issuer Profit Amount which shall be met by the Issuer out of the Issuer Profit Amount and other tax for which the Issuer is liable under the laws of any jurisdiction;
- (iv) *fourth, pro rata*, according to the respective amounts thereof, (a) to the Issuer by way of Ongoing Facility Fee in respect of all amounts due by the Issuer to any Issuer Liquidity Facility Provider (and any facility agent and arranger under any Issuer Liquidity Facility Agreement), (other than amounts in respect of principal, corresponding to amounts drawn in respect of interest shortfalls arising under a Borrower Loan Agreement, due under any Issuer Liquidity Facility Agreement or in respect of any Liquidity Facility Subordinated Amounts), (b) all amounts of overdue interest due in respect of the Borrower Loans relating to Class A and/or Class B Bonds in respect of which the Issuer has made a drawing under any Issuer Liquidity Facility Agreement; (c) all amounts due to any Borrower Liquidity Facility Provider (and any facility agent and arranger under any Borrower Liquidity Facility Agreement), (other than in respect of any Liquidity Facility Subordinated Amounts), (d) to the Issuer by way of Ongoing Facility Fee in respect of 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 of each Relevant Financial Guarantor pursuant to the G&R Deed and (e) the fees, other remuneration, indemnity payments, costs, charges and expenses of each facility agent under the relevant Authorised Credit Facility;
- (v) *fifth, pro rata* according to the respective amounts thereof, (a) all amounts in respect of all scheduled amounts payable to each Borrower Hedge Counterparty under any Interest Rate Hedging Agreement between a Borrower and a Borrower Hedge Counterparty (other than amounts in respect of Borrower Subordinated Hedge Amounts) and (b) to the Issuer such

part of all amounts due in respect of the Borrower Loans relating to the Class A Bonds and the Class B Bonds (or pursuant to a back-to-back hedge agreement) as represents the scheduled amounts payable to each Issuer Hedge Counterparty under any Interest Rate Hedging Agreement between the Issuer and an Issuer Hedge Counterparty (other than in respect of Issuer Subordinated Hedge Amounts);

- (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 Borrower Loans relating to the Class A Bonds (other than principal Subordinated Step-up Fee Amounts and amounts paid pursuant to paragraphs (iv)(b) and (v)(b) above) and, as part of the Ongoing Facility Fee, all indemnity payments due or overdue to the Issuer in respect of interest payable on Liquidity Bonds that are Class A Bonds; (b) (other than amounts payable pursuant to paragraph (vi)(a)) to the Issuer by way of Ongoing Facility Fee 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; (c) all amounts of interest, underwriting and commitment commissions due or overdue in respect of Senior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements); (d) any amounts due to a Finance Lessor in respect of any fixed interest funding obtained or assumed to be obtained by the Finance Lessor under the terms of a Finance Lease designated as Senior Debt; (e) *first*, any amounts payable to the Non-Migrated Bond Trustee under or in relation to the Non-Migrated Bond Guarantees and *second*, all amounts payable by the Borrowers under the Non-Migrated Bond Guarantees in respect of interest due or overdue in respect of the Non-Migrated Bonds of each tranche then outstanding; (f) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) in respect of all unscheduled amounts (including termination amounts) payable to each Issuer Hedge Counterparty under any Interest Rate Hedging Agreement between the Issuer and an Issuer Hedge Counterparty (other than Issuer Subordinated Hedge Amounts); (g) all amounts in respect of all unscheduled amounts (including termination amounts) payable to each Borrower Hedge Counterparty under any Interest Rate Hedging Agreement between a Borrower and a Borrower Hedge Counterparty (other than amounts in respect of Borrower Subordinated Hedge Amounts); and (h) all amounts in respect of all scheduled amounts (other than principal exchange amounts) payable to each Borrower Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Non-Migrated Bonds (other than in respect of Borrower Subordinated Hedge Amounts);
- (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 Borrower Loans relating to the Class A Bonds and as part of the Ongoing Facility Fee, all indemnity payments due or overdue to the Issuer in respect of principal payable on Liquidity Bonds that are Class A Bonds; (b) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement), any termination amounts of other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Class A Bonds (other than in respect of Issuer Subordinated Hedge Amounts); (c) (other than amounts payable pursuant to paragraph (vii)(a)) to the Issuer by way of Ongoing Facility Fee 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; (d) all amounts of principal due or overdue in respect of Senior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements) but including, in respect of Finance Leases designated as Senior Debt, those amounts (including any rental and capital sums) payable in respect thereof which do not fall within paragraph (vi) above and do not fall due as a result of the operation of any indemnity or fee reimbursement provisions of a Finance Lease; (e) *first*, any amounts payable to the Non-Migrated Bond Trustee under or in relation to the Non-Migrated Bond Guarantees and *secondly* all amounts payable by the Borrower under the Non-Migrated Bond Guarantees in respect of principal due or overdue in respect of the Non-Migrated Bonds of each Tranche then outstanding and (f) all amounts due to the BAA Pension Trustee in respect of the BAA Pension Liabilities in an amount up to the Maximum Pension Liability Amount; and (g) all amounts in respect of all scheduled principal exchange amounts and termination amounts or other unscheduled

sums due and payable by the Borrowers to each Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Non-Migrated Bonds (other than in respect of Borrower Subordinated Hedge Amounts);

- (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 Borrower Loans relating to the Class B Bonds (other than principal Subordinated Step-up Fee Amounts and amounts paid pursuant to paragraph (iv)(b) above) and, as part of the Ongoing Facility Fee, all indemnity payments due or overdue to the Issuer in respect of interest payable on Liquidity Bonds that are Class B Bonds; (b) (other than amounts payable pursuant to paragraph (viii)(a)); (b) to the Issuer by way of Ongoing Facility Fee 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; (c) all amounts of interest, underwriting and commitment commissions due or overdue in respect of Junior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements); and (d) all amounts due to a Finance Lessor in respect of any fixed interest funding obtained or assumed to be obtained by the Finance Lessor under the terms of a Finance Lease designated as Junior Debt;
- (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 Borrower Loans relating to the Class B Bonds and, as part of the Ongoing Facility Fee, all indemnity payments due or overdue to the Issuer in respect of principal payable on Liquidity Bonds that are Class B Bonds; (b) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement), any termination amounts or other unscheduled sums due and payable to each Issuer Hedge Counterparty under any Cross Currency Hedging Agreement in respect of the Class B Bonds (other than in respect of Subordinated Hedge Amounts); (c) (other than amounts payable pursuant to paragraph (ix)(a)) to the Issuer by way of Ongoing Facility Fee 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; (d) all amounts of principal due or overdue in respect of Junior Debt outstanding under any Authorised Credit Facility (other than the Borrower Loan Agreements) but including, in respect of Finance Leases designated as Junior Debt, those amounts (including any rental and capital sums) payable in respect thereof which do not fall within paragraph (viii) above and do not fall due as a result of the operation of any indemnity or fee reimbursement provisions of a Finance Lease;
- (x) *tenth*, to the Issuer in or towards satisfaction of all Subordinated Step-Up Fee Amounts in respect of the Class A Bonds;
- (xi) *eleventh*, to the Issuer in or towards satisfaction of all Subordinated Step-Up Fee Amounts in respect of the Class B Bonds;
- (xii) *twelfth, pro rata* according to the respective amount thereof, (a) to the Issuer by way of Ongoing Facility Fee in or toward satisfaction of any Liquidity Subordinated Amount due to an Issuer Liquidity Facility Provider and (b) any Liquidity Subordinated Amount due to a Borrower Liquidity Facility Provider;
- (xiii) *thirteenth, pro rata* according to the respective amounts thereof, to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) in respect of: any Issuer Subordinated Hedge Amounts due or overdue to any Issuer Hedge Counterparty and any Borrower Subordinated Hedge Amounts due or overdue to a Borrower Hedge Counterparty;
- (xiv) *fourteenth*, according to the respective amounts thereof, all amounts due or overdue to any Subordinated Borrower Secured Creditor and limited, in the case of amounts due or overdue under any Borrower Loan Agreement or Non-Migrated Bonds to any Subordinated Tranches;



- (xv) *fifteenth*, to the Issuer by way of Ongoing Facility Fee in or towards satisfaction of (a) the amounts payable by the Issuer in respect of the fees, other remuneration, costs, charges and expenses of the Bond Guarantor in respect of the BAA Bond Guarantees; (b) all reimbursement sums (if any) owed to the Bond Guarantor in respect of payments of interest on any BAA Guaranteed Bonds; and (c) all reimbursement sums (if any) owed to the Bond Guarantor in respect of payments of principal on any BAA Guaranteed Bonds;
- (xvi) *sixteenth*, to the Issuer by way of Ongoing Facility Fee in or towards satisfaction of up to the Issuer Profit Amount; and
- (xvii) *seventeenth*, the surplus (if any) together with all amounts standing to the credit of the Obligor Accounts shall be available to each Obligor entitled thereto to deal with as it sees fit.

## **Borrower Loan Arrangements**

### ***Borrower Loan Agreements***

All amounts raised by the Issuer from time to time (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 under a loan agreement (each, a “**Borrower Loan Agreement**”) other than in the case of amounts raised by the Issuer through the issue of Bonds for the purpose of creating a liquidity reserve (see “*Use of Proceeds*” above). If on the Initial Issue Date, the Issuer issues New Bonds it shall lend to the Borrowers the aggregate proceeds received in respect of the New Bonds pursuant to the Initial Borrower Loan Agreement (the “**New Bond Advances**”). In addition, on the Initial Issue Date, the Issuer will issue Bonds (“**Replacement Bonds**”) in respect of the existing bonds issued by BAA which will be migrated to the Issuer. The Replacement Bonds will initially be issued to BAA, the subscription price being left outstanding referred to as the BAA Payables. The Issuer will assign the BAA Payables to GAL, STAL and HAL in consideration, in each case, of an amount equal to the amount of the relevant BAA Payable. Pursuant to the Initial Borrower Loan Agreement, the Issuer will lend to each of GAL, STAL and HAL an amount (the “**Replacement Bond Advances**” comprising, respectively, the “**GAL Replacement Bond Advance**” the “**STAL Replacement Bond Advance**” and the “**HAL Replacement Bond Advance**”), to enable them to purchase the BAA Payables. The New Bond Advances and the Replacement Bond Advances (each an “**Advance**”) together comprise the “**Loan Amount**”.

The BAA Payables will be in an amount equal to the fair value of the Replacement Bonds, which may be more or less than the principal amount outstanding of the Replacement Bonds. Prior to their assignment to the Borrowers, the BAA Payables may be partially discharged by way of set off against amounts due from the Issuer to BAA in respect of certain novations of Hedge Agreements. The Replacement Bond Advances will reflect the effect of any Issuer Hedging Agreement and may be subscribed at a discount or premium to their face value.

The proceeds of all Financial Indebtedness raised by the Issuer through the further issue of Bonds will be lent to the Borrowers under further Borrower Loan Agreements (other than in the case of amounts raised by the Issuer through the issue of Liquidity Bonds for the purpose of creating a liquidity reserve in the Issuer Liquidity Reserve Account) in order that such Financial Indebtedness will be backed by a debt obligation owed to the Issuer under such Borrower Loan Agreement. Such debt will be subdivided into advances and sub-advances such that one or more advances or sub-advances, when taken together, will correspond in the aggregate to the principal amounts of the relevant Tranche, Sub-Class or Class of Bonds issued. Each advance under a Borrower Loan may be divided into sub-advances to one or more Borrowers. 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. In consideration for the Issuer agreeing to make the advances available under the Initial Borrower Loan Agreement, the Borrowers will agree to pay to the Issuer the initial and ongoing facility fees set out in the Initial Borrower Loan Agreement.

All advances made or to be made by the Issuer under the Borrower Loan Agreements are or will be in Sterling and in amounts and at rates of interest (or such discount or indexed amount) corresponding to amounts and rates set out in the relevant Final Terms or, if hedged in accordance with the Hedging Policy (See “*–Issuer Hedging Agreements*” below), at the hedged rate and will have interest periods which match the Interest Periods for the corresponding Bonds and related hedging

arrangements but will have interest payment dates six Business Days prior to the Interest Payment Date on the related Bonds. Interest on each advance made under a Borrower Loan Agreement will accrue from the date of such advance. In addition, each advance will be repayable on the Scheduled Redemption Date in respect of the related Bonds.

If a Borrower is required to prepay amounts outstanding under the Borrower Loan Agreements, and/or make market purchases of Bonds, it will prepay the relevant Advances or part thereof together with accrued interest, any prepayment fees and other break fees (including any indemnity payable to the Issuer in respect of any hedging termination payments arising as a consequence of such prepayment), costs and expenses and where applicable any make-whole amounts, then payable under the relevant Borrower Loan Agreement and other relevant Transaction Documents to correspond to the amounts payable by the Issuer in respect of the corresponding early redemption of the corresponding Class or Sub-Class of Bonds. Advances made at a discount will be repaid at the face value of the corresponding Bonds and indexed advances will be repayable at the indexed principal amount of the corresponding Bond. If a Borrower gives notice to the Issuer of its intention to prepay all or part of an advance or a sub-advance in respect of a mandatory or voluntary prepayment, any other Borrower may request, by written notice to the Issuer and subject to the terms of the Common Terms Agreement, that the Issuer makes available to it the amount of such advance or sub-advance so prepaid on the date specified in such written notice. In addition the terms of the Borrower Loan Agreement also allow Borrowers to transfer all or part of an advance or sub-advance to other Borrowers by effectively transferring all the rights and obligations relating to the amount of such advance or sub-advance. Any such reallocations or transfers would be effected at the market value at the time. If the relevant Borrower makes market purchases of the Bonds, the corresponding advances under the Borrower Loan Agreement will be prepaid by way of set-off to the extent of the nominal value of the Bonds so purchased if such Bonds are surrendered to the Issuer and cancelled.

If a Borrower is required to apply amounts credited to the Debt Collateralisation Account in prepayment of any Advances that have been Collateralised, it will apply the amount credited to the DCA Ledger related to such Advance in Actual Prepayment of such Advance provided that the amount to be Actually Prepaid shall be reduced by the amount of any shortfall in the amounts credited to any DCA Ledger of any Borrower Hedge Counterparty on such date which is required to Actually Prepay any termination amounts or other uncheduled amounts due to a Borrower Hedge Counterparty under any Interest Rate Hedging Agreement as a consequence of the proposed Actual Prepayment of such Advance. If such a shortfall exists and there is more than one Advance which falls to be Actually Prepaid, the amount Actually Prepaid in respect of each Advance shall be reduced by a proportion which the amounts then credited to the DCA Ledger related to such Advance bears to the total amounts then credited to the DCA Ledgers related to all of the relevant Advances.

The obligations of each Borrower under each Borrower Loan Agreement will be secured pursuant to the Security Agreement, and such obligations will be guaranteed by each other Obligor in favour of the Borrower Security Trustee, who will hold the benefit of such security and guarantees on trust for the Borrower Secured Creditors (including the Issuer) on the terms of the STID. The obligations of each Borrower under each Borrower Loan Agreement will also be 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, precipitate 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.

In the Common Terms Agreement, each Borrower makes certain representations and warranties (as more fully set out under “– *Common Terms Agreement – Representations*” below) to each Finance Party (which includes the Issuer as lender under an Authorised Credit Facility).

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).

### ***Fees Generally***

The Issuer is responsible for paying, *inter alia*, the fees and expenses of the Bond Trustee (and any receiver appointed by the Bond Trustee), the Agents, the Issuer Cash Manager, the Issuer Account Bank, the Issuer Corporate Administration Provider, the Issuer's legal advisers, accountants and auditors, certain fees that are due to the Relevant Financial Guarantors in respect of the Financial Guarantees in relation to any applicable Wrapped Bonds issued and any amounts payable to the Issuer Hedge Counterparties, BAA Bond Guarantor and to the Issuer Liquidity Facility Providers and any amounts payable by the Issuer in respect of the Bonds which have not been met through payments of interest and principal on the Borrower Loans.

The Borrowers, by way of Ongoing Facility Fees under the Borrower Loan Agreements, will pay to the Issuer amounts equal to the amounts required by the Issuer to pay its ongoing fees and expenses and leave it with a retained profit of £20,000 per annum. Any amounts in excess of this will be repaid by the Issuer to the Borrowers by way of rebate of the Ongoing Facility Fees.

In consideration for the Issuer agreeing to make Advances under the Borrower Loan Agreements, each Obligor will also agree jointly and severally to indemnify the Issuer in respect of any amounts payable by the Issuer in respect of any Liquidity Bonds which cannot be met from amounts credited to the Issuer Liquidity Reserve Account or interest earned thereon. Amounts due from the Borrowers under this indemnity will be paid by them as part of the Ongoing Facility Fees payable under the Borrower Loan Agreements.

### **Common Terms Agreement**

#### ***General***

Each of the Borrower Security Trustee, the Borrower Cash Manager, the Initial Authorised Credit Providers, each Obligor and the Issuer and others will enter into the Common Terms Agreement on or about the Initial Issue Date. The Common Terms Agreement sets out the representations, covenants (positive, negative and financial), Trigger Events and Loan Events of Default which apply to each Authorised Credit Facility (including for the avoidance of doubt the Borrower Loan Agreements and any other document entered into in connection with an Authorised Credit Facility).

It is a term of the Common Terms Agreement that any representations, covenants (to the extent of being able to declare a Loan Event of Default), Trigger Events and Loan Events of Default contained in any document which is in addition to those in the Common Terms Agreement and any other Common Document will be unenforceable (save for limited exceptions which, among other things, include tax representations or representations under the Borrower Liquidity Facility Agreement and covenants relating to indemnities, covenants to pay, voluntary prepayments, mandatory prepayments (other than upon or following the occurrence of any event of default howsoever worded) in an Authorised Credit Facility and covenants relating to remuneration, costs and expenses). This term will not apply to (a) covenants contained in any Finance Lease (to the extent permitted pursuant to the Common Terms Agreement); (b) to certain information covenants contained in the G&R Deed; (c) to additional restrictions on Restricted Payments and a mandatory prepayment provision, on breach of the Additional Indebtedness Tests contained in the Refinancing Facility Agreement; or (d) the mandatory prepayment events as set out in the EIB Facility Agreements as at the Initial Issue Date.

The Common Terms Agreement also sets out the cash management arrangements to apply to the Security Group (see "*Cash Management*" below). It is a requirement of the Common Terms Agreement that future providers of Authorised Credit Facilities must also accede to the Common Terms Agreement and the STID.

A summary of the representations, covenants, Trigger Events and Loan Events of Default included in the Common Terms Agreement is set out below.

### ***Representations***

On the Initial Issue Date each Obligor will make a number of representations in respect of itself to each Finance Party. These representations include (subject, in some cases, to agreed exceptions and qualifications as to materiality and reservations of law) representations as to:

- (a) its due incorporation, power and authority (a) to enter into and perform its obligations under the Transaction Documents to the extent applicable to it and (b) to own, lease and operate its assets and to carry on its business as it is being conducted;
- (b) its obligations under the Transaction Documents being its legal, valid, binding and enforceable obligations;
- (c) its entry into and performance under the Transaction Documents not conflicting with any document or agreement which is binding upon it, its constitutional documents or any applicable law, licence or regulation;
- (d) all consents, authorisations, licences and approvals (including, without limitation, environmental permits) (i) required to be obtained by it to enable the consummation of the transactions constituted by the Transaction Documents to which it is a party, (ii) necessary for the conduct of its business, being in place, any absence of which, or if not complied with, or if which revoked or terminated would otherwise reasonably be expected to have a Material Adverse Effect;
- (e) the preparation of its financial statements in accordance with Applicable Accounting Principles and that such financial statements give a true and fair view of the financial condition of the Obligors (as well as if such Obligors were a statutory group for consolidation purposes) at the date as at which the financial statements were drawn up and the results of operations of the Obligors during the period for which they were prepared;
- (f) no event having occurred or circumstance having arisen since the date of the last financial statements which has a Material Adverse Effect;
- (g) except as disclosed in its financial statements as at the end of the relevant period for which such financial statements were prepared, it not being subject to any contingent liabilities or commitments that would be reasonably likely to have a Material Adverse Effect;
- (h) the validity and admissibility in evidence of the Transaction Documents in any proceedings in the jurisdiction of its incorporation and subject to certain reservations as to matters of law, in any proceedings taken in relation to the Transaction Documents, the choice of English law will be recognised and enforced;
- (i) subject to certain reservations, the Security Documents to which it is party conferring the Security Interests they purport to confer over all the assets referred to in it and such Security Interests not being subject to any prior or *pari passu* Security Interest (other than a Permitted Security Interest);
- (j) no practice, procedure or policy employed by it in the conduct of its business violating any judgment, law, regulation, order or decree which if enforced would be reasonably likely to have a Material Adverse Effect;
- (k) no Default or Trigger Event will result from the execution of, or performance under the Transaction Documents and no other event or circumstance is outstanding which constitutes (or, with the expiry of a grace period, the giving of notice, the making of any determination or any combination of any of the foregoing, would constitute) a default or termination event under any other agreement or instrument which is binding on it or any of its subsidiaries or to which its (or any of its Subsidiaries') assets are subject which has or is reasonably likely to have a Material Adverse Effect;
- (l) save as disclosed in the Certificates of Title and Title Reports and subject to Permitted Security Interests or any other Security Interest permitted under the Transaction Documents, its ownership of, or interests in, the material assets over which it has created Security Interests under the Security Documents and which are necessary to own in order to enable it to carry on its business;

- (m) to the best of its knowledge it has the right to use intellectual property rights necessary to conduct its business, and to the best of its knowledge, no Intellectual Property Right owned by it is being infringed, nor does it know of any threatened infringement of any Intellectual Property Right which in either case would reasonably be likely to have a Material Adverse Effect;
- (n) insurances required to be maintained under any Finance Document being in full force and effect;
- (o) it has not taken any corporate action or any other steps for its winding-up, dissolution, administration, reconstruction or amalgamation or for the appointment of an Insolvency Official or similar officer of it or of any or all of its assets or revenues;
- (p) legal proceedings have not been served on it nor (to the best of its knowledge) are any proceedings pending or threatened in writing against it for its winding-up, dissolution, administration or reorganisation nor for the appointment of an Insolvency Official or similar officer of it or of any or all of its assets or revenues;
- (q) no Insolvency Event having occurred or continuing in relation to it;
- (r) the ownership structure of the Security Group;
- (s) the claims of Borrower Secured Creditors secured pursuant to the Security Agreement and the Issuer pursuant to the Obligor Floating Charge Agreement ranking (subject to certain reservations as to matters of law) prior to the claims of its other unsecured and unsubordinated creditors;
- (t) no litigation, arbitration, administrative proceedings or other proceedings are current, or, to its knowledge, pending or threatened in writing against it or its assets save as disclosed in the Base Prospectus as at the Initial Issue Date (excluding any frivolous or vexatious claims) which, if adversely determined, would reasonably be expected to have a Material Adverse Effect;
- (u) all documentation and other information in relation to the land and buildings that together comprise the Designated Airports and the Leased Premises supplied by the relevant Borrower in connection with the preparation of the Certificates of Title and the preparation of the Title Reports were, as at the date at which they were stated to be given, true and accurate in all material respects and, since the date of each Certificate of Title and Title Reports, there has been no change to the information provided which would render a Certificate of Title and Title Reports untrue or misleading in such a manner as would reasonably be expected to have Material Adverse Effect;
- (v) save as disclosed in the Certificates of Title and the Title Reports and subject to any necessary registrations at the Land Registry the relevant Borrower being the absolute legal and beneficial owner of the land and buildings that together comprise the relevant Designated Airport and the Leased Premises and being entitled to use such Designated Airport and the Leased Premises as is reasonably necessary to carry on its respective business as presently conducted and (save where consent of a third party is required to dispose of any Leased Premises (except where such consent is not to be unreasonably withheld) or where lack of such title to any Leased Premises would not be reasonably expected to have a Material Adverse Effect) having a good and marketable title in its own name to its interests in the land and buildings that together comprise the Designated Airport and the Leased Premises;
- (w) save as disclosed in the Certificates of Title and the Title Reports, there being no exceptions, reservations, easements, rights, privileges, covenants, restrictions, or encumbrances (including any arising under statute or any statutory power) affecting, or any breaches of town and country planning legislation (and any orders, regulations, consents or permissions made or granted under any of the same) affecting, or resolutions or proposals for the compulsory acquisition of any of the Designated Airports and the Leased Premises or any means of access to or egress therefrom, which would reasonably be expected to have a Material Adverse Effect;
- (x) compliance with environmental laws necessary for conduct of its business where in any such case failure to comply would be reasonably expected to have a Material Adverse Effect and no environmental claim having been commenced which is reasonably likely to be adversely determined against it, and if so determined, would reasonably be expected to have a Material Adverse Effect;

- (y) no loans made by any Obligor to any person or guarantee by any Obligor of the obligations of any other person to a third party being outstanding immediately following the issue of the Bonds on the Initial Issue Date, other than (i) pursuant to Finance Documents (ii) under any Permitted Inter-Company Loan or Permitted Non-Migrated Bond Distribution and (iii) under any Permitted Financial Indebtedness;
- (z) no Obligor having any subsisting arrangement or contract other than on an arm's length basis (other than in respect of dealings between Obligors and in respect of any licence or lease granted to HM Revenue & Customs, Immigration Services, Metropolitan Police Special Branch or any other public service to occupy space at the Designated Airports and the Leased Premises at no cost or any cost that is below market rates or which is otherwise required to be granted by statute or applicable law; and other than in respect of dealings between BAA and the Obligors pursuant to the Shared Services Agreement or the SSA Ancillary Documents provided that this exception shall not apply to the overall pricing and economic effect under the Shared Services Agreement and the SSA Ancillary Documents in respect of which the Obligors represent are such as would have been agreed between independent parties acting at arms length) unless such transaction was expressly permitted under the terms of the Finance Documents;
- (aa) no Obligor having any outstanding Financial Indebtedness other than Permitted Financial Indebtedness;
- (bb) as to the accuracy (in all material respects) of certain written information provided by the Borrowers and the accuracy, in all material respects, of this Prospectus (other than those sections of the Prospectus in respect of which the Borrowers have not accepted responsibility under this Prospectus);
- (cc) on the Initial Issue Date, no Obligor being liable in any manner in respect of any Financial Indebtedness (including by way of primary obligor, guarantor, surety or any other manner) that is not Senior Debt or Junior Debt, the initial providers of which have (directly or through their Representatives) executed the Common Terms Agreement and the STID or Permitted Financial Indebtedness falling within the categories listed in paragraphs (a) (iv), (v), (vi), (viii) and (ix) and (b) (iii), (iv), (v), (vi) and (vii) of the definition of Permitted Financial Indebtedness;
- (dd) as at the Initial Issue Date there is no Security Interest on the Equipment or any of its present or future revenues, assets or receivables (except for Permitted Security Interests);
- (ee) no Obligor (other than HEX Opco) being or having been an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme (other than a money purchase scheme) or (save in respect of the BAA Pension Scheme) connected or associated with such an employer;
- (ff) each Borrower is party to each existing Material Capex Agreement and Material O&M Agreement that has been procured on its behalf by BAA and such Borrower has not assigned any of its rights or benefit thereunder other than pursuant to the Security Agreement.
- (gg) its centre of main interests for the purpose of Council Regulation (EC) No 1346/2000 is the United Kingdom and it does not have an establishment for the purposes of Council Regulation (EC) No 1346/2000 in any jurisdiction other than its jurisdiction of incorporation;
- (hh) as at the Initial Issue Date, the Security Shares (as such term is defined in Security Agreement) are issued, fully paid, non-assessable and freely transferable and constitute shares in the capital of limited companies, and there are no moneys or liabilities outstanding or payable in respect of any such share;
- (ii) as at the Initial Issue Date, the value of the Excluded Property of each Borrower is less than 5 per cent. of the RAB of such Borrower;
- (jj) save as permitted and except as contemplated by the terms of the Transaction Documents, there are no agreements in force or corporate resolutions passed which call for the present or further issue or allotment of, or grant to any person the right (whether conditional or otherwise) to call for the issue or allotment of any share (or equivalent) loan note or loan capital of it (including an option or right of pre-emption or conversion); and

(kk) except as contemplated by the terms of the Transaction Documents, no person, firm or company has any right to participate in its profits or to call for the issue or transfer by it of any of its share capital or loan stock and no contract or arrangements, conditional or unconditional, exist whereby any person, firm or company may acquire or exercise any such right other than pursuant to the Transaction Documents.

Also, on each Issue Date and on each date on which any other new Authorised Credit Facility is issued or entered into under the Programme, each Obligor will repeat certain of such representations (the “**Initial Date Representation**”).

On each Payment Date, on each date of a request for a borrowing and, on the first date of each borrowing each Obligor shall make certain repeating representations (the “**Repeated Representations**”). An Obligor acceding to an Authorised Credit Facility shall make the Repeated Representations on the date of such accession.

### **Covenants**

The Common Terms Agreement contains certain covenants from each of the Obligors. A summary of the covenants which are (amongst others) included (subject, in some cases, to agreed exceptions, *de minimis* amounts and qualifications as to materiality and reservations of law) in the Common Terms Agreement is set out below in “*–Covenants – Information*” and “*–Covenants – General*”.

#### *Covenants – Information*

(a) The Security Group Agent will undertake to supply to the Borrower Security Trustee, the Issuer, the Bond Trustee, each Rating Agency and each Financial Guarantor in sufficient copies for all Borrower Secured Creditors:

- (i) consolidated audited financial statements of the Security Group and the Issuer together, prepared as if they constituted a statutory group for consolidation purposes, and related auditors’ opinion, within 180 days after the end of the preceding financial year (such financial statements to comprise profit and loss account, balance sheet and cashflow statement);
- (ii) consolidated, unaudited financial statements of the Security Group and the Issuer together, prepared as if they constituted a statutory group for consolidation purposes, for the first financial half-year in each financial year, within 180 days after the end of such financial half-year (such financial statements to comprise profit and loss account, balance sheet and cashflow statement for such financial half year); and
- (iii) Regulatory Accounts within 90 days of the end of each regulatory year.

The Security Group Agent must ensure that each set of financial statements supplied by it is prepared in accordance with Applicable Accounting Principles and gives a true and fair view of it or, in the case of any unaudited financial statements, fairly presents its financial condition (consolidated or otherwise).

(b) Each Obligor will undertake to supply to the Borrower Security Trustee and each Financial Guarantor:

- (i) promptly after becoming aware or available, details of:
  - (A) any litigation, arbitration, administrative proceedings, statutory notice (including any enforcement or prohibition notice), claim, or other proceeding which are current, threatened in writing or pending and which if adversely determined would be reasonably likely to have a Material Adverse Effect; and
  - (B) any proceedings which had not previously been considered would have a Material Adverse Effect if at any time the circumstances of the proceedings change such that they would be reasonably likely to have a Material Adverse Effect, and set out the action to be taken with respect to such matters;
- (ii) promptly upon becoming aware of them, details concerning any Obligor and/or any debt obligations of such Obligor being placed on credit watch with negative implications;
- (iii) all information in respect of insurance as is required under the Common Terms Agreement; and

- (iv) as soon as reasonably practicable upon becoming aware of such events, details of any non-compliance with any judgment, law or regulation, order or decree, which would be reasonably likely to have a Material Adverse Effect.
- (c) Each Obligor will undertake, among other things:
- (i) to confirm in each Compliance Certificate that each of the historical ratios and forward-looking ratios, listed below, has been calculated, specifying the results of such calculations and providing a copy of the computations made in respect of the calculation of such ratios and to confirm in each Investor Report that each of the historical ratios and the 12 Month Forward-Looking Ratios, and in the case of each Investor Report for so long as a Forecasting Event has occurred and is continuing, all forward-looking ratios, listed below, has been calculated, specifying the results of such calculations and providing a copy of the computations made in respect of the calculation of such ratios in reasonable detail:
    - (A) the Senior ICR for each Relevant Period;
    - (B) the Junior ICR for each Relevant Period;
    - (C) the Senior RAR as at each Relevant Date; and
    - (D) the Junior RAR as at each Relevant Date,

provided that the historical Senior ICR and historical Junior ICR do not need to be calculated for any Reporting Date prior to the Reporting Date falling on 30 June 2010;
  - (ii) to calculate the historical ratios referred to above using the audited Financial Statements (or unaudited Financial Statements or management accounts if audited financial statements are not available on such date), and if applicable, regulatory accounts delivered with such Compliance Certificate;
  - (iii) to ensure that all forward-looking financial ratio calculations and projections:
    - (A) are made on the basis of assumptions made in good faith and arrived at after due and careful consideration;
    - (B) are consistent and updated by reference to the most recently available financial information required to be produced by each Borrower;
    - (C) are consistent with the Applicable Accounting Principles (insofar as such Applicable Accounting Principles reasonably apply to such calculations and projections);
  - (iv) in calculating the financial ratios as at each Calculation Date, each Obligor shall ensure that:
    - (A) earnings from any Joint Ventures which are not Obligors will:
      - (1) only contribute towards a maximum of 5 per cent. of Cashflow from Operations (unless a Ratings Confirmation from at least two Rating Agencies (including S&P) is obtained in advance and provided that the contribution of earnings from such Joint Ventures shall not, notwithstanding such Ratings Confirmation, exceed 10 per cent. of Cashflow from Operations); and
      - (2) only be treated as “earned” to the extent that cash is actually received or was received by any of the Obligors for the benefit of such Obligor; and
    - (B) with respect to any earnings during the Relevant Period from Joint Ventures (regardless of whether such Joint Ventures are Obligors) such earnings shall not include any profit that is ultimately intended for the benefit of, or to be repaid to, the partner of the relevant Joint Venture during the Relevant Period.

To the extent that a Joint Venture has incurred Financial Indebtedness and the lenders or other Providers of such Financial Indebtedness have recourse to the Security Group for such Financial Indebtedness, the Security Group shall be required to take into its calculation, without double-counting, of (i) Senior RAR; and (ii) Junior RAR its proportionate share of such Financial Indebtedness for which the Security Group could be liable by virtue of the lenders’ or other finance providers’ recourse; and



- (v) that this Prospectus is updated as required under applicable laws or market practice before the Issuer seeks to issue any further series or tranches of Bonds after the validity period following the filing of the latest update (or, if none, the original filing of this Prospectus) has expired.
- (d) The Security Group will undertake to, among other things:
  - (i) by each Reporting Date starting with respect to the Reporting Date falling in December 2008, supply a Compliance Certificate to the Issuer, each Rating Agency, each Relevant Financial Guarantor and the Borrower Security Trustee with the financial statements described in paragraph (a) above, such Compliance Certificate to be accompanied by a statement confirming:
    - (A) the historical financial ratios (other than, in respect of each Reporting Date prior to the Reporting Date falling in June 2010, the historical Senior ICR and historical Junior ICR) which are required to be calculated under the Common Terms Agreement and calculations thereof in reasonable detail;
    - (B) summary details of any acquisition or disposal of subsidiaries or subsidiary undertakings by any Obligor and of any company or business or Material Disposals by any Obligor, in each case since the previous delivered Compliance Certificate (or, if none, the Initial Issue Date);
    - (C) the balance on the Insurance Proceeds Account and the Disposal Proceeds Account; and
    - (D) the amount of any Restricted Payment made since the date of the previous Compliance Certificate and if a Forecasting Event has occurred and is continuing, the forecasted Restricted Payments which are to be made within the 90 day period commencing on the date of delivery of such Compliance Certificate.

The Compliance Certificate must be signed by the Finance Director or Chief Financial Officer of the Security Group Agent on behalf of the Obligors confirming, to the best of such person's knowledge, that:

- (ii) the statement is accurate in all material respects, and
- (iii) no Default or Trigger Event or Forecasting Event has occurred or is continuing, or if a Default or Trigger Event or Forecasting Event has occurred and is continuing, steps (which shall be specified) are being taken to remedy such Default or Trigger Event; and
- (iv) the Group is in compliance with the Hedging Policy.
- (e) the Borrower Security Trustee will be entitled (as directed by the Borrower Secured Creditors in accordance with the STID) to investigate the calculations contained in any Compliance Certificate or accompanying statement and to call for other substantiating evidence (and the Obligors will provide such information) if it certifies to the Security Group Agent that it or such Borrower Secured Creditors have reason to believe that the historical or forward-looking ratios (or with respect to any Compliance Certificate confirmation of compliance with the financial ratios) as set out in the statement are incorrect or misleading.
- (f) if a Compliance Certificate states that a Trigger Event has occurred, such Compliance Certificate and each Compliance Certificate to be supplied thereafter until the Trigger Event is no longer continuing shall be accompanied by a statement confirming the Treasury Transactions then in place between any of the Borrowers or the Issuer on the one hand and any of the Hedging Counterparties on the other and setting out a summary of the hedging arrangements, including levels of over-hedging and details of forward-starting Treasury Transactions.
- (g) if, notwithstanding the investigations which the Borrower Security Trustee is entitled to make in accordance with terms of the Common Terms Agreement, the Borrower Security Trustee has not received explanations or evidence satisfactory to it or any Borrower Secured Creditor instructing it pursuant to the STID with respect to the accuracy and correctness of the financial ratios set out in the Compliance Certificate or the confirmation of compliance with the financial ratios, the Security Group Agent must, upon the request of the Borrower Security Trustee (as directed by the Borrower Secured Creditors in accordance with the STID), at the Security Group's cost, use all reasonable endeavours (subject to the Borrower Security Trustee signing

any letters or confirmations that may reasonably (in the opinion of the Borrower Security Trustee) be required by the Auditors or the Reporting Accountants in this regard) to arrange for the Auditors, or if the Auditors are unable or unwilling to provide the services, the Reporting Accountants, to perform agreed procedures in connection with such financial information reviewed by the Auditors or Reporting Accountants (as the case may be) and a copy of the Auditor's or Reporting Accountants' (as the case may be) report must be delivered, subject to the Borrower Security Trustee signing any letters reasonably (in the opinion of the Borrower Security Trustee) required by the Auditors or the Reporting Accountants in this regard, to the Borrower Security Trustee. Prior to the occurrence of a Trigger Event, the Borrower Security Trustee will not be entitled to request the review of the information provided to it by the Security Group Agent, the Auditors or (as the case may be) Reporting Accountants at the cost of the Obligors on more than five occasions in any Five Year Period.

- (h) the Security Group Agent will also undertake to notify the Borrower Security Trustee of any material change to the basis on which its audited consolidated financial statements or the Regulatory Accounts of any Borrower are prepared.
- (i) in respect of the calculation of any financial ratio, if the change notified under sub-paragraph (h) above could reasonably be expected to result in a deviation of equal to or greater than 3 per cent. from the result of the calculation of such financial ratio if such change had not occurred, the Security Group Agent shall, subject as provided below, appoint an international firm of auditors (acting as expert and not as an arbitrator) approved by the Borrower Security Trustee (such approval not to be unreasonably withheld or delayed) or, failing that approval, nominated (on the application of the Borrower Security Trustee) by the President for the time being of the Institute of Chartered Accountants of England and Wales (the costs of that nomination and of the auditors being payable by the Obligors) to determine the amendments required to be made to the Trigger Event Ratio Levels contained in the Common Terms Agreement to place the Security Group Agent and the Borrower Security Trustee in a comparable position to that in which they would have been if the change notified in paragraph (h) above had not happened and the determination of any such auditors shall be final and binding upon the parties to this Agreement. Prior to the Security Group Agent appointing auditors as described above, the Borrower Security Trustee shall, if directed in accordance with the STID, enter into discussions for a period of not more than 60 days with a view to agreeing any amendments required to be made to the Trigger Event Ratio Levels contained within the Common Terms Agreement to place the Security Group and the Borrower Security Trustee in a comparable position to that in which they would have been if the change notified under paragraph (h) above had not happened. Any agreement between the Security Group Agent and the Borrower Security Trustee in respect of such calculation will be subject to receipt by the Borrower Security Trustee of a direction given in accordance with the STID and will be binding on all the Parties.
- (j) if no agreement is reached under sub-paragraph (i) above then the Security Group Agent will appoint an international firm of auditors in the manner and for the purpose described above.
- (k) in addition to the Compliance Certificate and statement provided pursuant to the Common Terms Agreement, the Security Group Agent (on behalf of each Obligor) must supply, by each Reporting Date starting with the Reporting Date falling in December 2008, to the Borrower Security Trustee, each Rating Agency, the Paying Agents in sufficient copies for all of the relevant Borrower Secured Creditors, each Financial Guarantor and each other Issuer Secured Creditor, an Investor Report.
- (l) each Investor Report must include:
  - (i) for so long as such Investor Report does not state that a Forecasting Event has occurred and is continuing, the historical ratios and the 12-Month Forward-Looking Ratios and, if such Investor Report states that a Forecasting Event has occurred and for each Investor Report to be supplied thereafter until the Forecasting Event is no longer continuing but, for the avoidance of doubt, including the Investor Report which first states that such Forecasting Event is no longer continuing, such Investor Report shall also be accompanied by a statement confirming the forward looking ratios which are required to be calculated under the Common Terms Agreement and calculations thereof in reasonable detail,

provided in each case that the historical Senior ICR and historical Junior ICR do not need to be calculated for any Reporting Date prior to the Reporting Date falling on 30 June 2010;

- (ii) a general update of the following including narrative and details of any key changes:
  - (A) General overview;
  - (B) Regulatory and business developments;
  - (C) Capital expenditure;
  - (D) Outsourcing;
  - (E) Financing;
  - (F) Acquisitions and disposals;
  - (G) Current hedging position;
  - (H) Joint Ventures which are Obligors and Permitted Joint Ventures; and
  - (I) Performance penalties in respect of any Designated Airport;
- (iii) in respect of the Reporting Date falling on 30 June of each year, a capital investment plan setting out the medium term forecast capital expenditure of the Security Group or, if such a plan is not available, a capital expenditure forecast to the end of the then current Regulatory Period;
- (iv) confirmation of the amount of any Restricted Payment made since the date of the previous Investor Report and if a Forecasting Event has occurred and is continuing, the forecasted Restricted Payments which are to be made within the 90 day period commencing on the date of delivery of such Investor Report; and
- (v) confirmation that:
  - (A) the Investor Report is accurate in all material respects;
  - (B) no Default or Trigger Event has occurred and is continuing, or if a Default or a Trigger Event has occurred and is continuing, steps (which shall be specified) are being taken to remedy such Default or Trigger Event; and
  - (C) the Group is in compliance with the Hedging Policy.

A “**Forecasting Event**” will be treated as having occurred:

- (i) if and for so long as an Investor Report supplied shall specify that by reference to the most recently occurring Calculation Date:
  - (A) the Senior ICR for any Relevant Period is or is estimated to be less than 1.60;
  - (B) the Junior ICR for any Relevant Period is or is estimated to be less than 1.40;
  - (C) 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;
  - (D) the Junior RAR as at any Relevant Date is or is estimated to be more than 0.85; or
- (ii) in respect of each Reporting Date, if the Investor Report supplied pursuant to paragraph (i) above specifies that the Shared Services Agreement has terminated and that the relevant provisions of the Shared Services Agreement continue to apply as at such Reporting Date.

“**12 Month Forward-Looking Ratios**” means:

- (i) for the Senior ICR or Junior ICR in respect of any Reporting Date, such ratios in respect of the period of 12 months starting on 1 January in the same year as such Reporting Date and in respect of the Reporting Date in December, the 12 months starting on 1 January of the subsequent year; and

- (ii) for the Senior RAR or Junior RAR in respect of any Reporting Date, such ratios as at the Relevant Date falling on 31 December of the current year and in respect of the Reporting Date in December, the Relevant Date falling on 31 December of the subsequent year.
- (m) so far as permitted by any applicable law, regulation, order or any binding confidentiality obligations, each Obligor will undertake to supply to the Borrower Security Trustee:
  - (i) as soon as reasonably practicable after becoming aware of the same (subject to paragraph (n) below), details of any communication, enquiry, investigation or proceeding with, from or involving any Regulator or other governmental authority, where such communication relates to a matter which may have a Material Adverse Effect or where such enquiry, investigation or proceeding, if adversely determined, might reasonably be expected to have a Material Adverse Effect; and
  - (ii) such material information (including hedging information) about the business and financial condition of an Obligor which can be requested by the Borrower Security Trustee on the instruction of Qualifying Borrower Creditors holding at least 10 per cent. of the Qualifying Borrower Debt.

If any duty of confidentiality would preclude disclosure of the relevant details of any enquiry, investigation, proceeding or other information outlined in (m)(i) or (ii) above to the Borrower Security Trustee, the relevant Obligor shall use its reasonable endeavours to obtain the consent of the applicable Regulator or other governmental authority (or any other party to whom a duty of confidentiality is owed) to such disclosure on the basis that such information shall remain confidential and shall not be disclosed by any recipient for so long as such information remains confidential.

- (n) No Obligor shall be obliged:
  - (i) to disclose any information regarding any contract, agreement, arrangement or approval which is, in the reasonable opinion of such Obligor, material to the business and interests of such Obligor or the Security Group taken as a whole and which is, in the reasonable opinion of such Obligor, of significant commercial sensitivity such that the disclosure of such information, might reasonably be expected to be materially prejudicial to the process of concluding such contract, agreement or arrangement or obtaining such approval or concluding any modification to any of the foregoing unless and until such time as (i) the relevant contract, agreement or arrangement or any modification thereof has been concluded or the relevant approval obtained or declined or, if earlier, (ii) such Obligor or any Affiliate thereof is obliged by law, regulation or any rule of any applicable listing authority or stock exchange to publish details regarding the status of such contract, agreement or approval; or
  - (ii) to supply details of any communication, enquiry, investigation or proceeding of a preliminary nature unless and until there is a reasonable prospect that the matters addressed by such communication, enquiry, investigation or proceeding are reasonably likely to proceed in such a manner that, if adversely determined, might reasonably be expected to have a Material Adverse Effect.
- (o) In addition, each Obligor (or the Security Group Agent on its behalf) in respect of information delivered electronically subject to the below and to the terms of any Surveillance Letter:
  - (i) may deliver any information under the Common Terms Agreement to a Borrower Secured Creditor or an Issuer Secured Creditor (including Bondholders) by posting it on an electronic website, provided the Obligor designates a website and the Obligor has notified such persons of the address (without password protection) for such website;
  - (ii) Each Obligor may designate a third party to operate and manage the Designated Website on its behalf; and
  - (iii) must notify the Borrower Security Trustee and the Bond Trustee if the website cannot be accessed or the website or any information on it is infected for a period of 5 Business Days, in which case the Obligor must supply the Borrower Security Trustee and the Bond Trustee with all information required under the Common Terms Agreement in paper form with copies as requested by any Finance Party or Issuer Secured Creditor.

- (p) The Borrower Security Trustee will have the right (on the instructions of Qualifying Borrower Creditors holding at least 10 per cent. of Qualifying Borrower Debt) to investigate any matter disclosed in any SSA Report and the Obligor shall provide or procure the provision of such responses and substantiating evidence as the Borrower Security Trustee shall reasonably request.
- (q) If a Borrower enters into a Finance Lease, the capitalised amount of which exceeds 5 per cent. of Total RAB, then such Borrower shall promptly following its entry into such Finance Lease provide to S&P the details of such Finance Lease.
- (r) Unless the Borrower Security Trustee has already been so notified by another Obligor, each Obligor (or the Security Group Agent on its behalf) must notify the Borrower Security Trustee of any Default or Trigger Event relating to it (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- (s) Promptly following any reasonable request by the Borrower Security Trustee, the Security Group Agent must supply to the Borrower Security Trustee a certificate, signed by two of its authorised signatories on its behalf, certifying that no Default or Trigger Event is outstanding and of which it is aware, having made all reasonable enquiries or, if a Default or Trigger Event is outstanding, specifying the Default or Trigger Event and the steps, if any, being taken or proposed to be taken to remedy it.

*Covenants – General*

- (a) An Obligor may change its financial year end or regulatory year end for regulatory or statutory purposes subject to:
  - (i) in the case of regulatory year end changes to be made at the request of a Regulator or to align the relevant Obligor’s financial year and regulatory year, by providing written notification of the new year end and other relevant dates (including new Reporting Dates and Calculation Dates) to the Borrower Security Trustee at least 2 months in advance of the date such change is required to be effected or proposed to be made provided that, in the case of regulatory year end changes to be made at the request of a Regulator where the Regulator provides less than 2 months’ notice of such requirement, such written notification shall be provided to the Borrower Security Trustee promptly following the request from the Regulator; and
  - (ii) in the case of other year end changes, subject to Borrower Security Trustee consent, not to be unreasonably withheld and the Borrower Security Trustee receiving not less than 3 months notice of such year end changes.
- (b) Where the financial year end has changed as described above, the relevant Obligor shall change the financial trigger calculations in such manner as a financial adviser/firm of accountants of international repute appointed by the Security Group Agent on behalf of the Obligor and approved by the Borrower Security Trustee, shall certify to the Borrower Security Trustee (upon which certificate the Borrower Security Trustee shall be entitled to rely) are necessary to enable such calculations to continue to be calculated from the relevant consolidated financial statements of the Security Parent or Regulatory Accounts of the Obligor (as appropriate) provided that if no such agreement is reached within 60 days of the date of such change of financial year end, the provisions described in paragraph (i) under “– *Information-Covenants*” above shall apply *mutatis mutandis*.
- (c) Each Obligor will undertake, among other things:
  - (i) to do all such things as are necessary to maintain its corporate status where failure to do so would be reasonably expected to have a Material Adverse Effect or otherwise adversely affect the Security Interests of the Borrower Secured Creditors;
  - (ii) to comply with its cash management obligations (if any) set out in the Common Terms Agreement;
  - (iii) to maintain bank accounts which are separate from those of any other person or entity (other than any other Obligor);
  - (iv) to ensure that the claims of (i) Borrower Secured Creditors against it under the Finance Documents (subject to certain reservations as to matters of law) to the extent that they are secured pursuant to the Security Agreement and (ii) the Issuer pursuant to the Obligor

Floating Charge Agreement, will rank prior to the claims of all its other unsecured and unsubordinated creditors save for those whose claims are preferred solely by any law whether under any bankruptcy, insolvency, liquidation or other similar laws of general application or otherwise;

- (v) to operate and maintain, or ensure the operation and maintenance of, its business in accordance with its memorandum and articles of association or other constitutional documents, and generally in accordance with Good Industry Practice and the requirements that the Regulators are entitled to impose;
- (vi) to perform its obligations under and comply with the terms of the Transaction Documents to which it is a party and to maintain and take all reasonable steps to enforce its rights and exercise its discretions under the Transaction Documents in accordance with Good Industry Practice;
- (vii) to ensure that all dealings entered into by it are on arm's length basis or otherwise on terms no less favourable to such Obligor than would reasonably be expected to be obtained in a comparable arm's length transaction with a person who is not an associate, unless such transaction is expressly permitted under the terms of the Finance Documents and provided that such obligations do not apply to dealings as between Obligors and in respect of any licence or lease granted to HM Revenue & Customs, to Immigration Services, Metropolitan Police Special Branch or to any other public service to occupy space at the Designated Airports at no cost or any cost that is below market rates or which is otherwise required to be granted by statute or applicable law; nor will this covenant apply to the dealings between BAA and the Obligors pursuant to the Shared Services Agreement or the SSA Ancillary Documents provided that no Obligor shall be in breach of this covenant with respect to any single arrangement or contract with a contract counterparty if, taken as a whole, each of the arrangements and contracts with such contract counterparty and any affiliate thereof taken together are on arm's length terms or on terms no less favourable to such Obligor than would reasonably be expected to be obtained in a comparable transaction with a person which is not an associate and taking each of those arrangements and contracts as a whole;
- (viii) so far as permitted by applicable law and regulatory requirements, to execute all such further documents and do all such further things as the Borrower Security Trustee (acting reasonably) may consider necessary to give effect to the relevant Finance Documents;
- (ix) (A) to take all such action as the Borrower Security Trustee may reasonably require for the purpose of perfecting, protecting and preserving the rights of the Borrower Security Trustee under the Security Documents and the Security Interests under the Security Documents; and (B) to take all actions as the Borrower Security Trustee may require, following the making of any acceleration, cancellation or demand under any of the Finance Documents after the occurrence of a Default for facilitating the exercise of the rights of the Borrower Security Trustee under the Security Documents and/or the realisation of any Security Interests under the Security Documents; and (C) to use all reasonable endeavours to receive acknowledgements of assignment from such counterparties as the Borrower Security Trustee may nominate;
- (x) not to incur any Financial Indebtedness other than Permitted Financial Indebtedness (which includes a requirement, in the case of the Borrowers, that Financial Indebtedness incurred under the relevant Authorised Credit Facilities will not result in a breach of the Additional Indebtedness Tests as to which see (d) below);
- (xi) not to incur or change the scheduled maturity date of any Financial Indebtedness if as a result there would fall due (a) in any period of 24 months, an aggregate principal amount (including accretions by indexation and excluding amounts relating to any Hedging Agreement which have not crystallised) in excess of 30 per cent. of Total RAB at the relevant time and (b) within one Five Year Period, in excess of 50 per cent. of Total RAB at the relevant time provided that no breach of this obligation will occur due to the drawing of advances under the Non-Migrated Bond Facility (for the purposes of this paragraph "relevant time" shall mean the proposed date of incurrence of such Financial Indebtedness or date of change to the relevant scheduled maturity date of such Financial Indebtedness). The due date for any Financial Indebtedness under any inflation-linked

Hedging Agreement shall be the earlier of (a) the date on which such inflation-linked Hedging Agreement may be terminated at the election of the applicable Hedging Counterparty, (b) the scheduled termination date of such inflation-linked Hedging Agreement and (c) the date specified in the relevant Hedging Agreement on which such inflation-linked Hedging Agreement (other than in respect of a Pre-hedge) will terminate pursuant to any mandatory termination provisions specified in the relevant Hedging Agreement;

- (xii) not to enter into any amalgamation, demerger, merger, consolidation or reconstruction other than a Permitted Disposal or Permitted Acquisition or otherwise with the prior written consent of the Borrower Security Trustee);
- (xiii) not to make any acquisition or investment other than (a) Permitted Acquisitions and Authorised Investments and (b) investment in a Joint Venture which is or upon creation becomes an Obligor or Permitted Joint Venture;

In addition, to the extent that the Joint Venture has incurred Financial Indebtedness and the lenders or other providers of such Financial Indebtedness thereof have recourse to the Security Group in respect thereof, the Security Group shall be required to take into its calculation, without double counting, of Senior RAR and Junior RAR its proportionate share of such financial indebtedness for which the Security Group could be liable by virtue of the recourse that the lenders or other finance providers have.

- (xiv) not to acquire any real property other than by way of a Permitted Acquisition and an Obligor acquiring any real property shall enter into Supplemental Charges in respect of such real property in favour of, and to the satisfaction of, the Borrower Security Trustee;
- (xv) if it intends an acquired subsidiary or subsidiary undertaking to be treated as an Obligor, to procure delivery of legal opinions to the Borrower Security Trustee confirming:
  - (A) the enforceability of the security and accession documentation entered into by the relevant entity; and
  - (B) if required by the Rating Agencies, such tax aspects of such new Obligor as are relevant to its role in the financing and the tax effect of such new Obligor becoming a member of the Security Group (and in particular the tax effect on any then current Obligor);
- (xvi) not to make or grant any loan, guarantee or indemnity to any third party other than (A) in the ordinary course of business; (B) any Permitted Intercompany Loan or Permitted Non-Migrated Bond Distribution; (C) (in the case of a loan) by way of a permitted Restricted Payment; (D) any authorised guarantee agreement entered into in respect of leasehold real property disposed of in accordance with the terms of the Common Terms Agreement; (E) the guarantee of Senior Debt and Junior Debt contained in the Security Agreement; (F) any other loan or guarantee which constitutes Permitted Financial Indebtedness; (G) any guarantee or indemnity provided by a Borrower to any purchaser under or in connection with any sale and purchase agreement relating to a Permitted Disposal by such Borrower; or (H) any loan made by an Obligor to any other Obligor.
- (xvii) not to change, without the prior written consent of the Borrower Security Trustee, its memorandum or articles of association or other constitutional documents provided that each Borrower may change its memorandum or articles of association or other constitutional documents without the Borrower Security Trustee's consent if such change would not be reasonably likely to have a Material Adverse Effect;
- (xviii) not to compromise or settle any claim, litigation or arbitration without prior notification to the Borrower Security Trustee if any such compromise or settlement would be reasonably likely to have a Material Adverse Effect;
- (xix) to promptly obtain and maintain in full force and effect all governmental and regulatory consents, licences, material authorisations and approvals required for the conduct of its business where failure to do so would reasonably be expected to have a Material Adverse Effect;

- (xx) to use reasonable endeavours to comply with all judgments, laws, rules, regulations, agreements, orders or decrees to which it is subject and which, if violated and enforced would be reasonably likely to have a Material Adverse Effect;
- (xxi) not to create or permit to exist any Security Interest on any of its present or future business, assets, Equipment or undertakings other than any Permitted Security Interest;
- (xxii) not to, whether in a single transaction or in a series of transactions, related or not, dispose of the Equipment, its undertaking, revenues, business or assets (in whole or in part) other than a Permitted Disposal or pursuant to the creation of a Permitted Security Interest or with the prior written consent of the Borrower Security Trustee;
- (xxiii) not to undertake a Permitted Disposal of all or any part of a Designated Airport which represents more than two per cent. of Total RAB and no Holding Company of a Borrower shall make a Permitted Disposal directly or indirectly of the shares in a Borrower (each such Permitted Disposal, a “**Designated Airport Disposal**”) unless (1) it is a Permitted Disposal within the meaning of paragraph (k) of the definition of Permitted Disposal or (2) without prejudice to the mandatory prepayment requirements under paragraph (ii)(b) of Trigger Event Consequences below, the net proceeds of such Designated Airport Disposal (or a cash amount representing such net proceeds) are, in the amount specified below applied within six months of receipt of disposal proceeds arising from the Designated Airport Disposal (the “**Mandatory Prepayment Date**”) in one or more of the following ways:
  - (1) prepayment of advances outstanding under the Borrower Loan Agreements (and consequential early redemption of any Bonds in an amount equal to such prepayment and reduction of future scheduled principal repayments); and/or
  - (2) market purchases of Bonds (and consequential cancellation and surrender of any Bonds and deemed prepayment of the corresponding Borrower Loan Agreement advances and reduction of future scheduled principal repayments); and/or
  - (3) the repayment of the Capex Facilities, EIB Facilities, the Refinancing Facility or the Non-Migrated Bond Facility;

at the relevant Obligor’s sole discretion, together with and taking into account any termination amounts payable by the Borrowers (1) to the Borrower Hedge Counterparties in respect of the related Borrower Hedging Agreements or (2) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) in respect of the related Issuer Hedging Agreements in such amount (the “**Required Amount**”) as shall 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 the proposed prepayment/market purchases/repayments) shall not be prior to 1 April 2018 more than or equal to 0.70 and thereafter not be more than or equal to 0.725 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) shall not be more than or equal to 0.85. For the avoidance of doubt, if the net proceeds of a Permitted Disposal made pursuant to paragraph (f) of the definition of “Permitted Disposal” are upon their application in accordance with this paragraph insufficient to ensure that the Senior RAR calculated on the basis described above is, prior to 1 April 2018, not more than or equal to 0.70 and thereafter is or is estimated to be not more than or equal to 0.725 and the Junior RAR calculated on the basis described above is not more or equal to 0.85, such failure shall result in a Trigger Event occurring but shall not constitute a Loan Event of Default.

For so long as no Trigger Event is continuing, promptly following receipt of the net proceeds of a Designated Airport Disposal, an amount equal to the Required Amount shall be deposited into the Disposal Proceeds Account.

- (1) For the avoidance of doubt and notwithstanding the above, HAL may not sell or dispose of the whole or substantially the whole of Heathrow and any Holding Company for the time being of HAL may not sell or dispose of any shares in HAL or in a Holding Company of HAL (whether in a single transaction or through a



series of transactions and whether related or not) to any party other than a member of the Security Group save with the consent of the relevant Borrower Secured Creditors. Any such sale will constitute an additional termination event under the Hedging Agreements (as to which see “*Borrower Hedging Agreements – Termination*” below). In addition, pursuant to the EIB Facilities Agreement, EIB may require HAL to prepay the EIB Facilities in full on a disposal of HAL as described above (as to which see “*Additional Resources Available – EIB Facilities*”). Furthermore, a liquidity facility provider may require prepayment of its commitment where HAL or any holding company of HAL sells or disposes of all or substantially all of Heathrow to an entity outside the Security Group pursuant to the Borrower Liquidity Facility Agreement, in the case of a Borrower Liquidity Facility Provider, and the Issuer Liquidity Agreement, in the case of an Issuer Liquidity Facility Provider (see “*Borrower Liquidity Facility Agreements*” and “*Issuer Liquidity Facility Agreements*” (as applicable) below).

- (2) In circumstances where a Designated Airport Disposal occurs which results in a Borrower (such Borrower, the “**Nominated Borrower**”) ceasing to be a Borrower, all Senior Debt and Junior Debt of the Nominated Borrower then outstanding shall, to the extent not applied in accordance with the provisions of this paragraph (xxiii), be novated to one or more Borrowers which have not undertaken a Designated Airport Disposal in accordance with the terms of the Borrower Loan Agreement or the equivalent provisions of each relevant Authorised Credit Facility.
- (xxiv) not to (A) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so; (B) issue any shares which by their terms are redeemable or convertible or exchangeable for Financial Indebtedness; or (C) (except in respect of the issue of any share capital by Security Parent) after the Initial Issue Date, issue any share capital to any person which is not an Obligor, and in each case, other than where any such action or transaction: (i) is in furtherance of a Restricted Payment and the amount of the Restricted Payment is permitted to be paid pursuant to the Finance Documents; (ii) is expressly permitted under the Finance Documents; or (iii) has received the prior written consent of the Borrower Security Trustee;
- (xxv) to use reasonable endeavours to procure that the BAA Pension Scheme is funded in line with the statutory funding requirements under the Pensions Act 2004 and that no action or omission is taken by any Obligor in relation to such BAA Pension Scheme which would reasonably be expected to have a Material Adverse Effect, provided that it shall not be a breach of this covenant if any Obligor takes or performs any action after the Initial Issue Date where the relevant Obligor agreed prior to the Initial Issue Date to take or perform such action; and
- (xxvi) to ensure that no Obligor will at any time be an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme or (save in respect of the BAA Pension Scheme) connected with or an associate of such an employer and that it shall immediately notify the Borrower Security Trustee of the receipt from the Pensions Regulator of a financial support direction or contribution notice, or any investigation which may lead to the issue of such a direction or notice.
- (d) “**Additional Indebtedness Tests**” will be:
- (i) to incur additional Senior Debt the Senior RAR as at the date such Financial Indebtedness is to be incurred by reference to the most recently delivered audited annual financial statements or unaudited semi-annual financial statements or, if more recent, the latest management accounts of the Security Group, taking into account the proposed additional Financial Indebtedness, must be less than 0.725.
- (ii) to incur additional Junior Debt the Junior RAR as at the date such Financial Indebtedness is to be incurred by reference to the most recently delivered audited annual financial statements or unaudited semi-annual financial statements or, if more recent, the latest management accounts of the Security Group, taking account of the proposed additional indebtedness, must be less than 0.90,

provided that any breach this of paragraph (d) which is continuing shall not preclude the drawing of advances under the Non-Migrated Bond Facility. See, however “–*Additional Resources Available – Refinancing Facility Agreement*”.

- (e) Each Borrower will also undertake among other things:
- (i) to ensure that it will keep all buildings, structures, fixtures, fittings, plant, machinery and equipment belonging to or required by it for the operation of its business in such a state of repair as is necessary for the proper and lawful carrying on of its respective business and will renew and replace such items where failure to do so would have a Material Adverse Effect or, in the case of any property leased to a tenant or licensed to a licensee which is not a Borrower and where the tenant or licensee (as applicable) has responsibilities for such maintenance and repair and no Borrower is entitled to enter and carry out such maintenance and repair, each Borrower will use reasonable endeavours to ensure that such covenants are complied with;
  - (ii) subject to matters specifically referred to in the Certificates of Title, the Title Reports and any Permitted Security Interests and disposals of assets permitted by the terms of the Common Terms Agreement, to remain the sole legal and beneficial owner of its interest in all of the Designated Airports and Leased Premises free from any material covenants, undertakings, restrictions, easements or other third party rights which, in any such case, would reasonably (or would if breached as a result of the carrying out of its business as presently conducted) be expected to have a Material Adverse Effect;
  - (iii) in relation to any lease or agreement to lease or licence under which it derives its estate or interest in a Designated Airport or in the Leased Premises or to which its estate or interest is subject:
    - (A) where it is the lessee or licensee, to observe and perform in all respects all covenants, undertakings, stipulations and obligations on the lessee under any such lease; and
    - (B) where it is the lessor or licensor, to use all reasonable endeavours to enforce in all respects all covenants, undertakings, stipulations and obligations on the part of the lessee or licensee under any such lease or license (as applicable),  
where failure to do so would, in each case, reasonably be expected to have a Material Adverse Effect;
  - (iv) to comply with and perform all restrictive and other covenants, undertakings, stipulations and obligations now or at any time affecting any Designated Airport or any of the Leased Premises insofar as the same are subsisting and are capable of being enforced and where any non-compliance or non-performance would have a Material Adverse Effect;
  - (v) where it is in the interests of good estate management to do so, to enforce all restrictive or other covenants, burdens, stipulations and obligations benefiting any Designated Airport or any of the Leased Premises and not waive, release or vary (or agree so to do) the obligations of any other party thereto, in each case, where any non-enforcement, waiver, release, variation or agreement to do so would have a Material Adverse Effect;
  - (vi) not to carry out or permit any demolition, reconstruction or rebuilding of or any structural alteration to or change in the use of any Designated Airport or any of the Leased Premises which might reasonably be expected to have a Material Adverse Effect;
  - (vii) to comply with any conditions attached to any planning permissions and with the provisions of any planning and highway agreements affecting the Designated Airports or any of the Leased Premises, the non compliance with which might reasonably be expected to have a Material Adverse Effect;
  - (viii) not to carry out any development or implement any new planning permission which might reasonably be expected to have a Material Adverse Effect;
  - (ix) to comply with applicable relevant Environmental Laws and Environmental Approvals applicable to it, where failure to do so would be reasonably likely to have a Material Adverse Effect;

- (x) as soon as reasonably practicable upon becoming aware of the same, notify the Borrower Security Trustee of: (A) any environmental claim that is current or, to the best of its knowledge and belief, is threatened in writing; or (B) any facts or circumstances which will or are reasonably likely to result in an environmental claim being commenced or threatened against it, which, if substantiated, is reasonably likely to have a Material Adverse Effect;
- (xi) to comply at all times in all material respects with the Public Procurement Rules in outsourcing any part of its business or services or letting any contract pursuant to which capital expenditure for the purposes of its business will be incurred, where such is subject to such rules;

Additionally, each Obligor will undertake among other things:

- (i) to ensure that the nature of its business is limited to Permitted Business except for any business falling within the Permitted Non-Regulated Business Limits provided that any business which by virtue of the determination of the applicable Regulator ceases to be Permitted Business and which does not then fall within the Permitted Non-Regulated Business Limits shall not, without prejudice to the rights and remedies of the Borrower Security Trustee following the occurrence of a Trigger Event, constitute a breach of covenant by the applicable Borrower and shall not of itself give rise to a Loan Event of Default;
- (ii) to comply with the insurance provisions as required in accordance with and subject to the Common Terms Agreement;
- (iii) to use all reasonable endeavours to safeguard, preserve and maintain the subsistence and validity of such present and future rights in accordance with Intellectual Property Rights, licences and sub-licences as are necessary for its business including observing all covenants and stipulations relating thereto and obtaining all necessary registrations where failure to do so is reasonably likely to have a Material Adverse Effect;
- (iv) to comply with the Outsourcing Policy, which will become effective on and from the Initial Issue Date and apply to the Outsourcing Agreements and Capex Contracts on the basis specified therein entered into by or on behalf of the Borrowers on and from the Initial Issue Date;
- (v) to use reasonable endeavours to maintain credit ratings and, in the case of each Class of Wrapped Bonds, underlying credit ratings of each Class of Bonds and Sub-Class of Bonds issued by the Issuer;
- (vi) subject to paragraphs (viii) and (ix) below, only to make a Restricted Payment if the Restricted Payment Condition is satisfied. The Restricted Payment Condition will be satisfied if:
  - (A) no Loan Event of Default or Potential Loan Event of Default is subsisting or would result from the making of the Restricted Payment;
  - (B) no Trigger Event is subsisting or would result from the making of the Restricted Payment; and
  - (C) the Restricted Payment is made within the 90 day period commencing on the date of delivery of the most recent Compliance Certificate or, if later, the date on which any financial statements required to be delivered with such Compliance Certificate are delivered;
- (vii) to co-operate with the Rating Agencies in connection with any reasonable request for information in respect of the maintenance of an underlying rating or rating and with any review of its business which may be undertaken by one or more of the Rating Agencies after the date of the Common Terms Agreement;
- (viii) not to make a Permitted Inter-Company Distribution unless the following conditions are met:
  - (A) no Default has occurred and is continuing or will result from the Permitted Inter-Company Distribution;

- (B) the making of the Permitted Inter-Company Distribution is not illegal or unenforceable; and
  - (C) such Permitted Inter-Company Distribution is made against irrevocable payment instructions directing the recipient account bank to remit the proceeds thereof on receipt by Sub Holdco and Designated Sub Holdco, as the case may be, to the relevant account of the Security Parent, Borrower or Asset Holdco, as the case may be, for same day value;
- (ix) not to make a Permitted Non-Migrated Bond Distribution unless the following conditions are met:
- (A) no Loan Acceleration Notice has been served; and
  - (B) following the service of a Loan Enforcement Notice but prior to the service of a Loan Acceleration Notice, the amount of such Permitted Non-Migrated Bond Distribution is no greater than the *pro rata* payment that the Non-Migrated Bondholders would be entitled to receive pursuant to paragraph (vi)(e) of the Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments had such a payment been made instead by the Borrowers under the Non-Migrated Bond Guarantees;
- (x) to use all reasonable endeavours at all times to maintain a listing of all Wrapped Bonds and all Unwrapped Bonds which on issue, were listed;
- (xi) to procure that there are installed and maintained accounting, management information, financial modelling and cost control systems which are of such a standard which can produce the information required within the time set out in the Finance Documents and procure that there are maintained books of account and other records adequate to reflect fairly and accurately its financial condition, the results of its operations and to provide the reports required to be delivered pursuant to the Finance Documents;
- (xii) to authorise the Auditors to communicate directly with the Borrower Security Trustee at such time as such parties may reasonably require (and whilst any Default is outstanding at any time) regarding its accounts and operations and furnish to the Borrower Security Trustee a copy of such authorisation, subject to the Auditors' agreement to communicate at such time and upon agreed conditions;
- (xiii) to at all times retain reputable Auditors;
- (xiv) to inform the Borrower Security Trustee of any change to the Auditors, as soon as reasonably practicable;
- (xv) to only replace the Auditors without the prior written approval of the Borrower Security Trustee if the replacement Auditors are a firm of independent public accountants of international standing;
- (f) No member of the Security Group may without the prior written consent of the Borrower Security Trustee:
- (i) sell, transfer or otherwise dispose of any of its assets on terms where such asset is or may be leased to or re-acquired or acquired by a member of the Security Group or any Associate, other than pursuant to a Finance Lease or any finance lease to the extent permitted pursuant to paragraph (a)(vi) of the definition of Permitted Financial Indebtedness; or
  - (ii) save to the extent permitted in the Common Terms Agreement, purchase any asset on terms providing for a retention of title by the vendor or on conditional sale terms or on terms having a like substantive effect to any of the foregoing except for assets acquired in the ordinary course of its business,

in each case, in circumstances where the transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset;

- (g) Neither the Security Parent nor Asset Holdco may, except as otherwise permitted or contemplated by the Transaction Documents:

- (A) carry on or transact any business or other activity other than the ownership of the shares in members of the Security Group (and in the case of the Security Parent, the Issuer) and the Issuer held by it at any time;
  - (B) own any asset or incur any liabilities except for the purposes of carrying on that business in accordance with the Transaction Documents or incurring Financial Indebtedness under any Working Capital Facilities (to the extent contemplated within paragraph (b) of that definition) or Permitted Financial Indebtedness;
  - (C) suspend, abandon or cease to carry on its business;
  - (D) have any employees;
  - (E) declare, make or pay Restricted Payments; or
  - (F) take any steps to enforce any claims it may have against any other Obligor without the prior written consent of the Borrower Security Trustee;
- (h) Additionally, each Borrower will undertake (and the Security Parent shall procure in relation to each Borrower) that each Borrower and the Issuer shall at all times with effect on or about the Initial Issue Date maintain compliance with the Hedging Policy and only enter into Treasury Transactions in accordance with the Hedging Policy;
  - (i) No Borrower shall hold itself or any members of the Security Group out as forming part of or being a member of the Non-Designated Group and shall correct any misunderstanding as to identity;
  - (j) Each Borrower will undertake that it shall ensure that a Borrower is a party to each Material Capex Agreement entered into after the Initial Issue Date;
  - (k) For so long as any Non-Migrated Bonds are outstanding, the Security Group will establish and maintain an Authorised Credit Facility or an alternative arrangement acceptable to at least two Rating Agencies (including S&P) under which an Obligor will be entitled to draw funds, notwithstanding the occurrence of a Trigger Event or a Non-Migrated Bond Excluded Default in an amount equal to the aggregate principal amount outstanding of such Non-Migrated Bonds from time to time (after taking account of the impact of all cross currency Treasury Transactions entered into in relation thereto) together with, providing that the relevant Non-Migrated Bonds are being redeemed, Permitted Interest Payments on such Non-Migrated Bonds;
  - (l) Each Obligor undertakes that it will not have Supported EIB Facilities under which the aggregate principal amount outstanding exceeds at any time 10 per cent. of Total RAB;
  - (m) Prior to the delivery of a Loan Enforcement Notice, if a drawing is made under any Borrower Liquidity Facility Agreement (other than a Standby Drawing), no Borrower will be permitted to make any subsequent payment of debt service on its Senior Debt (or, where such payment would otherwise be permitted by the terms hereof, make any Restricted Payment) unless and until all amounts owing under the relevant Borrower Liquidity Facility Agreement have either been paid in full or have been fully reserved for in the Borrower Liquidity Reserve Account.
  - (n) Each Borrower shall ensure that the value of the Excluded Property of such Borrower shall not at any time exceed 5 per cent. of the Total RAB of such Borrower.
  - (o) No Obligor may, without the prior written consent of the Borrower Security Trustee, consent to any amendment to, waive any provision of, or terminate the Cross-Licensing Agreement or the Hardware Lease to which it is a party.
  - (p) Each Obligor must so far as permitted by applicable law and regulatory requirements, execute all such further documents and so all such further acts and things as the Borrower Security Trustee (acting reasonably) may consider to be necessary at any time to give effect to the terms of the relevant Finance Document.
  - (q) Each Obligor will maintain its centre of main interests for the purpose of Council Regulation (EC) No. 1346/2000 in the United Kingdom and will ensure that it does not have an establishment for the purposes of Council Regulation (EC) No. 1346/2000 in any jurisdiction other than the United Kingdom.

- (r) The Obligors shall not, without the consent of the Issuer, agree to any amendment or waiver which would change or have the effect of changing the application of disposal proceeds made under the Refinancing Facility Agreement if the result of such amendment or waiver would be to defer the rights of the Refinancing Facility Providers to be prepaid out of the proceeds of such disposal. The Issuer shall only consent to such amendment or waiver upon being directed, in accordance with the procedures set out in the STID, to do so in writing by its Secured Creditor Representatives representing Issuer Qualifying Creditors together holding or representing 25 per cent. or more of the Issuer Qualifying Debt.

### ***Trigger Events***

The Common Terms Agreement also sets out certain Trigger Events. The specific Trigger Events and the consequences which flow from the occurrence of those events are set out below.

The occurrence of any of the following events will be a Trigger Event:

(i) *Financial Ratios*

On any date when any of the following ratios are calculated in accordance with the Common Terms Agreement to breach the relevant level specified below (each a “**Trigger Event Ratio Level**”) as determined as at the most recently occurring Calculation Date:

- (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.

(ii) *Credit Rating Downgrade*

- (A) In respect of any ratings sought by the Issuer in relation to the Class A Wrapped Bonds, the long-term underlying credit rating of any Class A Wrapped Bonds ascribed by at least two Rating Agencies is downgraded below BBB+ or equivalent rating from any other rating agency that has been engaged by the Issuer to provide a public long-term credit rating;
- (B) in respect of any ratings sought by the Issuer in relation to the Class A Unwrapped Bonds, the public long-term credit rating of any Class A Unwrapped Bonds ascribed by at least two Rating Agencies is downgraded below BBB+ or equivalent rating from any other rating agency that has been engaged by the Issuer to provide a public long-term credit rating;
- (C) in respect of any ratings sought by the Issuer in relation to the Class B Wrapped Bonds, the long-term underlying credit rating of the Class B Wrapped Bonds ascribed by at least two Rating Agencies falls below Investment Grade; or
- (D) in respect of any ratings sought by the Issuer in relation to the Class B Unwrapped Bonds, the long-term public credit rating of the Class B Unwrapped Bonds ascribed by at least two Rating Agencies falls below Investment Grade.

Each credit rating referred to above is the “**Trigger Credit Rating**” for the relevant Class of Bonds.

(iii) *Capex Funding Trigger and Debt Service Funding Trigger*

- (A) The amount of the Security Group’s forecast Capital Expenditure over the 12 months following the most recently occurring Calculation Date is more than the aggregate of (a) the undrawn available commitment under the Capex Facilities as at such Calculation Date (b) cash credited to the bank accounts of the Borrowers or invested in Authorised Investments (excluding any Excluded Cash) as at such Calculation Date and (c) Projected Excess Cashflow Before Capex for such 12 month period.
- (B) The amount of the Issuer’s estimated recurring fees and expenses, interest and equivalent finance charges for the 12 months following the most recently occurring Calculation Date on Issuer Senior Debt and for the 6 months following the most recently occurring

Calculation Date on Issuer Junior Debt is more than the sum of the undrawn available commitment under the Liquidity Facilities of the Issuer and the balance on the Issuer Liquidity Reserve Account (if any) as at such Calculation Date.

(C) If any Borrower has outstanding Supported EIB Facilities, amounts outstanding under the Refinancing Facility Agreement or outstanding Treasury Transactions under any Borrower Hedging Agreement which hedges amounts advanced to such Borrower under an Authorised Credit Facility (other than the Refinancing Facility), the sum of the aggregate undrawn available commitment under Borrower Liquidity Facilities and the balance on the Borrower Liquidity Reserve Account is less than the sum of (i) the aggregate forecast net payments payable by the Borrowers under such Treasury Transactions; (ii) the amount of the Borrowers' estimated recurring fees and expenses, interest and equivalent finance charges under the Refinancing Facility (after taking account of the impact of all Interest Rate Hedging Agreements entered into in respect of the Refinancing Facility which continue in force) for the 12 months following the most recently occurring Calculation Date on Tranche A Loans outstanding under the Refinancing Facility Agreement and for 6 months following the most recently occurring Calculation Date on Tranche B Loans outstanding under the Refinancing Facility Agreement and (iii) the maximum potential EIB Liquidity Shortfall under the Supported EIB Facilities, in each case for the succeeding 12 month period, assuming, in respect of such Treasury Transactions:

- (1) the maximum notional quantum of Borrower hedging forecast to be in place over the next 12 months; and
- (2) in relation to any Treasury Transaction, which is an interest rate swap, under Interest Rate Hedging Agreements, a fall of 1.5 per cent. in 3 months LIBOR from the LIBOR rate as at the most recent Calculation Date and in relation to any Treasury Transaction, which is an inflation swap, under Interest Rate Hedging Agreements, an increase of 1.5 per cent. in the relevant indexation factor as at the most recent Calculation Date.

(iv) *Drawdown on Liquidity Facilities*

The Issuer draws down under an Issuer Liquidity Facility (excluding any drawing or repayment of any Standby Drawing) or withdraws sums credited to the Issuer Liquidity Reserve Account if the withdrawal of such amount results in the occurrence of a Trigger Event under paragraph (iii)(B) above or a Borrower draws down under a Borrower Liquidity Facility (excluding any drawing or repayment of any Standby Drawing) or withdraws sums credited to the Borrower Liquidity Reserve Account if the withdrawal of such amount result in the occurrence of a Trigger Event under paragraph (iii)(C).

(v) *Enforcement Order*

The issue of a compliance order or enforcement order by any Regulator under any applicable law or regulation including any order made pursuant to section 41 of the Airports Act if such order would reasonably be expected to have a Material Adverse Effect.

(vi) *Termination of Licence*

The issue of a notice by any Regulator to terminate any licence required for the carrying on of the business of any Obligor or of any proposed or actual modification to any such licence which, if implemented, would reasonably be expected to have a Material Adverse Effect.

(vii) *Loan Event of Default*

Without prejudice to the other remedies in respect thereof, the occurrence of a Loan Event of Default which is continuing.

(viii) *Inflation Linked Hedging Agreements*

As at the most recently occurring Calculation Date, the aggregate amount of all accretions by indexation to the notional amount of any inflation-linked Treasury Transactions exceeds 8 per cent. of Senior Net Indebtedness.

(ix) *Adverse Governmental Legislation*

The commencement of the final reading of draft legislation in the House of Lords or the House of Commons (whichever occurs later) of legislation relating to the business of any Obligor if such legislation could (if enacted) reasonably be expected to have a Material Adverse Effect.

***Trigger Event Consequences***

Following the occurrence of a Trigger Event and at any time until such Trigger Event has been waived by the Borrower Security Trustee or remedied in accordance with the Trigger Event Remedies (see “– *Trigger Events Remedies*” below) the following consequences (“**Trigger Event Consequences**”) will apply:

(i) *No Restricted Payments*

No Obligor may make Restricted Payments.

(ii) *Mandatory Prepayments*

(a) Subject to paragraph (b) below, following the occurrence of a Trigger Event under paragraph (i)(A) and/or (i)(B) above (the “**Debt to RAB Financial Ratios**”), the Obligors will be required to procure that within 90 days of each Reporting Date on which such a Trigger Event is continuing an amount equal to the amount that the Borrowers would have applied in making a Restricted Payment within the applicable time period if no such Trigger Event had occurred and was continuing is applied in one or more of the following ways, at the Obligors’ sole discretion:

- (1) prepayment of advances in respect of Senior Debt outstanding under the Borrower Loan Agreements (and consequential early redemption of any Class A Bonds in an amount equal to such prepayment and reduction of future scheduled principal repayments); and/or
- (2) market purchases of Class A Bonds (and consequential cancellation and surrender of any Bonds and deemed prepayment of the corresponding Borrower Loan Agreement advances and reduction of future scheduled principal repayments); and/or
- (3) the repayment of Senior Debt outstanding under the Capex Facilities, EIB Facilities, the Refinancing Facility or the Non-Migrated Bond Facility,

together with, and taking into account any termination payments payable (i) by the Borrowers to the Borrower Hedge Counterparties in respect of the related Borrower Hedging Agreements or (ii) to the Issuer by way of Ongoing Facility Fee (or pursuant to back-to-back hedging agreements) in respect of the related Issuer Hedging Agreements.

(b) If, on or following the date on which an amount equal to the aggregate initial drawn amount under the Refinancing Facility has been repaid to the Refinancing Facility Providers, a Designated Airport Disposal occurs, then the net proceeds of such disposal (after deducting any amounts to be applied in repayment of the Refinancing Facility) shall, to the extent required to be applied in prepayments, market purchases or repayments in accordance with the Common Terms Agreement, be applied by no later than the Mandatory Prepayment Date on a *pro rata* basis towards prepayment of the principal amount outstanding of the Senior Debt of all Borrower Secured Creditors (unless the relevant Borrower Secured Creditors have agreed otherwise) and, at the option of the Borrowers, towards prepayment of the principal amount outstanding of Junior Debt only to the extent required to restore compliance with the Trigger Event Ratio Levels, in each case together with and taking into account any termination amounts payable by the Borrowers (1) to the Borrower Hedge Counterparties in respect of any Treasury Transactions under any related Borrower Hedging Agreements that fall to be terminated in whole or in part as a consequence of such prepayment, or (2) to the Issuer by way of Ongoing Facility Fee (or pursuant to a back-to-back hedge agreement) in respect of any Treasury Transactions under any related Issuer Hedging Agreements that fall to be terminated in whole or in part as a consequence of such prepayment, **provided that** in the case of amounts to be applied in prepayment of advances under the Borrower Loan Agreements which are not Floating Rate Debt (“**Non-Floating Rate Advances**”) or which are Floating Rate Debt but, in respect of which, the Borrowers would be required to pay a premium to par upon prepaying such advances as a consequence of a corresponding



redemption premium applicable to any related Call Protected Floating Rate Bonds (“**Call Protected Floating Rate Advances**”), the principal amount to be prepaid in respect of such Non-Floating Rate Advances shall be equal to the Modified Redemption Amount as determined in respect of the Class or Sub-Class of Bonds corresponding to such Non-Floating Rate Advances and, in respect of such Call Protected Floating Rate Advances, shall be equal to the Par Redemption Amount corresponding to such Call Protected Floating Rate Advances, each in accordance with Condition 8(f) (*Early Redemption on Prepayment of Borrower Loan Agreements*). Notwithstanding the foregoing such prepayment shall only be made by the Borrowers in respect of a Non-Floating Rate Advance or Call Protected Floating Rate Advance in respect of which the related Class or Sub-Class of Bondholders have elected, pursuant to an Extraordinary Resolution, to have their Bonds redeemed at such Modified Redemption Amount or, as the case may be, Par Redemption Amount as a consequence of such Designated Airport Disposal. (see Condition 8(f) (*Early Redemption on Prepayment of Borrower Loan Agreements*)).

The Issuer will covenant that, in the circumstances described above, it will (a) offer the Modified Redemption Amount or, as the case may be, Par Redemption Amount to the holders of the relevant Class or Sub-Class of Call Protected Floating Rate Bonds, Fixed Rate Bonds and/or Indexed Bonds and (b) convene (or procure the convening of) a meeting of the holders of such Bonds for the purpose of voting on such offer.

The relevant Obligor shall have sole discretion as to which Senior Debt or Junior Debt to prepay out of the net proceeds of any Designated Airport Disposal which would have been applied in prepayment of Non-Floating Rate Advances but for the failure of the relevant class or sub-class of Bondholders to pass the applicable Extraordinary Resolution.

(iii) *Further Information and Remedial Plan*

- (A) The Security Group must provide such information as to the relevant Trigger Event (including its causes and effects) as may be requested by the Borrower Security Trustee.
- (B) The Security Group or such members thereof as the Borrower Security Trustee may request shall provide to the Borrower Security Trustee its written proposals for the remedy of the Trigger Event in a specified timeframe, and shall in any event, if requested by the Borrower Security Trustee, meet with both the Borrower Security Trustee and the Secured Creditor Representatives of the Borrower Secured Creditors to discuss the ramifications of the Trigger Event and its remedy.

(iv) *Preparation of Termination Plan*

If the relevant Trigger Event has been continuing for a period equal to or more than 6 months, the Borrower Security Trustee shall be entitled but not obliged to require the Security Group to provide a Termination Plan (as defined in the Shared Services Agreement) dealing with the termination arrangements to be effected were a termination of the Shared Services Agreement to occur at such time or shortly thereafter, such Termination Plan to be provided within 60 calendar days of such request in the form prescribed in the Shared Services Agreement.

(v) *Review of Service Charge*

- (A) If requested by the Borrower Security Trustee acting in accordance with a request in writing from Qualifying Borrower Secured Creditors representing 10 per cent. of the Qualifying Borrower Debt, the Security Group will assist with a review by an independent professional advisor to and appointed by the Borrower Security Trustee (at the expense of the Obligors) of the fees, costs and charges (the “**Charges**”) charged by BAA as Shared Services Provider to the Security Group in the 12 months preceding the date of the relevant Trigger Event. Subject to sub-paragraph (B) below, the Charges shall be adjusted without retroactive effect in accordance with, and promptly following, the delivery of such independent professional advisor’s findings and recommendations to the Borrower Security Trustee and BAA.
- (B) If BAA, acting in good faith, disputes any of the findings and recommendations of the independent professional advisor to the Borrower Security Trustee, then such dispute shall be resolved between BAA and the Borrower Security Trustee pursuant to the provisions of

the Shared Services Agreement and pending such resolution, paragraph (a) of the definition of Restricted Payment shall exclude any payments which would contravene the findings and recommendations of such independent professional advisor.

(vi) *Independent Review*

- (A) The Borrower Security Trustee shall be entitled but shall not be obliged to commission an Independent Review of the businesses of the Security Group once in any 12 month period to be undertaken on the timetable stipulated by the Borrower Security Trustee and the costs of which shall be met by the Security Group. The Independent Review will be conducted by technical or other appropriate expert appointed (at the cost of the Obligors) by the Borrower Security Trustee acting pursuant to a BSC Instruction Notice given in accordance with the STID.
- (B) The Independent Review will examine the causes of the relevant Trigger Event and recommend appropriate corrective measures.
- (C) Each member of the Security Group must co-operate with the person appointed to prepare the Independent Review including providing access to its books and records and personnel and facilities as may be required for those purposes.

(vii) *Consultation with Regulator*

The Borrower Security Trustee shall be entitled to be consulted with respect to, and upon the reasonable request of the Borrower Security Trustee and consent of the Regulator, to participate in, any discussions with any Regulator regarding the ramifications of the Trigger Event and its remedy.

(viii) *No Disposals to Joint Ventures*

No Obligor shall be entitled to make any disposal permitted by paragraph (k) of the definition of “**Permitted Disposal**” or enter into any agreement for such disposal unless such disposal is required to be made by the Regulators or if the applicable Trigger Event would be remedied upon the making of such disposal.

(ix) *Disposal Proceeds Account*

An amount equal to the net proceeds of any Designated Airport Disposal made after the occurrence of a Trigger Event that have not been applied in prepayments, market purchases or repayments in accordance with the Common Terms Agreement must be promptly (and in any event within 2 Business Days of receipt of such disposal proceeds) deposited into the Disposal Proceeds Account.

In respect of any of the Trigger Event Consequences described above which requires the Borrower Security Trustee to exercise its discretion, it must do so upon instructions of the Qualifying Borrower Secured Creditors in accordance with the STID and any reference to reasonableness and reasonable time will be interpreted accordingly. The Borrower Security Trustee is entitled to assume that no Trigger Event has occurred unless informed otherwise.

***Trigger Event Remedies***

At any time when an Obligor believes that a Trigger Event has been remedied by virtue of any of the following, it shall provide the Borrower Security Trustee with a certificate signed by a director of the Obligor to that effect and provide such evidence in support of such certificate as the Borrower Security Trustee may reasonably require, and in the case of Trigger Events referred to in paragraphs (v) and (vii) below, the Borrower Security Trustee must respond within 10 days (or such longer period as it may reasonably stipulate within five Business Days of receipt of such notice from an Obligor) confirming that the relevant Trigger Event has, in its reasonable opinion, been remedied or setting out its reasons for believing that such Trigger Event has not been remedied (in which case, such event shall continue to be a Trigger Event until such time as the Borrower Security Trustee is reasonably satisfied that the Trigger Event has been remedied).

The following shall constitute remedies to the Trigger Events (each, a “**Trigger Event Remedy**”):

(i) *Financial Ratios*

The breach of a Trigger Event Ratio Level shall be remedied if such ratio or ratios come within the relevant level or levels specified below in relation to the most recently occurring Calculation Date:

- (A) the Senior RAR (as per the latest Compliance Certificate) as at each Relevant Date prior to 1 April 2018, is or is estimated to be equal to or less than 0.70 and thereafter equal to or less than 0.725;
- (B) the Junior RAR (as per the latest Compliance Certificate), as at each Relevant Date is or is estimated to be equal to or less than 0.85;
- (C) the Senior ICR (as per the latest Compliance Certificate) for each Relevant Period is or is estimated to be equal to or greater than 1.40; or
- (D) the Junior ICR (as per the latest Compliance Certificate) for each Relevant Period is or is estimated to be equal to or greater than 1.20.

(ii) *Credit Rating Downgrade*

The occurrence of a Trigger Event in relation to a credit rating downgrade (see paragraph (ii) of “–Trigger Events” above) will be remedied if the credit rating of the relevant Class of Bonds given by at least two of the Rating Agencies is no longer below the Trigger Credit Rating.

(iii) *Capex Funding Trigger and Debt Service Funding Trigger*

- (A) The occurrence of a Trigger Event referred to in paragraph (iii)(A) of “– Trigger Events” above will be remedied if on any subsequent date the amounts referred to in paragraph (iii) are in aggregate equal to or greater than the Security Group’s forecast Capital Expenditure over the next 12 months.
- (B) The occurrence of a Trigger Event in relation to the amount of the Issuer’s estimated interest and equivalent finance charges under the Issuer’s Bonds based upon the Issuer’s reasonable estimate for the 12 months following the most recently occurring Calculation Date on Issuer Senior Debt and for 6 months following the most recently occurring Calculation Date on Issuer Junior Debt) will be remedied if on any subsequent date such amounts are equal to or less than the sum of undrawn available commitment under the Issuer Liquidity Facilities and the balance on the Issuer Liquidity Reserve Account (if any).
- (C) The occurrence of a Trigger Event in relation to paragraph (iii)(C) of “– Trigger Events” above will be remedied if on any subsequent date, the sum of the aggregate undrawn available commitment under Borrower Liquidity Facilities and the balance on the Borrower Liquidity Reserve Account is more than the sum of (i) the aggregate forecast net payments payable by the Borrowers under their Treasury Transactions (other than Treasury Transactions relating to the Refinancing Facility); (ii) the amount of the Borrower’s estimated recurring fees and expenses, interest and equivalent finance charges under the Refinancing Facility (after taking account of the impact of all Interest Rate Hedging Agreements entered into in respect of the Refinancing Facility which continue in force) for the 12 months following the most recently occurring Calculation Date on Tranche A Loans outstanding under the Refinancing Facility Agreement and for 6 months following the most recently occurring Calculation Date on Tranche B Loans outstanding under the Refinancing Facility Agreement and (iii) the maximum potential EIB Liquidity Facility Shortfall under the Supported EIB Facilities for the succeeding 12 month period using the assumptions set out in paragraph (iii)(C).

(iv) *Drawdown on Liquidity Facilities*

The occurrence of a Trigger Event in relation to drawdowns under the Liquidity Facility (see paragraph (iv) of “–Trigger Events” above) will be remedied if the aggregate balance drawn down (other than by way of Standby Drawings) under the Issuer Liquidity Facilities or the Borrower Liquidity Facilities, as the case may be, is restored to zero.

(v) *Enforcement Order*

The occurrence of a Trigger Event in relation to the issue of a compliance order or enforcement order (see paragraph (v) of “–*Trigger Events*” above) will be remedied if the relevant Obligor has complied with the terms of the relevant enforcement order to the reasonable satisfaction of the Borrower Security Trustee or if the enforcement order has been effectively withdrawn or, if in the opinion of the Borrower Security Trustee acting reasonably, the relevant fine or sanction will not have a Material Adverse Effect or, where such licence continues to be required, the notice is withdrawn or such licence is replaced or reinstated on such terms as would not reasonably be expected to have a Material Adverse Effect.

(vi) *Termination of Licence*

The occurrence of a Trigger Event in relation to termination of any licence required for the carrying on of the business of any Obligor (see paragraph (vi) of “–*Trigger Events*” above) will be remedied by the replacement or reinstatement of such licence or by the relevant authority or Regulator having directed either that the Security Group’s business can continue without such license or such licence is no longer required.

(vii) *Loan Event of Default*

The occurrence of a Trigger Event in relation to a Loan Event of Default (as set out in paragraph (vii) of “– *Trigger Events*” above) will be remedied if the Loan Event of Default is waived in accordance with the STID or is remedied to the reasonable satisfaction of the Borrower Security Trustee.

(viii) *Inflation-Linked Hedging Agreements*

The occurrence of a Trigger Event in relation to inflation linked Hedging Agreements (as set out in paragraph (viii) of “– *Trigger Events*” above) will be remedied if, on any subsequent date, the aggregate amount of all accretions by indexation to the original notional amounts of any inflation linked Treasury Transactions no longer exceeds 8 per cent. of Senior Net Indebtedness.

(ix) *Adverse Governmental Legislation*

The occurrence of the Trigger Event in relation to adverse governmental legislation (as set out in paragraph (ix) of “– *Trigger Events*” above) will be remedied if the draft bill fails to become an act of parliament or becomes an act in a form which is reasonably likely not to have a Material Adverse Effect.

In respect of any of the Trigger Event Remedies described above which require the Borrower Security Trustee to exercise its discretion, it must do so upon instructions of the Qualifying Borrower Secured Creditors in accordance with the STID and any reference to reasonableness or reasonable time shall be construed accordingly.

***Loan Events of Default***

The Common Terms Agreement contains a number of events of default (the “**Loan Events of Default**”) which will be Loan Events of Default under each Finance Document, subject, in some cases, to agreed exceptions, materiality qualifications, reservations of law and grace periods. Loan Events of Default include:

- (a) non-payment by an Obligor on the due date of amounts payable under the Finance Documents in the manner required under such documents unless payment is made within 3 Business Days of the due date. The “**due date**” for the purpose of any payment under a Borrower Loan Agreement shall be the date on which such payment is required to be made to the Issuer even if it is in advance of the applicable Interest Payment Date;

No Loan Event of Default will occur under paragraph (a) in respect of (i) amounts payable to a Borrower Hedge Counterparty under a Borrower Hedging Agreement, a Refinancing Facility Provider under the Refinancing Facility Agreement or the EIB Lender under the EIB Facility Agreements in circumstances where sufficient amounts were available to be claimed under any Letter of Credit issued pursuant to the Borrower Liquidity Facility Agreement or from Trust Property under the Borrower Liquidity Reserve Account Trust Deed and such Borrower Hedge Counterparty, Refinancing Facility Provider or the EIB Lender, as the case may be, has failed to instruct the Borrower Security Trustee to make a claim thereunder, or (ii) any amount which becomes due and payable under a guarantee of the amount due under the Subordinated Facility Agreement following an event of default under the Subordinated Facility Agreement.

- (b) (i) 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
- (ii) 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;

except where such breach has been remedied within 30 days of the relevant Reporting Date through the making of any prepayment of Senior Debt or the depositing of cash into the Security Group or the taking of such other action to remedy the relevant breach, as permitted by the Common Terms Agreement;

- (c) an Obligor does not comply with any term of any covenant or undertaking in any Finance Document (other than non-monetary performance obligations under a Finance Lease Document) which, except where such non-compliance is not capable of remedy, is not remedied within the applicable Remedy Period provided that a breach of the obligation to deliver Regulatory Accounts within 90 days of the end of each regulatory year may only be capable of remedy once in any Five Year Period;
- (d) a representation made or repeated by an Obligor in any Finance Document (other than any representation or statement made under a Finance Lease Document which is not a representation under Schedules 1 or 2 of the Common Terms Agreement and which is permitted pursuant to paragraph 2 of schedule 13 of the Common Terms Agreement) or in any document delivered by or on behalf of any Obligor under any Transaction Document is incorrect or misleading in any material respect when made or deemed to be repeated, unless the circumstances giving rise to the misrepresentation:
  - (i) are capable of remedy; and
  - (ii) are remedied within 30 days (60 days if the representation in question is contained in paragraph 10 (*Full Disclosure*) of schedule 1 (*General Representations*) of the Common Terms Agreement), or the earlier of the Borrower Security Trustee giving notice and an Obligor becoming aware that the representation was incorrect or misleading.
- (e) any (i) Non-ACF Financial Indebtedness not being paid when due after the expiry of any originally applicable grace period or in respect of the Non-Migrated Bonds, after the expiry of 30 days from the date on which such Non-ACF Financial Indebtedness became due for repayment or (ii) any Non-ACF Financial Indebtedness being declared due and payable prior to its specified maturity (and, in respect of the Non-Migrated Bonds only, remains due and payable after the expiry of 30 days from the date on which such Non-ACF Financial Indebtedness was declared due and payable prior to its specified maturity) or is capable of being declared by a creditor to be prematurely due and payable prior to its specified maturity following the expiry of 30 days from the date on which such Non-ACF Financial Indebtedness became capable of being declared to be prematurely due and payable, and in each case, as a result of an event of default (howsoever described) and provided that no Loan Event of Default will occur under this paragraph if the aggregate amount of Non-ACF Financial Indebtedness falling within this paragraph at the relevant time is less than 0.5 per cent. of Total RAB;
- (f) (A) an Obligor is deemed for the purposes of any law to be, unable to pay its debts as they fall due or the value of its assets is less than its liabilities, taking into account its contingent and prospective liabilities; (B) an Obligor makes a general assignment for the benefit of or a composition with its creditors; (C) a moratorium is declared in respect of any of the Obligors indebtedness; or (D) any Obligor is declared insolvent by any court;
- (g) (i) a petition is presented, or a meeting is convened for the purpose of considering a resolution relating to the winding up of an Obligor or other steps are taken for making an administration order in respect of or for the winding up of an Obligor or for the appointment of an Insolvency Official or similar official in respect of an Obligor or any or all of an Obligor's assets; and (ii) an administration order or a winding up order to be made in respect of an Obligor. Notwithstanding anything in (i) or (ii) above, no Loan Event of Default shall arise in respect of any proceedings referred to in (i) and/or (ii) above, which are taken for the purpose of a solvent

reorganisation or merger (which has received the prior written approval of the Borrower Security Trustee) or in respect of any proceedings which are frivolous or vexatious or which are discharged within 30 days of being commenced.

- (h) the termination of any material licence or authorisation which is required for the carrying on of a material part of the Permitted Business of any Obligor in circumstances where a replacement licence or authorisation is required for the carrying on of such material part of the Permitted Business of an Obligor and (i) such licence or authorisation is not replaced or (ii) where any replacement licence or authorisation obtained would reasonably be expected to have a Material Adverse Effect.
- (i) (a) it becoming unlawful for any Obligor to perform its obligations under any Transaction Document where such illegality would have a Materially Adverse Effect; (b) other than stamp duty indemnities rendered void under Section 117 of the Stamp Act 1891, any Transaction Document or any material obligation purported to be contained in a Transaction Document is not effective or is alleged by an Obligor to be ineffective, invalid or unenforceable against any Obligor for any reason; (c) any Obligor repudiating a Relevant Document or any obligation purported to be contained in such Relevant Document or evidences an intention to repudiate a Relevant Document or any obligation purported to be contained in such Relevant Document;
- (j) any of the Borrower Security created by a Security Document ceasing to be in full force and effect;
- (k) any Governmental Agency:
  - (i) seizes, expropriates, nationalises or compulsorily acquires (whether or not for fair compensation) any material asset of an Obligor; or
  - (ii) takes any step that is reasonably likely to result in the management of an Obligor being wholly or partially displaced or the authority of an Obligor to conduct its business is wholly or partially curtailed,

in any case where such event would be reasonably likely to have a Material Adverse Effect, provided that such event will not be determined to have a Material Adverse Effect to the extent that a Ratings Confirmation regarding the Bonds then outstanding is provided in connection with such event and provided further that this paragraph shall not apply to any displacement of management occurring at the direction of, or pursuant to undertakings given to, any Regulator. Notwithstanding the foregoing, nothing in this paragraph shall be construed so as to impose an obligation on an Obligor to seek a Ratings Confirmation.

in this paragraph, “**Governmental Agency**” includes, in relation to a state or supranational organisation, any agency, authority, central bank, department, government, legislature, ministry, official or public person (whether autonomous or not) of, or of the government of, that state or supranational organisation.

- (l) any Obligor failing to comply with, or pay any sum due from it under a judgment of any court of competent jurisdiction (except where such judgement is being appealed in good faith to a higher court);
- (m) subject as provided in “*Effect of Change in Law on Loan Events of Default*” as set out below any change in law which would reasonably be expected to have a Material Adverse Effect;
- (n) any execution proceedings are enforced in relation to any assets of any Obligor where such enforcement would reasonably be expected to have a Material Adverse Effect;
- (o) a Borrower ceases to carry on its business or any substantial part of its business carried on as at the Initial Issue Date or which is contemplated by the Transaction Documents, other than as permitted pursuant to the Transaction Documents;
- (p) the commencement of litigation against an Obligor or its assets or revenues which would be reasonably likely to be adversely determined and, if so adversely determined, would reasonably be expected to have a Material Adverse Effect; or
- (q) 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 (see “–*Security Trust and Intercreditor Deed*” above).

Any events of default in an Authorised Credit Facility (howsoever worded), in respect of any Obligor which are in addition to those set out above or any mandatory prepayment events in an Authorised Credit Facility which arise on the occurrence of any events of default (howsoever worded) will be unenforceable by any person, unless such prepayment would be a payment permitted by the STID or under the Common Terms Agreement. This does not apply to termination events upon total loss prepayment provisions of any Finance Lease, Permitted Hedge Terminations or any LF Events of Default pursuant to the Borrower Liquidity Facility Agreement.

***Effect of Change in Law on Loan Events of Default***

If:

- (a) there occurs a proposed or actual change in law, regulation or other governmental or Regulator direction, licence or authorisation which has the force of law or with which any Obligor is required to adhere; and
- (b) the effect of such proposed or actual change would be to (i) restrict the ability of the Borrowers to grant or to allow to subsist fixed or floating charge security over all or any of the material assets of the Designated Airports or (ii) restrict the ability of (A) the Borrower Security Trustee to appoint a Receiver under the Security Agreement to any of the Borrowers or (B) the Issuer or the Bond Trustee to appoint an Administrative Receiver under the Obligor Floating Charge Agreement to any of the Borrowers or (iii) without prejudice to the foregoing, establish a special insolvency regime for all or any of the Borrowers; and
- (c) such proposed or actual change directly results in the occurrence of any Trigger Event, any Restricted Loan Event of Default or Restricted Potential Loan Event of Default,  
  
(any proposed or actual change which satisfies the conditions in paragraphs (a)-(c) being an “**Accepted Restructuring Event**”),

then, the Accepted Restructuring Event will only give rise to a Trigger Event occurring regardless of whether it would otherwise give rise to the occurrence of a Restricted Loan Event of Default or Restricted Potential Loan Event of Default and accordingly:

- (i) subject to the paragraph (iii) below, no Loan Event of Default or Potential Loan Event of Default shall occur hereunder as a result thereof;
- (ii) the Trigger Event directly caused by the Accepted Restructuring Event will continue thereafter until such time as the Trigger Event is remedied pursuant to the Trigger Event Remedies as described above;
- (iii) if on or after the date falling on the later of (1) 12 months after the date of the occurrence of the Trigger Event or (2) 9 months after the date on which a Restricted Loan Event of Default would (but for this provision) have first occurred, the Trigger Event has not been remedied pursuant to the Trigger Event Remedies and the Accepted Restructuring Event would but for this provision constitute a Potential Loan Event of Default or a Loan Event of Default which is continuing, then the Accepted Restructuring Event shall with effect from such date constitute a Potential Loan Event of Default or, as the case may be, a Loan Event of Default.

If a Loan Event of Default or Potential Loan Event of Default occurs, any Obligor becoming aware thereof will notify the Borrower Security Trustee thereof and of any steps being taken to remedy the same. Remedy periods in respect of any breach will commence on the earlier of the date on which an Obligor first becomes aware of the relevant Loan Event of Default and the date on which the Borrower Security Trustee notifies the Obligors thereof.

Upon becoming aware of any Loan Event of Default, the Borrower Security Trustee will be entitled, while it is still continuing, subject to the provisions of the STID by notice to the Obligor (a “**Loan Enforcement Notice**”) to enforce any guarantee or security for the Borrowers’ obligations to the Issuer and the other Borrower Secured Creditors or the Obligors’ obligations under the security documents and following delivery of a Loan Acceleration Notice, to accelerate the advances outstanding under the Borrower Loan Agreement and each other Authorised Credit Facility.

## **Borrower Cash Management**

### *Accounts*

In accordance with the Common Terms Agreement, the Borrowers and HEX Opco will each open and maintain an operating account with the Borrower Account Bank (each, an “**Operating Account**”).

The Borrowers will also open and maintain a joint disposal proceeds account (the “**Disposal Proceeds Account**”) with the Borrower Account Bank and a joint debt collateralisation account (the “**Debt Collateralisation Account**”). HAL will also open and maintain an insurance proceeds account (the “**Insurance Proceeds Account**”) on behalf of the Borrowers.

HAL may also open and maintain a Borrower Hedge Collateral Account with the Borrower Account Bank in respect of each Credit Support Annex entered into by a Borrower with a Borrower Hedge Counterparty.

The Borrowers will open and maintain with the Borrower Account Bank a liquidity reserve account (the “**Borrower Liquidity Reserve Account**”). See “*Borrower Liquidity Facility Agreements*” below.

Each of the above accounts are collectively referred to as an “**Obligor Account**”. Each of the Obligor Accounts is held with the Borrower Account Bank pursuant to the Borrower Account Bank Agreement. The fees of the Borrower Account Bank under the Borrower Account Bank Agreement will be paid from the Operating Accounts by each Obligor. Each Obligor will agree in the Common Terms Agreement to comply with the Borrower Account Bank Agreement and the provisions of the Common Terms Agreement applying to its Obligor Accounts.

HEX Opco will maintain 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 HEX Opco with the Borrower Account Bank (the “**HEX Opco Operating Account**”).

### *BAA Account and BSC Account*

Pursuant to the terms of the Shared Services Agreement, the Shared Services Sub-Contractor will operate the sterling and currency accounts in the name of BAA held at Barclays Bank PLC (the “**BSC Accounts**”). The Shared Services Provider will operate the main operating account of BAA (the “**BAA Account**”). Pursuant to the Shared Services Agreement, the Shared Services Provider will undertake to make regular transfers of the amounts identified as allocable to the Security Group from the BAA Account and BSC Accounts to the Operating Account of each Borrower and from each Borrower from each Operating Account to the BAA Account. BAA and BSC will each declare a trust over sums credited to the BAA Account and the BSC Accounts respectively, in favour of, *inter alios*, the members of the Security Group pending allocation and transfer of the sums standing to the credit of such accounts.

### *Operating Accounts*

Each Borrower will pay, *inter alia*, the proceeds of any Borrower Loan or advance under an Authorised Credit Facility and income received from the BSC Account or BAA 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 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 must 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.

The Borrower Cash Manager (on behalf of the Borrowers) shall establish and maintain sub-ledgers (“**DCA Ledger**”) in respect of amounts standing to the credit of the Debt Collateralisation Account from time to time and if the Borrowers Collateralise any individual loan, tranche or other Outstanding Principal Amount of Senior Debt or Junior Debt, the Borrower Cash Manager shall:

- (i) establish and maintain a DCA Ledger for such loan, tranche or other Outstanding Principal Amount of Senior Debt or Junior Debt;



- (ii) credit to such DCA Ledger all amounts deposited into the Debt Collateralisation Account from time to time to Collateralise such loan, tranche or other Outstanding Principal Amount of Senior Debt or Junior Debt; and
- (iii) debit from such DCA Ledger all amounts which are withdrawn from the Debt Collateralisation Account from time to time to Actually Prepay such loan, tranche or other Outstanding Principal Amount of Senior Debt or Junior Debt or which are applied in meeting any shortfall in funds credited to the DCA Ledger of a Borrower Hedge Counterparty which are required to Actually Prepay any termination amounts or other unscheduled amounts due to a Borrower Hedge Counterparty under an Interest Rate Hedging Agreement as a consequence of the Actual Prepayment of the applicable loan or tranche of Senior Debt or Junior Debt (such shortfall, a “**Collateralised Hedging Shortfall**”).

No withdrawal of any amount credited to the Debt Collateralisation Account may be made except for the purpose of Actually Prepaying the Senior Debt or Junior Debt that has been Collateralised provided that if, as a consequence of such Actual Prepayment, a Collateralised Hedging Shortfall would arise, then the amount to be applied in Actual Prepayment of the applicable loan or tranche of such Senior Debt or Junior Debt will be reduced by such amount as shall ensure that following Actual Prepayment of such Senior Debt or Junior Debt no Collateralised Hedging Shortfall will exist and the amount of the applicable loan or tranche of such reduction shall be debited from the DCA Ledger of the applicable Borrower Secured Creditor whose loan or tranche was to be Actually Prepaid and shall be credited to the DCA Ledger of the Borrower Hedge Counterparty in respect of whom the Collateralised Hedging Shortfall would have arisen. If there is more than one loan or tranche which upon Actual Prepayment would give rise to the Collateralised Hedging Shortfall, the amount to be debited to each related DCA Ledger for the purpose of discharging the relevant Collateralised Hedging Shortfall shall be the proportion of which the amount credited to such related DCA Ledger bears to the aggregate amount credited to all related DCA Ledgers of the relevant loans or tranches to be Actually Prepaid.

#### ***Authorised Investments***

The Common Terms Agreement allows the Security 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.

#### ***Borrower Account Bank Agreement***

Pursuant to the Borrower Account Bank Agreement, the Borrower Account Bank has agreed to hold the Obligor Accounts and operate them in accordance with the instructions of the Borrower Cash Manager. The Borrower Cash Manager will manage the Obligor Accounts on behalf of the Security Group pursuant to the Common Terms Agreement (see “*Borrower Cash Management*” above).

#### **Additional Resources Available**

##### ***Initial Credit Facilities Agreement***

The Obligors and BAA will enter into the Initial Credit Facilities Agreement on or about the Initial Issue Date. Under this facility agreement, a revolving credit facility will be made available by the Initial Credit Facility Providers to the Borrowers which will comprise:

- (a) a revolving £50,000,000 tranche to fund the working capital requirements of the Borrowers from the Initial Issue Date until the date one month prior to the final maturity date being the Business Day before the fifth anniversary of the Initial Issue Date (the “**Final Maturity Date**”) (the “**Working Capital Facility**”). Security Parent and Asset Holdco may also borrow under the Working Capital Facility from the Initial Issue Date until one month prior to the Final Maturity Date for the purposes of servicing payments of interest accruing on any loan made to the Security Parent or Asset Holdco by any other Obligor; and
- (b) a revolving £2,700,000,000 tranche to meet the capital expenditure requirements of the Security Group (which will cover anticipated capital expenditure for approximately two years) from the Initial Issue Date until the date one month prior to the Final Maturity Date and to fund Capital Expenditure requirements of the Security Group and/or refinancing such amounts to the extent they were initially funded from other sources and towards amounts payable at maturity in respect of the publicly issued capital markets debt instruments issued by BAA (the “**Existing Bonds**”) which will be novated to the Issuer on the Initial Issue Date (the “**Capex Facility**”). As

at the Initial Issue Date, the Capex Facility will include an A tranche of £2,300,000,000 which will be designated as Senior Debt and a B tranche of £400,000,000 which will be designated as Junior Debt.

The Obligors will make representations and warranties, covenants and undertakings to the Initial Credit Facility Providers on the terms set out in the Common Terms Agreement.

The Loan Events of Default under the Common Terms Agreement will apply under the Initial Credit Facilities Agreement (see the section “*Common Terms Agreement*” above).

The ability of the Initial Credit Facility Providers to accelerate any sums owing to them under the Initial Credit Facilities Agreement upon or following the occurrence of a Loan Event of Default thereunder is subject to the STID. The occurrence of a Loan Event of Default is not a draw-stop under the Capex Facilities or Working Capital Facilities for rollover advances and any drawings which are outstanding at the time of the occurrence of a Loan Event of Default will remain outstanding until the earlier of (a) repayment in full of such amounts, (b) the delivery of a Loan Acceleration Notice, (c) the Final Maturity Date for the relevant facility or (d) the relevant Loan Event of Default is remedied or waived by the Borrower Security Trustee acting on the instructions of the relevant Borrower Secured Creditors. However, no further drawings may be made under the Initial Credit Facilities Agreement following the occurrence of a Loan Event of Default which is continuing.

#### *Refinancing Facility Agreement*

The Obligors will enter into the Refinancing Facility Agreement on or about the Initial Issue Date. Under this facility agreement, term loans with maturities between two and five years will be made available by the Refinancing Facility Providers to the Borrowers. The maximum commitment available on the Initial Issue Date will be £4,400,000,000 (comprising a Tranche A Loan in a maximum amount of £3,400,000,000 and a Tranche B Loan in a maximum amount of £1,000,000,000) although this may be reduced by the quantum of Bonds (excluding Bonds exchanged for existing BAA bonds) issued on the Initial Issue Date. However, the Obligors intend to refinance the majority of these loans by way of bond issues in the capital markets substantially in advance of their specified maturities.

The Refinancing Facility will be used to refinance financial indebtedness which is outstanding under the Senior Facility Agreement and the Subordinated Facility Agreement, repaying any amounts due to ineligible holders of Existing Bonds and the costs associated with the transaction contemplated under the Transaction Documents, including any Existing Bond migrating costs, and may be utilised by way of drawing pound sterling loans in two tranches (“**Tranche A Loans**” and “**Tranche B Loans**”). Tranche A Loans will constitute Senior Debt and Tranche B Loans will constitute Junior Debt.

The margin on the Tranche A Loans will depend on the aggregate amount of Tranche A Loans outstanding from time to time under the Refinancing Facility Agreement, as follows:

<b>Tranche A Loans outstanding</b>	<b>Tranche A Loan margin</b>
£0 – £1,200,000,000	1.00 per cent. per annum
£1,200,000,000 – £2,200,000,000	1.25 per cent. per annum
£2,200,000,000 – £3,200,000,000	1.50 per cent. per annum
£3,200,000,000 – £3,400,000,000	1.75 per cent. per annum

The margin on the Tranche B Loans will depend on the aggregate amount of Tranche B Loans outstanding from time to time under the Refinancing Facility Agreement, as follows:

<b>Tranche B Loans outstanding</b>	<b>Tranche B Loan margin</b>
£0 – £330,000,000	1.50 per cent. per annum
£330,000,000 – £660,000,000	2.00 per cent. per annum
£660,000,000 – £1,000,000,000	2.25 per cent. per annum

Each Obligor represents and warrants to the Finance Parties on the terms of the warranties contained in the Common Terms Agreement.

The Refinancing Facility is subject to two additional covenants to those set out in the Common Terms Agreement, namely: (1) no Obligor may make any Restricted Payments (except, subject to compliance with the Restricted Payment Condition, payments under or in respect of the Subordinated

Facility Agreement) unless the principal amount outstanding under the Refinancing Facility Agreement is less than £1,300,000,000 and (2) for so long as the Refinancing Facilities are outstanding, the definition of Additional Indebtedness Test shall be altered to provide that for the purposes of paragraph (a)(ii) of the definition of “Permitted Financial Indebtedness” for so long as any amounts remain outstanding under the Refinancing Facility Agreement or any commitment thereunder is in force, the Additional Indebtedness Tests are:

- (a) to incur additional Senior Debt, the Senior RAR as at the date such Financial Indebtedness is to be incurred, by reference to the most recently delivered financial statements of the Security Group pursuant to paragraph 1(a) or (b) (Financial Statements) of part 1 (Information Covenants) of schedule 2 (Covenants) of the CTA or, if more recent, the latest management accounts of the Security Group, taking into account the proposed additional Financial Indebtedness, must be less than 0.725.
- (b) to incur additional Junior Debt, the Junior RAR as at the date such Financial Indebtedness is to be incurred, by reference to the most recently delivered financial statements of the Security Group pursuant to paragraph 1(a) or (b) (Financial Statements) of part 1 (Information Covenants) of schedule 2 (Covenants) of the CTA or, if more recent, the latest management accounts of the Security Group, taking account of the proposed additional Financial Indebtedness, must be less than 0.85.

For so long as the Refinancing Facility is outstanding, the Additional Indebtedness Tests set out above shall apply in respect of all Permitted Financial Indebtedness of the Security Group.

The Loan Events of Default under the Common Terms Agreement will apply under the Refinancing Facility Agreement (see the section “*Common Terms Agreement*” above).

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.

#### *Non-Migrated Bond Facility Agreement*

The Obligors and BAA will enter into the Non-Migrated Bond Facility Agreement on or about the Initial Issue Date, to the extent it is anticipated that there will be any Non-Migrated Bonds in issue on such date. Under this facility agreement, a sterling term loan facility will be made available by the Non-Migrated Facility Providers to the Borrowers to meet the obligations of the Borrowers as Guarantors under the Non-Migrated Bonds in respect of principal amounts due to the Non-Migrated Bondholders (together with, in respect of any redemption, interest which has accrued from the last payment date and any applicable default interest in respect of the relevant Non-Migrated Bonds) from the Initial Issue Date until the date one month after the maturity date of the respective Non-Migrated Bonds for so long as no Loan Event of Default (other than a Non-Migrated Bond Excluded Default) is outstanding (the “**Non-Migrated Bond Facility**”).

The Obligors will make representations and warranties, covenants and undertakings to the Non-Migrated Bond Facility Providers on the terms set out in the Common Terms Agreement.

The Loan Events of Default under the Common Terms Agreement will apply under the Non-Migrated Bond Facility Agreement (see the section “*Common Terms Agreement*” above).

The ability of the Non-Migrated Bond Facility Providers to accelerate any sums owing to it under the Non-Migrated Bond Facility Agreement upon or following the occurrence of a Loan Event of Default thereunder is subject to the STID.

#### *EIB Facilities*

BAA entered into several finance contracts with EIB for the provision of credit in connection with a number of modernisation and infrastructure projects for the benefit of the Designated Airports. In instances where a finance contract has been entered into with a single project or purpose in mind or a single beneficiary Designated Airport, the provision of credit to BAA as borrower is conditional upon all funds being applied to the development of the airport assets owned by the relevant Airport Operators.

BAA has entered into an agreement to novate its rights and obligations under the EIB facilities to HAL on or about the Initial Issue Date, subject to certain conditions being satisfied on or prior to the Initial Issue Date. Under the EIB Facility Agreement, term loans in an initial amount of

approximately £435,000,000 with maturities of up to 11 years will be novated to HAL. HAL shall be bound by the terms of the EIB Facility Agreements in every way as if it had at all times been a party to the EIB Facility Agreements in place of BAA. The EIB Facility Agreements contain mandatory prepayment provisions (at the election of EIB) in respect of, among others, (i) any voluntary disposal of any assets owned by HAL or release of any Security Interest over assets owned by HAL by any member of the Security Group where the assets forming the subject of any such voluntary disposal or release have a combined value equal to 40 per cent. of HAL's then current RAB and (ii) the immediate holding company of HAL disposing of 51 per cent. or more of the shares in HAL, in each case without EIB's approval. Once novated the EIB Facilities will continue to be made available to the Borrowers to finance ongoing modernisation and infrastructure projects at the Designated Airports as specified in the terms and conditions of each EIB Facility Agreement, subject to any amendments agreed pursuant to the novation agreement.

Following novation each EIB Facility Agreement shall become subject to the terms of the Common Terms Agreement and in the event of any inconsistency between a provision of an EIB Facility Agreement and the Common Terms Agreement, the Common Terms Agreement shall prevail. Subject to certain limited exceptions, all representations, warranties, covenants, undertakings and events of default as set out in the EIB Facility Agreements shall be disappplied and shall be unenforceable by any person for so long as the Common Terms Agreement continues in force.

The ability of EIB to accelerate any sums owing to them under the EIB Facility Agreements upon or following the occurrence of a Loan Event of Default thereunder is subject to the STID. Notwithstanding the terms of the STID, HAL will be required to comply with certain project and monitoring covenants set out in the EIB Facility Agreement, provided that non-compliance shall not constitute a Loan Event of Default for the purposes of the Common Terms Agreement and EIB will waive its right, as a remedy for such non-compliance, to demand repayment of any loan.

#### **Finance Leases**

Following the Initial Issue Date, each Borrower and HEX Opco may enter into Finance Leases in accordance with the terms of the Common Terms Agreement. Any Finance Lessor becoming a party to or acceding to the Common Terms Agreement and the STID will agree that its Finance Lease will be supplemented by the incorporation of the terms of the Common Terms Agreement. Each Finance Lease will specify whether it is to be designated as Senior Debt or Junior Debt.

#### *Termination Provisions under Finance Leases*

None of the Borrowers, HEX Opco or the relevant Finance Lessor will be permitted to terminate the leasing of any Equipment or to prepay any of the rentals in respect of the leasing of any Equipment or to exercise any of its respective rights or remedies (including, without limitation, any demand for payment of termination sums or rentals) unless such termination or prepayment either (a) constitutes a Permitted Lease Termination or (b) occurs automatically following the delivery of a Loan Acceleration Notice under the STID or (c) subject to the terms of the Common Terms Agreement and the STID, arises upon the occurrence of a Loan Event of Default relating to the relevant Finance Lease.

#### **Borrower Liquidity Facility Agreements**

##### *The Borrower Liquidity Facilities and Letters of Credit*

The Borrower Liquidity Facility to be provided by the Initial Borrower Liquidity Facility Provider will be the only Borrower Liquidity Facility in place as at the Initial Issue Date. The total combined commitment of the Borrower Liquidity Facility Provider and the Issuer Liquidity Facility Provider under the Borrower Liquidity Facility Agreement and the Issuer Liquidity Facility Agreement respectively as at the Initial Issue Date will be £600,000,000.

Under the terms of the Initial Borrower Liquidity Facility Agreement, the Initial Borrower Liquidity Facility Provider will (a) make available to the Borrowers a committed sterling revolving credit facility in an aggregate amount specified in the Borrower Liquidity Facility Agreement and (b) unless and until the LC Release Conditions have been satisfied, make available a sterling letter of credit facility in place of its commitment under the revolving credit facility. The Borrower Liquidity Facility Providers will be released from their obligation to provide the letter of credit facility upon receipt of written confirmation from each of the Rating Agencies to the Borrowers that the termination of each Borrower Liquidity Facility Provider's commitment under the letter of credit facility and its

replacement with such revolving 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 will provide a 364 day commitment (which may be renewed) to permit drawings to be made by the Borrowers or payments to be made to or to the order of the Borrower Security Trustee as the “**Beneficiary**” under a letter of credit (each, a “**Letter of Credit**”), in circumstances where there will be insufficient funds available (1) on a Hedge Payment Date to pay amounts scheduled to be paid under outstanding Treasury Transactions under any Borrower Hedging Agreement; (2) on an EIB Payment Date to fund any EIB Liquidity Shortfalls under Supported EIB Liquidity Facilities to the extent permitted under the Common Terms Agreement; and (3) on a Refinancing Facility Payment Date to fund interest shortfalls under the Refinancing Facility Agreement (a “**Borrower Liquidity Shortfall**”). The Beneficiary will act on behalf of the parties which are the subject of such Borrower Liquidity Shortfall and in accordance with their instructions. See “–*Common Terms Agreement—Trigger Events (iii)(c)*” for a description of the required commitment under the Borrower Liquidity Facility.

Each Borrower Liquidity Facility Provider must be a bank which has the Minimum Short-Term Rating (the “**Liquidity Facility Requisite Rating**”).

Each Borrower Liquidity Facility Provider may be replaced at any time provided that such Borrower Liquidity Facility Provider is replaced by a bank with the Liquidity Facility Requisite Rating and all amounts outstanding to such Borrower Liquidity Facility Provider are repaid in full.

Each Borrower Liquidity Facility Agreement will provide that amounts repaid by the Borrowers may be redrawn under the Borrower Liquidity Facility Agreement.

Each Borrower Liquidity Facility Agreement contains certain conditions precedent to drawdown, including a requirement that no LF Event of Default has occurred and is continuing, or would occur as a result of the proposed drawing that a notice has been delivered at least two Business Days prior to the date for the making of such drawing and a Borrower Liquidity Shortfall has occurred and is continuing.

Each of the following events constitutes an “**LF Event of Default**” for the purposes of each Borrower Liquidity Facility Agreement:

- (a) a Borrower fails to pay any sum due from it under the Borrower Liquidity Facility Agreement or any fee letter between the Borrowers and a Borrower Liquidity Facility Provider unless Payment is made within three Business Days;
- (b) a Liquidity Insolvency Event occurs in respect of any Borrower;
- (c) the Borrower Security Trustee delivers a Loan Acceleration Notice or is instructed to deliver a Loan Acceleration Notice (and has been indemnified in accordance with the STID) but fails to do so within 30 days of becoming bound to do so;
- (d) at any time it is or becomes unlawful for a Borrower to perform or comply with any or all of its obligations under the Borrower Liquidity Facility Agreement or any of the obligations of the Borrowers under the Borrower Liquidity Facility Agreement are not or cease to be legal, valid, binding and enforceable;
- (e) a Borrower breaches a representation under the Borrower Liquidity Facility Agreement which is not remedied within 10 Business Days (or such other longer period as otherwise agreed with the Borrower Security Trustee) and is likely to materially and adversely affect the ability or obligation of the Borrowers to make payments to the Borrower Liquidity Facility Providers under the Borrower Liquidity Facility Agreement;
- (f) the Borrowers breach (a) the covenant restricting the aggregate of the total commitments under the Borrower Liquidity Facility Agreement and the Issuer Liquidity Facility Agreement from exceeding £900,000,000 or (b) the covenant not to incur further Senior Net Indebtedness after the applicable Fifth Anniversary (other than certain indexation, in either case without the prior written consent of the Borrower Liquidity Facility Providers and such breach is not remedied within ten Business Days;
- (g) at any time following the repayment of the Refinancing Facility in full, a LF Event of Default under the Issuer Liquidity Facility Agreement occurs.

Each Borrower Liquidity Facility Agreement shall contain provisions permitting drawings thereunder notwithstanding:

- (a) the occurrence of a Loan Event of Default (other than an LF Event of Default);
- (b) the delivery of a Loan Enforcement Notice by the Borrower Security Trustee pursuant to the STID;
- (c) that any representation under any Finance Document is not then true (other than as set out in (e) above).

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

- (a) use all reasonable endeavours to replace the relevant Borrower 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 Borrower Liquidity Facility Agreement) be entitled to require such Borrower Liquidity Facility Provider to pay into the Liquidity Standby Account (in the case of a Borrower Liquidity Facility) or prior to satisfaction of the LC Release Conditions, into the Borrower Liquidity Reserve Account, the full amount of the relevant Borrower Liquidity Facility Provider's undrawn commitment (a "**Standby Drawing**").

A Standby Drawing will generally be repayable only if the relevant Borrower 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 Borrower Liquidity Facility or (ii) the absence of any such facility, in each case, as applicable, will not lead to a ratings downgrade of the Bonds from the relevant Rating Agencies.

Following the making of a Standby Drawing of the available commitment of a Borrower Liquidity Facility Provider where such Borrower Liquidity Facility Provider has not agreed to renew its commitment and not been replaced by a replacement provider, the available commitment of such Borrower Liquidity Facility Provider will only be available to fund Borrower Liquidity Shortfalls in respect of amounts due in respect of the Borrower Hedging Agreements, the Supported EIB Facilities and the Refinancing Facility in place as at the relevant Fifth Anniversary. At any time after the Fifth Anniversary, the Borrower 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.

If a Borrower Liquidity Facility Provider does not agree to increase its commitment pursuant to a request to increase such commitment, the Borrower may procure the provision of additional commitments from any financial institution which meets certain requirements set out in the Borrower Liquidity Facility Agreement by inviting such financial institution to accede to the Borrower Liquidity Facility Agreement provided that the Borrowers may not procure the provision of additional commitments without the prior written consent of any Borrower Liquidity Facility Provider which has not agreed to increase its commitment if the accession of the relevant financial institution would cause the aggregate total commitments of all Borrower Liquidity Facility Providers under the Borrower Liquidity Facility Agreement and all Issuer Liquidity Facility Providers under the Issuer Liquidity Facility Agreement to exceed the agreed cap amount which shall be £900,000,000 on the Initial Issue Date. The liquidity facility amount shall reduce in proportion to any reduction in the aggregate amount outstanding under any Supported EIB Facility, any outstanding Treasury Transactions under any Borrower Hedging Agreement or the aggregate amount outstanding under the Refinancing Facility Agreement. Each Borrower Liquidity Facility Provider's commitment shall reduce proportionally in line with any reduction in the Total RAB which occurs as a result of any sale or disposal of the assets of GAL or STAL in accordance with the terms of the Borrower Liquidity Facility Agreement.

The Borrower Liquidity Facility Provider will have the right to require prepayment of any outstanding amount of its commitment, together with interest and any other amounts due, if the Senior RAR and/or the Junior RAR Trigger Event Ratio Levels are increased to above (prior to 1 April 2018) 0.70 (or 0.725 thereafter) and/or 0.85, respectively, or where HAL or any holding company of HAL sells or disposes of all or substantially all of Heathrow to an entity outside the Security Group in either case, without the consent of the Initial Borrower Liquidity Facility Provider.

Interest will accrue on any drawing made under a Borrower Liquidity Facility or payment made by a Borrower Liquidity Facility Provider under a Letter of Credit provided by a Borrower Liquidity Facility Provider at a reference rate per annum plus a margin. Under the Borrower Liquidity Facility Agreements, the relevant Borrower, in certain circumstances, will be required to pay additional amounts if: (i) a withholding or deduction for or on account of tax is imposed on payments made by it to the relevant Borrower Liquidity Facility Provider; or (ii) if the relevant Borrower Liquidity Facility Provider suffers an increase in the cost of providing the relevant Liquidity Facility. Drawings under any further Borrower Liquidity Facilities will accrue interest subject to the specific terms of the relevant Borrower Liquidity Facility Agreement. The Borrowers shall pay to the facility agent (for the account of each Borrower Liquidity Facility Provider) a Letter of Credit fee in Sterling computed at the rate equal to the margin on the issued and undrawn amount of each Letter of Credit issued pursuant to the Borrower Liquidity Facility Agreement for the period from the issue of that Letter of Credit until its expiry or earlier termination of the Borrower Liquidity Facility Agreement. The Borrowers will also pay certain agency, arrangement and renewal fees as well as a commitment fee which will accrue on any undrawn portion of the commitments under the Borrower Liquidity Facilities.

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.

#### ***Borrower Liquidity Reserve Account Trust Deed***

The Borrowers will assign their rights over the Borrower Liquidity Reserve Account and the monies from time to time deposited in the Borrower Liquidity Reserve Account to The Royal Bank of Scotland plc in its capacity as the “**Borrower Liquidity Reserve Account Trustee**”. The Borrower Liquidity Reserve Account Trustee will declare a trust over the Borrower Liquidity Reserve Account and the deposits credited to such account (the “**Trust Property**”) in favour of Deutsche Trustee Company Limited as “**Beneficiary**” on the Initial Issue Date pursuant to the terms of the borrower liquidity reserve account trust deed dated on or about the Initial Issue Date (the “**Borrower Liquidity Reserve Account Trust Deed**”).

The Beneficiary will hold the Trust Property on trust in its capacity as Borrower Security Trustee as trustee (under and in accordance with the STID) for (a) the EIB (in respect of EIB Liquidity Shortfalls), (b) the Refinancing Facility Agent for and on behalf of the Refinancing Facility Providers (in respect of Refinancing Liquidity Shortfalls), (c) the Borrower Hedge Counterparties (in respect of Hedging Liquidity Shortfalls arising in respect of outstanding Treasury Transactions under Borrower Hedging Agreements) and (d) the Borrower Liquidity Facility Providers only in respect of amounts drawn down under the Borrower Liquidity Facility and credited to the Borrower Liquidity Reserve Account. The Borrowers will have a reversionary interest in the Trust Property once the purpose of the trust has been satisfied in full, the trust has failed or in respect of any amounts that have ceased, pursuant to the terms of the Borrower Liquidity Reserve Account Trust Deed, to be Trust Property.

The Beneficiary will be entitled to be paid out of the Trust Property upon delivery to the Borrower Liquidity Reserve Account Trustee of a certificate meeting certain requirements, as set out under the Borrower Liquidity Reserve Account Trust Deed which certificate the Beneficiary will deliver only on the basis of the information provided to it by the Borrowers or the Borrower Cash Manager on their behalf or otherwise as instructed by the Refinancing Facility Agent, EIB or the relevant Hedge Counterparties as applicable. The Borrower Liquidity Reserve Account Trustee will be authorised to withdraw sums credited to the Borrower Liquidity Reserve Account and to pay such sums to the Borrowers upon delivery of a certificate to the Borrower Liquidity Reserve Account Trustee requesting a withdrawal and certifying that, following such withdrawal, the Borrowers will continue to

be in compliance with the liquidity cover requirement under the Common Terms Agreement. Amounts so withdrawn will cease to be Trust Property.

Each of EIB, the Refinancing Facility Providers and the Borrower Hedge Counterparties will be required through the Borrower Security Trustee to claim under the above trust arrangements to satisfy any shortfall in priority to making a claim under any other source of income that may have been made available to meet liquidity shortfalls (including the Borrower Liquidity Facility Agreement).

### **Hedging Policy**

The Hedging Policy provides that the Issuer and the Borrowers are the only members of the Group who may enter into Hedging Agreements.

The Hedging Policy will provide, *inter alia*, that:

- (a) No member of the Group will enter into Treasury Transactions for the purpose of speculation, but rather only to manage risk inherent in its business or funding on a prudent basis. For the avoidance of doubt, the Hedge Counterparties to Treasury Transactions under any Hedging Agreement will be required to be party to the STID and, in the case of such Treasury Transactions with the Issuer, the Issuer Deed of Charge, at or prior to the date of entry into such Treasury Transactions.
- (b) Any change to the Hedging Policy will be subject to board approval of each Borrower and the Issuer and, only in respect of any changes to the Hedging Limit (other than a decrease in the 102.5 per cent. threshold specified in the Hedging Limit only), the approval of the Hedge Counterparties and in all cases may only be made with the approval of the Borrower Security Trustee (acting in accordance with the STID). A decrease in the 102.5 per cent. threshold specified in the Hedging Limit only shall be notified in writing to the Hedge Counterparties within 3 Business Days of such change.
- (c) Subject to such approvals, the Hedging Policy will be reviewed from time to time by the Group and amended (subject to and in accordance with the provisions of the STID) as appropriate in line with market developments, regulatory developments, Good Industry Practice and the Group's funding arrangements and requirements.
- (d) Prior to the occurrence of a Loan Event of Default which is continuing and prior to the occurrence of a Termination Event (as defined in the relevant Hedging Agreement) or an Event of Default (as defined in the relevant Hedging Agreement) which is continuing, any Borrower and/or the Issuer (as applicable) may contact the Hedge Counterparties at any time to discuss, negotiate and agree the termination of any particular Treasury Transaction prior to the stated or expected term of that Treasury Transaction under the relevant Hedging Agreement, provided that the Group remains in compliance with the Hedging Policy.
- (e) Interest rate risk may be hedged through a combination of cash balances, Authorised Investments and derivative instruments such as interest rate swaps and/or inflation swaps subject to the parameters below.
  - The Group will hedge its exposure to interest rate risk on its interest outgoings such that (without double counting):
    - (A) at least 75 per cent. of the Relevant Debt from time to time effectively bears either a fixed rate of interest or inflation-linked rate of interest until the end of the current Regulatory Period; and
    - (B) at least 50 per cent. of the Relevant Debt effectively bears either a fixed rate of interest or inflation-linked rate of interest until the end of the immediately following Regulatory Period.
  - “**Relevant Debt**” means the aggregate, at the time, of the outstanding
    - (a) Qualifying Borrower Senior Debt, excluding for these purposes any mark-to-market value of any transactions under Cross Currency Hedging Agreements; the termination values of any Finance Leases designated as Senior Debt that would otherwise be included in Qualifying Borrower Senior Debt; and the principal amount outstanding under each Working Capital Facility at such time; and



- (b) Qualifying Borrower Junior Debt, excluding for these purposes any mark-to-market value of any transactions under Cross Currency Hedging Agreements and the termination values of any Finance Leases designated as Junior Debt that would otherwise be included in Qualifying Borrower Junior Debt,

provided that for the purposes of calculating Relevant Debt only, non-Sterling denominated debt shall be deemed to be converted to Sterling at the rate specified in the relevant Cross-Currency Hedging Agreement.

- The Group must not, at any time, hedge its exposure to interest rate risk such that the Total Notional Hedged Amount (defined below) exceeds 102.5 per cent. of the sum of the Relevant Debt (the “**Hedging Limit**”). The “**Total Notional Hedged Amount**” shall be the aggregate, at the time, of (a) the outstanding Notional Amount (as defined in the relevant Hedging Agreements) of Treasury Transactions which are interest rate swap transactions and inflation swap transactions (excluding prior to (but including upon and following) any Loan Event of Default, any Pre-hedges (defined below) and excluding, the Notional Amount of any Treasury Transactions that have been identified expressly in the relevant confirmation for such Treasury Transactions as hedging Fixed-rate Debt) entered into between the Issuer and the Hedge Counterparties or the Borrowers and the Hedge Counterparties (as applicable) under the relevant Hedging Agreements and (b) the outstanding principal amount of the Fixed-rate Debt. “**Fixed-rate Debt**” is the aggregate, at the time, of the outstanding Relevant Debt of the Group that bears either a fixed rate of interest or inflation linked return.
  - The Group will, in addition, be permitted to enter into derivative instruments such as forward starting interest rate swap transactions and/or inflation rate swap transactions with an effective date no later than 24 months from the date of entry into such Treasury Transaction, in respect of Financial Indebtedness which is projected to be incurred within 24 months from the date of entry into such Treasury Transactions and which would not, on the basis of the most recent projections of the Security Group, be projected to breach the Additional Indebtedness Tests at the projected date of incurrence (the “**Pre-hedges**”). Subject to no Loan Event of Default having occurred, such Pre-hedges will not count towards, or be limited by reference to, the Hedging Limit prior to the applicable effective date of the relevant Pre-hedge. In addition, such Pre-hedges may contain provisions to the effect that such Pre-hedges may be terminated at the election of the Issuer or relevant Borrower who is party to such Pre-hedge or the Security Group Agent acting on its behalf if the projected Financial Indebtedness is either not incurred or is incurred and the pre-hedging is no longer required, or that such Pre-hedges are subject to mandatory termination.
- (f) The Group must not (after taking into account any natural hedging arising from operating income of the Group received in currencies other than the Base Currency) bear currency risk in respect of any foreign currency denominated debt instruments (excluding any fees payable in respect of any foreign currency denominated Authorised Credit Facility). Furthermore, no Borrower will enter into any Cross Currency Hedging Agreements, other than in respect of non-Base Currency denominated Non-Migrated Bonds. Currency hedges (entered into between the Issuer and the Hedge Counterparties) for non-Base Currency denominated Bonds issued by the Issuer will convert into Base Currency liabilities the interest payable to the Scheduled Redemption Date and the scheduled repayment of principal in respect of such Bonds. In addition, the Borrowers will be permitted to enter into currency hedges to hedge any non-sterling revenues or expenditures provided that such hedging is entered into in the ordinary course of business and not for speculative purposes. The counterparties under such hedging arrangements will not be required to be party to the STID and will not benefit from the Borrower Security or have any voting rights. The Borrowers will be permitted to provide collateral support in respect of such hedging arrangements.
- (g) No member of the Security Group may enter into inflation-linked Treasury Transactions on or about the Initial Issue Date and the Issuer may not enter into inflation-linked Treasury Transactions in respect of any Class B Bonds.

- (h) The Borrowers will be permitted to enter into hedges (including, but not limited to, index-linked instruments) to hedge their forecast operating revenues or operating or capital expenditures (including, but not limited to, electricity price hedging and commodities hedging in respect of materials required for development projects) provided that such hedging is entered into in the ordinary course of business, relates to the business requirements of the Borrowers and is not for speculative purposes. The counterparties under such hedging arrangements will not be required to be party to the STID and will not benefit from the Borrower Security or have any voting rights. The Borrowers will be permitted to provide collateral support in respect of such hedging arrangements.
- (i) Subject to paragraph (k) below, the Issuer and each Borrower may only enter into Treasury Transactions with Hedge Counterparties, (i) whose short-term, unsecured and unsubordinated debt obligations are rated at least as high as “A-2” by S&P or if such counterparty does not have a short-term rating, whose long-term, unsecured and unsubordinated debt obligations are rated at least as high as BBB+ by S&P, or (ii) whose short-term, unsecured and unsubordinated debt obligations are rated at least “F1” by Fitch and whose long-term, unsecured and unsubordinated debt obligations are rated at least “A” by Fitch or where a guarantee of the obligations of such party in connection with the Treasury Transaction is provided by an institution which meets the same criteria. Each Hedging Agreement is to include a provision entitling the Issuer or the Borrower, as the case may be, to terminate if there is a Hedge Counterparty Downgrade, as described below, and the Hedge Counterparty fails to take such action as set out in the relevant Hedging Agreement within the specified time.
- (j) Paragraph (i) above shall only apply to the Initial Hedge Counterparties and transferees in respect of such Initial Hedge Counterparties. All other Hedging Agreements must satisfy the requirements set out in the Rating Agency Criteria or if the relevant Rating Agency Criteria does not apply, the rating requirements set out in paragraph (i) above.
- (k) Hedging Agreements must be entered into in the form, as amended by the parties thereto, of the 1992 ISDA Master Agreement (Multicurrency – Cross Border), the 2002 Master Agreement published by ISDA or any successor thereto published by ISDA unless otherwise agreed by the Borrower Security Trustee (acting in accordance with the STID).

### **Borrower Hedging Agreements**

The Borrowers may enter into various interest rate, inflation-linked and currency swap transactions with the Borrower Hedge Counterparties (the “**Borrower Hedging Agreements**”) in conformity with the Hedging Policy.

The provisions described below under “*–Issuer Hedging Agreements – Tax*” and “*–Issuer Hedging Agreements – Hedge Counterparty Rating Downgrade*” apply equally to the Borrower Hedging Agreements.

#### *Termination*

Each Borrower will be entitled to terminate a Borrower Hedging Agreement in certain circumstances (including a failure to pay by the Borrower Hedge Counterparty, certain insolvency events affecting the Borrower Hedge Counterparty and certain rating downgrade events affecting the Borrower Hedge Counterparty).

A Borrower Hedge Counterparty will be entitled to terminate a Borrower Hedging Agreement only in certain limited circumstances being:

- a failure by the Borrower to make payment or delivery when due and such failure is not remedied on or before the third Local Business Day (as defined in the Borrower Hedging Agreement) after notice of such failure is given to the Borrower provided that a Borrower Hedge Counterparty will not be entitled to terminate a Borrower Hedging Agreement for non-payment in circumstances where sufficient amounts were available to be claimed under any Letter of Credit issued pursuant to the Borrower Liquidity Facility Agreement or from Trust Property under the Borrower Liquidity Reserve Account Trust Deed and such Borrower Hedge Counterparty has failed to instruct the Borrower Security Trustee to make a claim thereunder;

- an event which is the earlier to occur of: (i) the LF Termination Date (as that term is defined in the Borrower Liquidity Facility Agreement); or (ii) an insolvency event (as specified in the Hedging Agreement) if it relates to an event that has occurred in relation to the relevant Borrower, in circumstances where, on or after the thirtieth calendar day following the occurrence of such an insolvency event, the conditions precedent to drawdown under the Borrower Liquidity Facility (including the making of a claim under a Letter of Credit) are not satisfied or the debt service funding triggers for the Borrower Liquidity Facility as set out in paragraph (iii)(C) under “–Common Terms Agreement – Trigger Events” above are in breach;
- Illegality (as defined in the relevant Hedging Agreement) affecting the Borrower Hedging Agreement;
- certain tax events;
- the Relevant Debt is prepaid or repaid in full, or becomes prepayable or repayable in full;
- any sale or disposal of all or substantially all of Heathrow or any sale or disposal of any shares in HAL or a Holding Company of HAL (and in the case of either sale or disposal whether voluntarily or as a result of the enforcement of security or in any other circumstances whatsoever and whether in a single transaction or through a series of transactions and whether related or not), which results in, (i) a release of all or substantially all of Heathrow from the Security Interests held for the benefit of the Borrower Secured Creditors in accordance with the Security Documents other than in the case of a sale or disposal to another Obligor which simultaneously creates security over Heathrow in favour of the Borrower Security Trustee on terms which are in all respects equivalent to the released security; and/or (ii) a release, without the simultaneous taking of the benefit of an equivalent guarantee, of the guarantee in respect of obligations secured by such Security Interests from the owner of Heathrow; and/or (iii) a release of the shares in HAL from the fixed security held by the Borrower Security Trustee pursuant to the Security Agreement and in accordance with the STID for the benefit of the Borrower Secured Creditors other than in the case of a sale or disposal to another Obligor which simultaneously creates security over the shares in HAL in favour of the Borrower Security Trustee on terms which are in all respects equivalent to the released security; and/or (iv) a release, without the simultaneous taking of the benefit of an equivalent guarantee, of the guarantee in respect of the obligations secured by such fixed security from the Holding Company for the time being of HAL; and/or (v) any adverse change to the benefit, enjoyed by the Hedge Counterparties, of the security granted in favour of the Hedge Counterparties prior to such sale or disposal.

For the purpose of the above provision: “equivalent guarantee” means, in the case of (ii) above, a guarantee in respect of the obligations secured by such Security Interests from the owner for the time being of Heathrow; and in the case of (iv) above, a guarantee in respect of the obligations secured by such fixed security from the Holding Company for the time being of HAL.

- following the delivery of a Loan Acceleration Notice by the Borrower Security Trustee in accordance with the STID;
- to the extent required to ensure that the Hedging Limit is not exceeded (in which event (i) prior to the occurrence of a Loan Event of Default which is continuing, the Group or the Security Group Agent acting on its behalf shall terminate in whole or in part such Treasury Transactions of the Group which are interest rate swap transactions or inflation swap transactions as it shall by notice to the Borrower Security Trustee and the relevant Hedge Counterparties elect and (ii) following the occurrence of a Loan Event of Default which is continuing each Treasury Transaction of the Group which is an interest rate swap transaction or inflation swap transaction (including any Pre-hedge in respect of which the effective date has not occurred) shall be terminated, on a *pro rata* basis by reference to their then outstanding notional amounts (including any accretions on account of indexation));

- to the extent that, at any time, the aggregate notional amount of Treasury Transactions which hedge any particular portion of non-sterling denominated Relevant Debt at that time exceeds the outstanding principal amount of such debt at that time, in which event each such Treasury Transaction shall be terminated on a *pro rata* basis;
- to the extent that, at any time, the aggregate notional amount of Treasury Transactions which hedge any particular portion of the Fixed-rate Debt at that time exceeds the outstanding principal amount of such debt at that time, in which event such Treasury Transaction shall be terminated on a *pro rata* basis;
- in the case of any Pre-hedges and/or any other inflation or interest rate swap transactions, (a) pursuant to any mandatory termination provision in the relevant Hedging Agreement or (b) in respect of the Pre-hedge, only to the extent that the projected Financial Indebtedness is not incurred as projected or has been incurred and the relevant pre-hedging is no longer required;
- prior to the effective date of a Pre-hedge and in respect of such Pre-hedge only, any of the events outlined in section 5(a) and section 5(b) of the relevant Hedging Agreement;
- prior to the occurrence of a Loan Event of Default which is continuing and prior to the occurrence of a Termination Event (as defined in the Borrower Hedging Agreement) or an Event of Default (as defined in the Borrower Hedging Agreement) which is continuing, an agreement is reached between the relevant Borrower and the relevant Hedge Counterparty at any time to terminate, in whole or in part, a Treasury Transaction(s) prior to its stated or expected term under the Borrower Hedging Agreement, provided that the Group remains in compliance with the Hedging Policy; and
- if such Borrower ceases to be a member of the Security Group and the Treasury Transactions entered into under a Hedging Agreement to which that Borrower is a party are not novated (such novation to be effective immediately prior to the Borrower ceasing to be a member of the Security Group) to another Borrower or Borrowers.

### **Security Parent Debenture**

With effect from the Initial Issue Date, Security Parent will have outstanding an unsecured loan note having a face value equal to the principal amount outstanding under the Subordinated Facility Agreement and bearing an interest rate of 0.01 per cent. above the rate of the Subordinated Facility Agreement (the “**Security Parent Debenture**”).

The terms of the Security Parent Debenture will provide that Security Parent can make payments of principal and interest to the holder of the Security Parent Debenture (being, as at the Initial Issue Date, Sub Holdco) only in circumstances where no Trigger Event has occurred or is subsisting.

The Security Parent Debenture will rank junior and subordinated to all secured obligations of Security Parent existing and outstanding as at the date of its issuance.

### **Security Agreement and Obligor Floating Charge Agreement**

#### ***Borrower Security***

Each Obligor will enter into the security agreement (the “**Security Agreement**”) with the Borrower Security Trustee and the Subordinated Security Trustee on the Initial Issue Date. Under the Security Agreement each Obligor will guarantee 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 will secure its property, assets and undertakings to the Borrower Security Trustee for itself and as trustee for the Borrower Secured Creditors and to the Subordinated Security Trustee for itself and as trustee for the Subordinated Secured Creditors.

Except as set out below the Security Agreement is subject to the STID and (for as long as any amounts are outstanding under the Subordinated Facility Agreement) the Senior/Subordinated Intercreditor Agreement.

Subject as set out below, the security constituted by the Security Agreement is expressed to include:

- (i) first fixed charges over:

- (a) the ordinary shares in each Obligor (other than the Security Parent) including all dividends, interest and other monies payable in respect thereof and all other rights related thereto;
- (b) each Obligor's right, title and interest from time to time in and to:
  - (1) by way of legal mortgage over any real property interests currently owned by it and by way of equitable fixed charge over any real property interests acquired after the date of the Security Agreement; and
  - (2) the proceeds of disposal of any land;
- (c) all present and future plant, machinery, office equipment, computers, vehicles and other chattels;
- (d) all moneys standing to the credit of each Obligor's accounts and the debts represented thereby;
- (e) any intellectual property rights owned by each Obligor;
- (f) (to the extent not effectively assigned) all of its right and benefits under each of the Transaction Documents and any other contracts or agreements to which such Obligor is a party from time to time and/or that confer any rights upon such Obligor;
- (g) any present and future goodwill and any present and future uncalled capital and rights in relation to such uncalled capital;
- (h) any relevant licences permissions, consents and authorisation (statutory or otherwise) (where feasible) of such Obligor;
- (i) (to the extent not effectively assigned) each Authorised Investment;
- (j) all shares of any person owned by the Obligor including all dividends, interest and other monies payable in respect thereof and all other rights related thereto;
- (k) all present and future book and other debts;
- (l) (to the extent not effectively assigned) all its present and future rights, title and interest in and to the Assignable Insurances;
- (ii) 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 from time to time in and to:
  - (a) the Insurance Proceeds of any Assignable Insurances (but, for the avoidance of doubt, not the contracts comprising the Assignable Insurances themselves);
  - (b) all Transaction Documents to which an Obligor is a party from time to time subject to netting and set-off provisions contained therein; and
- (iii) 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 or 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**").

Each Obligor will use reasonable endeavours to obtain any necessary consent in relation to:

- (a) real property interests owned as at the date of the Security Agreement (other than any Borrower's interest in certain leasehold properties (mentioned above)); and
- (b) any leasehold property consisting of a site that is operationally sensitive or of particular importance to the business of a Borrower acquired after the date of the Security Agreement.

To the extent that the value of the consideration payable or receivable by an Obligor under an Excluded Document, when aggregated with the value of the other consideration payable or receivable by all Obligors under all other Excluded Documents and any Excluded Charged Property acquired after the date of the Security Agreement in respect of which the Obligors are not otherwise required to seek consent, exceeds two per cent. of Total RAB of the Borrowers (as certified to the Borrower Security Trustee and (for as long as any amounts are outstanding under the Subordinated Facility Agreement) the Subordinated Security Trustee), unless the Borrower Security Trustee and (for as long as any amounts are outstanding under the Subordinated Facility Agreement) the Subordinated Security Trustee otherwise requires, that Obligor must use reasonable endeavours to promptly obtain the consent of the relevant party to the creation of security over such document. Subject to the preceding sentence, each Obligor will use reasonable endeavours to obtain any consents necessary to enable the Excluded Charged Property to be the subject of an effective fixed charge or assignment.

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 RAB of such Borrower (see “–*Summary of the Financing Agreements – Common Terms Agreement – Covenants*”).

The Borrower Security granted in favour of the Borrower Security Trustee will be held on trust by the Borrower Security Trustee for itself and (except as otherwise provided below in relation to the Issuer) on behalf of the Borrower Secured Creditors in accordance with and subject to the terms of (for as long as any amounts are outstanding under the Subordinated Facility Agreement) the Senior/Subordinated Intercreditor Agreement and the STID. The Borrower Security granted in favour of the Subordinated Security Trustee will be held on trust by the Subordinated Security Trustee for itself and on behalf of the Subordinated Secured Creditors in accordance with and subject to the terms of the Senior/Subordinated Intercreditor Agreement as security for the obligations of the Obligors in respect of the Subordinated Finance Documents.

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

The Issuer will hold the floating charges granted by the Obligors pursuant to the Obligor Floating Charge Agreement (the “**OFCA Floating Security**”) for the benefit of itself (see “–*Obligor Floating Charge Agreement*” below) (however, the Bond Trustee will be the assignee (by way of security) of the OFCA Floating Security pursuant to the Issuer Deed of Charge, see “–*Issuer Deed of Charge*” below).

The OFCA Floating Security and the Security Agreement Floating Security will rank *pari passu* with one another and be 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 Issuer Deed of Charge, 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) and the Security Agreement provides that the Subordinated Security Trustee shall not 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 and (for as long as any amounts are outstanding under the Subordinated Facility Agreement) the Subordinated Security Trustee as holders of the Security Agreement Floating Security (being equal ranking floating charges over the same assets) and, if necessary, request the release of such assets from such security.

*Proceeds:* The Security Agreement, the STID, the Senior/Subordinated Intercreditor Agreement and the Obligor Floating Charge Agreement will 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 Senior/Subordinated Intercreditor Agreement and the Borrower Payments Priorities, as the case may be. 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.

#### **Senior/Subordinated Intercreditor Agreement**

For so long as amounts remain outstanding under the Subordinated Facility Agreement, the Senior/Subordinated Intercreditor Agreement will govern the relationship between the Borrower Secured Creditors and the Subordinated Secured Creditors. Each of the Refinancing Facility Providers, the Refinancing Facility Agent, the Non-Migrated Bond Facility Providers, the Non-Migrated Bond Facility Agent, the Initial Credit Facilities Providers, the Initial Credit Facilities Agent, EIB, the Borrower Liquidity Facility Agent, the Borrower Liquidity Facility Providers, the Subordinated Lenders, the Issuer, the Security Group Agent, the Bond Trustee, the Borrower Hedge Counterparties and the BAA Pension Trustee is party to, or will accede on the Initial Issue Date to, the Senior/Subordinated Intercreditor Agreement pursuant to which the ranking of the Borrower Secured Debt and the Subordinated Debt in point of payment and security will be governed. For so long as the Subordinated Facility remains outstanding, unless expressly stated otherwise in the Senior/Subordinated Intercreditor Agreement, the provisions of the Senior/Subordinated Intercreditor Agreement override any provisions in the Finance Documents to the contrary.

If the Non-Migrated Bondholders so instruct the Non-Migrated Bond Trustee following a resolution of such Non-Migrated Bondholders to be considered at a meeting of the Non-Migrated Bondholders convened by BAA Limited following the Initial Issue Date, the Non-Migrated Bond Trustee will accede to the Senior/Subordinated Intercreditor Agreement on behalf of the Non-Migrated Bondholders and act as their creditors representative thereunder.

References in this Prospectus to the Non-Migrated Bond Trustee acting in its capacity as creditors representative under the Senior/Subordinated Intercreditor Agreement shall only apply from the date of accession of the Non-Migrated Bond Trustee to the Senior/Subordinated Intercreditor Agreement following the passing of a resolution of the Non-Migrated Bondholders of the relevant tranche(s) to that effect as described above.

#### *Order of Priority in respect of Transaction Shared Security*

The liabilities owed by the Obligors to the Borrower Secured Creditors and the Subordinated Secured Creditors (together, the “**Creditors**”) and the Transaction Shared Security granted by the Obligors to

the Security Trustees, rank in the following order and are postponed and subordinated to any prior ranking liabilities as follows:

- (a) first, the Borrower Secured Liabilities in the order of priority set out in the STID; and
- (b) second, the Subordinated Liabilities *pro rata*.

#### *Amendments*

Pursuant to the Senior/Subordinated Intercreditor Agreement, the Creditors will agree that any group of Borrower Secured Creditors may amend the Finance Documents to which they are a party (excluding the Senior/Subordinated Intercreditor Agreement or any Security Document creating Transaction Shared Security), in accordance with their terms (but, for the avoidance of doubt, subject to any provisions thereof providing rights in connection with any such proposed amendments in favour of the BAA Pension Trustee), at any time unless that amendment:

- (a) is an increase in the amount of the facilities thereunder and:
  - (i) each of the ratings (by those of Standard & Poor's Rating Services, Moody's Investor Services Limited and Fitch Ratings Limited whose ratings were taken into account in determining the rating initially provided in respect of the Subordinated Facility Agreement) of any of such facility that remains are not equal to or higher than the ratings that were obtained from at least two of Standard & Poor's Rating Services, Moody's Investor Services Limited and Fitch Rating Limited under the Subordinated Facility Agreement; and
  - (ii) such increase is in an amount, when aggregated with all other increases in the amount of such facilities, greater than £697,000,000 unless such excess over £697,000,000 is postponed and subordinated to the Borrower Secured Liabilities and the Subordinated Liabilities;
- (b) is a change to scheduled dates of repayment or a change to the prepayment provisions which would reduce the average life of any of the Borrower Secured Debt as determined on the date of such change; or
- (c) is a change in the basis on which interest, fees or commission (including any interest, fee or commission relating to any bank guarantee, letter of credit or ancillary facility made available under any Finance Document) accrue, are calculated or are payable which increases the amounts payable to Borrower Secured Creditors (other than any change contemplated by the terms of the Finance Documents as at the Initial Issue Date); or
- (d) is a change the effect of which is to make any Obligor liable to make additional or increased payments under the terms of the relevant Finance Documents (save as the result of an increase permitted pursuant to paragraph (a) above); or
- (e) is a change to any provision (including, without limitation, provisions relating to mandatory prepayment, upstreaming of cash (by way of dividend, loan or otherwise) or financial triggers) which is reasonably likely to reduce the cash available to service, prepay or repay any of the Subordinated Financings (save as the result of an increase permitted pursuant to paragraph (a) above) or, without prejudice to the generality of the foregoing, has the effect of changing or relates to the definition of "Trigger Event"; or
- (f) is a change that would result in the relevant Finance Documents becoming more onerous to the group comprising BAA Limited, Airport Development & Investment Limited, BAA (D&ND Holdco) Limited and Designated Sub Holdco and each Subsidiary of Designated Sub Holdco (the "**Subordinated Group**") taken as a whole; or
- (g) has the effect of changing or circumventing the restrictions relating to the BAA Pension Trustee set out under "*– Order of Application*" below:

provided that:

- (A) any amendment otherwise prohibited as set out above may be made with the prior written consent of the Majority Subordinated Creditors;
- (B) any amendment referred to at paragraphs (e) to (f) above may be made without the prior written consent of the Majority Subordinated Creditors if (immediately following the relevant amendment) written confirmation is obtained (i) from those of Standard & Poor's Rating Services, Moody's Investor Services Limited and Fitch Ratings Limited whose ratings were taken



into account in determining the initial rating under the Subordinated Facility Agreement that their respective ratings of the Subordinated Facility after such proposed change being made would be equal to or higher than the rating obtained in respect of the Subordinated Facility pursuant to the credit rating undertaking under the Subordinated Facility Agreement, and (ii) from those of Standard & Poor's Rating Services and Fitch Ratings Limited whose ratings were taken into account in determining the rating of each class of Unwrapped Bonds issued by the Issuer or, if there are no Unwrapped Bonds, the underlying ratings of each class of Wrapped Bonds then outstanding and which rank *pari passu* with the class of Unwrapped Bonds which have ceased to be outstanding after such proposed change being made are equal to or higher than the ratings in respect of such class of Unwrapped Bonds or, as the case may be, the underlying ratings in respect of such class of Wrapped Bonds immediately prior to such amendment being made; and

- (C) any amendment which is of a formal, minor or technical nature or made to correct a manifest error may be made without the prior written consent of the Majority Subordinated Creditors.

Notwithstanding anything in the Senior/Subordinated Intercreditor Agreement (or any other agreement or arrangement to the contrary), the Obligors will agree not to incur any Financial Indebtedness that ranks senior to the Subordinated Liabilities and junior to the Borrower Secured Liabilities.

#### **Subordination of the claims of the Subordinated Secured Creditors**

Pursuant to the Senior/Subordinated Intercreditor Agreement, the claims of the Subordinated Secured Creditors against the Obligors are subordinated to the claims of the Borrower Secured Creditors against the Obligors. Liabilities owed by the Obligors to the Subordinated Secured Creditors and the Transaction Shared Security granted by the Obligors in respect of those Subordinated Liabilities rank junior to the liabilities owed by the Obligors to the Borrower Secured Creditors and the Transaction Shared Security granted by the Obligors in respect of the Borrower Secured Liabilities. The Senior/Subordinated Intercreditor Agreement contains provisions, *inter alia*:

- (a) restricting Subordinated Secured Creditors from taking additional security or guarantees from the Obligors outside of the Transaction Shared Security;
- (b) restricting Subordinated Secured Creditors (including the Subordinated Security Trustee) from taking any enforcement action against an Obligor; unless: (i) the prior written consent of the Borrower Senior Creditors in accordance with the STID is obtained; or (ii) the Borrower Security Trustee or any other Borrower Secured Creditor (including any Bond Trustee as assignee of the Issuer) has, (1) accelerated their liabilities, or declared them prematurely due and payable, payable on demand, the premature termination, or close out of the hedging liabilities, (2) taken steps to enforce or require the enforcement of any Borrower Security (including the crystallisation of any floating charge), (3) made any demand against any Obligor in relation to any guarantee, indemnity or other assurance against loss in respect of any liabilities or exercised any right to require any Obligor to acquire any liability (including exercising any put or call option against any Obligor for the redemption or purchase of any liability); or (4) given any instruction to a creditor representative to do any of the above, in which case the Subordinated Secured Creditors can only take the same enforcement action; or (iii) the Borrower Secured Liabilities have been repaid and cancelled in full. Enforcement action consisting of Independent Enforcement Action by any Non-Migrated Bondholder or the appointment of an administrative receiver by the Bond Trustee under the Obligor Floating Charge Agreement will not constitute enforcement action which would permit the Subordinated Secured Creditors to take their own enforcement action;
- (c) allowing all matters regarding the enforcement of the Transaction Shared Security to be determined by the Borrower Secured Creditors (in accordance with the STID) other than in the circumstances set out in paragraph (b) above;
- (d) imposing turnover obligations on the Subordinated Secured Creditors in the event that they for any reason receive a payment or make a recovery in breach of the subordination provisions.

## Application of Proceeds

### *Order of application*

- (a) All amounts (other than the Subordinated Segregated Proceeds) from time to time received or recovered by the Senior Security Trustee or the Subordinated Security Trustee pursuant to the terms of any Finance Document (including any amounts received or recovered by the Bond Trustee (or a Receiver appointed by it) in respect of the enforcement of the OFCA Floating Security and paid to the Senior Security Trustee pursuant to the terms of the Finance Documents) or in connection with the realisation or enforcement of all or any part of the Senior Only Security or the Transaction Shared Security shall be held by the relevant Security Trustee on trust to apply them (subject to paragraphs (b) below) at any time that the Security Trustee sees fit, to the extent permitted by applicable law in the following order of priority:
- (i) in discharging any sums owing to the Senior Security Trustee or the Subordinated Security Trustee (in each case in its capacity as trustee), the Bond Trustee, any Receiver or any delegate other than, in the case of the Subordinated Security Trustee, where such sums relate to Subordinated First Ranking Security or a Subordinated Obligor that is not also an Obligor;
  - (ii) in payment of all costs and expenses reasonably incurred by any creditors representative or Creditor in connection with any realisation or enforcement of the Transaction Shared Security taken in accordance with the terms of the Senior/Subordinated Intercreditor Agreement or any action taken at the request of a Security Trustee in respect of certain matters;
  - (iii) in payment to the Secured Creditors Representatives on behalf of the Borrower Secured Creditors for application towards the discharge of the Senior Liabilities in accordance with the STID.
  - (iv) to the extent forming part of the Subordinated Ranking Security, in discharging any further sums owing to the Subordinated Security Trustee (in its capacity as trustee);
  - (v) to the extent forming part of the Subordinated Ranking Security, in payment to the creditors representatives on behalf of the Subordinated Secured Creditors for application towards discharge of the Subordinated Liabilities *pro rata*;
  - (vi) if none of the Obligors is under any further actual or contingent liability under any Finance Document, in payment to any person to whom any Security Trustee is obliged to pay in priority to any Obligor; and
  - (vii) the balance, if any, in payment to the relevant Obligor.
- (b) Any amounts received or recovered by the Bond Trustee (or a Receiver appointed by it) in respect of the enforcement of the OFCA Floating Security which are received by the Senior Security Trustee, shall be applied by the Senior Security Trustee in accordance with the OFCA and paragraph (a) above.

### *Subordinated Creditor Option to Purchase*

The Subordinated Secured Creditors may after commencement of any Enforcement Action by any Senior Creditor, by giving not less than 21 days' written notice to the Senior Security Trustee, require the transfer to them (or to a nominee), of all, but not part, of the Borrower Secured Liabilities (other than (w) the BAA Pension Liabilities; (x) the liabilities of the Group under the Hedging Agreements (the "**Senior Hedging Liabilities**"); (y) the liabilities of the Obligors in respect of the Non-Migrated Bonds Facility Agreement (the "**Non-Migrated Bond Facility Liabilities**"); and (z) the Non-Migrated Bond Liabilities. However, the Subordinated Secured Creditors may in their absolute discretion require the transfer to them (or to a nominee) of all, but not part, of the Non-Migrated Bond Facility Liabilities and/or the Non-Migrated Bond Liabilities at the same time as any transfer of the Borrower Secured Liabilities (other than the BAA Pension Liabilities and the Senior Hedging Liabilities) to the Subordinated Secured Creditors. The option to purchase is subject to certain conditions including a requirement that an amount equal to all of the Borrower Secured Liabilities (excluding the Senior Hedging Liabilities, the BAA Pension Liabilities, the Non-Migrated Bond Facilities and the Non-Migrated Bond Liabilities (unless the Subordinated Secured Creditors have required the transfer of the Non-Migrated Bond Facility Liabilities and/or the Non-Migrated Bond Liabilities)) is repaid to the relevant Borrower Secured Creditors at that time (whether or not due),

including any break costs which may apply as a result of any transfer being made other than on the last day of an interest period together with any costs and expenses (including legal fees) incurred as a consequence of giving effect to that transfer and that as a result of that transfer such Borrower Secured Creditors have no further actual or contingent liability to any Obligor under the relevant Finance Documents.

#### *Independent Share Security*

The Obligors will grant the same security over their assets that they provide to the Borrower Security Trustee additionally to the Subordinated Security Trustee in respect of the obligations of Sub Holdco under the Subordinated Facility Agreement. In addition, Sub Holdco will grant security over its shares in Security Parent to the Subordinated Security Trustee/or itself and the Subordinated Secured Creditors. Following the occurrence of an event of default under the Subordinated Facility Agreement, the Subordinated Security Trustee may enforce the share security granted over the shares in Security Parent.

#### **BAA Bond Guarantee**

On the Initial Issue Date, the Bond Guarantor will provide a guarantee (the “**BAA Bond Guarantee**”) in respect of the €1,000,000,000 3.875 per cent. Notes due 2012, £400,000,000 5.75 per cent. Notes due 2013, €750,000,000 4.5 per cent. Notes due 2014, £300,000,000 11<sup>3</sup>/<sub>4</sub> per cent. Notes due 2016 and €750,000,000 4.50 per cent. Notes due 2018 to be issued by the Issuer in exchange for certain classes of bonds originally issued by the Bond Guarantor (the “**BAA Guaranteed Bonds**”). Under the BAA Bond Guarantee, the Bond Guarantor will unconditionally and irrevocably guarantee to Deutsche Trustee Company Limited, as bond trustee for the holders for the time being of the BAA Guaranteed Bonds and will undertake to pay to the Bond Trustee on demand, if the Issuer fails to pay them or any part thereof, all amounts (the “**BAA Guaranteed Amounts**”) payable by the Issuer to the holders for the time being of the BAA Guaranteed Bonds (the “**BAA Guaranteed Bondholders**”). In addition, under the BAA Bond Guarantee, the Bond Guarantor will indemnify the Bond Trustee on demand against any loss or liability suffered by it or by any of the BAA Guaranteed Bondholders.

The Bond Trustee may only make a demand under the BAA Bond Guarantee following the delivery by the Bond Trustee to the Issuer of a notice in accordance with Condition 11(b) (*Bond Events of Default*) which declares the BAA Guaranteed Bonds to be immediately due and payable.

See “*Risk Factors – The BAA Bond Guarantee*” in relation to the issues arising in respect of the BAA Bond Guarantee.

#### **Tax Deed of Covenant**

Pursuant to the Tax Deed of Covenant, each of the Tax Covenantors will make representations and give warranties and covenants with a view to protecting the Issuer and the members of the Security 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 will be governed by English law.

“**Tax Covenantors**” means, among others, ADIL and BAA.

#### **The Issuer Deed of Charge**

The Issuer will, on or before the Initial Issue Date, enter into the Issuer Deed of Charge with the Bond Trustee for itself and on behalf of the Bondholders, each Relevant Financial Guarantor, the Issuer Liquidity Facility Providers, the Issuer Liquidity Facility Agent, the Issuer Hedge Counterparties, the Issuer Account Bank, the Registrar, the Transfer Agents, the Paying Agents, the Exchange Agent, the Agent Bank, any Calculation Agent, the Issuer Cash Manager, the Issuer Corporate Administration Provider, the Bond Guarantor, any receiver and any other creditor of the Issuer which accedes to the Issuer Deed of Charge (together the “**Issuer Secured Creditors**”). Pursuant to the Issuer Deed of Charge, the Issuer will secure 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;

- an assignment by way of first fixed security of the Benefit of the Issuer 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 will be 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.

### **Obligor Floating Charge Agreement**

The Obligors, the Issuer, the Borrower Security Trustee and the Bond Trustee will, on or about the Initial Issue Date, enter into the Obligor Floating Charge Agreement pursuant to which each Obligor will grant in favour of the Issuer, as security for (i) each Borrower’s obligations under the Borrower Loan Agreements, (ii) all sums eventually falling due and payable by such Obligor (if any) to the Issuer under the loan referred to in the Obligor Floating Charge Agreement and made to such Obligor and (iii) all obligations under and amounts owed to the Issuer by each Obligor under the Guarantees provided in the Security Agreement and (iv) all fees and expenses payable to the Bond Trustee (and any administrative receiver) by way of joint and several indemnity under the Obligor Floating Charge Agreement, a first ranking floating charge over the whole of its undertaking, assets, property and rights whatsoever and wheresoever, present and future (the “**OFCA Floating Security**”).

The circumstances where the OFCA Floating Security may become enforceable and/or be enforced are set out in the section entitled “– *Security Agreement and Obligor Floating Charge Agreement – Enforceability of the floating charges*” above and the provisions in respect of application of the proceeds of enforcement are set out in Security Agreement and Obligor Floating Charge Agreement. The Obligors shall jointly and severally indemnify the Bond Trustee for the fees and expenses incurred by it in appointing a Receiver (including an administrative receiver) in respect of any Obligor.

The Obligor Floating Charge Agreement will be governed by English law.

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

The Issuer will appoint BAA as the Issuer Cash Manager pursuant to a cash management agreement dated on or before the Initial Issue Date (the “**Issuer Cash Management Agreement**”). Pursuant to the Issuer Cash Management Agreement, the Issuer Cash Manager will undertake certain cash administration functions on behalf of the Issuer. The circumstances in which the Issuer will be entitled to terminate the appointment of BAA as Issuer Cash Manager and BAA will be entitled to resign as Issuer Cash Manager will broadly follow the termination events in respect of BAA’s appointment as Shared Services Provider under the Shared Services Agreement (see “*Description of the Operating Companies, the Shared Services Provide and the Issuer – The Shared Services Agreement – Termination of Shared Services Agreement*”).

The Issuer will establish or cause to be established on or before the Initial Issue Date sterling, euro and U.S. dollar operating accounts (together with any issuer collateral accounts to be opened after the Initial Issuer Date, the “**Issuer Accounts**”). The Issuer Accounts will be held with the Issuer Account Bank pursuant to an account bank agreement (the “**Issuer Account Bank Agreement**”) dated on or about the Initial Issue Date between the Issuer, the Issuer Account Bank and the Bond Trustee. 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 (“**Issuer Pre-Enforcement 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 costs, charges liabilities and expenses incurred by the Bond Trustee under the Trust Documents and any other amounts payable to the Bond Trustee 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 or a member of the BAA Group);
  - (d) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Corporate Administration Provider 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, and other tax for which the Issuer is liable under the laws of any jurisdiction;
- (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 on 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 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 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;
- (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 (c) 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 of Ongoing Facility Fees to the Borrowers under the terms of the Borrower Loan Agreements.

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 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 (the “**Issuer Post-Enforcement Priority of Payments** “):

- (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 or a member of the BAA Group); and
  - (d) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Corporate Administration Provider incurred under the Issuer Corporate Administration Agreements;
- (iii) *third, pro rata*, according to the respective amounts thereof, (a) all amount 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), (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; (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;

- (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 principal 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);
- (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.

## **Financial Guarantor Documents**

### ***The Financial Guarantees of Wrapped Bonds***

Each Financial Guarantee to be issued by the Relevant Financial Guarantor (upon fulfilment or waiver by the Relevant Financial Guarantor of certain conditions precedent contained in the G&R Deed) in respect of the issue of Class A Wrapped Bonds and/or Class B Wrapped Bonds to be issued under the Programme will be set out in a supplementary or drawdown prospectus published on or before the date of publication of the Final Terms in respect of the relevant Wrapped Bonds.

Upon an early redemption of the relevant Class A Wrapped Bonds or an acceleration of the relevant Class A Wrapped Bonds and/or Class B Wrapped Bonds, each Relevant Financial Guarantor's obligations will continue to be to pay the Guaranteed Amounts as they fall due for payment on each scheduled payment date. No Relevant Financial Guarantor will be obliged under any circumstances to accelerate payment under its Financial Guarantees. However, if it does so, it may do so in its absolute discretion in whole or in part, and the amount payable by the Relevant Financial Guarantor



will be the Principal Amount Outstanding (or *pro rata* amount that has become due and payable) of the relevant Class A Wrapped Bonds and/or Class B Wrapped Bonds together with accrued interest (excluding always the FG Excepted Amounts). Any amounts due in excess of such Principal Amount Outstanding (and any accrued interest thereon) will not be guaranteed by the Relevant Financial Guarantor.

The Bond Trustee will alone have the right to enforce the terms of Financial Guarantees issued in respect of Wrapped Bonds, and any right of any other person to do so is expressly excluded.

#### ***Guarantee and Reimbursement Deed***

The Issuer will enter into a guarantee and reimbursement deed (a “**G&R Deed**”) with any Relevant Financial Guarantor providing a Financial Guarantee. Pursuant to each Financial Guarantee, the Issuer will be obliged, among other things, to reimburse the Relevant Financial Guarantor in respect of the payments made by it under the relevant Financial Guarantee and to pay, among other things, any financial guarantee fee and fees and expenses of the Relevant Financial Guarantor in respect of the provision of the relevant Financial Guarantee. Insofar as the Relevant Financial Guarantor makes payment under the relevant Financial Guarantee in respect of Guaranteed Amounts (as defined in such Financial Guarantee), it will be subrogated to the present and future rights of the relevant Wrapped Bondholders or relevant holders of other Wrapped Debt against the Issuer in respect of any payments made.

#### ***Conditions Precedent***

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

#### **Issuer Liquidity Facility Agreements**

##### ***The Issuer Liquidity Facilities***

The Issuer Liquidity Facility to be provided by the Initial Issuer Liquidity Facility Provider will be the only Issuer Liquidity Facility in place as at the Initial Issue Date. The Issuer may establish further Issuer Liquidity Facilities in connection with further Bonds issued by the Issuer.

Under the terms of the Initial Issuer Liquidity Facility Agreement, the Initial Issuer Liquidity Facility Provider will provide a 364 day commitment (which may be renewed) in an aggregate amount specified in the Issuer Liquidity Facility Agreement 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 (a “**Issuer Liquidity Shortfall**”).

The Issuer will not be able to make a drawing in respect of a 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.

“**Class B Available Liquidity Amount**” means the lesser of (a) the amount of the Issuer’s estimated recurring fees and expenses, interest and equivalent finance charges for the 6 months following the most recently occurring Calculation Date on Issuer Junior Debt and (b) the Class B Liquidity Shortfall.

“**Class B Liquidity Shortfall**” means the difference between:

- (a) the amount which would be required by the Issuer to pay or to provide in full for item (vii) of the Issuer Pre-Enforcement Priority of Payments; and
- (b) the amounts of funds, other than amounts available pursuant to the Issuer Liquidity Facility Agreement, anticipated to be available (following any requisite exchange of any sterling amounts into euro or U.S. dollars pursuant to the Cross Currency Hedging Agreements) in the Issuer Sterling Account to pay on the immediately succeeding Payment Date the amount to be paid at item (vii) of the Issuer Pre-Enforcement Priority of Payments.

Each Issuer Liquidity Facility Provider must be a bank which as at the relevant Issue Date has the Minimum Short-Term Rating (the “**Liquidity Facility Requisite Rating**”).

Each Issuer Liquidity Facility Provider may be replaced at any time provided that such Issuer Liquidity Facility Provider is replaced by a bank with the Liquidity Facility Requisite Rating and all amounts outstanding to such Issuer Liquidity Facility Provider are repaid in full.

Each Issuer Liquidity Facility Agreement will allow for amounts repaid by the Issuer to be redrawn, subject to any automatic reduction in the total available commitment under the Issuer Liquidity Facility in proportion to any reduction in the aggregate principal amount outstanding of the Bonds pursuant to the Issuer Liquidity Facility Agreement.

Each Issuer Liquidity Facility Agreement contains certain conditions precedent to drawdown, including a requirement that no LF Event of Default has occurred and is continuing that a notice has been delivered at least one Business Day prior to the date for the making of such drawing and an Issuer Liquidity Shortfall has occurred and is continuing and the amount of the proposed drawing is no greater than the current Liquidity Shortfall Amount.

Each of the following events constitutes an “**LF Event of Default**” for the purposes of each Issuer Liquidity Facility Agreement:

- (a) the Issuer fails to pay any sum due from it under the Issuer Liquidity Facility Agreement or any fee letter between the Issuer and an Issuer Liquidity Facility Provider unless payment is made within three (3) Business Days;
- (b) an Insolvency Event occurs in respect of the Issuer;
- (c) the Bond Trustee delivers a Bond Enforcement Notice or is instructed to deliver a Bond Enforcement Notice (and indemnified in accordance with the Trust Documents) but fails to do so within 30 days of becoming bound to do so;
- (d) at any time it is or becomes unlawful for the Issuer to perform or comply with any or all of its obligations under the Issuer Liquidity Facility Agreement or any of the obligations of the Issuer under the Issuer Liquidity Facility Agreement are not or cease to be legal, valid, binding and enforceable;
- (e) the Issuer breaches a representation under the Issuer Liquidity Facility Agreement which is not remedied within 10 Business Days and is likely to materially and adversely affect the ability or obligation of the Issuer to make payments to the Issuer Liquidity Facility Providers under the Issuer Liquidity Facility Agreement; or
- (f) the Issuer breaches (i) the covenant restricting the aggregate of the total commitments under the Issuer Liquidity Facility Agreement and the Borrower Liquidity Facility Agreement from exceeding £900,000,000 or (ii) the covenants not to issue any further Bonds or incur any additional indebtedness in either case without the prior written consent of the Issuer Liquidity Facility Providers and such breach is not remedied within ten Business Days.

Each Issuer Liquidity Facility Agreement will provide 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 Issuer Liquidity Facility prior to the expiry of the relevant availability period, the Issuer will:

- (a) use all reasonable endeavours to replace the relevant Issuer 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 Issuer Liquidity Facility Agreement) be entitled to require such Issuer Liquidity Facility Provider to pay into the Liquidity Standby Account (in the case of a Liquidity Facility) the full amount of the relevant Issuer Liquidity Facility Provider’s undrawn commitment (a “**Standby Drawing**”).

A Standby Drawing will generally be repayable only if the relevant Issuer 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 Issuer Liquidity Facility or (ii) the absence of any such facility, in each case, as applicable, will not lead to a ratings downgrade of the Bonds from the relevant Rating Agencies.

Following the making of a Standby Drawing of the available commitment of an Issuer Liquidity Facility Provider where such Issuer Liquidity Facility Provider has not agreed to renew its commitment and not been replaced by a replacement provider, the available commitment of such Issuer Liquidity Facility Provider will only be available to fund Issuer Liquidity Shortfalls in respect of amounts due in respect of the Fifth Anniversary with respect to such Issuer Liquidity Facility Provider. Following the relevant Fifth Anniversary, the Issuer will not issue any further Bonds without the prior written consent of the relevant Issuer Liquidity Facility Provider providing the Standby Drawing.

If an Issuer Liquidity Facility Provider does not agree to increase its commitment pursuant to a request to increase such commitment, the Issuer may procure the provision of additional commitments for any financial institution which meets certain requirements set out in the Issuer Liquidity Facility Agreement by inviting such financial institution to accede to the Issuer Liquidity Facility Agreement provided that the Issuer may not procure the provision of additional commitments without the prior written consent of any Issuer Liquidity Facility Provider which has not agreed to increase its commitment if the accession of the relevant financial institution would cause the aggregate total commitments of all Issuer Liquidity Facility Providers under the Issuer Liquidity Facility Agreement and all Borrower Liquidity Facility Providers under the Borrower Liquidity Facility Agreement to exceed the agreed cap amount, which shall be £900,000,000 on the Initial Issue Date.

The Issuer may at any time, following the refinancing in whole or in part of the Refinancing Facility through the issuance of Bonds, notify the facility agent and each Issuer Liquidity Facility Provider that the commitment of all Issuer Liquidity Facility Providers be increased by a specified amount (which shall be equal to the simultaneous reduction in the commitments of all Borrower Liquidity Facility Providers under the Borrower Liquidity Facility Agreement). On cancellation of the commitment under the Borrower Liquidity Facility Agreement, the commitment of each Issuer Liquidity Facility Provider under the Issuer Liquidity Facility Agreement will increase automatically by an amount equal to its proportion of the increase.

Each Issuer 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 GAL or STAL in accordance with the terms of the Issuer Liquidity Facility Agreement.

The Issuer Liquidity Facility Provider will have the right to require prepayment of any outstanding amount of its commitment, together with interest and any other amounts due, if the Senior RAR and/or the Junior RAR Trigger Event Ratio Levels are increased to above (prior to 1 April 2018) 0.70 (or 0.725 thereafter) and/or 0.85, respectively, or where HAL or any holding company of HAL sells or disposes of all or substantially all of Heathrow to an entity outside the Security Group, in each case, without the consent of the Initial Issuer Liquidity Facility Provider.

Interest will accrue on any drawing made under an Issuer Liquidity Facility provided by an Issuer Liquidity Facility Provider at a reference rate per annum plus a margin. Under the Issuer Liquidity Facility Agreements, the Issuer, in certain circumstances, will be required to pay additional amounts if: (i) a withholding or deduction for or on account of tax is imposed on payments made by it to the relevant Issuer Liquidity Facility Provider; or (ii) if the relevant Issuer Liquidity Facility Provider suffers an increase in the cost of providing the relevant Issuer Liquidity Facility. Drawings under any further Issuer Liquidity Facilities will accrue interest subject to the specific terms of the relevant Issuer Liquidity Facility Agreement. The Issuer will also pay certain agency, arrangement and renewal fees as well as a commitment fee which accrue on any undrawn portion of the commitments under the Issuer Liquidity Facilities.

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.

## **Issuer Hedging Agreements**

### *(a) The Initial Issuer Hedging Agreements*

The Issuer will enter into various interest rate, inflation-linked and currency swap transactions with the Issuer Hedge Counterparties (the "**Issuer Hedging Agreements**") in conformity with the Hedging Policy.

(b) *Tax*

The Issuer may only enter into Treasury Transactions with counterparties who are party to such transactions other than as agent or nominee of another person and who either: (a) are resident for tax purposes in the United Kingdom; or (b) hold the contract comprising the Treasury Transactions solely for the purposes of a trade or part of a trade carried on by it in the United Kingdom through a branch or agency in respect of which it is chargeable to United Kingdom corporation tax; or (c) are resident for tax purposes in a jurisdiction with which the United Kingdom has a double taxation convention which makes provision, whether for relief or otherwise, in relation to interest.

Each Issuer Hedge Counterparty is obliged to make payments under the Issuer Hedging Agreements without any withholding or deduction of taxes, unless required by law. If any such withholding or deduction is required by law, an Issuer Hedge Counterparty will be required to pay any such additional amount as is necessary to ensure that the net amount received by the Issuer will equal the full amount the Issuer would have received had no such deduction or withholding been required. The Issuer will make payments under the Issuer Hedging Agreements subject to any withholding or deduction of taxes required by law, but will not be required to pay any additional amount to any Issuer Hedge Counterparty in respect thereof. However, in either case, if a withholding or deduction is required due to any action by a taxing authority, or change in tax law after the date on which a Treasury Transaction is entered into, which cannot be avoided in accordance with the relevant Issuer Hedging Agreement, the Issuer Hedge Counterparty may terminate the relevant Treasury Transaction.

(c) *Termination*

The Issuer will be entitled to terminate an Issuer Hedging Agreement in certain circumstances (including a failure to pay by the Issuer Hedge Counterparty, certain insolvency events affecting the Issuer Hedge Counterparty and a failure of the Issuer Hedge Counterparty to take such action as set out in the Issuer Hedging Agreement within the specified timeframe following certain rating downgrade events affecting the Issuer Hedge Counterparty).

An Issuer Hedge Counterparty will be entitled to terminate an Issuer Hedging Agreement only in certain limited circumstances being:

- a failure by the Issuer to make payment or delivery when due and such failure is not remedied on or before the third Local Business Day (as defined in the Issuer Hedging Agreement) after notice of such failure is given to the Issuer;
- certain insolvency events affecting the Issuer;
- Illegality (as defined in the relevant Hedging Agreement) affecting the Issuer Hedging Agreement;
- certain tax events (including as described above);
- the Bonds then outstanding are prepaid or repaid in full, or become prepayable or repayable in full (and in respect of which any amounts calculated in accordance with the terms of the relevant Hedging Agreement as being due in respect of an Early Termination Date (as defined in the relevant Hedging Agreement) designated as a result of this termination event shall be payable on the date on which the Bonds are due to be prepaid or repaid in full);
- any sale or disposal of all or substantially all of Heathrow or any sale or disposal of any shares in HAL or a Holding Company of HAL (and in the case of either sale or disposal whether voluntarily or as a result of the enforcement of security or in any other circumstances whatsoever whether in a single transaction or through a series of transactions and whether related or not), which results in, (i) a release of all or substantially all of Heathrow from the Security Interests held for the benefit of the Borrower Secured Creditors in accordance with the Security Documents other than in the case of a sale or disposal to another Obligor which simultaneously creates security over Heathrow in favour of the Borrower Security Trustee on terms which are in all respects equivalent to the released security; and/or (ii) a release, without the simultaneous taking of the benefit of an equivalent guarantee, of the guarantee in respect of obligations secured by such Security Interests from the owner of Heathrow; and/or (iii) a release of the shares

in HAL from the fixed security held by the Borrower Security Trustee pursuant to the Security Agreement and in accordance with the STID for the benefit of the Borrower Secured Creditors other than in the case of a sale or disposal to another Obligor which simultaneously creates security over the shares in HAL in favour of the Borrower Security Trustee on terms which are in all respects equivalent to the released security; and/or (iv) a release, without the simultaneous taking of the benefit of an equivalent guarantee, of the guarantee in respect of the obligations secured by such fixed security from the Holding Company for the time being of HAL; and/or (v) any adverse change to the benefit, enjoyed by the Hedge Counterparties, of the security granted in favour of the Hedge Counterparties prior to such sale or disposal.

For the purpose of the above provision: “equivalent guarantee” means, in the case of (ii) above, a guarantee in respect of the obligations secured by such Security Interests from the owner for the time being of Heathrow; and in the case of (iv) above, a guarantee in respect of the obligations secured by such fixed security from the Holding Company for the time being of HAL.

- to the extent required to ensure that the Hedging Limit is not exceeded (in which event (i) prior to the occurrence of a Loan Event of Default which is continuing, the Group or the Security Group Agent acting on its behalf shall terminate in whole or in part such Treasury Transactions of the Group which are interest rate swap transactions or inflation swap transactions as it shall, by notice to the Borrower Security Trustee and the relevant Hedge Counterparties, elect and (ii) following the occurrence of a Loan Event of Default which is continuing, each Treasury Transaction of the Group which is an interest rate swap transaction or inflation swap transaction (including any Pre-hedge in respect of which the effective date has not occurred) shall be terminated, on a *pro rata* basis by reference to their then outstanding notional amounts (including any accretions on account of indexation));
- to the extent that, at any time, the aggregate notional amount of Treasury Transactions which hedge any particular portion of non-sterling denominated Relevant Debt at that time exceeds the outstanding principal amount of such debt at that time, in which event each such Treasury Transaction shall be terminated on a *pro rata* basis;
- to the extent that, at any time, the aggregate notional amount of Treasury Transactions which hedge any particular portion of the Fixed-rate Debt at that time exceeds the outstanding principal amount of such debt at that time, in which event such Treasury Transaction shall be terminated on a *pro rata* basis;
- following the delivery of a Loan Acceleration Notice by the Borrower Security Trustee in accordance with STID;
- in the case of any Pre-hedges and/or any other inflation or interest rate swap transactions, (a) pursuant to any mandatory termination provision in the relevant Hedging Agreement or (b) in respect of the Pre-hedge only, to the extent that the projected Financial Indebtedness is not incurred as projected or has been issued and the relevant swap or pre-hedging is no longer required;
- prior to the effective date of a Pre-hedge and in respect of such Pre-hedge only, any of the events outlined in section 5(a) and section 5(b) of the relevant Hedging Agreement; and
- prior to the occurrence of a Loan Event of Default which is continuing and prior to the occurrence of a Termination Event (as defined in the Issuer Hedging Agreement) or an Event of Default (as defined in the Issuer Hedging Agreement) which is continuing, an agreement is reached between the Issuer and the relevant Hedge Counterparty at any time to terminate, in whole or in part, a Treasury Transaction(s) prior to its stated or expected term under the Issuer Hedging Agreement, provided that the Group remains in compliance with the Hedging Policy.

(d) *Hedge Counterparty Rating Downgrade*

Subject to paragraph (c) below in respect of the Hedging Agreements, if at any time,

- (a) the rating of the short-term unsecured and unsubordinated debt obligations of a Hedge Counterparty falls below “F1” by Fitch or if the rating of the long-term unsecured and unsubordinated debt obligations of a Hedge Counterparty falls below “A” by Fitch; or
- (b) the rating of the short term unsecured and unsubordinated debt obligations of a Hedge Counterparty (or, if relevant, its guarantor) falls below A-2 by S&P or, if such counterparty does not have a short term rating, if the rating of the long-term unsecured and unsubordinated debt obligations of a Hedge Counterparty (or, if relevant, its guarantor) falls below “BBB+ by S&P,

(each a “**Hedge Counterparty Downgrade**”)

and the Issuer Hedge Counterparty has not, within the specified time period required by the relevant Rating Agency of being notified of such Hedge Counterparty Downgrade, at its own cost:

- (i) procured that another person become co-obligor or guarantor in respect of its obligations under the relevant Issuer Hedging Agreement such other person having a rating of no less than the rating required under the relevant Issuer Hedging Agreement; or
- (ii) posted collateral in accordance with the requirements specified in the credit support annex to the relevant Hedging Agreement in support of its obligations under the relevant Issuer Hedging Agreement; or
- (iii) transferred all of its rights and obligations under the Issuer Hedging Agreement to a replacement third party who complies with the rating requirements set out in the relevant Issuer Hedging Agreement; or
- (iv) take such other action as the Issuer Hedge Counterparty agrees which will result in the rating (or shadow rating, as applicable) of the relevant Bonds being restored to the level they were immediately prior to the Hedge Counterparty Downgrade,

then the Issuer shall be entitled to terminate the relevant Issuer Hedging Agreement.

In the event that the Issuer Hedge Counterparty posts collateral, that collateral will be credited to a separate hedge collateral account. Collateral and income arising from such collateral will be applied solely in returning collateral or paying income attributable to collateral to that Issuer Hedge Counterparty. Any Issuer Excess Hedge Collateral or Issuer Hedge Replacement Premium will generally be paid directly to the relevant Hedge Counterparty and not in accordance with the Issuer Payment Priorities.

“**Issuer Excess Hedge Collateral**” means an amount equal to the value of the collateral (or the applicable part of any collateral) provided by any Issuer Hedge Counterparty to the Issuer in respect of the relevant Issuer Hedge Counterparty’s obligations to transfer collateral to the Issuer under the relevant Issuer Hedging Agreement (as a result of the ratings downgrade provisions in that Issuer Hedging Agreement), which is in excess of that Issuer Hedge Counterparty’s liability to the Issuer under the relevant Issuer Hedging Agreement, or which the relevant Issuer Hedge Counterparty is otherwise entitled to have returned to it under the terms of the relevant Issuer Hedging Agreement.

- (c) the rating requirements outlined in paragraph (i) under “– *Hedging Policy*” above shall only apply in relation to the Initial Issuer Hedge Counterparties and transferees in respect of such Initial Issuer Hedge Counterparties. All other Issuer Hedge Counterparties must comply with the requirements set out in the relevant Rating Agency Criteria or if the relevant Rating Agency Criteria does not apply the rating requirements set out at paragraph (i) under “– *Hedging Policy*”).

### **Bond Trust Deed**

On the Initial Issue Date, the Issuer, each Relevant Financial Guarantor and the Bond Trustee will enter into a bond trust deed (the “**Bond Trust Deed**”) pursuant to which the Bonds will be constituted. The Bond Trust Deed will include the form of the Bonds and contain a covenant from the Issuer to the Trustee to pay all amounts due under the Bonds. The Bond Trustee will hold the benefit of that covenant on trust for itself and the Bondholders in accordance with their respective interests.

The Bond Trust Deed will contain provisions requiring the Bond Trustee to have regard to the interests of the holders of the Bonds of the Most Senior Class of Bonds then outstanding (except where expressly provided otherwise). If, in the Bond Trustee's opinion, there is a conflict between the interests between the holders of two or more Tranches or Sub-Classes of Bonds of the same Class (or, if there are no Class A Bonds 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.

The Issuer will undertake, among other things:

- (a) not to (A) carry on or transact any business other than (i) the raising of funds to provide debt financing to the Borrowers in accordance with the Issuer Transaction Documents or (ii) the entry into the Issuer Liquidity Facility Agreement or any Hedging Agreement in accordance with the Hedging Policy; (B) own any assets or incur any liabilities except as required for the purpose of carrying on that business in accordance with the Issuer Transaction Documents; (C) suspend, abandon or cease to carry on its business;
- (b) to maintain compliance with the Hedging Policy;
- (c) to use reasonable endeavours to procure the admission of all listed Bonds for trading on the Market, or such other stock exchange approved by the Dealers and the Bond Trustee, and to maintain such admission until none of the relevant listed Bonds is outstanding;
- (d) upon receiving a written request from the Bond Trustee, to deliver to the Bond Trustee a certificate setting out, *inter alia*, details of the aggregate principal amount outstanding under the outstanding Bonds which, for the time being, are held by the Issuer, any member of the Security Group or the Non-Designated Group, or any of their respective holding companies (or any Affiliate (as such term is used in the definition of "outstanding") of any such person) or by any person for the benefit of the Issuer, any member of the Security Group or the Non-Designated Group, or any of their respective holding companies (or any Affiliate (as such term is used in the definition of "outstanding") of any such person);
- (e) to send or procure to be sent (not less than three days prior to the date of publication) to the Bond Trustee for the Bond Trustee's approval, one copy of each notice to be given to the Bondholders in accordance with the Conditions and not to publish such notice without such approval and, upon publication, send to the Bond Trustee two copies of such notice (such approval, unless so expressed, not to constitute approval for the purpose of section 21 of the FSMA of such notice as an investment advertisement (as therein defined));
- (f) to use its reasonable endeavours to procure that the Principal Paying Agent notifies the Bond Trustee forthwith if it does not, on or before the due date for payment in respect of the Bonds of any Series, receive unconditionally the full amount in the correct currency of the monies payable on such due date;
- (g) to forthwith give notice to the Bondholders of payments made after their due date to the Principal Paying Agent or the Bond Trustee;
- (h) not less than the number of days specified in the relevant Conditions prior to the redemption or repayment date in respect of any Bond, to give to the Bond Trustee notice in writing of the amount of such redemption or repayment pursuant to the Conditions;
- (i) prior to giving notice to the Bondholders that it intends to redeem the Bonds pursuant to Condition 8(d) (*Optional Redemption*), Condition 8(e) (*Redemption for Index Event, Taxation or Other Reasons*), Condition 8(f) (*Redemption on Prepayment of Borrower Loan Agreements*), Condition 8(g) (*Early Redemption on exercise of Subordinated Creditor Call Option*) or Condition 8(h) (*Early Redemption following Loan Enforcement Notice*), to provide such information to the Bond Trustee and each Relevant Financial Guarantor as the Bond Trustee and each such Financial Guarantor require in order to satisfy themselves of the matters referred to in those Conditions;

- (j) to promptly give notice to the Bond Trustee (A) if it is required by law to effect a deduction or withholding of Tax in respect of any payment due in respect of any Bonds listed on a recognised stock exchange (within the meaning of section 1005 of the Income Tax Act 2007); or (B) if an Issuer Hedge Counterparty is required to make a deduction or withholding of Tax in respect of any payment due under the relevant Issuer Hedging Agreement;
- (k) while any of the Bonds remain outstanding, to give notice, or procure that notice is given, to each of the Rating Agencies of (A) any proposed amendment to the Issuer Transaction Documents other than amendments that the Bond Trustee considers to be of a formal, minor or technical nature or 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; (B) the Bonds of any Series being repaid in full; (C) the termination of the appointment of the Issuer Cash Manager; (D) the appointment of a new or replacement Bond Trustee or the appointment of any new or replacement Agents; (E) any Bond Event of Default and (F) taking of any Enforcement Action. The Issuer shall also send, or procure the sending of, a copy of all notices, written information and reports that it provides to Bondholders to each of the Rating Agencies promptly after such information is provided to the Bondholders of any Class or Sub-Class of Bonds;
- (l) to observe and comply with its obligations, and use all reasonable endeavours to procure that the Agents observe and comply with all their obligations under the Agency Agreement and, if any Registered Bonds are outstanding, to procure that the Registrar maintains the Register and to notify the Bond Trustee immediately if it becomes aware of any material breach or failure by an Agent in relation to the Bonds;
- (m) to give not less than 30 days' prior notice to the Bondholders of any future appointment or any resignation or removal of any Agent or of any change by any Agent of its specified office;
- (n) if, before a Payment Date for any Bond, it becomes subject generally to the taxing jurisdiction of any territory or any political sub-division thereof or any authority therein or thereof having power to tax other than or in addition to the UK, to notify (immediately upon becoming aware thereof) the Bond Trustee of such event and (unless the Bond Trustee otherwise agrees) to enter into a deed supplemental to the Bond Trust Deed, so that the relevant Condition shall make reference to that other or additional territory;
- (o) to notify the Bond Trustee of any amendment to the Dealership Agreement;
- (p) for so long as any Bonds are outstanding, to take, or cause to be taken, such actions as are required in order for the Issuer to qualify for, and maintain such qualification for, exemption from registration as an "investment company" under the Investment Company Act;
- (q) upon the request of any holder or beneficial owner of any Rule 144A Bond or prospective purchaser of any Rule 144A Bond designated by such holder or beneficial owner, promptly to furnish the information required to be provided by Rule 144A(d)(4) under the Securities Act; provided however, that the Issuer will not be required to furnish any such information if at the time of such request the Issuer is a reporting company under section 13 or section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. All information made available by the Issuer pursuant to this paragraph shall also be made available during the usual business hours free of charge at the office of the Transfer Agents; and
- (r) not to engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business with the United States as determined under United States income tax principles.

#### ***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, and, if an FG Event of Default is subsisting voting in respect of the Class A Wrapped Bonds tranche may be made by holders of the Class A Wrapped Bonds and, following repayment in full of the Senior Debt, voting in respect of the Class B Wrapped Bond tranche may be made by holders of the Class B Wrapped 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.
- (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 will be governed by English law.

## 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.*

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 and 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 Obligor, 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 “**Talons**”).

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:

- (v) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (vi) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(i) (*Definitions*)); and
- (vii) 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) 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) 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 (*Notice*);

“**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, 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 [www.statistics.gov.uk](http://www.statistics.gov.uk) (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 3:30pm 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 Bond 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 Bond 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 (as defined in Condition 20(f) below), 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 unmatured Coupons attached), unmatured 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 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, Intercreditor Instruction Notice, Direction Notice, Emergency SSA Instruction 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. No Series of Bonds offered in reliance on Rule 144A may include Bearer Bonds.

### **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 “**Regulation S Global Bond Certificate**”) which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Regulation S Global Bond Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. See “*Book-Entry Clearance Procedures*”.

The Bonds of each series sold in reliance on Rule 144A under the Securities Act, as specified in the relevant Final Terms, will be represented on issue by one or more permanent global certificates of such Class, in fully registered form without interest coupons or principal receipts attached (each a “**Rule 144A Global Bond Certificate**”) which, in the case of any Rule 144A EC Global Bond Certificates, will be deposited with a common depository for Euroclear and Clearstream, Luxembourg or, in the case of any Rule 144A DTC Global Bond Certificates, will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Beneficial interests in a Rule 144A Global Bond Certificate may only be held through Euroclear, Clearstream, Luxembourg (in the case of Rule 144A EC Global Bond Certificates) or DTC (in the case of Rule 144A DTC Global Bond Certificates) or their participants at any time. See “*Book-Entry Clearance Procedures*”. Beneficial interests in a Rule 144A Global Bond Certificate may only be held by persons who are QIBs that are QPs, holding their interests for their own account or for the account of one or more QIBs each of which is also a QP. By acquisition of a beneficial interest in a Rule 144A Global Bond Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A Global Bond Certificate.

The Regulation S Global Bond Certificates and the Rule 144A Global Bond Certificates are referred to herein as “**Global Bond Certificates**”. 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. Unless otherwise provided in the relevant Final Terms, no beneficial interest in a Regulation S Global Bond Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A Global Bond Certificate unless (i) a corresponding Rule 144A Global Bond Certificate is also issued in respect of such Sub-Class of Bonds (as stated in the relevant Final Terms), (ii) the transfer is to a person that is both a QIB and a QP, (iii) such transfer is made in reliance on Rule 144A, and (iv) the transferor provides the Registrar with a written certification substantially in the form set out in the Bond Trust Deed. Unless otherwise provided in the relevant Final Terms, no beneficial interest in the Rule 144A Global Bond Certificates may be transferred to a person who takes delivery in the form of a beneficial interest in a Regulation S Global Bond Certificate unless a corresponding Regulation S Global Bond Certificate is also issued in respect of such Sub-Class of Bonds (as stated in the relevant Final Terms), and in such case only if the transfer is to a person who is neither a U.S. person nor a U.S. resident, and is conducted in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification substantially in the form set out in the Bond Trust Deed.

Any beneficial interest in a Regulation S Global Bond Certificate that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Bond Certificate, which is possible only if a corresponding Rule 144A Global Bond Certificate is also issued in respect of such Sub-Class of Bonds (as stated in the relevant Final Terms) and subject to the limitation stated in the paragraph above, will upon transfer, cease to be an interest in such Regulation S Global Bond Certificate and become an interest in the Rule 144A Global Bond Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A Global Bond Certificate for as long as it remains such an interest. Any beneficial interest in a Regulation S Global Bond Certificate, which is possible only if a corresponding Regulation S Global Bond Certificate is also issued in respect of such Sub-Class of Bonds (as stated in the relevant Final Terms) and subject to the limitation stated in the paragraph above, will upon transfer, cease to be an interest in a Rule 144A Global Bond Certificate and become an interest in the Regulation S Global Bond Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Regulation S Global Bond Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Bonds, but the Registrar or Transfer Agent may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

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 Rule 144A 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 certificates in individual bond certificate form (“**Rule 144A Individual Bond Certificates**”) and each Regulation S 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 (“**Regulation S Individual Bond Certificates**” and, together with the Rule 144A Individual Bond Certificates, “**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 (other than DTC) 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
- if a Global Bond Certificate is held on behalf of DTC and DTC notifies the Issuer that it is no longer willing to discharge properly its responsibilities as depository with respect to the relevant Global Bond Certificate or DTC ceases to be a “clearing agency” registered under the Exchange Act or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; 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) 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 and (b) in the case of the Rule 144A Global Bond Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB that is a QP. Individual Bond Certificates issued in exchange for a beneficial interest in the Rule 144A Global Bond Certificate shall bear the legends applicable to transfers pursuant to Rule 144A.

#### ***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. Individual Bond Certificates for each class of Bonds for the Rule 144A Bonds will bear the same legend as the legend for the Rule 144A Global Bond Certificates for such classes set out under “*Transfer Restrictions*”. The Rule 144A Individual Bond Certificates may not at any time be held by or on behalf of U.S. persons or U.S. residents that are not QIBs that are QPs. Individual Bond Certificates for each class of Bonds for the Regulation S Bonds will bear the same legend as the legend for the Regulation S Global Bond Certificates for such classes set out under “*Transfer Restrictions*”.

#### **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 DTC, 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 DTC, 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 DTC, 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, Clearstream, Luxembourg and DTC**

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg and DTC to facilitate the initial issue of each Series of the Bonds and cross-market transfers of the Bonds associated with secondary market trading. See “– Settlement and transfer of Bonds” below.

### **Euroclear and Clearstream, Luxembourg**

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. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. 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.

### **DTC**

DTC has advised the Issuer as follows: “DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.”

Investors may hold their interests in a Global Bond Certificate directly through DTC if they are participants (“**Direct Participants**”) in the DTC system, or indirectly through organisations which are participants in such system (“**Indirect Participants**”) and together with Direct Participants, “**Participants**”).

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Bonds (including, without limitation, the presentation of certificates for exchange as described under “*Form of the Bonds – Registered Bonds – Exchange for Individual Bond Certificates*” above) only at the direction of one or more Participants in whose accounts with DTC interests in Global Bond Certificates are credited and only in respect of such portion of the aggregate principal amount of the relevant Global Bond Certificates as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Form of the Bonds – Registered Bonds –*

*Exchange for Individual Bond Certificates*” above, DTC will surrender the relevant Rule 144A DTC Global Bond Certificates for exchange for Individual Bond Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A, section 3(c)(7) of the Investment Company Act or Reg S (as applicable)).

#### **Book-entry ownership**

##### ***Euroclear and Clearstream, Luxembourg***

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 Regulation S Global Bond Certificate and Rule 144A EC 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.

##### ***DTC***

Each Rule 144A DTC Global Bond Certificate will have a CUSIP number, an ISIN and a common code and will be deposited with as custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The custodian and DTC will electronically record the principal amount of the Bonds held within the DTC system.

#### **Payments and relationship of participants with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Bond represented by a Global Bond or a Global Bond Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (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, Clearstream, Luxembourg or DTC (as the case may be). 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. Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which such Beneficial Owner entered into the transaction. 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.

No Clearing System has knowledge of the actual Beneficial Owners of the Bonds held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants



will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Bond or Global Bond Certificate to such persons may be limited. The Clearing Systems can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, so the ability of a person having an interest in a Global Bond or Global Bond Certificate to pledge such interest to persons or entities that do not participate in such Clearing System, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

***Trading between Euroclear and/or Clearstream, Luxembourg participants***

Secondary market sales of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg (subject to the transfer restrictions applicable to the Bonds described in “*Transfer Restrictions*” and the relevant Final Terms) and will be settled using the procedures applicable to conventional Eurobonds and U.S. dollar denominated bonds.

***Trading between DTC Participants***

Secondary market sales of book-entry interests in the Bonds between DTC participants will occur in the ordinary way in accordance with DTC rules (subject to the transfer restrictions applicable to the Bonds described in “*Transfer Restrictions*” and the relevant Final Terms) and will be settled using the procedures applicable to United States corporate debt obligations in DTC’s same-day funds settlement (“*SDFS*”) system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC Participants.

***Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser***

When book-entry interests in Bonds are capable of being transferred (as specified in “*Transfer Restrictions*” and the relevant Final Terms) from the account of a DTC participant holding a beneficial interest in a Global Bond Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in that Global Bond Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Global Bond Certificate will instruct the Registrar to (i) decrease the amount of Bonds registered in the name of Cede & Co, and evidenced by the relevant Global Bond Certificate and (ii) increase the amount of Bonds registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Global Bond Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

***Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser***

When book-entry interests in the Bonds are capable of being transferred (as specified in “*Transfer Restrictions*” and the relevant Final Terms) from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Global Bond Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may

be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Global Bond Certificate who will in turn deliver evidence of such book-entry interests in the Bonds free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Bonds registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Global Bond Certificate and (ii) increase the amount of Bonds registered in the name of Cede & Co. and evidenced by the relevant Global Bond Certificate.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in applicable Global Bond Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

***Pre-issue trades settlement***

It is expected that delivery of Bonds will be made against payment therefore on each Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Bonds in the United States on the date of pricing or the next succeeding business days until three days prior to the Issue Date of a series will be required, by virtue of the fact the Bonds initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Bonds may be affected by such local settlement practices and purchasers of Bonds who wish to trade Bonds between the date of pricing and the Issue Date should consult their own adviser.

## PRO FORMA FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Bonds issued under the Programme.*

Final Terms dated [●]

### [BAA Funding Limited]

Issue of [Sub-Class [-[●] (delete as appropriate)] [Aggregate Nominal Amount of Sub-Class]

[Title of Bonds]

[(if Class A Wrapped Bonds or Class B Wrapped Bonds issued including the following):  
unconditionally and irrevocably guaranteed as to scheduled and ultimate payments of principal and  
interest

by

[Name of Financial Guarantor]

under the Bond Programme

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered or sold in the United States or to U.S. Persons (as defined in Regulation S under the Securities Act) unless an exemption from the registration requirements of the Securities Act is available. See “*Subscription and Sale*” and “*Transfer Restrictions*” in the accompanying Prospectus.

## PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Prospectus dated [●] [and the supplemental or drawdown Prospectus dated [●] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Bonds described herein for the purposes of [Article 5.4 of the Prospectus Directive] [Listing Rule 4.2.3 of the Listing Rules] and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectus. [The Prospectus [and the supplemental/drawdown Prospectus] [is] [are] available for viewing at [●].]

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.]*

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [original date] [and the supplemental/drawdown Prospectus dated [●]. This document constitutes the Final Terms of the Bonds described herein for the purposes of [Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”)]<sup>9</sup> [and Listing Rule 4.2.3 of the Listing Rules of the Financial Services Authority (the “**Listing Rules**”)]<sup>10</sup> and must be read in conjunction with the Prospectus dated [current date] [and the supplemental/drawdown Prospectus dated [●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive and listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental/drawdown Prospectus dated [●]] and are attached hereto. Full information on the Issuer and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental/drawdown Prospectuses dated [●] and [●]. [The Prospectuses [and the supplemental/drawdown Prospectuses] are available for viewing at [●].]

[Repayment of the principal and payment of any interest or premium in connection with the Bonds has not been guaranteed by [*Financial Guarantor[s]*] or by any other financial institution.]

*[Note: include above paragraph if neither Class A Wrapped Bonds nor Class B Wrapped Bonds being described in the Final Terms.]*

Co-Arrangers for the Programme

CITI

RBS

Dealers

[●]

<sup>9</sup> Delete wording in square brackets if the Bonds are to be listed on the London Stock Exchange’s Professional Securities Market.

<sup>10</sup> Delete wording in square brackets if the Bonds are to be listed on the London Stock Exchange’s Gilt-Edged and Fixed Interest Market.

*[When completing Final Terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute (i) (in the case of an application to list the Bonds on the London Stock Exchange – Regulated Market) “significant new factors” and consequently trigger the need for a supplementary or drawdown Prospectus under Article 16 of the Prospectus Directive or (ii) (in the case of an application to list the Bonds on the London Stock Exchange’s Professional Securities Market) “a significant change” and consequently trigger the need for a supplement to the Prospectus under section 81 of the FSMA.]*

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]*

- 1
  - (i) Issuer: BAA Funding Limited
  - (ii) Obligors: Heathrow Airport Limited, Gatwick Airport Limited, Stansted Airport Limited, BAA (SP) Limited, BAA (AH) Limited, Heathrow Express Operating Company Limited
  - (iii) Financial Guarantor: [Name of Financial Guarantor]  
*[delete if not Wrapped Bonds]*
  - (iv) Bond Guarantor: [BAA Limited]  
*[delete if not BAA Guranteed Bonds]*
  - (v) Initial Issuer Liquidity Facility Provider: [●] of *[address]*
  - (vi) Initial Borrower Liquidity Facility Provider: [●] of *[address]*
- 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: [●]
- 5
  - (i) Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (*in the case of fungible issues only, if applicable*)]
  - (ii) Net proceeds (required only for listed issues): [●]
- 6
  - (i) Specified Denominations: [€50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Bonds in definitive form will be issued with a denomination above [€99,000].]  
  
[\$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].]

[£50,000 and integral multiples of [£1,000] in excess thereof up to and including [£99,000]. No Bonds in definitive form will be issued with a denomination above [£99,000].]

- (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 50,000 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 *pari passu* 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 *pari passu* among each other and are subordinated in terms of interest and principal payments to the Class A Bonds.
- (ii) Status of the BAA Bond Guarantee: The BAA Bond Guarantee will rank *pari passu* with all unsecured obligations of the Bond Guarantor. [*Only required if BAA Guaranteed Bonds*] [*Specify for Bond Guarantor*]
- (iii) Status of the Financial Guarantee: The Financial Guarantee will rank *pari passu* with all unsecured obligations of the Financial Guarantor. [*Only required if Wrapped Bonds. Specify for Financial Guarantor*]
- (iv) FG Event of Default (if not [[Financial Guarantor[s]]])
- [v] [Date [Board] approval for issuance of Bonds obtained: [●] and [●] respectively]]
- (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Bonds)
- 15 Listing: [London] [*and other exchanges as applicable*]
- 16 Method of distribution: [Syndicated/Non-syndicated]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 17 Fixed Rate Bond Provisions: [Applicable/Not Applicable]
- (i) Interest Rate: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) [Floating rate provisions to be specified for interest payable following Scheduled Redemption Date]
- 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: [●]
- (iii) Step-Up Fixed Fee Rate: [●] per cent. per annum
- (iv) Interest Determination Date: [●] 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)*)
- (v) Interest Payment Date(s): [●] in each year [adjusted in accordance with [*specify Business Day Convention and applicable Business Centre(s) for the definition of “Business Day”*]/not adjusted]

- (vi) First Interest Payment Date: [●]
- (vii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (viii) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]*
- (ix) Day Count Fraction: [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]
- (x) Other terms relating to the method of calculating interest for Fixed Rate Bonds: *Not Applicable/give details*
- (xi) Reference Gilt: [●]
- (xii) Comparable German Bund Issue: [●]
- (xiii) Alternative Redemption Amount: *[Not Applicable/give details]*
- Reuters Screen: [●]
- 18 Floating Rate Bond Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Specified Period(s)/Specified Interest Payment Dates: [●]
- (ii) Specified Interest Payment Dates [●]
- (iii) First Interest Payment Date [●]
- (iv) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (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]

- (xiv) Day Count Fraction: [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]
- (xv) Additional Business Centre(s): [●]
- (xvi) 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: [●]
- (xix) Reference Banks: *[if none specified, four major banks selected by Agent Bank/Calculation Agent]*
- 19 Zero Coupon Bond Provisions: [Applicable/Not Applicable]  
*If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Accrual Yield: [●] per cent. per annum
- (ii) Reference Price: [●]
- (iii) Any other formula/basis of determining amount payable: [●]
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Condition 8(e)/specify other]  
  
*(Consider applicable day count fraction if not U.S. dollar denominated)*
- 20 Indexed Bond Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula: [UK Retail Price Index]
- (ii) Interest Rate: [●]
- (iii) *[Floating rate provisions to be specified for interest payable following Scheduled Redemption Date]*
- 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 [Not applicable/Calculation Agent]



- and Redemption Amount(s) (if not the Agent Bank):
- (vi) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted: Applicable – Condition 7I and 7(e)
- (vii) Interest or calculation period(s) [●]
- (viii) Interest Payment Dates: [●]
- (ix) First Interest Payment Date: [●]
- (x) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day 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: [●]
- (xvii) Day Count Fraction: [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]
- (xviii) Alternative Redemption Amount: [Not Applicable/*give details*]  
– Reuters Screen: [●]
- 21 Dual Currency Bond Provisions: [Applicable/Not Applicable]  
*[If not applicable, delete the remaining subparagraphs of this paragraph]*
- (i) Rate of Exchange/method of 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: [●]

#### PROVISIONS RELATING TO REDEMPTION

- 22 Issuer Call Option: Applicable in accordance with Condition 8(d)
- (i) Optional Redemption Date(s): Any Interest Payment Date [falling on or after [●] and at a premium of [●] (delete for non-Floating Rate Bonds).]
- (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: [●] per Calculation Amount
- In cases where the Redemption Amount is Index-Linked or other variable-linked:
- (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:**

[Bearer/Registered]

- (i) If issued in Bearer form:

[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]  [Regulation S Global Bond Certificate registered in the name of a common depository for Euroclear and Clearstream, Luxembourg] [Rule 144A Global Bond Certificate registered in the name of [a nominee for DTC]/[a common depository 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. <i>If yes, give details</i> ]
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/ <i>give details</i> ]
31 Details relating to Instalment Bonds:	[Not Applicable/ <i>give details</i> ]
(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]
34 Other final terms:	[Not Applicable/ <i>give details</i> ]  <i>(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.)</i>
35 TEFRA rules:	[TEFRA C/TEFRA D/Not applicable]

#### **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/ <i>give names</i> ]
(ii) Stabilising Manager (if any):	[Not Applicable/ <i>give name</i> ]
40 If non-syndicated, name of Dealer:	[Not Applicable/ <i>give name</i> ]
41 Additional selling and transfer restrictions:	[Not Applicable/ <i>give details</i> ]

## 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.]

[The Bond Guarantor accepts responsibility for any information in respect of the Bond Guarantor contained in these Final Terms.]

[[*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 Gatwick 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

[Signed on behalf of BAA Limited]

By:

Duly authorised

## PART B – OTHER INFORMATION

### 1 Listing

- (i) Listing: [London/Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Bonds to be admitted to trading on [●] with effect from [●].  
[Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2 Ratings

- Ratings: The Bonds to be issued have been rated:  
[S&P: [●]]  
[Fitch: [●]]
- (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.)*

### 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: [●]]
- (See [*Use of Proceeds*] wording in Prospectus – 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 DTC, Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme and the relevant identification number(s):  [Not Applicable/give name(s) and member(s) and address(es)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any):

ISIN Code: Regulation S  Rule 144A

Common Code: Regulation S  Rule 144A

CUSIP: Rule 144A

Notes:

(1) Required for derivative securities

(2) Required for derivative securities

(3) Required for derivative securities

## THE FINANCIAL GUARANTORS AND FINANCIAL GUARANTEES

The Issuer may arrange for one or more financial guarantee companies which meet the Financial Guarantor Criteria to issue Financial Guarantees in respect of Tranches or Sub-Classes of Class A Wrapped Bonds and/or Class B Wrapped Bonds or in respect of other Wrapped Debt issued or raised under an Authorised Credit Facility.

Each Relevant Financial Guarantor shall:

- (a) be authorised to provide financial guarantees under relevant law or regulation;
- (b) be a recognised provider of financial guarantees for asset backed and mortgage backed securities; and
- (c) provide a guarantee of timely payment of scheduled principal and scheduled interest by the Issuer on substantially the provisions set out below,

(the conditions in paragraphs (a)-(c) above, the “**Financial Guarantor Criteria**”).

Prior to the issue of Wrapped Bonds which are guaranteed by a Relevant Financial Guarantor, a Supplementary containing a description of such Relevant Financial Guarantor and, if relevant, its parent company and the form of Financial Guarantee to be issued will be published together with the Final Terms in respect of any Tranche or Sub-Class of Wrapped Bonds which are subject to the relevant Financial Guarantee or such information will be published in a Drawdown Prospectus.

### **UK Withholding Tax**

Payments in respect of interest made under the Financial Guarantees may be subject to UK withholding taxes as discussed in “*Tax Considerations*”.



## DESCRIPTION OF INITIAL HEDGE COUNTERPARTIES

### **Banco Bilbao Vizcaya Argentaria, S.A.**

Banco Bilbao Vizcaya Argentaria's ("BBVA") predecessor bank, BBV, was incorporated as a limited liability company (a *sociedad anónima* or "S.A.") under the Spanish Corporations Law on 1st October, 1988. BBVA was formed as the result of a merger by absorption of Argentaria into BBV that was approved by the shareholders of each institution on 18th December, 1999 and registered on 28th January, 2000. It is registered in the Mercantile Registry, in Companies Ledger 2,083, folio 1, inscription 1st, Sheet number BI-17-A. It conducts its business under the commercial name "BBVA". BBVA is registered with the Commercial Registry of Vizcaya (Spain).

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. It also has a portfolio of investments in some of Spain's leading companies.

BBVA is a company with limited liability with a capital of EUR 1.837 Mios whose registered office is Plaza de San Nicolás 4, 48005 – Bilbao, Spain.

BBVA 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. It was established on March 21, 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on January 14, 1875.

Grupo Santander is a financial group operating principally in Spain, the United Kingdom, other European countries and Latin America, offering a wide range of financial products.

At December 31, 2007, Grupo Santander was one of the eight largest banking groups in the world by market capitalization and the largest banking group in the euro zone with a stock market capitalization of €92.5 billion, stockholders' equity of €55.2 billion and total assets of €912.9 billion. Grupo Santander had an additional €151.0 billion in mutual funds, pension funds and other assets under management at that date. As of December 31, 2007, we had 47,838 employees and 5,976 branch offices in Continental Europe, 16,827 employees and 704 branches in the United Kingdom (Abbey), 65,628 employees and 4,498 branches in Latin America and 1,526 employees in other geographic areas.

Grupo Santander's principal operations are in Spain, the United Kingdom, Portugal, Germany, Italy and Latin America. The Group also has significant operations in New York as well as financial investments in RFS Holdings B.V., Sovereign and Attijariwafa Bank Société Anonyme. In Latin America, we have majority shareholdings in banks in Argentina, Brazil, Chile, Colombia, Mexico, Puerto Rico, Uruguay and Venezuela.

### **BNP PARIBAS**

#### ***Legal Status and Form of BNP Paribas***

BNP Paribas is a French *société anonyme* registered with the *Registre du Commerce et des Sociétés* in Paris under number 662 042 449 (APE business identifier code: 651 C), licensed to conduct banking operations under the Monetary and Financial Code (*Code Monétaire et Financier, Livre V, Titre 1<sup>er</sup>*). The Bank was founded pursuant to a decree dated May 26, 1966. BNP Paribas is domiciled in France; its registered office is located at 16, boulevard des Italiens – 75009 Paris, France (telephone number: (+) 33 1 40 14 45 46). BNP Paribas is governed by banking regulations, the provisions of the Commercial Code applicable to trading companies and by its Articles of Association. The Bank's purpose (Article 3 of the Articles of Association) is to provide and conduct the following services with any legal entity or individual, in France and abroad, subject to compliance with the laws and regulations applicable to credit institutions licensed by the *Comité des Établissements de Crédit et des Entreprises d'Investissement*: any investment services, any services related to investment activities, any banking activities, any transactions related to banking activities, any purchase of an ownership interest, within the meaning of Book III, Title 1 relating to bank transactions, and Title II relating to investment services and their ancillary services, of the Monetary and Finance Code. The Bank was founded pursuant to a decree dated May 26, 1966, its duration has been extended to a period of 99 years as from September 17, 1993. Each financial year begins on January 1 and ends on December 31.

### ***Business Overview***

The BNP Paribas Group (the “Group”) (of which BNP Paribas is the parent company) is a European leader in banking and financial services. It has approximately 162,000 employees, 126,000 of whom are based in Europe. The Group occupies leading positions in three significant fields of activity: Corporate and Investment Banking, Asset Management & Services and Retail Banking. It has operations in 85 countries and has a strong presence in all the key global financial centers. It is present throughout Europe in all its business lines, with France and Italy constituting its two domestic retail banking markets. BNP Paribas has a significant and growing presence in the United States and leading positions in Asia and in emerging markets.

At December 31, 2007, the Group had consolidated assets of €1,694.5 billion (compared to €1,440.3 billion at December 31, 2006), consolidated loans and receivables due from customers of €445.1 billion (compared to €393.1 billion at December 31, 2006), consolidated items due to customers of €346.7 billion (compared to €298.7 billion at December 31, 2006) and shareholders’ equity (Group share including income for 2007) of €53.8 billion (compared to €49.5 billion at December 31, 2006). Pre tax net income for the year ended December 31, 2007 was €11.1 billion (compared to €10.6 billion for the year ended December 31, 2006). Net income, Group share, for the year ended December 31, 2007 was €7.8 billion (compared to €7.3 billion for the year ended December 31, 2006).

The Group currently has long term senior debt ratings of “Aa1” with stable outlook from Moody’s, “AA+” with stable outlook from Standard & Poor’s and “AA” with stable outlook from Fitch Ratings.

The Group has three divisions: Retail Banking, Asset Management and Services and Corporate and Investment Banking, the latter two of which also constitute “core businesses”. Operationally, the Retail Banking division is itself comprised of three core businesses: French Retail Banking, Italian Retail Banking (BNL bc) and International Retail Services. The Group has additional activities, including those of its listed real estate subsidiary, Klépierre, that are conducted outside of its core businesses.

Except where otherwise specified, all financial information and operating statistics included herein are presented as of December 31, 2007.

### **Caja de Ahorros y Monte de Piedad de Madrid**

Caja Madrid Group is the fourth largest financial group in the Spanish market, with 7 million customers and market shares of close to 7 per cent. in both loans and customer funds. The Caja Madrid Group offers a comprehensive range of products and services in retail, investment and private banking designed to match the needs of its 7 million customers in all industry segments: families, small and medium size businesses, large corporations and public and private institutions.

Caja Madrid has a long term rating of AA- (S&P and Fitch) and Aa1 (Moody’s). Caja Madrid’s total assets are in excess of €158bn as at 31st December 2007 and net profit before tax for the year ended 31st December 2007 of €3.3bn.

### **CALYON**

CALYON (“CALYON”) is the Crédit Agricole group’s corporate and investment banking subsidiary. Crédit Agricole is ranked 8<sup>th</sup> worldwide and 3<sup>rd</sup> in Europe by Tier One capital. With a staff of more than 14,000 employees in 58 countries, CALYON offers clients a full range of products and services in capital markets, brokerage, investment banking, structured finance, corporate banking and private banking.

CALYON is a company with limited liability with a capital of EUR 3,714,724,584 whose registered office is 9 quai du Président Paul Doumer, 92920 Paris la Défense Cedex (France) – +33 1 41 89 00 00 – and Companies Register SIREN 304187701 with Registre du Commerce et des Sociétés de NANTERRE.

CALYON is a Finance Company authorised by the French CECEI (Comité des établissements de Crédit et des Entreprises d’investissement) to perform banking operations and a Member of the Fédération Bancaire Française. Intra-Community Code – VAT number: FR 163 041 877 01.

### **Citibank N.A., London Branch**

Citibank, N.A. (“**Citibank**”) was originally organised on 16 June 1812, and now 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. As of 31 March 2008, the total assets of Citibank and its consolidated subsidiaries represented approximately 59 per cent. of the total assets of Citigroup and its consolidated subsidiaries.

Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank, N.A., London Branch was registered in the UK 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 London Branch is primarily regulated by The Financial Services Authority and operated in the UK as a fully authorised commercial banking institution offering a wide range of corporate banking products.

Citibank does not publish audited financial statements. However, Citigroup publishes audited financial statements which include certain data relevant to Citibank and its consolidated subsidiaries, including an audited balance sheet of Citibank and its consolidated subsidiaries. The consolidated balance sheets of Citibank as of 31 December 2007 and as of 31 December 2006 are set forth on page 110 of the Annual Report 2007 10-K of Citigroup and its subsidiaries for the year ended 31 December 2007 and as of 31 March 2008 and 31 December 2007 are set forth on page 64 of the Quarterly Report on Form 10-Q of Citigroup and its subsidiaries for the quarter ended 31 March 2008 (the “**March 2008 10-Q**”). Consolidated balance sheets of Citibank subsequent to 31 March 2008 will be included in the Form 10-Q’s (quarterly) and Form 10-K’s (annually) filed by Citigroup with the Securities and Exchange Commission (the “**SEC**”), which will be filed not later than 40 days after the end of the calendar quarter or 60 days after the end of the calendar year to which the report relates, or on Form 8-K with respect to certain interim events. For further information regarding Citibank, reference is made to the March 2008 10-Q and to any subsequent reports on Forms 10-K, 10-Q or 8-K filed by Citigroup with the SEC. Copies of such material may be obtained, upon payment of a duplicating fee, by writing to the SEC at 100 F Street, N.E., Washington, D.C. 20549. In addition, such reports of Citigroup are available at the SEC website (<http://www.sec.gov>). The content of the SEC website does not form any part of this Prospectus.

In addition, Citibank submits quarterly to the U.S. Office of the Comptroller of the Currency (the “**Comptroller**”) certain reports called “Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices” (“**Call Reports**”). The Call Reports are on file with and publicly available at the Comptroller’s offices at 250 E Street, S.W., Washington, D.C. 20219 and are also available on the website of the U.S. Federal Deposit Insurance Corporation (<http://www.fdic.gov>). Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules at the end of and for the period to which the report relates. The Call Reports are prepared in accordance with the regulatory instructions issued by the U.S. Federal Financial Institutions Examination Council. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about Citibank, the reports nevertheless provide important information concerning the financial condition and results of operations of Citibank. Any of the above reports are available upon request, without charge, from Citi Document Services, by calling toll free at (877) 936 2737 (outside the United States at (718) 831-8413), by emailing a request to [docserve@citigroup.com](mailto:docserve@citigroup.com) or by writing to Citi Document Services, 4224 Ridge Lea Road, Amherst, New York, 14226.

The obligations of Citibank, N.A., London Branch under any Hedging Agreement will not be guaranteed by Citigroup or by any other affiliate.

The information contained herein with respect to Citibank and Citigroup and their affiliates relates to and has been obtained from them.

### **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 (formerly Midland Bank plc) was formed in England in 1836 and subsequently incorporated as a limited company in 1880. In 1923, the company adopted the name Midland Bank Limited which it held until 1982 when it re-registered and changed its name to Midland Bank plc.

During the year ended 31 December, 1992, Midland Bank plc became a wholly owned subsidiary undertaking of HSBC Holdings plc, whose Group Head Office is at 8 Canada Square, London E14 5HQ. HSBC Bank plc adopted its current name, changing from Midland Bank plc, in the year ended 31 December, 1999.

The HSBC Group is one of the largest banking and financial services organisations in the world, with over 10,000 offices in 83 countries and territories in five geographical regions: Europe; the Asia-Pacific region; the Americas; the Middle East and Africa. Its total assets at 31 December 2007 were US\$2,354 billion. HSBC Bank plc is the HSBC Group's principal operating subsidiary undertaking in Europe.

The short term senior unsecured and unguaranteed obligations of HSBC Bank plc are currently rated P-1 by Moody's, A-1+ by S&P and F1+ by Fitch and the long term senior, unsecured and unguaranteed obligations of HSBC Bank plc are currently rated Aa1 by Moody's, AA by S&P and AA by Fitch.

HSBC is regulated pursuant to the Financial Services and Markets Act 2000 and is an authorised institution supervised by the Financial Services Authority. HSBC Bank plc's principal place of business in the United Kingdom is 8 Canada Square, London E14 5HQ.

HSBC Bank plc has securities admitted to listing on the Official List of the Financial Services Authority of the United Kingdom (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000) and to trading on the London Stock Exchange plc (which is a regulated market for the purposes of Directive 2004/39/EC), on the Luxembourg Stock Exchange and on the main segment of the SWX Swiss Exchange.

## **RBS Group**

### *General*

The Royal Bank of Scotland Group plc ("**RBSG**") is the holding company of one of the world's largest banking and financial services groups, with a market capitalisation of £44.4 billion at 31 December 2007. Headquartered in Edinburgh, RBSG operates in the UK, the US and internationally through its two principal subsidiaries, The Royal Bank of Scotland plc ("**RBS**") and National Westminster Bank Plc ("**NatWest**"). Both RBS and NatWest are major UK clearing banks whose origins go back over 275 years. RBSG has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

RBSG's operations are conducted principally through RBS and its subsidiaries (including NatWest) other than ABN AMRO businesses (see below) and the general insurance business (primarily Direct Line Group and Churchill Insurance).

RBSG had total assets of £1,900.5 billion and total equity (including minority interests) of £91.4 billion at 31 December 2007. RBS had total assets of £1,115.7 billion and shareholders' equity of £47.7 billion at 31 December 2007. RBSG had a total capital ratio of 11.2 per cent. and tier 1 capital ratio of 7.3 per cent as at 31 December 2007.

The short-term unsecured and unguaranteed debt obligations of RBS are currently rated A-1+ by S&P, P-1 by Moody's and F1+ by Fitch. The long-term senior unsecured and unguaranteed debt obligations of RBS are currently rated AA by S&P, Aa1 by Moody's and AA by Fitch.

### *ABN AMRO*

On 17 October 2007, RFS Holdings B.V. ("**RFS Holdings**"), a company jointly owned by RBSG, Fortis N.V., Fortis SA/NV and Banco Santander S.A. (the "**Consortium Banks**") and controlled by RBSG, completed the acquisition of ABN AMRO Holding N.V. ("**ABN AMRO**"). ABN AMRO is a major international banking group with a leading position in international payments and a strong investment banking franchise with particular strengths in emerging markets, as well as offering a range of retail and commercial financial services around the world via regional business units in Europe, the Netherlands, North America, Latin America and Asia. RFS Holdings is in the process of implementing an orderly separation of the business units of ABN AMRO with RBS principally retaining ABN AMRO's global wholesale businesses and international retail businesses in Asia and the Middle East. Certain other assets will continue to be shared by the Consortium Banks.

### ***Rights Issue***

On 22 April 2008 RBSG announced an 11 for 18 rights issue, at an issue price of 200 pence per RBSG share, to increase its capital base by raising £12 billion, net of expenses. On 9 June 2008, RBSG announced that, as at 11.00 a.m. on 6 June 2008, being the latest date for receipt of valid subscriptions, it had received valid acceptances in respect of approximately 95.11 per cent. of the total number of new RBSG ordinary shares offered to shareholders pursuant to the rights issue.

RBSG also announced that the underwriters of the rights issue had procured subscribers for the remaining 299,375,022 new RBSG ordinary shares, for which valid acceptances were not received, at a price of 230 pence per share.

On 9 June 2008, RBSG issued 6,123,010,462 new ordinary shares as a result of the rights issue.

### ***Angel Trains***

On 13 June 2008, RBSG announced that it had signed a definitive agreement regarding the sale of Angel Trains Group (“**Angel Trains**”) to a consortium advised by Babcock & Brown. The transaction values Angel Trains at an enterprise value of £3.6 billion. Completion is expected to take place before the end of 2008.

## 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 (assuming that the relevant clauses of the Finance Bill 2008 are enacted as published on 18 March 2008) (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 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 amount for the year 2008 – 2009.

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) (*Substitution of the Issue*) 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, Belgium and Luxembourg may instead impose a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent.. 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 third countries and territories, including Switzerland, have adopted similar measures to the EC Directive.

#### **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.

The Issuer has “exempt company” status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961, as amended, (the “**Jersey Income Tax Law**”) for the calendar year ended 2008. The retention of “exempt company” status is conditional on the Jersey Comptroller of Income Tax being satisfied that no Jersey resident has a beneficial interest in the Issuer, except as permitted by concessions granted by the Jersey Comptroller of Income Tax, and disclosure of beneficial ownership being to the Jersey Financial Services Commission.

As an “exempt company”, the Issuer will not be liable to Jersey income tax other than on Jersey source income (except by concession bank deposit interest on Jersey bank accounts).

Holders of any Bonds issued by the Issuer (other than residents of Jersey) are not subject to any tax in respect of the holding, sale or other disposition of such Bonds. So long as the Issuer maintains its “exempt company” status, interest on the Bonds may be paid by the Issuer without withholding or deduction for or on account of Jersey income tax.

Amendments have been made to the Jersey Income Tax Law that will have the following effects from January 1, 2009:

- (a) exempt company status will cease to be available to the Issuer;
- (b) the Issuer will however continue to be regarded as not resident in Jersey under the Jersey Income Tax Law, and accordingly, will not be liable to Jersey income tax;
- (c) the Issuer will continue to be able to pay interest on the Bonds without any withholding or deduction for or on account of Jersey tax; and
- (d) 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.

#### ***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 relevant third 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 our 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 dies domiciled in Jersey, on the value of the entire estate and (ii) otherwise, on the value of so much of the estate as is situate in Jersey.

#### **United States Taxation**

The following discussion is a summary based upon present law of certain U.S. federal income tax considerations for prospective purchasers of the Registered Bonds. This discussion addresses only U.S. Holders (as defined below) purchasing Registered Bonds in an original offering that hold the Registered Bonds as capital assets and use the U.S. dollar as their functional currency. This discussion is a general summary. It is not a substitute for tax advice. This discussion does not address the tax treatment of prospective purchasers subject to special rules, such as financial institutions, insurance companies, tax-exempt entities, dealers in securities or foreign currencies, traders in securities that elect to mark to market, prospective purchasers liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, persons holding 10 per cent. or more of the Bonds of a particular Series or persons holding the Bonds as part of a hedge, straddle, conversion, or other integrated financial transaction. This summary does not address the tax laws of any state, local or foreign government.



**THE STATEMENTS ABOUT U.S. FEDERAL INCOME TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE BONDS. NO TAXPAYER CAN RELY ON THEM TO AVOID U.S. FEDERAL TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN OFFERED SECURITIES UNDER THE LAWS OF JERSEY, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.**

For purposes of this discussion, a “**U.S. Holder**” means a beneficial owner of Registered Bonds that is (i) a citizen or individual resident of the United States for U.S. federal income tax purposes, (ii) a corporation, partnership or other business entity organised in or under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a U.S. person and the primary supervision of a U.S. court or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

The U.S. Federal income tax treatment of a partner in a partnership that holds Bonds will depend on the status of the partner and the activities of the partnership. Partnerships are urged to consult their own tax advisers regarding the specific tax consequences of purchasing, owning and disposing of such Bonds.

There may be further discussion of the U.S. federal income tax treatment in the Final Terms for each Series of Bonds.

The Issuer will be treated as a disregarded entity that is not separate from the Security Parent for U.S. federal income tax purposes.

#### **Characterisation of Bonds**

The Bonds should be treated as obligations of the Security Parent for U.S. Federal income tax purposes because the Issuer will elect to be treated as an entity disregarded from its owner for such purposes. The Issuer expects the Bonds generally should be characterised as debt for U.S. federal income tax purposes. The tax characterisation of Bonds in any particular Series will depend, however, on the Final Terms of the Series. While the discussion here generally assumes that the Bonds are debt for tax purposes, U.S. Holders must consider any supplemental tax disclosure on the treatment of particular Bonds and consult their own tax advisors about the proper tax characterisation of the Bonds.

The consequences to a U.S. Holder of purchasing Bonds in the original offering and holding Bonds generally that are treated as debt for U.S. federal income tax purposes would be as described below.

#### ***Interest***

Except as discussed below under “Original Issue Discount” and “Contingent Debt Obligations”, interest on the Bonds will be includible in the income of a U.S. Holder as ordinary income from sources outside the United States according to such U.S. Holder’s regular method of accounting for tax purposes. Interest on the Floating Rate Bonds and Indexed Bonds will generally accrue at a hypothetical fixed rate equal to the rate at which the Bonds bore interest on their issue date. The amount of interest actually recognised for any accrual period will increase (or decrease) if the interest actually paid during the period is more (or less) than the amount accrued at the hypothetical rate. U.S. Holders of the Floating Rate Bonds and Indexed Bonds, therefore, generally will recognise income for each period equal to the amount paid during that period.

A cash basis U.S. Holder receiving interest denominated in a currency other than U.S. dollars must include a U.S. dollar amount in income based on the spot exchange rate on the date of receipt whether or not the payment is converted to U.S. dollars. An accrual basis U.S. Holder (or a cash basis U.S. Holder in the case of interest, such as original issue discount, that must be accrued prior to receipt) receiving interest denominated in a currency other than U.S. dollars must include in income a U.S. dollar amount based on the average exchange rate during the accrual period (or, if an accrual period spans two taxable years, the partial period within the taxable year). Upon receipt of an interest payment in currency other than U.S. dollars, U.S. Holders that have accrued interest will recognise exchange gain or loss equal to the difference, if any, between the U.S. dollar amount of interest previously accrued and the U.S. dollar value of the payment received determined at the spot

exchange rate on the date of receipt. Such exchange gain or loss will be U.S. source ordinary income or loss and generally will not be considered additional interest income or expense.

An accrual basis U.S. Holder may elect to translate accrued interest into U.S. dollars at the spot exchange rate on the last day of the accrual period (or, if an accrual period spans two taxable years, at the exchange rate on the last day of the first taxable year for the interest accrued through that date). If accrued interest actually is received within five business days of the last day of the accrual period (or the taxable year, in the case of a partial accrual period), an electing accrual basis U.S. Holder instead may translate the accrued interest at the spot exchange rate on the date of actual receipt for purposes of translating accrued interest income into U.S. dollars (in which case no exchange gain or loss will be taken into account upon receipt). Any currency translation elections will apply to all debt instruments that the electing U.S. Holder holds or acquires as of the beginning of that taxable year. A U.S. Holder may not revoke this election without the consent of the U.S. Internal Revenue Service (the “IRS”).

For purposes of this discussion, the “**spot exchange rate**” generally means a rate that reflects a fair market rate of exchange available to the public for currency under a “spot contract” in a free market and involving representative amounts. A “**spot contract**” is a contract to buy or sell a currency other than the U.S. dollar on or before two business days following the date of the execution of the contract. If such a spot rate cannot be demonstrated, the IRS has the authority to determine the spot rate. The “**average rate**” for an accrual period (or partial period) is the average of the spot exchange rates for each business day of such period or other average exchange rate for the period reasonably derived and consistently applied by a U.S. Holder.

#### *Receipt of Foreign Currency*

The tax basis of currency other than U.S. dollars received by a U.S. Holder generally will equal the U.S. dollar equivalent of such foreign currency at the spot rate on the date it is received. Upon the subsequent exchange of such foreign currency for U.S. dollars, another currency, or property, a U.S. Holder generally will recognise exchange gain or loss equal to the difference between the U.S. Holder’s tax basis in the foreign currency and the U.S. dollars received or the U.S. dollar value of the other currency (at the spot rate on the date of exchange) or property. Such gain or loss will be U.S. source ordinary gain or loss.

#### *Original Issue Discount*

Some or all of the Bonds may be issued with original issue discount (“**OID**”) for U.S. federal income tax purposes. A Bond will have OID to the extent that the Bond’s “stated redemption price at maturity” exceeds its “issue price”. A Bond generally will not have OID if such excess is less than 1/4 of 1 per cent. of the Bond’s stated redemption price at maturity multiplied by the number of complete years to maturity or, in the case of a Bond payable in instalments, the weighted average maturity (“**de minimis OID**”).

The issue price of a Bond is the initial offering price at which a substantial amount of the Bonds are sold (excluding sales to underwriters, brokers or similar persons). The stated redemption price at maturity of a Bond is the total of all payments on the Bond other than payments of “qualified stated interest”. Qualified stated interest means, in general, stated interest that is payable unconditionally in cash or in property at least annually at a single fixed rate (or at certain floating rates) that appropriately takes into account the length of the interval between stated interest payments.

A U.S. Holder of a Bond issued with OID and having a maturity in excess of one year must include OID in income over the term of the Bond. An initial U.S. Holder generally must include in gross income the sum of the daily portions of OID that accrue on the Bond for each day during the taxable year in which such U.S. Holder held the Bond. To determine the daily portion of OID, OID accruing during an accrual period (generally the period not exceeding one year between dates on which interest is paid) is divided by the number of days in the accrual period.

The amount of OID accruing during an accrual period is determined by using a constant yield to maturity method. For any accrual period, the OID allocable to the accrual period is the excess of (i) the product of the Bond’s adjusted issue price at the beginning of the accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted for the length of the accrual period) over (ii) the sum of any qualified stated interest payments allocable to the accrual period. A Bond’s adjusted issue price generally equals the issue price of the Bond increased by the aggregate amount of OID accrued on a Bond in all prior

accrual periods (determined without regard to the amortisation of any acquisition premium, as discussed below, or bond premium, as discussed below) and reduced by the amount of projected payments previously received.

As described below in “Optional Redemption”, certain of the Bonds may be subject to special redemption features. These features may affect the determination of whether a Bond has a maturity of one year or less and thus is a Short-Term Bond, as discussed below.

Floating rate Bonds, including Floating Rate Bonds and Indexed Bonds, are subject to special OID rules. In the case of a floating rate Bond, both the yield to maturity and qualified stated interest will be determined as though the Bond will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable on the date of issue or, in the case of certain floating rate Bonds, the rate that reflects the yield to maturity that is reasonably expected for the Bond. In certain cases, floating rate Bonds that bear stated interest and are issued at par may have OID, with the result that the inclusion of interest in income may vary from the actual cash payments of interest made on such Bonds.

OID on a Bond that is denominated in a single currency other than U.S. dollars will be determined for any accrual period in the applicable currency and then translated into U.S. dollars in the same manner as other interest income accrued by an accrual method U.S. Holder, as described above under “Interest”. A U.S. Holder will recognise exchange gain or loss when OID is paid to the extent of the difference between the U.S. dollar value of the accrued OID and the U.S. dollar value of the currency received at the spot rate on the date of receipt. For this purpose, all payments (other than qualified stated interest) on a Bond will first be viewed as payments of previously accrued OID, with payments considered made for the earliest accrual periods first.

A U.S. Holder may elect to treat all interest on a Bond as OID applying the constant yield method described above to accrue such interest, with the modifications described below. For purposes of this election, interest includes stated interest, OID, de minimis OID, acquisition discount, and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. In applying the constant yield method to a Bond with respect to which this election has been made, the issue price of a Bond will equal the electing U.S. Holder’s adjusted basis in the Bond immediately after its acquisition, the issue date of the Bond will be the date of its acquisition by the electing U.S. Holder, and no payments on the Bond will be treated as payments of qualified stated interest. If a U.S. Holder makes this election, it will apply only to the Bond with respect to which it is made and the U.S. Holder may not revoke it. A U.S. Holder making this election with respect to a Bond with bond premium will be deemed to have made the elections (discussed below in “Bond Premium”) to amortise bond premium currently with respect to all debt instruments with bond premium held or acquired by such U.S. Holder as of the beginning of that taxable year.

### ***Short-Term Bonds***

A U.S. Holder of a Bond with a maturity of one year or less (a “**Short-Term Bond**”) will be subject to special rules.

The OID rules do not treat interest payments on a Short-Term Bond as qualified stated interest, but instead treat a Short-Term Bond as having OID determined by including stated interest payments in a Short-Term Bond’s stated redemption price at maturity. Except as noted below, a cash-basis U.S. Holder of a Short-Term Bond generally will not be required to accrue OID currently, but will be required to treat any gain realised on a sale or other disposition of a Short-Term Bond as ordinary income to the extent such gain or loss does not exceed the OID accrued with respect to the Short-Term Bond during the period the U.S. Holder held it. Accrual basis (and electing cash-basis) U.S. Holders will include OID on a Short-Term Bond in income on a current basis.

A U.S. Holder will accrue OID on a Short-Term Bond on a straight-line method unless it elects a constant yield method. If a U.S. Holder makes this election, it will apply only to the Short-Term Bond with respect to which it is made, and the U.S. Holder may not revoke it. Furthermore, unless a U.S. Holder elects to include OID into income on a current basis as described above, a U.S. Holder of a Short-Term Bond having OID may be required to defer the deduction of all or a portion of the interest expense on any debt incurred or maintained to purchase or carry such Short-Term Bond.

### ***Contingent Debt Obligations***

Some or all of the Bonds may provide for contingent payments (“**Contingent Debt Obligations**”). Special rules govern the tax treatment of Contingent Debt Obligations. These rules generally require a U.S. Holder to treat all interest as OID and to accrue OID at a rate equal to the comparable yield on a non-contingent fixed rate debt instrument of the Issuer with similar terms and conditions and a projected payment schedule that provides such comparable yield. The amount of OID will then be allocated on a rateable basis to each day in the period that the U.S. Holder holds the Contingent Debt Obligation. The OID would be ordinary income from sources outside of the United States.

If the actual payments made on a Contingent Debt Obligation in a year differ from the projected contingent payments, U.S. Holders will recognise additional interest income or ordinary loss (after offsetting and reducing OID for such periods). U.S. Holders therefore might be required to recognise income greater or less than the interest and other cash payments on the Contingent Debt Obligations.

The OID rules do not treat Bonds as having OID by reason of the contingent U.S. dollar values of payments on Bonds denominated in a single currency other than U.S. dollars. U.S. Holders of Contingent Debt Obligations denominated in a single currency other than U.S. dollars generally are required to accrue interest at a comparable yield in units of foreign currency and translate OID into U.S. dollars in accordance with the rules for accrual basis taxpayers. Special rules apply to the conversion of adjustments.

Gain on the sale or other disposition of a Contingent Debt Obligation generally will be treated as ordinary income from sources outside of the United States. Loss will be treated as ordinary loss to the extent of prior net interest inclusions and capital loss to the extent of any excess. Loss generally would be treated as arising from U.S. sources.

### ***Dual Currency Bonds***

The principles governing Contingent Debt Obligations generally apply to Dual Currency Bonds in the predominant currency of the Bonds. If the predominant currency is the U.S. Holder’s functional currency, the regulations governing Contingent Debt Obligations apply. Payments denominated in a currency other than the predominant currency are treated as contingent payments.

### ***Optional Redemption***

If the Issuer has an option to redeem a Bond or a U.S. Holder has an option to cause a Bond to be repurchased prior to the Bond’s stated maturity, the option will be presumed to be exercised if, utilising an early redemption or repurchase and the amount payable on such date, the yield on the Bond would (i) in the case of an option of the Issuer, be lower than its yield to stated maturity, or (ii) in the case of an option of the U.S. Holder, be higher than its yield to stated maturity. A determination of the payment schedule most likely to occur is binding upon all U.S. Holders of the Bonds except for a U.S. Holder that explicitly discloses on its U.S. federal income tax return for the taxable year in which it acquired the Bond that it has determined the yield and maturity of the Bond on a different basis. If the option is not exercised when presumed to be exercised, the Bond would be treated as if it were repurchased or redeemed and a new Bond were issued on the presumed exercise date for an amount equal to the Bond’s adjusted issue price on that date.

### ***Bond Premium***

A U.S. Holder that has a tax basis in a Bond that is greater than its principal amount may elect to treat the excess as amortisable bond premium. If a U.S. Holder makes this election, it will reduce the amount required to be included in income each year with respect to interest on the Bond by the amount of amortisable bond premium allocable to that year. If a U.S. Holder makes an election to amortise bond premium, it will apply to all the debt instruments of a U.S. Holder with bond premium that the electing U.S. Holder holds or acquires as of the beginning of that taxable year. A U.S. Holder may not revoke this election without the consent of the IRS.

In the case of a Bond denominated in a currency other than U.S. dollars, bond premium is computed in units of the relevant foreign currency and amortisable bond premium reduces interest income in units of such foreign currency. At the time amortised bond premium offsets interest income, foreign currency exchange gain or loss (taxable as ordinary income or loss, but not generally as interest income or expense) is realised based on the difference between spot rates at that time and at the time of the acquisition of the Bond.

If a Bond can be optionally redeemed after the U.S. Holder acquires it at a price in excess of its principal amount, special rules would apply that could result in a deferral of the amortisation of some bond premium until later in the term of the Bond.

With respect to a holder that does not elect to amortise bond premium, the amount of bond premium constitutes a capital loss when the bond matures. In the case of a Bond denominated in a currency other than U.S. dollars, foreign currency exchange gain or loss with respect to the premium is realised based on the difference between the spot rates on the sale or other disposition of the Bond and at the time of the acquisition of the Bond. In such case, the amount of capital loss relating to the premium may be offset or eliminated by exchange gain.

Special rules apply to Bonds issued with OID that are purchased at a premium.

#### ***Disposition of Bonds***

A U.S. Holder generally will recognise capital gain or loss upon a sale or other disposition of a Bond in an amount equal to the difference between the amount realised from such disposition (less any accrued unpaid qualified stated interest) and the U.S. Holder's adjusted tax basis in the Bond. Gain or loss on the sale or other disposition of the Bond generally will be long-term capital gain or loss if the Bond has been held for more than a year. Special rules apply to gains or losses on Contingent Debt Obligations as described above.

A U.S. Holder's adjusted tax basis in a Bond generally will equal the U.S. Holder's cost of the Bond, increased by any OID included in income and decreased by the amount of any amortised bond premium or payment (other than qualified stated interest) received with respect to the Bond. The cost of a Bond denominated in a currency other than U.S. dollars will be the U.S. dollar value of the currency on the date of purchase determined at the spot rate.

A U.S. Holder that receives currency other than U.S. dollars upon sale or other disposition of the Bonds will realise an amount equal to the U.S. dollar value of the currency on the date of sale. If the Bonds are traded on an established securities market, a cash basis U.S. Holder or electing accrual basis taxpayer will determine the amount realised on the settlement date. A U.S. Holder will have a tax basis in the currency equal to the U.S. dollar amount realised. Any gain or loss realised by a U.S. Holder on a subsequent conversion of currency for U.S. dollars will be U.S. source ordinary income or loss.

The election available to accrual basis U.S. holders in respect of the sale of Bonds traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

In the case of a Bond denominated in a currency other than U.S. Dollars, to the extent recognised gain or loss is attributable to changes in the exchange rates with respect to the relevant foreign currency between the date of acquisition and disposition of the Bond, the exchange gain or loss will be treated as U.S. source ordinary income or loss and generally will not be considered additional interest income or expense. However, exchange gain or loss is taken into account only to the extent of total gain or loss realised on the transaction. Generally, any gain or loss realised on the transaction in excess of such exchange gain or loss will be U.S. source capital gain or loss and will be long-term capital gain or loss if the Bond has been held for more than one year.

#### ***Alternate Characterisation – Passive Foreign Investment Company***

It is possible that some of the Bonds, particularly the Class B Bonds, could be treated as equity in the Issuer in which case the U.S. Holders of such Bonds would likely be treated as holding equity in a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. In that case, a U.S. Holder would be subject to additional taxes on any excess distributions received on the Bonds and any gain realised from the sale or other disposition of the Bonds. A U.S. Holder would have an excess distribution to the extent that distributions on the Bonds during a taxable year exceed 125 per cent. of the average amount received during the three preceding years or, if shorter, a U.S. Holder's holding period. To compute the tax on excess distributions or any gain, the excess distribution or the gain is allocated ratably over the U.S. Holder's holding period and the amount is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year. Gains therefore effectively are denied the benefit of capital gains treatment.

**Information Reporting and Backup Withholding**

Payments of interest (including OID, if any), principal, premium, or the proceeds from sale of Bonds that are made within the United States or through certain U.S. related financial intermediaries may be reported to the IRS unless the U.S. Holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the U.S. Holder fails to provide an accurate taxpayer identification number or otherwise establish a basis for exemption or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. A U.S. Holder can claim a credit against U.S. federal income tax liability for amounts withheld under the backup withholding rules, and it can claim a refund of amounts in excess of its liability by providing required information to the IRS. Prospective investors should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for establishing an exemption.

**THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE BONDS.**

## ERISA

The U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), imposes certain requirements on “employee benefit plans” (as defined in section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “**ERISA Plans**”) and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), which are among the ERISA and Code fiduciary provisions governing plans, prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “**Plans**”)) and certain persons (referred to as “**parties in interest**” or “**disqualified persons**”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. Prohibited transactions within the meaning of section 406 of ERISA or section 4975 of the Code may arise if any Bonds are acquired by a Plan with respect to which any of the Issuer, the Dealers, the Co-Arrangers or the Bond Trustee or any of their respective affiliates are a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of section 406 of ERISA and section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Bonds and the circumstances under which such decision is made. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Bonds, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Bonds (or any interest in a Bond), each purchaser (whether in the case of the initial purchase or in the case of a subsequent transfer) will be deemed to have represented and agreed either that (i) it is not and for so long as it holds a Bond (or any interest therein) will not be an ERISA Plan or other Plan, or an entity whose underlying assets include the assets of any such ERISA Plan or other Plan or (ii) its purchase and holding of the Bonds will not result in a prohibited transaction under section 406 of ERISA or section 4975 of the Code for which an exemption is not available.

Governmental plans and certain church and other U.S. plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of section 4975 of the Code, may nevertheless be subject to state or other federal laws that are substantially similar to ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Bonds.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Bonds should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of Bonds to a Plan is in no respect a representation by the Issuer, the Obligors, the Financial Guarantors, the Bond Guarantor, the Co-Arrangers or the Dealers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

## 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, CALYON, 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 on or about the Initial Issue Date 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 (i) outside the United States, to persons who are neither U.S. persons nor U.S. residents, in offshore transactions in reliance on Regulation S, and (ii) within the United States, in reliance on Rule 144A, to persons that are both QIBs and QPs, acting for their own account, or for the account of another QIB that is also a QP. In connection with each such sale of Bonds pursuant to Rule 144A under the Securities Act, neither the relevant Dealer nor any person acting on its behalf will engage in any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act).

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.

In addition, until 40 days after the commencement of the offering of the Bonds comprising any Sub-Class, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) other than pursuant to Rule 144A may violate the registration requirements of the Securities Act.

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**

Securities 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, mutual fund or society, pension fund and other institutions of a like nature.

#### **Switzerland**

This Prospectus, including the documents to be incorporated by reference, is compliant with article 6529 or 1156 of the Swiss Code of Obligations. The Issuer has not applied for a listing of the Bonds being offered pursuant to this Prospectus and any relevant Final Terms on the SWX Swiss Exchange or any other regulated securities market in Switzerland, and therefore the information provided in this Prospectus does not necessarily comply with the information standards set out in the relevant listing rules.

#### **Japan**

Each Dealer has represented, warranted and agreed that the Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No.25 of 1948, as amended) and, accordingly, each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any of the Bonds directly or indirectly, in Japan or to, of for the benefit of, any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purpose of this paragraph, “Japanese Person” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

#### **General**

Save for obtaining the approval of the Prospectus by the UK Listing Authority in accordance with Part VI of the FSMA for the Bonds to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Market, no action has been or will be taken in any jurisdiction by the Issuer, the obligors or the Dealers that would permit a public offering of Bonds, or possession or distribution of the Prospectus or any other offering material, in any jurisdiction where the action for that purpose is required. Each Dealer shall to the best of its knowledge comply with all applicable laws, regulations and directives in each country or 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 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).

### General

Global Bond Certificates other than a Rule 144A DTC Global Bond Certificate may be transferred only to a common depository for Euroclear and Clearstream, Luxembourg; Rule 144A DTC Global Bond Certificates may be transferred only to a custodian for DTC or DTC's nominee.

On or prior to the 40<sup>th</sup> day after the later of the commencement of the offering and the relevant Issue Date, ownership of interests in a Regulation S Global Bond Certificate will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg and any sale or transfer of such interests to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below.

Interests in a Regulation S Global Bond Certificate may be transferred at any time to a person who wishes to hold such interests through a Rule 144A Global Bond Certificate of the same Sub-Class of Bonds only if a corresponding Rule 144A Global Bond Certificate has been issued in respect of such Sub-Class of Bonds (as stated in the relevant Final Terms) and, in each case, only upon receipt by the Registrar of a written certification from the transferor (in substantially the form set out in the Bond Trust Deed) to the effect that such transfer is being made to a person who is both a QIB and a QP, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States.

Interests in a Rule 144A Global Bond Certificate may be transferred to a person who wishes to hold such interests through a Regulation S Global Bond Certificate of the same Sub-Class of Bonds, only if a corresponding Regulation S Global Bond Certificate has been issued in respect of such Sub-Class of Bonds (as stated in the relevant Final Terms) and, in each case, only upon receipt by the Registrar of a written certification from the transferor (in substantially the form set out in the Bond Trust Deed) to the effect that such transfer is being made to a person who is neither a U.S. person nor a U.S. resident and is being made outside the United States in accordance with Regulation S under the Securities Act. Neither U.S. persons nor U.S. residents may hold an interest in a Regulation S Global Bond Certificate at any time.

Any interest in (i) a Rule 144A Global Bond Certificate that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Bond Certificate, or (ii) a Regulation S Global Bond Certificate that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Bond Certificate will, in each case, upon transfer, cease to be an interest in the first Global Bond Certificate and will become an interest in the other Global Bond Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in such other Global Bond Certificate.

### Rule 144A Bonds

Each purchaser or transferee of a Rule 144A Bond (or beneficial interests therein), by accepting delivery of such Rule 144A Bond or beneficial interest therein, will be deemed to have represented and agreed for the benefit of the Issuer and the Bond Trustee (and, in the case of a purchaser or transferee acquiring a Rule 144A Bond from a Dealer, for the benefit of such Dealers) as follows:

1. It and each person for which it is acting (a) is a QIB and a QP, (b) is aware that the sale of such Rule 144A Bond (or beneficial interests therein) to it is being made in reliance on Rule 144A, (c) is acquiring such Bond (or beneficial interests therein) 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 and such purchaser or transferee has full power to make the acknowledgements, representations and agreements on behalf of each such account contained in (2) through (9) herein, and in a principal amount of not less than the principal amount of the

Rule 144A Bonds for the purchaser and for each such account, (d) will provide notice of the transfer restrictions described in this section “*Transfer Restrictions*” to any subsequent transferees and (e) is not purchasing such Rule 144A Bond (or beneficial interests therein) with the intention of evading, either alone or in conjunction with any other person, the requirements of the Investment Company Act.

2. It understands and agrees that such Rule 144A Bond (or beneficial interests therein) have not been and will not be registered under the Securities Act, that the Issuer has not registered and does not intend to register under the Investment Company Act and that such Rule 144A Bond may be reoffered, resold, pledged or otherwise transferred only (a) to the Issuer; (b) 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 (c) 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 (b) and (c) above, in accordance with all applicable securities laws including the securities laws of any state of the United States. It understands and agrees that before any interest in a Rule 144A Bond may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Bonds, the Registrar is required to receive a written certification (in substantially the form provided in the Bond Trust Deed) as to compliance with the transfer restrictions described herein.
3. It and each account for which it is purchasing is acquiring such Rule 144A Bond (or beneficial interest therein) for its own account for investment purposes and not for sale in connection with any distribution thereof. It and each person for which it is acting (a) was not formed for the purpose of investing in such Rule 144A Bond (or beneficial interest therein), except when each beneficial owner of the purchaser and each person for which it is acting is a QP for purposes of section 3(c)(7) of the Investment Company Act, (b) to the extent the purchaser or any person for which it is acting is a private investment company formed on or before 30 April 1996, the purchaser has received the necessary consent to its being treated as a QP from its beneficial owners who acquired their interests on or before 30 April 1996, (c) is not a participant-directed employee plan, such as a 401 (k) plan or any other type of plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan, (d) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.\$25,000,000 in securities of unaffiliated issuers and (e) understands that the Issuer may receive a list of participants holding positions in securities from one or more book-entry depositaries.
4. It understands and agrees that: (a) any purported transfer of such Rule 144A Bond (or a beneficial interest therein) to a purchaser that does not comply with the requirements of the transfer restrictions herein will be of no force and effect and will be void *ab initio*; (b) the Issuer has the power to compel any beneficial owner of Rule 144A Bonds that is not both a QIB and a QP to sell its interest in the Rule 144A Bonds, or may sell such interest on behalf of such owner, as described in the securities legend contained in paragraph 8 below; and (c) the Issuer has the right to refuse to honour the transfer of an interest in Rule 144A Bonds to a person who is not both a QIB and a QP.
5. It shall not resell or otherwise transfer such Rule 144A Bonds (or beneficial interest therein) except (a) to the Issuer, (b) in the United States, to a person that is both a QIB and a QP in a transaction meeting the requirements of Rule 144A under the Securities Act, or (c) in a transaction outside the United States and not to, or for the account or benefit of, a U.S. person or a U.S. resident, in accordance with Regulation S under the Securities Act. It understands that an investment in Rule 144A Bonds involves certain risks, including the risk of loss of its entire investment in such Rule 144A Bonds. It has had access to such financial and other information concerning the Issuer and the Rule 144A Bonds as it deemed necessary or

appropriate in order to make an informed investment decision with respect to its purchase of the Rule 144A Bonds, including an opportunity to ask questions of, and request information from, the Issuer.

6. In connection with its purchase of such Rule 144A Bond (or beneficial interest therein) (a) none of the Issuer, the Co-Arrangers, the Dealers, the Bond Trustee, or any affiliates thereof, or any person acting on behalf of the foregoing, is acting as such purchaser's or transferee's fiduciary or financial or investment advisor; (b) such purchaser or transferee 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 such purchaser or transferee (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 such Rule 144A Bond (or beneficial interest therein); (d) such purchaser or transferee 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) such purchaser or transferee has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of such Rule 144A Bond 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) such purchaser or transferee is a sophisticated investor; and (g) such purchaser or transferee understands that these acknowledgements, representations, and agreements are required in connection with U.S. securities laws and agrees to indemnify and hold harmless each of 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 incurred by each of them by reason of such purchaser's or transferee's 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.
7. With respect to such Rule 144A Bond (or beneficial interest therein), either (a) such purchaser or transferee is not, and for so long as such Rule 144A 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 Rule 144A 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 Rule 144A Bond (or beneficial interest therein) to a purchaser that does not comply with the requirements of this paragraph (7) 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 Rule 144A Bond (or beneficial interest therein), as applicable, to a person who meets the foregoing criteria.
8. It understands that each certificate representing such Rule 144A Bond (or beneficial interests therein), including a Rule 144A Global Bond Certificate, will bear the following legend and may not be reoffered, resold, pledged or otherwise transferred except in accordance with such legend:

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.

EACH TRANSFEREE WHO PURCHASES OR OTHERWISE ACQUIRES THIS RULE 144A BOND (OR A BENEFICIAL INTEREST THEREIN), BY PURCHASING OR OTHERWISE ACQUIRING SUCH INTEREST, IS DEEMED TO REPRESENT, WARRANT, ACKNOWLEDGE AND AGREE FOR THE BENEFIT OF THE ISSUER AND THE BOND TRUSTEE THAT:

- (A) IT, AND EACH PERSON FOR WHICH IT IS ACTING, (I) IS A QIB THAT IS A QP, (II) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THIS BOND (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER AND EACH PERSON FOR WHICH IT IS ACTING IS A QP), (III) HAS RECEIVED THE NECESSARY CONSENT TO BE TREATED AS A QP FROM ALL BENEFICIAL OWNERS WHO ACQUIRED THEIR INTERESTS ON OR BEFORE 30 APRIL 1996, WHEN THE PURCHASER OR ANY PERSON FOR WHICH IT IS ACTING IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE 30 APRIL 1996, (IV) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS, (V) IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN OR ANY OTHER TYPE OF PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A, OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN, (VI) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (VII) IS ACTING 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 AND HAS FULL POWER TO MAKE THE ACKNOWLEDGEMENTS, REPRESENTATIONS AND AGREEMENTS ON BEHALF OF EACH SUCH ACCOUNT CONTAINED IN THIS LEGEND;

- (B) ANY RESALE OR OTHER TRANSFER OF THIS BOND (OR BENEFICIAL INTEREST THEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE BOND TRUSTEE OR ANY INTERMEDIARY;
- (C) IN THE EVENT OF A TRANSFER OF THIS BOND (OR BENEFICIAL INTEREST THEREIN) TO A U.S. PERSON (WITHIN THE MEANING OF REGULATION S) OR A U.S. RESIDENT (AS DETERMINED FOR PURPOSES OF THE INVESTMENT COMPANY ACT) THAT IS NOT BOTH A QIB AND A QP, THE ISSUER MAY, IN ITS DISCRETION, EITHER (A) COMPEL SUCH TRANSFEREE TO SELL THIS BOND OR ITS INTEREST THEREIN TO A PERSON WHO EITHER (I) IS A U.S. PERSON WHO IS BOTH A QIB AND A QP THAT IS OTHERWISE QUALIFIED TO PURCHASE THIS BOND OR INTEREST THEREIN IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) IS NEITHER A U.S. PERSON (WITHIN THE MEANING OF REGULATION S) NOR A U.S. RESIDENT (AS DETERMINED FOR PURPOSES OF THE INVESTMENT COMPANY ACT) IN A TRANSACTION EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, OR (B) ON BEHALF OF SUCH TRANSFEREE (AND SUCH TRANSFEREE BY ITS ACCEPTING DELIVERY OF THIS BOND OR A BENEFICIAL INTEREST HEREIN IRREVOCABLY GRANTS TO THE ISSUER AND THE ISSUER'S AGENTS FULL POWER AND AUTHORITY TO, ON BEHALF OF SUCH TRANSFEREE), SELL THIS BOND OR SUCH TRANSFEREE'S INTEREST HEREIN TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (1) THE PURCHASE PRICE THEREFORE PAID BY THE ORIGINAL TRANSFEREE, (2) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF AND (3) THE FAIR MARKET VALUE THEREOF;
- (D) THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF THIS BOND OR INTEREST THEREIN TO A U.S. PERSON (AS DEFINED IN REGULATION S) OR A U.S. RESIDENT (AS DETERMINED FOR PURPOSES OF THE INVESTMENT COMPANY ACT) WHO IS NOT BOTH A QIB AND A QP; AND
- (E) SUCH TRANSFEREE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT TO ANY SUBSEQUENT TRANSFEREE.

THE PURCHASER OF THIS BOND OR ANY INTEREST THEREIN SHALL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED EITHER THAT (I) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS BOND OR ANY INTEREST IN THIS BOND IT WILL NOT BE, (A) 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, (B) A "PLAN" THAT IS SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE (OR ARE DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 TO INCLUDE) "PLAN ASSETS" BY REASON OF SUCH PLAN INVESTMENT IN THE ENTITY, OR (II) ITS PURCHASE AND HOLDING OF THIS 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.



In addition, each Rule 144A Bond Certificate issued with more than a de minimis amount of original issue discount shall bear the following legend:

THIS BOND HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT (OID) FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE PRICE, AMOUNT OF OID, ISSUE DATE AND YIELD TO MATURITY OF THIS BOND MAY BE OBTAINED BY WRITING TO: *[address of Issuer's representative responsible for OID calculation]*.

9. It acknowledges that the Issuer, the Registrar, the Bond Trustee, the Co-Arrangers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Bonds is no longer accurate, it shall promptly notify the Issuer, the Registrar, the Bond Trustee, the Co-Arrangers and the Dealers.

Prospective purchasers or transferees are hereby notified that sellers of the Bonds may be relying on the exemption from the provisions of section 5 of the Securities Act provided by Rule 144A.

A transferor or seller who transfers or sells an interest in the Rule 144A Global Bond Certificate to a transferee or purchaser who will hold the interest in the same form is not required to provide any additional written certification.

### **Regulation S Bonds**

Each purchaser or transferee of any Regulation S 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 Regulation S 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 Regulation S 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 Regulation S 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 Regulation S 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 to the effect set forth in the first two paragraphs of the legend set forth in paragraph 8 under “*Rule 144A Bonds*” above.
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 Regulation S 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 Regulation S 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 Regulation S 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. It understands that before any interest in a Regulation S 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.
7. It acknowledges that the Issuer, the Registrar, the Bond Trustee, the Co-Arrangers and the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, it hereby consents to such reliance, and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Bonds is no longer accurate, it shall promptly notify the Issuer, the Registrar, the Bond Trustee, the Co-Arrangers and the Dealers.

A transferor who transfers an interest in a Regulation S Global Bond Certificate to a transferee who will hold the interest in the same form is not required to provide any additional written certification.

## **LEGAL MATTERS**

The validity of the Bonds will be opined on for the Dealers by Clifford Chance LLP. Certain matters of English and U.S. law will be opined on for the Issuer by Freshfields Bruckhaus Deringer LLP. Certain matters of Jersey law will be opined on for the Issuer by Mourant du Feu & Jeune.

## 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.

The giving of the guarantees in respect of the BAA Guaranteed Bonds by BAA has been duly authorised by a resolution of a Committee of the Board of Directors of BAA, dated 10 July 2008.

### 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. In the case of each Sub-Class of Wrapped Bonds, admission to the Official List and to trading on the Market is subject to the issue of the Financial Guarantee by the relevant Financial Guarantor in respect of such Sub-Class. The listing of the Programme in respect of Bonds is expected to be granted on 14 July 2008.

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, the Borrowers and BAA;
- (b) the audited financial statements of each Borrower and BAA for the year ended 31 March 2006 and (for HAL only) 3 months ended 30 June 2006 and 6 months ended 31 December 2006 and (for GAL & STAL only) the 9 months to 31 December 2006 and for each, financial year ended 31 December 2007;
- (c) a copy of this Prospectus;
- (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;
- (f) each Financial Guarantee and all related Endorsements relating to each Sub-Class of Wrapped Bonds issued under the Programme;
- (g) the G&R Deed;
- (h) the Bond Trust Deed; and
- (i) the BAA Bond Guarantee.

### Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg and (in the case of Rule 144A Bonds) DTC 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 together with the CUSIP number (if applicable). 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, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg and the address of DTC is 55 Water Street, New York, NY 10041, USA. The address of any alternative clearing system will be specified in the applicable Final Terms.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of any of the Issuer since its date of incorporation or, HAL (or its subsidiaries), GAL or STAL, each since 31 March 2008.

There has been no significant change in the financial or trading position of BAA or the BAA Group since 31 March 2008.

There has been no material adverse change in the prospects of any of the Issuer since its date of incorporation or, HAL (or its subsidiaries), GAL or STAL, each since 31 December 2007.

There has been no material adverse change in the prospects of BAA or the BAA Group since 31 December 2007.

There has been no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation.

### **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) since its date of incorporation, which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer.

BAA 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 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. See “*Risk Factors – Regulatory Risks – Judicial Review of CAA’s Q5 price decision*” and “*Description of the Operating Companies, the Shared Services Provider and the Issuer – Gatwick Airport Limited – Litigation*”.

HAL 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 HAL 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 HAL. See “*Risk Factors – Regulatory Risks – Judicial Review of CAA’s Q5 price decision*”.

Apart from the judicial review discussed in “*Description of the Operating Companies, the Shared Services Provider and the Issuer – Gatwick Airport Limited – Litigation*”, GAL 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 GAL 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 GAL. See “*Risk Factors – Regulatory Risks – Judicial Review of CAA’s Q5 price decision*”.

STAL 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 STAL 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 STAL.

HEX Opco 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 HEX Opco 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 HEX Opco.

### **Availability of Financial Statements**

The audited annual financial statements of the Issuer, each Borrower and BAA will be prepared as of 31 December in each year. Since the date of incorporation the Issuer has not commenced operations and no financial statements have been made up as at the date of this Prospectus. The Issuer has not published and does not intend to publish any interim financial statements, but each Borrower and

BAA intends to publish semi-annual unaudited financial statements. The unaudited interim financial statements of each Borrower and BAA will be prepared as of 30 June in each year. All future audited annual financial statements (and any published interim financial statements) of the Issuer and the audited annual financial statements of each Borrower and BAA will be available free of charge in accordance with “– *Documents Available*” above.

#### **Auditors**

The auditors of the Issuer are PricewaterhouseCoopers LLP, chartered accountants, of 1 Embankment Place, London, WC2N 6RH.

The auditors of each Borrower are PricewaterhouseCoopers LLP, chartered accountants, of 1 Embankment Place, London, WC2N 6RH who have audited each Borrower’s accounts, without qualification, in accordance with generally accepted auditing standards in the UK for each of the financial years ended on 31 March 2005 and 31 March 2006 and (for HAL only), 3 months ended 30 June 2006 and 6 months ended 31 December 2006 and (for GAL & STAL only) the 9 months to 31 December 2006 and for each, financial year ended 31 December 2007.

The auditors of BAA are PricewaterhouseCoopers LLP, chartered accountants, of 1 Embankment Place, London, WC2N 6RH who have audited BAA’s accounts, without qualification, in accordance with generally accepted auditing standards in the UK for each of the financial year ended on 31 March 2005, 31 March 2006, nine months ended 31 December 2006 and year ended 31 December 2007.

#### **Legend**

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 Bond, Coupon, Receipt or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such 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.

#### **Material Contracts**

No Borrower has entered into contracts outside the ordinary course of the its business, which could result in such Borrower or any member of its group being under an obligation or entitlement that is material to such 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*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, and “*Airport Regulation*” has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## GLOSSARY OF DEFINED TERMS

The following terms are used throughout this Prospectus:

- “12 Month Forward-Looking Ratios”** means:
- (i) in respect of the Senior ICR or Junior ICR in respect of any Reporting Date, such ratios in respect of the period of 12 months starting on 1 January in the same year as such Reporting Date and in respect of the Reporting Date in December, the 12 months starting on 1 January of the subsequent year; and
  - (ii) in respect of the Senior RAR or Junior RAR in respect of any Reporting Date, such ratios as at the Relevant Date falling on 31 December of the current year and in respect of the Reporting Date in December, the Relevant Date falling on 31 December of the subsequent year.
- “Accession Memorandum”** means, amongst other things, with respect to the STID, each memorandum to be entered into pursuant thereto and which is substantially in the form set out in the STID.
- “Account”** means any bank account of any Obligor.
- “ACL”** means Airport Co-ordination Limited.
- “Actually Prepay”** means:
- (a) in respect of the Outstanding Principal Amount due under (i) any Authorised Credit Facility which is not in respect of a Revolving Loan or (ii) the Non-Migrated Bond Guarantee, to (1) repay or redeem all or part of the principal of such Financial Indebtedness or (2) to pay any termination amounts or other unscheduled amounts due to a Borrower Hedge Counterparty under any Interest Rate Hedging Agreement at a time when such principal or termination or other unscheduled amounts would not have been due or repayable, but for the delivery of a voluntary notice of prepayment by the relevant Borrower or, in the case of the Non-Migrated Bond Guarantee, a voluntary notice of redemption by BAA Limited as issuer of the Non-Migrated Bonds; and
  - (b) in respect of the Outstanding Principal Amount due under an Authorised Credit Facility in respect of a Revolving Loan, to repay (and not concurrently redraw under the same Authorised Credit Facility) principal on such loan prior to the service of a Loan Acceleration Notice,
- and **“Actually Prepay”**, **“Actual Prepayment”** and **“Actually Prepaid”** are to be construed accordingly.
- “Additional Borrower Secured Creditors”** means any person not already a Borrower Secured Creditor which becomes a Borrower Secured Creditor pursuant to the provisions of the STID.
- “Additional Indebtedness Tests”** will be:
- (i) to raise additional Senior Debt, the Senior RAR as at the date such Financial Indebtedness is to be incurred taking into account the proposed additional Financial Indebtedness, must be less than 0.725.

- (ii) to raise additional Junior Debt, the Junior RAR as at the date such Financial Indebtedness is to be incurred taking account of the proposed additional Financial Indebtedness, must be less than 0.90.

provided that any breach which is continuing shall not preclude the drawing of advances under the Non-Migrated Bond Facility.

“ADIL” or “ADI”	means Airport Development & Investment Limited <sup>1</sup> .
“Affected Borrower Secured Creditor”	means each Borrower Secured Creditor (and where the Issuer is the relevant Affected Borrower Secured Creditor, each Issuer Secured Creditor (the “Affected Issuer Secured Creditor”)) whose Entrenched Rights are affected by a STID Proposal or SSA Instruction Notice, Emergency SSA Instruction Notice, Interc Creditor Instruction Notice, Enforcement Instruction Notice or Further Enforcement Instruction Notice given by the Borrower Security Trustee pursuant to the STID.
“Affected Lender”	means any Non-Migrated Bond Facility Provider who ceases to have the Requisite Ratings.
“Affected Lenders Account”	means a bank account established and maintained for the purpose of paying all of the Affected Lender’s available commitment into, on behalf of the Borrowers with a bank with the Requisite Rating and notified to the Affected Lender by the Security Group Agent.
“Affiliate”	means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company (other than (a) in any Hedging Agreement when used in relation to a Hedge Counterparty, where “Affiliate” has the meaning given to it in that Hedging Agreement and (b) in the definition of “outstanding” where “Affiliate” has the meaning given to it in Rule 405 under the Securities Act).
“Agency Agreement”	means the agreement dated on or about the Initial Issue Date between the Issuer and the Agents referred to therein under which, amongst other things, the Principal Paying Agent is appointed as issuing agent, principal paying agent and agent bank for the purposes of the Programme.
“Agent”	means, as the context requires, the Agent Bank, the Principal Paying Agent, the Exchange Agent, the Registrar, the Transfer Agent and any Paying Agent or any other agent appointed by the Issuer pursuant to the Agency Agreement or a Calculation Agency Agreement and “Agents” means all of them.
“Agent Bank”	means Deutsche Bank AG, London Branch (or any successor thereto) in its capacity as agent bank under the Agency Agreement in respect of the Bonds.
“Airport Operators”	means HAL, the operator of Heathrow, GAL, the operator of Gatwick, and STAL, the operator of Stansted, and “Airport Operator” means any of them.
“ANS”	means Air Navigation Services.
“Applicable Accounting Principles”	means, in the case of any Financial Statement or information relating to any Borrower (excluding any Regulatory Accounts) accounting principles, standards and practices generally accepted in the UK as applied from time to time and making such adjustments

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<sup>1</sup> ADIL may change its name to BAA Limited.



(if any) as the Auditors may consider appropriate arising out of changes to applicable accounting principles or otherwise from time to time.

**“Assignable Insurances”**

means each Day 1 Insurance save for any Liability Insurance and third party liability cover (as such terms are defined in schedule 11, part A (*Insurances*) of the Common Terms Agreement).

**“Auditors”**

means PricewaterhouseCoopers LLP or such other firm of accountants of international repute as may be appointed by the Obligors in accordance with the Common Terms Agreement as the Auditors for the Security Group.

**“Authorised Credit Facility”**

means any facility, agreement or finance lease entered into by a Borrower for Senior Debt or Junior Debt as permitted by the terms of the Common Terms Agreement the providers of which are parties to or have acceded to the STID and the Common Terms Agreement, and includes the Initial Borrower Loan Agreement, the Capex Facilities, the Working Capital Facilities, the Refinancing Facility, the EIB Facilities, the Borrower Liquidity Facilities, the Non-Migrated Bond Facility, the Borrower Hedging Agreements, each Finance Lease and (A) any fee letter or commitment letter entered into in connection with the foregoing facilities or agreements or the transactions contemplated in the foregoing facilities and (B) any other document (not being a Common Document) that has been entered into in connection with the foregoing facilities or agreements or the transactions contemplated thereby that has been designated as a document that should be deemed to be an Authorised Credit Facility for the purposes of this definition by the parties thereto (including at least one Obligor).

**“Authorised Credit Provider”**

means a lender or other provider of credit or financial accommodation under any Authorised Credit Facility.

**“Authorised Investments”**

means:

- (a) securities issued by the government of the UK;
- (b) demand or time deposits, certificates of deposit and short-term unsecured debt obligations, including commercial paper, provided that the issuing entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Minimum Short-term Rating;
- (c) any other obligations, provided that in each case the relevant investment has the Minimum Short-term Rating and is either denominated in pounds sterling or (following the date on which the UK becomes a Participating Member State) euro or has been hedged in accordance with the Hedging Policy; or
- (d) any money market funds or equivalent investments which have a rating of at least AAAM by S&P, AAA by Fitch and Aaa by Moody's.

For the avoidance of doubt, “Authorised Investments” shall not include:

- (i) any structured or asset-backed securities or instruments, including CDOs, securities or instruments backed by mortgages, mortgage-related instruments, home equity loans, credit card receivables, automobile receivables, student loans or other securities or assets;
- (ii) any derivatives, hedging instruments, credit linked notes or similar instruments;

- (iii) any securities or instruments issued by any structured vehicle, including any structured investment vehicle or limited purpose company generally formed for the purpose of undertaking arbitrage activities by purchasing mostly medium and long-term assets and funding itself with mostly short-term securities or instruments such as commercial paper and medium-term notes; or
- (iv) investments in any money market or liquidity funds that target investment in or hold any such securities or instruments referenced in paragraphs (i), (ii) or (iii) above.

<b>“Authorised Signatory”</b>	means any person who is duly authorised by any Obligor or any Party and in respect of whom a certificate has been provided signed by a director of that Obligor or such Party setting out the name and signature of that person and confirming such person’s authority to act.
<b>“Available Enforcement Proceeds”</b>	means on any date, all monies received or recovered by the Borrower Security Trustee (or any Receiver appointed by it) in respect of the Borrower Security and under the guarantees from the Obligors together with all monies received or recovered under the OFCA Floating Security by the Bond Trustee.
<b>“Available Surplus Revenue Collections”</b>	means on any date the aggregate amount standing to the credit of the Surplus Revenue Collections Account on such date except and to the extent that on such date such balance is required to be applied in accordance with the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments pursuant to the passing of a Post-Enforcement Surplus Revenue Prepayment Resolution.
<b>“Average Senior ICR”</b>	means, in respect of any Reporting Date in June (commencing June 2012), the sum of the Senior ICR for the immediately preceding Financial Year and two previous Financial Years divided by three.
<b>“BAA Group”</b>	means BAA Limited and its Subsidiaries.
<b>“BAA Bond Guarantee”</b>	means the bond guarantee to be issued by the Bond Guarantor in connection with each Sub-Class of BAA Guaranteed Bonds.
<b>“BAA Payables”</b>	means the two separate debts owed by BAA to the Issuer relating to the subscription by BAA for the Replacement Bonds and equal to the fair value of the Replacement Bonds.
<b>“BAA Pension Liabilities”</b>	means all sums actually or contingently due to the BAA Pension Trustee and the calculation of such sums (as required under clause 7.8 ( <i>Information</i> ) and/or clause 22 ( <i>Borrower Post-Enforcement Priorities of Payment</i> ) of the STID) shall be conclusively determined by a certificate from the actuary of the BAA Pension Scheme setting out the amounts that would be payable to the BAA Pension Scheme pursuant to s75 of the Pensions Act 1995 if the BAA Pension Scheme had by then commenced winding-up for the purposes of section 75(2)(b) (for the avoidance of doubt, whether or not the BAA Pension Scheme has commenced winding up in whole or in part and whether or not the BAA Pension Trustee has designated a date under section 75(2)(b) at the point that the actuarial certificate is provided for these purposes).
<b>“BAA Pension Scheme”</b>	means the BAA defined benefits occupational scheme governed by a Definitive Trust Deed and Rules dated 29 August 2002 (as amended from time to time).
<b>“BAA Pension Trustee”</b>	means the trustee(s) from time to time of the BAA Pension Scheme.

<b>“Base Currency”</b>	means pounds sterling.
<b>“Bearer Bonds”</b>	means those Bonds which are in bearer form.
<b>“Benefit”</b>	<p>in respect of any asset, agreement, property or right (each a “Right” for the purpose of this definition) held, assigned, conveyed, transferred, charged, sold or disposed of by any person shall be construed so as to include:</p> <p>(a) all right, title, interest and benefit, present and future, actual and contingent (and interests arising in respect thereof) of such person in, to, under and in respect of such Right and all Ancillary Rights in respect of such Right;</p> <p>(b) all monies and proceeds payable or to become payable under, in respect of, or pursuant to such Right or its Ancillary Rights and the right to receive payment of such monies and proceeds and all payments made including, in respect of any bank account, all sums of money which may at any time be credited to such bank account together with all interest accruing from time to time on such money and the debts represented by such bank account in which such person has an interest;</p> <p>(c) the benefit of all covenants, undertakings, representations, warranties and indemnities in favour of such person contained in or relating to such Right or its Ancillary Rights;</p> <p>(d) the benefit of all powers of and remedies for enforcing or protecting such person’s right, title, interest and benefit in, to, under and in respect of such Right or its Ancillary Rights, including the right to demand, sue for, recover, receive and give receipts for proceeds of and amounts due under or in respect of or relating to such Right or its Ancillary Rights; and</p> <p>all items expressed to be held on trust for such person under or comprised in any such Right or its Ancillary Rights, all rights to deliver notices and/or take such steps as are required to cause payment to become due and payable in respect of such Right and its Ancillary Rights, all rights of action in respect of any breach of or in connection with any such Right and its Ancillary Rights and all rights to receive damages or obtain other relief in respect of such breach.</p>
<b>“Bond Enforcement Notice”</b>	means a notice delivered by the Bond Trustee to the Issuer in accordance with the Condition 11 (b) ( <i>Delivery of Bond Enforcement Notice</i> ) which declares the bonds to be immediately due and payable.
<b>“Bond Event of Default”</b>	means the events of default in respect of the Bonds set out in Condition 11 ( <i>Bond Events of Default</i> ).
<b>“Bond Guarantor”</b>	means BAA in its capacity as bond guarantor of the BAA Guaranteed Bonds.
<b>“Bond Relevant Date”</b>	means, in respect of any Class, Sub-Class or Tranche of the Bonds, the earlier of (i) the date on which all amounts in respect of the Bonds have been paid; and (ii) five days after the date on which all of the Principal Amount Outstanding 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.

<b>“Bond Trust Deed”</b>	means the bond trust deed dated on or about the date of the Common Terms Agreement between, among others, the Issuer, and the Bond Trustee and each Relevant Financial Guarantor acceding thereto, under which Bonds will, on issue, be constituted and any bond trust deed supplemental thereto.
<b>“Bond Trustee”</b>	means Deutsche Trustee Company Limited or any successor trustee appointed pursuant to the Bond Trust Deed, for and on behalf of the relevant Bondholders, the Receiptholders, the Couponholders and the other Issuer Secured Creditors.
<b>“Bondholders”</b>	means the holders from time to time of the Bonds.
<b>“Bonds”</b>	means the Class A Bonds and/or the Class B Bonds and/or the Subordinated Bonds, as the context may require, and <b>“Bond”</b> shall be construed accordingly.
<b>“Borrower Account Bank”</b>	means The Royal Bank of Scotland plc or any successor account bank appointed pursuant to the Borrower Account Bank Agreement.
<b>“Borrower Account Bank Agreement”</b>	means the account bank agreement dated on or about the Initial Issue Date between the Borrowers, HEX Opco, the Borrower Cash Manager, the Borrower Account Bank and the Borrower Security Trustee.
<b>“Borrower Cash Manager”</b>	means BAA or any substitute cash manager appointed pursuant to the terms of the Shared Services Agreement.
<b>“Borrower Hedge Collateral Account”</b>	means each account held by HAL titled “Borrower Hedge Collateral Account” opened at the Borrower Account Bank in accordance with the provisions of the Common Terms Agreement and includes any sub-account relating to that account and any replacement account from time time.
<b>“Borrower Hedge Counterparty”</b>	means a Hedge Counterparty who is a party to a Borrower Hedging Agreement (together, the <b>“Borrower Hedge Counterparties”</b> ).
<b>“Borrower Hedging Agreement”</b>	means a Hedging Agreement entered into by a Borrower with a Hedge Counterparty.
<b>“Borrower Liquidity Facility”</b>	means a Liquidity Facility made available under a Borrower Liquidity Facility Agreement and <b>“Borrower Liquidity Facilities”</b> means all of them.
<b>“Borrower Liquidity Facility Agreement”</b>	means each liquidity facility agreement which has the characteristics set out in schedule 10 ( <i>Liquidity Facilities</i> ) to the Common Terms Agreement, as established in connection with any Treasury Transactions entered into by a Borrower under a Borrower Hedging Agreement and to fund any EIB Liquidity Shortfalls and any interest shortfalls under the Refinancing Facility.
<b>“Borrower Liquidity Facility Provider”</b>	means any lender from time to time under a Borrower Liquidity Facility Agreement which has acceded to the terms of the Common Terms Agreement and the STID.
<b>“Borrower Loan”</b>	means the principal amount of all advances from time to time outstanding under a Borrower Loan Agreement.
<b>“Borrower Loan Agreement”</b>	means any loan agreement entered into between the Issuer and the Borrowers, including the Initial Borrower Loan Agreement.
<b>“Borrower Post-Enforcement (Post-Acceleration) Priority of Payments”</b>	means the provisions relating to the order of priority of payments in respect of Senior Debt and Junior Debt following the delivery of a Loan Acceleration Notice as set out in the STID.
<b>“Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments”</b>	means the provisions relating to the order of priority of payments in respect of application of Principal Collections in respect of Senior Debt and Junior Debt following the delivery of a Loan Enforcement Notice but prior to the delivery of a Loan Acceleration Notice or in respect of an application of Available

	Surplus Revenue Collections following the passing of a Post-Enforcement Surplus Revenue Prepayment Resolution, as set out in the STID.
<b>“Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments”</b>	means the Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments and the Borrower Post-Enforcement (Pre-Acceleration) Principal Priority of Payments and “Borrower Post-Enforcement (Pre-Acceleration) Priority of Payments” means either of them, as the context requires.
<b>“Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments”</b>	means the provisions relating to the order of priority of payments in respect of application of Revenue Collections in respect of Senior Debt and Junior Debt following the delivery of a Loan Enforcement Notice but prior to the delivery of a Loan Acceleration Notice as set out in the STID or following the occurrence of any of the events set out in relation thereto the Common Terms Agreement.
<b>“Borrower Post-Enforcement Priorities of Payments”</b>	means the Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments and the Borrower Post-Enforcement (Post-Acceleration) Priority of Payments and “Borrower Post-Enforcement Priority of Payments” means any of them, as the context requires.
<b>“Borrower Secured Creditor”</b>	means the Borrower Security Trustee (in its own capacity and on behalf of the other Borrower Secured Creditors), the Issuer, EIB, the Initial WCF Providers, the Initial Capex Facility Providers, the Non-Migrated Bond Facility Providers, the Refinancing Facility Providers, the Initial Credit Facilities Agent, the Non-Migrated Bond Facility Agent, the Refinancing Facility Agent, each Ancillary Lender, each Hedge Counterparty under each Borrower Hedging Agreement, each Borrower Liquidity Facility Provider, the Borrower Liquidity Facility Agent, each Initial Authorised Credit Provider, and each other Authorised Credit Provider, the BAA Pension Trustee, the Borrower Account Bank, any replacement Borrower Cash Manager which is not an affiliate of BAA, each Finance Lessor, the Non-Migrated Bond Trustee (in its own capacity and as trustee for the Non-Migrated Bondholders), the Non-Migrated Bondholders and any Additional Borrower Secured Creditors.
<b>“Borrower Secured Debt”</b>	means the Senior Debt and the Junior Debt.
<b>“Borrower Secured Liabilities”</b>	means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of (i) each Obligor to any Borrower Secured Creditor (a) under each Finance Document to which such Obligor is a party and (b) in respect of the Non-Migrated Bond Guarantees, except for any obligation which, if it were secured under the Security Agreement, would result in a contravention of section 151 of the Companies Act 1985 and (ii) to the BAA Pension Trustee in respect of the BAA Pension Liabilities in an amount up to the Maximum Pension Liability Amount.
<b>“Borrower Security”</b>	means the security constituted by the Security Documents including any guarantee or obligation to provide cash collateral or further assurance thereunder.
<b>“Borrower Security Trustee”</b>	means Deutsche Trustee Company Limited or any successor appointed pursuant to the STID.
<b>“Borrower Subordinated Hedge Amounts”</b>	means any termination payment due or overdue to a Borrower Hedge Counterparty under any Borrower Hedging Agreement which arises as a result of the occurrence of an Event of Default (as defined in the relevant Hedging Agreement) where the relevant Borrower Hedge Counterparty is the Defaulting Party (as defined in the relevant Borrower Hedging Agreement) or the occurrence of

an Additional Termination Event (as defined in the relevant Borrower Hedging Agreement) following the failure of the relevant Borrower Hedge Counterparty to take action in accordance with the terms of the relevant Borrower Hedging Agreement within the required period following a credit rating downgrade of such Borrower Hedge Counterparty (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the relevant Borrower to enter into a transaction to replace a Borrower Hedging Agreement (in whole or in part) which shall be paid directly to the Borrower Hedge Counterparties and not in accordance with the Borrower Post-Enforcement Priorities of Payments).

**“Borrowers”**

means Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited for so long as each of them remains a member of the Security Group, together with any entity which accedes to the Common Terms Agreement and the STID as a Borrower but excludes any person who ceases to be a member of the Security Group in accordance with the terms of the Finance Documents and **“Borrower”** shall mean any one of them.

**“BSC”**

means BAA Business Support Centre Ltd.

**“BSC Services Agreement”**

means the services agreement to be entered into on or about the Initial Issue Date between BAA and BSC.

**“Business Day”**

means:

- (a) 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 in respect of the Bonds, and each (if any) additional city or cities specified in the relevant Final Terms; and
- (b) 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, and in the principal financial centre of the currency in which such financial indebtedness is denominated (which in the case of a payment in US dollars shall be New York) and, in respect of the Bonds, 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.

**“Calculation Agency Agreement”**

in relation to the Bonds of any Tranche, means an agreement in or substantially in the form of schedule 1 (*Form of Calculation Agency Agreement*) of the Agency Agreement.

**“Calculation Agent”**

means, in relation to any Tranche of Bonds, the person appointed as calculation agent in relation to such Tranche of Bonds by the Issuer pursuant to the provisions of a Calculation Agency Agreement (or any other agreement) and shall include any successor calculation agent appointed in respect of such Tranche of Bonds.

**“Calculation Date”**

means, (other than in any Hedging Agreement where **“Calculation Date”** has the meaning given to it in that Hedging Agreement) in respect of each Reporting Date falling in June, the immediately preceding 31 December and, in respect of each Reporting Date

	falling in December, the immediately preceding 30 June or such other date as may be agreed as a result of a change in the financial year end date or regulatory year end date of any Obligor.
<b>“Call Protected Floating Rate Bonds”</b>	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;
<b>“Capex Facilities”</b>	means the facilities, including the Initial Capex Facility pursuant to the Initial Credit Facilities Agreement, made available to the Borrowers to fund the Borrower’s capex requirements (or, as the context requires, the agreements pursuant to which they are made available) and “Capex Facility” means any one of them.
<b>“Capex Provider”</b>	means a lender or provider of credit under a Capex Facility.
<b>“Captive”</b>	means BAA Insurance Services Ltd.
<b>“Cashflow from Operations”</b>	means, for the purposes of the Common Terms Agreement, the amount of cash flow from operations including dividends received by any Obligor from any Subsidiary which is not an Obligor, but excluding interest paid, interest received and income taxes paid as provided in the cash flow statements delivered pursuant to the Common Terms Agreement subject to certain adjustments and limitations provided for it in the Common Terms Agreement.
<b>“Category 1”</b>	means the Leased Premises consisting of sites that are operationally sensitive or of particular importance to the business of a Borrower.
<b>“Category 2”</b>	means the Leased Premises consisting of sites significant in terms of value, annual outgoings or other long term liabilities but which could be reasonably readily replaced if there was a problem.
<b>“Certificates of Title”</b>	means the certificates of title prepared for a sample of the properties (comprising part of a runway, a terminal, a stand (other than at Stansted), a hanger and a car park) of the relevant Borrower at the Designated Airports (and in respect of the terminal buildings only contained lease reports in a sample of leases spread across different types of letting and which do not include retail agreements or licences and in the case of Terminal 5 comprise agreements for lease entered into before November 2006 which was the cut-off date for the sample) and any further certificates of title prepared in respect of land acquired by any Obligor after the Initial Issue Date addressed to the Borrower Security Trustee.
<b>“Charged Property”</b>	means the property, assets, rights and undertaking of each Obligor that are the subject of the security interests created in or pursuant to the Security Documents and includes, for the avoidance of doubt, each Obligor’s rights to or interests in any chose in action and the Group Shares and each Obligor’s rights under the Transaction Documents.
<b>“Citi”</b>	means Citigroup Global Markets Limited.
<b>“Class”</b>	means each class of Bonds, the available Classes of Bonds at the Initial Issue Date being Class A Wrapped Bonds, Class A Unwrapped Bonds, Class B Wrapped Bonds and Class B Unwrapped Bonds.
<b>“Class A Bonds”</b>	means the Class A Wrapped Bonds and the Class A Unwrapped Bonds, each of which may be further divided into Sub-Classes.
<b>“Class A Unwrapped Bonds”</b>	means the Class A Bonds that do not have the benefit of a guarantee from a Financial Guarantor.
<b>“Class A Wrapped Bonds”</b>	means the Class A Bonds that have the benefit of a guarantee from a Financial Guarantor.
<b>“Class B Bonds”</b>	means the Class B Wrapped Bonds and the Class B Unwrapped Bonds, each of which may be further divided into Sub-Classes.

<b>“Class B Unwrapped Bonds”</b>	means the Class B Bonds that do not have the benefit of a guarantee from a Financial Guarantor.
<b>“Class B Wrapped Bonds”</b>	means the Class B Bonds that have the benefit of a guarantee from a Financial Guarantor.
<b>“Clearstream, Luxembourg”</b>	means Clearstream Banking, société anonyme, Luxembourg.
<b>“Co-Arranger”</b>	means each of Citigroup Global Markets Limited and The Royal Bank of Scotland plc.
<b>“Collateralise”</b>	means, with respect to any Senior Debt or Junior Debt, to deposit into the Debt Collateralisation Account, an amount in respect of all or part of the Outstanding Principal Amount of such Senior Debt or Junior Debt and <b>“Collateralisation”</b> and <b>“Collateralised”</b> shall be construed accordingly.
<b>“Common Documents”</b>	means the Security Documents, the Common Terms Agreement, the Master Definitions Agreement, the Shared Services Agreements, the Senior/Subordinated Intercreditor Agreement, the STID and the Tax Deed of Covenant.
<b>“Common Terms Agreement”</b> or <b>“CTA”</b>	means the common terms agreement to be entered into between, among others, the Obligors, the Borrower Cash Manager, the Issuer and the Borrower Security Trustee to be dated on or about the Initial Issue Date.
<b>“Companies Act”</b>	means the company law provisions of the Companies Act 2006, Part 2 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 (c.27) (community interest companies), and the provisions of the Companies Act 1985 (c. 6) and the Companies Consolidation (Consequential Provisions) Act 1985 (c. 9) that remain in force.
<b>“Competition Act”</b>	means the UK Competition Act 1998.
<b>“Competition Commission”</b> or <b>“CC”</b>	means the UK Competition Commission.
<b>“Compliance Certificate”</b>	means a certificate, substantially in the form set out in the Common Terms Agreement in which the Obligors periodically provide certain financial information and statements to the Borrower Security Trustee as required by the Common Terms Agreement.
<b>“Composite Guarantee Deed”</b>	means the inter-company composite guarantee entered into on or about the Initial Issue Date between the Borrowers, HEX Opco and the Borrower Account Bank.
<b>“Conditions”</b>	means the terms and conditions of the Bonds set out in the Base Prospectus, as may from time to time be amended, modified, varied or supplemented in the manner permitted under the Bond Trust Deed.
<b>“Contractor”</b>	means any person (being either a single entity, consortium or joint venture) that is a counterparty to an Outsourcing Agreement.
<b>“Coupon”</b>	means an interest coupon appertaining to a Definitive Bond such coupon being: (a) if appertaining to a Fixed Rate Bond, a Floating Rate Bond or an Indexed Bond, in the form or substantially in the form set out in the Bond Trust Deed or in such other form, having regard to the terms of issue of the Bonds of the relevant Sub-Class, as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s); or (b) if appertaining to a Definitive Bond which is neither a Fixed Rate Bond nor a Floating Rate Bond nor an Indexed Bond, in such form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 14 ( <i>Replacement of Bonds, Coupons, Receipts and Talons</i> ).



<b>“Couponholders”</b>	means the several persons who are, for the time being, holders of the Coupons.
<b>“CP Agreement”</b>	means the conditions precedent agreement to be entered into between, among others, the Issuer, the Bond Trustee, the Borrower Security Trustee and the Obligor on the Initial Issue Date.
<b>“Credit Facilities Agent”</b>	means The Royal Bank of Scotland plc or any successor thereto as agent under the Initial Credit Facilities Agreement.
<b>“Cross Currency Hedge Counterparties”</b>	means (i) the Initial Issuer Hedge Counterparties which are party to a Cross Currency Hedging Agreement and which are a party to the STID and (ii) any counterparty to a Cross Currency Hedging Agreement which is or becomes party to the STID in accordance with the STID and <b>“Cross Currency Hedge Counterparty”</b> means any of such parties.
<b>“Cross Currency Hedging Agreement”</b>	means any Hedging Agreement in respect of a Treasury Transaction which is a currency swap or exchange transaction.
<b>“Date Prior”</b>	means, in respect of any Obligor, the date which is the last day of the regulatory year of such Obligor before the next price determination for such Obligor takes effect.
<b>“Dealers”</b>	means 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, CALYON, HSBC Bank plc and Royal Bank of Canada Europe Limited and any other entity which the Issuer and the Obligors may appoint as a Dealer and notice of whose appointment has been given to the Principal Paying Agent and the Bond Trustee by the Issuer in accordance with the provisions of the Dealership Agreement but excluding any entity whose appointment has been terminated in accordance with the provisions of the Dealership Agreement and notice of such termination has been given to the Principal Paying Agent and the Bond Trustee by the Issuer in accordance with the provisions of the Dealership Agreement and references to a <b>“relevant Dealer”</b> or the <b>“relevant Dealer(s)”</b> mean, in relation to any Tranche of Bonds, the Dealer or Dealers with whom the Issuer has agreed the issue of the Bonds of such Tranche and <b>“Dealer”</b> means any one of them.
<b>“Dealership Agreement”</b>	means the agreement dated on or about the Initial Issue Date between the Issuer, the Obligors, BAA and the Dealers named therein (or deemed named therein) concerning the purchase of Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto.
<b>“Decision Period”</b>	means the period of time within which the approval of the Borrower Security Trustee is sought as specified in relation to each type of voting matter in the STID.
<b>“Debt Collateralisation Account”</b>	means the account designated as the “Debt Collateralisation Account”, held in the joint names of the Borrowers and maintained with the Borrower Account Bank pursuant to the terms of the Borrower Account Bank Agreement and the Common Terms Agreement, or such other account as may be opened, with the consent of the Borrower Security Trustee, at any branch of the Borrower Account Bank.
<b>“Default”</b>	means (a) a Loan Event of Default or (b) a Potential Loan Event of Default.
<b>“Definitive Bond”</b>	means a Bearer Bond in definitive form issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed in exchange for either

a Temporary Global Bond or part thereof or a Permanent Global Bond (all as indicated in the applicable Final Terms), such Bearer Bond in definitive form being in the form or substantially in the form set out in part 3 (*Form of Definitive Bonds*) of schedule 3 (*Forms of Global and Definitive Bonds, Receipts, Coupons and Talons*) to the Bond Trust Deed and having the Conditions endorsed thereon and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue.

<b>“Designated Airport Disposal”</b>	means a Permitted Disposal by a Borrower of all or any part of a Designated Airport, which represents more than two per cent. of Total RAB, or a Permitted Disposal by a Holding Company of a Borrower of the shares in a Borrower.
<b>“Designated Airports”</b>	means the airports at Heathrow, Gatwick and Stansted.
<b>“Determination Date”</b>	means the date which is seven Business Days prior to each Payment Date.
<b>“Direction Notice”</b>	means, in respect of any matter which is not the subject of a STID Proposal, a SSA Instruction Notice, an Emergency SSA Instruction Notice, an Intercreditor Instruction Notice, an Enforcement Instruction Notice, a Further Enforcement Instruction Notice or a BSC Instruction Notice, a request made by the Borrower Security Trustee for an instruction from the Qualifying Borrower Secured Creditors as to whether the Borrower Security Trustee should agree to a consent, waiver or modification or exercise a right or discretion pursuant to the Transaction Documents and the manner in which it should do so.
<b>“Discretion Matter”</b>	means a matter in which the Borrower Security Trustee may exercise its discretion to approve any request made in a STID Proposal without any requirement to seek the approval of any Borrower Secured Creditor or any of their representatives.
<b>“Dual Currency Bonds”</b>	means a Bond in respect of which the amount payable (whether in respect of principal or interest and whether at maturity or otherwise) will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
<b>“EIB”</b>	means The European Investment Bank in its capacity as lender pursuant to the EIB Facilities.
<b>“EIB Facilities”</b>	means certain existing term facilities made available to HAL and any further facilities made available to one or more of the Borrowers by EIB.
<b>“EIB Facility Agreements”</b>	means certain EIB facility agreements under which the EIB Facilities are made available to one or more of the Borrowers.
<b>“EIB Liquidity Shortfall”</b>	means, in relation to any Payment Date under a Supported EIB Facility Agreement, an amount equal to the shortfall between amounts available to the Borrowers to meet payments of interest, fees and commissions on the Supported EIB Facilities and the amount of interest, fees and commissions payable by the Borrowers on such Payment Date on the principal amount advanced by EIB under the EIB Facility Agreements.
<b>“EIB Payment Date”</b>	means each date on which a payment of interest or other finance charges is made or is scheduled to be made by a Borrower in respect of any liabilities or obligations under any Supported EIB Facility.
<b>“Eligible Tranche”</b>	means each tranche of Non-Migrated Bonds in respect of which no Independent Enforcement Action has been taken.

**“Enforcement Action”**

means any step (other than (i) the exercise of any rights of inspection of any asset or other immaterial actions taken under any Finance Lease or (ii) a Permitted Hedge Termination) that a Borrower Secured Creditor is entitled to take to enforce its rights against an Obligor under a Finance Document following the occurrence of a Loan Event of Default, including the declaration of a Loan Event of Default, the institution of proceedings, the making of a demand for payment under a guarantee, the making of a demand for cash collateral under a guarantee or the acceleration of Borrower Secured Liabilities by a Borrower Secured Creditor or Borrower Secured Creditors pursuant to the terms of the applicable Finance Documents.

**“Entrenched Rights”**

are matters which:

- (a) would delay the date fixed for payment of principal, interest or Make-Whole Amount in respect of the relevant Borrower Secured Creditor’s debt or would reduce the amount of principal, the rate of interest or the Make-Whole Amount (if any) payable in respect of such debt;
- (b) would bring forward the date fixed for payment of principal, interest or Make-Whole Amount in respect of any Borrower Secured Creditor’s debt or would increase the amount of principal, the rate of interest or any Make-Whole Amount payable on any date in respect of any Borrower Secured Creditor’s debt;
- (c) would have the effect of adversely changing any of the Borrower Post-Enforcement Priorities of Payments or application thereof in respect of a Borrower Secured Creditor (including, in the case of the Issuer, any Issuer Secured Creditor that would be adversely affected by such change);
- (d) would have the effect of adversely changing the application of any proceeds of enforcement of the OFCA;
- (e) would result in the exchange of the relevant Borrower Secured Creditor’s debt for, or the conversion of such debt into, shares, bonds or other obligations of any other person;
- (f) would change or would relate to the currency of payment due under the relevant Borrower Secured Creditors debt (other than due to the UK adopting the euro);
- (g) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant Borrower Secured Creditor’s debt in the event of the imposition of withholding taxes (including, in the case of the Issuer, any Issuer Secured Creditor that would be adversely affected by such change);
- (h) would change or would have the effect of changing (i) any of the following definitions: Qualifying Borrower Debt, Qualifying Borrower Secured Creditors, Qualifying Borrower Senior Debt, Qualifying Borrower Junior Debt, STID Proposal, Discretion Matter, Ordinary Voting Matter, Extraordinary Voting Matter, Voted Qualifying Debt, Non-Migrated Bond Voting Matter, Non-Migrated Bond Excluded Default, Reserved Matter, Entrenched Right, Borrower Secured Liabilities; (ii) the Decision Period, Quorum Requirement or voting majority required in respect of any Ordinary Voting Matter, Extraordinary Voting Matter, SSA Instruction Notice, Emergency SSA Instruction Notice, Intercreditor Instruction Notice, Enforcement Instruction Notice or Further Enforcement

- Instruction Notice; (iii) any of the matters that give rise to Entrenched Rights under the STID or (vi) the scope of the Entrenched Rights in the STID;
- (i) would change or have the effect of changing the provisions of the STID relating to the voting of Participating QBS Creditors;
  - (j) would change or have the effect of changing the provisions of the STID relating to Reserved Matters;
  - (k) in respect of each Hedge Counterparty,
    - (i) would change or would have the effect of changing any of the following definitions: Borrower Excess Hedge Collateral, Borrower Hedge Replacement Premium, Borrower Subordinated Hedge Amount, Issuer Excess Hedge Collateral, Issuer Hedge Replacement Premium, Issuer Subordinated Hedge Amount, Hedging Agreement, Revenue Collections or Issuer Secured Creditor Entrenched Right; or
    - (ii) would change or have the effect of changing the definition of Hedging Limit or would change any term forming part of such definition other than where the effect of such change would be to decrease the Hedging Limit; or
    - (iii) would change or have the effect of changing the definition of Permitted Hedge Termination or any of the Hedge Counterparties' rights to terminate the Hedging Agreements as set out in the Hedging Policy; or
    - (iv) would change or have the effect of changing the clauses of the Common Terms Agreement in respect of Permitted Hedge Terminations; or
    - (v) would change or have the effect of changing the provisions of the STID in respect of Voting of Cross Currency Hedging Agreements by Cross Currency Hedge Counterparties; or
    - (vi) would change or have the effect of changing the definition of Loan Acceleration Notice or would change or have the effect of changing the provisions of the STID in respect of consequences of delivery of a Loan Acceleration Notice;
    - (vii) would change or have the effect of changing the purpose of the Borrower Liquidity Facility (which is to fund shortfalls in respect of interest and other finance charges due under the Refinancing Facility Agreement, the EIB Facility Agreements and all scheduled amounts payable to each Borrower Hedge Counterparty under the Borrower Hedging Agreements in an aggregate amount at least equal to the amount of liquidity required to prevent the occurrence of a Trigger Event);
    - (viii) would change or have the effect of changing the purpose of the Issuer Liquidity Facility (which is to fund shortfall amounts scheduled to be paid by the Issuer in respect of items (i) – (vii) (inclusive) of the Issuer Pre-Enforcement Priority of Payments (excluding, for the avoidance of doubt, any termination payments and all other unscheduled amounts payable to any Issuer Hedge Counterparty) in an aggregate amount at least equal to the amount of liquidity required to prevent the occurrence of a Trigger Event);

- (ix) would change or have the effect of changing the provision of the Common Terms Agreement requiring the application of Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments in certain circumstances;
- (x) would change or have the effect of changing certain provisions of the Senior/Subordinated Intercreditor Agreement which, (i) relate to the Hedging Agreements and/or the Hedge Counterparties or (ii) would have a material adverse effect on the Borrower Hedge Counterparties;
- (xi) would change or have the effect of changing any provision of the Common Terms Agreement, a Borrower Loan Agreement or the STID that restricts the application of monies until after the payment or Collateralisation of any termination amounts or other unscheduled amounts due to a Hedge Counterparty under a Hedging Agreement;
- (l) in respect of each Borrower Liquidity Facility Provider, would change the effect of the provisions of the Common Terms Agreement relating to the application of the Borrower Post-Enforcement (Pre-Acceleration) Priorities of Payments in certain circumstances or the pre-enforcement priority for the Borrower Liquidity Facilities of the Common Terms Agreement, or would affect the ability of such Borrower Liquidity Facility Provider to enforce its rights under a Borrower Liquidity Facility Agreement;
- (m) in respect of each Finance Lessor, would have the effect of changing or would relate to (a) any sale, transfer or other disposal (whether deemed or otherwise) of any of the Equipment; (b) the creation or subsistence of any encumbrance, lien, mortgage or other Security Interest over any Equipment; (c) any of the covenants or representations and warranties set out in the Finance Documents which relate to the maintenance or condition of the Equipment; or (d) any provisions contained within the Finance Documents pertaining to any damage, destruction or total loss of any of the Equipment;
- (n) in respect of the BAA Pension Trustee, (i) may impose new, increased or additional obligations on or reduce the rights of the BAA Pension Trustee (provided, however, that with regard to any reduction of rights relating to the Borrower Post-Enforcement Priorities of Payments, the right of the BAA Pension Trustee shall be to rank *pari passu* with the repayments of principal in respect of the Borrower Loans relating to the Class A Bonds for an aggregate amount up to the Maximum Pension Liability Amount but the Borrower Post-Enforcement Priorities of Payments may otherwise be amended without the consent of the BAA Pension Trustee) (ii) would result in the BAA Pension Trustee being entitled to be paid an aggregate amount under the STID of less than the Maximum Pension Liability Amount (iii) would have the effect of changing the provisions of the Shared Services Agreement in respect of the pension costs, (iv) would result in a grant of security by any Obligor to any person not being a Borrower Secured Creditor that would rank in priority to the security granted under the Security Documents, and/or (v),

would change or would have the effect of changing the definitions of BAA Pension Liabilities or Maximum Pension Liability Amount;

- (o) in respect of a Non-Migrated Bondholder or the Non-Migrated Bond Trustee:
  - (i) would release any of the Borrower Security as security for the obligations of the Borrowers under the Non-Migrated Bond Guarantee other than in circumstances where the STID permits the Borrower Security Trustee to consent to such release without the requirement to obtain consent from the Borrower Secured Creditors or where all Borrower Secured Creditors are affected equally and rateably by such release;
  - (ii) would adversely change the entitlement of the Non-Migrated Bondholders or the Non-Migrated Bond Trustee to participate in a vote relating to a Non-Migrated Bond Voting Matter; or
  - (iii) would adversely change the ranking of the claims of the Non-Migrated Bondholders or the Non-Migrated Bond Trustee to any amounts received or recovered in respect of any of the Borrower Security, it being recognised that the addition of secured liabilities and secured parties that rank ahead of the Non-Migrated Bondholders shall not be deemed to be an adverse change where the Non-Migrated Bondholders continue to rank *pari passu* with the Senior Debt;
- (p) in respect of any Borrower Secured Creditor whose Senior Debt or Junior Debt is Collateralised, would result in the withdrawal of any amounts credited to the Debt Collateralisation Account to the extent represented by a credit on the DCA Ledger of such Borrower Secured Creditor except where such amounts are to be applied in Actual Prepayment of such Senior Debt or, as the case may be, Junior Debt;
- (q) in respect of the Issuer, would relate to the waiver of the Loan Event of Default set out in paragraph (q) under “– *Common Terms Agreement – Loan Events of Default*” below, provided that the Bond Trustee on behalf of the Issuer shall be required to provide such waiver if, following delivery of an Enforcement Instruction Notice by the Borrower Security Trustee, no instruction to deliver a Loan Enforcement Notice, take any other kind of Enforcement Action or deliver a Loan Acceleration Notice is given by the Qualifying Borrower Secured Creditors in accordance with the procedures set out in the STID, the Issuer (or its Secured Creditor Representatives) is directed to do so in writing by Issuer Qualifying Creditors together holding or representing 25 per cent. or more of the Issuer Qualifying Debt; or
- (r) in respect of each Financial Guarantor, would result in any member of the Security Group entering into any inflation-linked Treasury Transactions pursuant to a Hedging Agreement or would result in the Issuer entering into inflation-linked Treasury Transactions in respect of any Class B Bonds.

**“Environmental Claim”**

means any claim, proceeding, formal notice or investigation by any person pursuant to any Environmental Law.

<b>“Environmental Law”</b>	means any applicable law in force in any jurisdiction in which the Borrowers, any of their Subsidiaries or any Joint Venture in which it has an interest conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.
<b>“Environmental Permits” or “Environmental Approvals”</b>	shall in either case where used mean any permit, licence, consent, approval or other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the business conducted on or from the properties owned or used by the Security Group.
<b>“Equipment”</b>	means, in relation to a Finance Lease, any items of equipment, plant and/or machinery, system, asset, software licence, Intellectual Property Right, software and any other item leased under that Finance Lease.
<b>“Equivalent Amount”</b>	means the amount in question expressed in the terms of the Base Currency, calculated on the basis of the Exchange Rate.
<b>“EU”</b>	means the European Union.
<b>“euro”, “EUR” or “€”</b>	means the lawful currency of member states of the European Union that adopt the single currency introduced in accordance with the Treaty.
<b>“Euroclear”</b>	means Euroclear Bank S.A./N.V.
<b>“Exchange Rate”</b>	means the strike rate specified in any related Cross-Currency Hedging Agreement or, failing that, the spot rate at which the Non-Base Currency is converted to the Base Currency as quoted by the Agent Bank as at 11.00 a.m.: <ul style="list-style-type: none"> <li>(a) for the purposes of the STID, on the date that the STID Proposal is dated; and</li> <li>(b) in any other case, on the date as of which calculation of the Equivalent Amount of the Outstanding Principal Amount is required,</li> </ul> and, in each case, as notified by the Agent Bank to the Bond Trustee.
<b>“Excluded Cash”</b>	means (a) any amounts standing to the credit of the Insurance Proceeds Account, (b) on and following a Mandatory Prepayment Date, any disposal proceeds from the disposal of all or part of a Designated Airport representing more than two per cent. of Total RAB which have not for any reason been applied in the prepayment of advances or market purchases of bonds in circumstances where they should have been so applied, (c) any cash required to meet any Restricted Payment declared but not yet paid or which the Security Group Agent reasonably expects to be declared in the 90 days following the date of any Compliance Certificate or, if later, the date of delivery of any financial statements that were required to be delivered with such Compliance Certificate but were not so delivered, (d) the amount of any cash collateral provided by a Borrower under a credit support annex in respect of hedging arrangements entered into in the ordinary course of business and permitted in accordance with the Hedging Policy, (e) the aggregate amounts standing to the credit of any Liquidity Standby Account (as defined in the relevant Borrower Liquidity Facility Agreement) in the name of any of the Borrowers, (f) the aggregate amounts standing to the credit of the Borrower Liquidity Reserve Account and (g) the aggregate amounts standing to the credit of any Affected Lenders Account (as defined in the Non-Migrated Bond Facility Agreement) in the name of any of the Borrowers.

**“Excluded Issuer Cash”**

means the aggregate amounts standing to the credit of any Liquidity Standby Account (as defined in the relevant Issuer Liquidity Facility Agreement) in the name of the Issuer, the aggregate amounts standing to the credit of the Issuer Liquidity Reserve Account and any Issuer Collateral Account.

**“Existing Security Agreements”**

means

- (a) the debenture dated 30 January 2008 between BAA (AH) Limited, BAA (SH) Limited, BAA (SP) Limited and BAA (DSH) Limited as Chargors and The Royal Bank of Scotland plc as security trustee;
- (b) the debenture dated 19 January 2007 made between Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited as Chargors and The Royal Bank of Scotland plc as security trustee;
- (c) the mortgage dated 19 January 2007 between Heathrow Airport Limited and The Royal Bank of Scotland plc as security trustee;
- (d) the mortgage dated 19 January 2007 between Gatwick Airport Limited and The Royal Bank of Scotland plc as security trustee; and
- (e) the mortgage dated 19 January 2007 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee.

**“Extraordinary Resolution”**

means a resolution passed by a meeting of Bondholders, duly convened and held in accordance with the Bond Trust Deed, by a majority of not less than three-quarters of the votes cast at such meeting.

**“Extraordinary Voting Matters”**

are matters which:

- (a) would release any of the Borrower Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the Common Documents;
- (b) would change (i) certain material definitions which relate to the key structural principles on which the voting mechanics of the Extraordinary Voting Matters have been founded, or (ii) any of the matters constituting Extraordinary Voting Matters;
- (c) (subject to paragraph (e) below) would change any Loan Events of Default or any Trigger Events each in relation to non payment, the making of Restricted Payments, financial ratios or credit rating downgrade;
- (d) would relate to the waiver of the Loan Event of Default in respect of any Obligor or Loan Events of Default or Trigger Events each in relation to non-payment, credit rating downgrade or financial ratios or the making of Restricted Payments;
- (e) would materially adversely change or affect the application of the Fair and Reasonable Principle to the allocation of shared costs payable by the Obligors under the Shared Services Agreements save as permitted or required under the Shared Services Agreements in respect of any Regulatory Change;
- (f) would change in any adverse respect the restriction on any disposal of HAL or Heathrow or relate to a consent in respect of any such disposal;
- (g) would change in any adverse respect the mandatory prepayment provisions set out in the Common Terms Agreement following a disposal of all or part of a



Designated Airport, including, without limitation, the amount to be prepaid or the time by which such amount is to be applied in prepayment;

- (h) would change any of the termination events or materially affect any of the provisions relating to the obligations of any party to the Shared Services Agreement following the occurrence of a termination event;
- (i) would materially change or have the effect of materially changing certain provisions of the Shared Services Agreement in respect of the provision of additional services or the equivalent provision of the BSC Services Agreement or BAA's or BSC's obligations thereunder;
- (j) would materially change or have the effect of materially changing the definition of Permitted Business;
- (k) would change or have the effect of changing the provisions relating to or relate to the waiver of the Additional Indebtedness Tests set out in the Common Terms Agreement;
- (l) would have the effect of approving or consenting to any termination of the appointment of BAA as Shared Services Provider under the Shared Services Agreement in accordance with the provisions of the Shared Services Agreement.
- (m) would result in the earnings from any Joint Ventures which are not Obligors, contributing towards more than 10 per cent. of Cashflow from Operations;
- (n) would result in the sum of the aggregate undrawn available commitments under Liquidity Facilities of the Issuer and the balance of the Issuer Liquidity Reserve Amount (if any) being less than the aggregate amount of the Issuer's estimated recurring fees and expenses, interest and equivalent finance charges for the 12 months following the most recently occurring Calculation Date on Issuer Senior Debt and for the 6 months following the most recently occurring Calculation Date on Issuer Junior Debt;
- (o) would result in the sum of the aggregate undrawn available commitments under Liquidity Facilities of the Borrowers and the balance of the Borrower Liquidity Reserve Account (if any) being less than the sum of (i) the aggregate forecast net payments payable by the Borrowers under outstanding Treasury Transactions under the Borrower Hedging Agreements; (ii) the amount of the Borrowers' estimated recurring fees and expenses, interest and equivalent finance charges under the Refinancing Facility (after taking account of the impact of all Interest Rate Hedging Agreements entered into in respect of the Refinancing Facility which continue in force) for the 12 months following the most recently occurring Calculation Date on Tranche A Loans outstanding under the Refinancing Facility Agreement and for 6 months following the most recently occurring Calculation Date on Tranche B Loans outstanding under the Refinancing Facility Agreement and (iii) the maximum potential EIB Liquidity Shortfall under the Supported EIB Facilities, in each case for the succeeding 12 month period, on the basis of, in respect of such Treasury Transactions, the assumptions set out in paragraph 3I of part 1 (*Trigger Events*) of schedule 3 (*Trigger Events*) to the Common Terms Agreement;
- (p) would bring forward the scheduled maturity date of any Financial Indebtedness following the occurrence of a Trigger Event which is continuing; or

- (q) would result in members of the Security Group being able to claim capital allowances in the five year period following the Initial Issue Date, where the members of the Security Group are aware that the effect of so claiming would be to generate or increase the amount of losses or other amounts which would be available for surrender by way of group relief to companies outside the Security Group and which, in aggregate, exceed 2 per cent. of Total RAB.

<b>“Facility Agent”</b>	means any facility agent under any Authorised Credit Facility.
<b>“Fair and Reasonable Principle”</b>	means the fair and reasonable allocation as between the Obligors, the Non-Designated Group and any other members of the BAA Group having regard to the statements of any Regulator in relation thereto provided to BAA from time to time.
<b>“FG Event of Default”</b>	means in relation to each Relevant Financial Guarantor such events as are specified in the G&R Deed and, in relation to Wrapped Bonds, set out in the relevant Final Terms.
<b>“FGP Topco”</b>	means FGP Topco Limited a company incorporated in England and Wales with limited liability and registered number 05723961, being an indirect holding company of the Security Group.
<b>“Fifth Anniversary”</b>	means, with respect to any Issuer Liquidity Facility Provider or Borrower Liquidity Facility Provider, the last Business Day of any Five-Year Period for such Liquidity Facility Provider.
<b>“Five-Year Period”</b>	means the period of five years from (a) in respect of the Initial Issuer Liquidity Facility Provider or the Initial Borrower Liquidity Facility Provider, the date of the Issuer Liquidity Facility Agreement or the Borrower Liquidity Facility Agreement, as applicable, and (b) in respect of any subsequent Liquidity Facility Provider, the date of accession of such party, in each case as such period may be extended with the consent of the relevant Liquidity Facility Provider.
<b>“Final Terms”</b>	means the final terms issued in relation to each Tranche or Sub-Class of Bonds as a supplement to the Conditions and giving details of the Tranche or Sub-Class.
<b>“Finance Documents”</b>	means: <ul style="list-style-type: none"><li>(a) the Security Documents;</li><li>(b) any Finance Lease Documents;</li><li>(c) the Common Terms Agreement;</li><li>(d) the Borrower Loan Agreements;</li><li>(e) the Master Definitions Agreement;</li><li>(f) the Borrower Account Bank Agreement;</li><li>(g) the Initial Credit Facilities Agreement and any Capex Certificate or ICF Accession Memorandum (both as defined therein) delivered thereunder;</li><li>(h) the Refinancing Facility Agreement;</li><li>(i) the Non-Migrated Bond Facility Agreement;</li><li>(j) the Ancillary Documents;</li><li>(k) the EIB Facility Agreements;</li><li>(l) each Borrower Liquidity Facility Agreement;</li><li>(m) the Senior/Subordinated Intercreditor Agreement;</li><li>(n) (A) any fee letter, commitment letter or request entered into in connection with the facilities referred to in paragraphs (g) to (l) above or the transactions contemplated in such facilities and (B) any other document that has been entered into in connection with such facilities or the transactions</li></ul>

contemplated thereby that has been designated as a Finance Document by the parties thereto (including at least one Obligor);

- (o) each Hedging Agreement entered into by the Borrowers;
- (p) for the purposes of the Senior/Subordinated Intercreditor Agreement only, the Non-Migrated Bond Guarantee;
- (q) for the purposes of the Senior/Subordinated Intercreditor Agreement only, the Non-Migrated Bonds;
- (r) any other Authorised Credit Facilities;
- (s) each CP Agreement;
- (t) the Tax Deed of Covenant;
- (u) each agreement or other instrument between a Borrower or the Issuer (as applicable) and an Additional Borrower Secured Creditor designated as a Finance Document by a Borrower or the Issuer (as applicable), the Borrower Security Trustee and such Additional Borrower Secured Creditor in the Accession Memorandum for such Additional Borrower Secured Creditor; and
- (v) any amendment and/or restatement agreement relating to any of the above documents.

**“Finance Lease”** means any finance lease entered into by a Borrower or HEX Opco (a) in respect of Equipment which on its own has a capitalised amount in excess of 0.5 per cent. of Total RAB or when added to the capitalised amount of then existing finance leases would exceed an aggregated capitalised amount of 0.5 per cent. of Total RAB; and (b) the counterparty to which has acceded to the terms of the STID and the Common Terms Agreement, together the **“Finance Leases”**.

**“Finance Lease Documents”** means each Finance Lease together with any related or ancillary documentation.

**“Finance Lessors”** means any person entering into a Finance Lease with a Borrower or HEX Opco, as permitted by the Common Terms Agreement and the STID, who accedes to the STID and the Common Terms Agreement as a Finance Lessor (each a **“Finance Lessor”**).

**“Finance Party”** means any person providing credit pursuant to an Authorised Credit Facility including all arrangers, agents, representatives and trustees appointed in connection with any such Authorised Credit Facilities.

**“Financial Guarantee Fee”** means any fees payable to a Financial Guarantor under a Financial Guarantee Fee Letter.

**“Financial Guarantee Fee Letter”** means any letter or other agreement between a Relevant Financial Guarantor and the Issuer setting the terms on which fees and/or premia are payable in relation to one or more Financial Guarantees issued or to be issued by that Relevant Financial Guarantor.

**“Financial Guarantees”** means any financial guarantee issued by a Relevant Financial Guarantor in respect of any Wrapped Debt and **“Financial Guarantee”** shall be construed accordingly.

**“Financial Guarantor”** means any person who provides a financial guarantee, including the Financial Guarantees, in respect of any of the Wrapped Debt, and **“Financial Guarantors”** means all of them if there is more than one at any time.

**“Financial Indebtedness”** means (without double-counting) any indebtedness for or in respect of:

- (a) moneys borrowed or raised (whether or not for cash);
- (b) any documentary or standby letter of credit facility;
- (c) any acceptance credit;

- (d) any bond, note, debenture, loan stock or other similar instrument;
- (e) any finance or capital lease or hire purchase contract which would, in accordance with Applicable Accounting Principles, be treated as such;
- (f) any amount raised pursuant to any issue of shares which are capable of redemption;
- (g) receivables sold or discounted (other than on a non-recourse basis to any member of the Security Group);
- (h) the amount of any liability in respect of any advance or deferred purchase agreement if either one of the primary reasons for entering into such agreement is to raise finance or the relevant payment is advanced or deferred for a period in excess of 90 days;
- (i) any termination amount due from any member of the Security Group in respect of any Treasury Transaction that has terminated;
- (j) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing (other than any trade credit or indemnity granted in the ordinary course of a Borrower's trading and upon terms usual for such trade);
- (k) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; and
- (l) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in Paragraphs (a) to (k) above (other than any guarantee or indemnity given in respect of obligations owed by one member of the Security Group to another).

**“Financial Statements”**

means, at any time, the financial statements of an Obligor and, in the case of the Security Parent, additionally consolidated financial statements of itself and its subsidiaries, most recently delivered to the Borrower Security Trustee.

**“Financial Year”**

means the twelve months ending on 31 December in each year or such other period as may be approved by the Borrower Security Trustee.

**“Fitch”**

means Fitch Ratings Limited and any successor to the rating agency business of Fitch Ratings Limited.

**“Five-Year Period”**

means each consecutive period of five years commencing from 1 April 2008.

**“Fixed Rate Bond”**

means a Bond on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

**“Floating Rate Bond”**

means a Bond on which interest is calculated at a floating rate payable in arrear in respect of such period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

**“Floating Rate Debt”**

means Floating Rate Senior Debt and Floating Rate Junior Debt.

**“Floating Rate Junior Debt”**

means any Junior Debt advanced by an Authorised Credit Provider to an Obligor under an Authorised Credit Facility with a floating rate of interest or which in the case of a Borrower Loan relates to a Tranche of Class B Bonds which bears a floating rate of interest and has been hedged pursuant to an Interest Rate Hedging Agreement.

<b>“Floating Rate Senior Debt”</b>	means any Senior Debt advanced by an Authorised Credit Provider to an Obligor under an Authorised Credit Facility with a floating rate of interest or which in the case of a Borrower Loan relates to a Tranche of Class A Bonds which bears a floating rate of interest and has been hedged pursuant to an Interest Rate Hedging Agreement.
<b>“FSMA”</b>	means the Financial Services and Markets Act 2000, as amended.
<b>“G&amp;R Deed”</b>	means each guarantee and reimbursement deed (or agreement of similar name and effect) entered into from time to time between, among others, the Issuer and each Relevant Financial Guarantor.
<b>“General Title Report”</b>	means the report prepared by Herbert Smith LLP in relation to legal ownership of the registered titles comprising the Designated Airports.
<b>“Global Bond”</b>	means a Temporary Global Bond or a Permanent Global Bond, as the case may be.
<b>“Global Bond Certificates”</b>	means, collectively, the Rule 144A Global Bond Certificates and the Regulation S Global Bond Certificates.
<b>“Good Industry Practice”</b>	means those levels of skill, care, expertise and standards of good trade practice as may reasonably be expected of an experienced entity, which is not state-owned or operated (whether by a government, a public administration or any other state entity whatsoever), operating and developing leading international airports of a size broadly comparable to the Designated Airports and providing the same or substantially similar services to the services to be provided by BAA under the Shared Services Agreement (taking into consideration regulatory, legal and planning constraints applicable to the Designated Airports and the particular circumstances of any one Designated Airport or the Designated Airports as a whole);
<b>“Group”</b>	means the Security Parent and its Subsidiaries.
<b>“Guarantee”</b>	means, in relation to each Obligor, the guarantee of such Obligor given by it pursuant to the Security Document to which it is a party.
<b>“Heathrow East”</b>	means the terminal complex at Heathrow designated as Heathrow East.
<b>“Hedge Counterparties”</b>	means (i) the Initial Issuer Hedge Counterparties, (ii) the Initial Borrower Hedge Counterparties, and (iii) any counterparty which accedes as hedge counterparty to the STID and, in the case of any Treasury Transaction with the Issuer, the Issuer Deed of Charge and <b>“Hedge Counterparty”</b> means any of such parties.
<b>“Hedge Payment Date”</b>	means each date on which a payment is made or is scheduled to be made by a Borrower in respect of any obligations or liability under any Borrower Hedging Agreement.
<b>“Hedging Agreement”</b>	means any Treasury Transaction entered or to be entered into by the Issuer or a Borrower with a Hedge Counterparty under the Hedging Policy to hedge interest rate exposure and currency risk in relation to the Relevant Debt, the Bonds or the Non-Migrated Bonds.
<b>“Hedging Policy”</b>	means the initial hedging policy applicable to the Obligors and the Issuer set out in schedule 5 ( <i>Hedging Policy and Overriding Provisions Relating to Hedging Agreements</i> ) to the Common Terms Agreement as such hedging policy may be amended from time to time by agreement between the Borrower Security Trustee, the Issuer, the Borrowers and the Hedge Counterparties in accordance with the STID.
<b>“Holding Company”</b>	means a holding company within the meaning of section 736 of the Companies Act.

<b>“ICR Tests”</b>	means the tests which the Borrowers are required to carry out to ascertain the Junior ICR and the Senior ICR for certain Relevant Periods.
<b>“Income”</b>	means any interest, dividend or other income arising from or in respect of an Authorised Investment.
<b>“Indemnification Deed”</b>	means each deed so named and entered into on or about the date of the Dealership Agreement (or prior to a subsequent Issue Date) between the Obligors, a Relevant Financial Guarantor and the Dealers.
<b>“Independent Enforcement Action”</b>	means: <ul style="list-style-type: none"> <li>(a) in the case of the Non-Migrated Bondholders of any Tranche of Non-Migrated Bonds: <ul style="list-style-type: none"> <li>(i) the delivery of any notice from the Non-Migrated Bond Trustee or any Non-Migrated Bondholder to BAA and/or HAL and/or GAL and/or STAL pursuant to which all or any of the Non-Migrated Bonds are declared or become prematurely due and payable or fall to be redeemed prior to their specified maturity date; or</li> <li>(ii) the taking of formal steps for the commencement of Insolvency Proceedings against BAA and/or HAL and/or GAL and/or STAL by the Non-Migrated Bond Trustee or any Non-Migrated Bondholder,</li> </ul> <p style="margin-left: 20px;">in each case, prior to the date on which a Loan Acceleration Notice is delivered; and</p> </li> <li>(b) in the case of any other Borrower Secured Creditor (other than the Borrower Security Trustee and the Non-Migrated Bond Trustee and the Non-Migrated Bondholders) and only for so long as there are any Non-Migrated Bonds outstanding, any breach by such Borrower Secured Creditor of certain undertakings of the Borrower Secured Creditors set out in the STID.</li> </ul>
<b>“Independent Review”</b>	means an independent review resulting from a Trigger Event as set out in paragraph 2 ( <i>Further Information and Remedial Plan</i> ) of, part 2 (Trigger Event Consequences) of schedule 3 ( <i>Trigger Events</i> ) to the Common Terms Agreement.
<b>“Indexation Accretion Amount”</b>	means the indexation accretion outstanding in respect of any inflation linked Hedging Agreement.
<b>“Indexed Bond”</b>	means a Bond in respect of which the amount payable in respect of principal and interest is calculated by reference to an index and/or formula as the Issuer and the relevant Dealer(s) may agree (as indicated in the relevant Final Terms).
<b>“Index” or “Index Figure”</b>	means the index or index figure as specified in the Final Terms to the relevant Sub-Class of Bonds.
<b>“Index Linked Advances”</b>	means any advances made by the Lender under a Borrower Loan Agreement to the Borrowers funded by the issue of Indexed Bonds or Bonds the cashflows in respect of which have been swapped to index-linked.
<b>“Index Ratio”</b>	applicable to any month means the Index Figure applicable to such month divided by the Base Index Figure.
<b>“Individual Bond Certificates”</b>	means collectively, the Rule 144A Individual Bond Certificates and the Regulation S Individual Bond Certificates.
<b>“Information Memorandum”</b>	means any information memorandum or Prospectus prepared by or on behalf of, and approved by, the Issuer in connection with the establishment of the Programme and/or the issue of the Bonds or any information memorandum or Prospectus prepared by or on

	behalf of and approved by the Security Parent in connection with the general syndication in the interbank market of any Authorised Credit Facility.
<b>“Initial Authorised Credit Facilities”</b>	means the Initial Borrower Loans, the Initial WCF, the EIB Facilities, the Initial Capex Facility and the Non-Migrated Bond Facility.
<b>“Initial Authorised Credit Facility Agreements”</b>	means the Initial Borrower Loan Agreements, the EIB Facility Agreements, the Initial Credit Facilities Agreement, the Refinancing Facility Agreement, the Initial Borrower Hedging Agreements and the Non-Migrated Bond Facility Agreement.
<b>“Initial Authorised Credit Provider”</b>	means any of any Initial WCF Provider, any Initial Capex Facility Provider, the Issuer, the EIB Lender, any Initial Non-Migrated Bond Facility Provider, any Refinancing Facility Provider and any Initial Borrower Hedge Counterparty.
<b>“Initial Borrower Hedging Agreements”</b>	means each Hedging Agreement to be entered into by a Borrower and an Initial Borrower Hedge Counterparty on or before the Initial Issue Date.
<b>“Initial Borrower Loan”</b>	means each loan to be advanced by the Issuer to the Borrowers on the Initial Issue Date pursuant to the Initial Borrower Loan Agreement.
<b>“Initial Borrower Loan Agreement”</b>	means the initial Borrower Loan Agreement to be entered into between, amongst others, the Issuer and the Borrowers on or about the Initial Issue Date.
<b>“Initial Capex Facility”</b>	means the capex facilities of an aggregate facility amount of £2,700,000,000 to be made available to the Borrowers by the Initial Capex Facility Providers on or about the Initial Issue Date pursuant to the Initial Credit Facilities Agreement.
<b>“Initial Capex Facility Providers”</b>	means the syndicate of lenders which from time to time provide the Initial Capex Facility.
<b>“Initial Credit Facilities Agreement”</b>	means the facility agreement to be dated on or about the Initial Issue Date under which the Initial Capex Facility and the Initial WCF are made available to the Borrowers and the WCF Borrowers (as defined in the Initial Credit Facilities Agreement).
<b>“Initial Facility Fee”</b>	means the initial facility fee payable by the Borrowers pursuant to sub-clause 13.5.1 of the Initial Borrower Loan Agreement.
<b>“Initial Hedge Counterparties”</b>	means the Initial Issuer Hedge Counterparties and the Initial Borrower Hedge Counterparties.
<b>“Initial Issuer Hedging Agreements”</b>	means each Hedging Agreement to be entered into by the Issuer and the Initial Issuer Hedge Counterparties on or before the Initial Issue Date.
<b>“Initial Issue Date”</b>	means the date upon which the first Series of Bonds is issued by the Issuer or, if no Bonds are issued by the Issuer, the date upon which amounts are drawn by the Borrowers under the Refinancing Facility Agreement.
<b>“Initial WCF”</b>	means the working capital facilities of an aggregate facility amount of £50,000,000 to be made available to the Borrowers, the Security Parent and Asset Holdco by the Initial WCF Providers on the Initial Issue Date.
<b>“Initial WCF Providers”</b>	means the syndicate of banks which together provide the Initial WCF.
<b>“Insolvency Act”</b>	means the Insolvency Act 1986.
<b>“Insolvency Event”</b>	means, in respect of any company: <ul style="list-style-type: none"> <li>(a) the initiation of or consent to Insolvency Proceedings by such company or any other person or the presentation of a petition or application for the making of an administration order</li> </ul>

which proceedings (other than in the case of the Issuer) are not, in the opinion of the Borrower Security Trustee, being disputed in good faith with a reasonable prospect of success;

- (b) the giving of notice of appointment of an administrator or the making of an administration order or an administrator being appointed in respect of such company (other than in relation to an Insolvency Event of the Issuer under an Issuer Liquidity Facility Agreement, any such giving of notice, making of an administration order or appointment of an administrator which is commenced by action taken by the company itself (or its directors) under paragraphs 12(1)(a) and (b) and/or paragraph 22 of schedule B1 to the Insolvency Act) or the company becomes bankrupt within the meaning of the Interpretation (Jersey) Law 1954.
- (c) an encumbrancer (excluding, in relation to the Issuer, the Bond Trustee or any receiver) taking possession of the whole or any part of the undertaking or assets of such company;
- (d) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any substantial part of the undertaking or assets of such company (excluding, in relation to the Issuer, by the Bond Trustee or any receiver) and such order, appointment, possession or process (as the case may be) not being discharged or otherwise ceasing to apply within 30 days;
- (e) the making of an arrangement, composition, scheme of arrangement, reorganisation with or conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally;
- (f) the passing by such company of an effective resolution or the making of an order by a court of competent jurisdiction for the winding up, liquidation or dissolution of such company (except, in the case of the Issuer, a winding up for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Bond Trustee or by an Extraordinary Resolution);
- (g) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company;
- (h) save as permitted in the STID, the cessation or suspension of payment of its debts generally or a public announcement by such company of an intention to do so; or
- (i) save as provided in the STID, a moratorium is declared in respect of any indebtedness of such company.

**“Insolvency Official”**

means, in connection with any Insolvency Proceedings in relation to a company, a liquidator, provisional liquidator, administrator, administrative receiver, receiver, manager, nominee, supervisor, trustee, conservator, guardian or other similar official in respect of such company or in respect of all (or substantially all) of the company’s assets or in respect of any arrangement or composition with creditors.

**“Insolvency Proceedings”**

means, in respect of any company, the winding-up, liquidation, dissolution or administration of such company, or any equivalent or analogous proceedings under the law of the jurisdiction in which such company is incorporated or of any jurisdiction in which such



	company carries on business, including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.
<b>“Instalment Bonds”</b>	means any Bonds specified as such in the relevant Final Terms.
<b>“Insurances”</b>	means, as the context may require, any or all of the insurances described in or taken out pursuant to schedule 11 ( <i>Insurances</i> ) to the Common Terms Agreement and any other contract or policy of insurance taken out by an Obligor from time to time, including in each case any future renewal or replacement of any such insurance whether with the same or different insurers and whether on the same or different terms as further defined in schedule 11 ( <i>Insurances</i> ) to the Common Terms Agreement.
<b>“Intellectual Property Right”</b>	means any right in: <ul style="list-style-type: none"> <li>(a) copyright (including rights in software and preparatory design materials), get-up, trade names, internet domain names, patents, inventions, rights in confidential information and database rights and moral rights, semiconductor topography rights, trade secrets, know-how, trade marks, service marks, logos and registered designs and design rights (each whether registered or unregistered);</li> <li>(b) applications for registration and the right to apply for registration, for any of the above; and</li> <li>(c) all other intellectual property rights in each case whether registered or unregistered and including applications for registration and all rights or equivalent or similar forms of protection having equivalent or similar effect anywhere in the world.</li> </ul>
<b>“Interest Commencement Date”</b>	means, in the case of interest-bearing Bonds, the date specified in the applicable Final Terms from (and including) which such Bonds bear interest, which may or may not be the Issue Date.
<b>“Interest Rate Hedging Agreement”</b>	means any Hedging Agreement with a Hedge Counterparty in respect of a Treasury Transaction in respect of any interest rate hedging including, without limitation, through an inflation or inflation-linked transaction.
<b>“Investment Grade”</b>	means a rating of at least BBB- by Fitch or BBB- by S&P.
<b>“Investment Proceeds”</b>	means: <ul style="list-style-type: none"> <li>(a) any net proceeds received upon disposal or realisation; or</li> <li>(b) any sum received upon maturity of an Authorised Investment, but excluding all Income.</li> </ul>
<b>“Investor Report”</b>	means each report produced by the Security Group Agent to be delivered by each Reporting Date in each year substantially in the form set out in schedule 8 ( <i>Form of Investor Report</i> ) to the Common Terms Agreement.
<b>“ISDA Master Agreement”</b>	means an agreement in the form of the 1992 or 2002 ISDA Master Agreement (Multi-Currency Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the Bond Trustee.
<b>“Issue Date”</b>	means the date of issue of any Tranche of Bonds or the date upon which all conditions precedent to a utilisation under any other Authorised Credit Facility have been fulfilled or waived and the Issuer makes a utilisation of that facility.
<b>“Issue Price”</b>	means the price as stated in the relevant Final Terms, generally expressed as a percentage of the nominal amount of the Bonds, at which the Bonds will be issued.
<b>“Issuer”</b>	means BAA Funding Limited a company incorporated in Jersey with limited liability under registered number 99529.

<b>“Issuer Account Bank”</b>	means The Royal Bank of Scotland plc or any successor account bank appointed pursuant to the Issuer Account Bank Agreement.
<b>“Issuer Account Bank Agreement”</b>	means the account bank agreement dated on or about the Initial Issue Date between the Issuer, the Issuer Account Bank and the Bond Trustee.
<b>“Issuer Accounts”</b>	means the Issuer U.S. Dollar Account, the Issuer Euro Account, and the Issuer Sterling Account, together with any other account of the Issuer that may be opened from time to time (including any non-sterling accounts, any Issuer Collateral Accounts and any Issuer Liquidity Reserve Account to be opened after the date of this Agreement but excluding any Liquidity Standby Account) pursuant to or in accordance with any Issuer Transaction Document and includes any sub-account or sub-accounts relating to that account and any replacement account from time to time (each an <b>“Issuer Account”</b> ).
<b>“Issuer Cash Management Agreement”</b>	means the cash management agreement dated on or about the Initial Issue Date between, among others, the Issuer, BAA and the Bond Trustee.
<b>“Issuer Cash Manager”</b>	means BAA and any successor thereto.
<b>“Issuer Corporate Administration Agreements”</b>	means (i) the corporate administration agreement to be dated on or about the Initial Issue Date between the Issuer and the Issuer Corporate Administration Provider, and (ii) the corporate administration agreement to be entered into on or before the Initial Issue Date between the Issuer and Mourant & Co. Capital (SPV) Limited with regard to the provision of an independent, UK-resident director to the Issuer.
<b>“Issuer Corporate Administration Providers”</b>	means Mourant & Co. Limited and Mourant & Co. Capital (SPV) Limited and any successors thereto.
<b>“Issuer Deed of Charge”</b>	means the deed of charge to be entered into between the Issuer and the Bond Trustee on or about the Initial Issue Date.
<b>“Issuer Dollar Account”</b>	means the dollar account known as the <b>“Issuer Dollar Account”</b> held in the name of BAA Funding Limited and maintained by the Issuer Account Bank pursuant to the terms of the Issuer Account Bank Agreement or such other dollar denominated account as may be opened, with the consent of the Bond Trustee, at any branch of the Issuer Account Bank in replacement of such account.
<b>“Issuer Euro Account”</b>	means the euro account known as the <b>“Issuer Euro Account”</b> held in the name of BAA Funding Limited and maintained by the Issuer Account Bank pursuant to the terms of the Issuer Account Bank Agreement or such other euro denominated account as may be opened, with the consent of the Bond Trustee, at any branch of the Issuer Account Bank in replacement of such account.
<b>“Issuer Hedge Replacement Premium”</b>	means a premium or upfront payment received by the Issuer from a replacement hedge counterparty under a replacement hedge agreement with the Issuer to the extent of any termination payment due to an Issuer Hedge Counterparty under an Issuer Hedging Agreement.
<b>“Issuer Hedging Agreement”</b>	means each Hedging Agreement entered into by the Issuer and a Hedge Counterparty.
<b>“Issuer Junior Debt”</b>	means the Class B Bonds and the Cross Currency Hedging Agreements between the Issuer and the Cross Currency Hedge Counterparties in respect of the Class B Bonds.
<b>“Issuer Liquidity Facility”</b>	means a facility made available to the Issuer under an Issuer Liquidity Facility Agreement, and <b>“Issuer Liquidity Facilities”</b> means all of them.

<b>“Issuer Liquidity Facility Agreement”</b>	means each liquidity facility agreement which has the characteristics set out in the Common Terms Agreement, as established in connection with each Sub-Class of Bonds issued by the Issuer.
<b>“Issuer Liquidity Facility Provider”</b>	means any lender from time to time under an Issuer Liquidity Facility Agreement which has acceded to the terms of the STID.
<b>“Issuer Payment Priorities”</b>	means the Issuer Pre-Enforcement Priority of Payments and the Issuer Post-Enforcement Priority of Payments.
<b>“Issuer Post-Enforcement Priority of Payments”</b>	means the provisions relating to the order of priority of payments set out in the Issuer Deed of Charge.
<b>“Issuer Pre-Enforcement Priority of Payments”</b>	means the provisions relating to the order of priority of payments from the Issuer Account set out in schedule 1 of the Issuer Cash Management Agreement.
<b>“Issuer Profit Amount”</b>	means the profit amount of £20,000 per annum or £5,000 per quarter if paid in quarterly instalments to be retained in each accounting period pursuant to regulation 4(3) of the Taxation of Securitisation Company Regulations 2006 (SI 2006/3296).
<b>“Issuer Qualifying Creditors”</b>	means, in respect of Issuer Qualifying Debt: <ul style="list-style-type: none"> <li>(a) 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 Guarantors in relation to the Class A Wrapped Bonds, (in respect of any Tranche or Sub-Class of Class A Wrapped Bonds in relation to which a 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;</li> <li>(b) 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 Guarantors in relation to the Class B Wrapped Bonds, (in respect of any Tranche or Sub Class of Class B Wrapped Bonds in relation to which a 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 are party to a Cross Currency Hedging Agreement in respect of the Class B Bonds;</li> <li>(c) if there are no Class A Bonds or Class B Bonds then outstanding, the holders of the Subordinated Bonds and each Cross Currency Hedge Counterparties that is party to a Cross Currency Hedging Agreement in respect of the Subordinated Bonds.</li> </ul>
<b>“Issuer Qualifying Debt”</b>	means: <ul style="list-style-type: none"> <li>(a) 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;</li> </ul>

- (b) 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
- (c) 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.

**“Issuer Secured Creditor”**

means:

- (a) the Bond Trustee (for itself and on behalf of the Bondholders) under the Issuer Deed of Charge and the Obligor Floating Charge Agreement;
- (b) the Bondholders;
- (c) each Relevant Financial Guarantor of Wrapped Bonds under the G&R Deed;
- (d) the Bond Guarantor under the BAA Bond Guarantee;
- (e) each Issuer Hedge Counterparty under its Issuer Hedging Agreement;
- (f) each Issuer Liquidity Facility Provider and the Issuer Liquidity Facility Agent under the Issuer Liquidity Facility Agreement;
- (g) the Issuer Account Bank under the Issuer Account Bank Agreement;
- (h) the Principal Paying Agent, Paying Agents, Agent Bank, Transfer Agent, Exchange Agent and Registrar under the Agency Agreement and any Calculation Agent under a Calculation Agency Agreement;
- (i) the Issuer Cash Manager under the Issuer Cash Management Agreement; and
- (j) the Issuer Corporate Administration Provider under the Issuer Corporate Administration Agreements.

**“Issuer Secured Creditor Entrenched Right”**

means, in respect of an Issuer Secured Creditor, any modification, consent, direction or waiver in respect of an Issuer Transaction Document that would (i) result in an increase in or would adversely modify such Issuer Secured Creditor’s obligations or liabilities under such Issuer Transaction Document, (ii) have the effect of adversely changing the Issuer Payments Priorities or application thereof in respect of such Issuer Secured Creditor 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, (iii) release any Issuer Security (except where such release is expressly permitted by the Issuer Deed of Charge),

(iv) alter adversely the voting entitlement of such Issuer Secured Creditor under the STID or the Conditions, (v) in respect of an Issuer Hedge Counterparty, constitute an Entrenched Right pursuant to paragraph (h) or paragraph (k) of the definition of Entrenched Right or (vi) amend this definition.

**“Issuer Secured Liabilities”**

means all present and future obligations and liabilities (whether actual or contingent) of the Issuer to any Issuer Secured Creditor under each Issuer Transaction Document.

**“Issuer Security”**

means the fixed and floating security granted by the Issuer to the Bond Trustee pursuant to the Issuer Deed of Charge.

**“Issuer Senior Debt”**

means the Class A Bonds, the Interest Rate Hedging Agreements between the Issuer and the Hedge Counterparties in respect of the Bonds (excluding any Subordinated Bonds) and the Cross Currency Hedging Agreements between the Issuer and the Cross Currency Hedge Counterparties in respect of the Class A Bonds.

**“Issuer Sterling Account”**

means the sterling account known as the “Issuer Sterling Account” held in the name of BAA Funding Limited and maintained by the Issuer Account Bank pursuant to the terms of the Issuer Account Bank Agreement or such other sterling denominated account as may be opened, with the consent of the Bond Trustee, at any branch of the Issuer Account Bank in replacement of such account.

**“Issuer Subordinated Hedge Amounts”**

means any termination payment due or overdue to an Issuer Hedge Counterparty under any Issuer Hedging Agreement which arises as a result of the occurrence of an Event of Default (as defined in the relevant Issuer Hedging Agreement) where the relevant Issuer Hedge Counterparty is the Defaulting Party (as defined in the relevant Hedging Agreement) or the occurrence of an Additional Termination Event (as defined in the relevant Issuer Hedging Agreement) following the failure of the relevant Issuer Hedge Counterparty to take action in accordance with the terms of the relevant Issuer Hedging Agreement within the required period following a credit rating downgrade of such Issuer Hedge Counterparty (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the Issuer to enter into a transaction to replace an Issuer Hedging Agreement (in whole or in part) which shall be paid directly to the relevant Issuer Hedge Counterparty and not in accordance with the Issuer Payment Priorities).

**“Issuer Transaction Documents”**

means the Bonds and any Final Terms relating to the Bonds, the Bond Trust Deed, the Dealership Agreement, each Relevant Subscription Agreement, the Agency Agreement, the Issuer Deed of Charge, the Obligor Floating Charge Agreement, the Issuer Cash Management Agreement, the Issuer Account Bank Agreement, the Master Definitions Agreement, the Common Terms Agreement, the STID, each Borrower Loan Agreement, each Issuer Liquidity Facility Agreement, each Issuer Hedging Agreement, each Financial Guarantee, the G&R Deed, each Financial Guarantee Letter, each Indemnification Deed, each BAA Bond Guarantee, the Issuer Corporate Administration Agreements and any other agreement, instrument or deed designated as such by the Issuer and the Bond Trustee.

**“Joint Venture”**

means any arrangement or agreement for any joint venture, co-operation or partnership pursuant to, required for or conducive to the operation of the Permitted Business by the Obligors or which falls within the Permitted Non-Regulated Business Limits but shall exclude any arrangements or framework agreements entered into with a Contractor which are in accordance with and subject to the Outsourcing Policy.

<b>“Junior Debt”</b>	means any financial accommodation that is, for the purposes of the STID, to be treated as Junior Debt and includes all debt outstanding under each Borrower Loan, the terms of which correspond (excluding any applicable hedging under an Interest Rate Hedging Agreement) to any Tranche of Class B Bonds, all Cross Currency Hedging Agreements in relation to Junior Debt and any principal amount outstanding under any Authorised Credit Facility ranking <i>pari passu</i> with any of the above.
<b>“Junior ICR”</b>	means for any Relevant Period, the ratio of (a) Cashflow from Operations of the Obligors (after adding back any cash outflows of a one-off, non-recurring, extraordinary or exceptional nature in respect of the Obligors), less corporation tax paid to HM Revenue & Customs, less two per cent. multiplied by the Total RAB to (b) interest and equivalent recurring finance charges paid or, in the case of forward looking ratios, forecasted to be paid on Senior Debt and Junior Debt and any Permitted Financial Indebtedness that is not, pursuant to the STID, subordinated to such Senior Debt and Junior Debt (less all interest received or, in the case of forward looking ratios, interest forecasted to be received by any member of the Security Group from any third party other than pursuant to a Permitted Inter-Company Loan or Permitted Non-Migrated Bond Distribution).
<b>“Junior Indebtedness”</b>	means, as at any date, and without double counting: <ul style="list-style-type: none"> <li>(a) the Outstanding Principal Amount (or, in respect of a future date, forecast to be outstanding) under any Junior Debt on such date; and</li> <li>(b) the Outstanding Principal Amount of any other Financial Indebtedness outstanding (or, in respect of a future date, forecast to be outstanding) on such date ranking, in accordance with the STID, <i>pari passu</i> with such Junior Indebtedness (excluding any Financial Indebtedness that remains a contingent liability),</li> </ul> together with all indexation accrued on any such liabilities.
<b>“Junior RAR”</b>	means the ratio of the sum of Senior Net Indebtedness and Junior Indebtedness to Total RAB.
<b>“Junior Revenue Shortfall”</b>	means, on any Payment Date, the amount by which the aggregate amount of claims falling due for payment pursuant to paragraph (viii) of the Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments exceeds the aggregate amount of Revenue Collections (after deducting amounts to be applied on such Payment Date pursuant to paragraphs (i)-(vii) of the Borrower Post-Enforcement (Pre-Acceleration) Revenue Priority of Payments on such Payment Date).
<b>“Lead Manager”</b>	means in relation to any Tranche of Bonds, each person named as a lead manager in the relevant Subscription Agreement.
<b>“Leased Premises”</b>	means premises leased and/or licensed to any Borrower used in the conduct of its business.
<b>“Leasehold Provisions Report”</b>	means the report prepared by Herbert Smith LLP in relation to the material provisions of the Leased Premises that are comprised in Category 1 and Category 2 including, but not limited to, provisions relating to (i) the requirements to obtain landlord’s consent to charge and (ii) restrictions on the use of the property comprised in the lease.
<b>“Legal Charge”</b>	means a mortgage or legal charge in respect of all or any part of the Mortgaged Property between any of the Obligors and the Borrower Security Trustee substantially in the form of schedule 8 ( <i>Form of Legal Charge</i> ) of the Security Agreement.

<b>“Liabilities”</b>	means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceedings or other liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and legal fees on a full indemnity basis.
<b>“LIBOR”</b>	has the meaning ascribed to it in the Conditions.
<b>“Liquidity Bonds”</b>	means any Bonds the proceeds of which have been deposited into the Issuer Liquidity Reserve Account and which are not funded through a Borrower Loan.
<b>“Liquidity Facility”</b>	means an Issuer Liquidity Facility or a Borrower Liquidity Facility, as the context requires, and <b>“Liquidity Facilities”</b> means all of them.
<b>“Liquidity Facility Agreement”</b>	means an Issuer Liquidity Facility Agreement or a Borrower Liquidity Facility Agreement, as the context requires, and <b>“Liquidity Facility Agreements”</b> means all of them.
<b>“Liquidity Facility Provider”</b>	means an Issuer Liquidity Facility Provider or a Borrower Liquidity Facility Provider, as the context requires, and <b>“Liquidity Facility Providers”</b> means all of them.
<b>“Liquidity Insolvency Event”</b>	means, in respect of a Borrower, the occurrence of an Insolvency Event at any time unless (i) the Bond Trustee has commenced the process of appointing an administrative receiver with respect to such Borrower within 5 Business Days of such Insolvency Event, and such administrative receiver has been appointed within 10 Business Days of such Insolvency Event, and (ii) the appointment of such administrative receiver has not been terminated or such administrative receiver has not otherwise been removed or has not vacated office in accordance with the Insolvency Act in circumstances where such Insolvency Event is continuing.
<b>“Liquidity Subordinated Amounts”</b>	means the amounts payable by the Issuer to an Issuer Liquidity Facility Provider pursuant to the terms of an Issuer Liquidity Facility Agreement or, as the case may be, by a Borrower to a Borrower Liquidity Facility Provider pursuant to the terms of a Borrower Liquidity Facility Agreement which (i) are in respect of increased costs, (ii) represent additional amounts payable to the Liquidity Facility Provider as a result of a requirement to withhold or deduct an amount for or on account of Tax from a payment or (iii) represents increases in the commitment fee for capital adequacy reasons payable in excess of 0.20 per cent.
<b>“Listing Particulars”</b>	means a copy of this Prospectus (including the Appendices), which comprises the listing particulars approved by the UK Listing Authority as required by the FSMA, excluding all information incorporated by reference, in relation to Bonds admitted to the Official List and admitted to trading on the London Stock Exchange’s market for listed securities and issued during the period of 12 months from the date of this Prospectus, that has been delivered for registration to the Registrar of Companies in England and Wales as required by section 83 of the FSMA.
<b>“Loan Event of Default”</b>	means an event specified as such in schedule 4 ( <i>Loan Events of Default</i> ) to the Common Terms Agreement.
<b>“London Stock Exchange”</b>	means The London Stock Exchange plc.
<b>“Make-Whole Amount”</b>	means any amount above par payable on redemption of any Issuer Senior Debt or Issuer Junior Debt except where such amount is limited to accrued interest.
<b>“Majority Subordinated Creditors”</b>	Means the requisite majority of Subordinated Secured Creditors required to vote on certain matters pursuant to the Senior/ Subordinated Intercreditor Agreement.

<b>“Master Definitions Agreement” or “MDA”</b>	means the master definitions agreement to be entered into on or about the Initial Issue Date between, among others, the Obligors, the Issuer, the Bond Trustee and the Borrower Security Trustee.
<b>“Material Adverse Effect”</b>	means the effect of any event or circumstance which is materially adverse to: <ul style="list-style-type: none"> <li>(a) the business, assets or financial condition of the Security Group taken as a whole; or</li> <li>(b) (taking into account the resources available to it from other members of the Security Group) the ability of an Obligor to perform its payment obligations under any Transaction Document; or</li> <li>(c) the legality, validity or enforceability (subject to the Reservations) of any Transaction Documents in a manner which is prejudicial in any material respect to the interests of the Borrower Secured Creditors.</li> </ul>
<b>“Material Capex Agreement”</b>	means any Capex Contract: <ul style="list-style-type: none"> <li>(a) where the contract price (or target contract price) or estimated total contract spend payable by the relevant Obligor (and/or BAA on its behalf) under that Capex Contract is equal to or greater than 2 per cent. of Total RAB; or</li> <li>(b) which, when aggregated with all other outstanding Capex Contracts (which in each case have not been terminated or expired in accordance with their terms) previously entered into by the relevant Obligor or any other Obligor (and/or BAA on behalf of any Obligors) with the same Contractor (or its affiliates) and in relation to the same Capital Project, results in an aggregate NPV of agreed target costs (the NPV in each case being calculated at the later of (a) the Initial Issue Date and (b) the date on which the relevant Capex Contract was entered into) being equal to or greater than 2 per cent. of Total RAB.</li> </ul>
<b>“Material Disposal”</b>	means any disposal which is not a Minor Disposal.
<b>“Maturity Date”</b>	means, in relation to a Bond, the final date on which that Bond is expressed to be redeemable and, in relation to any Authorised Credit Facility, the date on which all financial accommodation made available under that Authorised Credit Facility is expressed to be repayable in full (without any further obligation of the relevant Authorised Credit Provider to continue to make available such financial accommodation).
<b>“Maximum Pension Liability Amount”</b>	means the aggregate amount payable to the BAA Pension Trustee from the proceeds of realisation or enforcement of all or part of the Borrower Security which shall not exceed £300,000,000 and as may be reduced from time to time in accordance with the provisions relating to pension costs in the Shared Services Agreement.
<b>“Member State”</b>	means a member state of the European Union.
<b>“Minimum Short-term Rating”</b>	means, in respect of any person, such person’s short-term unsecured debt obligations being rated, in the case of S&P, “A-2”; in the case of Moody’s, “P-1” and in the case of Fitch, “F1” or at least any two of the above (including S&P).
<b>“Minor Disposal”</b>	means a disposal or disposals of assets to third parties (not being an Obligor or a Permitted Joint Venture) in an aggregate amount not exceeding one per cent. of Total RAB across all Obligors during any financial year.



<b>“Most Senior Class”</b>	means the Class A Bonds for so long as there are any Class A Bonds outstanding and thereafter the Class B Bonds for so long as there are any Class B Bonds outstanding and thereafter the Subordinated Bonds for so long as there are any Subordinated Bonds outstanding.
<b>“Non-ACF Financial Indebtedness”</b>	means any Financial Indebtedness owing to any person which is not an Authorised Credit Provider (other than Financial Indebtedness owing by any member of the Security Group to any person under any loan, debenture, guarantee or otherwise granted to any creditor subordinated to the Borrower Secured Creditors whether pursuant to the Senior/Subordinated Intercreditor Agreement, the STID or any other deed of subordination on terms satisfactory to the Borrower Security Trustee).
<b>“Non-Base Currency”</b>	means a currency other than pounds sterling.
<b>“Non-Designated Group”</b>	means the group comprising Aberdeen Airport Limited, Edinburgh Airport Limited, Glasgow Airport Limited, Southampton International Airport Limited, BAA Lynton Limited and BAA (NDH 1) Limited.
<b>“Non-Migrated Bond Accession Date”</b>	means, in respect of each tranche of Non-Migrated Bonds, the date on which the Non-Migrated Bond Trustee accedes to the STID and the Senior/Subordinated Intercreditor Agreement, as the Secured Creditor Representative and creditors representative (as such term is defined in the Senior/Subordinated Intercreditor Agreement), as the case may be, of the Non-Migrated Bondholders of such tranche.
<b>“Non-Migrated Bond Accession Resolution”</b>	means, in respect of each tranche of Non-Migrated Bonds, a resolution of the Non-Migrated Bondholders of such tranche, instructing the Non-Migrated Bond Trustee to accede to the STID and the Senior/Subordinated Intercreditor Agreement, as the Secured Creditor Representative or creditors representative (as such term is defined in the Senior/Subordinated Intercreditor Agreement), as the case may be, of such Non-Migrated Bondholders and assenting to and authorising the Non-Migrated Bond Trustee to agree such modifications to the Non-Migrated Bond Trust Deeds applicable to such tranche of Non-Migrated Bonds to ensure that, among other things, the Non-Migrated Bondholders of such tranche have substantially the same rights to vote in relation to Non-Migrated Bond Voting Matters and Non-Migrated Bond Entrenched Rights as have been accorded to Bondholders in relation to STID Proposals and Entrenched Rights, respectively, in the Bond Trust Deed.
<b>“Non-Migrated Bond Entrenched Right”</b>	means an Entrenched Right as set out in paragraphs (c), (d), (h) or (o) of the definition of “Entrenched Right” insofar as the provisions set out therein include or relate to the Non-Migrated Bonds or the Non-Migrated Bondholders.
<b>“Non-Migrated Bondholders”</b>	means the holders from time to time of any Non-Migrated Bonds.
<b>“Non-Migrated Bond Excluded Default”</b>	means: <ul style="list-style-type: none"> <li>(a) a Loan Event of Default or a Potential Loan Event of Default under paragraph 2 (<i>Breach of other obligations</i>) of schedule 4 (<i>Loan Events of Default</i>) of the Common Terms Agreement which has occurred solely as a result of a breach of the covenant set out at paragraph 7 (<i>Financial Indebtedness</i>) of part 3 (<i>General Covenants</i>) of schedule 2 (<i>Covenants</i>) of the Common Terms Agreement; and</li> </ul>

- (b) a Loan Event of Default or a Potential Loan Event of Default under paragraph 4 (*Cross-default*) of schedule 4 (*Loan Events of Default*) of the Common Terms Agreement which has occurred solely as a result of:
  - (i) Financial Indebtedness under the Non-Migrated Bonds not being paid when due after the expiry of any originally applicable grace period; or
  - (ii) Financial Indebtedness under the Non-Migrated Bonds being declared due and payable prior to its specified maturity or being capable of being declared by a trustee of Non-Migrated Bonds to be prematurely due and payable prior to its specified maturity.

<b>“Non-Migrated Bond Facility”</b>	means the facility made available to the Borrowers pursuant to the Non-Migrated Bond Facility Agreement to enable them to make Permitted Intercompany Loans to BAA to fund any scheduled or early redemption of the Non-Migrated Bonds (subject to the conditions for drawing as set out therein) or meet any claims against the Borrowers under the Non-Migrated Bond Guarantee.
<b>“Non-Migrated Bond Final Voting Date”</b>	means, in respect of all tranches of Non-Migrated Bonds, the last Non-Migrated Bond Tranche Decision Date.
<b>“Non-Migrated Bond Guarantee”</b>	means the guarantee of each Borrower of the obligations of BAA under the Non Migrated Bonds and the Non-Migrated Bond Trust Deeds.
<b>“Non-Migrated Bond Refusal Date”</b>	means, in respect of each tranche of Non-Migrated Bonds, the date on which the Non-Migrated Bond Accession Resolution is put to a meeting of the relevant Non-Migrated Bondholders and not passed (other than for want of quorum in circumstances where the Non-Migrated Bond Accession Resolution will be put to an adjourned meeting of such Non-Migrated Bondholders).
<b>“Non-Migrated Bond Tranche Decision Date”</b>	means, in respect of each tranche of Non-Migrated Bonds, the Non-Migrated Bond Accession Date or the Non-Migrated Bond Refusal Date, as the case may be.
<b>“Non-Migrated Bond Trustee”</b>	means Prudential Trustee Company Limited or any successor appointed pursuant to the relevant trust deed.
<b>“Non-Migrated Bond Trust Deeds”</b>	means the trust deeds entered into by the Non-Migrated Bond Trustee and BAA as issuer in respect of and constituting each tranche of Non-Migrated Bonds.
<b>“Non-Migrated Bond Voting Matter”</b>	is a matter which: <ul style="list-style-type: none"> <li>(a) relates to removal of the Borrower Security Trustee or appointment of a successor Borrower Security Trustee in accordance with the STID;</li> <li>(b) is the subject of an Enforcement Instruction Notice or a Further Enforcement Instruction Notice; or</li> <li>(c) is the subject of an Intercreditor Instruction Notice in respect of any enforcement of the Borrower Security,</li> </ul> and <b>“Non-Migrated Bond Voting Matters”</b> means all of them.
<b>“Non-Migrated Bonds”</b>	means any of the following bonds which remain in issue and a primary obligation of BAA after the Initial Issue Date: <ul style="list-style-type: none"> <li>(a) £400,000,000 5.75 per cent. Notes due 2013;</li> <li>(b) €750,000,000 4.5 per cent. Notes due 2014;</li> <li>(c) €1,000,000,000 3.875 per cent. Notes due 2012;</li> <li>(d) €750,000,000 4.50 per cent. Notes due 2018; and</li> <li>(e) £750,000,000 5.125 per cent. Notes due 2023.</li> </ul>
<b>“Non-RAB Enhancing JV”</b>	means a Joint Venture which is not a RAB Enhancing JV.

<b>“Notice” or “notice”</b>	means, in respect of a notice to be given to Bondholders, a notice validly given pursuant to Condition 17 ( <i>Notices</i> ).
<b>“Obligor Floating Charge Agreement”</b>	means the floating charge agreement dated on or about the Initial Issue Date and entered into between the Issuer, the Borrower Security Trustee, the Bond Trustee and the Obligors.
<b>“Obligors”</b>	means any of HAL, GAL, STAL, HEX Opco, Security Parent and Asset Holdco and any other person who accedes to, <i>inter alia</i> , the Common Terms Agreement and the STID as an Obligor in accordance with the terms of the Transaction Documents and <b>“Obligors”</b> means all of them.
<b>“OFCA Floating Security”</b>	means the floating charges granted by the Obligors in favour of the Issuer pursuant to the Obligor Floating Charge Agreement and assigned by way of security to the Bond Trustee pursuant to the Issuer Deed of Charge.
<b>“Official List”</b>	means the official list of the UK Listing Authority.
<b>“OFT”</b>	means the Office of Fair Trading in the UK.
<b>“Ongoing Facility Fee”</b>	means the ongoing facility fee payable by the Borrowers pursuant to sub-clause 13.5.3 of the Initial Borrower Loan Agreement.
<b>“Operating Accounts”</b>	means each account of a Borrower with the following titles: HAL Operating Account, GAL Operating Account, STAL Operating Account and the HEX Opco Operating Account, held at the Borrower Account Bank and any sub-account or sub-accounts relating to those accounts including any operating account denominated in a currency other than Sterling and any replacement account or accounts from time to time.
<b>“Operating Companies”</b>	means HAL, GAL, STAL and HEX Opco.
<b>“Order”</b>	means the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.
<b>“Ordinary Voting Matters”</b>	are matters which are not Discretion Matters or Extraordinary Voting Matters.
<b>“Other Parties”</b>	means the Co-Arrangers, the Dealers, the Financial Guarantors, 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 and members of the BAA Group (other than BAA, the Issuer and the Obligors).
<b>“Outsourcing Agreement”</b>	means any agreement (excluding any Capex Contract) pursuant to which BAA (on behalf of any Obligor) or any Obligor contracts or outsources either the day to day operation of its assets, business services and service delivery (including any maintenance expenditure) or acquires technical know-how and access to other intellectual property rights in relation to services that, in the case of any outsourcing BAA (on behalf of the Obligor) or the Obligor could, if not so contracted or outsourced, perform itself.
<b>“Outsourcing Policy”</b>	means each of the obligations in schedule 6 ( <i>Outsourcing Policy</i> ) to the Common Terms Agreement (as amended or replaced from time to time).
<b>“outstanding”</b>	means in relation to the Bonds, all of the Bonds issued other than: <ul style="list-style-type: none"> <li>(a) those Bonds which have been redeemed in full or purchased, and cancelled, in accordance with Condition 8 (<i>Redemption, Purchase and Cancellation</i>) or otherwise under the Bond Trust Deed;</li> <li>(b) those Bonds in respect of which the date for redemption in full in accordance with the Conditions has occurred and the redemption monies for which (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent or a Registrar in the manner provided</li> </ul>

in the Agency Agreement (and, where appropriate, notice to that effect has been provided or published in accordance with Condition 17 (*Notices*)) and remain available for payment against presentation of the relevant Bonds and/or Coupons and/or Receipts;

- (c) those Bonds which have become void or, in respect of which claims have become prescribed in each case, under Condition 13 (*Prescription*);
- (d) in the case of Bearer Bonds, those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*);
- (e) in the case of Bearer Bonds, for the purpose only of ascertaining the Principal Amount Outstanding of the Bonds and without prejudice to the status, for any other purpose, of the relevant Bonds, those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*);
- (f) the Temporary Global Bonds to the extent that they have been exchanged for Permanent Global Bonds or Definitive Bonds pursuant to the provisions contained therein and in clause 3 (*Forms of the Bonds*) of the Bond Trust Deed;
- (g) the Permanent Global Bonds that remain in escrow pending exchange of the Temporary Global Bonds therefore, pursuant to the provisions contained therein and in clause 3 (*Forms of the Bonds*) of the Bond Trust Deed;
- (h) the Permanent Global Bonds to the extent that they have been exchanged for Definitive Bonds, pursuant to the provisions contained therein and in clause 3 (*Forms of the Bonds*) of the Bond Trust Deed; and
- (i) the Bearer Bonds to the extent that they have been exchanged for Registered Bonds pursuant to the provisions contained therein and in clause 3 of the Bond Trust Deed,  
provided that for each of the following purposes, namely:
  - (i) the right to attend and vote at any meeting of the Bondholders;
  - (ii) the determination of how many and which Bonds are for the time being outstanding for the purposes of clause 20 (*Consent, Waiver and Variation*) of the Bond Trust Deed and schedule 6 part 1 (*Provisions for Meetings of Bondholders*) to the Bond Trust Deed Clause 16.1.1 (*Scope of Entrenched Rights*) of the STID and Conditions 11 (*Bond Events of Default*), 12 (*Enforcement Against Issuer*), 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*), 16 (*Bond Trustee Protections*) and 18 (*Indemnification Of The Bond Trustee*);
  - (iii) any discretion, power or authority contained in the Bond Trust Deed which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of any of the Bondholders;
  - (iv) the determination by the Bond Trustee whether any of the events specified in Condition 11 (*Bond Events of Default*) is materially prejudicial to the interests of the holders of the Most Senior Class of Bonds then outstanding,

- (1) those Bonds of the relevant Sub-Class (if any) which, for the time being, are held by the Issuer, any member of the Security Group or the Non-Designated Group, or any of their respective holding companies (or any Affiliate of any such person) or by any person for the benefit of the Issuer, any member of the Security Group or the Non-Designated Group, or any of their respective holding companies (or any Affiliate of any such person) shall (unless and until ceasing to be so held) be deemed not to remain outstanding; and
- (2) any amounts due in respect of Subordinated Step-Up Fee Amounts in respect of a Class of Bonds shall be disregarded, *provided that*, notwithstanding the terms of paragraph (b) of this definition, the Issuer shall not be discharged from its obligations under the Bonds by any payment of principal, premium (if any) and/or interest in respect of the Bonds by the Relevant Financial Guarantor under the relevant Financial Guarantee and such Bonds will be deemed to remain outstanding, such obligations and all rights in respect thereof shall be deemed to be owed to and vested in the Relevant Financial Guarantor and the Relevant Financial Guarantor shall be deemed to be the holder of a corresponding amount of principal and interest of the Bonds, in each case until the Relevant Financial Guarantor has been paid as subrogee or reimbursed pursuant to the relevant G&R Deed, as evidenced by a written notice from the Relevant Financial Guarantor to the Bond Trustee.

**“Outstanding Principal Amount”**

means, as at any date that the same falls to be determined in accordance with the STID:

- (a) in respect of Wrapped Debt (unless an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Debt), the aggregate of any unpaid amounts owing to a Financial Guarantor under the G&R Deed to reimburse it for any amount paid by it under a Financial Guarantee in respect of unpaid principal on such Wrapped Debt and the principal amount outstanding (or the Equivalent Amount) under such Wrapped Debt;
- (b) in respect of Wrapped Debt (if an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Debt), the principal amount outstanding (or the Equivalent Amount) of such Wrapped Debt;
- (c) in respect of Unwrapped Debt, the principal amount outstanding (or the Equivalent Amount) of such Unwrapped Debt;
- (d) in respect of Non-Migrated Bonds, the principal amounts outstanding (or the Equivalent Amount) of such Non-Migrated Bonds;
- (e) in respect of any Authorised Credit Facilities that are loans (but do not constitute Wrapped Debt), the principal amount (or the Equivalent Amount) of any drawn amounts that are outstanding under such Authorised Credit Facility;

- (f) in respect of each Hedging Agreement, the Equivalent Amount of the amount (if any) that would be payable to the relevant Hedge Counterparty if an early termination date was designated on such date in respect of the transaction or transactions arising under the Hedging Agreement pursuant to the ISDA Master Agreement governing such transaction or transactions and subject to the Hedging Policy;
- (g) in respect of each Finance Lease, the Equivalent Amount of either (i) prior to the delivery of a Loan Acceleration Notice and subject to any increase or reduction calculated in accordance with the STID, the highest termination value which may fall due during the Rental Period encompassing such date, calculated upon the assumptions set out in the cashflow report provided by the relevant Finance Lessor on the first day of each such Rental Period (or in the most recently generated cashflow report which is current on such date) or (ii) following the delivery of a Loan Acceleration Notice (other than a Permitted Lease Termination), the actual amount (if any) that would be payable to the relevant Finance Lessor in respect of a termination of the leasing of the Equipment on the date on which such Loan Acceleration Notice is delivered (other than a Permitted Lease Termination); and
- (h) in respect of any other Borrower Secured Liabilities, the Equivalent Amount of the outstanding principal amount of such debt on such date in accordance with the relevant Finance Document,

all as most recently certified or notified to the Borrower Security Trustee, where applicable, pursuant to clause 10.2 (*Notification of Outstanding Principal Amount of Qualifying Borrower Debt*) of the STID.

**“Participating Member State”**

means a member state of the European Community that adopts or has adopted the euro as its lawful currency under the legislation of the European Union for European Monetary Union.

**“Participating Qualifying Borrower Secured Creditors” or “Participating QBS Creditors”**

means the Qualifying Borrower Secured Creditors which participate in a vote on any STID Proposal or other matter pursuant to the STID.

**“Partly Paid Bond”**

means a bond issued in the amount as specified in the relevant Final Terms and in respect of which further instalments will be payable in the amounts and on the dates as specified in the relevant Final Terms.

**“Party”**

means, in relation to a Finance Document, a party to such Finance Document.

**“Paying Agents”**

means, in relation to all or any Sub-Classes of the Bonds, the several institutions (including, where the context permits, the Principal Paying Agent and/or the Registrar) at their respective specified offices initially appointed as paying agents in relation to such Bonds by the Issuer and the Obligors pursuant to the Agency Agreement and/or, if applicable, any Successor paying agents at their respective specified offices in relation to all or any Sub-Classes of the Bonds.

**“Payment Date”**

means each date on which a payment is made or is scheduled to be made by an Obligor in respect of any obligations or liability under any Authorised Credit Facility.

**“Pensions Regulator”**

means the Pensions Regulator established under the Pensions Act 2004.

**“Permanent Global Bond”**

means in relation to any Sub-Class of Bearer Bonds a permanent global bond in the form or substantially in the form set out in part 2 (*Form of Permanent Global Bonds*) of schedule 3 (*Forms of Global and Definitive Bonds, Receipts, Coupons and Talon*) to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), together with the copy of each applicable Final Terms annexed thereto, comprising some or all of the Bearer Bonds of the same Sub-Class, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed in exchange for the whole or part of any Temporary Global Bond issued in respect of such Bearer Bonds.

**“Permitted Acquisition”**

means, if no Loan Event of Default or Potential Loan Event of Default has occurred and is continuing, the acquisition by any Obligor (or, in the case of (a) below, insofar as it refers to a company established as a wholly-owned subsidiary) of:

- (a) shares in any company, the principal business of which is a Permitted Business or falls within the Permitted Non-Regulated Business Limits;
- (b) any assets required to replace obsolete, worn-out, damaged or destroyed assets which in the reasonable opinion of the applicable Obligor are required for the efficient operation of its business or in accordance with the Finance Leases or finance leases more generally;
- (c) any interest in a partnership the principal business of which is a Permitted Business or falls within the Permitted Non-Regulated Business Limits;
- (d) any asset which is intended for use in or to form part of a Permitted Business;
- (e) any issued share capital of any member of the Security Group provided that the sale of those shares constitutes a Permitted Disposal,  
provided that:
  - (i) any proposed acquisition of any asset falling under the categories described in paragraph (a) or (c) above the cost of which is by itself or when aggregated with any other permitted acquisitions made under paragraph (a) or (c) in the then current financial year in excess of 5 per cent. of the then Total RAB of the Borrowers shall in all circumstances be subject first to a Ratings Confirmation; and
  - (ii) if any asset is to be acquired in the ordinary course of business the condition as to the absence of any Loan Event of Default or Potential Loan Event of Default shall not apply;
- (f) shares in any company (“**Newco**”) all of which are issued by that company to an acquiring Obligor in exchange for such acquiring Obligor’s shareholding of another Obligor (subject to Newco acceding to the Common Terms Agreement and the Security Documents as an Obligor).

**“Permitted Business”**

means the business of owning, operating and developing the Designated Airports undertaken by the Security Group as at the Initial Issue Date (including, without limitation, provision of facilities for and connected with aeronautical activities including retail, car parks, advertising and surface transport and the development thereof) and thereafter any new business undertaken

by the Security Group the revenues from which are reasonably expected by the applicable Borrower or Borrowers to be brought into account by the applicable Regulator as at the following Review Date for the purpose of imposing price caps pursuant to section 40(4) of the Airports Act or would be if the relevant Designated Airport remained designated.

**“Permitted Disposal”**

means any disposal which:

- (a) is made in the ordinary course of business of the disposing entity or in connection with an arm’s length transaction entered into for *bona fide* commercial purposes for the benefit of the Permitted Business;
- (b) is of assets in exchange for other assets comparable or superior as to type, value and quality;
- (c) would not result in the Senior RAR for each subsequent Relevant Date calculated by reference to the most recently occurring Reporting Date (adjusted on a pro-forma basis to take into account the proposed disposal) adjusted for any prepayment to be made out of all or part of the net proceeds of such Permitted Disposal, being prior to 1 April 2018 more than or equal to 0.70, and thereafter, more than or equal to 0.725;
- (d) is a disposal for cash on arm’s length terms of any surplus or obsolete or worn-out assets which, in the reasonable opinion of the applicable Borrower, are not required for the efficient operation of its business and which does not cause a Trigger Event under Paragraphs 1 and 2 of part 1 (Trigger Events) of schedule 3 (Trigger Events) to the Common Terms Agreement;
- (e) is of any Equipment pursuant to or to be leased under a Finance Lease;
- (f) is a disposal of all or part of a Designated Airport (including by way of a sale of the shares in the Borrower which owns the relevant Designated Airport) required by , or pursuant to undertakings given to, any Regulator;
- (g) is a disposal made in connection with any outsourcing, subject, where applicable, to compliance with the Outsourcing Policy;
- (h) insofar as the same give rise to an obligation on the part of the Obligor, is made in compliance with the Public Procurement Rules;
- (i) is a disposal or surrender of tax losses which is permitted pursuant to the Tax Deed of Covenant;
- (j) is the disposal made on arm’s length terms of assets forming part of any business which is not a Permitted Business;
- (k) unless paragraph 7 (*No Disposal to Joint Ventures*) of part 2 (*Trigger Event Consequences*) of schedules 3 (*Trigger Events*) of the Common Terms Agreement applies, is (1) a disposal of assets made on arm’s length terms entered into for *bona fide* commercial purposes to a company, partnership or a Joint Venture which is or will upon such acquisition become an Obligor or (2) is a disposal of a Non-Relevant Activity Asset made on arm’s length terms entered into for *bona fide* commercial purposes to a Permitted Joint Venture;
- (l) is a Minor Disposal;
- (m) is of the issued share capital of a member of the Security Group to another member of the Security Group;
- (n) is a disposal of Authorised Investments;



- (o) constitutes the payment of cash and other funds not otherwise prohibited by the Finance Documents;
- (p) is made in respect of any asset under or pursuant to any compulsory purchase powers exercised by the relevant authority under whose remit such asset may fall; or
- (q) arises as a result of any Permitted Security Interest, provided that, notwithstanding (a) to (q) (inclusive) above, HAL shall not dispose or sell the whole or substantially the whole of Heathrow and the immediate Holding Company for the time being of HAL shall not dispose of or sell any shares in HAL (whether in a single transaction or through a series of transactions and whether related or not) to any party other than a member of the Security Group save with the consent of the relevant Borrower Secured Creditors.

**“Permitted Financial Indebtedness”** means:

- (a) in the case of the Borrowers:
  - (i) Financial Indebtedness incurred under the Borrower Loan Agreements; and
  - (ii) Financial Indebtedness incurred under the Authorised Credit Facilities the providers of which have acceded to the Common Terms Agreement and the STID;
 

which, in either case, will not result in a breach of the Additional Indebtedness Tests;
  - (iii) any Financial Indebtedness arising under Treasury Transactions to which a Borrower is party and Borrower Hedging Agreements, in each case entered into in accordance with the Hedging Policy;
  - (iv) the amount of any liability under an advance or deferred purchase agreement if either (i) one of the primary reasons behind entering into the agreement is to raise finance or (ii) the relevant payment is advanced or deferred for a period in excess of 90 days;
  - (v) any overdraft owing to any bank, up to a maximum aggregate amount at any time of an amount up to 0.5 per cent. of Total RAB net of all current account balances held with such bank (it being understood that the provider(s) of any such overdraft will not be required to accede to the STID);
  - (vi) any Financial Indebtedness under any finance leases, up to a maximum aggregate capitalised amount of 0.5 per cent. of Total RAB (such finance lessor in respect of such finance leases shall not be required to accede to the STID);
  - (vii) any Financial Indebtedness pursuant to such other arrangements as have been approved by the Qualifying Borrower Secured Creditors by way of an Extraordinary Voting Matter;
  - (viii) Financial Indebtedness incurred under or in respect of the Non-Migrated Bonds (including any intercompany receivable from HAL, GAL and/or STAL in respect thereof);
  - (ix) any Financial Indebtedness arising in the ordinary course of business of the Borrowers under any standby letter of credit facility or similar ancillary facility up to a maximum aggregate amount at any time of up to 0.5 per cent. of Total RAB; and

- (x) Financial Indebtedness incurred under a Borrower Liquidity Facility Agreement, provided that at no time shall the aggregate of Financial Indebtedness arising under sub-paragraphs (v), (vi) and (ix) above exceed 1 per cent. of Total RAB; and
- (b) in the case of any Obligor or in the case of (ii) and (iii) below the Security Parent and Asset Holdco:
  - (i) any Financial Indebtedness constituted by the guarantee of the Borrowers' obligations under each Borrower Loan Agreement, the relevant Capex Facilities, the Working Capital Facilities, the Non-Migrated Bond Facility and the other Authorised Credit Facilities;
  - (ii) any Financial Indebtedness incurred under any Working Capital Facilities for the purpose set out in item (b) of that definition;
  - (iii) any Financial Indebtedness incurred under the Security Parent Debenture;
  - (iv) any Financial Indebtedness owed to any other Obligor;
  - (v) any Financial Indebtedness under any subordinated shareholder loans;
  - (vi) any Bankers Automated Clearing System indebtedness owed to any bank of which it is a customer and which provides payment clearing services to it;
  - (vii) the amount of any liability under an advance or deferred purchase agreement if either (i) one of the primary reasons behind entering into the agreement is to raise finance or (ii) the relevant payment is advanced or deferred for a period in excess of 90 days; and
  - (viii) any Financial Indebtedness under the Composite Guarantee Deed.

**“Permitted Hedge Termination”**

means the termination of a Hedging Agreement in accordance with the provisions of schedule 5 (Hedging Policy and Overriding Provisions Relating to Hedging Agreements) to the Common Terms Agreement.

**“Permitted Inter-Company Distribution”**

means any payment which is to be made by an Obligor under a Permitted Inter-Company Loan for the purposes of providing funds to the recipient to enable it to:

- (i) fund the making of a dividend payment on the same date to an Obligor; or
- (ii) meet its payments under any Permitted Inter-Company Loan.

**“Permitted Inter-Company Loan”**

means any loan contemplated in the Reorganisation Steps.

**“Permitted Joint Venture”**

means a Joint Venture:

- (a) which is not an Obligor;
- (b) of which the principal business would, if undertaken by an Obligor, be a Permitted Business or fall within the Permitted Non-Regulated Business Limits; and
- (c) which is either:
  - (i) a Non-RAB Enhancing JV provided that the aggregate of all amounts (1) invested or (2) for which commitments have been given (including by way of guarantee or similar surety of the obligations of a Non-RAB Enhancing JV) by all or any of the Obligors in respect of all Non-RAB Enhancing JVs shall not exceed at any time 5 per cent. of Total RAB; or

- (ii) a RAB Enhancing JV provided that the regulatory assets of all RAB Enhancing JVs shall not represent at any time more than 10 per cent. of Total RAB.

**“Permitted Interest Payment”**

means payment of any interest which has accrued since the last payment date and any applicable default interest in respect of the relevant Non-Migrated Bond.

**“Permitted Lease Termination”**

means any termination of the leasing of all or any part of the Equipment (or the prepayment of the Rentals arising by reason of such termination) in the following circumstances:

- (a) *Total Loss*: Pursuant to any provision of a Finance Lease whereby the leasing of all or any part of the Equipment thereunder will terminate following a total loss of such Equipment save that the relevant Obligor will not make payment to the relevant Finance Lessor of any sums due and payable under the relevant Finance Lease in respect of such total loss if (i) a Loan Acceleration Notice has been delivered or (ii) a Loan Event of Default is subsisting or would occur as a result of such payment;
- (b) *Illegality*: Pursuant to any provision of a Finance Lease which permits the relevant Finance Lessor to terminate the leasing of the Equipment thereunder and to require payment of a termination sum or sums where it is unlawful for such Finance Lessor to continue to lease the relevant Equipment save that the relevant Obligor will not make payment to the relevant Finance Lessor of any sums due and payable under the Finance Lease in respect of such circumstances if either (i) a Loan Acceleration Notice has been delivered or (ii) a Loan Event of Default is subsisting or would occur as a result of such payment;
- (c) *Voluntary Prepayment/Termination*: Pursuant to any provision of a Finance Lease whereby the relevant Obligor is or will be entitled to voluntarily terminate (and require payment of a termination sum), or prepay the Rentals relating to the leasing of the relevant Equipment under such Finance Lease provided that (i) no Loan Acceleration Notice has been delivered or (ii) no Loan Event of Default is subsisting or would occur as a result of such payment; and
- (d) *Incorrect Tax Assumptions*: Pursuant to any provision of a Finance Lease which permits the relevant Finance Lessor to terminate the leasing of the Equipment thereunder and to require payment of a termination sum or sums where any of the tax assumptions contained in such Finance Lease prove to be incorrect save that the relevant Obligor will not make payment to the relevant Finance Lessor of any sums due and payable under the Finance Lease in respect of such circumstances if either (i) a Loan Acceleration Notice has been delivered or (ii) a Loan Event of Default is subsisting or would occur as a result of such payment.

**“Permitted Non-Migrated Bond Distribution”**

means any payment whether by loan or otherwise and whether in the discharge of any intercompany loan obligations or otherwise which is to be made by an Obligor (excluding any payment under the Non-Migrated Bond Guarantees) to ensure timely payment of interest by BAA under the Non-Migrated Bonds.

**“Permitted Non-Regulated Business Limits”**

means, in respect of all businesses which are not or are not expected to be or have never been or were never expected to be Permitted Businesses, that the average of any expenses incurred in connection

with such businesses during the current Relevant Period and the immediately two preceding Relevant Periods does not exceed 2 per cent. of Total RAB .

**“Permitted Security Interest”**

means any security interest falling under paragraphs (a) to (t) (inclusive) below which is created by any Obligor:

- (a) a Security Interest created under the Security Documents or contemplated by the Transaction Documents;
- (b) a Security Interest created under or contemplated by the Senior/Subordinated Intercreditor Agreement, or in connection with any Subordinated Debt on terms no more favourable than the security granted to the Subordinated Secured Creditors (having regard also to the terms of the Senior/Subordinated Intercreditor Agreement);
- (c) any Security Interest specified in schedule 9 (*Borrower Cash Management*) to the Common Terms Agreement, if the principal amount thereby secured is not increased;
- (d) a Security Interest comprising a netting or set-off arrangement entered into by a member of the Security Group in the ordinary course of its banking arrangements;
- (e) a right of set-off, banker’s liens or the like arising by operation of law or by contract by virtue of the provision of any overdraft facility (including an Ancillary Facility which is an overdraft comprising more than one account) and like arrangements arising as a consequence of entering into arrangements on the standard terms of any bank providing an overdraft;
- (f) any Security Interest arising under statute or by operation of law in favour of any government, state or local authority in respect of taxes, assessments or government charges which are being contested by the relevant member of the Security Group in good faith and with a reasonable prospect of success;
- (g) any Security Interest created in respect of any pre-judgment legal process or any judgment or judicial award relating to security for costs, where the relevant proceedings are being contested in good faith by the relevant member of the Security Group by appropriate procedures and with a reasonable prospect of success;
- (h) a security interest comprising a netting or set-off arrangement entered into under any hedge arrangement entered into in accordance with the Hedging Policy where the obligations of other parties thereunder are calculated by reference to net exposure thereunder (but not any netting or set-off relating to such hedge arrangement in respect of cash collateral or any other Security Interest except as otherwise permitted hereunder);
- (i) a lien in favour of any bank over goods and documents of title to goods arising in the ordinary course of documentary credit transactions entered into in the ordinary course of trade;
- (j) a Security Interest created over shares and/or other securities acquired in accordance with the Common Terms Agreement held in any clearing system or listed on any exchange which arise as a result of such shares and/or securities being so held in such clearing system or listed on such exchange as a result of the rules and regulations of such clearing system or exchange;
- (k) a Security Interest approved by the Borrower Security Trustee, the holder of which has become a party to the STID;

- (l) a Security Interest over or affecting any asset acquired on arm's length terms after the date hereof and subject to which such asset is acquired, if:
  - (i) such Security Interest was not created in contemplation of the acquisition of such asset;
  - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Security Group; and
  - (iii) unless such Security Interest falls within any of Paragraphs (m) to (t) below (A) such Security Interest is removed or discharged within six months of the date of acquisition of such asset; or (B) the holder thereof becomes party to the STID;
- (m) a Security Interest arising in the ordinary course of business and securing amounts not more than 90 days overdue or if more than 90 days overdue, the original deferral was not intended to exceed 90 days and such amounts are being contested in good faith;
- (n) a Security Interest arising under or contemplated by any Finance Leases, hire purchase agreements, conditional sale agreements or other agreements for the acquisition or disposal of assets on deferred purchase terms where the counterparty becomes party to the STID provided that the provider of any lease, hire purchase or conditional sale agreements in respect of assets acquired or disposed of in the ordinary course of business on deferred purchase terms and for an aggregate amount not exceeding 0.5 per cent. of Total RAB shall not be required to become a party to the STID;
- (o) a right of set-off existing in the ordinary course of trading activities between a Borrower and its suppliers or customers;
- (p) a lien arising under statute or by operation of law (or by agreement having substantially the same effect) and in the ordinary course of business provided that such lien is discharged within 30 days of any member of the Security Group becoming aware that the amount owing in respect of such lien has become due;
- (q) a Security Interest arising on rental deposits in connection with the occupation of leasehold premises in the ordinary course of business;
- (r) any retention of title arrangements entered into by any Obligor in the ordinary course of business;
- (s) any escrow arrangements entered into with the Highways Agency in respect of construction costs; or
- (t) in addition to any Security Interests subsisting pursuant to the above any other Security Interests provided that the aggregate principal amount secured by such Security Interests does not at any time exceed an amount equal to 0.5 per cent. of Total RAB.

**“Permitted Variances”**

means, in respect of any Obligor, the difference between:

- (a) the amount of regulatory capital expenditure actually incurred by such Obligor in the regulatory year immediately preceding the next price determination for such Obligor and the amount of regulatory capital expenditure assumed by the Regulator to be incurred by such Obligor during such regulatory year as at the date that the regulatory asset base, published by the Regulator for the regulatory year immediately following such price determination, is effective;

- (b) the net proceeds from disposals of regulatory assets actually achieved by such Obligor in the regulatory year immediately preceding the next price determination for such Obligor and the amount of the net proceeds from disposals of regulatory assets assumed by the Regulator to be achieved by such Obligor during such regulatory year as at the date that the regulatory asset base, published by the Regulator for the regulatory year immediately following such price determination, is effective;
  - (c) the actual outcome in respect of any other item in the regulatory year immediately preceding the next price determination for such Obligor and the amount specifically assumed by the Regulator to be the outcome for such regulatory year as at the date that the regulatory asset base, published by the Regulator for the regulatory year immediately following such price determination, is effective,
- in each case as certified by the Finance Director or Chief Financial Officer of the Security Group Agent on behalf of each Obligor in each Compliance Certificate in respect of which the Calculation Date for such Compliance Certificate falls in the regulatory year following the price determination for such Obligor and setting out the amount of each adjustment and the basis therefor.

<b>“Potential Loan Event of Default”</b>	means any event which, with the lapse of time and/or the giving of any notice and/or the making of any determination (in each case where the lapse of time and/or giving of notice and/or determination is provided for in the terms of such Loan Event of Default, and assuming no intervening remedy), will become a Loan Event of Default.
<b>“Principal Amount Outstanding”</b>	means, in relation to a Bond, Sub-Class or Class or a Non-Migrated Bond, 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; or Non-Migrated Bond.
<b>“Principal Collections”</b>	means, on any date, the amount standing to the credit of the Disposal Proceeds Account as at such date.
<b>“Principal Paying Agent”</b>	means Deutsche Bank AG, London Branch as principal paying agent under the Agency Agreement, or its Successors thereto.
<b>“Programme”</b>	means the bond programme established by the Issuer admitted to the Official List and authorised to trade on the London Stock Exchange.
<b>“Projected Excess Cashflow Before Capex”</b>	means the Security Group’s projection as to the amount of surplus cash that, absent a Trigger Event, will be available to pay Restricted Payments in respect of that 12 month period following the most recently occurring Calculation Date after adding back any projected Capital Expenditure less any amounts assumed to be drawn under the Capex Facilities.
<b>“PSM”</b>	means the London Stock Exchange’s Professional Securities Market.
<b>“Public Procurement Rules”</b>	means the Public Contracts Regulations 2006 (SI 2006 No 5), the Utilities Contracts Regulations 2006 (SI 2006 No 6), the Public Contracts (Scotland) Regulations 2006 (SSI 2006 No 1) and the Utilities Contracts (Scotland) Regulations 2006 (SI 2006 No 2) implementing in the United Kingdom Directives 2004/18/EC (public sector) and 2004/17/EC (utilities sector) respectively, including any jurisprudence by the European Community and the UK courts and the case law of the European Commission including the soft law instructions (Guidelines, Communications, Notice, etc.) issued by the European Commission from time to time.

**“Qualifying Bondholder”**

means, for so long as Qualifying Borrower Senior Debt remains outstanding, the holders of each Sub-Class of Class A Unwrapped Bonds and if an FG Event of Default is continuing in respect of a Financial Guarantor, the holders of each Sub-Class of Class A Wrapped Bonds wrapped on a primary basis by such Financial Guarantor and thereafter the holders of each Sub-Class of Class B Unwrapped Bonds or if an FG Event of Default is continuing in respect of a Financial Guarantor, the holders of each Sub-Class of Class B Bonds wrapped on a primary basis by such Financial Guarantor.

**“Qualifying Borrower Debt”**

means:

- (a) Qualifying Borrower Senior Debt prior to the repayment in full of the Senior Debt; and
- (b) Qualifying Borrower Junior Debt only following the repayment in full of the Senior Debt,

in each case subject to:

- (i) the rights of the Qualifying Borrower Junior Creditors and the relevant Issuer Secured Creditors pursuant to the STID in respect of Entrenched Rights; and
- (ii) the Non-Migrated Bondholders or Non-Migrated Bond Trustee having no entitlement to vote or direct the Borrower Security Trustee on any matter other than a Non-Migrated Bond Voting Matter or a Non-Migrated Bondholder Entrenched Right where they are an Affected Borrower Secured Creditor in relation to which the Non-Migrated Bond Trustee shall have a right to vote provided that a Non-Migrated Bondholder will have no right to vote on such matters in respect of any Non-Migrated Bonds which form part of a tranche of Non-Migrated Bonds in respect of which any Independent Enforcement Action has been taken.

**“Qualifying Borrower Junior Creditor”**

means each Borrower Secured Creditor (other than any Subordinated Borrower Secured Creditor) to which the relevant Junior Debt is owed and provided that the Issuer shall not be a Subordinated Borrower Secured Creditor except in respect of any Subordinated Tranches.

**“Qualifying Borrower Junior Debt”**

means:

- (a) the principal amount outstanding under the Borrower Loan Agreements corresponding to the Wrapped Class B Bonds and the Unwrapped Class B Bonds;
- (b) the mark-to-market value of any transaction or 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 transaction or transactions;
- (c) the principal amount outstanding under any Capex Facility at such time to the extent that such amount is designated Junior Debt (ranking *pari passu* with other Junior Debt);
- (d) the principal amount outstanding under the Refinancing Facility at such time to the extent that such amount is designated Junior Debt (ranking *pari passu* with other Junior Debt);

- (e) (subject to the applicable Finance Lessor under a Finance Lease to the STID as a Borrower Secured Creditor) the termination value of any Finance Leases at such time designated as Junior Debt; and
- (f) the principal amounts outstanding under any other Authorised Credit Facility ranking *pari passu* with the above.

**“Qualifying Borrower Secured Creditors”**

means:

- (a) Qualifying Borrower Senior Creditors prior to the repayment in full of the Senior Debt; and
- (b) Qualifying Borrower Junior Creditors only following the repayment in full of the Senior Debt, in each case subject to:
  - (i) the rights of the Qualifying Borrower Junior Creditors and the relevant Issuer Secured Creditors in respect of Entrenched Rights;
  - (ii) the Non-Migrated Bondholders of a tranche of Non-Migrated Bonds in relation to which no Non-Migrated Bond Refusal Date has occurred having no entitlement to vote on or direct the Borrower Security Trustee in relation to any matter under the STID other than a Non-Migrated Bond Voting Matter or a Non-Migrated Bond Entrenched Right where they are an Affected Borrower Secured Creditor;
  - (iii) the Non-Migrated Bondholders of a tranche of Non-Migrated Bonds in relation to which a Non-Migrated Bond Refusal Date occurs having no entitlement to vote or direct the Borrower Security Trustee on any matter following such date; and
  - (iv) the rights of the Borrower Liquidity Facility Providers, the Borrower Hedge Counterparties under the Interest Rate Hedging Agreements, the BAA Pension Trustee and the Borrower Account Bank in respect of their Entrenched Rights where they are an Affected Borrower Secured Creditor.

**“Qualifying Borrower Senior Creditor”**

means each Borrower Secured Creditor (other than any Subordinated Borrower Secured Creditor) to which the relevant Senior Debt is owed and provided that the Issuer and the Non-Migrated Bondholders shall not be Subordinated Borrower Secured Creditors except in respect of any Subordinated Tranches.

**“Qualifying Borrower Senior Debt”**

means at any time:

- (a) the principal amount outstanding under the Borrower Loan Agreements corresponding to the Wrapped Class A Bonds and Unwrapped Class A Bonds;
- (b) the amount owed by the Borrowers to the Issuer in respect of the mark-to-market value of any transaction or 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 transaction or transactions;
- (c) the mark-to-market value of any transaction or transactions arising under Cross Currency Hedging Agreements between a Cross Currency Hedge Counterparty and a Borrower in respect of the Non-Migrated Bonds denominated in euro 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 a such time in respect of such transaction or transactions;

- (d) the principal amount outstanding under each Capex Facility at such time to the extent that such amount is designated Senior Debt (ranking *pari passu* with other Senior Debt);
- (e) the principal amount outstanding under each Working Capital Facility at such time;
- (f) the principal amount outstanding under the Non-Migrated Bond Facility at such time;
- (g) the principal amount outstanding under the Refinancing Facility at such time to the extent that such amount is designated Senior Debt (ranking *pari passu* with other Senior Debt);
- (h) the principal amount outstanding to EIB under the EIB Facilities;
- (i) (subject to the applicable Finance Lessor under a Finance Lease acceding to the STID as a Borrower Secured Creditor designated as Senior Debt), the termination value of any Finance Leases at such time;
- (j) in respect of any Non-Migrated Bond Voting Matter only, and the definitions of “**Senior Debt**” the principal amount outstanding under the Non-Migrated Bonds at such time; and
- (k) the principal amounts outstanding under any other Authorised Credit Facility at such time ranking *pari passu* with the above (but excluding for the avoidance of doubt any Borrower Liquidity Facilities or Interest Rate Hedging Agreements with any Borrower Hedge Counterparties).

“**RAB**” or “**Regulatory Asset Base**”

means in respect of any Obligor as at any date, the sum of (i) the Regulatory RAB of such Obligor as at such date and (ii) the Transfer RAB of such Obligor as at such date.

“**RAB Enhancing JV**”

means a Joint Venture:

- (a) of which all or any of the assets are included by the Regulators in the Regulatory RAB of any Obligor investing in such Joint Venture or are expected to be included by the Regulators in the Regulatory RAB of any Obligor investing in such Joint Venture at the next Review Date; or
- (b) the shares or other investment in which are included by the Regulators in the Regulatory RAB of any Obligor owning such shares or investing in such Joint Venture or are expected to be included by the Regulators in the Regulatory RAB of any Obligor owning such shares or otherwise investing in such Joint Venture at the next Review Date.

“**Rating Agency Criteria**”

means the criteria set out in:

- (a) the publications entitled “Fitch Ratings: Structured Finance – Criteria for Rating Currency Swap Obligations of an SPV in Structured Finance Transactions” dated 10 January 2008 and “Fitch Ratings: Credit Policy = Counterparty Risk in Structured Finance Transactions: Hedge Criteria” dated 1 August 2007, taking into account any replacement of, or amendments or supplements to, such criteria after its date of publication; and
- (b) the S&P publication entitled “Revised Framework for Applying Counterparty and Supporting Party Criteria” dated 8 May 2007, taking into account any replacement of, or amendments or supplements to, such criteria after its date of publication.

<b>“Rating Agencies”</b>	means Fitch and S&P and any further or replacement rating agency appointed by the Issuer to provide a public credit rating or ratings for the Senior Debt and the Junior Debt and public underlying ratings in respect of Class A Wrapped Bonds and Class B Wrapped Bonds for so long as the Issuer seeks such public credit rating or public underlying rating and they are willing and able to provide credit ratings generally (and <b>“Rating Agency”</b> means any one of them).
<b>“Ratings Confirmation”</b>	in respect of a proposed action means a confirmation by the relevant Rating Agencies, in respect of each class of the relevant Bonds, to the effect that the then ratings on such class of Bonds would not be reduced below the lower of (i) the credit ratings of such Bonds as at the Initial Issue Date or (ii) the then current credit ratings (before the proposed action).
<b>“RBS”</b>	means The Royal Bank of Scotland plc.
<b>“Reallocation Prepayment”</b>	means a prepayment of all or any part of an Advance or Sub-Advance in circumstances where the proceeds of such prepayment are to be used by the Issuer to make an advance to another Borrower pursuant to clause 7.2.1 of the Borrower Loan Agreement.
<b>“Receiver”</b>	means any receiver, manager, receiver and manager or administrative receiver who (in the case of an administrative receiver) is a qualified person in accordance with the Insolvency Act 1986 and who is appointed: <ul style="list-style-type: none"> <li>(a) by the Borrower Security Trustee under the Security Documents in respect of the whole or any part of the Borrower Security; or</li> <li>(b) by the Bond Trustee (as assignee by way of security of the Issuer’s rights under the Finance Documents) under the Obligor Floating Charge Agreement in respect of the whole or any part of the security granted in favour of the Issuer under the Obligor Floating Charge Agreement; or</li> <li>(c) by the Bond Trustee under the Issuer Deed of Charge in respect of the whole or any part of the Issuer Security.</li> </ul>
<b>“Receipt”</b>	means a receipt attached on issue to a Definitive Bond redeemable in instalments for the payment of an instalment of principal and includes any replacements for Receipts and Talons issued pursuant to Condition 14 ( <i>Replacement of Bonds, Coupons, Receipts and Talons</i> ).
<b>“Receipholders”</b>	means the several persons who are for the time being holders of the Receipts.
<b>“Refinancing Facility”</b>	means the term loan facility of an aggregate facility amount of £4,400,000,000 to be made available to the Borrowers by the Refinancing Facility Providers on or about the Initial Issue Date pursuant to the Refinancing Facility Agreement.
<b>“Refinancing Facility Agreement”</b>	means the facility agreement to be dated on or about the Initial Issue Date under which the Refinancing Facility is made available to Borrowers.
<b>“Refinancing Facility Payment Date”</b>	means each date on which a payment of interest or other finance charges is made or is scheduled to be made by a Borrower under the Refinancing Facility Agreement.
<b>“Register”</b>	has the meaning given thereto in Condition 1(b) ( <i>Form, Denomination and Title</i> )
<b>“Registered Bonds”</b>	means those Bonds which are for the time being in registered form.
<b>“Registrar”</b>	means Deutsche Bank Trust Company Americas as registrar under the Agency Agreement and any other entity appointed as a registrar under the Agency Agreement.

<b>“Regulations”</b>	means the Public Offers of Securities Regulations 1995.
<b>“Regulation S”</b>	means Regulation S adopted by the SEC under the Securities Act.
<b>“Regulators”</b>	means the Civil Aviation Authority (“CAA”) and the Competition Commission, and any other additional or replacement governmental authority which may from time to time regulate any of the Obligor’s businesses or in respect of which any Obligor is required to comply.
<b>“Regulatory Accounts”</b>	means the individual financial information of each Borrower, each prepared in the form required (for so long as they are required) by the <b>“accounts condition”</b> to BAA’s permission to levy airport charges.
<b>“Regulatory Change”</b>	means any change in law, enactment, order, regulation, regulatory policy, guideline, industry code or regulatory permit or licence after the Initial Issue Date which impacts on the performance, scope or details of the services provided pursuant to the Shared Services Agreement in any material respect.
<b>“Regulatory Period”</b>	means the period in respect of which the maximum charges to airport users at Heathrow are fixed by (currently) the Civil Aviation Authority (currently a five year period).
<b>“Regulatory RAB”</b>	means in respect of any Obligor: <ul style="list-style-type: none"> <li>(a) in respect of any date in the current year (the <b>“Relevant Current Year Date”</b>), the regulatory asset base for such Obligor as set out in the last published Regulatory Accounts of such Obligor plus cumulative regulatory capital expenditure incurred between the date to which the Regulatory Accounts related and the Relevant Current Year Date plus indexation accrued between the date to which the Regulatory Accounts relate and the Relevant Current Year Date less (i) regulatory depreciation (as adjusted for indexation) accrued between the date to which the Regulatory Accounts relate and the Relevant Current Year Date and (ii) (A) the net proceeds received from any disposal of regulatory assets during the Relevant Current Year or (B), where such amount differs, the amount the Obligor reasonably expects the Regulator to apply in reduction of such Obligor’s regulatory asset base as a consequence of such disposal;</li> <li>(b) in respect of each 12 month period starting on the first day of the current year and for each successive 12 month period up to 31 December of the financial year immediately preceding the year in which falls the Date Prior of such Obligor, the regulatory asset base for such Obligor as set out in the latest published Regulatory Accounts for such Obligor plus cumulative regulatory capital expenditure spent or to be spent by such Obligor to the end of such 12 month period plus indexation to the end of such 12 month period less (i) regulatory depreciation (as adjusted for indexation) to the end of such 12 month period and (ii) (A) the net proceeds forecast to be received from any disposal of regulatory assets during the Relevant Period or (B), where such amount differs, the amount the Obligor reasonably expects the Regulator to apply in reduction of such Obligor’s regulatory asset base as a consequence of such projected disposal; and</li> <li>(c) if the Calculation Date falls within the 18 month period immediately prior to the year in which falls the Date Prior of such Obligor and in respect of the 12 month period starting on the first day of the financial year in the same year as the Date Prior of such Obligor, the regulatory asset base most</li> </ul>

recently submitted to the Regulators by such Obligor for the regulatory period commencing immediately following the Date Prior of such Obligor plus cumulative regulatory capital expenditure to be spent by such Obligor in the 9 month period from the Date Prior of such Obligor plus indexation for the 9 month period from the Date Prior of such Obligor less (i) regulatory depreciation (as adjusted for indexation) for the 9 month period from the Date Prior of such Obligor and (ii) (A) the net proceeds forecast to be received from any disposal of regulatory assets during the Relevant Period or (B), where such amount differs, the amount the Obligor reasonably expects the Regulator to apply in reduction of such Obligor's regulatory asset base as a consequence of such projected disposal,

Provided that:

- (a) in relation to each of (a), (b) and (c) above, the regulatory asset base of each Obligor shall be the regulatory asset base after any profiling (as adjusted for indexation) that may be applied by the Regulator in accordance with the most recent price determination for such Obligor;
- (b) if the opening regulatory asset base for such Obligor as specified in the Regulatory Accounts of such Obligor for the first regulatory year is not equal to the regulatory asset base published by the Regulator for such Obligor as the opening regulatory asset base for that regulatory year, the Regulatory RAB of such Obligor shall be determined not by reference to the regulatory asset base published in the Regulatory Accounts of such Obligor but instead by reference to the opening regulatory asset base published by the Regulator as adjusted by such Obligor for any Permitted Variances;
- (c) if any Regulator has stated in any correspondence or other communication with such Obligor that any capital expenditure which the Obligor in its Regulatory Accounts has accounted for or expects will be accounted for as regulatory capital expenditure will not be included in the regulatory asset base of such Obligor for the start of the regulatory year immediately following the next price determination, the amount of such regulatory capital expenditure shall be excluded as part of the calculation of the Regulatory RAB of such Obligor;
- (d) if any Regulator has stated in any correspondence or other communication with such Obligor that the aggregate amount it will apply as a deduction from the regulatory asset base of such Obligor for the start of the regulatory year immediately following the next price determination, on account of disposals of regulatory assets will differ from the aggregate amount of deductions from the regulatory asset base of such Obligor accounted for by such Obligor as a consequence of disposals of regulatory assets in its Regulatory Accounts, the amount by which the Regulator's deduction exceeds or is less than the amount deducted by such Obligor from its regulatory asset base in its Regulatory Accounts shall be deducted from (in the case of an excess) or added to (in the case of any shortfall) the regulatory asset base of such Obligor as part of the calculation of Regulatory RAB of such Obligor; and

- (e) if the auditors of an Obligor qualify their statement of opinion in relation to any regulatory capital expenditure included by the Obligor in the regulatory asset base of such Obligor as specified in the Regulatory Accounts of the Obligor, the amount of the regulatory capital expenditure to which such qualification relates shall be excluded as part of the calculation of the Regulatory RAB of such Obligor.

**“Relevant Borrower Secured Creditor”**

means any Borrower Secured Creditor who ranks (other than in relation to amounts payable by the Borrowers in respect of Subordinated Step-Up Fee Amounts) in point of payment and security subordinate to payments of principal and interest on the Borrower Loans relating to the proposed Subordinated Bonds.

**“Relevant Date”**

means in respect of the Senior RAR or Junior RAR in respect of any Reporting Date means: (i) 31 December in the year immediately preceding such Reporting Date; (ii) each subsequent 31 December to the year immediately preceding the year in which falls the relevant Date Prior; (iii) if the Reporting Date falls within the 18 month period immediately prior to the year in which falls the relevant Date Prior, 31 December in the same year as the relevant Date Prior, provided that the first Relevant Date shall be 31 December 2008.

**“Relevant Debt”**

means the aggregate, at the time, of the outstanding:

- (a) Qualifying Borrower Senior Debt, excluding for these purposes any mark-to-market value of any transactions under Cross Currency Hedging Agreements; the termination values of any Finance Leases that would otherwise be included in Qualifying Borrower Senior Debt; and the principal amount outstanding under each Working Capital Facility at such time; and
- (b) Qualifying Borrower Junior Debt, excluding for these purposes any mark-to-market value of any transactions under Cross Currency Hedging Agreements and the termination values of any Finance Leases designated as Junior Debt that would otherwise be included in Qualifying Borrower Junior Debt,

provided that for the purposes of calculating the Relevant Debt only, non-Sterling denominated debt shall be deemed to be converted to Sterling at the rate specified in the relevant Cross-Currency Hedging Agreement.

**“Relevant Document”**

means a Transaction Document to which the relevant person is a party.

**“Relevant EBITDA”**

means earnings before interest, tax, depreciation and amortisation and pre-exceptional costs (revenues minus expenses) in respect of a business of the Borrower which was brought into account or not expressly disallowed by the CAA for any price determination published by the Regulator for that Borrower for the purpose of imposing price caps pursuant to section 40(4) of the Airports Act but which ceases to be brought into account or is expressly disallowed for such purpose.

**“Relevant Financial Guarantor”**

means, in relation to any Class of Wrapped Debt, the Financial Guarantor which provides a Financial Guarantee in respect of such Class of Wrapped Debt.

**“Relevant Issuer Secured Creditor”**

means any Issuer Secured Creditor who ranks (other than in relation to Subordinated Step-Up Fee Amounts) in point of payment and security subordinate to payments of any amounts payable in respect of the proposed Subordinated Bonds.

<b>“Relevant Multiple”</b>	means the multiple determined by dividing the Relevant Transfer Value by the sum of the Relevant EBITDA for the three financial years of the relevant Borrower prior to the Relevant Transfer Date as determined by reference to the audited financial statements of such Borrower for such financial years divided by 3.
<b>“Relevant Period”</b>	means each of the following periods in respect of the Senior ICR or Junior ICR in respect of any Reporting Date: <ul style="list-style-type: none"> <li>(a) the period of 12 months ending on the last day of the Financial Year in the year preceding such Reporting Date;</li> <li>(b) the period of 12 months starting on 1 January in the same year as such Reporting Date;</li> <li>(c) each subsequent 12 month period up to 31 December of the year immediately preceding the year in which falls the Relevant Date Prior; and</li> <li>(d) if such Reporting Date falls within the 18 month period prior to the year in which falls the Relevant Date Prior, the 12 month period from 1 January in the same year as the Relevant Date Prior.</li> </ul> <p>provided that the first Relevant Period shall be the 12 month period ending on 31 December 2009.</p>
<b>“Relevant Regulatory Year”</b>	means the annual regulatory accounting period of the Obligors ending on 31 March in each year.
<b>“Relevant Transfer Date”</b>	means the first date from which a business of a Borrower which was brought into account or not expressly disallowed by the CAA for any price determination published by the Regulator for that Borrower for the purpose of imposing price caps pursuant to section 40(4) of the Airports Act ceases to be brought into account or is expressly disallowed for such purpose.
<b>“Relevant Transfer Value”</b>	means in respect of any business of a Borrower which was brought into account by the CAA for the price determination for any regulatory period for the purpose of imposing price caps pursuant to section 40(4) of the Airports Act and which ceases to be brought into account for such purpose, unless and until a transfer value has been published by the CAA for such business representing the reduction in the regulatory asset base of such Borrower as determined by the CAA, the transfer value attributed by the Borrower to such business in its most recent Regulatory Accounts and, following publication by the CAA of a transfer value for such business, such published transfer value excluding, in either case, the transfer value published by the CAA or attributed by the Borrower to any assets which are held by a Joint Venture which is not an Obligor.
<b>“Rental”</b>	means any scheduled payment of rental, periodic charge or equivalent sum under a Finance Lease.
<b>“Rental Payment Date”</b>	means any date on which Rental is scheduled to be paid under any Finance Lease.
<b>“Rental Period”</b>	means, in respect of a Finance Lease, each period falling between two consecutive Rental Payment Dates under such Finance Lease.
<b>“Reorganisation Steps”</b>	means the steps set out in the Steps Paper detailing the reorganisation process in connection with BAA and its Affiliates.
<b>“Repeated Representations”</b>	means the representations set out in Paragraphs 1 ( <i>Status</i> ) to 7 ( <i>Authorisations</i> ) inclusive other than 5(a) ( <i>No Default or Trigger Event</i> ), 10 ( <i>Full Disclosure</i> ), 14 ( <i>Property</i> ), 16(b) ( <i>Status of Security</i> ) and 29 ( <i>Centre of Main Interests</i> ) of schedule 1 ( <i>General Representations</i> ) of the Common Terms Agreement.

<b>“Reporting Date”</b>	means 30 June and 31 December in each year starting on 31 December 2008 or any other date as may be agreed as a result of a change in the financial year end or regulatory year end date of any Obligor.
<b>“Request”</b>	means a request for utilisation of any Authorised Credit Facility.
<b>“Requisite Ratings”</b>	means the Minimum Short-Term Rating.
<b>“Restricted Loan Event of Default”</b>	means a Loan Event of Default other than a Loan Event of Default occurring pursuant to paragraphs (a), (f), (g), (l) and (n) under (Loan Events of Default) as set out in “ <i>Summary of the Financing Agreements – Common Terms Agreement – Loan Events of Default</i> ”, and “ <b>Restricted Potential Loan Event of Default</b> ” shall mean a Potential Loan Event of Default which relates to a Loan Event of Default which is a Restricted Loan Event of Default as defined herein.
<b>“Restricted Payment”</b>	<p>means (i) any payment under or in respect of Subordinated Debt (ii) any payment under or in respect of any guarantee granted to any creditor subordinated to the Borrower Secured Creditors pursuant to the Senior/Subordinated Intercreditor Agreement, and (iii) any payment (including any payments of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any direct or indirect affiliate of an Obligor which is not itself an Obligor or the Issuer other than:</p> <ul style="list-style-type: none"> <li>(a) payments made pursuant to and in accordance with the Shared Services Agreements;</li> <li>(b) payments made pursuant to and in accordance with any contracts entered into with any sponsor in compliance with the covenants set out in the Common Terms Agreement;</li> <li>(c) payments made pursuant to a Permitted Inter-Company Distribution (other than pursuant to the Security Parent Debenture where the conditions for making the same pursuant to schedule 2 (<i>Covenants</i>), part 3 (<i>General Covenants</i>), paragraph 32 (<i>Permitted Inter-Company and Non-Migrated Bond Distributions</i>) of the Common Terms Agreement are not met) or Permitted Non-Migrated Bond Distribution; or</li> <li>(d) payments made in the ordinary course of the relevant Obligor’s business on arm’s length terms; or</li> <li>(e) payments made pursuant to and in accordance with the provisions of the Tax Deed of Covenant, save for any excess amounts permitted to be paid in accordance with clause 2.12 of the Tax Deed of Covenant.</li> </ul>
<b>“Restricted Payment Condition”</b>	means each of the conditions in paragraph 31 (Restricted Payments) of part 3 (General Covenants) schedule 2 ( <i>Covenants</i> ) to the Common Terms Agreement which must be satisfied or waived by the Borrower Security Trustee before a Restricted Payment may be made by the Issuer or an Obligor.
<b>“Retail Price Index” or “RPI”</b>	means the all items retail prices index for the UK Published by the Office for National Statistics or at any future date such other index of retail prices as may have then replaced it.
<b>“Revenue Collections”</b>	means, on any date, the sum of Available Enforcement Proceeds and Available Surplus Revenue Collections (prior to the making of a Post-Enforcement Surplus Revenue Prepayment Resolution) and for the avoidance of doubt shall not include (i) any amounts

standing to the credit of the Disposal Proceeds Account and any Debt Collateralisation Account as at such date, (ii) amounts standing to the credit of any Borrower Liquidity Reserve Account; (iii) amounts standing to the credit of the Borrower Hedge Collateral Accounts; (iv) Borrower Hedge Replacement Premium (if any) and (v) amounts standing to the credit of any account opened following a drawing under the Non-Migrated Bond Facility Agreement following a rating downgrade of a Non-Migrated Bond Facility Provider into which its commitment has been deposited.

- “Revolving Loan”** means any revolving loan outstanding under any Authorised Credit Facility.
- “Rule 144A”** means Rule 144A adopted by the SEC under the Securities Act.
- “S&P”** means Standard & Poor’s Ratings Services, a Division of the McGraw-Hill Companies Inc., or any successor to the rating agency business of S&P.
- “Scheduled Redemption Date”** has the meaning given to it in the relevant Final Terms.
- “Securities Act”** means the United States Securities Act of 1933, as amended.
- “Security Agreement”** means the deed of charge and guarantee executed in favour of the Borrower Security Trustee and the Subordinated Security Trustee by each of the Obligor on or about the Initial Issue Date, any Legal Charge and any other deed of charge supplemental thereto.
- “Security Agreement Floating Security”** means the floating charges granted by the Obligor in favour of the Borrower Security Trustee pursuant to the Security Agreement and the Existing Security Agreements.
- “Security Documents”** means:
- (a) for so long as amounts remain owing under the Subordinated Facility Agreement, the Existing Security Agreements,
  - (b) the Security Agreement;
  - (c) the Obligor Floating Charge Agreement;
  - (d) the STID and each deed of accession thereto, together with any deed supplemental to the STID and referred to in the STID as a **“Supplemental Deed”**; and
  - (e) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to a Borrower Secured Creditor in respect of the Borrower Secured Liabilities.
- “Security Group”** means Asset Holdco, the Security Parent, the Borrowers, HEX Opco and any other Subsidiary of any member of the Group (other than the Issuer) which accedes, *inter alia*, to the Common Terms Agreement and the STID in accordance with the terms of the Transaction Documents.
- “Security Group Agent”** means:
- (a) BAA in its capacity as the agent of the Security Group in accordance with sub-clause 17.4.3 of the Common Terms Agreement; and
  - (b) upon and following termination of the agency of BAA in accordance with sub-clause 17.4.3 of the Common Terms Agreement, HAL pursuant to its appointment under sub-clause 17.4.4 of the Common Terms Agreement.
- “Security Interest”** means:
- (a) any mortgage, pledge, lien, charge, assignment, or hypothecation, or other encumbrance securing any obligation of any person;



- (b) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or
- (c) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

**“Security Parent Debenture”**

means the loan note issued by Security Parent on 31 January 2008 as amended on 29 February 2008, and as to be further amended on the Initial Issue Date.

**“Security Trustee”**

means the Senior Security Trustee and the Subordinated Security Trustee.

**“Senior Debt”**

means any financial accommodation that is, for the purposes of the STID, to be treated as Senior Debt and includes:

- (a) all Qualifying Borrower Senior Debt; and
- (b) all Interest Rate Hedging Agreements and the Cross Currency Hedging Agreements entered into by the Obligors in relation to such Senior Debt.

**“Senior Facility Agreement”**

means the senior facility agreement dated 7 April 2006 as amended from time to time.

**“Senior ICR”**

means for any Relevant Period, the ratio of (a) Cashflow from Operations of the Obligors (after adding back any cash outflows of a one-off, non-recurring extraordinary or exceptional nature in respect of the Obligors), less corporation tax paid to HM Revenue & Customs, less two per cent. multiplied by the Total RAB to (b) interest and equivalent recurring finance charges paid or, in the case of forward looking ratios, forecasted to be paid on Senior Debt and any Permitted Financial Indebtedness that is not, pursuant to the STID, subordinated to such Senior Debt (less all interest received or, in the case of forward looking ratios, interest forecasted to be received by any member of the Security Group from any third party other than pursuant to a Permitted Inter-Company Loan or Permitted Non-Migrated Bond Distribution).

**“Senior Net Indebtedness”**

means, as at any date, and without double counting:

- (a) the Outstanding Principal Amount and the Indexation Accretion Amount (or, in respect of a future date, forecast to be outstanding) under any Senior Debt on such date; and
- (b) the principal amount of any other Financial Indebtedness outstanding (or, in respect of a future date, forecast to be outstanding) on such date under paragraphs (a) (iv)-(ix) inclusive of the definition of Permitted Financial Indebtedness, excluding any Financial Indebtedness that remains a contingent liability, (and the principal amount outstanding under any finance lease relating to paragraph (a)(vi) shall be determined as if it were a Finance Lease under paragraph (g) of the definition of Outstanding Principal Amount),

together with all indexation accrued on any such liabilities, but excluding any early termination amount relating to any Hedging Agreement which has not crystallised as referred to in paragraph (f) of the definition of Outstanding Principal Amount (other than, for the avoidance of doubt, any Indexation Accretion Amount and less all amounts held in Authorised Investments or cash in any bank account of the Security Group and the Issuer (excluding any Excluded Cash and Excluded Issuer Cash).

**“Senior Only Security”**

means the (a) the OFCA Floating Security; (b) the trust declared by the Borrower Security Trustee in respect of its beneficial interest in the Borrower Liquidity Reserve Account and which the Borrower Security Trustee holds on trust for EIB, Senior Hedge Counterparties and the Refinancing Facility Providers only; (c) the security over any Borrower Hedge Collateral Account (which relates to collateral provided by Senior Hedge Counterparties for their obligations under Senior Hedging Agreements) granted in favour of the Senior Security Trustee as security for the Borrower Secured Liabilities owed to Hedge Counterparties only and is not granted as security for any other Borrower Secured Liabilities; (d) the security over any Debt Collateralisation Account (which relates to monies which are applied after enforcement of the Transaction Shared Security but prior to any acceleration of the Borrower Secured Liabilities in collateralising (as opposed to prepaying) the principal claims of Borrower Secured Creditors that have provided fixed rate or inflation linked debt or hedging (including termination payments under Hedging Agreements)) granted in favour of the Borrower Security Trustee as security for the Borrower Secured Liabilities owed to those fixed rate and inflation linked senior creditors only and is not granted as security for any other Borrower Secured Liabilities; (e) the security over any Liquidity Standby Account opened pursuant to a Borrower Liquidity Facility Agreement held on trust by the Borrower Security Trustee for the relevant Borrower Liquidity Facility Provider under the relevant Borrower Liquidity Facility Agreement as security for the obligations of the relevant Borrower to repay or redeliver (as the case may be) such sum to such Borrower Liquidity Facility Provider in accordance with the terms of such Borrower Liquidity Facility Agreement; and (f) the security over any Affected Lenders Account opened pursuant to the Non-Migrated Bond Facility Agreement held on trust by the Borrower Security Trustee for the relevant Affected Lender as security for the obligations of the relevant Borrower to repay or redeliver (as the case may be) such sum to such Affected Lender in accordance with the terms of the Non-Migrated Bond Facility Agreement.

**“Senior Security Documents”**

means:

- (a) each of the following security documents:
  - (i) the Security Agreement;
  - (ii) Legal Charge dated on or about the Initial Issue Date between Heathrow Airport Limited and the Security Trustees;
  - (iii) Legal Charge dated on or about the Initial Issue Date between Gatwick Airport Limited and the Security Trustees;
  - (iv) Legal Charge dated on or about the Initial Issue Date between Stansted Airport Limited and the Security Trustees;
  - (v) the Obligor Floating Charge Agreement;
  - (vi) the STID and each deed of accession thereto together with any deed supplemental to the STID and referred to in the STID as a “**Supplemental Deed**”;
  - (vii) Debenture dated 30 January 2008 between BAA (AH) Limited, BAA (SH) Limited, BAA (SP) Limited and BAA (DSH) Limited as Chargors and The Royal Bank of Scotland plc as Security Trustee;

- (viii) Debenture dated 19 January 2007 made between Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited as Chargors and The Royal Bank of Scotland plc as Security Trustee;
  - (ix) Mortgage dated 19 January 2007 between Heathrow Airport Limited and The Royal Bank of Scotland plc as Security Trustee;
  - (x) Mortgage dated 19 January 2007 between Gatwick Airport Limited and The Royal Bank of Scotland plc as Security Trustee;
  - (xi) Mortgage dated 19 January 2007 between Stansted Airport Limited and The Royal Bank of Scotland plc as Security Trustee;
- (b) any other document entered into at any time by any of the Senior Obligors creating any guarantee, indemnity, Security or other assurance against financial loss in favour of any of the Senior Creditors and which is held by the Senior Security Trustee on trust and has not been released; and
- (c) any security granted under any covenant for further assurance in any of the documents referred to in paragraphs (a) and (b) above.

**“Senior RAR”**

means the ratio of Senior Net Indebtedness to Total RAB.

**“Senior Revenue Shortfall”**

means, on any date, the amount by which the aggregate amount of claims falling due for payment on such date pursuant to paragraphs (i)-(vi) of the Borrower Post- Enforcement (Pre-Acceleration) Revenue Priority of Payments exceeds the aggregate amount of Revenue Collections on such date.

**“Senior/Subordinated Intercreditor Agreement”**

means the intercreditor agreement dated 6 April 2006, between, *inter alios*, the Obligors, the Borrower Security and the Subordinated Security Trustee as amended from time to time.

**“Series”**

means a series of Bonds issued under the Programme on a particular Issue Date, together with any Tranche or Tranches of Bonds which are expressed to be consolidated and form a single Sub-Class with any Sub-Class issued on such Issue Date.

**“Shared Services Agreement”**

means the shared services agreement to be entered into on or prior to the Initial Issue Date between BAA, the Borrower Security Trustee and certain Obligors.

**“Shared Services Agreements”**

means the Shared Services Agreement and the BSC Services Agreement.

**“Specified Office”**

means, in relation to any Agent, either the office identified with its name in the relevant Final Terms or any other office notified to any relevant parties pursuant to the Agency Agreement.

**“SSA Ancillary Documents”**

means the Cross-Licensing Agreement and each Hardware Lease.

**“SSA Report”**

means a report to be issued by BAA in writing to the Operating Companies, copied to the Borrower Security Trustee within 180 days ending after the end of each financial year during the term of and in accordance with the provisions of the Shared Services Agreement.

**“Standard & Poor’s” or “S&P”**

means Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies Inc. or any successor to the rating business of Standard & Poor’s Rating Services.

<b>“Standby Drawing”</b>	means a drawing made under a Liquidity Facility Agreement as a result of a downgrade of a Liquidity Facility Provider below the Requisite Ratings or in the event that the Liquidity Facility Provider fails to renew its commitment on the expiry of the term of such Liquidity Facility Agreement.
<b>“Statutory Accounts”</b>	means the statutory accounts which each Borrower is required to prepare in compliance with the Companies Act 1985, as amended from time to time.
<b>“Step-Up Fixed Fee Rate”</b>	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.
<b>“Step-Up Floating Fee Rate”</b>	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.
<b>“STID”</b>	means the security trust and intercreditor deed entered into on or about the Initial Issue Date between, among others, the Borrower Security Trustee, the Obligors, the Bond Trustee and each Relevant Financial Guarantor which accedes thereto, together with any deed supplemental to the STID and referred to in the STID as a <b>“Supplemental Deed”</b> .
<b>“STID Proposal”</b>	means a proposal or request made by the Security Group Agent in accordance with the STID proposing or requesting the Borrower Security Trustee to concur in making any modification, giving any consent or granting any waiver under or in respect of any Common Document.
<b>“Stock Exchange”</b>	means the London Stock Exchange or any other or further stock exchange(s) on which any Bonds may from time to time be listed, and references to the <b>“relevant Stock Exchange”</b> shall, in relation to any Bonds, be references to the Stock Exchange on which such Bonds are, from time to time, or are intended to be, listed.
<b>“Sub-Class”</b>	means, with respect to a Class of Bonds, those Bonds which are identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Price, such Sub-Class comprising one or more Tranches of Bonds.
<b>“Subordinated Bonds”</b>	means any bonds issued by the Issuer which pursuant to the Issuer Deed of Charge rank in point of payment and security subordinated to the Class A Bonds and the Class B Bonds.
<b>“Subordinated Borrower Security”</b>	means the security granted by the Obligors on a second ranking basis to the Subordinated Security Trustee on behalf of the Subordinated Secured Creditors.
<b>“Subordinated Borrower Secured Creditor”</b>	means any Borrower Secured Creditor (other than the Borrower Security Trustee and the Non-Migrated Bond Trustee) which takes Independent Enforcement Action provided that: <ul style="list-style-type: none"> <li>(a) the Issuer shall not be a Subordinated Borrower Secured Creditor except to the extent it takes Independent Enforcement Action at the direction of any of its Secured Creditor Representatives and only in respect of the relevant debt owed to the Issuer Secured Creditor(s) represented by such Secured Creditor Representative; and</li> <li>(b) the Non-Migrated Bondholders shall only be Subordinated Borrower Secured Creditors in respect of any Tranche of Non-Migrated Bonds in respect of which Independent Enforcement Action has been taken.</li> </ul>
<b>“Subordinated Class A Step-Up Fee Amounts”</b>	means, in respect of Class A Bonds which are Fixed Rate Bonds or Indexed Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms to be payable on such Class A Bonds in excess of the initial Coupon as at the date

on which such Class A Bonds were issued and, in the case of Class A Bonds which are Floating Rate Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms to be payable on such Class A Bonds in excess of the initial margin on the Coupon on such Class A Bonds as at the date on which such Class A Bonds were issued.

- “Subordinated Class B Step-Up Fee Amounts”** means, in respect of Class B Bonds which are Fixed Rate Bonds or Indexed Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms to be payable on such Class B Bonds in excess of the initial Coupon as at the date on which such Class B Bonds were issued and, in the case of Class B Bonds which are Floating Rate Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms to be payable on such Class B Bonds in excess of the initial margin on the Coupon on such Class B Bonds as at the date on which such Class B Bonds were issued.
- “Subordinated Debt”** means any Financial Indebtedness that is fully subordinated, in a manner satisfactory to the Borrower Security Trustee, to the Senior Debt and Junior Debt and where the relevant credit provider has acceded to the Common Terms Agreement and the STID.
- “Subordinated Facility”** means the facility made available pursuant to the Subordinated Facility Agreement.
- “Subordinated Facility Agreement”** means the subordinated facility agreement dated 7 April 2006 as amended from time to time.
- “Subordinated Finance Documents”** means:
- (a) the Finance Documents as defined in the Subordinated Facility Agreement; and
  - (b) any agreement or document relating to any of the Subordinated Financings.
- “Subordinated Financings”** means the Subordinated Facility and the Subordinated Hedging Liabilities (as defined in the Subordinated Facility Agreement).
- “Subordinated First Ranking Security”** means the Debenture dated 30 January 2008 between BAA (AH) Limited, BAA (SH) Limited, BAA (SP) Limited, and BAA (DSA) Limited, as Chargors and the Royal Bank of Scotland plc as Security Trustee to the extent such security is expressed or created by BAA (SH) Limited, and BAA (DSH) Limited, the BAA (D&ND Holdco) Limited Debenture, the ADIL Debenture, the BAA Debenture (each as defined in the Subordinated Facility Agreement) and any other security securing only the Subordinated Liabilities (but not the Borrower Secured Liabilities) provided by a Subordinated Obligor which is not a member of the Security Group from time to time.
- “Subordinated Lender Consent Matter”** means any amendment to the Common Documents in respect of which the consent of the Subordinated Secured Creditors is required in accordance with clause 3.3 of the Senior/Subordinated Intercreditor Agreement.
- “Subordinated Liabilities”** means the liabilities owed by the Subordinated Obligors to the Subordinated Secured Creditors under or in connection with the Subordinated Finance Documents and the Subordinated Hedging Liabilities (as defined in the Senior/Subordinated Intercreditor Agreement).

- “Subordinated Obligor”** means BAA Limited, Airport Development and Investment Limited, BAA (D&ND Holdco) Limited BAA (DSH) Limited and its subsidiaries and any holding company of BAA (DSH) Limited that is a subsidiary of BAA, in each case which has any indebtedness with respect to any of the Subordinated Liabilities.
- “Subordinated Ranking Security”** means any security created pursuant to the Subordinated Security Documents over any asset which is also subject to any security created pursuant to any of the Senior Security Documents (including, for the avoidance of doubt, where both the Subordinated Security Document and the Senior Security Document comprise the same document).
- “Subordinated Secured Creditors”** means the Finance Parties under (and as defined in) the Subordinated Facility Agreement.
- “Subordinated Security Documents”** means:
- (a) each of the following security documents:
    - (i) the Security Agreement;
    - (ii) Legal Charge dated on or about the Initial Issue Date between Heathrow Airport Limited and the Security Trustees;
    - (iii) Legal Charge dated on or about the Initial Issue Date between Gatwick Airport Limited and the Security Trustees;
    - (iv) Legal Charge dated on or about the Initial Issue Date between Stansted Airport Limited and the Security Trustees;
    - (v) the ADIL Debenture (as defined in the Senior/Subordinated Intercreditor Agreement);
    - (vi) Debenture dated 30 January 2008 between BAA (AH) Limited, BAA (SH) Limited, BAA (SP) Limited and BAA (DSH) Limited as Chargors and The Royal Bank of Scotland plc as Security Trustee;
    - (vii) Debenture dated 19 January 2007 made between Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited as Chargors and The Royal Bank of Scotland plc as Security Trustee;
    - (viii) the BAA Debenture (as defined in the Senior/Subordinated Intercreditor Agreement);
    - (ix) Mortgage dated 19 January 2007 between Heathrow Airport Limited and The Royal Bank of Scotland plc as Security Trustee;
    - (x) Mortgage dated 19 January 2007 between Gatwick Airport Limited and The Royal Bank of Scotland plc as Security Trustee;
    - (xi) Mortgage dated 19 January 2007 between BAA Limited and The Royal Bank of Scotland plc as Security Trustee;
    - (xii) Mortgage dated 19 January 2007 between Stansted Airport Limited and The Royal Bank of Scotland plc as Security Trustee; and
    - (xiii) the BAA (D&ND Holdco) Limited Debenture (as defined in the Senior/Subordinated Intercreditor Agreement);

	<ul style="list-style-type: none"> <li>(b) any other document entered into at any time by any of the Subordinated Obligors creating any guarantee, indemnity, security or other assurance against financial loss in favour of any of the Subordinated Secured Creditors and which is held by the Senior Security Trustee and/or the Subordinated Security Trustee on trust and which has not been released; and</li> <li>(c) any security granted under any covenant for further assurance in any of the documents referred to in paragraphs (a) and (b) above.</li> </ul>
<b>“Subordinated Security Trustee”</b>	means The Royal Bank of Scotland plc as security trustee for the Subordinated Secured Creditors under the Subordinated Facility Agreement.
<b>“Subordinated Segregated Proceeds”</b>	means any proceeds received by or on behalf any Subordinated Secured Creditor from: <ul style="list-style-type: none"> <li>(a) a Subordinated Obligor or any insolvency official thereof which is not an Obligor; or</li> <li>(b) the enforcement of the Subordinated First Ranking Security, in each case in compliance with the provisions of the Senior/ Subordinated Intercreditor Agreement.</li> </ul>
<b>“Subordinated Tranche”</b>	<ul style="list-style-type: none"> <li>(c) in the case of the Issuer, that Tranche of Qualifying Borrower Senior Debt which would be capable of being voted by any Secured Creditor Representative of the Issuer that has taken Independent Enforcement Action; and</li> <li>(d) in the case of the Non-Migrated Bondholders, any Tranche of Non-Migrated Bonds in respect of which Independent Enforcement Action has been taken.</li> </ul>
<b>“Subordinated Transaction Security”</b>	means the security created or expressed to be created under or pursuant to the Subordinated Security Documents.
<b>“Subscription Agreement”</b>	means an agreement supplemental to the Dealership Agreement (by whatever name called) substantially in the form set out in schedule 6 to the Dealership Agreement or in such other form as may be agreed between, among others, the Issuer and the Lead Manager or one or more Dealers (as the case may be).
<b>“Subordinated Step-Up Fee Amounts”</b>	means the Subordinated Class A Step-Up Fee Amounts and the Subordinated Class B Step-Up Fee Amounts.
<b>“Subsidiary”</b>	means: <ul style="list-style-type: none"> <li>(a) a subsidiary within the meaning of section 736 of the Companies Act; and</li> <li>(b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 258 of the Companies Act.</li> </ul>
<b>“Successor”</b>	means, in relation to the Principal Paying Agent, the other Paying Agents, the Registrar, the Transfer Agent, the Agent Bank and the Calculation Agent, any successor to any one or more of them in relation to the Bonds which shall become such pursuant to the provisions of the Bond Trust Deed and/or the Agency Agreement (as the case may be) and/or such other or further principal paying agent, paying agents, registrar, transfer agents, agent bank and calculation agent (as the case may be) in relation to the Bonds as may (with the prior approval of, and on terms previously approved by, the Bond Trustee in writing) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the case of the Principal Paying Agent being within the same city as

the office(s) for which it is substituted) as may from time to time be nominated, in each case by the Issuer and the Obligors, and (except in the case of the initial appointments and specified offices made under and specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Bondholders.

- “Supplemental Deed”** means a deed supplemental to the STID entered into by the Borrower Security Trustee on its own behalf and on behalf of the Borrower Secured Creditors in the circumstances referred to in clause 2.1 (*Accession of Additional Borrower Secured Creditor*) or clause 3 (*Additional Finance Documents*) of the STID.
- “Supported Agreement”** means:
- (a) each Borrower Hedging Agreement;
  - (b) each Supported EIB Facility; and
  - (c) the Refinancing Facility Agreement.
- “Supported Creditors”** means EIB, each Borrower Hedge Counterparty and each Refinancing Facility Provider, in respect of whom a Borrower Liquidity Shortfall has arisen or is deemed to have arisen.
- “Supported EIB Facilities”** means the EIB Facilities existing or available to any Obligor on the Initial Issue Date and any other EIB Facilities in respect of which EIB requires a Borrower Liquidity Facility to be maintained in respect of potential EIB Liquidity Shortfalls, in each case to the extent permitted pursuant to paragraph 36 of part 3 of schedule 2 to the Common Terms Agreement.
- “Surplus Revenue Collections Account”** means the account designated as the “Surplus Revenue Collection Account”, held in the name of the Borrower Security Trustee (or a Receiver appointed by the Borrower Security Trustee) and maintained with the Borrower Account Bank or any other bank or financial institution which has the Requisite Ratings.
- “Surveillance Letter”** means a letter issued by the Issuer and/or a member of the Security Group to a Relevant Financial Guarantor from time to time, in which the Issuer and/or each Borrower undertakes to provide the Relevant Financial Guarantor with certain information and to comply with certain reporting requirements as outlined in that letter.
- “Talonholders”** means the several persons who are for the time being holders of the Talons.
- “Talons”** means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Bonds (other than Zero Coupon Bonds) such talons being in the form or substantially in the form set out in the Bond Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and includes any replacements for Talons issued pursuant to Condition 14 (*Replacement of Bonds, Receipts, Coupons, and Talons*).
- “TARGET Settlement Day”** means any day on which the TARGET 2 is open for the settlement of payments in euro.
- “TARGET 2”** means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.



<b>“Tax”</b>	means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) and <b>“Taxes”</b> , <b>“taxation”</b> , <b>“taxable”</b> and comparable expressions will be construed accordingly.
<b>“Tax Deed of Covenant”</b>	means the deed to be entered into on or about the Initial Issue Date by (among others) the relevant Obligors, the Issuer, the Borrower Security Trustee and the Bond Trustee.
<b>“Tax Relief Group”</b>	means the group as it may be constituted from time to time of which FGP Topco is at the Initial Issue Date the parent company for the purposes of Chapter IV, Part X ICTA (Group Relief), as amended from time to time.
<b>“Temporary Global Bond”</b>	means in relation to any Tranche of Bearer Bonds a temporary global bond in the form or substantially in the form set out in part 1 ( <i>Form of Temporary Global Bond</i> ) of schedule 3 ( <i>Forms of Global and Definitive Bonds, Receipts, Coupons and Tables</i> ) to the Bond Trust Deed together with the copy of the applicable Final Terms annexed thereto, with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), comprising some or all of the Bearer Bonds of the same Tranche, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.
<b>“Title Reports”</b>	means: <ul style="list-style-type: none"> <li>(a) the report prepared by Herbert Smith LLP in relation to title to a part of Terminal 5 at Heathrow;</li> <li>(b) the General Title Report; and</li> <li>(c) the Leasehold Provisions Report,</li> </ul> and any further title report addressed to the Borrower Security Trustee.
<b>“Total RAB”</b>	means, at any date, the aggregate of the RAB of each Obligor less the aggregate of the RAB attributable to any RAB Enhancing JV as at such date.
<b>“Tranche”</b>	means all Bonds which are identical in all respects (save for the Issue Date, Interest Commencement Date and Issue Price).
<b>“Transaction Documents”</b>	means: <ul style="list-style-type: none"> <li>(a) each Finance Document;</li> <li>(b) the Shared Services Agreement, the SSA Ancillary Documents and the BSC Services Agreement; and</li> <li>(c) any other document designated as such by the Borrower Security Trustee and the Issuer.</li> </ul>
<b>“Transaction Shared Security”</b>	means the security created or expressed to be created under or pursuant to the Senior Security Documents (other than the Senior Only Security) and the Subordinated Ranking Security (other than Subordinated First Ranking Security).
<b>“Transfer Agent”</b>	means the transfer agent appointed under the Agency Agreement, including any Successors thereto.
<b>“Transfer RAB”</b>	means, at any date, in respect of any Obligor, the aggregate of the product of (a) the sum of the Relevant EBITDA for the three financial years of such Obligor preceding such date as determined by reference to the audited financial statements of such Obligor for such financial years where available or, otherwise, the management accounts of such Obligor divided by 3 and (b) the Relevant Multiple.

<b>“Treasury Transaction”</b>	means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, index-linked agreement, interest rate or currency or future or option contract, foreign exchange or currency purchase or sale agreement, interest rate swap, currency swap or combined similar agreement or any derivative transaction protecting against or benefiting from fluctuations in any rate or price.
<b>“Trigger Credit Rating”</b>	means each credit rating identified as such in “ <i>Summary of Financing Agreements – Common Terms Agreement – Trigger Events</i> ”.
<b>“Trigger Event”</b>	means any of the events or circumstances identified as such in “ <i>Summary of the Financing Agreements – Common Terms Agreement – Trigger Events</i> ”.
<b>“Trigger Event Consequences”</b>	means any of the consequences of a Trigger Event identified as such in “ <i>Summary of the Financing Agreements – Common Terms Agreement – Trigger Event Consequences</i> ”.
<b>“Trigger Event Ratio Levels”</b>	means the financial ratios set out in “ <i>Summary of Financing Agreements – Common Terms Agreement – Trigger Events: Financial Ratios</i> ”.
<b>“Trigger Event Remedies”</b>	means any remedy to a Trigger Event as identified in “ <i>Summary of Financing Agreements – Common Terms Agreement – Trigger Events Remedies</i> ” and “ <b>Trigger Event Remedy</b> ” means any of them.
<b>“Trust Corporation”</b>	means a corporation entitled by the rules made under the Public Trustee Act 1906 to act as a custodian trustee or entitled pursuant to any other legislation applicable to a trustee in any jurisdiction other than England and Wales to act as trustee and carry on trust business under the laws of the country of its incorporation.
<b>“Trust Documents”</b>	means 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).
<b>“Trustee Acts”</b>	means the Trustee Act 1925 and the Trustee Act 2000 of England and Wales.
<b>“UCR 2006”</b>	means the Utilities Contracts Regulations 2006, S1 6/2006
<b>“UK”</b>	means the United Kingdom.
<b>“UK Listing Authority” or “UKLA”</b>	means the Financial Services Authority in its capacity as competent authority under FSMA.
<b>“Unwrapped Debt” or “Unwrapped Bond”</b>	means any indebtedness or bond (respectively) that does not have the benefit of a guarantee from a Financial Guarantor.
<b>“Unwrapped Bondholders”</b>	means the holders for the time being of the Unwrapped Bonds and “ <b>Unwrapped Bondholder</b> ” shall be construed accordingly.
<b>“Utilisation Date”</b>	means, in relation to each Authorised Credit Facility, each date on which the relevant Authorised Credit Facility is utilised.
<b>“VAT”</b>	(a) in respect of any Finance Lease Document which contains a definition of VAT, has the meaning given thereto in such Finance Lease Document, and (b) in any other case, means value added tax as imposed by the Value Added Tax Act 1994 and legislation and regulations supplemental thereto and includes any other tax of a similar fiscal nature whether imposed in the UK (instead of, or in addition to, value added tax) or elsewhere from time to time.
<b>“Voted Qualifying Debt”</b>	means the Participating QBS Creditors voting on a £ for £ basis by reference to the Outstanding Principal Amount owed at the relevant time to the relevant Participating QBS Creditors.

<b>“White Paper”</b>	means the UK Government’s 2003 Air Transport White Paper.
<b>“Working Capital Facility Providers” or “WCF Provider”</b>	means the Initial Working Capital Facility Providers together with any further working capital facility providers which provide the Borrower with Working Capital Facilities and accede to the Common Terms Agreement and the STID.
<b>“Working Capital Facilities”</b>	means the facilities, including the Initial WCF, made available to (a) the Borrowers to fund their working capital needs and (b) to the Security Parent and Asset Holdco to fund on an intra-day basis a Permitted Inter-Company Distribution.
<b>“Wrapped Debt” or “Wrapped Bond”</b>	means any indebtedness or bond (respectively) that has the benefit of a financial guarantee from a Relevant Financial Guarantor.
<b>“Wrapped Bondholders”</b>	means the holders for the time being of the Wrapped Bonds and <b>“Wrapped Bondholder”</b> shall be construed accordingly.
<b>“Zero Coupon Bond”</b>	means a Bond specified as such in the relevant Final Terms and on which no interest is payable.

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