

OFFERING CIRCULAR DATED 10 AUGUST 2009



British Airways Plc

(incorporated and registered in England and Wales with registered number 1777777)

£350,000,000

5.80 per cent. Convertible Bonds due 2014

Issue Price: 100 per cent.

Joint Bookrunners and Joint Lead Managers

Barclays Capital BofA Merrill Lynch Deutsche Bank HSBC RBS Hoare Govett

Co-Lead Managers

CALYON Citi Goldman Sachs International J.P. Morgan UBS Investment Bank

This Offering Circular (the “**Offering Circular**”) comprises listing particulars given in compliance with the listing rules (the “**Listing Rules**”) made under Section 73A of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the UK Listing Authority (the “**UKLA**”). Applications have been made for the £350,000,000 5.80 per cent. convertible bonds due 2014 (the “**Bonds**”) of British Airways Plc (the “**Issuer**”) to be admitted to the official list maintained by the UKLA for the purposes of Part VI of the FSMA (the “**Official List**”) and to be admitted to trading on the Professional Securities Market of the London Stock Exchange plc (the “**London Stock Exchange**”). The Professional Securities Market is an unregulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). The Issuer has undertaken to apply to have the ordinary shares of the Issuer (the “**Ordinary Shares**”) issuable upon conversion of the Bonds admitted to the Official List and admitted to trading on the Regulated Market of the London Stock Exchange. This Offering Circular is to be read in conjunction with all the documents which are incorporated by reference herein (see “*Presentation of Information - Documents incorporated by reference*”).

The Issuer accepts responsibility for the information contained in this Offering Circular and its completeness. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer, the Bonds or the Ordinary Shares other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by or on behalf of the Issuer or the Managers (as defined in “*Subscription and Sale*”).

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Trustee or the Managers that any recipient of this Offering Circular should purchase any of the Bonds. Each investor contemplating purchasing Bonds should make its own independent investigation of the financial condition and affairs of, and its own appraisal of the creditworthiness of, the Issuer. None of the Issuer, the Managers, or any of their respective representatives, is making any representation to any offeree or purchaser of the Bonds regarding the legality of an investment in the Bonds by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Bonds.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Bonds shall in any circumstances constitute a representation or create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the affairs or condition (financial or otherwise) of the Issuer since the date of this Offering Circular or that the information contained in this Offering Circular is correct as at any time subsequent to its date.

In making an investment decision, each investor must rely on its own examination, analysis and enquiry of the Issuer and the terms of the offering of the Bonds, including the merits and risks involved.

This Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, or an invitation by or on behalf of the Issuer or the Managers to subscribe or purchase, any Bonds or Ordinary Shares.

The Bonds and the Ordinary Shares have not been, and will not be, registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to or for the benefit of U.S. persons. For a description of further restrictions on the offering and sale of the Bonds and on the distribution of this document, see “*Subscription and Sale*”.

The Bonds will initially be represented by a temporary global bond (the “**Temporary Global Bond**”), without interest coupons, which will be deposited with a common depository on behalf of the Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) and Euroclear Bank S.A./N.V. (“**Euroclear**”) systems on or about 13 August 2009. The Temporary Global Bond will be exchangeable for interests in a global bond (the “**Global Bond**”), without interest coupons, from the 40th day after the Closing Date (as defined herein) upon certification as to non-U.S. beneficial ownership. The Global Bond will be exchangeable for definitive Bonds in bearer form in the denomination of £100,000 (and integral multiples of £1,000 in excess thereof up to and including £199,000) in the limited circumstances set out in it. See “*Summary of Provisions relating to the Bonds in Global Form*”.

The distribution of this Offering Circular and the offering, sale and delivery of the Bonds in certain jurisdictions may be restricted by law. No action has been or will be taken by the Issuer or the Managers to permit a public offering of the Bonds or the possession or distribution of this document (or any other offering or publicity materials relating to the Bonds) (i) in the United Kingdom, other than to (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”), (b) high net worth entities and other persons to whom it may otherwise lawfully be communicated falling within Article 49(1) of the Order, or (c) persons to whom it may otherwise lawfully be communicated or (ii) in any other jurisdiction, where action for that purpose may be required. Accordingly, neither this document nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Offering Circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised, or to any person to whom it is unlawful to make such offer or solicitation. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of this Offering Circular and other offering material relating to the Bonds, see “*Subscription and Sale*”.

The Bonds are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

In connection with the offering of the Bonds, each Manager and/or its affiliates may act as an investor for their own account or the accounts of others and may take up Bonds in the offering and in that capacity may retain, purchase or sell for their own account or the accounts of others such securities and any securities of the Issuer or related investments and may offer or sell such securities or other related investments otherwise than in connection with the offering or placement. Accordingly, references herein to the Bonds being offered or placed should be read as including any offering of Bonds to such Manager and/or its affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Managers have not separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Managers as to the accuracy, completeness or verification of the information contained in this Offering Circular or any other information supplied in connection with the Bonds or the Ordinary Shares and nothing contained in this Offering Circular is or shall be relied upon as a promise or representation in this respect, whether as to the past or the future. Each Manager accordingly disclaims, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this Offering Circular or any other information supplied in connection with the Bonds or the Ordinary Shares. Each person receiving this Offering Circular acknowledges that such person has: (i) not relied on any Manager in

connection with any investigation of the accuracy of any information contained in this Offering Circular or its investment decision and each person must rely on its own examination of the Issuer and the merits and risks involved in investing; and (ii) relied only on the information contained in this Offering Circular, and that no person has been authorised to give any information or to make any representation concerning the Issuer, the Bonds or the Ordinary Shares (other than as contained in this Offering Circular) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer or the Managers.

In connection with the issue of the Bonds, Merrill Lynch International (the “**Stabilising Manager**”) (or any persons acting on behalf of the Stabilising Manager) 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 (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action, if begun, may be ended at any time, but it must be brought to an end after a limited period. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) in accordance with all applicable law and rules.

Any individual intending to invest in any investment described in this Offering Circular 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.

Prospective investors should read the entire document and, in particular, the section headed “*Risk Factors*”, when considering an investment in the Issuer.

The Managers are acting exclusively for the Issuer and no-one else in connection with the offering of the Bonds. None of the Managers will regard any other person (whether or not a recipient of this Offering Circular) as its client in relation to the offering of the Bonds and will not be responsible to anyone other than the Issuer for providing the protections afforded its clients nor for giving advice in relation to the offering of the Bonds or any transaction or arrangement referred to herein.

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PRESENTATION OF INFORMATION

Presentation of financial information

Unless otherwise stated, all financial information relating to the Issuer incorporated by reference in this Offering Circular has been prepared in accordance with International Financial Reporting Standards and in pounds sterling.

Documents incorporated by reference

This Offering Circular should be read and construed in conjunction with:

- (1) the audited consolidated annual financial statements of the Issuer as at and for the year ended 31 March 2008 on pages 75 to 127 of the 2007/08 Annual Report and Accounts, the unaudited operating and financial statistics for the Group for the five years ended 31 March 2008 on pages 128 and 129 of the 2007/08 Annual Report and Accounts and the unaudited principal investments of the Group as at 31 March 2008 on page 130 thereof; and
- (2) the audited consolidated annual financial statements of the Issuer as at and for the year ended 31 March 2009 on pages 76 to 131 of the 2008/09 Annual Report and Accounts, the unaudited operating and financial statistics for the Group for the five years ended 31 March 2009 on pages 132 and 133 of the 2008/09 Annual Report and Accounts and the unaudited principal investments of the Group as at 31 March 2009 on page 134 thereof;

together in each case with the audit report thereon, and

- (3) the RNS announcements dated 3 April 2009 (in respect of traffic and capacity statistics, March 2009), 6 May 2009 (in respect of traffic and capacity statistics, April 2009), 22 May 2009 (in respect of the preliminary results announcement), 3 June 2009 (in respect of traffic and capacity statistics, May 2009), 3 July 2009 (in respect of traffic and capacity statistics, June 2009), 14 July 2009 (in respect of the chairman's speech) and 5 August 2009 (in respect of traffic and capacity statistics, July 2009); and
- (4) the unaudited interim management statement of the Issuer dated 31 July 2009,

each of which has been previously published or is published simultaneously with this Offering Circular and has been approved by the Financial Services Authority or filed with it. Such documents shall be incorporated in, and form part of, this Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Where documents incorporated by reference themselves incorporate information by reference, such information does not form part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained (without charge) from the registered office of the Issuer.

Forward-looking statements

Some of the statements in this Offering Circular include forward-looking statements which reflect the Issuer's current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects",

“intends”, “plans”, “believes”, “projects”, “anticipates”, “will”, “targets”, “aims”, “may”, “would”, “could”, “continue” and similar statements are of a future or forward-looking nature.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group’s actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the part of this Offering Circular entitled “*Risk Factors*”, which should be read in conjunction with the other cautionary statements that are included in this Offering Circular. Any forward-looking statements in this document reflect the Issuer’s current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group’s operations, results of operations, strategy and liquidity. Given these uncertainties investors are cautioned not to place any undue reliance on such forward-looking statements.

These forward-looking statements speak only as of the date of this document. Subject to any obligations under the Listing Rules, or as otherwise required by law, the Issuer undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Offering Circular prior to making any investment decision with respect to the Bonds. Each of the risks highlighted below could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer, which, in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Bonds. In addition, each of the risks highlighted below could adversely affect the trading price of the Bonds or the Ordinary Shares or the rights of investors under the Bonds or the Ordinary Shares and, as a result, investors could lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Issuer faces. The Issuer has described only those risks relating to its operations that it considers to be material. There may be additional risks that it currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above.

Prospective investors should read the entire Offering Circular, together with the documents incorporated by reference herein. Words and expressions defined in the “Terms and Conditions of the Bonds” below or elsewhere in this Offering Circular have the same meanings in this section.

Investing in the Bonds involves certain risks. An investment in the Bonds is suitable only for sophisticated investors who have sufficient financial resources to sustain any losses from such investment and who are in a position to commit funds for a considerable period of time. Prospective investors should consider, among other things, the following:

Risks relating to the Issuer

Damage to the Issuer’s reputation or brand names could have a material adverse effect on the Issuer’s financial condition and results of operations.

Damage to the Issuer’s reputation or brand names through either a single event or series of events, could adversely impact the Issuer’s market position with its customers and ultimately have a material adverse effect on the Issuer’s financial condition and results of operations.

The airline industry is extremely competitive and the Issuer faces competition from other airlines as well as from alternative means of transportation.

The airline industry is highly competitive. The Issuer faces direct competition from other airlines operating on the same routes as the Issuer as well as from indirect flights and charter services.

Some of the Issuer’s competitor airlines have a much lower cost structure than the Issuer and are able to offer flights at significantly lower prices. There can be no assurance that further growth of such airlines will not impair the Issuer’s future growth, force it to cut its fares or cause it to lose market share.

Some of the Issuer’s competitor airlines are wholly or partially state-owned which could give these airlines access to larger and less expensive sources of funding (including state subsidies such as for fuel). The impact of the current financial crisis might also induce governments to unilaterally grant subsidies or other public aid to one or more of the Issuer’s competitors which could distort markets and have an adverse impact on the Issuer’s competitive position. This could have a material adverse effect on the Issuer’s financial condition and result of operations.

In addition, airlines that are under creditor protection may be able to benefit from protection under insolvency laws. This could help them to substantially reduce their cost structure and become more competitive, both while they are under creditor protection and thereafter.

If the Issuer's competitors are able to offer their services at lower prices on a continuous basis or to increase their market share to the detriment of the Issuer, this could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer also faces competition from alternative forms of transport such as rail travel. Competitive pressure from alternative forms of transport is bound to increase and the further loss of air passengers to rail transport and other modes of transportation could have a material adverse effect on the Issuer's financial condition and results of operations.

A continuation of the current financial crisis could further severely impact the Issuer's business and may lead to over capacity or increase existing over capacity.

The airline industry is highly sensitive to general economic conditions. Further and/or sustained deterioration in the global economy could result in a significant decrease in demand for air travel, particularly from the financial services sector, one of the Issuer's key customer segments, as passengers may be inclined to adopt cost-saving measures including booking lower-priced flights or taking advantage of offers from low-cost airlines. This has already had a significant impact on premium traffic in particular and, were it to continue for a prolonged period, it could have a material adverse effect on the Issuer's financial condition and results of operations. Any fall in passenger numbers (and, in particular, premium passenger numbers), cargo volumes or fares leads to a disproportionate fall in profits, as fixed costs (such as security costs, take-off and landing charges and staff costs) generally cannot be reduced on short notice. It may also lead to over capacity or an increase in existing over capacity. In addition, economic uncertainty in specific markets or on specific routes may cause other airlines to transfer their aircraft capacity to markets and routes that are also served by the Issuer, resulting in increased competition. During periods when there is a downturn in general economic conditions, the adverse effects of over capacity on the Issuer's financial condition and results of operations may be exacerbated.

Moreover, an increasing number of insolvencies among the Issuer's customers or contracting parties, including financial institutions acting as hedge counterparties, could result in losses due to defaults in payments which could have a material adverse effect on the Issuer's financial condition and result of operations.

The Issuer is exposed to macroeconomic decisions.

Macroeconomic decisions may impact taxes, duties or other charges to which the Issuer is subject which could have a material adverse effect on the Issuer's financial condition and results of operations. For example, UK government proposals to implement changes to air passenger duty (including proposals to double air passenger duty in certain situations from 2010) may have an adverse impact on demand for air travel and/or reduce the profit margin per ticket. If implemented, these proposals could benefit the Issuer's non-UK competitors to the detriment of the Issuer.

Certain markets in which the Issuer operates are subject to government regulation controlling capacity and/or restricting market entry. Relaxation of such restrictions, whilst creating growth opportunities for the Issuer, could impact competition and therefore have a negative impact on the Issuer's margins and result in a material adverse effect on the Issuer's financial condition and result of operations.

The Issuer is dependent on good relations with its employees and their unions.

Many of the Issuer's staff members are represented by unions. Collective bargaining takes place on a regular basis and a breakdown in the bargaining process could disrupt operations and adversely affect business performance. The Issuer's continued effort to reduce employment costs increases the risk in this area. The Issuer regularly negotiates with the following five main unionised groups via their National Sectional Panels: pilots (BALPA); cabin crew (Unite/BASSA); passenger group and head office administration staff (Unite/GMB); ramp and cargo staff (Unite/GMB) and engineering (Unite/GMB). As at the date of this Offering Circular, the engineers have accepted a pay and productivity agreement for the next two years and the pilots have accepted a pay and productivity deal subject to certain conditions to

cover the period to 1 February 2011. Negotiations with passenger group, head office administration staff, ramp and cargo staff are still ongoing. On 23 July 2009, Unite registered a 'Failure to agree' in the negotiations with cabin crew. Following the failure to agree the Issuer and Unite entered a 14 day cooling off period in which to reflect on their respective positions and explore ways of resolving matters. The cooling off period ended on 6 August 2009 and talks are expected to re-commence. There can be no assurance that the Issuer will not experience strikes or other industrial action. Any drawn out industrial dispute including the prospect of industrial action, even if it does not ultimately result in strikes taking place, could have a material adverse effect on the Issuer's financial condition and results of operations and could cause damage to the Issuer's reputation and cause customers to book with the Issuer's competitors if there is a prospect of an industrial dispute.

The size of the Issuer's pension deficit and associated commitments are substantial and subject to variation.

The Issuer has substantial pension obligations under pension schemes for its employees. There are three main pension schemes for the Group's UK employees, two defined benefit schemes (the Airways Pension Scheme ("APS") and the New Airways Pension Scheme ("NAPS")) and a defined contribution scheme (the British Airways Retirement Plan). As at 31 March 2006, the date of the last funding valuations of APS and NAPS, the market values of the assets of APS and NAPS amounted to £6,650 million and £5,832 million respectively. The value of the assets represented 100 per cent. (APS) and 74 per cent. (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. The current funding valuation process is ongoing and is likely to result in a significantly increased deficit for NAPS and a move into deficit for APS.

The Issuer has substantial future financing needs.

The Group has substantial existing borrowings, a significant amount of which is secured on assets of the Group, which will need to be repaid or refinanced. Given the current economic situation, there can be no assurance that any refinancing will not become more difficult, more expensive or even fail entirely.

The Issuer's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans may be affected by various factors, including financial market conditions. Nationality restrictions on share ownership of the Issuer, as set out in its articles of association, could also affect the Issuer's ability to finance its operations in the future. Most of the Issuer's future capital requirements are currently asset-related and already have commitments from lenders to provide finance. The Group is exposed to the risk of the lenders failing to provide the committed facilities. In addition, there can be no assurance that aircraft will continue to provide attractive security for lenders in the future which could make it difficult, or even impossible, for the Issuer to obtain new credit lines or other financing instruments or to pay off existing ones. This may have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer is exposed to risks from mergers and acquisitions amongst competitors.

The Issuer considers that the airline industry will need to rationalise to meet current market conditions. This will involve further airline failures and consolidation. Mergers and acquisitions amongst competitors have the potential to adversely affect the Issuer's market position and could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer is exposed to uncertainties from the proposed merger with Iberia and the proposed joint arrangements with American Airlines and Iberia.

The Issuer is currently pursuing merger talks with Iberia, in which it currently holds a 13.15 per cent. stake.

Furthermore, the Issuer has, together with American Airlines and Iberia, applied for anti-trust immunity to operate a joint business across the Atlantic. It is the third attempt with American Airlines to win clearance

and there can be no certainty that clearance will be granted. It is possible that if clearance is once again refused, American Airlines and Iberia will look for other merger or joint business options which may include the termination of bilateral arrangements and/or change in the composition of the **oneworld** alliance.

The Issuer would be exposed to integration risks involved in any merger with Iberia and/or joint business with American Airlines and Iberia or with any other merger partner or takeover target including failure to realise planned benefits, brand erosion and execution risks, all of which could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer is exposed to operational disruptions due to maintenance.

From time to time, the aircraft fleet requires maintenance work, which may cause operational disruption to the Issuer. Incidents could occur which may or may not relate to maintenance or modification programmes for the aircraft fleet which could adversely impact the Issuer's operations and financial performance.

The Issuer is exposed to the risk of failure of its key suppliers and other third parties as well as risks associated with renewing contracts with key suppliers and other third parties.

The Issuer is dependent on a number of third parties for some principal business processes, such as BAA Limited (which currently operates four of the airports in the UK used by the Group including Heathrow and Gatwick), airframe and engine manufacturers, aircraft fuel providers, air traffic controllers, ground handlers and caterers as well as general airport services and the availability of the requisite airport infrastructure.

If one or more of these third party services were temporarily unavailable as a result of events such as strikes or were permanently unavailable or were only available on uncommercial terms or, in respect of airframe and engine manufacturers, were to delay delivery of aircraft or make scheduled deliveries of aircraft late, this could have a material adverse effect on the Issuer's financial condition and results of operations. Moreover, in the current economic climate, the Issuer's suppliers are at increased risk of business failure. The failure of a key supplier could have a material adverse effect on the Issuer's financial condition and results of operations.

Contracts with third parties, including airport operators, will need to be renewed in the future which could have higher cost implications and impact on the Issuer's results of operations.

The Issuer is exposed to the risk of aviation fuel supply failure.

The infrastructure that provides jet fuel to Heathrow airport and the other airports from which it operates is critical to the Issuer's operations. Any breakdown in this infrastructure and/or contamination of the fuel supply would have a significant impact on operations and could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer depends on the uninterrupted operation of its own and third party data processing systems.

The Issuer's ability to manage its ticket sales, receive and process reservations, manage its traffic network and perform other critical business operations is dependent on the efficient and uninterrupted operation of the computer and communication systems used by the Issuer as well as the systems used by third parties in the course of their cooperation with the Issuer. As computer and communication systems are vulnerable to disruptions, power outages, acts of sabotage, computer viruses, fires and other events, there can be no assurance of efficient and uninterrupted operation of these systems. Any disruption to computer and communication systems used by the Issuer or its alliance and sales partners could significantly impair the Issuer's ability to operate its business efficiently and could have a material adverse effect on its financial condition and results of operations.

Terrorist attacks, military conflicts and their aftermath may have an ongoing material adverse effect on the Issuer's business.

In the past, terrorist attacks and military conflicts worldwide have had a significant adverse effect on the Issuer's business and no assurance can be given that similar events will not happen in the future. An atmosphere of uncertainty could continue for the foreseeable future and could intensify drastically if further terrorist attacks were to occur, especially if they were targeted against aircraft or tourist destinations. Such events could have an ongoing material adverse effect on the Issuer's financial condition and results of operations and could make it difficult, or even impossible, for the Issuer to obtain new credit lines or other financing instruments, or to pay off existing ones. Moreover, there can be no assurance that the amount of insurance cover, if any, available to the Issuer upon the occurrence of such events would be adequate to cover the resulting losses. There can also be no assurance that the Issuer would not be forced to bear substantial losses itself, irrespective of its insurance coverage, including through retention of a portion of risks in its captive insurer. This could be the case if the Issuer's insurers were unwilling or unable to pay out compensation or if passengers were to switch to other airlines. In particular, losses may not be limited to damages eligible for compensation but encompass a deterioration of the Issuer's reputation or standing. This could have a material adverse effect on the Issuer's financial condition and results of operations.

The ongoing consequences of terrorist attacks could lead to a further increase of costs or restrictions on insurance coverage.

The Issuer's ability to manage its airline business with an adequate level of insurance coverage against risk of losses from man-made and natural disasters is dependent on, among other things, insurance policies. These policies stipulate a number of conditions under which the insurers may terminate policies. In addition, the policies must be renewed at regular intervals. Future terrorist attacks, acts of sabotage and other disasters, especially if they were to be directed against aviation air traffic, could result in insurance coverage for aviation air traffic risks becoming more expensive and/or certain risks becoming uninsurable.

The Issuer may be exposed to risks associated with the limitation of greenhouse gas emissions and related trading schemes for allowances.

Under the United Nations Framework Convention on Climate Change and the Kyoto Protocol, certain contracting states entered into obligations to control and reduce the emission of greenhouse gases. To comply with its obligations under public international law, the European Union introduced a scheme in 2003 to limit greenhouse gas emissions and for trading of allowances which applies to certain industrial installations.

Although the aviation industry is not currently facing limitations from this scheme, the European Union resolved to introduce a trading scheme for greenhouse gas emission allowances applicable to aircraft carriers starting on 1 January 2012. The future effects of this trading scheme for the Issuer are not currently foreseeable with certainty but may lead to a decrease in demand for air travel and/or reduce the Issuer's profit margin per ticket. Due to the non-global structure of the scheme, the Issuer, like all European airlines, might also face competitive disadvantages in comparison to foreign aircraft operators in intercontinental traffic.

Moreover, further regulations on greenhouse gas emissions might be enacted in one or more of the countries in which the Issuer operates. All of these factors may limit the Issuer's operational flexibility, increase costs and therefore may have a material adverse effect on its financial condition and results of operations.

As well as regulations on greenhouse gas emissions, failure to adopt an integrated environment strategy could lead to a deterioration in the Issuer's reputation and a consequential adverse effect on its financial condition and results of operations.

The Issuer is exposed to risks associated with aviation fuel price trends.

The Group uses approximately 5.5 million tonnes of jet fuel a year. For the year ended 31 March 2009, fuel and oil costs for the Group amounted to £2,969 million. Prices for aviation fuel, or kerosene, are influenced by a number of factors and volatility of prices can have a material impact on the Issuer's financial condition and results of operations. In the short term, the price risk is partially hedged through the purchase of a number of derivative instruments available on the over-the-counter markets with approximately twenty approved counterparties and within certain approved limits. There is a risk of counterparty default leading to a loss of the mark to market value of the derivatives as the Issuer does not have margin calls on its fuel hedging derivatives. Moreover, the Issuer requires continuous credit lines from its derivatives counterparties in order to continue placing new hedges. There is no guarantee that such credit lines will be available in the future which would lead to a curtailment of the hedging programme. If the Issuer's hedging policy were to be ineffective, this could have a material adverse effect on the Issuer's financial condition and results of operations. In the long term, if the Issuer is exposed to increases in prices for aviation fuel, there can be no assurance that the Issuer will be able to offset such increases by revenue increases and/or cost reductions. This could have a material adverse effect on the Issuer's financial condition and results of operations.

Fluctuations in currency exchange rates could have a material adverse effect on the Issuer's financial condition and results of operations.

The Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than sterling, primarily US Dollar, Yen and Euro. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US Dollars or Sterling. In addition to forward sale of currencies, currency options are used to cover near term future revenues and operating payments in a variety of currencies. The Group has substantial liabilities denominated in US Dollar, Yen and Euro. The Group utilises its US Dollar, Yen and Euro debt repayments as a hedge of future US Dollar, Yen and Euro revenues. However, the translation of foreign currency debt on the balance sheet can lead to substantial movements in the Sterling value of debt and a resultant movement in reserves which could have a material adverse effect on the Issuer's financial condition and results of operations.

Air traffic and the aviation industry are heavily regulated.

As an internationally operating airline, the Issuer is subject not only to English laws and regulations but also to the laws and regulations of the EU and other nations and international organisations. The scope of such regulation includes infrastructure issues relating to slot capacity and route flying rights as well as environmental and security requirements (among others). The Issuer cannot fully anticipate all changes that may be made to UK, EU, US and other international air traffic regulations in the future, nor the possible impact of such changes, but its ability to comply with such regulations is key to maintaining its operational and financial performance.

Fluctuations in interest rates could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer is exposed to increases in interest rates when its floating rate debt in a particular currency exceeds floating rate cash deposits in that currency. The Issuer is also exposed to increases in interest rates as future fixed rate debt drawn down to meet capital expenditure commitments may be more expensive. These risks are managed through the selection of fixed or floating rates on the Issuer's new debt drawdowns. Notwithstanding such management, fluctuations in interest rates could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer is exposed to failure of counterparties.

The Issuer is exposed to credit risk to the extent of non-performance by its counterparties in respect of financial assets receivable. Treasury activities, which include placing money market deposits, fuel hedging and foreign currency transactions, could lead to a concentration of different credit risks on the same counterparty. The Issuer is also exposed to credit risk to the extent of non-performance by its insurance counterparties. Failure of its counterparties could have a material adverse effect on the Issuer's financial condition and results of operations.

Access to airports, in particular in relation to slots and changes to slot allocations, could affect the competitiveness and financial condition of the Issuer.

If an adequate number of slots were not made available to the Issuer or the Issuer were unable to secure attractive slots, the Issuer might be forced to change its flight schedules or reduce its aircraft utilisation rate. If the Issuer were not to use its slots on a temporary or long term basis, whether for commercial or other reasons, the Issuer might lose these slots. Moreover, there can be no assurance that the Issuer will be able to secure attractive slots in the future. Should the Issuer lose its existing slots or be unable to obtain additional attractive slots, this could have a material adverse effect on its financial condition and results of operations.

Airport, transit and landing fees, along with charges and the costs that airlines must pay to ensure air traffic security, may continue to increase.

Airport, transit and landing fees and security charges represent a significant operating cost to the Issuer. There can be no assurance that such costs will not continue to increase or that the Issuer will not incur additional new costs in the UK or elsewhere. In addition, security charges and regulations at airports in the UK or elsewhere, particularly in the US, could increase further, specifically in the event of terrorist attacks. This could cause the Issuer's costs to increase and if the Issuer is not able to pass any increases in charges, fees or other costs on to its customers, these increases could have a material adverse effect on the Issuer's financial condition and results of operations.

The airline industry is particularly exposed to the effects of epidemics and natural disasters.

Epidemics, natural disasters and other similar events, whether on a regional or global scale, may result in substantial reductions in, and/or cancellations of, bookings and trips not only to the affected region but also more generally, thereby reducing overall demand for the Issuer's services. In extreme cases, travel restrictions may be imposed by one or more governments. Any of these events could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer faces risks from its strategic alliances and bilateral cooperation arrangements.

The Issuer is a founder member of the **oneworld** alliance airline network. No assurance can be given that the **oneworld** alliance will be able to successfully compete with other airline alliances in the future. Other alliances could achieve a stronger market position as a result of mergers. If this were to happen, the competitive advantage that the Issuer derives from its membership in the **oneworld** alliance could be reduced or eliminated completely. Moreover, no assurance can be given that the **oneworld** alliance will not lose member airlines, whether as a result of one or more member airlines terminating their membership or having their membership suspended, for example, due to being wound-up in the context of insolvency proceedings. Furthermore, no assurance can be given that the **oneworld** alliance will be able to attract the new members it may need to be successful in the future. If the **oneworld** alliance were to lose its appeal as a result of changes in its membership or if the **oneworld** alliance were to dissolve, this could negatively affect the range of flight routes, feeder and connecting flights that the Issuer is able to offer its customers and could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer also has a number of bilateral cooperation arrangements with Iberia, Qantas and American Airlines, among others, and franchising arrangements which, if they were to terminate, could negatively affect the range of flight routes and feeder and connecting flights that the Issuer is able to offer its customers and could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer is exposed to operational constraints at Heathrow airport and short term operational disruption.

Heathrow airport is the Issuer's most important traffic hub. Due to the traffic density at this airport, it has no spare runway capacity. As a result, the Issuer is vulnerable to short term operational disruption which, if persistent, could have a material adverse effect on its financial condition and results of operations.

The Issuer is exposed to the risk of losses from major safety or security incidents.

Failure to prevent or respond to a major safety or security incident could adversely impact the Issuer's reputation, operations and financial performance.

Moreover, aircraft crashes or similar disasters of another airline could impact passenger confidence and lead to a reduction in ticket sales for the Issuer, particularly if such aircraft crash or disaster were due to a safety fault in a type of aircraft used by the Issuer in its fleet. Furthermore, as aircraft crashes or similar disasters of a oneworld alliance member or of an aircraft of another airline on a codeshare flight might be associated with the Issuer in the public view, the Issuer might suffer from reputational damage even if none of the Issuer's aircraft are involved. Such losses and events could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer is exposed to the risk of a decrease in demand for transatlantic services.

Transatlantic services form an important part of the Issuer's revenue stream. If, for whatever reason, demand for such services were to decrease, this could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer faces risks from legal and arbitration proceedings.

There are ongoing investigations into the Issuer's passenger and cargo fuel surcharges by the European Commission and other jurisdictions which are likely to continue for some time. The Issuer is also subject to related class action claims. The final amount required to pay the remaining claims and fines is subject to uncertainty.

Claims from a group of claimants, who are attempting to create a class action, in relation to delayed baggage is being defended by the Issuer in conjunction with its insurers. The Issuer is in arbitration proceedings with its former franchise partner GB Airways Limited and is defending several employment cases including test cases in relation to holiday pay for pilots and for cabin crew. There are several other employment-related cases including a claim related to the retirement age applicable to international cabin crew.

No assurance can be given that any provisions made by the Issuer in relation to these ongoing investigations, legal and/or arbitration proceedings will be sufficient should any of the investigations or proceedings have a negative outcome. A negative outcome in any investigations, legal and/or arbitration proceedings could have a material adverse effect on the Issuer's financial condition and results of operations.

Risks relating to the Bonds

Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- (iii) understand thoroughly the terms of the Bonds and be familiar with the behaviour of financial markets in which they participate; and
- (iv) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Bonds may be redeemed prior to maturity.

The Terms and Conditions of the Bonds provide that the Bonds are redeemable at the Issuer's option in certain limited circumstances and accordingly the Issuer may choose to redeem the outstanding Bonds at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

Modification, waivers and substitution.

The Trust Deed contains provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds provide that the Trustee may, without the consent of Bondholders, (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Trust Deed or the Bonds; (ii) determine without the consent of the Bondholders that any Event of Default or Potential Event of Default shall not be treated as such; or (iii) agree to the substitution of certain other entities in place of the Issuer, in the circumstances described in Condition 13.

Risks attached to the exercise of Conversion Rights.

At any point when the Bonds are outstanding, depending on the performance of the Ordinary Shares, the value of the Ordinary Shares may be substantially lower than when the Bonds were initially purchased. In addition, because there will be a delay between when Conversion Rights are exercised and when Ordinary Shares are delivered, the value of the Ordinary Shares to be delivered may vary substantially between the date on which Conversion Rights are exercised and the date on which such Ordinary Shares are delivered.

Risks relating to Permitted Mergers.

A Bondholder may end up holding Bonds which are convertible into or exchangeable for ordinary shares in a holding company of which the Issuer and Iberia constitute (direct or indirect) subsidiary undertakings following a Permitted Merger, as more fully described below under "*Terms and Conditions of the Bonds*".

Risks relating to restrictions in the Issuer's articles of association.

The Issuer holds a number of authorities, permissions, licences and privileges which give it the right to operate air services (the "**Operating Rights**"). Some of these Operating Rights are conditional on the Issuer being owned or controlled, to varying degrees, by UK or EU Member State nationals. Therefore the Issuer's articles of association contain provisions which place certain limitations on ownership of the

Issuer's shares by granting the Directors various powers which ensure that the ownership of the Issuer satisfies the conditions attached to the Operating Rights. Amongst these powers, the Directors are able to, in certain circumstances, serve a notice upon the holders of the relevant shares which may place either prohibitions or additional obligations on those shareholders. For example, the affected shareholders may be prohibited from attending, voting at or speaking during any meeting of the Issuer, or they may be required to sell their shares within a specified period of time.

There is a limited period for the exercise of Conversion Rights.

A Bondholder will, subject as more fully described herein under "*Terms and Conditions of the Bonds*", have the right to convert his or her Bonds into Ordinary Shares. Conversion Rights may be exercised, subject as provided herein, at any time on or after 23 September 2009 up to (and including): (a) the close of business (at the place where such Bond is delivered for conversion) on the date falling seven calendar days prior to the Final Maturity Date; or (b) if the Bonds have been called for redemption by the Issuer before the Final Maturity Date, the close of business seven calendar days prior to the date fixed for redemption. If the Conversion Rights are not exercised by Bondholders during this period, the Bonds will be redeemed at their principal amount on the Final Maturity Date unless the Bonds are previously purchased and cancelled or redeemed in accordance with the Conditions.

Bondholders have limited anti-dilution protection.

The Conversion Price at which the Bonds may be converted into Ordinary Shares will be adjusted in the event that there is a consolidation, reclassification or subdivision of the Ordinary Shares, capitalisation of profits or reserves, payment or making of dividends, rights issue or grant of other subscription rights or other adjustment, including a spin-off event, which affects the Ordinary Shares, but only in the situations and only to the extent provided under "*Terms and Conditions of the Bonds – Conversion*". There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares. Events in respect of which no adjustment is made may adversely affect the value of the Ordinary Shares and, therefore, adversely affect the value of the Bonds.

Bondholders will bear the risk of fluctuation in the price of the Ordinary Shares.

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Ordinary Shares and it is impossible to predict whether the price of the Ordinary Shares will rise or fall. Trading prices of the Ordinary Shares will be influenced by, among other things, the financial position of the Issuer, its results of operations, its future prospects and political, economic, financial and other factors. Any decline in the market price of the Ordinary Shares may have an adverse effect on the market price of the Bonds.

The future issue of Ordinary Shares by the Issuer or the disposal of Ordinary Shares by any substantial shareholders of the Issuer or the perception that such issues or sales may occur may significantly affect the trading price of the Bonds and the Ordinary Shares. The Issuer has agreed to certain restrictions on its ability to issue or dispose of Ordinary Shares or related securities for 90 days after the date of the Subscription Agreement. Except for such restrictions and the undertakings of the Issuer described in Condition 10 (see "*Terms and Conditions of the Bonds - Undertakings*") there is no restriction on the Issuer's ability to issue Ordinary Shares, and there can be no assurance that the Issuer will not issue Ordinary Shares or that any substantial shareholder will not dispose of, encumber, or pledge its Ordinary Shares or related securities.

The Global Bond is held by or on behalf of Euroclear and Clearstream, Luxembourg.

The Bonds will be represented by the Global Bond. The Global Bond will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Bond, investors will not be entitled to receive Bonds in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Bond. While

the Bonds are represented by the Global Bond, investors will be able to trade their beneficial interests in the Global Bond only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bond.

No active trading market for the Bonds.

The Bonds are new securities which may not be widely distributed and for which there is currently no active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Group's financial position, results of operations and future prospects and the market price of the Ordinary Shares. Although applications have been made for the Bonds to be admitted to the Official List of the UKLA and to trading on the Professional Securities Market of the London Stock Exchange, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there can be no assurance as to the development or liquidity of any trading market for the Bonds.

EU Savings Directive.

Under EC Council Directive 2003/48/EC on the taxation of savings income (which has been implemented into UK law), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or similar income paid by a person within its jurisdiction to, or collected by a person for, an individual resident, or certain limited types of entity established, in that other Member State. However, for a transitional period, Austria, Belgium and Luxembourg are instead required to apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent., unless during such period they elect otherwise. 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 territories have agreed to adopt similar measures (either provision of information or transitional withholding).

On 24 April 2009, the European Parliament approved an amended version of certain changes proposed by the European Commission to these provisions which would, if implemented, cause them to apply in a wider range of circumstances.

No gross up for United Kingdom withholding tax.

Under the terms of the Trust Deed and the Terms and Conditions of the Bonds (see "*Terms and Conditions of the Bonds - Taxation*") the Issuer is not under any obligation to make any additional or further payment to any Bondholder or Couponholder in respect of any withholding or deduction for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein having power to tax.

Based upon the Issuer's understanding of UK tax law and HMRC practice as in effect on the date of the Offering Circular, the Bonds will constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007 so long as they are and continue to be listed on a recognised stock exchange within the meaning of Section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. On the basis of HMRC's published interpretation of the relevant legislation and the application of Section 1005(3) of the Income Tax Act 2007, securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of FSMA) by the UKLA and are admitted to trading on the London Stock Exchange. HMRC 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. Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Bonds may be made without withholding or deduction for or on account of UK income tax. See "*Taxation*" below for further details.

Minimum denominations of the Bonds.

The denomination of the Bonds is £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. Therefore, it is possible that the Bonds may be traded in amounts in excess of £100,000 that are not integral multiples of £100,000. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than £100,000 will not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one of the permitted denominations of the Bonds. If definitive Bonds are issued, holders should be aware that definitive Bonds which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to completion and amendment, is the text of the Terms and Conditions of the Bonds which will be incorporated by reference into the Global Bond and endorsed on the Bonds in definitive form (if issued).

The issue of the £350,000,000 5.80 per cent. Convertible Bonds due 2014 (the “**Bonds**”, which expression shall, unless otherwise indicated, include any Further Bonds) was (save in respect of any such Further Bonds) authorised by a resolution of the Board of Directors of British Airways Plc (the “**Issuer**”) passed on 13 July 2009, resolutions of a Committee of the Board of Directors of the Issuer passed on 16 July 2009, 17 July 2009 and 7 August 2009 and resolutions of the Shareholders (as defined in Condition 3) passed on 6 August 2009. The Bonds are constituted by a trust deed dated 13 August 2009 (the “**Trust Deed**”) between the Issuer and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. The statements set out in these Terms and Conditions (the “**Conditions**”) are summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the interest coupons relating to them (the “**Coupons**”). The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions applicable to them which are contained in the Paying and Conversion Agency Agreement dated 13 August 2009 (the “**Agency Agreement**”) relating to the Bonds between the Issuer, the Trustee, Citibank, N.A., London Branch (the “**Principal Paying and Conversion Agent**”, which expression shall include any successor as Principal Paying and Conversion Agent under the Agency Agreement) and the other Paying and Conversion Agents for the time being (such persons, together with the Principal Paying and Conversion Agent, being referred to below as the “**Paying and Conversion Agents**”, which expression shall include their successors as Paying and Conversion Agents under the Agency Agreement).

Copies of each of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee (being at the Closing Date at Fifth Floor, 100 Wood Street, London, EC2V 7EX), and at the specified offices of the Paying and Conversion Agents.

Capitalised terms used but not defined in these Conditions shall have the meanings provided in the Trust Deed unless, in any case, the context otherwise requires or unless otherwise stated.

1 **Form, Denomination, Title and Status of the Bonds**

(a) Form and Denomination

The Bonds are serially numbered and in bearer form in the denomination of £100,000 (and integral multiples of £1,000 in excess thereof up to and including £199,000) each with Coupons attached on issue.

(b) Title

Title to the Bonds and Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law or as ordered by a court of competent jurisdiction) 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 it, or its theft or loss) and no person will be liable for so treating the holder.

(c) *Status*

The Bonds and Coupons constitute direct, unconditional, senior, unsubordinated and (subject to Condition 2) unsecured obligations of the Issuer ranking *pari passu* and without any preference among themselves, and equally with all other existing and future unsecured and unsubordinated obligations of the Issuer, save for such exceptions as may be provided by applicable legislation and by provisions of law that are mandatory and of general application, and subject to Condition 2.

2 Negative Pledge

So long as any of the Bonds or Coupons remains outstanding (as defined in the Trust Deed) the Issuer will not, and will procure that no Material Subsidiary will, create or have outstanding any mortgage, charge, pledge, lien (other than arising by operation of law) or other security interest (“**Relevant Security**”) on the whole or any part of its assets, revenues or uncalled capital, present or future, to secure any present or future Relevant Indebtedness of the Issuer or to secure any guarantee or indemnity by the Issuer in respect of any Relevant Indebtedness or to secure any present or future Relevant Indebtedness of a third party unless simultaneously with, or prior to, the creation of such Relevant Security there shall be taken any and all action necessary to procure that such Relevant Security is extended equally and rateably to all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed to the satisfaction of the Trustee or that such other security and/or guarantee is provided as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or as shall be approved by Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

For the purposes of this Condition 2, “**Relevant Indebtedness**” means any indebtedness for borrowed money which is in the form of or represented by any bonds, notes, loan stock or other securities which are intended by the Issuer to be, or are with the consent of the Issuer, quoted or listed on or dealt in or traded on any recognised stock exchange or other centrally organised or regulated securities market.

3 Definitions

In these Conditions, unless otherwise provided:

“**Additional Ordinary Shares**” has the meaning provided in Condition 5(c).

“**Air Services Agreement**” means an agreement pursuant to which a state grants authority, permission, licence or privilege to an airline operator to operate an air service.

“**Bondholder**” and “**holder**” mean the holder of any Bond.

“**business day**” means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place.

a “**Change of Control**” shall occur if an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror(s) and/or any associate (as defined in section 988(1) of the Companies Act) of the offeror(s)), to acquire all or a majority of the issued ordinary share capital of the Issuer or if any person proposes a scheme of arrangement or analogous proceeding with regard to such acquisition (other than an Exempt Newco Scheme) and (such offer or scheme of arrangement or analogous proceeding having become or been declared unconditional in all respects or having become effective) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer has or will become unconditionally vested in the offeror(s) and/or any associate (as defined in section 988(1) of the Companies Act) of the offeror(s), provided that a Permitted Merger shall not constitute a Change of Control.

“**Change of Control Notice**” has the meaning provided in Condition 5(f).

“Change of Control Period” means the period commencing on the occurrence of a Change of Control and ending 60 calendar days following the Change of Control or, if later, 60 calendar days following the date on which a Change of Control Notice is given to Bondholders as required by Condition 5(l).

“Change of Control Put Date” has the meaning provided in Condition 6(d).

“Change of Control Put Exercise Notice” has the meaning provided in Condition 6(d).

“Closing Date” means 13 August 2009.

“Companies Act” means the Companies Act 2006 of the United Kingdom.

“Consolidated Entity” means, in relation to the Issuer, any company or entity which is required by applicable law, regulation or accounting principles to be included in the consolidated accounts of the Issuer.

“Conversion Date” has the meaning provided in Condition 5(g).

“Conversion Notice” has the meaning provided in Condition 5(g).

“Conversion Period” has the meaning provided in Condition 5(a).

“Conversion Price” has the meaning provided in Condition 5(a).

“Conversion Right” has the meaning provided in Condition 5(a).

“Couponholder” means the holder of any Coupon.

“Current Market Price” means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

- (a) if the Ordinary Shares to be issued and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement, (excluding any associated tax credit and excluding the tax (if any) falling to be withheld or deducted on payment thereof to a resident of the United Kingdom); or
- (b) if the Ordinary Shares to be issued and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement, (excluding any associated tax credit and excluding the tax (if any) falling to be withheld or deducted on payment thereof to a resident of the United Kingdom),

and provided further that if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced

by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement, in any such case, (excluding any associated tax credit and excluding the tax (if any) falling to be withheld or deducted on payment thereof to a resident of the United Kingdom),

and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five dealing days (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined in good faith by an Independent Financial Adviser.

“dealing day” means a day on which the Relevant Stock Exchange or relevant market is open for business and on which Ordinary Shares, Securities or Spin-Off Securities (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant market is scheduled to or does close prior to its regular weekday closing time).

“Dividend” means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), provided that:

(a) where:

- (1) a cash Dividend is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a cash Dividend of an amount equal to the greater of (i) the Fair Market Value of such cash amount and (ii) the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares (or amount of such other property or assets, as the case may be) which may be issued or delivered is determined; or
- (2) there shall be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares to be issued and delivered is determined;

(b) any issue of Ordinary Shares falling within Condition 5(b)(ii) below shall be disregarded;

- (c) a purchase or redemption or buy back of share capital of the Issuer by or on behalf of the Issuer or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of the Issuer or any member of the Group, the weighted average price per Ordinary Share (before expenses) on any one day (a “**Specified Share Day**”) in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the closing prices of the Ordinary Shares on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange) on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by the Issuer or, as the case may be, any member of the Group (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the average closing price of the Ordinary Shares determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;
- (d) if the Issuer or any member of the Group shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser; and
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Issuer for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from another person or person other than (or in addition to) the Issuer, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Issuer, and the foregoing provisions of this definition, and the provisions of these Conditions shall be construed accordingly.

“**Exempt Newco Scheme**” means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are (1) admitted to trading on the Relevant Stock Exchange or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange or securities market as the Issuer or Newco may determine.

“**Extraordinary Resolution**” has the meaning provided in the Trust Deed.

“**Fair Market Value**” means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided that (i) the Fair Market Value of a cash Dividend shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined in good faith by an Independent Financial Adviser), the Fair Market Value (a) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (b) of such options, warrants or other rights shall equal the

arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by an Independent Financial Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i) above, be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the cash Dividend in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit.

“Final Maturity Date” means 13 August 2014.

“Further Bonds” means any further Bonds issued pursuant to Condition 17 and consolidated and forming a single series with the then outstanding Bonds.

“Group” means the Issuer and the Issuer’s Subsidiaries taken as a whole.

“Holdco” has the meaning provided in the definition of Permitted Merger.

“Iberia” means Iberia Lineas Aereas de España, S.A.

“Independent Financial Adviser” means an independent financial institution of international repute appointed by the Issuer at its own expense and approved in writing by the Trustee or, if the Issuer fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser and otherwise in connection with such appointment, appointed by the Trustee (without liability for so doing) following notification to the Issuer.

“Interest Payment Date” has the meaning provided in Condition 4(a).

“London Stock Exchange” means the London Stock Exchange plc.

“Material Subsidiary” means, at any relevant time, a Consolidated Entity:

- (a) whose total assets (or, where the Consolidated Entity in question prepares consolidated accounts, whose total consolidated assets) attributable to the Issuer represent not less than 20 per cent. of the total consolidated assets of the Issuer, all as calculated by reference to the then latest audited accounts (or consolidated accounts, as the case may be) of such Consolidated Entity and the then latest audited consolidated accounts of the Issuer; or
- (b) to which is transferred all or substantially all of the assets and undertakings of a Consolidated Entity which immediately prior to such transfer is a Material Subsidiary.

“Nationality Declaration” has the meaning provided in Condition 5(g).

“Nationality Holder” means (in that capacity) a holder of a Nationality Share or a person who otherwise holds any share with a *de minimis* entitlement to receive dividends or capital in a company principally for the purpose of ensuring that as long as and to the extent that the holding or enjoyment by that company

or any subsidiary of that company of any Operating Right is conditional on the company being to any degree owned or controlled by nationals of any country or state or group of countries or states, the company is so owned or controlled.

“Nationality Share” means with respect to a company, any share of that company with a *de minimis* entitlement to receive dividends or capital and which was issued principally for the purpose of ensuring that as long as and to the extent that the holding or enjoyment by that company or any subsidiary of that company of any Operating Right is conditional on the company being to any degree owned or controlled by nationals of any country or state or group of countries or states, the company is so owned or controlled.

“Newco Scheme” means a scheme of arrangement or analogous proceeding (**“Scheme of Arrangement”**) which:

- (i) effects the interposition of a limited liability company (**“Newco”**) between the Shareholders of the Issuer immediately prior to the Scheme of Arrangement (the **“Existing Shareholders”**) and the Issuer; and
- (ii) in respect of which the Issuer agrees, with effect immediately after the implementation of such Newco Scheme, (a) at the Issuer’s option, either to the substitution of Newco in place of the Issuer as principal obligor (with a guarantee from the Issuer) or to the provision of a guarantee from Newco and (b) to make such amendments to the Conditions and the Trust Deed as are necessary, in the opinion of the Trustee, to ensure that (i) the Bonds may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts representing such ordinary shares) *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed and (ii) the Trust Deed and the Conditions (including, without limitation, the adjustment and related provisions (in Condition 5), the Events of Default (in Condition 9) and the Undertakings (in Condition 10)) provide at least the same protections and benefits to the Trustee and the Bondholders following the implementation of such Newco Scheme as they provided to the Trustee and the Bondholders prior to the implementation of the Newco Scheme, *mutatis mutandis*, all subject to and in accordance with Condition 10(a)(ix) below,

provided that:

- (A) other than the Nationality Share(s), only ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are issued to Existing Shareholders;
- (B) immediately after completion of the Scheme of Arrangement the only shareholders of ordinary shares of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares of Newco, are Existing Shareholders;
- (C) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only ordinary shareholder (or shareholders) of the Issuer, other than a Nationality Holder;
- (D) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and
- (E) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement;

and, for the avoidance of doubt, to the extent that as part of a Newco Scheme (or at substantially the same time as, and in connection with, a Newco Scheme) Nationality Share(s) in the Issuer or Newco are

issued and/or transferred to a Nationality Holder(s), that shall not prevent that Scheme of Arrangement being a Newco Scheme and the Nationality Share(s) (and any other shares) held by the Nationality Holder(s) shall be ignored in applying paragraphs (A) to (E) above.

“**New Conversion Price**” means, in connection with a Permitted Merger, the price determined in accordance with the following formula:

$$\text{NCP} = \frac{\text{OCP}}{\text{R}}$$

where:

NCP means the New Conversion Price;

OCP means the Conversion Price in effect immediately prior to completion of the Permitted Merger; and

R is the ratio of (a) the number of ordinary shares of Holdco offered or issued in respect of the Ordinary Shares pursuant to the Permitted Merger to (b) the number of such Ordinary Shares, expressed as a fraction, with the numerator being the relevant number of ordinary shares of Holdco and the denominator being the relevant number of Ordinary Shares.

“**Operating Right**” means all or any part of any authority, permission, licence or privilege, whether granted or enjoyed pursuant to an Air Services Agreement or otherwise, which enables an air service to be operated.

“**Optional Redemption Date**” has the meaning provided in Condition 6(b).

“**Optional Redemption Notice**” has the meaning provided in Condition 6(b).

“**Ordinary Shares**” means ordinary shares in the capital of the Issuer currently with a par value of 25 pence each.

“**Permitted Merger**” means any transaction or arrangement, whether involving or effected by way of an offer to shareholders or through a scheme or other arrangement, pursuant to which (a) a limited liability company (“**Holdco**”) is established and following such transaction or arrangement the Issuer and Iberia constitute (direct or indirect) subsidiary undertakings of Holdco and/or Holdco would, if it were required to produce group consolidated accounts immediately thereafter, include the results of the Issuer and Iberia in such group consolidated accounts, provided that all of the Permitted Merger Conditions are satisfied or (b) Iberia issues its ordinary shares in consideration for or in connection with the transfer, delivery or issue to it of Ordinary Shares (or shares in a company of which the Issuer is an Applicable Subsidiary) and the Issuer becomes a (direct or indirect) subsidiary undertaking of Iberia and/or Iberia would, if it were required to produce group consolidated accounts immediately thereafter, include the results of the Issuer and Iberia in such group consolidated accounts, provided that the conditions set out in paragraphs (ii), (v), (vi) and (vii) of the definition of Permitted Merger Conditions are satisfied. In this definition, the Issuer will constitute an “**Applicable Subsidiary**” of a company if the Issuer is a (direct or indirect) subsidiary undertaking of that company and/or that company would, if it had no holding company and were required to produce group consolidated accounts at the relevant time, include the results of the Issuer in such group consolidated accounts.

The “**Permitted Merger Conditions**” are as follows:

- (i) upon completion of the Permitted Merger the only shareholders of Holdco are either (a) persons or entities who immediately prior to completion of the Permitted Merger were holders of shares in the Issuer or Iberia or (b) Nationality Holder(s) or (c) initial subscribers of Holdco whose aggregate shareholding in Holdco is *de minimis* (and, for the avoidance of doubt, if the completion of the

Permitted Merger involves a number of steps, immediately prior to completion shall be construed as meaning immediately prior to the step at which the relevant holder ceased to be a holder of shares in the Issuer or Iberia, as applicable);

- (ii) in connection with or pursuant to the Permitted Merger, there is no disposal or transfer of assets and no transfer or assumption of liabilities by the Issuer or any of its subsidiary undertakings, nor any payment of cash (whether by way of dividends or otherwise) or distribution of other assets by the Issuer or any of its subsidiary undertakings to all or any holders of Ordinary Shares or holders of ordinary shares of Holdco, nor any disposal or transfer of assets or any payment of cash by Iberia to the shareholders of the Issuer nor any payment of cash by Holdco to holders of Ordinary Shares or holders of ordinary shares of Iberia, save for (i) any such disposal, transfer, assumption, payment or distribution which either gives rise to an adjustment to the Conversion Price or in respect of which such undertakings are given, or adjustments to the New Conversion Price are made, as, in each such case, an Independent Financial Adviser may determine in good faith are required in order to protect the interests of the Bondholders or (ii) any such disposal, transfer, assumption, payment or distribution in respect of which an Independent Financial Adviser determines in good faith no adjustment to the Conversion Price or New Conversion Price is required nor undertakings are required to be given in order to protect the interests of Bondholders;
- (iii) Holdco is incorporated under the laws of England and Wales or the Kingdom of Spain, or in a member state of the European Union or as a European Company;
- (iv) the ordinary shares of Holdco are admitted to listing and trading on an EEA Regulated Market in the United Kingdom, the Kingdom of Spain, France, the Netherlands or Germany or on a stock exchange in the European Union which is a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007;
- (v) such amendments are made to these Conditions and the Trust Deed to ensure, to the reasonable satisfaction of the Trustee, that upon completion of the Permitted Merger the Bonds may be converted into or exchanged for ordinary shares in Holdco, *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed at an initial Conversion Price equal to the New Conversion Price; the New Conversion Price shall be subject to adjustment in the circumstances provided in these Conditions (with such modifications and amendments as the Trustee shall determine to be appropriate) and the Issuer shall give notice to the Bondholders of all such amendments pursuant to Condition 16;
- (vi) all necessary action shall be taken to ensure that, to the reasonable satisfaction of the Trustee, upon completion of the Permitted Merger, either Holdco shall have provided an unsecured, unsubordinated and unconditional guarantee (ranking at least *pari passu* with all its other present and future unsecured and unsubordinated obligations, subject to mandatory provisions of law applicable on a winding up or other dissolution) in respect of the Issuer's obligations under the Bonds and the Trust Deed or Holdco is substituted under the Bonds and the Trust Deed as principal obligor in place of the Issuer (with the Issuer providing an unsecured, unsubordinated and unconditional guarantee as aforesaid) as contemplated in Condition 10(a)(ix); and
- (vii) Holdco and the Issuer shall have entered into a deed supplemental to the Trust Deed for the purposes referred to in paragraphs (v) and (vi) and shall provide such undertakings, covenants and indemnities as the Trustee may in good faith require in order to protect the existing interests of the Bondholders,

provided that (01) the Trustee's determination referred to in paragraph (v) shall be made in order to protect the existing interests of the Bondholders, (02) in the case of a Permitted Merger of the type described in paragraph (b) of the definition of Permitted Merger, the references to Holdco in paragraphs (v), (vi), (vii), the definition of "New Conversion Price" and in Condition 10(a)(ix) shall be construed to mean Iberia and (03) references in paragraphs (v) and (vi) to the reasonable satisfaction of the Trustee

shall be construed as meaning reasonable having regard to, and taking into account the interests of, the Bondholders and in compliance with the Trustee's fiduciary duties.

a **"person"** includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, unincorporated association, limited liability company, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity).

"Presentation Date" means a day which:

- (i) is or falls after the relevant due date for payment, but, if the due date for payment is not or was not a business day in London, is or falls after the next following such business day; and
- (ii) is a business day in the place of a specified office of the Paying and Conversion Agent at which the relevant Bond or Coupon is presented for payment.

"Prevailing Rate" means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined, or if such rate cannot be so determined by reference to the Relevant Page, the rate determined in such other manner as an Independent Financial Adviser shall prescribe.

"Reference Date" means, in relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, in any such case, if that is not a dealing day, the next following dealing day.

"Relevant Currency" means sterling or, if at the relevant time or for the purposes of the relevant calculation or determination, the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at such time.

"Relevant Date" means, in respect of any Bond or Coupon, whichever is the later of:

- (i) the date on which payment in respect of it first becomes due; and
- (ii) if the full amount payable has not been received by the Principal Paying and Conversion Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders.

"Relevant Indebtedness" has the meaning provided in Condition 2.

"Relevant Page" means the relevant page on Bloomberg or such other information service provider that displays the relevant information.

"Relevant Security" has the meaning provided in Condition 2.

"Relevant Stock Exchange" means the London Stock Exchange or if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or accepted for dealing.

"Retroactive Adjustment" has the meaning provided in Condition 5(c).

"Scheme of Arrangement" has the meaning provided in the definition of "Newco Scheme".

"Securities" means any securities including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer.

"Shareholders" means the holders of Ordinary Shares.

“**Specified Date**” has the meaning provided in Condition 5(b) (vii) and (viii).

“**Spin-Off**” means:

- (a) a distribution of Spin-Off Securities by the Issuer to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or Securities of or in or issued or allotted by any entity) by any entity (other than the Issuer) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders, as a class (but excluding the issue and allotment of ordinary shares (or depositary or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders), pursuant in each case to any arrangements with the Issuer or any member of the Group involving a transfer of assets to such entity or other person.

“**Spin-Off Securities**” means equity share capital of an entity other than the Issuer or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Issuer.

“**Subsidiary**” has the meaning provided in section 1159 of the Companies Act.

“**UK Listing Authority**” means the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000.

“**Volume Weighted Average Price**” means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page VAP or (in the case of a Security (other than Ordinary Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined, or as an Independent Financial Adviser might otherwise determine in good faith to be appropriate.

“**£**” and “**sterling**” means the lawful currency for the time being of the United Kingdom.

References to “**ordinary share capital**” has the meaning provided in section 832 of the Income and Corporation Taxes Act 1988 of the United Kingdom and “**equity share capital**” has the meaning provided in section 548 of the Companies Act.

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders “**as a class**” or “**by way of rights**” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Condition 5 (b) and Condition 10 only, (a) references to the “**issue**” of Ordinary Shares or Ordinary Shares being “**issued**” shall include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any member of the Group, and (b) Ordinary Shares held by or on behalf of the Issuer or any member of the Group (and which, in the case of Conditions 5(b)(iv) and 5(b)(vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as “**in issue**” or “**issued**” or entitled to receive any Dividend, right or other entitlement.

References in these Conditions to listing on the London Stock Exchange (or like or similar references) shall be construed as admission to the Official List of the UK Listing Authority and admission to trading on the EEA Regulated Market of the London Stock Exchange and references to “**EEA Regulated Market**” means a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

4 Interest

(a) *Interest Rate*

The Bonds bear interest from (and including) the Closing Date at the rate of 5.80 per cent. per annum calculated by reference to the principal amount thereof and payable semi-annually in arrear in equal instalments on 13 February and 13 August in each year (each an “**Interest Payment Date**”), commencing with the Interest Payment Date falling on 13 February 2010.

The amount of interest payable in respect of a Bond in respect of any period which is shorter than an Interest Period shall be calculated on the basis of the number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the product of the number of days from (and including) the immediately preceding Interest Payment Date (or, if none, the Closing Date) to (but excluding) the next Interest Payment Date and the number of Interest Periods normally ending in any year.

“**Interest Period**” means the period beginning on (and including) the Closing 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.

(b) *Accrual of Interest*

Each Bond will cease to bear interest (i) where the Conversion Right shall have been exercised by a Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Closing Date (subject in any such case as provided in Condition 5(i)) or (ii) where such Bond is redeemed or repaid pursuant to Condition 6 or Condition 9, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of the principal in respect of the Bond is improperly withheld or refused, in which event interest will continue to accrue at the rate specified in Condition 4(a) (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying and Conversion Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

5 Conversion of Bonds

(a) Conversion Right

Subject to and as provided in these Conditions, each Bond shall entitle the holder to convert such Bond into new Ordinary Shares, as determined by the Issuer, credited as fully-paid (a “**Conversion Right**”).

The number of Ordinary Shares to be issued on exercise of a Conversion Right shall be determined by dividing the principal amount of the Bonds to be converted by the conversion price (the “**Conversion Price**”) in effect on the relevant Conversion Date.

The initial Conversion Price is £1.89 per Ordinary Share. The Conversion Price is subject to adjustment in the circumstances described in Condition 5(b).

A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond, together with a Conversion Notice and a Nationality Declaration, to the specified office of any Paying and Conversion Agent in accordance with Condition 5(g) and making any payment required to be made as provided in Condition 5(g), whereupon the Issuer shall procure the delivery to or as directed by the relevant Bondholder of Ordinary Shares credited as paid-up in full as provided in this Condition 5.

Subject to and as provided in these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time subject to any applicable fiscal or other laws or regulations and as hereinafter provided) from 23 September 2009 to the close of business (at the place where the relevant Bond is delivered for conversion) on the date falling 7 calendar days prior to the Final Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 6(b) prior to the Final Maturity Date, then up to (and including) the close of business (at the place aforesaid) on the 7th calendar day before the date fixed for redemption thereof pursuant to Condition 6(b), unless there shall be a default in making payment in respect of such Bond on such date fixed for redemption, in which event the Conversion Right shall extend up to (and including) the close of business (at the place aforesaid) on the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given in accordance with Condition 16 or, if earlier, the Final Maturity Date or, if the Final Maturity Date is not a London business day, the immediately preceding London business day; provided that, in each case, if such final date for the exercise of Conversion Rights is not a business day at the place aforesaid, then the period for exercise of Conversion Rights by Bondholders shall end on the immediately preceding business day at the place aforesaid.

Conversion Rights may not be exercised (i) following the giving of notice by the Trustee pursuant to Condition 9 or (ii) in respect of a Bond in respect of which the relevant Bondholder has exercised its right to require the Issuer to redeem that Bond pursuant to Condition 6(d).

The period during which Conversion Rights may (subject as provided below) be exercised by a Bondholder is referred to as the “**Conversion Period**”.

Conversion Rights may only be exercised in respect of the whole of the principal amount of a Bond.

Fractions of Ordinary Shares will not be issued on the exercise of Conversion Rights or pursuant to Condition 5(c) and no cash payment or other adjustment will be made in lieu thereof. However, if a Conversion Right in respect of more than one Bond is exercised at any one time such that Ordinary Shares to be issued on the exercise of Conversion Rights or pursuant to Condition 5(c) are to be registered in the same name, the number of Ordinary Shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds, and rounded down to the nearest whole number of Ordinary Shares. The Issuer will procure that

Ordinary Shares to be issued on exercise of Conversion Rights will be issued to the relevant person specified in the relevant Conversion Notice. Such Ordinary Shares will be deemed to be issued on or as of the relevant Conversion Date. Any Additional Ordinary Shares to be issued pursuant to Condition 5(c) will be deemed to be issued on or as of the relevant Reference Date.

(b) *Adjustment of Conversion Price*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification or subdivision in relation to the Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and
- B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares or (3) where any such Ordinary Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such issue; and
- B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

- (iii) If and whenever the Issuer shall pay or make any Dividend to Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

A

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein.

For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of "Dividend" and in the definition of "Fair Market Value") be determined as at the Effective Date.

"Effective Date" means, in respect of this paragraph (b)(iii), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares, the date on which such purchase, redemption or buy back is made or, in the case of a Spin-Off, on the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

- (iv) If and whenever the Issuer shall issue Ordinary Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue on the Effective Date;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares

deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and

- C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (b)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- (v) If and whenever the Issuer shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and
B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (b)(v), the first date on which the Ordinary Shares are traded ex- the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange

- (vi) If and whenever the Issuer shall issue (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) or issue or grant (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Bonds, which term shall for this purpose include any Further Bonds), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the issue or grant of such options, warrants or rights and for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

- (vii) If and whenever the Issuer or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Issuer or any member of the Group) any other company, person or entity (otherwise than as mentioned in paragraphs (b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Bonds, which term for this purpose shall exclude any Further Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued, purchased or acquired by the Issuer or any member of the Group (or at the direction or request or pursuant to any arrangements with the Issuer or any member of the Group) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Securities (or, as the case may be, the grant of any such rights) and for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would

purchase at such Current Market Price per Ordinary Share; and

C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation,

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this paragraph (b)(vii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided), then for the purposes of this paragraph (b)(vii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

(viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Bonds, which term shall for this purpose include any Further Bonds) as are mentioned in sub-paragraph (b)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by the Issuer or any member of the Group (or at the direction or request or pursuant to any arrangements with the Issuer or any member of the Group) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Securities (or, as the case may be, the grant of any such rights) and for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of

subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and

C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities, as so modified, or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser shall consider appropriate for any previous adjustment under this sub-paragraph (b)(viii) or sub-paragraph (b)(vii) above;

provided that if at the time of such modification (as used in this paragraph (b)(viii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided), then for the purposes of this paragraph (b)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

(ix) If and whenever the Issuer or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Issuer or any member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under paragraphs (b)(ii), (b)(iii), (b)(iv), (b)(vi) or (b)(vii) above or (b)(x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day) or under paragraph (b)(v) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(ix), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

(x) If a Change of Control shall occur, then upon any exercise of Conversion Rights where the Conversion Date falls during the Change of Control Period, the Conversion Price

shall be as set out below, but in each case adjusted, if appropriate, under the foregoing provisions of this Condition 5(b):

Conversion Date	Conversion Price (£)
On or before 13 August 2010.....	1.373396
Thereafter, but on or before 13 August 2011	1.476717
Thereafter, but on or before 13 August 2012.....	1.580038
Thereafter, but on or before 13 August 2013.....	1.683358
Thereafter, and until the Final Maturity Date.....	1.786679

- (xi) If the Issuer (after consultation with the Trustee) determines in its absolute discretion that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this paragraph (b) (even if the relevant circumstance is specifically excluded from the operation of paragraphs (b)(i) to (x) above), the Issuer may, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment (if any) should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph (b)(xi) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

Notwithstanding the foregoing provisions:

- (a) where the events or circumstances giving rise to any adjustment pursuant to this paragraph (b) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result;
- (b) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once;
- (c) in circumstances where an adjustment would fall to be made pursuant to paragraph (b)(viii) where the initial issue of the relevant Securities or grant of rights in respect of existing Securities shall have given rise to an adjustment to the Conversion Price pursuant to paragraph (b)(vii) or where there has previously been an adjustment to the Conversion Price pursuant to paragraph (b)(viii) in respect of the relevant Securities, such modification shall be made to the operation of paragraph (b)(viii) for such purposes as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and

- (d) for the purposes of paragraphs (b)(v) and (ix), there shall be taken into account in determining the Fair Market Value of the portion of the rights attributable to one Ordinary Share or, as the case may be, the Fair Market Value of the portion of the relevant offer attributable to one Ordinary Share, any consideration paid or payable for the relevant Securities, option, warrants or other rights and for the Securities to be issued or otherwise made available upon the exercise of any such option, warrants or other rights.

For the purpose of any calculation of the consideration receivable or price pursuant to paragraphs (b)(iv), (b)(vi), (b)(vii) and (b)(viii), the following provisions shall apply:

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant date of first public announcement as referred to in paragraphs (b)(vi), (b)(vii) or (b)(viii), as the case may be, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (a) above) or the relevant date of first public announcement (in the case of (b) above);
- (d) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- (e) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity.

(c) *Retroactive Adjustments*

If the Conversion Date in relation to the conversion of any Bond shall be after the record date in respect of any reclassification or sub-division as is mentioned in paragraph (b)(i) above, or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in paragraph (b)(ii), (b)(iii) (b)(iv), (b)(v) or (b)(ix) above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in paragraph (b)(vi) and (b)(vii) above or of the terms of any such modification as is mentioned in paragraph (b)(viii) above, but before the relevant adjustment to the Conversion Price becomes effective under paragraph (b) above (such adjustment, a “**Retroactive Adjustment**”), then the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued to the converting Bondholder, in accordance with the instructions contained in the relevant Conversion Notice, such additional number of Ordinary Shares (if any) (the “**Additional Ordinary Shares**”) as, together with the Ordinary Shares issued on conversion of the relevant Bonds (together with any fraction of an Ordinary Share not so issued), is equal to the number of Ordinary Shares which would have been required to be issued on such conversion if the relevant adjustment to the Conversion Price had been made and become effective immediately prior to the relevant Conversion Date.

(d) *Decision of an Independent Financial Adviser*

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Issuer and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

(e) *Share or Option Schemes, Dividend Reinvestment Plans*

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any member of the Group or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme.

(f) *Rounding Down and Notice of Adjustment to the Conversion Price*

On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.01, shall be rounded down to the nearest whole multiple of £0.01. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Issuer to Bondholders in accordance with Condition 16 and to the Trustee promptly after the determination thereof.

The Conversion Price shall not in any event be reduced to below the nominal value of the Ordinary Shares. The Issuer undertakes that it shall not take any action, and shall procure that no

action is taken, that would otherwise result in an adjustment to the Conversion Price to below such nominal value or any minimum level permitted by applicable laws or regulations.

(g) *Procedure for exercise of Conversion Rights*

Conversion Rights may be exercised by a Bondholder during the Conversion Period by delivering the relevant Bond to the specified office of any Paying and Conversion Agent, during its usual business hours, accompanied by a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from any Paying and Conversion Agent. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying and Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If the delivery of the relevant Bond and Conversion Notice as described in the foregoing paragraph is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Paying and Conversion Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

Each Bond should be delivered upon exercise of Conversion Rights together with all Coupons relating to it which mature on or after the relevant Conversion Date, failing which the relevant holder will be required to pay the full amount of any such missing Coupon. Each amount so paid will be repaid in the manner specified in Condition 7 against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant missing Coupon at any time after the relevant Conversion Date and before the expiry of ten years after the Relevant Date in respect of the relevant Bond (whether or not any such Coupon would otherwise have become void pursuant to Condition 11), but not thereafter.

Each Bondholder exercising Conversion Rights will be required in the Conversion Notice to give a declaration (a “**Nationality Declaration**”) in the form prescribed from time to time by the Issuer together with such other information (if any) as the Issuer may require to prove the title of the person exercising the Conversion Right or as to the matters referred to in the Nationality Declaration.

Any determination as to whether any Conversion Notice has been duly completed and properly delivered shall be made by the relevant Paying and Conversion Agent and shall, save in the case of manifest error, be conclusive and binding on the Issuer, the Trustee and the Paying and Conversion Agents and the relevant Bondholder.

A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be the business day in London immediately following the date of the delivery of the relevant Bond and the Conversion Notice as provided in this Condition 5(g) and payment of any other amount payable by the relevant Bondholder pursuant to the third paragraph of this Condition 5(g).

A Bondholder exercising Conversion Rights must pay directly to the relevant authorities any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on conversion (other than any capital, stamp, issue, registration and transfer taxes and duties payable in the United Kingdom in respect of the allotment or issue of any Ordinary Shares in respect of such exercise (including any Additional Ordinary Shares), which shall be paid by the Issuer). If the Issuer shall fail to pay any capital, stamp, issue, registration and transfer taxes and duties payable for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer, as a separate and independent stipulation, covenants to reimburse and indemnify each Bondholder in respect of any payment thereof and any penalties payable in respect thereof.

The Trustee shall not be responsible for determining whether such taxes or capital, stamp, issue, registration and transfer taxes and duties are payable or the amount thereof and shall not be responsible or liable for any failure by the Issuer or any Bondholder to pay such capital, stamp, issue, registration and transfer taxes and duties.

Such Bondholder must also pay all, if any, taxes imposed on it and arising by reference to any disposal or deemed disposal of a Bond or any interest therein in connection with the exercise of Conversion Rights by it.

The Ordinary Shares to be issued on exercise of Conversion Rights (including any Additional Ordinary Shares) will not be available for issue (i) to, or to a nominee for, Euroclear Bank S.A./N.V. or Clearstream Banking, *société anonyme* or any other person providing a clearance service within the meaning of section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the “**abolition day**” as defined in section 111(1) of the Finance Act 1990 of the United Kingdom.

Ordinary Shares to be issued on exercise of Conversion Rights (including any Additional Ordinary Shares) will be issued in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST. Where Ordinary Shares are to be issued through CREST, they will be issued to the account specified by the relevant Bondholder in the relevant Conversion Notice by not later than seven London business days following the relevant Conversion Date (or, in the case of any Additional Ordinary Shares, not later than seven London business days following the Reference Date). Where Ordinary Shares are to be issued in certificated form, a certificate in respect thereof will be dispatched by mail free of charge (but uninsured and at the risk of the recipient) to the relevant Bondholder or as it may direct in the relevant Conversion Notice within 28 days following the relevant Conversion Date or, as the case may be, the Reference Date.

(h) *Ordinary Shares*

- (i) Ordinary Shares (including any Additional Ordinary Shares) issued upon exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Conversion Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the relevant Conversion Date or, as the case may be, the relevant Reference Date.
- (ii) Save as provided in Condition 5(i), no payment or adjustment shall be made on exercise of Conversion Rights for any interest which otherwise would have accrued on the relevant Bonds since the last Interest Payment Date preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Closing Date).

(i) *Interest on Conversion*

If any notice requiring the redemption of the Bonds is given pursuant to Condition 6(b) on or after the fifteenth London business day prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Closing Date) in respect of any

Dividend or distribution payable in respect of the Ordinary Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall accrue at the rate provided in Condition 4(a) on Bonds in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date in respect of such Dividend or distribution, in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from the Closing Date) to but excluding such Conversion Date. The Issuer shall pay any such interest by not later than 14 days after the relevant Conversion Date by transfer to a sterling account with a bank in London in accordance with instructions given by the relevant Bondholder in the relevant Conversion Notice.

(j) *Purchase or Redemption of Ordinary Shares*

The Issuer or any member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Issuer (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Trustee or the Bondholders.

(k) *No Duty to Monitor*

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or as to the amount of any adjustment actually made, and will not be responsible or liable to the Bondholders for any loss arising from any failure by it to do so.

(l) *Change of Control*

Within 14 calendar days following the occurrence of a Change of Control, the Issuer shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 16 (a "**Change of Control Notice**"). The Change of Control Notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 6(d).

The Change of Control Notice shall also specify:

- (i) all information material to Bondholders concerning the Change of Control;
- (ii) the Conversion Price immediately prior to the occurrence of the Change of Control and the Conversion Price applicable pursuant to Condition 5(b)(x) during the Change of Control Period on the basis of the Conversion Price in effect immediately prior to the occurrence of the Change of Control;
- (iii) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of the Change of Control Notice;
- (iv) the last day of the Change of Control Period;
- (v) the Change of Control Put Date; and
- (vi) such other information relating to the Change of Control as the Trustee may require.

The Trustee shall not be required to take any steps to monitor or ascertain whether a Change of Control or any event which could lead to a Change of Control has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

6 Redemption and Purchase

(a) *Final Redemption*

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Bonds will be redeemed at their principal amount on the Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Condition 6(b).

(b) *Redemption at the Option of the Issuer*

On giving not less than 45 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and to the Bondholders in accordance with Condition 16, the Issuer may redeem all but not some only of the Bonds on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at their principal amount, together with accrued but unpaid interest to such date:

- (i) at any time on or after 27 August 2012, if the Volume Weighted Average Price of an Ordinary Share on each of at least 20 dealing days in any period of 30 consecutive dealing days ending not earlier than 14 dealing days prior to the giving of the relevant Optional Redemption Notice, shall have been at least 150 per cent. of the Conversion Price in effect on each such dealing day; or
- (ii) at any time if prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any Further Bonds).

For the purposes of Condition 6(b)(i), if on any dealing day in such 30 dealing day period the Volume Weighted Average Price of an Ordinary Share on such dealing day shall have been quoted cum-Dividend (or cum-any other entitlement), the Volume Weighted Average Price of an Ordinary Share on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date (or, if that is not a dealing day, the immediately preceding dealing day) of first public announcement of such Dividend (or entitlement).

(c) *Optional Redemption Notice*

Any Optional Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date, which shall be a London business day, (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice, (iii) the last day on which Conversion Rights may be exercised by Bondholders and (iv) the amount of accrued interest payable in respect of each Bond on the Optional Redemption Date.

(d) *Redemption at the Option of Bondholders upon a Change of Control*

Following the occurrence of a Change of Control, the holder of each Bond will have the right to require the Issuer to redeem that Bond on the Change of Control Put Date at its principal amount, together with accrued and unpaid interest to such date. To exercise such right, the holder of the relevant Bond must deliver such Bond, together with all Coupons relating to it which mature after the Change of Control Put Date, to the specified office of any Paying and Conversion Agent, together with a duly completed and signed notice of exercise in the form for the time being current obtainable from the specified office of any Paying and Conversion Agent (a "**Change of Control**

Put Exercise Notice”), at any time during the Change of Control Period. The **“Change of Control Put Date”** shall be the fourteenth calendar day after the expiry of the Change of Control Period.

Payment in respect of any such Bond shall be made by transfer to a sterling account with a bank in London as specified by the relevant Bondholder in the relevant Change of Control Put Exercise Notice.

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

(e) *Purchase*

Subject to the requirements (if any) of any stock exchange on which the Bonds may be admitted to listing and trading at the relevant time and subject to compliance with applicable laws and regulations, the Issuer or any member of the Group may at any time purchase any Bonds (provided that all unmatured Coupons relating to them are purchased therewith or attached hereto) in the open market or otherwise at any price. Such Bonds may be held, re-sold or reissued or, at the option of the relevant purchaser, surrendered to any Paying and Conversion Agent for cancellation.

(f) *Cancellation*

All Bonds which are redeemed or in respect of which Conversion Rights are exercised (together with all unmatured Coupons attached to the Bonds or surrendered with the Bonds) will be cancelled and may not be reissued or resold. Bonds purchased by the Issuer or any member of the Group (together with all unmatured Coupons attached to the Bonds or surrendered with the Bonds) may be surrendered to the Principal Paying and Conversion Agent for cancellation and, if so surrendered, shall be cancelled.

(g) *Multiple Notices*

If more than one notice of redemption is given pursuant to this Condition 6, the first of such notices to be given shall prevail.

7 **Payments**

(a) *Principal*

Payment of principal in respect of the Bonds and payment of accrued interest payable on redemption of the Bonds (other than on an Interest Payment Date) will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the relevant Bond at the specified office of any Paying and Conversion Agent.

(b) *Interest and Other Amounts*

- (i) Payment of interest due on any Interest Payment Date will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the relevant Coupons at the specified office of any of the Paying and Conversion Agents.
- (ii) Payments of all amounts other than as provided in Condition 7(a) and (b) (i) will be made as provided in these Conditions.

(c) *Coupons*

Each Bond shall be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, the proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment.

Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 11) or, if later, five years after the date on which the Coupon would have become void pursuant to Condition 11, but not thereafter.

(d) *Payments*

Each payment in respect of the Bonds pursuant to Condition 7(a) and (b)(i) will be made by transfer to a sterling account maintained by the payee with a bank in London.

(e) *Payments subject to fiscal laws*

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to Condition 8.

(f) *Presentation Date*

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not be entitled to any further interest or other payment if the due date for payment is not a Presentation Date or if the relevant Bond or Coupon is presented for payment after the due date.

(g) *Paying and Conversion Agents, etc.*

The initial Paying and Conversion Agents and their initial specified offices are listed below. The Issuer reserves the right under the Agency Agreement at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying and Conversion Agent and appoint additional or other Paying and Conversion Agents, provided that it will (i) maintain a Principal Paying and Conversion Agent, (ii) maintain a Paying and Conversion Agent (which may be the Principal Paying and Conversion 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 or any law implementing or complying with, or introduced in order to conform to, such Directive (to the extent that at least one member state does not require a Paying and Conversion Agent with an office in that member state to so withhold or deduct amounts for or on account of tax, whether pursuant to European Council Directive 2003/48/EC, under the laws of that member state or otherwise) and (iii) maintain a Paying and Conversion Agent with a specified office in at least two major European cities approved by the Trustee (which may, for the avoidance of doubt, be the same Paying and Conversion Agent maintained for the purposes of subparagraph (ii)). Notice of any change in the Paying and Conversion Agents or their specified offices will promptly be given by the Issuer to the Bondholders in accordance with Condition 16.

(h) *No charges*

None of the Paying and Conversion Agents shall make or impose on a Bondholder or Couponholder any charge or commission in relation to any payment in respect of the Bonds or Coupons or any conversion of the Bonds.

(i) *Fractions*

When making payments to Bondholders or Couponholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds or Coupons shall be made free and clear of, and without withholding or deduction 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 or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall not be required to pay any additional or further amounts in respect of any such withholding or deduction.

9 Events of Default

If any of the events listed in paragraphs (a) to (h) of this Condition 9 ("**Events of Default**") occurs, and upon the Trustee giving written notice to such effect to the Issuer, the outstanding Bonds shall become immediately due and repayable at their principal amount together with accrued interest as provided in the Trust Deed.

If the event falls within any of paragraphs (b), (c), or (e) to (h) no such notice may be given by the Trustee unless the Trustee certifies to the Issuer that the happening of such event is in its opinion materially prejudicial to the interests of the Bondholders. Subject thereto, the Trustee may, and if so requested in writing by the holders of not less than one-quarter in principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution of the Bondholders shall, in each case if indemnified and/or secured and/or prefunded to its satisfaction, give such notice as aforesaid.

The said events are that:

- (a) there is default for more than 15 days in the payment of any interest due in respect of the Bonds or if there is default for more than 7 days in the payment of any principal due in respect of the Bonds; or
- (b) there is default in the performance or observance by the Issuer of any obligation or provision under the Trust Deed or the Bonds (other than any obligation for the payment of any principal or interest in respect of the Bonds) or failure to perform or observe any obligation under Condition 10 which would, but for the provisions of applicable law, be a breach thereof, in each case which continues for more than 45 days after written notice thereof shall have been given to the Issuer by the Trustee (except where the Trustee shall have certified to the Issuer that such, default is, in its opinion, incapable of remedy, when no such notice or continuation shall be required); or
- (c) as a result of default by the Issuer (other than a default arising due to compliance by the Issuer with any applicable law or directive or (provided that the Issuer has satisfied the Trustee that it is reasonable to comply therewith) with any requirement, whether having the force of law or not, of any government or regulatory authority to which the Issuer is subject, unless such default results in the Issuer becoming bound to repay prematurely any of its indebtedness for borrowed moneys as described in (i) below (not being that in respect of which the default has occurred) and steps are taken to obtain repayment thereof):
 - (i) the Issuer becomes bound to repay prematurely any of its indebtedness for borrowed moneys and steps are taken to obtain repayment thereof; and/or
 - (ii) any such indebtedness for borrowed moneys or any guarantee or indemnity of the Issuer of any indebtedness for borrowed moneys of any person is not, when due, called or demanded, repaid or paid by the latest of its due date, the expiry of any applicable grace period and (if payment is prevented by any applicable law) 15 days after the first date on which payment is permitted,

provided that any such acceleration of maturity, default or failure to pay under this Condition 9(c), as the case may be, shall not constitute an event upon the happening of which the outstanding

Bonds may (subject as mentioned above) become immediately due and repayable (A) so long as the Issuer satisfies the Trustee that it is being contested in good faith by the Issuer or (B) if such indebtedness, guarantee or indemnity to which (i) and/or (ii) above applies either alone or in aggregate shall amount to an outstanding aggregate principal amount of not more than £50,000,000 or its equivalent in any other currency or currencies; or

- (d) a resolution is passed, or a final order of a court in the United Kingdom is made, or an order of a court of competent jurisdiction outside the United Kingdom is made and, where possible, not discharged or stayed within a period of 60 days, that the Issuer be wound up or dissolved (otherwise than for the purposes of a restructuring, amalgamation or merger the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders); or
- (e) an encumbrancer takes possession or a receiver, administrative receiver, administrator manager, judicial manager or other similar person is appointed of the whole or a substantial part of the assets or undertaking of the Issuer or an administration order is made in relation to the Issuer and such taking of possession, appointment or order is not released, discharged or cancelled within 60 days; or
- (f) a distress, execution or seizure before judgment is levied or enforced upon or sued out against a substantial part of the assets or undertaking of the Issuer and is not discharged, dismissed or stayed within 60 days thereof; or
- (g) the Issuer stops payment generally or (otherwise than for the purposes of a restructuring, amalgamation or merger the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders) ceases or threatens to cease to carry on all or substantially all of its business or is unable to pay its debts generally as and when they fall due; or
- (h) the Issuer makes an assignment for the benefit of creditors generally or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any such action.

10 Undertakings

(a) *Undertakings of the Issuer*

Whilst any Conversion Right remains exercisable, the Issuer will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (i) issue, allot and deliver Ordinary Shares on exercise of Conversion Rights and at all times keep available for issue free from pre-emptive or other similar rights such number of Ordinary Shares as would enable the Conversion Rights and all other rights of subscription and exchange for and conversion into Ordinary Shares to be satisfied in full;
- (ii) other than in connection with a Newco Scheme or a Permitted Merger, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
 - (1) by the issue of fully paid Ordinary Shares or other Securities to the Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Ordinary Shares or other Securities on a capitalisation of profits or reserves; or

(2) by the issue of Ordinary Shares paid up in full out of profits or reserves (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a cash dividend; or

(3) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or

(4) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office of the Issuer or any of its Subsidiaries or any associated company or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share or option scheme whether for all employees, directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or otherwise gives (or, in the case of an issue or payment up of Securities in connection with a Change of Control, will give) rise (or would, but for the provisions of Condition 5(f) relating to roundings or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price or is (or, in the case of any issue or payment up of Securities in connection with a Change of Control, will be) otherwise taken into account for the purposes of determining whether such an adjustment should be made;

(iii) not in any way modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than such rights attaching to the Ordinary Shares but so that nothing in this Condition 10(a)(iii) shall prevent:

(1) the issue of any equity share capital to employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) whether of the Issuer or any of the Issuer's subsidiaries or associated companies by virtue of their office or employment pursuant to any scheme or plan approved by the Issuer or which is established pursuant to such a scheme or plan which is or has been so approved; or

(2) any consolidation, reclassification or subdivision of the Ordinary Shares or the conversion of any Ordinary Shares into stock or vice versa; or

(3) any modification of such rights which is not, in the determination in good faith of an Independent Financial Adviser, materially prejudicial to the interests of the holders of the Bonds; or

(4) any alteration to the articles of association of the Issuer made in connection with the matters described in this Condition 10 or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures); or

(5) any issue of equity share capital where the issue of such equity share capital results or would, but for the provisions of Condition 5(f) relating to roundings or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share receivable therefor is at least 95 per cent. of the

Current Market Price per Ordinary Share on the relevant date, otherwise result, in an adjustment to the Conversion Price; or

(6) any issue of equity share capital or modification of rights attaching to the Ordinary Shares where prior thereto the Issuer shall have instructed an Independent Financial Adviser to determine in good faith what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Independent Financial Adviser shall have determined in good faith either that no adjustment is required or that an adjustment to the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly); or

(7) without prejudice to Condition 5(b)(x) and Condition 6(d), the amendment of the articles of association of the Issuer following a Change of Control to ensure that any Bondholder exercising its Conversion Right after the occurrence of a Change of Control will receive the same consideration for the Ordinary Shares arising on conversion as it would have received had it exercised its Conversion Right at the time of the occurrence of the Change of Control; or

(8) without prejudice to any rule of law or legislation (including regulations made under sections 784(1), 785(1), 786(1), 787(1) and 788 of the Companies Act or any other provision of that or any other legislation), the conversion of Ordinary Shares into, or the issue of any Ordinary Shares in, uncertificated form (or the conversion of Ordinary Shares in uncertificated form to certificated form) or the amendment of the articles of association of the Issuer to enable title to securities in the Issuer (including Ordinary Shares) to be evidenced and transferred without a written instrument or any other alteration to the articles of association of the Issuer made in connection with the matters described in this Condition 10(a)(iii) or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures);

- (iv) except as part of any employee, director or executive share or option or incentive scheme, procure that no Securities (whether issued by the Issuer or any member of the Group or procured by the Issuer or any member of the Group to be issued) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 5(f) relating to roundings or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;
- (v) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on conversion of the Bonds, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (vi) not reduce its issued share capital, share premium account or capital redemption reserve or any uncalled liability in respect thereof except (1) pursuant to the terms of issue of the

relevant share capital or (2) by means of a purchase or redemption of share capital of the Issuer or (3) as permitted by section 610(2) and (3) of the Companies Act or (4) where the reduction does not involve any distribution of assets to Shareholders or (5) solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed or (6) a reduction of its share premium account to facilitate the writing off of goodwill arising on consolidation which requires the confirmation of the High Court and which does not involve the return to Shareholders, either directly or indirectly, of an amount standing to the credit of the share premium account of the Issuer in respect of which the Issuer shall have tendered to the High Court such undertaking as it may require prohibiting, so long as any of the Bonds remains outstanding, the distribution (except by way of capitalisation issue) of any reserve which may arise in the books of the Issuer as a result of such reduction or (7) to create distributable reserves (to which, in respect of any such creation of distributable reserves by the Issuer, the Trustee will be deemed to have irrevocably given its consent (without any liability for so doing) prior to such creation of distributable reserves occurring and, to the extent that express consent is required, the Bondholders authorise and direct the Trustee to give its consent (without any liability for so doing) to such creation of distributable reserves) or (8) pursuant to a Newco Scheme or Permitted Merger or (9) by way of transfer to reserves as permitted under applicable law or (10) where the reduction is permitted by applicable law and the Trustee is advised by an Independent Financial Adviser, acting as an expert, that the interests of the Bondholders will not be materially prejudiced by such reduction or (11) where the reduction is permitted by applicable law and results (or, in the case of a reduction in connection with a Change of Control, will result) in (or would, but for the provisions of Condition 5(f)) relating to roundings or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is (or, in the case of a reduction in connection with a Change of Control, will be) otherwise taken into account for the purposes of determining whether such an adjustment should be made, provided that, without prejudice to the other provisions of these Conditions, the Issuer may exercise such rights as it may from time to time be entitled pursuant to applicable law to purchase, redeem or buy back its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Bondholders;

- (vii) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates (as defined in section 988(1) of the Companies Act or any modification or re-enactment thereof) of the offeror) to acquire all or a majority of the issued ordinary share capital of the Issuer, or if a scheme (other than a Newco Scheme) is proposed with regard to such acquisition, other than a Permitted Merger, give notice of such offer or scheme to the Trustee and the Bondholders at the same time as any notice thereof is sent to its Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the Board of Directors of the Issuer, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use its reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Bondholders and/or to the holders of the Bonds (which like offer or scheme in respect of such Bondholders shall entitle any such Bondholders to receive the same type and amount of consideration it would have received had it held the number of Ordinary Shares to which such Bondholder would be entitled assuming he were to exercise his Conversion Rights in the relevant Change of Control Period);

- (viii) use its reasonable endeavours to ensure that the Ordinary Shares issued upon conversion of the Bonds will as soon as practicable be admitted to the Official List of the UK Listing Authority and admitted to trading by the London Stock Exchange in accordance with their respective rules and will be listed, quoted or accepted for dealing as soon as practicable on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in; and
- (ix) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of any Scheme of Arrangement:
- (1) at the Issuer's option, either Newco is substituted under the Bonds and the Trust Deed as principal obligor in place of the Issuer (with the Issuer providing a guarantee) subject to and as provided in the Trust Deed; or Newco becomes a guarantor under the Bonds and the Trust Deed and such amendments are made to these Conditions and the Trust Deed as are necessary, in the opinion of the Trustee, to ensure that the Bonds may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts or certificates representing ordinary shares of Newco) mutatis mutandis in accordance with and subject to these Conditions and the Trust Deed (and the Trustee shall (at the expense of, and subject to its being entitled to be indemnified and/or secured and/or prefunded to its satisfaction by, the Issuer in respect thereof) be obliged (but without responsibility or liability to any person for the consequences thereof) to concur in effecting such substitution or grant of such guarantee and in either case making any such amendments, provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous duties or obligations upon it or expose it to further liabilities or reduce its protections);
 - (2) the Trust Deed and the Conditions (including, without limitation, the adjustment and related provisions (in Condition 5), the Events of Default (in Condition 9) and the Undertakings (in Condition 10)) provide at least the same protections and benefits to the Trustee and the Bondholders following the implementation of such Newco Scheme as they provided to the Trustee and the Bondholders prior to the implementation of the Newco Scheme, mutatis mutandis;
 - (3) the ordinary shares of Newco (or depositary or other receipts or certificates representing ordinary shares of Newco) are (i) admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market or (ii) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market (and provided always that such ordinary shares of Newco are listed on a recognised stock exchange for the purposes of section 1005 of the Income Tax Act 2007); and
 - (4) for so long as any Bond remains outstanding, use its reasonable endeavours to ensure that its issued and outstanding Ordinary Shares are (i) admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market or (ii) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market (and provided always that such Ordinary Shares are listed on a recognised stock exchange for the purposes of section 1005 of the Income Tax Act 2007);
- (x) in the event of a Permitted Merger, take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of such Permitted Merger:

(1) at the Issuer's option, either Holdco is substituted under the Bonds and the Trust Deed as principal obligor in place of the Issuer (with the Issuer providing a guarantee) subject to and as provided in the Trust Deed; or Holdco becomes a guarantor under the Bonds and the Trust Deed and such amendments are made to these Conditions and the Trust Deed as are necessary, in the opinion of the Trustee, to ensure that the Bonds may be converted into or exchanged for ordinary shares in Holdco (or depositary or other receipts or certificates representing ordinary shares of Holdco) mutatis mutandis in accordance with and subject to these Conditions and the Trust Deed (and the Trustee shall (at the expense of, and subject to being entitled to be indemnified and/or secured and/or prefunded to its satisfaction by, the Issuer in respect thereof) be obliged (but without responsibility or liability to any person for the consequences thereof) to concur in effecting such substitution or grant of such guarantee and in either case making any such amendments, provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous duties or obligations upon it or expose it to further liabilities or reduce its protections); and

(2) the Trust Deed and the Conditions (including, without limitation, the adjustment and related provisions (in Condition 5), the Events of Default (in Condition 9) and the Undertakings (in Condition 10)) provide at least the same protections and benefits to the Trustee and the Bondholders following the implementation of such Permitted Merger as they provided to the Trustee and the Bondholders, prior to the implementation of such Permitted Merger, mutatis mutandis; and

(3) either (i) payments by the principal obligor pursuant to the Bonds and by the guarantor pursuant to the guarantee of the Bonds in respect of principal and interest payable on the Bonds can be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the jurisdiction in which such issuer or, as appropriate, guarantor is resident for tax purposes or (ii) in the event that, immediately after completion of such Permitted Merger, payments by the principal obligor pursuant to the Bonds or (as the case may be) the guarantor pursuant to the guarantee of the Bonds in respect of principal and interest payable on the Bonds cannot be made free and clear of and without such withholding or deduction as mentioned in (i), the principal obligor or (as the case may be) the guarantor undertakes to pay to each Bondholder or Couponholder (as the case may be) such additional amounts as will result in the receipt by the relevant Bondholder or Couponholder (as the case may be), after the withholding or deduction of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the jurisdiction of tax residence of the principal obligor or any authority therein or thereof having power to tax or (as the case may be) the jurisdiction of tax residence of the guarantor or any authority therein or thereof having power to tax (in each case, "**New Jurisdiction Taxes**") other than New Jurisdiction Taxes payable in circumstances where the Bond or Coupon (as the case may be) is presented for payment:

(a) by or on behalf of a Bondholder or Couponholder (as the case may be) who is liable for such New Jurisdiction Taxes by reason of his having some connection with the jurisdiction of tax residence of the principal obligor or (as the case may be) the guarantor other than the mere holding of the Bond or Coupon; or

(b) by or on behalf of a Bondholder or Couponholder (as the case may be) who would have been able to avoid the New Jurisdiction Taxes by presenting any form or certificate or making any declaration of non-residence or similar claim for exemption to the relevant tax authority; or

(c) more than 30 days after the date on which the payment in question first becomes due (or, if the full amount of the moneys has not been duly received by the Principal Paying and Conversion Agent or the Trustee in respect of the Bonds on or prior to such due date, the date on which, the full amount of such monies having been so received, notice to that effect has been duly given to the Bondholders in accordance with Condition 16) except to the extent that the relevant Bondholder or Couponholder would have suffered the New Jurisdiction Taxes in question on presenting the Bond or Coupon (as the case may be) on such 30th day; or

(d) by or on behalf of a Bondholder or Couponholder (as the case may be) who would have been able to avoid the relevant New Jurisdiction Taxes by presenting such Bond or Coupon (as the case may be) to another paying agent in respect of the Bonds in a Member State of the European Union; or

(e) in circumstances where the relevant New Jurisdiction Taxes are imposed on a payment to an individual Bondholder or Couponholder (as the case may be) and are required to be withheld or deducted pursuant to any law implementing or complying with, or introduced in order to conform to, European Union Directive 2003/48/EC or any other directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000,

of such amounts as the relevant Bondholder or Couponholder (as the case may be) would have received from the Issuer, after the withholding or deduction of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax had the Permitted Merger not occurred and had the Issuer, as principal obligor, discharged its obligations in respect of the Bonds in full.

(b) Compliance Certificates

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually a certificate signed by two of its directors, as to there not having occurred an Event of Default or Potential Event of Default since the date of the last such certificate or if such event has occurred as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer with the undertakings set forth in this Condition 10, nor be liable to any person for not so doing.

11 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 7 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date, subject as otherwise provided in Conditions 5(g) and 7(c).

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

12 Replacement of Bonds

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying and Conversion Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such

replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

13 Meetings of Bondholders, Modification and Waiver, Substitution

(a) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if requested in writing by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to change the Final Maturity Date or the dates on which interest is payable in respect of the Bonds, (ii) to modify the circumstances in which the Issuer or Bondholders are entitled to redeem the Bonds pursuant to Condition 6 (b) or (d), (iii) to reduce or cancel the principal amount of, or interest on, the Bonds or to reduce the amount payable on redemption of the Bonds, (iv) to modify the basis for calculating the interest payable in respect of the Bonds, (v) to modify the provisions relating to, or cancel, the Conversion Rights (other than pursuant to or as a result of any amendments to these Conditions and the Trust Deed made pursuant to and in accordance with the provisions of Condition 10(a)(ix) (“**Newco Scheme Modification**”) or in connection with a Permitted Merger (“**Permitted Merger Modification**”) and other than a reduction to the Conversion Price), (vi) to increase the Conversion Price (other than in accordance with the Conditions or pursuant to a Newco Scheme Modification or Permitted Merger Modification), (vii) to change the currency of the denomination or any payment in respect of the Bonds, (viii) to change the governing law of the Bonds, the Trust Deed or the Agency Agreement (other than in the case of a substitution of the Issuer (or any previous substitute or substitutes) under Condition 13(c)), or (ix) to modify certain other provisions of these Conditions or the Trust Deed, or (x) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than 66 2/3 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Bondholders (whether or not they were present at the meeting at which such resolution was passed) and all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held.

No consent or approval of Bondholders shall be required in connection with any Newco Scheme Modification or Permitted Merger Modification.

(b) Modification and Waiver

The Trustee may agree, without the consent of the Bondholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions, which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error or an error which, in the opinion of the Trustee, is proven or to comply with mandatory provisions of law, and (ii) any other modification to the Trust Deed, any

trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions, (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions, which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders or Couponholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation, waiver or determination shall be binding on the Bondholders and Couponholders and, if the Trustee so requires, shall be notified to the Bondholders promptly in accordance with Condition 16.

(c) *Substitution*

The Trust Deed contains provisions permitting the Trustee to agree, without the consent of the Bondholders or Couponholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds, subject to (i) the Bonds continuing to be convertible or exchangeable into Ordinary Shares *mutatis mutandis* as provided in these Conditions, with such amendments as the Trustee shall consider appropriate, (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution and (iii) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders or Couponholders, to a change of the law governing the Bonds, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

In connection with a Newco Scheme or a Permitted Merger, at the request of the Issuer the Trustee shall, without the requirement for any consent or approval of the Bondholders or the Couponholders, concur with the Issuer in the substitution in place of the Issuer (or any previous substituted company) as principal debtor under the Trust Deed and the Bonds of Newco or Holdco, as the case may be, pursuant to and subject to the provisions set out in Condition 10(a)(ix) or as applicable, Condition 10(a)(x).

(d) *Entitlement of the Trustee*

Where, in connection with the exercise or performance of any right, power, trust, authority, duty or discretion under or in relation to these Conditions (including, without limitation, in relation to any modification, waiver, authorisation, determination or substitution as referred to above), the Trustee shall have regard to the interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise or performance for individual Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholders be entitled to claim from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders.

14 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the

Bonds or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

15 The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer without accounting for any profit. The Trustee may rely without liability to Bondholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers or financial institution, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise, and if so relied upon such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders and Couponholders.

16 Notices

Notices to Bondholders will be valid if published in a leading English language daily newspaper circulating in the United Kingdom (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

17 Further Issues

The Issuer may from time to time without the consent of the Bondholders or Couponholders create and issue further securities, either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them and the first date on which Conversion Rights may be exercised) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

19 Governing Law

The Trust Deed, the Bonds and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Temporary Global Bond and the Global Bond contain provisions which apply to the Bonds while they are in global form, some of which will modify the effect of the terms and conditions of the Bonds. The following is a summary of certain of those provisions.

1 Exchange

The Temporary Global Bond is exchangeable in whole or in part for interests in the Global Bond from the 40th day after the Closing Date upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Global Bond is exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds if the Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or such other clearing system as shall have been approved by the Trustee (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon, the holder may give notice to the Trustee of its intention to exchange the Global Bond for definitive Bonds on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date the holder of the Global Bond may surrender the Global Bond to or to the order of the Principal Paying and Conversion Agent. In exchange for the Global Bond, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Global Bond, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant definitive Bonds.

“**Exchange Date**” means a day falling not less than 60 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 Principal Paying and Conversion Agent is located and in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System are located.

2 Payments

No payment will be made on the Temporary Global Bond unless exchange for an interest in the Global Bond is improperly withheld or refused. Payments of amounts falling due in respect of Bonds represented by the Global Bond will be made against presentation for endorsement and, if no further payment falls to be made on it, surrender of the Global Bond to or to the order of the Principal Paying and Conversion Agent or such other Paying and Conversion Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Bond, which endorsement will be *prima facie* evidence that such payment has been made.

3 Notices

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, for communication by it to entitled accountholders in substitution for publication as required by the Conditions in which case such notices shall be deemed to have been given to Bondholders on the date of delivery to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

4 Prescription

Claims against the Issuer in respect of principal, interest and other amounts payable in respect of the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest or any other amounts) from the appropriate Relevant Date (as defined in Condition 3).

5 Meetings

The holder of the Global Bond shall be treated as one person for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each £1,000 principal amount of Bonds for which the Global Bond may be exchanged.

6 Purchase and Cancellation

Cancellation of any Bond represented by the Global Bond which is required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Bond on its presentation to or to the order of the Principal Paying and Conversion Agent.

7 Conversion

For so long as the Global Bond is held on behalf of any one or more of Euroclear, Clearstream, Luxembourg or the Alternative Clearing System, Conversion Rights (as defined in the Conditions) may be exercised at any time during the Conversion Period by the presentation to or to the order of the Principal Paying and Conversion Agent of a Global Bond for appropriate notation, together with one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest.

8 Trustee's Powers

In considering the interests of Bondholders while the Global Bond is held on behalf of a clearing system the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Bond and may consider such interests as if such accountholders were the holder of the Global Bond.

9 Redemption at the Option of Bondholders upon a Change of Control

The option of the Bondholders provided for in Condition 6(d) may be exercised by the holder of the Global Bond giving notice to the Principal Paying and Conversion Agent within the time limits relating to the deposit of Bonds as set out in Condition 6(d), substantially in the form of the Change of Control Put Exercise Notice available from the Principal Paying and Conversion Agent and stating the principal amount of Bonds in respect of which the option is exercised and at the same time presenting the Global Bond to the Principal Paying and Conversion Agent for annotation accordingly.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, after deduction of fees and commissions, are expected to be approximately £341,000,000. The net proceeds from the issue of the Bonds will be used by the Issuer for the general corporate purposes of the Issuer and to enable the Issuer to improve its liquidity and strengthen its position within the industry. In the short term, the Issuer intends to hold the proceeds on short-term deposit.

BUSINESS DESCRIPTION

1 General Information

British Airways Plc (the “**Issuer**”) was incorporated and registered in England and Wales on 13 December 1983 under the Companies Acts 1948 to 1981 as a public limited company with registered number 1777777.

The registered office of the Issuer is Waterside, PO Box 365, Harmondsworth, West Drayton, UB7 0GB; its telephone number is 0844 4930787.

2 Organisational Structure

The main activities of the Issuer and its subsidiary undertakings (the “**Group**”) are the operation of international and domestic scheduled air services for the carriage of passengers, freight and mail and the provision of ancillary services. The Issuer, which is also the main operating company of the Group, is engaged in providing scheduled national and international passenger travel as well as a worldwide air cargo business.

The Group is one of the world’s leading scheduled premium international airlines with an annual turnover of £8,992 billion for the year ended 31 March 2009. Approximately 97 per cent. of this revenue was accounted for by the Issuer.

Investments in subsidiaries and associates

The Issuer’s major subsidiaries and investments in associates as at 30 June 2009 are shown in Table 1 below and includes those principal investments which significantly impact the results or assets of the Group. These subsidiaries are wholly-owned except where indicated.

Table 1

Investments in subsidiaries

	Principal activities	Country of incorporation and registration and principal operations
BA and AA Holdings Limited	Holding Company	England
BA Cash Management Limited Partnership	Investment	England
BA Cityflyer Limited (“ CityFlyer ”)	Airline operations	England
BritAir Holdings Limited	Holding Company	England
British Airways 777 Leasing Limited	Aircraft financing	England
British Airways Avionic Engineering Limited	Aircraft maintenance	England
British Airways E-Jets Leasing Limited	Aircraft financing	Bermuda
British Airways European Limited (formerly trading as OpenSkies)	Holding Company	England
British Airways Holdings Limited	Airline finance	Jersey
British Airways Holidays Limited (“ BA Holidays ”)	Package holidays	England
British Airways Interior Engineering Limited	Aircraft maintenance	England
British Airways Leasing Limited	Aircraft financing	England
British Airways Maintenance Cardiff Limited	Aircraft maintenance	England
Elysair SAS (trading as OpenSkies) (“ OpenSkies ”)	Airline operations	France
Speedbird Cash Management Limited	Investment	Bermuda
Speedbird Insurance Company Limited	Insurance	Bermuda
The Mileage Company Limited (formerly Air Miles Travel Promotions Limited) (“ The Mileage Company ”)	Airline marketing	England
The Plimsoll Line Limited	Holding Company	England

Investments in associates

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Iberia, Líneas Aéreas de España, S.A. (Iberia)*	13.15	Airline operations	Spain

Available for sale and other investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Comair Limited*	10.9	Airline operations	South Africa
Flybe Group Limited*	15.0	Airline operations	England
The Airline Group Limited	16.7	Air traffic control holding company	England

*Not owned directly by the Issuer

The Group's cash investments are concentrated in two companies. As at 30 June 2009, BA Cash Management Limited Partnership held £741 million and the Issuer held £457 million.

3 Business Overview

Principal activities of the Issuer

The principal place of business of the Issuer is Heathrow, one of the world's major airports. Operating an extensive international scheduled airline route network, the Group, together with codeshare and franchise partners, flies to more than 300 destinations worldwide. For the year ended 31 March 2009, the Group carried more than 33 million passengers. The Issuer also operates an international air cargo business, primarily in conjunction with its scheduled passenger services.

For the year ended 31 March 2009, passenger traffic accounted for 87.1 per cent. of the Group's revenue while 7.5 per cent. came from cargo. British Airways World Cargo (a division of the Issuer) carried 777,000 tonnes of cargo to destinations in Europe, the Americas and throughout the world. The Group earned approximately 5.4 per cent. of its revenue for the year ended 31 March 2009 from other activities such as non-passenger income earned by subsidiaries (including BA Holidays and The Mileage Company) and from other activities including in-flight retail and third party maintenance.

Passenger transportation

The Group offers its customers a broad range of services for UK domestic, shorthaul and international flights, and serves a large geographical area. The number of principal destinations served by the Issuer and CityFlyer on its 2009 summer schedule are as follows: Americas (38), UK (9), Europe (68), Africa (15), the Middle East & South Asia (13) and Asia Pacific (8). The 2009/2010 winter schedule has made a number of modifications with the number of principal destinations as follows: Americas (41), UK (9), Europe (64), Africa (16), the Middle East & South Asia (14) and Asia Pacific (8).

Passenger transportation operations are carried out by three entities: the Issuer, OpenSkies (which operates premium services from Paris to New York) and CityFlyer (which operates services from London City airport).

The Issuer's passenger business is divided into four main cabin groups (Longhaul premium, Longhaul non-premium, Shorthaul premium and Shorthaul non-premium). Premium traffic in both longhaul and shorthaul accounted for up to 13 per cent. of total passenger numbers for the year ended 31 March 2009 and around 45 per cent. of total passenger revenues for the same period. The current financial crisis has had a significant impact on premium traffic. IATA statistics indicate a decline in premium traffic of 20.6 per cent. for the first five months of 2009. Traffic and capacity statistics of the Issuer for June 2009 noted a 14.9 per cent. decrease in premium traffic compared to June 2008.

The markets in which the Group operates are highly competitive. Levels of competition vary route by route. There are international routes where bilateral air services agreements between governments limit

the number of flights that can be operated by UK carriers. Many of these bilateral air services agreements grant sufficient capacity to allow all interested airlines access but there are a limited number where access is restricted resulting in less competition, examples of these are Egypt, Russia and Nigeria. There is also a deregulated market for flights within the EU and a limited number of non EU countries allowing any European airline to operate any route and set its own fares.

Longhaul market

The longhaul market represents just over 80 per cent. of the Issuer's available seat capacity making it the largest part of the business. The Issuer's stated objectives in its 2008/09 Annual Report and Accounts include the aim to be the airline of choice for longhaul premium customers. Deregulation has had a significant impact on the longhaul business in recent years. The first phase of the EU-US Open Skies agreement has altered the competitive landscape on transatlantic routes and resulted in a transfer of some transatlantic seat capacity from Gatwick to Heathrow. Four additional US airlines have now won slots at Heathrow. There have also been new entrants from Africa and India.

The longhaul premium market was hit by the financial crisis last year and continues to be affected by the economic slowdown. This has been a general market issue and has resulted in the collapse of three premium-only operators – Maxjet, Eos and Silverjet. Although the Issuer is seeing longhaul premium declines less than the IATA scheduled airlines as a whole (based on IATA's Premium Traffic Monitor for May 2009) it is still having a significant impact on the business. For the year ended 31 March 2009, both volumes and yields saw significant declines against the prior year.

Shorthaul market

On shorthaul routes, the Issuer faces competition in the air and from alternative modes of transport, in particular rail travel.

European budget airlines are continuing to grow but have switched their priorities from the UK to growth at continental airports. There has been little organic growth in their London operations in the last financial year. The market remains highly competitive.

Oneworld alliance

The Issuer is a member of the **oneworld** alliance along with American Airlines, Cathay Pacific, Finnair, Iberia, Japan Airlines, Lan Airlines, Malév, Qantas and Royal Jordanian. The **oneworld** alliance celebrated its tenth anniversary in February 2009.

Codesharing and other bilateral contracts

The Issuer has bilateral agreements with a number of airlines, some of which are also members of the **oneworld** alliance, covering code-sharing, links between frequent flyer programmes and various other activities. The Issuer offers codeshare services on selected routes with all **oneworld** member airlines as well as on routes with Aer Lingus and Flybe, among others.

New products and services

Terminal 5 at Heathrow opened on 27 March 2008 and the Issuer migrated the majority of its operations to that Terminal over the summer of 2008 which has transformed operational performance and customer service. Punctuality and baggage targets across the network have exceeded targets as illustrated by record customer satisfaction scores.

Service for premium customers has been upgraded with the introduction of a new Club World product, now fitted to all Boeing 747 aircraft and over half of the Boeing 777 aircraft and this year will see the launch of the Issuer's new First cabin. This year will also see the completion of a programme of significant investment in new Inflight Entertainment.

Sales commenced on 23 June 2009 for the first longhaul route from London City airport, a business class only service to New York fitted with just 32 seats. The first flight is expected to take place on 29 September 2009. Customers will be able to send texts, e-mails and access the internet onboard – the first time this has been done on transatlantic flights.

Cargo transportation

In the year ended 31 March 2009, the Group carried 777,000 tonnes of cargo to destinations in Europe, the Americas and throughout the world. Total revenues for that period were £673 million which represented approximately 7.5 per cent. of the Group's total revenues.

The Group's cargo business is operated through British Airways World Cargo and offers customers a wide portfolio of premium services. The majority of its cargo is carried in the holds of passenger aircraft, the balance on leased or part-chartered freighter aircraft where market conditions allow their deployment. This allows the Group to maximise the use of its scheduled route network to provide a worldwide cargo service.

Other business

In addition to its passenger and cargo transportation activities, the Group also has a number of subsidiary undertakings and activities which provide additional revenues. These include The Mileage Company (which operates a customer loyalty scheme that sells "AIRMILES" to other companies for use in customer loyalty programmes), BA Holidays (which sells package holidays to key longhaul destinations and inbound holidays into the UK, as well as a range of ground products including hotels, car hire, transfers and sightseeing) and other third party revenue streams such as in-flight retail, flight simulator training and engineering.

Loyalty programmes

The Group operates two principal loyalty programmes, the "Frequent Flyer" programme and "AIRMILES".

The "Frequent Flyer" programme operates through the airline's "Executive Club" and allows frequent travellers to accumulate "BA Miles" which entitle them to a variety of awards, principally free travel. "BA Miles" are also sold to commercial partners to use in promotional activity. As at 31 March 2009, the Group held a liability of £305 million representing the obligation to deliver these benefits.

The "AIRMILES" loyalty programme allows companies to purchase miles for use in their own promotional activities. Miles can be redeemed for a range of benefits including flights with the Issuer as well as with other carriers. As at 31 March 2009, the Group held a liability of £290 million representing the obligation to deliver these benefits.

The process for both "BA Miles" and "AIRMILES" is managed by The Mileage Company.

Aircraft fleet

As at 30 June 2009, the Group had 244 aircraft in service. Of these aircraft, 230 were operated by the Issuer, 4 were operated by OpenSkies and 10 were operated by CityFlyer. Of these aircraft, 36 were subject to operating leases and off balance sheet with the remaining 208 recorded on balance sheet as either being owned or subject to financing.

As at 30 June 2009, the aircraft in service with the Group were as set out in Table 2 below.

Table 2 (Note 4)

Aircraft type	On Balance Sheet Aircraft	Operating Leases Off Balance Sheet		Total June 2009	Average age (years)
		Extendible (Note 5)	Other		
Airbus A319	31		2	33	8.7

Aircraft type	On Balance Sheet Aircraft	Operating Leases Off Balance Sheet		Total June 2009	Average age (years)
		Extendible (Note 5)	Other		
Airbus A320	20	2	15	37	6.6
Airbus A321	11			11	3.7
Avro RJ85			2	2	8.3
Avro RJ100 (Note 1)		8		8	13.0
Boeing 737-400	19			19	16.8
Boeing 737-500			2	2	22.0
Boeing 747-400	55			55	15.1
Boeing 757-200 (Note 2)	11		2	13	17.7
Boeing 767-300	21			21	16.4
Boeing 777-200 (Note 3)	40		3	43	10.4
GROUP TOTAL	208	10	26	244	12.0

Notes

- 1 One Avro RJ100 stood down pending return to lessor. Excludes six Avro RJ100 aircraft sub-leased.
- 2 Excludes two Boeing 757 stood down for sale. Includes two Boeing 757 aircraft on operating leases to L'Avion for the purposes of OpenSkies.
- 3 Excludes two Boeing 777-200 aircraft delivered, not yet in service.
- 4 Table excludes one Jetstream 41 sub-leased to Eastern Airways.
- 5 A320 Extendible Operating Leases include an Issuer option to convert to finance leases. Avro RJ100 Extendible Operating Leases include a Group option to purchase the aircraft.

Aircraft acquisitions

The Group continues to invest in new aircraft and as at 30 June 2009 had contracted for the delivery of 65 aircraft with options on 52 others as follows:

- 2 Airbus A318 aircraft have been ordered for the transatlantic services from London City airport.
- 9 Airbus A320 aircraft plus options for 20 more.
- 12 Airbus A380 aircraft plus options for 7 more.
- 1 Boeing 777-200 aircraft.
- 6 Boeing 777-300 aircraft plus options for 4 more.
- 24 Boeing 787 aircraft plus options for 18 more.
- 6 Embraer E170 aircraft.
- 5 Embraer E190 aircraft plus options for 3 more.

These aircraft deliveries can either serve to grow the fleet or as replacements for older fleet aircraft. Where they are intended as replacement aircraft, the new aircraft are expected to be significantly more fuel efficient than the aircraft they are to replace.

Aircraft financing

As at 30 June 2009, the Group had undrawn facilities in place for aircraft purchases of \$3,082 million (as set out in Table 3 below). These facilities are available to finance all the Issuer's aircraft purchases, with the exception of the two Airbus A318 aircraft (the market value of each of which is between \$23 million and \$28 million and for one of which financing is in the course of being finalised) with currently scheduled delivery dates prior to 31 December 2013. None of the facilities contain financial covenant based

drawstops or material adverse change drawstops. Details of the aircraft with scheduled delivery dates prior to 31 December 2013 as at 30 June 2009 are set out in Table 4 below.

Table 3

	\$m
Multi Option Facility	1,174
Airbus A380 Backstop Facility	940
Airbus A320 Backstop Facility	190
Boeing 787 Backstop Facility	508
Embraer Facility	270
	3,082

Table 4

Aircraft type	Number of deliveries scheduled prior to 31 December 2013
Airbus A318	2
Airbus A320	9
Embraer 787-8	11
777-200ER	5
777-300ER	1
Airbus A380	2*
	6

Note*: The remaining four 777-300ER aircraft which are scheduled for delivery prior to 31 December 2013 are subject to an operating lease commitment from GE Commercial Aviation Services Limited.

Aircraft groundings

The Issuer has recently announced its intention to temporarily ground up to 11 of its older Boeing 747 aircraft and permanently ground 11 Boeing 757-200 aircraft to manage the amount of flying capacity for winter 2009, summer 2010 and winter 2010 in response to reduced passenger demand. Passenger capacity for the Group is expected to be down 3.5 per cent. for summer 2009 and is expected to be down 5 per cent. for winter 2009. The Issuer will determine the longer term use of the 747 aircraft later this year once there is more clarity on delivery dates for Boeing 787 aircraft. In April 2009, the Group agreed to the sale of 11 Boeing 757 aircraft, which will exit the business over a two-year period beginning June 2010. The proceeds are to be received as the aircraft exit the business.

General facilities

In addition to the aircraft financing facilities, the Issuer has a general purpose facility of \$750 million which is available to be drawn against the provision of first priority aircraft mortgages, \$214 million of which is currently unutilised.

In July 2009, the Issuer agreed terms with the trustees of each of its defined benefit pension schemes in the UK to release certain bank guarantees issued under the above general purpose facility. These guarantees were provided in 2007 and were accessible by the trustees only in the event of the Issuer's default or insolvency. This means that, once the arrangements with the trustees are implemented in full, up to \$536 million will become available under the general purpose facility for the airline to draw in cash at any time until 21 June 2012.

The Group also has a Yen 75 billion facility which is available to refinance the Yen denominated purchase option price payable by the Issuer under certain Japanese leveraged lease financings of Boeing 747-400 and 777-200 aircraft during the period prior to February 2011. As at 31 July 2009, approximately Yen 47.55 billion of the facility was undrawn. Each drawing of the Yen facility will be secured by a first priority mortgage over the relevant aircraft.

As at 31 March 2009, the Group had long term borrowings of £3,515 million secured on aircraft or property and other assets and unsecured long term borrowings of £248 million. Pursuant to the agreement with the pension scheme trustees, the Issuer will be required to grant additional security over currently unencumbered assets in exchange for the release of certain of the bank guarantees.

Strategic Alliances/Co-Operation

Qantas

Under a Joint Services Agreement (the “**JSA**”) with Qantas, there is full strategic, tactical and operational co-operation on all of the Issuer’s and Qantas’ flights that serve markets between the United Kingdom/Continental Europe and Southeast Asia/Australia. This co-operation provides customers with improved flight departure times, routings and value for money. The operation of the JSA requires the approval of the Australian Competition and Consumer Commission. It was re-authorised in February 2005 for a further five years. Future renewal is currently under consideration by the Issuer.

Iberia

In January 2005, the Issuer entered into a Joint Business Agreement with Iberia (in which it holds a 13.15 per cent. stake) which commenced commercial co-operation between the two companies on Heathrow-Madrid and Heathrow-Barcelona routes which are run as a single business with coordinated schedules, marketing, sales, freight, pricing and customer service activities.

The Issuer continues its merger discussions with Iberia, originally announced on 29 July 2008. If successful, the proposal would create a merger of the two companies. It is likely that any merger would establish a new holding company to hold shares in the two airlines which would continue as operating companies.

American Airlines and Iberia

The Issuer, American Airlines and Iberia applied for anti-trust immunity (“**ATI**”) to operate a joint business across the Atlantic in August 2008. The joint business is also subject to an investigation by the European Commission. This is the third attempt to win clearance for the Issuer and American Airlines. In previous applications which preceded the EU-US OpenSkies liberalisation at Heathrow, the clearance condition imposed to gain ATI, including the surrender of slots, was deemed too onerous.

If successful, the joint business would allow the three carriers, all members of the **oneworld** alliance, to offer customers greater access to discounted fares, more convenient connections and better access to a global network of more than 500 destinations.

The airlines expect to hear the outcome of the current application in November 2009.

Franchising

The Issuer has franchise relationships with Comair Pty Ltd and Sun-Air of Scandinavia A/S which allow the two airlines to fly using the Issuer’s flight prefix and to use the Issuer’s livery. They also benefit from the Issuer’s worldwide marketing and distribution network, frequent flyer programme and “Executive Club”.

Operational Centres

United Kingdom

The Group’s principal place of business is Heathrow, where it operates from three of the five Terminals (Terminal 5, Terminal 3 and Terminal 4). The Group also operates from London City airport and Gatwick (among others).

Offices, maintenance hangars and other support facilities used by the Group at Heathrow, Gatwick, Cardiff, Glasgow and other UK airports are either owned freehold or held under long term leases from

the respective airport owners, principally BAA Limited or its subsidiaries. In addition, the Group occupies space and airport desks under lease or license in airports throughout the United Kingdom including (but not limited to) Manchester, Birmingham, Newcastle, Edinburgh and Glasgow.

Overseas

The Group's most important overseas base is at New York's John F. Kennedy International Airport where it leases its terminal building, Terminal 7. The lease on Terminal 7 runs through to 30 November 2015. A debt of \$200 million may become repayable if the Issuer does not renew the lease on this terminal. At other overseas airports, the Group generally obtains premises on a short term basis from the relevant authorities.

Operational Services

At Heathrow and Gatwick, British Airways provides most of the operational services it requires for the handling of passengers and cargo. At other UK airports and at overseas airports, British Airways subcontracts the provision of the majority of its ground handling requirements.

Runway, ramp and terminal facilities are provided by airport operators that charge airlines for the use of these facilities, principally through landing, parking and passenger charges. Navigation services are provided to the aircraft by countries through whose airspace they fly or by international bodies such as Eurocontrol. Navigation charges are generally based on distance flown and weight of aircraft.

The Group currently controls 42 per cent. of the landing slots at Heathrow. The Group's ability to obtain slots at airports for the purpose of producing schedules attractive to passengers is very important. Allocation of slots at a significant number of airports where the Group operates, including Heathrow and Gatwick, is decided by the Airport Co-ordinator who acts in accordance with guidelines laid down by IATA, sometimes supported by the local Scheduling Committee or Co-ordination Committee. Co-ordination of European airports is governed by Council Regulation (EC) No. 793/2004 (the "**Council Regulation**"). Pursuant to the Council Regulation, the UK Government must ensure that the Airport Co-ordinator acts independently and in a non-discriminatory manner. Regulations governing the allocation of slots in the US are different, but the US has stated that it is committed by its international obligations to treat all carriers in a non-discriminatory manner. There are minimum usage requirements imposed for the retention of slots rights at certain airports although the EU has suspended these requirements for the summer season of 2009.

4 Regulation

International regulation

The airline industry is subject to a high degree of international, European and UK government regulation covering most aspects of airline operations. This framework governs commercial activity (for example, route flying rights, fare setting and access to airport slots) as well as operational standards (relating to areas such as safety, security, aircraft noise, immigration and passenger rights).

The basis for international regulation of airline operations derives from the Chicago Convention of 1944, to which nearly all countries are parties. The Convention established the International Civil Aviation Organization under the auspices of which rules establishing minimum operational standards are normally agreed on a multilateral basis. Airlines' rights to fly over, or make stops in, foreign countries for technical reasons in operating their international scheduled services are generally derived from the International Air Services Transit Agreement of 1944 to which most countries are parties. However, rights to carry traffic between countries and the regulation of fares are normally agreed on a bilateral basis between governments. A notable exception is the multilateral single market arrangements which apply within the EU.

British airlines are also affected by wider European and UK policies, laws and regulation, particularly in relation to competition, airports and air traffic control.

Route flying rights

The Group's traffic rights to carry scheduled passengers and cargo on particular international routes outside Europe generally derive from air services agreements between the EU or the UK government and the governments of foreign states concerned. One ground on which a contracting government usually has the right to prevent the Group from operating the agreed services would arise where it was not satisfied that the Group was substantially owned and effectively controlled by the UK government or its nationals (or by EU citizens if there is a so-called "Community clause" that provides access to all airlines owned and controlled by EU citizens). For this reason, the Issuer's Articles of Association contain provisions that could be used to limit the rights of non-UK and non-European nationals who own shares in the Issuer.

In the EU, there is a single internal market for air transportation. The most significant elements of the single market legislation are a liberal pricing regime, free access to all routes within the EU for airlines and a carrier licensing procedure. Certain constraints continue to apply for infrastructure reasons. Under a separate agreement, EU single market policies have been extended to the European Economic Area comprising all the countries of the EU and the countries of the European Free Trade Area except Switzerland. Agreement has been reached between Switzerland and the EU which has the effect of bringing Switzerland into the same arrangements.

Under the UK Civil Aviation Act 1982, the CAA must balance a number of objectives in making air transport or route licensing decisions where applications to operate a particular route are contested. The CAA also has a process for the allocation of scarce bilateral capacity should this arise.

In its June 2002 policy review, the CAA said that the interests of users will be best served if airlines are free to operate air services in competition with one another according to their commercial judgements, subject only to the application of normal competition policy.

5 Administrative, Management and Supervisory Bodies

Board of Directors

The Directors of the Issuer as at 10 August 2009 are listed below, together with an indication of the principal activities performed by them outside the Issuer.

Martin Broughton

Chairman

Board member since May 2000, becoming non-executive Chairman in July 2004.

Willie Walsh

Chief Executive

Executive Board member since May 2005, becoming Chief Executive in October 2005. He is an honorary board member of Flight Safety International.

Keith Williams

Chief Financial Officer

Executive Board member since January 2006. He is a non-executive director of Transport for London.

Maarten van den Bergh

Non-Executive Director

Independent non-executive director since 2002, senior independent non-executive director since July 2004.

Baroness Kingsmill**Non-Executive Director**

Independent non-executive director since November 2004. She is a member of the Microsoft European Policy Council and adviser to Coutts & Co.

Jim Lawrence**Non-Executive Director**

Independent non-executive director since November 2006. He is Chief Financial Officer of Unilever.

Alison Reed**Non-Executive Director**

Independent non-executive director since December 2003.

Ken Smart**Non-Executive Director**

Independent non-executive director since July 2005. He is Chairman of the UK Aviation and Maritime Industries Confidential Human Factors Incident Reporting Programme, a member of the Flight Safety Foundation Board of Governors and a Visiting Professor at Cranfield University.

Baroness Symons**Non-Executive Director**

Independent non-executive director since July 2005. International adviser to DLA Piper, Rio Tinto, Consolidated Contractors Company, MerchantBridge and non-executive director of Caparo Group.

Alan Buchanan**Company Secretary**

Company Secretary since April 2000.

All Directors are subject to retirement every three years and are eligible for re-election by the shareholders.

The Board of Directors has four specific Committees: Audit Committee, Nominations Committee, Safety Review Committee and Remuneration Committee, consisting of the following Non-executive Directors:

- **Audit Committee:** Maarten van den Bergh, Baroness Kingsmill, Alison Reed (Chairman), Ken Smart, Baroness Symons,;
- **Nominations Committee:** Maarten van den Bergh, Martin Broughton (Chairman), Baroness Kingsmill;
- **Safety Review Committee:** Baroness Kingsmill, Ken Smart (Chairman), Baroness Symons; and
- **Remuneration Committee:** Maarten van den Bergh, Jim Lawrence (Chairman), Alison Reed.

Management Board

In the day-to-day running of the Issuer, the Chief Executive is supported by the Management Board, whose other members as at 10 August 2009 were Keith Williams (Chief Financial Officer), Robert Boyle (Director of Strategy and Business Units), Garry Copeland (Director of Engineering), Andrew Crawley (Director of Sales and Marketing), Silla Maizey (Acting Director of Customer) and Tony McCarthy (Director People and Organisational Effectiveness).

The members of the Management Board are designated as persons discharging managerial responsibility together with the 9 directors as at 10 August 2009.

The business address of each member of the Board of Directors and the Management Board is Waterside, PO Box 365, Harmondsworth, West Drayton, UB7 0GB.

There are no potential conflicts of interest between duties of the Directors or the members of the Management Board to the Issuer and their private interests and/or other duties.

6 Employees

As at 30 June 2009, the Group's "Manpower Equivalent" (incorporating part time and overtime worked) was 39,175. Approximately 85 per cent. of employees were based in the UK.

The Issuer has three main pension arrangements for UK employees: two closed defined benefit schemes and an open defined contribution scheme. The oldest UK scheme, Airways Pension Scheme ("APS"), was launched in 1948 and closed to new members in 1984. As at 31 March 2009, it had approximately 31,204 members: 85 per cent. pensioners, 10 per cent. deferred and 5 per cent. active. The New Airways Pension Scheme ("NAPS"), was launched in 1984 and closed to new members in 2003. As at 31 March 2009, it had approximately 68,892 members: 27 per cent. pensioners, 32 per cent. deferred and 41 per cent. active. Staff joining since April 2003 have joined the British Airways Retirement Plan, a defined contribution scheme with approximately 7,200 members as at 31 March 2009.

The last valuations of APS and NAPS were dated 31 March 2006 and completed in early 2007. At the date of the actuarial valuations the market values of the assets of APS and NAPS were £6,650 million and £5,832 million respectively, amounting to 100 per cent. (APS) and 74 per cent. (NAPS) of the value of benefits accruing to members allowing for future salary growth. The trustees of NAPS and the Issuer agreed a recovery plan for NAPS whereby the Issuer made a lump sum payment of £800 million (£240 million in February 2007 and £560 million in April 2007), limited future pay awards to inflation for pension purposes and committed to annual deficit payments of £126 million rising with inflation from April 2007 through to March 2016. Changes to the future benefits of NAPS were made at the same time, resulting in reduced accrual rates and later scheme retirement ages. The Issuer also committed to paying an additional contribution of up to £50 million should year end cash exceed £1.8 billion in either the year ended 31 March 2007, the year ended 31 March 2008 or the year ended 31 March 2009. A payment of £50 million was made in respect of the year ended 31 March 2008. Guarantees were provided to the schemes of £230 million (APS) and £150 million (NAPS), with the NAPS guarantee reduced to £100 million in line with the additional £50 million cash payment. The Issuer has agreed terms with the trustees of each of its defined benefit pension schemes in the UK to release these bank guarantees, further details of which are set out in "*Business overview – General facilities*" above.

The results of the March 2009 valuations are not likely to be available until later this year and then the Issuer and trustees will negotiate to agree suitable recovery plans for each scheme as appropriate.

There are also a number of overseas schemes for the Issuer's non-UK employees, details of which are included in the 2008/09 Annual Report & Accounts.

7 Legal and arbitration proceedings

Except as provided below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months before the date of this Offering Circular, which may have, or have had in the recent past, significant effects on the Issuer's and/or the Group's financial position or profitability.

There are ongoing investigations into the Issuer's passenger and cargo fuel surcharges by the European Commission and other jurisdictions which are likely to continue for some time. The Issuer is also subject to related class action claims. The final amount required to pay the remaining claims and fines is subject to uncertainty.

Claims from a group of claimants, who are attempting to create a class action, in relation to delayed baggage is being defended by the Issuer in conjunction with its insurers. The Issuer is in arbitration proceedings with its former franchise partner GB Airways Limited and is defending several employment cases including test cases in relation to holiday pay for pilots and for cabin crew. There are several other

employment-related cases including a claim related to the retirement age applicable to international cabin crew.

A £252 million provision was included in the accounts for the year ended 31 March 2009 but no detailed breakdown of this is provided as this could seriously prejudice the position of the Issuer in these regulatory investigations and potential litigation.

8 Dividends

The Issuer did not recommend a dividend to shareholders for the year ended 31 March 2009.

9 Employee share schemes and other share options

As at 31 July 2009, the Issuer had the following approved and unapproved employee share schemes: The British Airways Share Option Plan 1999 (with a balance of 1,825,851 approved options and 8,059,608 unapproved options outstanding); The British Airways Deferred Share Plan 2005 (with a balance of 482,972 shares under award); The British Airways Long Term Incentive Plan 1996 (with a balance of 714,878 options outstanding), and The British Airways Performance Share Plan 2005 (with a balance of 3,409,754 shares under award). As at 31 July 2009, the total number of options outstanding and shares under award was 14,493,063. The Issuer intends to proceed with its annual awards under the Performance Share Plan in August 2009.

10 Recent developments

Trading conditions for the Issuer continue to be very challenging with underlying revenue down 16.8 per cent. for the three months ended 30 June 2009 and the Issuer believes there are no visible signs of improvement.

Capacity for summer 2009 is expected to reduce by 3.5 per cent. compared to last year, with capacity for winter 2009 expected to reduce by 5 per cent. compared to last year. In addition to the 16 aircraft that are expected to be parked in winter 2009, the remaining 3 Boeing 757s are expected to be grounded in summer 2010 and a further 3 Boeing 747s are expected to be grounded during winter 2010.

The Issuer's permanent change programme is driven by pay and productivity and the Issuer believes is progressing well. Since 31 March 2009, the Group's "Manpower Equivalent" has reduced by 1,450 and approximately 7,000 employees have volunteered for schemes in support of the airline's cost reduction programme.

PRINCIPAL SHAREHOLDERS

As at 7 August 2009 (the latest practicable date prior to the publication of this Offering Circular), the Issuer was aware of the following persons who, directly or indirectly, were interested in 3 per cent. or more of the voting rights attached to the Issuer's share capital (calculated exclusive of treasury shares):

	Number of ordinary shares	Approximate percentage of the voting rights attached to the issued share capital
Iberia	115,077,695	9.98%
Franklin Templeton	82,951,000	7.19%
Standard Life Investments Limited	78,031,129	6.76%
Lloyds Banking Group plc	77,109,981	6.68%
Barclays PLC	57,631,916	5.00%
Legal & General Group plc	51,164,090	4.44%
BlackRock Inc.	50,583,548	4.39%

DESCRIPTION OF THE ORDINARY SHARES

The following summarises certain provisions of the Articles of Association of the Issuer (the “Articles”). This summary does not purport to be a complete description of the Articles.

These provisions will not be amended in any material way as a result of the adoption of the new articles of association of the Issuer which come into effect on 1 October 2009.

1 Share capital

As at the date of this Offering Circular, the Issuer’s authorised share capital is £490,000,000, comprising 1,959,999,999 ordinary shares of 25 pence each and one special voting share of 25 pence (the “**Special Voting Share**”) (which, as at the date of this Offering Circular, was held by L.D.C. (SPV No.1) Limited) in the Issuer, each credited as fully paid.

The Issuer’s shares are in registered form and shares have been issued in both certificated and uncertificated form. The Issuer’s registrar is Computershare Investor Services Plc, PO Box 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH.

The ISIN number for the Ordinary Shares is GB0001290575. Information relating to the Ordinary Shares and the past performance and volatility of the Ordinary Shares can be obtained at www.bashares.com.

2 Voting rights

Subject to the provisions of the Articles and to any other special rights or restrictions attached to any class of share, on a show of hands, every member who is entitled to vote and who is present in person or by proxy shall have one vote. On a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

No member shall, unless the Directors otherwise determine, be entitled to vote at a general meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Issuer if any call or other sum payable by him to the Issuer in respect of such shares remains unpaid.

3 Special voting share

The Special Voting Share does not entitle its holder(s) to any dividend or any other right to participate in the profits of the Issuer.

On a return of capital on a winding-up of the Issuer, the holder(s) of the Special Voting Share shall be entitled to receive (after the Ordinary Shareholders have received an amount equal to the nominal amount paid up on the Ordinary Shares held by them together with the sum of £100,000 on each Ordinary Share) an amount equal to the nominal value of such share. The Special Voting Share does not entitle its holder(s) to any further right of participation in the assets of the Issuer, whether on a winding-up, a reduction of capital or otherwise.

The Issuer shall, at any time, be entitled to redeem the Special Voting Share for an amount equal to the nominal value of such share. Notice of such redemption shall be given to the holder(s) of the Special Voting Share at least two business days prior to the date of redemption. The holder(s) of the Special Voting Share shall deliver the certificate representing the Special Voting Share to the Issuer on or prior to the date of redemption and from the date of redemption, such share certificate shall cease to be valid.

4 Voting rights attaching to the Special Voting Share

The holder(s) of the Special Voting Share shall only be entitled to attend, speak or vote at any general meeting if a Voting Notice has been delivered (unless a Termination Notice has become effective in

relation to such Voting Notice). The Special Voting Share shall at no time entitle its holder(s) to vote on a show of hands.

The holder(s) of the Special Voting Share shall be entitled to attend any General Meeting, and to cast on a poll the votes attaching to the Special Voting Share in accordance with the Articles at any time after the delivery of a Voting Notice to the holder(s) of the Special Voting Share.

- a “**Voting Notice**” is written notice in the form of a certificate signed by a Director or the Secretary which is served on the holder(s) of the Special Voting Share, which clearly and prominently states that it is a Voting Notice and which states that the Directors have determined, by reference to the Separate Non-UK Register (as defined below) and by reference to any other evidence that the Directors may (in their sole discretion) consider relevant, that UK Shares represent, or are reasonably likely to represent at the time of the next scheduled General Meeting of the Issuer, 50 per cent. or less of the issued Ordinary Shares of the Issuer (not including any shares held as treasury shares);
- “**UK Shares**” are all issued Ordinary Shares from time to time other than Relevant Non-UK Shares and other than any shares held as treasury shares;
- the “**Specified Number**” resolution of the Issuer shall be such number of votes (rounded upwards to the nearest whole number) as, when aggregated with the number of votes which are capable of being cast on such resolution by holders of UK Shares in respect of such UK Shares (assuming all such holders were to attend the relevant General Meeting and otherwise be entitled under these Articles to vote on such resolution), shall be equal to 50 per cent. of the total number of votes which (on the same assumptions) are capable of being cast on such resolution, plus one vote;
- a “**Termination Notice**” is a written notice in the form of a certificate signed by a Director or the Secretary which is delivered to the holder(s) of the Special Voting Share, which clearly and prominently states that it is a Termination Notice and which states that a particular identified Voting Notice shall cease to apply from the date specified in the Termination Notice or the date of delivery of such Termination Notice, whichever is the later;

The Directors may only serve a Voting Notice on the holder(s) of the Special Voting Share to protect any Operating Right (as defined below) of the Issuer or any subsidiary of the Issuer or the status of the Issuer or such subsidiary as a United Kingdom airline by reason of the fact that:-

- (i) an Intervening Act (as defined below) has taken place or is contemplated, threatened or intended;
- (ii) the aggregate number of Relevant Shares, particulars of which are entered in the Separate Non-UK Register is such that an Intervening Act may occur or be contemplated, threatened or intended; or
- (iii) the ownership or control of the Issuer is otherwise such that an Intervening Act may occur or be contemplated, threatened or intended,

in the case of each of (ii) and (iii) above, taking into account, *inter alia*, the likelihood of further increases in the aggregate number of Relevant Non-UK Shares and/or other changes in the ownership or control of the Issuer.

On any resolution, the Specified Number of votes attaching to the Special Voting Share may only be cast for such resolution, cast against such resolution, or not voted in respect of such resolution in the same proportions as the proportions in which holders of UK Shares (i) have validly cast votes attaching to such UK Shares in favour of such resolution; (ii) have validly cast votes attaching to such UK Shares against

such resolution; and (iii) have not cast votes attaching to such UK shares in relation to such resolution (in the case of (iii), whether or not such holders attend or are represented at the relevant General Meeting). For the avoidance of doubt, in any case where no votes whatsoever are cast on a resolution by holders of UK Shares in respect of such shares, no votes attaching to the Special Voting Share shall be cast on the resolution.

5 Variation of rights and alteration of capital

Subject to the provisions of the Articles and the Companies Act 1985 (the “**1985 Act**”) and the Companies Act 2006 (the “**2006 Act**”) (together the “**Statutes**”), whenever the share capital of the Issuer is divided into different classes of shares, the special rights attached to any class may be varied or abrogated either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class (excluding any shares held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated either whilst the Issuer is a going concern or during or in contemplation of a winding-up.

All of the provisions of the Articles relating to general meetings shall apply to any separate general meeting, except that the necessary quorum shall be at least two persons entitled to vote and holding or representing by proxy at least one-third in nominal value of the issued shares of the class excluding treasury shares (but so that at any adjourned meeting any holder of shares of that class present in person or by proxy shall be a quorum), and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder entitled to vote shall on a poll have one vote for every share of the class held by him.

Any variation or abrogation of the rights of the Special Voting Share shall only be effective with the consent in writing of the holder(s) of the Special Voting Share and this shall be an effective consent for the purposes of the first paragraph in this “*Variation of rights and alteration of capital*” section above.

The special rights attached to any class of shares having preferential rights shall not, unless otherwise expressly provided by the terms of issue thereof, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Issuer in some or all respects *pari passu* therewith but in no respect in priority thereto.

6 Dividends and other distributions

The Issuer may by ordinary resolution declare dividends. No such dividend shall exceed the amount recommended by the Directors.

If and so far as in the opinion of the Directors the profits of the Issuer justify such payments, the Directors may pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on the dates prescribed for the payment thereof and may also from time to time pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. For the purposes of these provisions no amount paid on a share in advance of calls shall be treated as paid on the share.

Subject to the provisions of the Statutes, where any asset, business or property is bought by the Issuer as from a past date the profits and losses thereof as from such date may at the discretion of the Directors in whole or in part be carried to revenue account and treated for all purposes as profits or losses of the Issuer. Subject as aforesaid, if any shares or securities are purchased cum dividend or interest, such

dividend or interest may at the discretion of the Directors be treated as revenue, and it shall not be obligatory to capitalise the same or any part thereof.

The Directors may retain any dividend or other monies payable on or in respect of a share on which the Issuer has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

7 Capital reserves

The Directors may, from time to time, set aside out of the profits of the Issuer and carry to reserve such sums as they think proper which, at the discretion of the Directors, shall be applicable for any purpose to which the profits of the Issuer may properly be applied and pending such application may either be employed in the business of the Issuer or be invested. The Directors may divide the reserve into such special funds as they think fit and may consolidate into one fund any special funds or any parts of any special funds into which the reserve may have been divided. The Directors may also, without placing the same to reserve, carry forward any profits. In carrying sums to reserve and in applying the same the Directors shall comply with the provisions of the Statutes.

8 Transfer of shares

Shares held in certificated form may be transferred in writing in any usual form or in any other form acceptable to the Directors. Shares which are held in uncertificated form may be transferred by means of a relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755) (the "**Regulations**")). The instrument of transfer of a certificated share must be executed by or on behalf of the transferor and (except in the case of fully-paid shares) by or on behalf of the transferee.

The Directors shall not register any person as a holder of any share in the Issuer (other than a holder of the Special Voting Share or an allottee under an issue of shares by way of capitalisation of profits or reserves made pursuant to these Articles or a stock exchange nominee or a depository) unless:-

- (i) in the case of shares held in certificated form, such person has given the Directors a signed declaration (or, in the case of a corporation, sealed by the corporation or signed on its behalf by an attorney or duly authorised officer of the corporation), stating (a) the name and nationality of any person who has an interest in any such share and (if such declaration or the Directors so require) the nature and extent of the interest of each such person; and/or (b) such other information as the Directors may from time to time determine;
- (ii) in the case of shares held in uncertificated form, the Directors receive such information relating to nationality as the Directors may from time to time determine through a relevant system (as defined in the Regulations).

The Directors shall, in any case where they may consider it appropriate, require such person or the Operator to provide such evidence or give such information as to the matters referred to in the declaration as they think fit.

The Directors may, subject to the Statutes, in the case of shares held in certificated form, in their absolute discretion and without assigning any reason therefore refuse to register a transfer of shares (not being fully paid shares) provided that, where any such shares are admitted to the Official List of the UK Listing Authority, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly.

The Directors may, in their absolute discretion, refuse to register any transfer of the Special Voting Share whatsoever.

9 Limitations on share ownership

The Issuer holds a number of authorities, permissions, licences and privileges pursuant to which it has the right to operate air services (the “**Operating Rights**”). Some of the Operating Rights are conditional on the Issuer being owned or controlled, to varying degrees, by United Kingdom nationals or by nationals of EU Member States. The purpose of this article is, accordingly, to enable the Issuer to ensure that so long as and to the extent that these conditions apply to the Operating Rights, the ownership of the Issuer satisfies the conditions.

The Directors can use various powers in order to prevent breach of the conditions attached to the Operating Rights. These powers are exercisable in respect of shares in the Issuer, other than the Special Voting Share or Exempted Shares, in which (depending on the condition breach of which is being prevented) Relevant Non-UK Persons, or Relevant Non-EU Persons, have an interest (being respectively “**Relevant Non-UK Shares**” and “**Relevant Non-EU Shares**” and Relevant Non-UK Shares together with Relevant Non-EU Shares “**Relevant Shares**”).

- a “**Relevant Non-UK Person**” includes any (i) individual who is a non-UK citizen, (ii) body corporate that is non-UK incorporated and that does not have its central place of business and central management and control in the UK (along with any persons that would be taken to be interested in shares held by such a company by virtue of ss. 822 and 823 of the 2006 Act) and (iii) any government, government agency or body, local authority or municipality otherwise than of, or established in, the UK;
- a “**Relevant Non-EU Person**” includes any (i) individual who is a non-EU citizen, (ii) body corporate that is incorporated outside the EU and that does not have its central place of business and central management and control in the EU (along with any persons that would be taken to be interested in shares held by such a company by virtue of ss. 822 and 823 of the 2006 Act) and (iii) any government, government agency or body, local authority or municipality otherwise than of, or established in, the EU;
- an “**Exempted Share**” includes any share in the Issuer that, at the material time, is held by a trustee (acting in such capacity) of (i) any approved employee share scheme established by the Issuer or its subsidiaries and approved in general meeting principally for the benefit of it or their employees, or (ii) any superannuation fund or retirement benefits scheme that has been approved by HMRC and is established wholly or mainly for UK employees of the Issuer; and
- a person is deemed to have an “**interest**” in relation to shares in circumstances which include where that person has an interest which would be taken into account, or which he would be taken as having, in determining whether that person has a notifiable interest under Part VI of the Companies Act 1985, however that person will not be deemed to be interested in such shares if that interest arises solely by way of his relationship with a spouse, infant child or step-child.

In order to monitor the number of Relevant Shares that are held and the details of the Relevant Non-UK Persons and/or Relevant Non-EU Persons (as appropriate) who are interested in those Relevant Shares, the Directors must maintain two additional share registers (together the “**Separate Registers**”), namely:

- (i) a “**Separate Non-UK Register**” on which the particulars of Relevant Non-UK Shares, including details of the Relevant Non-UK Person and the size of that interest, are recorded; and
- (ii) a “**Separate Non-EU Register**” on which the particulars of Relevant Non-EU Shares, including details of the Relevant Non-EU Person and the size of that interest, are recorded.

Where the Directors suspect a Relevant Non-UK Person or Relevant Non-EU Person is or may be interested in shares the Directors may order that those shares are Relevant Shares and, accordingly and provided that the suspicion is not disproved to the satisfaction of the Directors by the person so interested (or alleged to be so interested), enter such shares on the relevant Separate Register.

The Directors may apply these powers where they determine that it is necessary or desirable to take steps in order to protect any Operating Right of the Issuer or any subsidiary of the Issuer by reason of the fact that, among other things, an Intervening Act has occurred, may occur or may be contemplated, threatened or intended, in each case taking into account the likelihood of any further increases in the aggregate number of Relevant Shares.

An “**Intervening Act**” means the refusal, withholding, suspension or revocation of any Operating Right applied for, granted to or enjoyed by the Issuer or any subsidiary of the Issuer, or the imposition of any conditions or limitations upon any such Operating Right which materially inhibits the exercise thereof, in either case by any state, authority or person in reliance upon any provision or by reason of any matter or circumstance relating to the nationality of persons owning or controlling (however described) the Issuer.

Where the Directors have made such a determination, the Chairman or the Directors as a whole may take any of the following steps as are deemed necessary or desirable to overcome, prevent or avoid the Intervening Act or the risk thereof:

- (i) remove any Director before the expiration of his term of office;
- (ii) identify, or seek to identify, those shares or Relevant Shares the interests in which gave rise or contributed to the determination or would, in the sole opinion of the Directors, have given rise to such a determination and dealing with such shares as Affected Shares provided that the Special Voting Share is not treated as an Affected Share;
- (iii) specify aggregate maximum permitted numbers (each a “**Permitted Maximum**”) respectively of Relevant Non-UK Shares and Relevant Non-EU Shares (or vary any such numbers previously specified), provided that at no time a Permitted Maximum is less than 25 per cent. of the aggregate number of shares in issue, and at any point when the aggregate number of Relevant Non-UK Shares or Relevant Non-EU Shares is in excess of its respective Permitted Maximum, dealing with such of those Relevant Non-UK Shares or Relevant Non-EU Shares as it is decided as Affected Shares; and/or
- (iv) serve a Voting Notice.

An “**Affected Share**” is any share which the Directors have declared as such and in respect of which the Directors have certain additional powers. As a consequence of such declaration the Directors are required to serve a notice (an “**Affected Share Notice**”) on the registered holder of the share and on any other person who appears to the Directors to be interested in the share, specifying which of the additional powers are to be applied in respect of the Affected Shares. The Directors may from time to time serve further Affected Share Notices in respect of each Affected Share applying further of their powers.

In deciding which shares are to be dealt with as Affected Shares the Directors are, where applicable, entitled to have regard to the interests in Relevant Shares which, in their sole opinion, have directly or indirectly caused or contributed to the determination that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act. However, subject to such cases, the Directors are required, so far as practicable, to have regard to the chronological order in which particulars of Relevant Shares have been, or are to be, entered in the relevant Separate Register (and accordingly treat as Affected Shares those Relevant Shares which have been acquired, or details of which have been entered in the relevant Separate Register, most recently) save to the extent that the application of such criterion would in the sole opinion of the Directors be inequitable or would result in

their actions being illegal or unenforceable, in which event the Directors may apply such other criterion as they, in their absolute discretion, consider appropriate.

The transfer of any share shall be subject to the approval of the Directors if, in the opinion of the Directors, upon the completion of the transfer the share would become, or would be capable of being treated as, or would continue or be capable of continuing to be capable of being treated as, an Affected Share and the Directors may refuse to register the transfer of any such share. In the case of shares held in uncertificated form, the Directors may only exercise their discretion not to register a transfer if permitted to do so by the Regulations. However the Directors may make such arrangements as they consider fit to convert such shares from uncertificated to certificated form if such conversion might enable the Directors to exercise their discretion not to register a transfer.

The additional powers that the Directors may apply in respect of Affected Shares include the following:

- (i) the registered holder of the Affected Share on whom an Affected Share Notice has been served may be disentitled from exercising any right (in respect of such Affected Share) to attend, speak, vote or demand a poll vote at any general meeting of the Issuer or meeting of any class of shareholders of the Issuer;
- (ii) any person on whom an Affected Share Notice has been served may be required, within 10 business days of the Affected Share Notice being served, to dispose of his interest in the Affected Share (an “**Affected Share Disposal**”) so that:
 - (a) no Relevant Non-EU Person or no Relevant Non-UK Person (as appropriate) has an interest in that share; and
 - (b) the share ceases, to the satisfaction of the Directors, to be an Affected Share.

If an Affected Share Notice requires that an Affected Share Disposal be made and this is not done within 10 business days, the Directors may arrange for the sale of the Affected Share, on behalf of the registered holder and at the best price reasonably obtainable at the relevant time, so that the share ceases to be or to be capable of being treated as an Affected Share.

The net proceeds of an Affected Share Disposal that has been arranged by the Directors shall be received by the Issuer, shall be converted into sterling (where appropriate) and shall be held on trust for and paid (together with interest at such rate as the Directors consider appropriate) to the former registered holder upon surrender by him, of any certificate in respect of the Affected Shares sold and formerly held by him.

The Directors are not obliged to serve any notice normally required under the Articles upon any person if they do not know either his identity or address. The absence of service in such circumstances shall not prevent the implementation of or invalidate any procedure under the Articles. Otherwise, the general notice provisions contained in the Articles apply in the same manner with such consequential changes as are necessary.

At any time when the Directors have resolved to specify a Permitted Maximum or deal with any shares as Affected Shares they shall publish, within two business days of the making of such determination, notice of their determination that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act and of any Permitted Maximum which has been specified together with a statement of the provisions of the relevant article which can apply to Affected Shares and the name of the person or persons who will answer any enquiries relating to Affected Shares on behalf of the Issuer.

If at any time when a determination by the Directors has been made (and not withdrawn) that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act, a person enquires of the Directors (i) whether the aggregate number of Relevant Non-

EU Shares or Relevant Non-UK Shares exceeds any Permitted Maximum that applies or (ii) whether any shares in the Issuer which such person proposes to purchase or acquire an interest in would in the opinion of the Directors, be capable following such purchase or acquisition of becoming Affected Shares, the Directors shall, on sufficient information being given to them to enable them to answer the enquiry, notify the person whether, in their opinion, such shares would become or be capable of becoming Affected Shares. However, any such notification made by the Directors will not be binding on them or on the Issuer and shall not prevent such shares being subsequently identified as Affected Shares.

Any determination made by the Directors that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act shall apply until such time as the Directors resolve that the grounds for making such a determination have ceased to exist and that such determination shall be withdrawn. Upon such a withdrawal, the Directors shall cease to act pursuant to such determination and shall remove any Permitted Maximum that they may have specified. The Directors shall inform every person on whom an Affected Share Notice has been served in respect of an Affected Share which has not yet been subject to an Affected Share Disposal (whether by the registered holder or by the Issuer) that such provisions and requirements set out in the Affected Share Notice no longer apply in respect of such a share. The Directors shall serve a Termination Notice in respect of each Voting Notice that has been served.

10 Borrowing powers

The Directors may exercise all the powers of the Issuer to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (present and future) and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Issuer or of any third party. The Directors must restrict the borrowings (as defined in the Articles) of the Issuer and exercise all voting and other rights or powers of control exercisable by the Issuer in relation to its subsidiary undertakings (if any) so as to secure (but as regards subsidiary undertakings only in so far as by the exercise of the rights or powers of control the board can secure) that the aggregate principal amount for the time being remaining outstanding of all borrowings of the Group (exclusive of borrowings intragroup) shall not at any time without the previous sanction of an ordinary resolution of the Issuer exceed an amount equal to two and a half times the adjusted capital and reserves.

11 Directors

Appointment of Directors

Directors may be appointed by the Issuer by ordinary resolution or by the Directors. A Director appointed by the Directors will hold office only until the next Annual General Meeting.

No person other than a Director retiring at an Annual General Meeting will be eligible for appointment as a Director (unless he is recommended by the Directors for election), unless not less than seven nor more than forty-two days before the date appointed for the meeting, a member lodges a notice of his intention to propose such person for election at the Issuer's registered office. There must also be lodged notice in writing by the person to be proposed of his willingness to be elected.

Remuneration of Directors

Each of the Directors shall be paid a fee at such a rate as may be determined by the Directors provided that: (a) such fees are consistent with the Issuer's remuneration policy; (b) the Directors disclose their remuneration in the remuneration report; and (c) no Director shall be responsible for determining his or her own remuneration.

Any Director who holds any executive office, or who serves on any committee of the Directors, or who otherwise performs services which in the opinion of the Directors are outside the ordinary duties of a

Director, may be paid such extra remuneration by way of salary, commission or otherwise as the Directors may determine.

Each Director may also be paid reasonable expenses which may be incurred in attending and returning from meetings.

Executive Directors

The Directors may from time to time appoint one or more Directors to hold an executive office (including the office of Chairman or Deputy Chairman) on such terms and for such period as they may determine (subject to the Statutes). Subject to the terms of any contract entered into, the Directors may revoke such appointment.

The Directors may entrust to and confer upon any Director holding any executive office any of the powers exercisable by them as Directors upon such terms and conditions and with such restrictions as they think fit, and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

Retirement of Directors by rotation

Each Director shall retire from office at the third Annual General Meeting after the Annual General Meeting at which he was last elected. A retiring Director shall be eligible for re-election.

Restrictions on voting

If the Directors are considering proposals about appointing two or more Directors to positions with the Issuer or any company in which the Issuer is interested, these proposals can be split to deal with each Director separately. If this is done, each Director can vote and be included in the quorum for each resolution except one concerning his own appointment.

Save as provided for in the Articles, a Director shall not vote or be counted in the quorum on a resolution in respect of which he has an interest unless that interest is by virtue of his interests in shares or debentures or other securities of or otherwise through the Issuer or where that interest cannot reasonably be regarded as likely to give rise to a conflict of interest.

Subject to the provisions of the Statutes this prohibition will not apply where that interest is included in the following list:

- (i) the giving of any security, guarantee or indemnity to the Director in respect of money lent or obligations incurred by him or by any other person at the request of or for the Issuer or any of its subsidiary undertakings;
- (ii) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Issuer or any of its subsidiary undertakings for which the Director has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Issuer or any of its subsidiary undertakings for subscription or purchase in which offer the Director is or is to be interested as a holder of securities or as a participant in the underwriting or sub-underwriting thereof;
- (iv) any proposal concerning any other company in which the Director is interested (as the term is used in Part 2 of the 2006 Act) directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he (together with persons connected with him within the meaning of Section 252 of the 2006 Act) does not have an interest (as that term is used in ss. 820 to 825 of the 2006 Act) in one per cent. or more of the issued shares of any class of such company, calculated exclusive of any shares in such company held as treasury shares, (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company

(any such interest being deemed for the purpose of the relevant article to be a material interest in all circumstances);

- (v) any proposal relating to a superannuation fund or retirement benefits scheme or employees' share scheme which gives the Director benefits which are also generally given to the employees to whom the fund or Scheme relates;
- (vi) any proposal concerning any insurance which the Issuer can buy or renew for the benefit of any Directors or a group of people including Directors; or
- (vii) any proposal for the Issuer (a) to provide him with an indemnity permitted by the Statutes, (b) to provide him with funds in circumstances permitted by the Statutes to meet his defence expenditure in respect of any civil or criminal proceedings or regulatory investigation or other regulatory action or in connection with any application for any category of relief referred to in Part 10 of the 2006 Act or (c) to do anything to enable him to avoid incurring any such expenditure.

Directors' shareholdings

There is no requirement for a Director to hold shares in the Issuer.

12 Indemnity of officers

Subject to the provisions of the Articles and so far as may be consistent with the Statutes, every person who is or was at any time a Director, Secretary, other officer or employee of the Issuer, shall be entitled, if the Directors so resolve, to be indemnified by the Issuer out of its own funds against any expenses or liabilities incurred by him in or in connection with the actual or purported exercise and/or discharge of his duties and/or powers. If the Directors so resolve, the Issuer may also fund any such person's expenditure on defending any civil or criminal proceedings or regulatory investigation or other regulatory action or in connection with any application for any category of relief referred to in Part 10 of the 2006 Act, subject to the provisions of and so far as may be consistent with the Statutes.

13 Untraced shareholders

The Issuer may sell any shares in the Issuer on behalf of the holder of, or the person entitled to transmission to, the shares after advertising its intention to sell and waiting for three months if the shares have been in issue for at least 12 years preceding the relevant advertisement and during that period at least three cash dividends have become payable on them and have not been claimed or satisfied and, so far as any Director is aware, the Issuer has not received any communication during the relevant period from the holder of the shares or any person entitled to them by transmission of the shares or any person entitled to them by transmission. Upon such sale, the Issuer will become indebted to the former holder of the shares or the person entitled to them by transmission for an amount equal to the net proceeds of sale.

TAXATION

1 United Kingdom Taxation

The following is a general description of certain United Kingdom (“UK”) tax considerations relating to the Bonds and the Ordinary Shares. It does not purport to be a complete analysis of all UK tax considerations relating to the Bonds and the Ordinary Shares, relates only to persons who are the absolute beneficial owners of the Bonds and the Ordinary Shares and hold the Bonds and the Ordinary Shares as an investment, does not deal with certain classes of persons (such as dealers in securities, persons connected with the Issuer and those who are treated for tax purposes as having received their Bonds or Ordinary Shares by reason of their employment) and, save as specifically mentioned, applies only to Bondholders and Shareholders who are resident and (in the case of individuals) ordinarily resident in the UK for tax purposes.

This summary is based upon the Issuer’s understanding of UK tax law and HMRC practice as in effect on the date of this Offering Circular and is subject to any change in such law or practice that may take effect after such date (possibly with retrospective effect).

Prospective purchasers of Bonds who may be subject to tax in any jurisdiction other than the UK, or who have any doubt whatsoever as to their tax position, should consult an appropriate professional advisor without delay.

Withholding Tax and Interest on Bonds

The Bonds will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 so long as they are and continue to be listed on a recognised stock exchange within the meaning of Section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. On the basis of HMRC’s published interpretation of the relevant legislation and the application of Section 1005(3) of the Income Tax Act 2007, securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of FSMA) by the UKLA and are admitted to trading on the London Stock Exchange. HMRC 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. Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Bonds may be made without withholding or deduction for or on account of UK income tax.

In other cases, interest will generally be paid under deduction of income tax at the basic rate (currently 20 per cent.) subject to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty and subject to any other exemption that may be available to particular Bondholders.

If interest is 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 an applicable double taxation treaty.

The interest paid on the Bonds will have a UK source and accordingly may be chargeable to UK tax by direct assessment. In this event, where the interest is paid without withholding or deduction, the interest will not be assessed to UK tax in the hands of Bondholders who are not resident for tax purposes in the UK, except where such persons carry on a trade, profession or vocation in the UK through a UK branch or agency or, in the case of corporate Bondholders, carry on a trade through a permanent establishment in the UK in connection with which the interest is received or to which the Bonds are attributable, in which case tax may be levied on the UK branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agents. Exemption from, or reduction of, such UK tax liability may be available under an applicable double taxation treaty.

The above description of the UK withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

Provision of Information

Bondholders who are individuals should note that, where any interest on Bonds is paid to them (or to any person acting on their behalf) by any person in the UK acting on behalf of the Issuer (a “paying agent”), or is received by any person in the UK acting on behalf of the relevant Bondholder (other than solely by clearing or arranging the clearing of a cheque) (a “collecting agent”), then the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the Bondholder (including the Bondholder’s name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of UK income tax and whether or not the Bondholder is resident in the UK for UK taxation purposes. Where the Bondholder is not so resident, the details provided to HMRC may, in certain cases, be passed by HMRC to the tax authorities of the jurisdiction in which the Bondholder is resident for taxation purposes.

Interpretation

References to “interest” above are to “interest” as understood in UK tax law. The statements above do not take any account of any different definitions of “interest” which may prevail under any other law.

Conversion, redemption and transfer of the Bonds

Bondholders within the charge to UK corporation tax

The UK taxation treatment for a Bondholder within the charge to UK corporation tax will depend on, amongst other things, the accounting treatment of a Bond in the Bondholder’s hands, including whether or not the Bonds are regarded as containing an “embedded derivative” as an accounting matter. The accounting treatment will also affect the tax treatment of a disposal of the Bonds (including a disposal occurring on redemption or conversion). Bondholders within the charge to UK corporation tax should therefore consult their own accounting and tax advisers concerning their tax liabilities that may arise as a result of holding the Bonds or as a result of the disposal or conversion of the Bonds.

Other UK taxpayers

The Bonds should not be treated as “deeply discounted securities” for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005. The transfer of a Bond by a Bondholder resident or ordinarily resident for tax purposes in the UK or who carries on a trade, profession or vocation in the UK through a branch or agency to which the Bond is attributable and who is not within the charge to UK corporation tax (for the purposes of this section, a “UK income tax payer”) may, therefore, give rise to a chargeable gain or allowable loss for the purposes of the UK taxation of chargeable gains.

Furthermore, a disposal of a Bond (including a disposal occurring on redemption or conversion) by a Bondholder who is a UK income tax payer may give rise to a charge to UK income tax in respect of an amount treated under the provisions of Chapter 2 of Part 12 of the Income Tax Act 2007 (Accrued Income Profits and Losses) as representing interest accrued on the Bonds at the time of transfer. The Bonds may constitute “variable rate securities” for these purposes. If so, the accrued income for tax purposes in respect of a transfer of the Bonds will be computed on a just and reasonable basis. A transferee of the Bonds will generally not be entitled to any relief for any amount of income that has accrued prior to the date of transfer, except to the extent that it falls to be taken into account in the application of the just and reasonable basis of charge on a subsequent disposal of the Bonds.

On conversion, interest which is deemed to have accrued since the last interest payment date may be chargeable to UK tax as income under Chapter 2 of Part 12 of the Income Tax Act 2007 (Accrued Income Profits and Losses) even though, on conversion, accrued interest may not be payable. In those

circumstances an amount equal to the deemed accrued interest may be treated for the purposes of the UK taxation of chargeable gains as consideration given by the Bondholder for the Ordinary Shares received on conversion.

For a Bondholder who is a UK income tax payer and therefore not within the charge to UK corporation tax, conversion of the Bonds should not be treated as a disposal of the Bonds (except for the purpose of an adjustment for accrued interest) and should not of itself give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

Dividends on Ordinary Shares

The Issuer will not be required to withhold any amount for or on account of UK tax at source when paying a dividend in respect of the Ordinary Shares.

A Shareholder who is an individual resident in the UK for tax purposes and who receives a dividend from the Issuer will be entitled to a tax credit which such Shareholder may set off against his or her total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), which equates to one-ninth of the dividend received. Where such a Shareholder is liable to income tax at the starting rate for savings or the basic rate, he or she will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full the liability of such Shareholder to income tax on the dividend. In the case of such a Shareholder who is liable to income tax at the higher rate, he or she will be subject to tax on the dividend at the rate of 32.5 per cent. of the gross dividend and the tax credit will be set against the liability of such Shareholder on the gross dividend and such Shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which equates to 25 per cent. of the dividend received) to the extent that the gross dividend, when treated as the top slice of such Shareholder's income, falls above the threshold for higher rate income tax. A Shareholder who is an individual resident in the UK for tax purposes and who is not liable to income tax in respect of the gross dividend will not be entitled to repayment of the tax credit. A Shareholder who is an individual resident in the UK for tax purposes should note that the Finance Act 2009 includes legislation which provides for an additional rate of income tax, which the UK government proposes to introduce with effect from 6 April 2010 at a rate of 50 per cent. for taxable income above £150,000. If implemented from 6 April 2010, a new rate of tax of 42.5 per cent. will also apply to the gross dividend to the extent such Shareholder's taxable income for the relevant tax year exceeds the £150,000 threshold. If the new 42.5 per cent. rate of tax is applied in the same way as the existing rates, the tax credit will be set against the liability of such Shareholder on the gross dividend and such Shareholder will have to account for additional tax equal to 32.5 per cent. of the gross dividend (which equates to approximately 36.1 per cent. of the dividend received).

UK resident Shareholders other than individuals who are not liable to tax on dividends, including pension funds and charities, will not be entitled to repayment of tax credits attaching to dividends.

Subject to special rules for Shareholders that are small companies, UK resident Shareholders within the charge to UK corporation tax will be subject to UK corporation tax on dividends paid by the Issuer, unless the dividends fall within an exempt class and certain conditions are met. It is expected that the dividends paid by the Issuer would generally be exempt. Such Shareholders will not be able to claim repayment of tax credits attaching to dividends.

Shareholders who are not resident in the UK for tax purposes should consult their own tax advisers concerning their tax liabilities on dividends received from the Issuer.

Disposal of Ordinary Shares

A disposal of Ordinary Shares will constitute a disposal for the purposes of the UK taxation of chargeable gains and, accordingly, may give rise to a liability to taxation for Shareholders who are resident or (in the case of Shareholders who are individuals) ordinarily resident for tax purposes in the UK or who carry on a trade, profession or vocation in the UK through a branch or agency (in the case of Shareholders who

are individuals) or who carry on a trade through a permanent establishment (in the case of Shareholders within the charge to UK corporation tax) to which the relevant Ordinary Shares are attributable, subject to any reliefs and allowances (including indexation allowance, if appropriate) which may then be available.

UK Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

No UK stamp duty or SDRT will be payable on the issue of the Bonds.

No SDRT will generally be payable on the transfer of, or an agreement to transfer, the Bonds, except where the agreement to transfer the Bonds is made in contemplation of, or as part of an arrangement for, a takeover of the Issuer for the purposes of section 90(3F) Finance Act 1986. No UK stamp duty will be payable on the transfer of the Bonds provided that such transfer occurs by delivery and not by means of an instrument of transfer.

The written conveyance or transfer on sale of an Ordinary Share will generally be liable to UK ad valorem stamp duty, generally at the rate of 0.5 per cent. of the amount or value of the consideration for the transfer rounded-up to the nearest £5. The purchaser normally pays the stamp duty.

An unconditional agreement to sell an Ordinary Share will generally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration for the sale. If a duly stamped transfer in respect of the agreement is produced within six years of the date on which the agreement is entered into or (if later) the date on which it becomes unconditional, any SDRT paid is repayable, generally with interest, and the SDRT charge is cancelled.

Neither stamp duty nor SDRT will generally be payable where the amount or value of the consideration for the transfer of Ordinary Shares is £1,000 or under and there is an instrument of transfer certified at £1,000.

Issues (including on a conversion of the Bonds) or transfers of Ordinary Shares (1) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts within Section 67 or Section 93 of the Finance Act 1986 or (2) to, or to a nominee or agent for, a person providing a clearance service within Section 70 or Section 96 of the Finance Act 1986, will generally be subject to stamp duty or SDRT at the rate of 1.5 per cent. of the amount or value of the consideration or, in certain circumstances, the value of the shares so transferred (rounded up to the nearest £5 in the case of stamp duty) unless, in the case of an issue or transfer to a clearance service, the clearance service in question has made an election under Section 97A of the Finance Act 1986 which applies to the Ordinary Shares. Under Section 97A of the Finance Act 1986, a clearance service may, provided it meets certain conditions, elect for the 0.5 per cent. rate of stamp duty or SDRT to apply to transfers of securities within such service instead of the 1.5 per cent. rate applying to an issue or transfer of such securities into such service.

No stamp duty or SDRT will be payable by the Bondholders on an issue of Ordinary Shares to them (or their nominee on their behalf) into CREST on a conversion of the Bonds unless that Bondholder is within the category of persons referred to in sub-paragraphs (1) or (2) of the paragraph above. Under the CREST system for paperless share transfers, transfers of Ordinary Shares within CREST for a consideration in money or money’s worth will be liable to SDRT rather than stamp duty (usually at a rate of 0.5 per cent. of the amount or value of the consideration).

2 EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (which has been implemented into UK law), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or similar income paid by a person within its jurisdiction to, or collected by a person for, an individual resident, or certain limited types of entities established, in that other Member State. However, for a transitional period, Austria, Belgium and Luxembourg are instead required to apply

a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent., unless during such period they elect otherwise.

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 territories have agreed to adopt similar measures (either provision of information or transitional withholding).

On 24 April 2009, the European Parliament approved an amended version of certain changes proposed by the European Commission to these provisions which would, if implemented, cause them to apply in a wider range of circumstances.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Deutsche Bank AG, London Branch, HSBC Bank plc, Merrill Lynch International and RBS Hoare Govett Limited (together, the “**Joint Lead Managers**”) and Calyon, Citigroup Global Markets Limited, Goldman Sachs International, J.P. Morgan Securities Ltd. and UBS Limited (the “**Co-Lead Managers**”) and together with the Joint Lead Managers, the “**Managers**”) have entered into a subscription agreement dated 17 July 2009 with the Issuer (the “**Subscription Agreement**”). Upon the terms and subject to the conditions contained therein, the Joint Lead Managers have severally agreed to subscribe or procure subscribers for the aggregate principal amount of the Bonds at the issue price of 100 per cent. of their principal amount (the “**Issue Price**”).

The Subscription Agreement may be terminated in certain circumstances prior to the issue of the Bonds.

The Issuer has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Bonds. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

The Issuer has undertaken that during the period commencing on the date of the Subscription Agreement and ending 90 days thereafter (both dates inclusive), that it will not, and the Issuer has undertaken to procure that none of its subsidiaries will, without the prior written consent of the Joint Lead Managers on behalf of the Managers, (i) directly or indirectly, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase, purchase any option or contract to issue or sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or Relevant Securities or any securities convertible into or exercisable or exchangeable for Ordinary Shares or Relevant Securities or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of Ordinary Shares or Relevant Securities, whether any such swap or transaction described in paragraph (i) or (ii) above is to be settled by delivery of Ordinary Shares or Relevant Securities or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (a) the issue of the Bonds or (b) any Ordinary Shares issued pursuant to the conversion of the Bonds or (c) the issue of Ordinary Shares pursuant to any options, warrants or other rights existing on the date of the Subscription Agreement and described in this Offering Circular or (d) the issue of Ordinary Shares pursuant to any employee share schemes existing on the date of the Subscription Agreement and described in this Offering Circular. For the purposes of this paragraph “**Relevant Securities**” shall include any participation certificates and any depositary or other receipt, instrument, rights or entitlement representing Ordinary Shares.

The Managers and their respective affiliates have, in the past, performed investment banking and advisory services for the Issuer and the Group for which they have received customary fees and expenses. The Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and the Group in the ordinary course of their respective businesses.

Purchase of Bonds

The Bonds are a new issue of securities with no established trading market. Accordingly, the Issuer cannot assure investors of the liquidity of the trading market for the Bonds.

Purchasers who purchase Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Issue Price.

In connection with the offering of the Bonds, each Manager and/or its affiliates may act as an investor for its own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell

for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Bonds being offered should be read as including any offering of Bonds to the Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

United States

The Bonds and the Ordinary Shares to be issued or delivered upon conversion of the Bonds have not been and will not be registered under the Securities Act, and the Bonds are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds and the Ordinary Shares to be issued or delivered upon conversion of the Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the Securities Act). Each Manager has agreed that it will not offer, sell or deliver any Bonds or Ordinary Shares to be issued upon conversion of the Bonds within the United States or to U.S. persons (as defined in the Securities Act), except as permitted by the Subscription Agreement.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds or Ordinary Shares to be issued upon conversion of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

- (a) 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; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

Dubai International Financial Centre

This Offering Circular relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“**DFSA**”). This Offering Circular is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Circular nor taken steps to verify the information set forth herein and has no responsibility for the Offering Circular. The Bonds to which this Offering Circular relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Bonds offered should conduct their own due diligence on the Bonds, and the Ordinary Shares to be issued on conversion of the Bonds. If you do not understand the contents of this Offering Circular you should consult an authorised financial advisor.

Switzerland

Neither this Offering Circular nor any documents related to the Bonds constitute a prospectus within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations. The Bonds will not be listed on the SIX Swiss Exchange or any other regulated securities market in Switzerland, and consequently, the information presented in this Offering Circular does not necessarily comply with the information standards set out in the listing rules of SIX Swiss Exchange. Accordingly, the Bonds have not been and may not be publicly offered or sold in Switzerland, as such term is defined or interpreted under the Swiss

Code of Obligations. In addition, the Bonds do not constitute a participation in a collective investment scheme in the meaning of the Swiss Collective Investment Schemes Act (“**CISA**”) and they are neither subject to approval nor supervision by the Swiss Federal Banking Commission. Therefore, investors in the Bonds do not benefit from protection under CISA or supervision by the Swiss Federal Banking Commission or any other regulatory authority in Switzerland.

General

No action has been or will be taken in any jurisdiction by the Managers or the Issuer that would to the best of their knowledge permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Each Manager has represented, warranted and agreed that the Bonds have not been and will not be offered, sold or publicly promoted or advertised by it in Canada, Japan, Australia, South Africa or in any other jurisdiction in which offers or sales would (to the best of its knowledge and belief) be prohibited by applicable law.

GENERAL INFORMATION

1 Listing

Application has been made to the UKLA for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the Professional Securities Market. It is expected that admission of the Bonds to the Official List of the UKLA and admission to trading of the Bonds on the Professional Securities Market of the London Stock Exchange will be granted on or around 13 August 2009, subject to the issue of the Bonds. It is expected that dealings in the Bonds will commence on 14 August 2009.

The Issuer has undertaken to apply to have the Ordinary Shares issuable upon conversion of the Bonds admitted to the Official List of the UKLA and admitted to trading on the London Stock Exchange's Regulated Market.

2 Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The creation and issue of the Bonds has been authorised by a resolution of the Board of Directors of the Issuer dated 13 July 2009 and resolutions of a Committee of the Board of Directors dated 16 July 2009, 17 July 2009 and 7 August 2009.

At a general meeting of the Issuer held on 6 August 2009, the Directors were authorised to allot relevant securities convertible into ordinary shares with an aggregate nominal amount of up to £63,710,685 as if section 89 of the Companies Act 1985 did not apply to them.

3 Expenses

The Issuer estimates that the amount of expenses related to the admission to trading of the Bonds will be approximately £7,175.

4 Clearing

The Bonds have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems. The Common Code for the Bonds is 044005778. The International Securities Identification Number for the Bonds is XS0440057783. The address of Euroclear is 1 Boulevard du Roi Albert I, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

5 Yield

The yield to maturity of the Bonds is 5.80 per cent. per annum, payable semi-annually in equal instalments in arrear. The yield is calculated as at the Closing Date and on the basis of the Issue Price. It is not an indication of future yield.

6 Financial and Trading Position

Save as disclosed in this Offering Circular under "*Business Description – Recent developments*" above, there has been no material adverse change in the prospects of the Issuer or of the Issuer and its subsidiaries taken as a whole since 31 March 2009, nor has there been any significant change in the financial or trading position of the Issuer or of the Issuer and its subsidiaries taken as a whole since 31 March 2009.

7 Financial Information

The consolidated financial statements of the Issuer have been audited without qualification as at and for the years ended 31 March 2008 and 2009 by Ernst & Young LLP, who are registered by the Institute of Chartered Accountants in England and Wales to carry out audit work.

8 Principal Objects

The Issuer's memorandum of association provides that the Issuer's objects are, among other things, to carry on business as an airline and air transport undertaking providing air transport services. The Issuer's objects are set out in full in clause 4 of the Issuer's memorandum of association which is available for inspection at the address specified in "Documents on Display" below.

At its Annual General Meeting on 14 July, 2009 the Issuer resolved to adopt new articles of association (the "**New Articles**") with effect from 1 October 2009 in order to update its current articles of association primarily to take account of the implementation on 1 October 2009 of the remaining parts of the Companies Act 2006.

One of the principal alterations to the articles of association concerns the objects clause. The Companies Act 2006 significantly reduces the constitutional importance of a company's memorandum. Further, the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for the Issuer to have an objects clause. Therefore the Issuer is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the New Articles as of 1 October 2009. As the effect of this resolution will be to remove the statement currently in the Issuer's memorandum of association regarding limited liability, Article 3 in the New Articles contains an express statement regarding the limited liability of the shareholders.

9 Third Party Information

Where information in this Offering Circular has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of the third party information has been identified where used.

10 Material Contracts

The following contracts directly concerning the issue of the Bonds will, shortly after the date of this Offering Circular, be, or have already been, entered into by the Issuer and are, or may be, material to the Issuer's ability to meet its obligation to Bondholders in respect of the Bonds:

- (1) the Trust Deed to be dated 13 August 2009 between the Issuer and The Law Debenture Trust Corporation p.l.c. as Trustee, constituting the Bonds and appointing the Trustee to act in that capacity and under which such fees in respect of the services of the Trustee as shall be agreed between the Issuer and the Trustee are to be paid;
- (2) the Paying and Conversion Agency Agreement to be dated 13 August 2009 between the Issuer, Citibank, N.A., London Branch, the Trustee and others setting out, *inter alia*, the terms of appointment and duties of Citibank, N.A., London Branch in its capacity as Principal Paying and Conversion Agent and under which such fees in respect of the services of the agents as shall be agreed between them and the Issuer are to be paid; and
- (3) the Subscription Agreement dated 17 July 2009 between the Issuer and the Managers, under which the Managers have agreed to subscribe for the aggregate principal amount of the Bonds at the issue price of 100 per cent. of their principal amount.

11 Documents on Display

Copies of the following documents may be inspected during normal business hours at the offices of the Principal Paying and Conversion Agent (currently 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom) during the 12 months starting on the date on which this Offering Circular is made available to the public:

- (a) until 1 October 2009, the Memorandum and Articles of Association of the Issuer and the New Articles and from 1 October 2009, the New Articles only;
- (b) the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 March 2008 and 2009, together in each case with the audit report thereon, and the unaudited interim management statement of the Issuer as at and for the three month period ended 30 June 2009;
- (c) from 13 August 2009, the Trust Deed; and
- (d) from 13 August 2009, the Paying and Conversion Agency Agreement.

In addition, this Offering Circular is also available at the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com.

CERTAIN DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“American Airlines”	American Airlines, Inc.
“Board of Directors”	the board of directors of the Issuer
“CAA”	Civil Aviation Authority
“Directors”	the Executive Directors and the Non-Executive Directors
“Euro”	the 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
“Executive Directors”	the executive directors of the Issuer
“Group”	the Issuer and its subsidiaries
“HMRC”	H.M. Revenue and Customs
“IATA”	International Air Transport Association
“Iberia”	Iberia, Líneas Aéreas de España, S.A.
“Non-Executive Directors”	the non-executive directors of the Issuer
“pounds sterling”, “Sterling”, “£” and “pence”	the lawful currency of the United Kingdom
“Qantas”	Qantas Airways Limited
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States”, “US” or “U.S.”	the United States of America
“US Dollars” or “\$”	the lawful currency of the United States of America
“Yen”	the lawful currency of Japan

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