

# BRITISH AIRWAYS



BRITISH AIRWAYS PLC ✓

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

**£250,000,000**

**7.25 per cent. Bonds due 2016**

**Issue price: 99.873 per cent.**

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**Barclays Capital**

**UBS Warburg**

**HSBC**

**JPMorgan**

**The Royal Bank of Scotland**

**Schroder Salomon Smith Barney**



British Airways Plc (the "Issuer" or "British Airways") accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (having 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.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services Act 1986 (the "UK Listing Authority") for the £250,000,000 7.25 per cent. Bonds due 2016 (the "Bonds") to be admitted to listing on the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Bonds to be admitted to trading on the London Stock Exchange's market for listed securities, which together, under the listing rules of the UK Listing Authority, will constitute official listing on the London Stock Exchange.

This document comprises listing particulars prepared in compliance with the listing rules made under section 142 of the Financial Services Act 1986 by the UK Listing Authority for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries (together the "Group") and the Bonds. Copies of this document, which comprises listing particulars with regard to the Bonds in accordance with the listing rules made under Part IV of the Financial Services Act 1986, have been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 149 of that Act.

The Bonds will initially be represented by a temporary global Bond (the "Temporary Global Bond"), without interest coupons, which will be deposited on or about 23 August 2001 (the "Closing Date") with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global Bond (the "Permanent Global Bond" and, together with the Temporary Global Bond, the "Global Bonds"), without interest coupons, on or after 2 October 2001 (the "Exchange Date"), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances – see *"Summary of Provisions relating to the Bonds while represented by the Global Bonds"*.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Managers (as defined under *"Subscription and Sale"* below). Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or the Group since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Managers to subscribe for, or purchase, any of the Bonds. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Managers and the Trustee have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers, the Trustee or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Bonds or their distribution.

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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 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, and its own appraisal of the creditworthiness, of the Issuer.

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

In connection with the issue of the Bonds, UBS AG, acting through its business group UBS Warburg may over-allot or effect transactions which stabilise or maintain the market price of the Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

All references in this document to "sterling" and "£" refer to the currency of the United Kingdom.

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## Conditions of the Bonds

*The following is the text of the Conditions of the Bonds which (subject to modification) will be endorsed on each Bond in definitive form (if issued):*

The £250,000,000 7.25 per cent. Bonds due 2016 (the "Bonds", which expression shall in these Conditions, unless the context otherwise requires, include any further Bonds issued pursuant to Condition 16 and forming a single series with the Bonds) of British Airways Plc (the "Issuer") are constituted by a Trust Deed dated 23 August 2001 (the "Trust Deed") made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include its successor(s)) as trustee for the holders of the Bonds (the "Bondholders"), the holders of the interest coupons appertaining to the Bonds (the "Couponholders" and the "Coupons" respectively) and, if applicable, the holders of the talons for further Coupons (the "Talonholders" and "Talons" respectively). Any reference in these Conditions to Coupons or Couponholders shall, unless the context otherwise requires, be deemed to include a reference to Talons or Talonholders. The issue of the Bonds was duly authorised by a resolution of a Standing Committee of the Board of Directors of the Issuer dated 3 July 2001.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 23 August 2001 (the "Agency Agreement") made between the Issuer, the initial Paying Agents and the Trustee are available for inspection during normal business hours by the Bondholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. 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 the Agency Agreement applicable to them.

### **1. FORM, DENOMINATION AND TITLE**

#### **(1) Form and Denomination**

The Bonds are in bearer form, serially numbered, in the denominations of £1,000, £10,000 and £100,000 each with Coupons (and, if applicable, one Talon) attached on issue.

#### **(2) Title**

Title to the Bonds, to the Coupons and to the Talons will pass by delivery.

#### **(3) Holder Absolute Owner**

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Bond or Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such holder.

### **2. STATUS**

The Bonds and the Coupons constitute direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

### **3. NEGATIVE PLEDGE**

So long as any of the Bonds remains outstanding (as defined in the Trust Deed) the Issuer will not create or have outstanding any mortgage, charge, pledge, lien (other than arising by operation of law) or other security interest on the whole or any part of its assets, revenues or uncalled capital, present or future, to secure any present or future Securities of the Issuer or to secure any guarantee or indemnity by the Issuer in respect of or to secure any present or future Securities of a third party unless simultaneously with, or prior to, the creation of such mortgage, charge, pledge, lien or other security interest there shall be taken any and all action necessary to procure that such mortgage, charge, pledge, lien or other security interest is extended equally and rateably to all amounts payable by the Issuer under the Bonds 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 purpose of these Conditions "Securities" means any indebtedness for borrowed money (as defined in the Trust Deed) which is in the form of or represented by any bonds, notes, loan stock or other securities which have a final maturity of more than three years from the date of their creation and 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.

#### 4. INTEREST

- (a) The Bonds bear interest from (and including) 23 August 2001 (the "Closing Date") at the Applicable Rate (as defined below) payable in arrear on 23 February and 23 August in each year (each an "Interest Payment Date"). All amounts of interest will be rounded to the nearest penny (half a penny being rounded upwards). The Applicable Rate in respect of the Interest Period (as defined below) from (and including) the Closing Date to (but excluding) the first Interest Payment Date is 7.25 per cent. per annum.

Each Bond will cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond or the relevant part thereof is improperly withheld or refused or unless default is otherwise made in respect of such payment, in which event interest shall continue to accrue as provided in the Trust Deed.

The period from (and including) the Closing Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date is herein referred to as an "Interest Period".

Interest will be calculated on the basis of (A) the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if the relevant payment date falls before the first Interest Payment Date, the Closing Date) to (but excluding) the relevant payment date divided by (B) twice the actual number of days in the relevant Interest Period or, if such calculation is to be made for less than a full Interest Period, twice the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if the relevant payment date falls before the first Interest Payment Date, the Closing Date) to (but excluding) the next (or first) scheduled Interest Payment Date.

- (b) The "Applicable Rate" in respect of each Interest Period shall be the rate per annum determined from the table set out below by reference to the ratings assigned to the Bonds by Moody's Investors Service Limited ("Moody's") and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") as at 00:01 hours (London time) on the first day of the relevant Interest Period (the "Determination Time") on the basis that:
- (i) if the rating assigned to the Bonds by Moody's and S&P appear in the same row in the table below, the Applicable Rate will be the Applicable Rate set out in that row;
  - (ii) if the ratings assigned to the Bonds by Moody's and S&P do not appear in the same row in the table below then the Applicable Rate shall be as set out in the row in which the lower such rating appears; and
  - (iii) if at the Determination Time only one rating is assigned to the Bonds, the Applicable Rate shall be the rate set out in the same row as such rating category in the table below:

Row No.	Rating Category		Applicable Rate
	Moody's	S&P	
1	Aaa	AAA	6.5 per cent.
2	Aa1	AA+	6.625 per cent.
3	Aa2	AA	6.75 per cent.
4	Aa3	AA-	6.875 per cent.
5	A1	A+	7 per cent.
6	A2	A	7.125 per cent.
7	A3	A-	7.25 per cent.
8	Baa1	BBB+	7.25 per cent.
9	Baa2	BBB	7.5 per cent.
10	Baa3	BBB-	7.75 per cent.
11	Ba1 or below	BB+ or below	8.75 per cent.

So long as any of the Bonds remains outstanding, the Issuer shall use all reasonable endeavours to procure a rating in respect of the Bonds from each of Moody's and S&P. In the event that, and for such time as, the Issuer is unable to procure a rating from either Moody's or S&P or both of them, it shall use all reasonable endeavours to procure a rating from a rating organisation recognised in the financial markets and approved in writing by the Trustee (a "Substitute Rating Agency"). The Issuer may, in the event that either Moody's or S&P (or, as the case may be, any relevant Substitute Rating Agency) ceases business or ceases to provide ratings, with the prior written approval of the Trustee, replace such rating agency for the purpose of this Condition 4(b) with a Substitute Rating Agency.

If the rating designations employed by either Moody's or S&P are changed from those which are set out in the table above, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, with the agreement of the Trustee, the rating designations of Moody's, S&P or such Substitute Rating Agency (as appropriate) as are most nearly equivalent to the prior rating designations of Moody's and S&P and, accordingly, the Applicable Rate which would apply to the Bonds in respect of each such rating.

If at any relevant time the Bonds shall not be rated by either Moody's, S&P, a Substitute Rating Agency and/or, as the case may be, no such determinations in respect of the ratings designations as aforesaid shall have been made, the Applicable Rate shall be the highest Applicable Rate set forth in the table above for each Interest Period commencing on or after such time and up to (and including) the Interest Period ending on or immediately after such time as the Applicable Rate is able to be determined in accordance with the foregoing paragraphs of this Condition 4(b).

The Issuer shall procure the notification of any change in the Applicable Rate, any appointment of a Substitute Rating Agency and/or any change in rating designations to the Trustee, any Paying Agent, any stock exchange on which the Bonds are for the time being listed and the Bondholders as soon as practicable after such change becomes effective.

The Trustee is under no obligation to ascertain whether a change in the rating assigned to the Bonds by Moody's or S&P or any Substitute Rating Agency or a change in the Applicable Rate has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume that no such change in the rating assigned to the Bonds or in the Applicable Rate has occurred.

## **5. PAYMENTS AND EXCHANGE OF TALONS**

### **(1) Payments in respect of Bonds**

Payments of principal and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

### **(2) Method of Payment**

Payments will be made by credit or transfer to an account in sterling maintained by the payee with, or, at the option of the payee, by a cheque in sterling drawn on, a bank in London.

### **(3) Unmatured Coupons and Talons**

Each Bond should be presented for payment together with all relative unmatured Coupons (including Coupons falling to be issued on exchange of matured Talons). Upon the date on which any Bond becomes due and repayable, all unmatured Coupons appertaining to the Bonds (whether or not attached) shall become void and no payment shall be made in respect of such Coupons. Upon the Bonds becoming due and repayable prior to maturity, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

### **(4) Payments subject to Applicable Laws**

Payments in respect of principal and interest on Bonds are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

**(5) Payment only on a Presentation Date**

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

“Presentation Date” means a day which (subject to Condition 8):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a sterling account in London (as referred to above) is a Business Day in London.

In this Condition, “Business Day” means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

**(6) Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet, subject to the provisions of Condition 8. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

**(7) Initial Paying Agents**

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) it will at all times maintain a Paying Agent having its specified office in a European city approved by the Trustee which, so long as the Bonds are admitted to official listing on the London Stock Exchange and the listing rules so require, shall be London; and
- (b) if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to such Directive is introduced, it will ensure that it maintains a Paying Agent in a country other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to any such Directive or law.

Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 12.

**6. REDEMPTION AND PURCHASE**

**(1) Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 23 August 2016.

**(2) Redemption at the option of the Issuer**

On giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 12, the Issuer may redeem all but not some only of the Bonds for the time being outstanding at any time at a price (the “Redemption Price”) in respect of each Bond which shall be the higher of the following, together with interest accrued up to but excluding the date of redemption:

- (i) its principal amount; and
- (ii) that price (as reported in writing to the Issuer and the Trustee by a financial adviser approved by the Trustee) at which the Gross Redemption Yield on the Bonds on the Relevant Record Date is equal to the Gross Redemption Yield at 3.00 p.m. (London time) on that date of 8 per cent. Treasury Stock 2015 while that stock is in issue, and thereafter such government stock as the Trustee, with the advice

of three brokers and/or gilt-edged market makers or such other three persons operating in the gilt-edged market as the Trustee may approve, may agree to be appropriate. For the purposes of this Condition 6(2), "Relevant Record Date" means the third business day in London prior to the date of redemption referred to in this Condition 6(2) and "Gross Redemption Yield" means a yield calculated on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8/6/1998) for which purpose the rate of interest of the Bonds shall be the Applicable Rate prevailing in accordance with Condition 4 on the Relevant Record Date.

The notice given by the Issuer pursuant to this Condition 6(2) shall be irrevocable and shall specify the redemption date.

References in these Conditions, the Bonds and the Trust Deed to principal and principal amount shall, where the context so requires, be deemed to include references to the Redemption Price.

**(3) Redemption at the option of the Issuer for a change in ratings**

Unless the Issuer shall previously have given notice pursuant to Condition 6(2) above, if at any time whilst any Bonds are outstanding the then current rating whether provided by a Rating Agency (as defined in Condition 6(5)(b)) at the invitation of the Issuer or by its own volition assigned to the Rated Securities (as defined in Condition 6(5)(b)) is withdrawn or reduced from an investment grade rating (Baa3 (Moody's) or BBB- (S&P) or their respective equivalents for the time being) or better to a non-investment grade rating (Ba1 (Moody's) or BB+ (S&P) or their respective equivalents for the time being) or lower for any reason, the Issuer may redeem all but not some only of the Bonds for the time being outstanding (other than any Bonds in respect of which a Put Notice has been given pursuant to Condition 6(5)) at their principal amount together with interest accrued up to but excluding the date of redemption. To exercise the right to redeem the Bonds in these circumstances the Issuer may make such election by giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 12 such notice to be given no later than the date which falls twelve calendar months after the date on which a Rating Agency has publicly announced such a non-investment grade rating or lower and provided that on the date of such notice the Rated Securities have a non-investment grade rating or lower assigned by at least one Rating Agency.

Subject to the Bonds not becoming due and payable in the meantime in accordance with Condition 6(1), the notice given by the Issuer pursuant to this Condition 6(3) shall be irrevocable and upon the expiry of such notice period the Issuer shall be obliged to redeem the Bonds.

**(4) Redemption for Taxation Reasons**

Unless the Issuer shall previously have given notice pursuant to Condition 6(2) above, if the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that (a) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 23 August 2001, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7 and (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may at its option, having given not less than 30 nor more than 45 days' notice to the Bondholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all the Bonds, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

**(5) Redemption at the option of the Bondholders**

- (a) If at any time whilst any Bonds are outstanding there occurs a Restructuring Event and within the Restructuring Period either (i) (if at the time that Restructuring Event occurs there are Rated Securities) a Rating Downgrade in respect of that Restructuring Event occurs or (ii) (if at such time there are not



Rated Securities) a Negative Rating Event in respect of that Restructuring Event occurs (that Restructuring Event and Rating Downgrade or Negative Rating Event, as the case may be, occurring within the Restructuring Period together called a "Put Event"), the holder of each Bond will have the option (unless prior to the giving of the Put Event Notice referred to below, the Issuer gives notice under Conditions 6(2), 6(3) or 6(4)) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) that Bond on the Put Date (as defined in Condition 6(5)(d) below) at its principal amount together with accrued interest to but excluding the Put Date.

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall, or at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-fifth in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders, the Trustee shall, give notice (a "Put Event Notice") to the Bondholders in accordance with Condition 12 specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 6(5).

(b) For the purposes of these Conditions:

A "Negative Rating Event" shall be deemed to have occurred if either (i) the Issuer does not, either prior to or not later than 42 days after the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Bonds or any other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer which is guaranteed on any unsecured and unsubordinated basis by the Issuer) having an initial maturity of one year or more ("Rateable Debt") from a Rating Agency or (ii) if the Issuer does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (Baa3 (Moody's) or BBB- (S&P) or their respective equivalents for the time being), provided that a Negative Rating Event shall not be deemed to have occurred in respect of a particular Restructuring Event if the Rating Agency declining to assign a rating of at least investment grade (as described above) does not announce or publicly confirm or inform the Trustee in writing at its request that its declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Restructuring Event (whether or not the Restructuring Event shall have occurred at the time such investment grade rating is declined);

"Rated Securities" means the Bonds, if and for so long as they shall have any effective rating from a Rating Agency and otherwise any Rateable Debt which is rated by a Rating Agency; provided that if there shall be no such Rateable Debt outstanding prior to the maturity of the Bonds, the holders of not less than one-quarter in principal amount of outstanding Bonds may require the Issuer to obtain and thereafter update on an annual basis a rating of the Bonds from a Rating Agency. In addition, the Issuer may at any time obtain and thereafter update on an annual basis a rating of the Bonds from a Rating Agency, provided that, except as provided above, the Issuer shall not have any obligation to obtain such a rating of the Bonds;

"Rating Agency" means S&P and its successors or Moody's and its successors or any rating agency substituted for either of them (or any permitted substitute of them) by the Issuer from time to time with the prior written approval of the Trustee;

A "Rating Downgrade" shall be deemed to have occurred if the then current rating whether provided by a Rating Agency at the invitation of the Issuer or by its own volition assigned to the Rated Securities by any Rating Agency is withdrawn or reduced from an investment grade rating (Baa3 (Moody's) or BBB- (S&P) or their respective equivalents for the time being) or better to a non-investment grade rating (Ba1 (Moody's) or BB+ (S&P) or their respective equivalents for the time being) or lower, provided that a Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Restructuring Event if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce or publicly confirm that the reduction was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Restructuring Event (whether or not the applicable Restructuring Event shall have occurred at the time of the Rating Downgrade);

A "Restructuring Event" shall be deemed to have occurred at any time (whether or not approved by the Board of Directors of the Issuer) that any person or persons acting in concert (as defined in the City Code on Takeovers and Mergers) or any person or persons acting on behalf of any such person(s) become(s) interested (within the meaning of Part VI of the Companies Act 1985) in (i) more than 50 per cent. of the

issued or allotted ordinary share capital of the Issuer or (ii) such number of shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer;

"Restructuring Period" means the period ending 90 days after a public announcement of the Restructuring Event has occurred (or such longer period in which the Rated Securities or Rateable Debt, as the case may be, is or are under consideration (announced publicly within the first mentioned period) for rating review or, as the case may be, rating by a Rating Agency); and

"Subsidiary" has the meaning ascribed thereto in Section 736 of the Companies Act 1985, as amended by the Companies Act 1989.

- (c) The Trustee shall not be responsible for ascertaining whether or not a Restructuring Event, a Negative Rating Event or Rating Downgrade has occurred and, unless and until it has actual knowledge to the contrary, shall be entitled to assume that no such event has occurred.
- (d) To exercise the option to require redemption of a Bond under this Condition 6(5) the holder of the Bond must deliver such Bond accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "Put Notice"), and in which the Bondholder may specify an account to which payment is to be made under this Condition 6(5) to the specified office of any Paying Agent on any Business Day (as defined in Condition 5(5)) in London falling within the period (the "Put Period") of 45 days after a Put Event Notice is given. The Bond should be delivered together with the Coupons appertaining thereto maturing after the date (the "Put Date") falling seven days after the expiry of the Put Period. The Paying Agent to which such Bond and Put Notice are delivered will issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered will be made, if the Bondholder duly specified a bank account in the Put Notice to which payment is to be made on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date in the manner provided in Condition 5 against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. A Put Notice, once given, shall be irrevocable. For the purposes of these Conditions and the Trust Deed, receipts issued pursuant to this Condition 6(5) shall be treated as if they were Bonds. The Issuer shall redeem or, at the Issuer's option, purchase (or procure the purchase of) the relevant Bonds on the Put Date unless previously redeemed or purchased.

**(6) Purchases**

The Issuer or any of its Subsidiaries may at any time purchase Bonds (provided that all unmatured Coupons appertaining to the Bonds are purchased with the Bonds) in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike.

**(7) Cancellations**

All Bonds which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Bonds or surrendered with the Bonds, and accordingly may not be held, reissued or resold.

**(8) Notices Final**

Upon the expiry of any notice as is referred to in Condition 6(2), 6(3) or 6(4) above the Issuer shall be bound to redeem all outstanding Bonds in accordance with the terms of such Condition.

**7. TAXATION**

**(1) Payment without Withholding**

All payments of principal and interest in respect of the Bonds and/or Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

- (a) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
- (b) presented for payment at any specified office of a Paying Agent in the United Kingdom; or
- (c) presented for payment by or on behalf of a holder more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date; or
- (d) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

**(2) Interpretation**

In these Conditions "Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 12.

**(3) Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

**8. PRESCRIPTION**

Bonds and Coupons (which for this purpose shall not include the Talons) will become void unless presented for payment within periods of 12 years (in the case of principal) and six years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 5. There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5 or any Talon which would be void pursuant to Condition 5.

**9. EVENTS OF DEFAULT**

Upon the happening of any of the events listed in paragraphs (a) to (h) of this Condition, and upon the Trustee giving written notice 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 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) 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 of its 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 an administrative or other receiver 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. ENFORCEMENT**

- (1) 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 (a) 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 (b) it shall have been indemnified to its satisfaction.
- (2) 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.

### 11. REPLACEMENT OF BONDS, COUPONS AND TALONS

Should any Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before replacements will be issued.

### 12. NOTICES

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange on which the Bonds are for the time being listed or admitted. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. 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. 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.

### 13. SUBSTITUTION

The Trustee may also agree, without the consent of the Bondholders or Couponholders, to the substitution of any other company as principal debtor under the Trust Deed, the Bonds and the Coupons, subject to the relevant provisions of the Trust Deed and to such requirements as the Trustee may direct in the interests of the Bondholders and to the Bonds carrying the unconditional and irrevocable guarantee of the Issuer or of the Successor in Business unless the substitute principal debtor is such Successor in Business.

In this Condition, "Successor in Business" means in relation to the Issuer any company which, as the result of any amalgamation, merger or restructuring the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders:

- (a) owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Issuer immediately prior thereto; and
- (b) carries on, as successor to the Issuer, the whole or substantially the whole of the business carried on by the Issuer immediately prior thereto.

### 14. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

- (1) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.
- (2) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

- (3) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general 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 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 Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.
- (4) Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification, abrogation or substitution shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 12.

#### **15. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

#### **16. FURTHER ISSUES**

The Issuer is at liberty from time to time without the consent of the Bondholders or Couponholders to create and issue further bonds or notes (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further bonds or notes which are to form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further bonds or notes 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 bonds or notes of other series in certain circumstances where the Trustee so decides.

#### **17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Bonds, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

#### **18. GOVERNING LAW**

The Trust Deed, the Bonds, the Coupons and the Talons are governed by, and will be construed in accordance with, English law.

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## Use of Proceeds

The net proceeds of the issue of the Bonds, amounting to approximately £248,354,500, will be applied by the Issuer for its general corporate purposes.

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## Summary of Provisions relating to the Bonds while represented by the Global Bonds

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Bonds and in the Global Bonds which will apply to, and in some cases modify, the Conditions of the Bonds while the Bonds are represented by the Global Bonds.

### 1. EXCHANGE

The Permanent Global Bond will be exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds only (i) upon the happening of any of the events defined in the Trust Deed as "Events of Default", (ii) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available, or (iii) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee. Thereupon (in the case of (i) and (ii) above) the holder of the Permanent Global Bond (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Trustee and the Issuer, or the Trustee may give notice to the Issuer and (in the case of (iii) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

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

"Exchange Date" means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (ii) above, in the place in which the relevant clearing system is located.

### 2. PAYMENTS

On and after 2 October 2001, no payment will be made in respect of Bonds while they are represented by the Temporary Global Bond unless exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by a Global Bond will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of such Global Bond to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Bond by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Bonds. Payments of interest in respect of Bonds while they are represented by the Temporary Global Bond (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

### 3. NOTICES

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 12, provided that, so long as the Bonds are admitted to listing by the UK Listing Authority and admitted to trading on the London Stock Exchange's market for listed securities, all requirements of the UK Listing Authority have been complied with. Any such notice shall be deemed to have been given to the Bondholders



on the seventh day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

#### **4. ACCOUNTHOLDERS**

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and interest on such Bonds, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.

#### **5. PUT EVENT**

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Bondholders provided for in Condition 6(5) may be exercised by the Accountholders giving a duly completed notice of exercise in the form obtainable from any of the Paying Agents to the Principal Paying Agent of the principal amount of the Bonds in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Bond to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition. For so long as all the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices of exercise shall be given in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg.

#### **6. PRESCRIPTION**

Claims against the Issuer in respect of principal and interest on the Bonds represented by a Global Bond will be prescribed after 12 years (in the case of principal) and six years (in the case of interest) from the Relevant Date (as defined in Condition 7).

#### **7. CANCELLATION**

Cancellation of any Bond represented by a Global Bond and required by the Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Bond on the relevant part of the schedule thereto.

#### **8. EUROCLEAR AND CLEARSTREAM, LUXEMBOURG**

References therein and herein to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

# Capitalisation

## Group Capitalisation

The following table sets out the consolidated capitalisation of the Group as at 30 June 2001:

	£ Million
Share Capital <sup>(1)</sup> .....	271
Reserves	
Share premium account .....	788
Revaluation reserve .....	292
Profit and loss account .....	867
<b>Total Equity Shareholders Funds</b> .....	<b>2,218</b>
<b>Non-equity minority interest<sup>(2)</sup></b> .....	<b>178</b>
Convertible Capital Bonds <sup>(3)</sup> .....	112
Bank and Other Loans .....	1,038
Finance lease obligations .....	2,488
Hire purchase arrangements .....	3,774
<b>Total Indebtedness</b> .....	<b>7,412</b>
<b>Total Capitalisation</b> .....	<b>9,808</b>

(1) The authorised share capital of the Issuer consists of 1,508,000,000 ordinary shares of par value £0.25 each of which 1,082,691,000 are fully paid and in issue.

(2) The non-equity minority interest represents euro 300 million of 6.75 per cent. fixed interest perpetual preferred securities issued by British Airways Finance (Jersey) L.P. in which the general partner is British Airways Holdings Ltd. a wholly owned subsidiary of the Issuer.

(3) The Convertible Capital Bonds allow holders to convert into ordinary shares of the Issuer until June 2005 on the basis of one ordinary share for each £2.34 of Bonds held.

(4) Subsequent to 30 June 2001, the Group has financed the acquisition of two Airbus A319 aircraft by way of mortgage loans and two further Airbus A319 aircraft by way of finance leases. The total sum raised amounts to approximately £88 million. In addition, three Avro RJ100 aircraft have been sold and leased back on an operating lease basis, generating sales proceeds of approximately £50 million.

(5) Save as disclosed above, there has been no material change to the capitalisation of the Group since 30 June 2001.

# British Airways Plc

## INTRODUCTION

The Issuer was incorporated on 13 December 1983 (with registered number 1777777) under the laws of England and Wales. In 1939, several UK airlines were nationalised to form British Overseas Airways Corporation ("BOAC"). BOAC operated long-haul air services whilst another new airline, British European Airways ("BEA") operated UK domestic and European services. In 1974, BOAC and BEA combined to form the British Airways Board, the precursor of the Issuer. In 1979, the UK Government announced its intention to sell shares in the airline and in February 1987 the Issuer was privatised. The UK Government no longer owns any shares in the Issuer, the ordinary shares of which are quoted on the London Stock Exchange. American Depositary Receipts in respect of the ordinary shares are listed on the New York and Toronto Stock Exchanges.

In 2000, the Issuer ranked first both in terms of the number of international scheduled passengers carried and in terms of scheduled RPKs (as defined on page 27 below) on international scheduled services according to the International Air Transport Association ("IATA"). In the year ended 31 March 2001, the British Airways Group (the "Group" as detailed below) carried more than 44 million passengers on its services. As at 1 July 2001, the Issuer served some 160 destinations in 84 countries.

The Group's two main operating bases are London's two main airports, Heathrow (the world's busiest international airport measured by international passenger traffic) and Gatwick.

The Group includes the wholly owned subsidiaries Deutsche Luftfahrtgesellschaft G.m.b.H. ("Deutsche BA") in Germany and Brymon Airways Ltd. ("Brymon Airways") and CityFlyer Express Limited ("CityFlyer") in the UK. In addition the Issuer owns a 25 per cent. stake in Qantas Airways Limited ("Qantas"), 9 per cent. of Iberia Lineas Aéreas de España S.A. and 18.3 per cent. of Comair Limited of South Africa. In March 2001, the Issuer made an offer for all the issued shares of British Regional Air Lines Group plc ("BRAL"), which includes the franchise partners of British Regional Airlines Limited and Manx Airlines Limited. In May 2001 the offer was declared wholly unconditional and BRAL was valued at £78 million. In May 2000, the Issuer completed the disposal of its approximately 86 per cent. shareholding in the holding company of Air Liberté. The buyer took responsibility for the financial obligations of Air Liberté with effect from April 2000. In June 2001 the Issuer completed the sale of go, its no-frills subsidiary, to 3i. On 30 April 2001, the Issuer and Thomas Cook Ltd completed the merger of their UK outbound package tour businesses into a new company, of which the Issuer owns 50 per cent.

As at 31 March 2001 the Group fleet in service comprised 338 aircraft, with an average age of 7.5 years.

The Issuer is a founder member of the oneworld alliance, which was formed in February 1999, providing customers with access to one of the world's largest air travel networks.

## British Airways Plc

The principal activity of the Group is flight operations, comprising international and domestic scheduled passenger services, charter flights and the transportation of freight and mail. Flight operations accounted for approximately 91 per cent. of the Group's turnover in the year ended 31 March 2001. In addition, the Group is involved in aircraft maintenance, package holidays and other airline services.

The following table sets out an analysis of Group revenue for the years ended 31 March 2001 and 2000:

	2001 £m	2000 £m
<b>Traffic revenue</b>		
Scheduled services – passenger .....	7,803	7,465
– freight and mail .....	579	556
<b>Total scheduled services .....</b>	<b>8,382</b>	<b>8,021</b>
Non-scheduled services .....	50	71
<b>Total traffic revenue .....</b>	<b>8,432</b>	<b>8,092</b>
<b>Other revenue</b> (including aircraft maintenance, package holidays and other airline services)	846	848
<b>Total revenue .....</b>	<b>9,278</b>	<b>8,940</b>

The Issuer's main base is at London Heathrow airport where it controls approximately 37 per cent. of the landing slots. The Issuer has operated a significant number of services out of London Gatwick airport over the last few years where it has control of 42 per cent. of the landing slots.

The following table illustrates the market rankings of the leading international scheduled airlines in 2000, measured by international revenue passenger kilometres:

Ranking 2000		RPKs (m)
1	British Airways .....	115,088
2	Lufthansa .....	87,998
3	Air France .....	82,482
4	United Airlines .....	79,797
5	Japan Airlines .....	71,949
6	Singapore Airlines .....	70,795
7	American Airlines .....	64,739
8	KLM .....	60,309
9	Northwest Airlines .....	57,566
10	Qantas .....	49,193

Source: IATA, World Air Transport Statistics, June 2001

### **AIRLINE INDUSTRY BACKGROUND**

Air travel is one of the world's largest industries, generating over US\$300 billion in revenues per year.

International air travel has historically shown strong rates of passenger growth. Since the war, the number of international air travellers has grown each year apart from 1991, when a US recession combined with the Gulf War caused international passenger numbers to fall by 4 per cent.

The airline industry is proceeding along a path towards globalisation and consolidation. It has done this through the establishment of alliances and partnerships between airlines, linking their networks with a view to expanding access to their customers.

Government regulation of international airlines affects, *inter alia*, route flying rights, the setting of fares, and safety, security and environmental matters (noise and emissions in particular). Furthermore, airlines are affected by government policies regarding competition and the use of airports. Historically, airlines' access to markets internationally and domestically has been protected by bilateral and multilateral air service agreements (ASAs) between national governments on route allocation, landing rights and the setting of fares. However, a trend towards global deregulation of the airline industry is gathering pace. Competition is consequently increasing, albeit the process of deregulation in the European and Asian markets is some way behind that of the US market.

### **STRATEGIC DEVELOPMENTS**

In November 1998, the Issuer announced its current strategy, geared towards increasing shareholder value by focusing on the most profitable segments of the Group's business and thereby improving returns. The evolution in the Group's strategy reflects some major shifts in the changing marketplace in which the Group operates – the growth of alliances, the emergence of no-frills air travel in Europe and the increasing deregulation in global air travel markets. These industry developments are all further increasing competition between airlines, leading in particular to commoditisation for low-fare air travel and thus applying significant pressure on operating margins.

The Issuer's strategy targets yield and margin improvement by focusing on the market segments that are most attractive and in which the airline has a competitive advantage. The Group believes that it can achieve this target by reducing its exposure to the lowest-yielding market segments, such as discounted economy transfer traffic, and by concentrating on higher-yielding premium and direct traffic.

In terms of fleet and network, this means some downsizing from Boeing 747 aircraft to more capital-efficient Boeing 777 aircraft on longhaul routes. In shorthaul the Issuer is reducing its fleet of Boeing 767s and 757s in favour of smaller Airbus A318, A319 and A320 aircraft. In parallel with the fleet changes, the Issuer is re-structuring the route network to improve appeal to higher-yielding business passengers by increasing frequencies on key routes; and re-shaping the shorthaul network to reflect a greater focus on shorthaul

profitability and returns on assets, de-emphasising the role of providing feeder traffic to longhaul routes. As a result, mainline capacity over the next three years is expected to decline.

Competition between alliance groupings continues to grow, creating greater customer choice and driving further changes and consolidation within the industry.

#### **STRATEGIC ALLIANCES/CO-OPERATION**

The Issuer has bilateral agreements with a number of airlines, covering code-sharing, links between frequent flyer programmes and various other activities. Some of these partners are other members of oneworld alliance extending the links between them and British Airways beyond those covered by the oneworld multi-lateral agreement. Airlines with which the Issuer has code sharing agreements include Aer Lingus, American West, Cathay Pacific, Deutsche BA, Emirates, Finnair, Iberia, LanChile, LOT, Malev and Qantas.

The Issuer has developed significant franchise operations, in order to gain a presence in the low volume, low cost competitive markets which it cannot serve profitably itself. Franchise partners include Brymon Airways, British Regional Airlines Limited, CityFlyer (each wholly owned), Comair Limited of South Africa (18.3 per cent. equity holding) and non-equity franchises – Maersk Air Limited, Loganair Limited, GB Airways Limited, Sun-Air of Scandinavia A.S., British Mediterranean Airways Limited, National Jet Italia S.p.A. of Italy, Regional Air of Kenya and Zambian Air Services Limited.

On 3 August 2001, the Issuer and American Airlines, Inc. unveiled plans for a new alliance. The companies will file applications for antitrust immunity in the United States and clearance for their proposals in the United Kingdom and with the European Commission. Both airlines are eager to work with regulatory authorities to gain the necessary approvals and help create a positive climate for “open skies” between the United States and United Kingdom, giving passengers a far greater choice of carriers. In line with competing airline alliances, the new relationship would include a wide scale codesharing agreement.

The new alliance would include a profit sharing arrangement covering nine transatlantic routes between London and Boston, Chicago, Dallas/Fort Worth, Los Angeles, Miami, New York, Raleigh/Durham, St Louis and San Francisco. Antitrust immunity and codesharing would allow the Issuer and American Airlines, and the larger oneworld alliance, to compete more effectively with rival alliance networks.

#### **Alliance benefits**

The oneworld alliance, formed in February 1999, continues to grow.

The original five members, British Airways, American Airlines, Canadian International Airlines, Cathay Pacific and Qantas, were joined in September 1999 by Finnair and Iberia, and, on 1 June 2000, Lan Chile and Aer Lingus. Canadian International Airlines resigned with effect from 1 June 2000, following its acquisition by Air Canada, bringing oneworld to eight members.

Co-operation between the oneworld members continues to grow, yielding increased customer benefits.

The benefits of oneworld are: greater rewards and recognition for frequent flyers (e.g. earning and redeeming miles on all airlines, access to all lounges in the member network), reciprocal support of the passengers of any of the member airlines, flexible round the world travel products, and smoother transfers between carriers.

#### **OUTLOOK**

The implementation of the Group's fleet, network and product strategy continues apace. The final deliveries of firmly ordered Boeing 777 aircraft for the longhaul fleet will be made during the course of financial year 2001/02, while Airbus aircraft for the shorthaul fleet will continue to be delivered until financial year 2004/05. The new and improved products continue to be installed across the Issuer's fleet; the current programme of improvements in the shorthaul operation has been completed and, by March 2002, around 75 per cent. of the Issuer's longhaul services will incorporate the new products onboard.

The structure of the Issuer's shorthaul business has been reviewed and, as a result, changes are taking place that will rationalise and integrate the various constituent parts of the shorthaul network.

To this end, the Issuer's shorthaul operations at Gatwick have been combined with those of CityFlyer. The purchase of BRAL, which had operated as a British Airways franchise, was completed in May 2001, and this is currently being merged with another of the Issuer's subsidiaries, Brymon Airways, to form British Airways CitiExpress. The sale of the Issuer's no-frills carrier go was completed in June 2001, enabling the Issuer to focus on providing a full-service operation across its network. This restructuring is expected to result in the improved financial and operational performance of the Issuer's business in the United Kingdom and Europe.

Additional changes are also underway to the Issuer's operations at Gatwick, to stem the losses that are being made there. Gatwick will no longer be developed as a hub airport but instead, it will concentrate on offering point-to-point services for the local market at Gatwick. Several longhaul services will be relocated from Gatwick to Heathrow, reducing the longhaul destinations served from Gatwick from 43 to around 25. Shorthaul services will concentrate less on providing traffic feed onto longhaul services, although connections will continue to play an important role at Gatwick. Several poorly performing routes, in both the longhaul and shorthaul operations, which show no sign of returning to and sustaining suitable levels of profitability will be dropped from the network.

The significant developments which are ongoing in the business clearly require the support and co-operation of staff and trade unions, and the Issuer is committed to working closely with them as this evolution continues.

The Issuer's strategic positioning has improved the recent performances of the business and is helping to lessen the impact of current adversities. Airlines are economically cyclical businesses, and therefore will always be impacted by changes in the global economic outlook. However, the Issuer's strategy should serve to reduce the magnitude of the variance in financial performance, and indeed, although the Issuer's strategy looks very much beyond the next 12 months, it offers some protection by having less capacity to fill in less buoyant markets. In the medium to long term, the Issuer believes that its strategy will continue to deliver significant improvements to the profitability and return of the business.

### ROUTE NETWORK

The Issuer's Mainline (as defined on page 27 below) scheduled route network is one of the world's most extensive. The following table sets out details of the Issuer's Mainline route network, by airport destination, as at May 2001:

	BA Mainline network
<b>Total airport destinations</b> .....	161
<b>Breakdown of airport destinations:</b>	
Europe (incl. U.K.) .....	79
North America .....	25
Latin America and Caribbean .....	17
Middle East .....	9
Africa .....	16
Asia and Pacific .....	15
<b>Total countries served</b> .....	80

As at May 2001, if the oneworld alliance and various other code-sharing agreements are taken into account, the Group and its global network serve 573 flight destinations in 135 countries.

The following table shows the geographic breakdown of Group revenue by point of sale and destination for the year ended 31 March 2001:

	By areas of original sale £m	%	By area of destination £m	%
Europe .....	6,054	65%	3,388	37%
United Kingdom .....	4,632	50%	815	9%
Continental Europe .....	1,422	15%	2,573	28%
The Americas .....	1,745	19%	3,450	37%
Africa, Middle East & Indian sub-continent .....	783	8%	1,304	14%
Far East & Australasia .....	696	8%	1,136	12%
<b>Total</b> .....	<u>9,278</u>		<u>9,278</u>	

**MAINLINE PASSENGER AND CARGO OPERATIONS**

The table below summarises certain key indicators of the Issuer's Mainline passenger business:

		Year ended 31 March				
		2001	2000	1999	1998	1997
Revenue passenger km (RPK) . . . .	(m)	116,674	117,463	118,310	106,739	102,304
Available seat km (ASK) . . . . .	(m)	162,824	168,361	167,265	149,659	139,789
Passenger load factor . . . . .	(%)	71.7	69.8	70.7	71.3	73.2
Passengers carried . . . . .	(000)	36,221	36,346	37,090	34,377	33,440

The Issuer is the fifth largest cargo airline in the world. The table below summarises certain key indicators of the Issuer's cargo business:

		Year ended 31 March				
		2001	2000	1999	1998	1997
Cargo tonne km (CTK) . . . . .	(m)	4,731	4,536	4,277	4,181	3,790
Tonnes of cargo carried . . . . .	(000)	907	897	855	816	721

At the core of its cargo network is Ascentis, the Issuer's £250 million World Cargo Centre at Heathrow. The Issuer completed its migration into the new building at the start of 2001. Ascentis doubles the Issuer's cargo capacity at Heathrow to 800,000 tonnes a year.

**OTHER ACTIVITIES****Deutsche BA**

Deutsche BA, which is a wholly-owned subsidiary of the Issuer, has continued to focus on domestic German operations. Additional support for these routes was added in September 2000 when the BA code appeared on all Deutsche BA's domestic flights. Deutsche BA also operates codeshare services with oneworld carriers Finnair and Iberia, as well as US Airways, TAP and Emirates. From March, 2001, Deutsche BA took on the Cologne – Heathrow route which it operates three times per day under the BA code.

**Qantas**

Qantas was originally wholly owned by the Commonwealth of Australia. The privatisation of Qantas was initiated by the sale of a 25 per cent. stake to the Issuer for A\$666 million in March 1993. In July 1995, the Commonwealth of Australia offered the remaining 75 per cent. to the public. The shares are traded on the Australian Stock Exchange. In the year to 31 December 2000, revenue was A\$9,697 million and the pre-tax profit was A\$706 million.

**Other**

The Issuer also has subsidiaries that specialise in frequent flyer programmes, package holidays, aircraft maintenance and sundry other leisure related activities.

**DESCRIPTION OF THE FLEET**

The Issuer acquires aircraft both through lease and by outright purchase. The Issuer has a policy of continuous fleet modernisation. With an aircraft fleet whose average age is 7.5 years, the Issuer has one of the youngest fleets among the world's major airlines. A modern fleet is generally perceived within the airline industry to offer cost benefits through lower operating costs.

The Group has an ongoing major programme of aircraft acquisition, modification and refurbishment. Details of the Group's fleet at 31 March 2001 are set out below:

	Number in service with Group companies at 31 March 2001						
	On balance sheet	Operating Leases off balance sheet				Future deliveries	Options
	Aircraft	Extendible	Other	Total			
<b>Mainline (Note 1 and 2)</b>							
Concorde (Note 3) . . . . .	7			7			
Boeing 747-200 . . . . .	12	1		13			
Boeing 747-400 . . . . .	56			56			
Boeing 777 . . . . .	40			40	5		16
Boeing 767-300 . . . . .	21			21			
Boeing 757-200 . . . . .	42	2	1	45			
Airbus A318 . . . . .					12		12
Airbus A319 (Note 4) . . . . .	11	10		21	18		120
Airbus A320 . . . . .	10			10	20		
Boeing 737-200 . . . . .							
Boeing 737-300 . . . . .			8	8			
Boeing 737-400 . . . . .	22	5	7	34			
Boeing 737-500 . . . . .			10	10			
DHC-8s . . . . .			15	15			
Embraer RJ145 . . . . .			7	7			14
Hired aircraft . . . . .							
<b>Sub total</b> . . . . .	<u>221</u>	<u>18</u>	<u>48</u>	<u>287</u>	<u>55</u>		<u>162</u>
<b>Deutsche BA, go and CityFlyer (Note 5)</b>							
Boeing 737-300 . . . . .			30	30			
Avro RJ100 (Note 6) . . . . .	5	10		15	1		6
ATR 72 . . . . .		6		6			
<b>Sub total</b> . . . . .	<u>5</u>	<u>16</u>	<u>30</u>	<u>51</u>	<u>1</u>		<u>6</u>
<b>Group total</b> . . . . .	<u>226</u>	<u>34</u>	<u>78</u>	<u>338</u>	<u>56</u>		<u>168</u>

- (1) Includes those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways.
- (2) Excludes one McDonnell Douglas DC-10-30, three Boeing 737-200s and two Boeing 757-200s stood down pending disposal or return to lessor, one Boeing 747-400 sub-leased to partner airline, and two Boeing 737-300s delivered but not yet in service.
- (3) 7 Concorde are currently stood down due to the ongoing investigation into the Air France incident of 25 July 2000.
- (4) Options include reserved delivery positions and, if taken, may be A319, A320 or A321.
- (5) The disposal of Air Liberté saw a reduction in fleet of 32 aircraft, comprising 14 McDonnell Douglas aircraft, 15 Fokker aircraft and 3 ATR aircraft.
- (6) Includes 4 Avro RJ100 aircraft owned by the Issuer and 1 owned by British Airways Leasing Ltd which are leased to, and operated by, CityFlyer.

In the five years ended 31 March 2001, 88 new mainline aircraft were purchased or acquired under finance leases representing a total capital investment of approximately \$8,463 million. 26 new aircraft with an initial purchase price to the lessors of approximately \$691 million were obtained under operating leases, and a further 14 used aircraft, with an approximate market value of \$305 million were obtained under short term operating leases. In the same period, 91 aircraft were removed from the Group fleet.

## MANAGEMENT AND EMPLOYEES

### Management and organisation

Responsibility for the control and management of the Group rests with the Board of Directors of British Airways (twelve members). The day-to-day management of the Group is handled by the Chief Executive and the Chief Financial Officer of the Board and the nine other members of the Leadership Team.

The Board meets ten times a year and additionally when necessary. In addition, the Board also has four standing Board Committees which meet under terms of reference set by the Board: the Audit Committee, the Safety Review Committee, the Nominations Committee and the Remuneration Committee.



**Board Members**

The members of the Board of Directors of British Airways as at 16 August 2001 were as follows:

**Lord Marshall of Knightsbridge (67)**

*Chairman*

Board Member since 1983, Executive Chairman 1993-1996; Non-executive Chairman since 1996. Chairman of the Nominations Committee.

Lord Marshall served as Chief Executive for 13 years. He is also a non-executive Chairman of Invensys plc and a non-executive director of HSBC Holdings plc. He is a crossbench member of the House of Lords, allied to no political party.

**Roderick Eddington (51)**

*Chief Executive*

Executive Board member since 2000.

Rod Eddington joined the airline as Chief Executive in May 2000. He is a non-executive director of News Corporation and of John Swire & Son Pty Limited. He serves as a director of Qantas Airways Ltd (as nominee for British Airways).

**Derek Stevens (62)**

*Chief Financial Officer*

Executive Board member since 1989.

Derek Stevens joined the airline as Chief Financial Officer in 1989. He serves as Chairman of the Trustees of the Airways Pension Scheme and the New Airways Pension Scheme and is a non-executive director of CGNU plc. Derek Stevens will retire as a director of British Airways on 31 August 2001.

John Rishton (43) will succeed Derek Stevens as Chief Financial Officer on 1 September 2001, when it is intended that he will also join the Board of Directors. Currently Financial Controller, Commercial, he has been with British Airways since 1994, prior to which he held senior financial positions with the Ford Motor Company.

**Mike Street (54)**

*Director of Customer Service and Operations*

Executive Board member since December 2000.

Mike Street has been Director of Customer Service and Operations since 1997. He is a Trustee of the two British Airways pension schemes and sits on the Council of Buckinghamshire Chiltern University College.

*Non-Executive Directors*

**Captain Colin Barnes (68)**

Non-executive director since 1991. Chairman of the Safety Review Committee.

Colin Barnes retired from British Airways as Chief Pilot and Director of Flight Crew in 1991. He is a Governor Emeritus of the Flight Safety Foundation and is a Member of the Council and Policy Committee of the Air League. Colin Barnes will retire as a director on 30 September 2001.

**Martin Broughton (54)**

Non-executive director since May 2000. Chairman of the Audit Committee and senior independent non-executive director. Sits on the Safety Review and Nominations Committees. Martin Broughton is Chairman of British American Tobacco p.l.c.

**Michael Davies (67)**

Non-executive director since 1983. Sits on the Audit, Remuneration and Nominations Committees.

Michael Davies is Chairman of Simon Group PLC, National Express Group PLC and Corporate Services Group plc.

**Dr Ashok Ganguly (66)**

Non-executive director since 1996. Sits on the Audit and Safety Review Committees.

A Fellow of the Royal Society of Chemistry, Ashok Ganguly is Chairman of ICI India Ltd, and a director of ICICI, Technology Network (India) Ltd, ICICI Knowledge Park Ltd, Mahindra & Mahindra Ltd, Sedgwick Parekh Health Management Ltd and Wipro Corporation. Director and non-executive chairman of ICICI West Bengal Infrastructure Development Corporation Ltd and non-executive director of Central Board of Directors of Reserve Bank of India.

**Baroness O'Cathain (63)**

Non-executive director since 1993. Sits on the Audit, Remuneration, Nominations and Safety Review Committees.

Detta O'Cathain is also a non-executive director of Thistle Hotels PLC, BNP Paribas UK Holdings Ltd, South East Water plc, William Baird plc and Allders plc.

**Dr Martin Read (51)**

Non-executive director since May 2000. Chairman of the Remuneration Committee.

Martin Read is Managing Director and Chief Executive of Logica plc and a non-executive director of The Boots Company PLC.

**Lord Renwick of Clifton (63)**

Non-executive director since 1996. Sits on the Safety Review Committee.

A former career diplomat, Robin Renwick is Chairman of Fluor Daniel Ltd and Vice Chairman Investment Banking JP Morgan. He is also a non-executive director of Compagnie Financière Richemont AG, Fluor Corporation, Harmony Gold, Billiton plc and South African Breweries Plc.

**The Hon Raymond Seitz (60)**

Non-executive director since 1995. Sits on the Safety Review Committee.

A former US Ambassador to the Court of St James, Ray Seitz is Vice-Chairman of Lehman Brothers International, and a non-executive director of The Chubb Corporation, Authoriszor Inc., Marconi plc, Cable and Wireless plc, The Telegraph Group plc and Rio Tinto plc.

**Alan Buchanan**

*Company Secretary*

**The Rt Hon The Lord King of Wartnaby (83)**

*President Emeritus*

Lord King was Chairman of British Airways for 12 years from 1981, and served as President from 1993 to 1997.

**Employees**

An average of 62,175 staff were employed by the Group world-wide in the year ended 31 March 2001, of whom approximately 80 per cent. were based in the U.K.

Employee ownership in British Airways is encouraged. As at May 2001, some 56 per cent. of employees owned shares in British Airways. British Airways also operates sharesave schemes on an international basis and offers profit share arrangements which provide a bonus to the extent to which profits (excluding disposals) exceed pre-set thresholds. Employees are given the option of taking their bonus in shares or in cash.

## GLOSSARY

As used in this Offering Circular:

"Available seat kilometres" "(ASK)" means the number of seats available for sale multiplied by the distance flown.

"Cargo tonne kilometres" "(CTK)" means the number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.

"Code-sharing" means an arrangement whereby flights operated by partner airlines have a BA flight prefix, and vice versa.

"Load factor" means the percentage relationship of revenue load carried to capacity available.

"Mainline" means British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways and from 1 April 2001 CityFlyer.

"Passenger load factor" means RPK expressed as a percentage of ASK.

"Revenue passenger kilometres" "(RPK)" means the number of revenue passengers carried multiplied by the distance flown.

## Summary Financial Information

*The financial information set forth below has been extracted from the Report and Accounts of the Group for the year ended 31 March 2001. Such information should be read in conjunction with the Group's audited Consolidated Financial Statements and notes thereto for the financial year ended 31 March 2001.*

	Year ended 31 March		
	2001 £m	2000 £m	1999 £m
<b>Summary Group Profit and Loss Account</b>			
Turnover .....	9,278	8,940	8,892
Operating profit .....	380	84	442
Profit before taxation .....	150	5	225
Profit/(loss) after taxation .....	128	(10)	206
Profit/(loss) for the year .....	114	(21)	206
Retained (loss)/profit for the year .....	(79)	(216)	15
	As at 31 March		
	2001 £m	2000 £m	1999 £m
<b>Summary Group Balance Sheet</b>			
Tangible and Intangible assets .....	10,826	10,356	9,839
Investments .....	426	567	402
Fixed assets .....	11,252	10,923	10,241
Net current liabilities .....	(862)	(774)	(465)
Total assets less current liabilities .....	10,390	10,149	9,776
Creditors: amounts falling due after more than one year .....	(6,901)	(6,728)	(6,356)
Provisions for liabilities and charges .....	(70)	(81)	(65)
<b>Total assets less liabilities</b> .....	<b>3,419</b>	<b>3,340</b>	<b>3,355</b>
Equity shareholders funds .....	3,215	3,147	3,355
Minority interests (equity and non-equity) .....	204	193	—
<b>Total Capital and reserves</b> .....	<b>3,419</b>	<b>3,340</b>	<b>3,355</b>

## Summary Unaudited Financial Statements for the Quarter ended 30 June 2001

The financial information set forth below has been extracted from, and should be read in conjunction with, the unaudited First Quarter Results 2001-02 of the Group for the quarter ended 30 June 2001.

Summary Unaudited Group Profit and Loss Account		Three months ended 30 June		Increase/ (Decrease)	Year ended 31 March
		2001	2000		2001
Turnover	£m	2,297	2,310	(0.6)%	9,278
Operating profit	£m	50	97	(48.5)%	380
Operating margin	%	2.2	4.2	(2.0)pts	4.1
Profit/(loss) before tax	£m	40	(50)	nm	150
Retained profit/(loss) for the period	£m	26	(42)	nm	(129)*
Capital and reserves at period end	£m	2,402	2,490	(3.5)%	2,368*
<b>Earnings per share</b>					
Basic:	p	2.4	(3.9)	nm	6.0
Diluted:	p	na	na	nm	5.9

nm: Not meaningful

na: Not applicable

\*: As restated for deferred tax

Summary Unaudited Group Balance Sheet	30 June 2001 £m	30 June 2000 restated £m	31 March 2001 restated £m
<b>Fixed Assets</b>			
Intangible assets	110	61	60
Tangible assets	10,969	10,191	10,662
Investments	451	550	426
	<u>11,530</u>	<u>10,802</u>	<u>11,148</u>
<b>Current Assets</b>			
Stocks	201	151	170
Debtors	1,409	1,420	1,444
Cash, short-term loans and deposits	934	1,433	936
	<u>2,544</u>	<u>3,004</u>	<u>2,550</u>
<b>Creditors: Amounts falling due within one year</b>	<u>(3,450)</u>	<u>(3,463)</u>	<u>(3,308)</u>
<b>Net Current Liabilities</b>	<u>(906)</u>	<u>(459)</u>	<u>(758)</u>
<b>Total Assets less Current Liabilities</b>	<u>10,624</u>	<u>10,343</u>	<u>10,390</u>
<b>Creditors: Amounts falling due after more than one year</b>			
Borrowings and other creditors	(6,970)	(6,680)	(6,788)
Convertible Capital Bonds 2005	(112)	(113)	(113)
	<u>(7,082)</u>	<u>(6,793)</u>	<u>(6,901)</u>
<b>Provisions for Deferred Tax</b>	<u>(1,070)</u>	<u>(984)</u>	<u>(1,051)</u>
<b>Provisions for Liabilities and Charges</b>	<u>(70)</u>	<u>(76)</u>	<u>(70)</u>
	<u>2,402</u>	<u>2,490</u>	<u>2,368</u>
<b>Capital and Reserves</b>			
Called up share capital	271	271	271
Reserves	1,947	2,014	1,893
	<u>2,218</u>	<u>2,285</u>	<u>2,164</u>
Minority interest	6	17	18
Non equity minority interest	178	188	186
	<u>2,402</u>	<u>2,490</u>	<u>2,368</u>

**Financial Reporting Statement 19 "Deferred Tax"**

The Issuer has implemented Financial Reporting Statement 19 "Deferred Tax" with effect from 1 April 2001. This standard requires the Issuer to make full provision for deferred tax. Under the options allowed, the Issuer has chosen not to discount the resulting provision. The comparatives have been restated, resulting in an increase in the tax charge of £50 million for the year ended 31 March 2001. The deferred tax provision is held on balance sheet as a long-term provision and amounts to £1,070 million on 30 June 2001 (£1,051 million on 31 March 2001 and £984 million on 30 June 2000). None of the deferred tax is expected to become payable in the foreseeable future.

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## Taxation

*The following applies only to persons who are the absolute beneficial owners of Bonds and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. Prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who are unsure as to their tax position should seek their own professional advice.*

### 1. INTEREST ON THE BONDS

#### **Payment of interest on the Bonds**

United Kingdom withholding tax (including such withholding or deduction for or on account of tax by issuers, paying agents and collecting agents) was abolished in relation to interest payments made (or, in the case of collecting agents, received) on or after 1 April 2001 in respect of securities listed on a "recognised stock exchange", as defined in section 841 of the Income and Corporation Taxes Act 1988 ("ICTA"). The London Stock Exchange is such a recognised exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds may be paid without withholding or deduction on account of United Kingdom tax.

Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Bonds is paid to a person who is resident in the United Kingdom and the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest at the time the payment is made, provided that the Inland Revenue has not given a direction that it has reasonable grounds to believe that it is likely that the beneficial owner is not within the charge to United Kingdom corporation tax in respect of such payment of interest at the time the payment is made.

In all other cases, an amount must be withheld from payments of interest on the Bonds on account of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by the Inland Revenue under an applicable double taxation treaty.

Bondholders who are individuals should be aware that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. Such information may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of other jurisdictions.

#### **Proposed EU Savings Directive**

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States (not including the United Kingdom) to opt instead for a withholding system for a transitional period in relation to such payments. The proposals are not yet final, and they may be subject to further amendment and/or clarification.

#### **Further United Kingdom Income Tax Issues**

Interest on the Bonds constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Bondholder (with certain exceptions) who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Bonds are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Bondholders.

## **2. UNITED KINGDOM CORPORATION TAX PAYERS**

In general, Bondholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

## **3. OTHER UNITED KINGDOM TAX PAYERS**

### **Taxation of Chargeable Gains**

The Bonds will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

### **Accrued Income Scheme**

On a disposal of Bonds by a Bondholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Chapter II of Part XVII of ICTA, if that Bondholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable and is not subject to United Kingdom corporation tax. As the Bonds are arguably variable rate securities for the purposes of the scheme, the amount of the income deemed to have accrued may be such amount as the Inland Revenue decides is just and reasonable.



## Subscription and Sale

Barclays Bank PLC, UBS AG, acting through its business group UBS Warburg, HSBC Bank plc, J.P. Morgan Securities Ltd., The Royal Bank of Scotland plc and Salomon Brothers International Limited\* (the "Managers") have, pursuant to a Subscription Agreement (the "Subscription Agreement") dated 16 August 2001, jointly and severally agreed to subscribe or procure subscribers for the Bonds at the issue price of 99.873 per cent. of the principal amount of Bonds, less a combined management, underwriting and selling commission of 0.50 per cent. of the principal amount of the Bonds. The Issuer has agreed to pay certain of the expenses of the Managers in connection with the issue of the Bonds, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment to the Issuer.

### UNITED STATES

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### UNITED KINGDOM

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement:

- (i) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the Financial Services Act 1986 (the "FSA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSA;
- (ii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Bonds, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on; and
- (iii) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

\* *Schroder is a trademark of Schroders Holdings plc and is used under licence by Salomon Brothers International Limited.*

**GENERAL**

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Bonds or possession or distribution of the Offering Circular or any other offering or publicity material relating to the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Bonds by it will be made on the same terms.

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## General Information

1. The issue of the Bonds was duly authorised by a resolution of a Standing Committee of the Board of Directors of the Issuer dated 3 July 2001.
2. The admission of the Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). Transactions will normally be effected for settlement in sterling and for delivery on the third business day in London after the day of the transaction. It is expected that such admission will be granted on or about 20 August 2001 subject only to the issue of the Temporary Global Bond. Prior to official listing, dealings will be permitted by the UK Listing Authority in accordance with its rules.
3. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0133582147 and the Common Code is 013358214.
4. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2001 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 March 2001.
5. Neither the Issuer nor any other member of the Group is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the Group.
6. The auditors of the Issuer are Ernst & Young LLP, who have audited the Issuer's accounts, without qualification, in accordance with United Kingdom accounting standards for each of the three financial years ended on 31 March 1999, 2000 and 2001.
7. The Trust Deed will provide that the Trustee may rely on certificates or reports from the Auditors (as defined in the Trust Deed) in accordance with the provisions of the Trust Deed whether or not called for by or addressed to the Trustee and whether or not any such certificate or report or engagement letter or other document entered into by the Trustee and the Auditors in connection therewith contains any limit on the liability of the Auditors.
8. The Bonds and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."
9. Copies of the following documents will be available from the registered office of the Issuer and at the offices of Citibank, N.A. in London for 14 days from the date hereof:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 31 March 2000 and 31 March 2001;
  - (c) the Subscription Agreement; and
  - (d) a draft of the Trust Deed and the Agency Agreement.

**REGISTERED AND HEAD OFFICE OF THE ISSUER**

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**PRINCIPAL PAYING AGENT**

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London EC4Y 0PA

**PAYING AGENT**

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