

OFFERING CIRCULAR

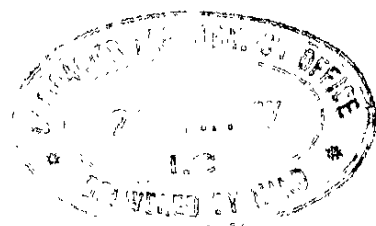
1987/4/29

£100,000,000

BRITISH AIRWAYS Plc ✓

9½ per cent. Notes due 1997

Issue Price: 101½ per cent.



Application has been made to the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange") for the Notes to be admitted to the Official List. A copy of this document, which comprises the Listing Particulars approved by The Stock Exchange as required by the Financial Services Act 1986, has been delivered for registration to the Registrar of Companies in England and Wales. ✓

The Notes will initially be represented by a temporary global Note which will be deposited with a common depositary for CEDEL S.A. and Euro-clear on or about 6th May, 1987 and which will be exchanged for definitive Notes not earlier than 90 days after completion of the distribution of the Notes as determined by Union Bank of Switzerland (Securities) Limited upon certification of non-U.S. beneficial ownership.

Union Bank of Switzerland (Securities) Limited

Barclays de Zoete Wedd Limited

Phillips & Drew Limited

Deutsche Bank Capital Markets Limited
Banque Paribas Capital Markets Limited
Commerzbank Aktiengesellschaft
Credit Suisse First Boston Limited
Dresdner Bank Aktiengesellschaft
Hill Samuel & Co. Limited
Kleinwort Benson Limited
Samuel Montagu & Co. Limited
Morgan Stanley International
Salomon Brothers International Limited
Swiss Bank Corporation International Limited
St. G. Warburg Securities

Banque Bruxelles Lambert S.A.
Chemical Bank International Group
County NatWest Capital Markets Limited
Daiwa Europe Limited
Goldman Sachs International Corp.
IBJ International Limited
Lloyds Merchant Bank Limited
Morgan Guaranty Ltd
Nomura International Limited
J. Henry Schroder Wagg & Co. Limited
Toronto Dominion International Limited
Wood Gundy Inc.

The date of this Offering Circular is 29th April, 1987. ✓

BRITISH AIRWAYS

This Offering Circular constitutes listing particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purposes of giving information with regard to British Airways and the Notes. The Issuer accepts responsibility for the information contained in this document relating to the Issuer and its subsidiaries and the Notes. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this document for which it is responsible is in accordance with the facts and does not omit anything likely, in the context of the issue of the Notes, to affect the import of such information.

Listing particulars relating to British Airways were published on 27th January, 1987, in connection with the sale by HM Government of shares in the Issuer (the "January Listing Particulars") and copies are available in the Extel Statistical Service. The information in this Offering Circular is given having regard to the information about the Issuer which is available to investors or their professional advisers in the January Listing Particulars.

No dealer, salesman or any other person has been authorised to give any information or to make any representation not contained in this Offering Circular, and, if given or made, any such information or representation must not be relied upon as having been authorised by the Issuer or by any of the Managers (as defined under "Purchase and Sale" below). Neither the delivery of this Offering Circular nor any sale of any of the Notes shall under any circumstances create any implication that there has not been any change in the affairs of the Issuer or its subsidiaries since the date hereof.

This Offering Circular does not constitute an invitation to subscribe or purchase any Notes.

Offers and sales of the Notes are subject to certain restrictions in relation to the United States of America details of which are set out under "Purchase and Sale" below.

DEFINITIONS

BA, British Airways or Issuer	British Airways Plc. or, where appropriate, British Airways Board
Group	BA and its subsidiaries
Airline	BA and its subsidiaries British Airtours Limited and British Airways Engine Overhaul Limited
bn or billion	1,000 million

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CONDITIONS OF THE NOTES

Subject to amendment in the Trust Deed, the terms and conditions of the Notes, which will appear on each Note in definitive form, will be as follows:

The £100,000,000 9½ per cent. Notes due 1997 (the "Notes") of British Airways Plc (the "Issuer") form a series of Notes constituted by a Trust Deed (the "Trust Deed") dated 6th May, 1987 and made between the Issuer of the one part and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall wherever the context so admits include such company and all other persons or companies for the time being the trustee or trustees of the Trust Deed) of the other part. The Trustee shall act as trustee for the holders of the Notes (the "Noteholders") in accordance with the provisions of the Trust Deed (copies of which are available for inspection at the principal office for the time being of the Trustee in London, being at the date of the Trust Deed at Princes House, 95 Gresham Street, London EC2V 7LY, and at the specified office of each of the Principal Paying Agent and the other Paying Agents referred to in Condition 7 (together the "Paying Agents")). The statements in these terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Noteholders and the holders of the bearer interest coupons appertaining to the Notes (the "Couponholders" and the "Coupons" respectively) are deemed to have notice of, are bound by, and are entitled to the benefit of, all of the provisions contained in the Trust Deed. Only the Trustee may pursue the remedies available under the general law or under the Trust Deed to enforce the rights of the Noteholders and Couponholders and no such holder will be entitled to proceed against the Issuer unless the Trustee, having become bound to do so in accordance with the terms of the Trust Deed, fails or neglects to do so within a reasonable period and such failure or neglect shall be continuing. The Trustee shall not be so bound unless (a) it shall have been so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or so requested in writing by the holders of not less than one-fifth in principal amount of the outstanding Notes and (b) it shall have been indemnified to its satisfaction. Expressions defined in the Trust Deed shall have the same meanings in these Conditions.

For the purposes of these Conditions:

- (a) "Relevant Date" in relation to any Note or Coupon means the due date for payment thereof but, if the full amount of the moneys payable on such due date has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which notice is duly given to the Noteholders in accordance with Condition 14 that such moneys have been so received; and
- (b) "Notes" shall include, other than in Condition 3, any Notes issued so as to form a single series with the Notes and "Noteholders" shall be construed accordingly.

1. Status

The Notes constitute direct, unconditional and unsecured obligations of the Issuer and rank *pari passu* without any preference or priority among themselves and (subject to such exceptions as are from time to time applicable under the laws of England) equally with all other present and future unsecured obligations of the Issuer (other than subordinated obligations, if any).

2. Form, Denomination and Transfer

The Notes are serially numbered and in bearer form in the denominations of £1,000 and £10,000 each with Coupons attached thereto on issue. Title to the Notes and Coupons will pass by delivery and, except as ordered by a court of competent jurisdiction or as required by law, the Issuer, the Trustee and the Paying Agents shall be entitled to treat the bearer of any Note or Coupon as the absolute owner thereof and shall not be required to obtain any proof thereof or as to the identity of the bearer.

3. Interest

The Notes bear interest from 6th May, 1987 at the rate of 9½ per cent. per annum, payable annually in arrear on 6th May, beginning in 1988. The Notes will cease to bear interest from the due date for redemption unless payment of the principal is improperly withheld or upon due presentation refused. Interest in respect of a period of less than one year shall be computed on the basis of a 360 day year of 12 months of 30 days each and, in the case of an uncompleted month, the number of days elapsed.

4. Redemption

(a) Final Redemption

Unless previously redeemed or purchased and cancelled as provided under Conditions 4(b), 5 and 6 respectively, the Notes will be redeemed at par on 6th May, 1997.

(b) Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that on the occasion of the next payment of interest in respect of the Notes the Issuer would, for reasons outside its control, be unable to make such payment without having to pay additional amounts as described in Condition 8, the Issuer may having given not less than 30 nor more than 45 days' notice to the Noteholders in accordance with Condition 14, redeem all, but not some only, of the Notes at par together with interest accrued to the date of redemption.

(c) Notices

Upon the expiry of any such notice as is referred to in Condition 4(b) the Issuer shall be bound to redeem the Notes at par together with interest accrued to the date of redemption.

5. Purchase

(a) The Issuer or any of its Subsidiaries may at any time purchase Notes provided that, so long as the Notes are listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange"), (i) the price (exclusive of expenses and accrued interest) shall not exceed, in the case of purchases made through The Stock Exchange or by tender, the average of the middle market quotations taken from The Stock Exchange Daily Official List for the 10 business days before the purchase is made or, in the case of a purchase made through The Stock Exchange, the market price of the Notes, provided that such market price is not more than 5 per cent. above such average or, in the case of a purchase of Notes by private treaty, 120 per cent. of such middle market quotation on the last business day preceding the date of purchase and (ii) if purchases are made by tender, tenders are made available to all Noteholders alike.

(b) Notes purchased pursuant to this Condition must be purchased with all unmatured Coupons appertaining thereto attached or surrendered therewith and may not be resold or reissued and shall be surrendered for cancellation.

6. Cancellation

All Notes redeemed pursuant to Condition 4 and all Notes purchased and surrendered pursuant to Condition 5 (together with all unmatured Coupons appertaining thereto attached or surrendered therewith) shall be cancelled forthwith.

7. Payments

(a) Payments of principal and interest in respect of the Notes will be made against surrender of the Notes or Coupons, as the case may be, at any specified office of any of the Paying Agents. All such payments will be made in sterling at the specified office of the Paying Agent in London or, at the option of the holder, at any specified office of any Paying Agent by a sterling cheque drawn on a Town Clearing branch of, or by transfer to a sterling account maintained by the payee with, a bank in London subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

(b) The names of the initial Paying Agents and their respective specified offices appear at the end of these Conditions.

(c) Notes should be presented for redemption together with all unmatured Coupons, failing which the aggregate amount of any missing unmatured Coupons (or, in the case of payment of principal not being made in full, the proportion of the aggregate amount of such missing unmatured Coupons that the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Any amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupons at any time in the period expiring 6 years from the date mentioned on the face of the Coupon or, if longer, 12 years from the Relevant Date for the payment of such principal. If the due date for payment of a Note is not 6th May, the interest accrued from the preceding 6th May shall be payable only against presentation of the relevant Note.

(d) If the due date for payment of any amount of principal or interest in respect of any Note is not a Business Day (as defined in the Trust Deed) in London and in the place where the relevant Note or Coupon, as the case may be, is presented for payment, then the holder thereof shall not be entitled to payment by transfer to a sterling account of the amount due until the next following such Business Day or to any further interest or other payment in respect of such delay.

(e) The Issuer reserves the right at any time to terminate the appointment of any Paying Agent and, with the approval of the Trustee, to vary the terms of appointment of any Paying Agent or to appoint additional or other Paying Agents provided that it will at all times maintain Paying Agents having specified offices in London and in a major city approved by the Trustee in continental Europe. Any variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 nor less than 30 days' prior notice thereof shall have been given by the Issuer to the Noteholders in accordance with Condition 14. Notice of any changes in the specified offices of the Paying Agents will be given promptly by the Issuer to the Noteholders in accordance with Condition 14.

8. Taxation

All payments of principal and interest by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom or any authority of or in the United Kingdom having power to tax, unless the withholding or deduction of such taxes or duties is compelled by law. In that event, the Issuer will pay such additional amounts of principal and interest as will result in the payment to the Noteholders or Couponholders of the amounts which would otherwise have been receivable in respect thereof had no such withholding or deduction been made, except that no such additional amount shall be payable in respect of any Note or Coupon presented for payment:

- (a) by, or on behalf of, a holder who is liable to such taxes or duties on such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (b) at any specified office of a Paying Agent in the United Kingdom; or
- (c) more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such additional amount on presenting the same for payment on such thirtieth day.

References in these Conditions to principal and interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any obligation undertaken in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. Repayment on Event 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 Notes shall become immediately due and repayable at par together with accrued interest as provided in the Trust Deed.

If the event falls within paragraphs (b) 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 Noteholders. Subject thereto, the Trustee may, and if so requested in writing by the holders of not less than one-fifth in principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution of the Noteholders shall, 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 Notes; or
- (b) there is default in the performance or observance by the Issuer of any obligation or provision under the Trust Deed or the Notes (other than any obligation for the payment of any principal or interest in respect of the Notes) 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 a 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 having an outstanding aggregate principal amount of at least £20,000,000 or its equivalent in any other currency or currencies (the "specified amount") and steps are taken to obtain repayment thereof; or

(ii) any such indebtedness having an outstanding aggregate principal amount of at least the specified amount or any guarantee or indemnity of the Issuer of any indebtedness of any person for borrowed moneys having an outstanding aggregate principal amount of at least the specified amount 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, as the case may be, shall not constitute an event upon the happening of which the outstanding Notes may (subject as mentioned above) become immediately due and repayable so long as the Issuer satisfies the Trustee that it is being contested in good faith by the Issuer; 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 reconstruction, amalgamation or merger the terms of which have previously been approved in writing by the Trustee); 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 reconstruction, amalgamation or merger the terms of which have previously been approved in writing by the Trustee) 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. Prescription

Notes and Coupons will become void unless presented for payment within 12 years and 6 years respectively from the Relevant Date therefor.

11. Modifications, Waiver, Substitution of Principal Debtor and Meetings of the Noteholders

(a) The Trustee may agree, without the consent of the Noteholders or the Couponholders, to any modification of the provisions of the Trust Deed, the Notes or the Coupons which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (subject to certain exceptions) is not materially prejudicial to the interests of the Noteholders. The Trustee may also agree without any such consent to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed, the Notes or the Coupons which is not in its opinion materially prejudicial to the interests of the Noteholders.

(b) The Trustee may also agree, without any such consent, to the substitution of any other company as principal debtor under the Trust Deed, the Notes and the Coupons, subject to the relevant provisions of the Trust Deed, to such requirements as the Trustee may direct in the interests of the Noteholders and to the Notes carrying the unconditional and irrevocable guarantee of the Issuer or of the Successor in business of the Issuer (as defined in the Trust Deed) unless the substitute principal debtor is such Successor in business. In connection with any proposed substitution as aforesaid, the

Trustee shall not have regard to the consequences of such substitution for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

(c) The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any such meeting is two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions and provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution is two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

(d) Any such modification, waiver, authorisation or substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee is notified otherwise, any such modification or substitution shall be notified to the Noteholders as soon as possible thereafter in accordance with Condition 14.

12. Further Issues

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

13. Replacement of Notes and Coupons

If a Note or Coupon is mutilated, defaced, lost, stolen or destroyed it may be replaced at the specified office of the Principal Paying Agent on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

14. Notices

All notices regarding the Notes will be duly given if published once in a leading London daily newspaper, which is expected to be the *Financial Times*, or, if publication in London is not in the opinion of the Trustee practicable, in another leading English language daily newspaper with general circulation in Europe approved by the Trustee. Any such notice shall be deemed to have been given on the date of publication or, if published more than once, on the date of first such publication.

15. Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee in certain circumstances and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce obligations unless indemnified to its satisfaction.

16. Governing Law

The Notes, the Coupons and the Trust Deed are governed by, and shall be construed in accordance with, English law.

USE OF PROCEEDS

The net proceeds of the issue, which are expected to amount to approximately £99,460,000, will be used by the Issuer for its general corporate purposes.

DESCRIPTION OF THE ISSUER

History

British Airways can trace its origins back to the pioneering days of civil aviation after the First World War. The world's first daily international scheduled air service commenced on 25th August, 1919 and was operated by Aircraft Transport & Travel Limited, which was combined in 1924 with a number of other privately owned air transport companies to form Imperial Airways Limited. Imperial Airways and the original privately owned British Airways Limited were nationalised in 1939 to form British Overseas Airways Corporation. In 1946, BOAC commenced scheduled services to New York, followed by services to Montreal and other major cities on the east coast of the United States and in Canada. Services were introduced to Japan in 1948, Chicago in 1954 and the west coast of the United States in 1957.

In August 1946, British European Airways Corporation was established as a separate statutory corporation to take over and develop the European services of BOAC. BEA also developed a domestic network to various points in the United Kingdom, including Belfast, Edinburgh, Glasgow and Manchester. The businesses of BOAC and BEA were combined in 1972 under the newly formed British Airways Board.

In July 1979, HM Government announced its intention to sell shares in British Airways. Lord King was appointed chairman in 1981 and was charged by the Secretary of State for Trade to take all necessary steps to restore the Group to profitability and prepare it for privatisation. The present chief executive and chief financial officer were appointed in 1983 and 1982, respectively. On 1st April, 1984, British Airways Plc succeeded to the business of the British Airways Board.

In January 1987, HM Government offered for sale up to 720.2 million Ordinary shares, the whole of the issued share capital of the Issuer. 118.6 million of these shares were the subject of separate offerings in the United States, Canada, Japan and Switzerland. BA's ordinary shares are listed on The Stock Exchange and (in the form of American Depositary Shares) on the New York Stock Exchange and The Toronto Stock Exchange. HM Government has disposed of its entire shareholding in the Issuer, except for approximately 17.7 million Ordinary Shares which it has retained to meet entitlements under a loyalty share bonus arrangement which it made available as part of the offer for sale.

Capitalisation

The capitalisation of the Issuer as at 31st December, 1986, without adjustment to give effect to the issue of the Notes, is as follows:—

	<u>£m</u>
Bank and other loans repayable:	
Within one year.....	51
After more than one year.....	190
	<u>241</u>
Capital obligations under finance leases payable:	
Within one year.....	17
After more than one year.....	70
	<u>87</u>
Total borrowings and capital obligations under finance leases:.....	<u>328</u>
Shareholders' equity:	
Ordinary Shares of 25p each	
Authorised—960 million	
Issued and fully paid—720.2 million	180
Reserves.....	439
Minority interests.....	1
Total Shareholders' equity.....	<u>620</u>
Total Capitalisation.....	<u>948</u>

Substantially all borrowings and capital obligations under finance leases are denominated in U.S. dollars. In relation to certain borrowings, HM Treasury has given the Group cover against losses arising from changes in exchange rates under the Treasury exchange cover scheme, an arrangement operated in respect of various nationalised industry borrowings as part of HM Government's management of foreign currency reserves. The Group accounts for these borrowings as sterling obligations and they are translated at the rates of exchange fixed by HM Treasury when the cover was effected. At such rates of exchange such borrowings amounted to £92 million at 31st December, 1986. All other borrowings and capital obligations under finance leases which are denominated in foreign currency have been translated into sterling at the rates of exchange prevailing at the close of business on 31st December, 1986 or, where the loan repayment instalments have been covered forward, at the applicable forward contract rate.

Until 1st April, 1984, BA was able to enter into arrangements for borrowings and finance lease obligations with the benefit of guarantees provided by HM Treasury. At 31st December, 1986 principal and interest in respect of all outstanding borrowings and payments amounting to £87 million in respect of capital obligations under finance leases were guaranteed by HM Treasury and these guarantees will remain in force for the life of these loans and finance leases. If any such guarantee is called, the undertaking and all the property and revenues of BA would be charged with the repayment of any monies paid thereunder with priority from the date on which BA committed to or incurred the liability. At 31st December, 1986 there was no other security in respect of any of the Group's outstanding indebtedness.

At 31st December, 1986 the Group had contingent liabilities in respect of obligations of the Issuer and guarantees given by or on behalf of subsidiaries and related companies amounting to £26 million.

Cash balances and short-term deposits amounted to approximately £228 million at 31st December, 1986.

BA is party to certain operating leases which, at its option, may be converted into finance leases. None of these leases has been so converted and hence obligations thereunder have not been included in the above statement. Further details of these operating lease arrangements are set out below under "Business—Fleet".

Reserves are stated as at 30th September, 1986, the date of the latest audited consolidated accounts of the Group.

There has been no material change in the borrowings and finance lease obligations of the Group since 31st December, 1986.

Business

Introduction

British Airways' principal activities are the operation of international and domestic scheduled and charter air services for the carriage of passengers and cargo. BA is one of the world's largest international scheduled airlines. In 1985, the latest year for which relevant industry statistics are available, the Airline ranked first in terms of the number of international scheduled passengers carried and second in terms of revenue tonne kilometres on international scheduled services.

BA's main business is the provision of scheduled passenger services. In recent years, this has accounted for approximately three-quarters of Group turnover from continuing activities. The cargo operation, which carries both freight and mail, is integrated with the passenger business as cargo is generally carried in the holds of aircraft flying scheduled passenger services.

The Group's charter activities are principally operated by British Air Tours, BA's wholly-owned subsidiary. The Airline also provides other services to outside parties, such as passenger and cargo handling and aircraft and engine maintenance. In addition, the Group's operations include certain non-airline activities, the largest of these being the sale of package holidays.

Route network

British Airways' international scheduled route network is one of the world's most extensive. It is the basis of the business. BA operates, on average, more than 3,700 scheduled flights a week to some 145 destinations in 68 countries and, in the year ended 31st March, 1986, carried approximately 13 million passengers on its international scheduled services.

BA also operates an extensive domestic scheduled network. In the year ended 31st March, 1986, over 4 million passengers travelled on this network, which provides an important feeder for BA's international services.

The most significant routes in terms of turnover and contribution to profits are certain long established intercontinental and European routes developed by BA's predecessors. In recent years, these have included those to the United States, Australia and New Zealand, Canada, Hong Kong, Japan, South Africa, France, Italy and West Germany (including internal West German services) which together accounted for 58 per cent. of Airline traffic revenue in the year ended 31st March, 1986 and 57 per cent. in the six months ended 30th September, 1986. Of these, the routes to the United States are the most significant in terms of both revenue and contribution to profit. They contributed 25 per cent. of Airline traffic revenue in the year ended 31st March, 1986. The most important U.S. destination is New York with two supersonic and three subsonic flights daily for most of the year.

Fleet

In recent years, British Airways has undertaken a major programme of aircraft acquisition, modification and refurbishment. At 31st March, 1987, the Airline operated a fleet of aircraft, details of which are set out below:—

<i>Aircraft</i>	<i>Number</i>	<i>Aircraft</i>	<i>Number</i>
Longhaul (Intercontinental services)		Shorthaul (principally European services)	
Concorde.....	7	TriStar 1.....	6
Boeing 747-100.....	16	Boeing 757.....	26
Boeing 747-200.....	13	Boeing 737.....	44
Boeing 747-200-Combi.....	3	BAC 1-11-500.....	21
TriStar 50.....	3	BAC 1-11-400.....	6
TriStar 200.....	8	HS 748.....	9
TriStar 500.....	2		
	<u>52</u>		<u>112</u>

A further Boeing 747-Combi which had been delivered at 31st March, 1987 has now gone into service and an additional Boeing 747-200 has been delivered and is due in service shortly. Of its aircraft, 116 are owned by BA, 7 are held under finance leases, 28 are held under extendible operating leases (see below) and 15 are held under other operating leases.

Between 1st April, 1980 and 31st March, 1987, 56 new aircraft were purchased, representing a total capital investment of approximately U.S.\$1.2 billion. A further 28 aircraft with an initial purchase price to the lessors of approximately U.S.\$900 million have been obtained under an extendible operating lease facility. In addition, the Airline operates a number of aircraft obtained under short-term operating leases. In the same period, BA disposed of 117 aircraft, which were either less efficient or less suited to BA's requirements. The number of basic types of aircraft operated by BA has been reduced from ten at 1st April, 1980 to seven at 31st March, 1987 and over the same period the average age of the fleet has fallen from approximately 10.9 to 9.0 years.

BA is one of only two airlines operating Concorde, which is the flagship of its fleet. BA's Concorde fleet has carried nearly one million passengers since introduction in 1976. In addition to their regular supersonic scheduled services to the United States, Concorde undertake specific charter operations throughout the world.

In order to replace the Boeing 747-100s, the oldest aircraft in the longhaul fleet, BA has committed to obtain 16 new long range Rolls-Royce powered Boeing 747-400s, as well as ten spare engines. These aircraft are scheduled for delivery between spring 1989 and late 1990. In addition, BA has options on a further 12 aircraft and five spare engines of this type for subsequent delivery. In December 1986, BA entered into a U.S.\$2.3 billion facility with a group of international banks (syndicated to a larger group of banks in January 1987) to finance the 16 aircraft and ten spare engines, details of which are given below.

One further Boeing 747-200 Combi is due for delivery in February 1988, one Boeing 757 is due for delivery in September 1987 and five further Boeing 757s have been ordered for delivery in the first half of 1988.

Until recently, aircraft have been purchased outright or acquired under long-term finance leases. However, in recent years, BA has obtained increasing numbers of aircraft on operating leases which are

either for short fixed terms or are for short terms extendible at BA's option for additional periods and are also convertible into finance leases. These have principally been shorthaul aircraft obtained under a U.S.\$950 million extendible operating lease facility.

The new facility in respect of the 16 Boeing 747-400s and ten spare engines is intended to be flexible in that it will enable BA to choose between a number of financing options for each aircraft with, where applicable, an associated spare engine and includes certain asset value support from banks and the manufacturers. The options include not only an extendible operating lease structure but also direct loan financing, debt instruments under bank guarantees, stand-by credit and finance lease arrangements. BA's present intention is to utilise the facility by adopting an extendible operating lease structure for each of the 16 aircraft and any associated spare engine.

Operations

The centre of the Airline's network is London's Heathrow airport, which is one of the international air transport industry's principal hubs. Heathrow handles more international passengers and flights and serves more international scheduled destinations than any other airport. British Airways is Heathrow's largest operator, accounting for about 45 per cent. of passengers passing through the airport. Since April 1986, BA's intercontinental services at Heathrow have been based at the new Terminal 4 building, together with its busiest European services, those to Paris and Amsterdam. The terminal, which is one of the most modern in the world, handles about a third of BA's scheduled passengers. The remainder of BA's European and domestic services from Heathrow are based in Terminal 1. Although Heathrow is the Airline's main base, it also operates from Gatwick airport and a number of U.K. regional airports, including Birmingham, Manchester, Edinburgh and Glasgow.

Ancillary Airline activities

Cargo

British Airways' cargo business is operated as an integral part of its scheduled passenger services. Cargo is generally carried in the holds of passenger aircraft. This allows the Airline to make use of its scheduled route network to provide a worldwide cargo service. The cargo business makes an important contribution to Airline scheduled service revenue. Major routes are those to the United States, Japan and Australia, which together produced over 60 per cent. of cargo revenue in the year ended 31st March, 1986.

Charter

The charter business mainly serves U.K. package tour operators, including BA's own holiday tour businesses, by supplying "whole plane" charters. The majority of charter operations are carried out by British Airtours, which is based at Gatwick airport.

Foreign currency exposure

The Group does business in approximately 120 foreign currencies which account for some 60 per cent. of Group revenue and some 50 per cent. of operating expenditure. The Group generates a surplus in most of these currencies. The principal exception is the U.S. dollar in which the Group has a significant shortfall largely because of expenditure on fuel, which is mainly priced and payable in U.S. dollars, and because, in addition to its operating expenditure, a substantial portion of capital expenditure, debt service and leasing costs are payable in U.S. dollars. BA also has a shortfall in sterling as the majority of staff costs and central overheads, as well as a proportion of its capital and leasing costs, are paid in sterling.

This broad spread of currencies in its business gives the Group a measure of protection against exchange rate movements and reduces the overall sensitivity of the Group's results to exchange rate fluctuations. Nonetheless the Group can experience adverse or beneficial effects. For example, if sterling weakened against the U.S. dollar and strengthened against other major currencies, the overall effect would be likely to be adverse, while the reverse would be likely to produce a beneficial effect.

Regulation and Competition

The international airline industry is subject to a high degree of governmental regulation, covering most aspects of airlines' operations, in particular route flying rights, fare setting and operational standards (the most important relating to safety, security and aircraft noise). British airlines are affected

not only by HM Government's policies, but also those of the countries to which they fly. Rights to operate scheduled services on international routes are generally derived from agreements between governments, known as air services agreements.

Most of the markets in which British Airways operates are highly competitive. It faces competition from other airlines on the same route, from indirect flights, from charter services and from other forms of transport. Competition varies from route to route, with those to the United States and the Far East being particularly competitive. Regulation can also affect the level of competition. In Europe, as has been the case in the United Kingdom, there are moves towards liberalisation.

At the time of the offer for sale of shares in BA, HM Government stated that the system of regulation for airlines would continue unchanged. The nature of this regulation is that, in the interests of the consumer and the industry as a whole, it may operate in particular instances to the advantage or disadvantage of an individual airline.

In October 1984, HM Government published a White Paper on Airline Competition Policy which covered both domestic and international routes. The policy objectives include the encouragement of a sound and competitive multi-airline industry, the promotion of competition so long as it is fair and U.K. interests are not prejudiced and ensuring adequate safeguards against anti-competitive behaviour. HM Government has stated that it considers the present regulatory framework provides a stable environment for the industry as a whole.

In 1985, a White Paper on Airports Policy was published. It considered air transport requirements in the United Kingdom for the period 1985 to 1995 and was followed by legislation. In the longer term the question of the further expansion of London airports, including Heathrow, remains under review.

Management

The Directors of the Issuer, all of Speedbird House, Heathrow Airport, Hounslow, Middlesex TW6 2JA, are as follows:—

Lord King of Wartnaby	Chairman
Robert Henderson	Non-executive deputy chairman
Colin Marshall	Chief executive
Gordon Dunlop	Chief financial officer
Basil Collins, CBE	Non-executive
Michael Davies	Non-executive
Captain Jack Jessop, CBE	Non-executive
Sir Francis Kennedy	Non-executive
Henry Lambert	Non-executive

In addition, Lord King is chairman of Babcock International plc and deputy chairman of Royal Ordnance plc and of National Nuclear Corporation Limited; Robert Henderson is chairman of Kleinwort Benson Lonsdale plc and a director of Cadbury Schweppes Plc and Inchcape PLC; Basil Collins is chairman of Nabisco Group Limited and a director of The Royal Mint; Michael Davies is a director of The Littlewoods Organisation PLC, TI Group plc, Newman Industries Plc and TV-am plc; and Henry Lambert is chairman of Agricultural Mortgage Corporation PLC and the Sun Alliance and London Insurance Group plc and a director of Barclays Bank PLC.

FINANCIAL INFORMATION

Industry background

Over the 10 years to 1985, as the following table shows, there has been considerable growth in the volume of traffic on international scheduled services operated by the airline industry as a whole.

<i>Year ended 31st December,</i>	<i>RTKs* (billion)</i>	<i>% Increase</i>	<i>Year ended 31st December,</i>	<i>RTKs* (billion)</i>	<i>% Increase</i>
1976	42.1	13	1981	68.5	7
1977	46.7	11	1982	69.9	2
1978	53.4	14	1983	73.7	5
1979	60.6	13	1984	81.6	11
1980	64.3	6	1985	85.6	5

Source: International Civil Aviation Organisation. * (See "Specialist Terms" below)

The rate of growth has fluctuated considerably from year to year as demand for services is sensitive to the level of economic activity and other external factors, such as changing political conditions. Reductions in the rate of growth have had a major adverse effect on the industry's financial performance, both because a significant proportion of airlines' costs, such as aircraft and staff, cannot generally be easily adjusted in the short term, and also because the resulting excess capacity can limit the ability to increase fares. In the late 1970s and early 1980s international airlines were adversely affected by a significant increase in cost and a sharp reduction in the rate of traffic growth, caused principally by a combination of sharply higher fuel prices and the ensuing recessions. These effects are illustrated by the table below which set out the aggregate revenues and operating results for all IATA members' international scheduled operations for each of the ten years ended 31st December, 1985.

<i>Year ended 31st December,</i>	<i>Total traffic revenue U.S.\$(bn)</i>	<i>% Increase</i>	<i>Operating result before interest U.S.\$(bn)</i>	<i>Operating result after interest U.S.\$(bn)</i>
1976	16.6	n/a	0.5	(0.1)
1977	19.3	16	0.9	0.3
1978	23.5	22	1.0	0.4
1979	28.8	23	0.2	(0.4)
1980	35.6	24	(0.9)	(1.9)
1981	36.1	1	(0.6)	(1.9)
1982	36.7	2	(0.2)	(1.8)
1983	37.9	3	1.3	(0.3)
1984	39.5	4	2.2	0.8
1985	40.7	3	1.6	0.2

Source: International Air Transport Association

British Airways

During the five years and six months ended 30th September, 1986 there was a major turnaround in the Group's financial performance. Actions taken by BA's management have played an important part in achieving this recovery. The current management team led by Lord King completed a major rationalisation programme and has placed increasing emphasis on marketing and customer service. However, the Airline's performance and results have also been significantly affected by a number of external factors, such as the effects of changing economic and political conditions, the competitive and regulatory environment, fuel prices and, to a lesser extent, movements in foreign exchange rates.

This period also witnessed a significant improvement in BA's financial position with a reduction in Group indebtedness by £700 million from £1,053 million at 31st March, 1983 to £353 million at 30th September, 1986 (£328 million at 31st December, 1986). Share capital and reserves amounted to £619 million at 30th September, 1986 compared with a deficit of £195 million at 31st March, 1982.

The year ended 31st March, 1987 will show a downturn in profit before tax against 1985/86, largely because of a difficult trading environment, particularly in the first quarter. This principally arose from a reduction in traffic volume, particularly on the North Atlantic routes, following the incidents in Chernobyl and Libya in April 1986. Management reacted to the situation by initiating major marketing

campaigns, by not hiring the planned number of temporary staff in the summer and by making marginal reductions in its planned flying programme. In the six months ended 31st March, 1987 the volume of scheduled service traffic and operating expenditure were both above that in the comparable period of the previous year.

Set out below are the results of the Group and selected operating statistics for the two years ended 31st March, 1985 and 31st March, 1986, and for the six months ended 30th September, 1985 and 30th September, 1986.

Trading Record

	Year ended 31st March,		Six months ended 30th September,	
	1985 £m	1986 £m	1985 £m	1986 £m
Turnover				
Continuing activities				
Airline				
Scheduled services.....	2,506	2,644	1,446	1,367
Charter.....	131	151	108	98
Other.....	160	186	86	94
Total Airline.....	2,797	2,981	1,640	1,559
Non-Airline.....	108	130	82	119
	2,905	3,111	1,722	1,678
Discontinued activities.....	38	38	21	18
Total.....	2,943	3,149	1,743	1,696
Percentage change.....	17%	7%	11%	(3%)
Operating expenditure				
Continuing activities				
Airline.....	2,494	2,776	1,435	1,408
Non-Airline.....	117	134	80	118
	2,611	2,910	1,515	1,526
Discontinued activities.....	40	41	22	19
Total.....	2,651	2,951	1,537	1,545
Percentage change.....	18%	11%	15%	1%
Operating surplus				
Continuing activities				
Airline.....	303	205	205	151
Non-Airline.....	(9)	(4)	2	1
	294	201	207	152
Discontinued activities.....	(2)	(3)	(1)	(1)
Total.....	292	198	206	151
Other income.....	12	36	16	7
Interest payable and similar charges.....	(113)	(39)	(21)	(17)
Profit/(loss) before taxation				
Continuing activities.....	175	197	202	143
Discontinued activities.....	16	(2)	(1)	(2)
Total.....	191	195	201	141
Taxation and minority interests	(5)	(2)	(1)	(4)
Profit before extraordinary items.....	186	193	200	137
Extraordinary items.....	(12)	(12)	—	4
Profit transferred to reserves...	174	181	200	141

Airline Operating Statistics

	Year ended 31st March		Six months ended 30th September	
	1985	1986	1985	1986
<i>Scheduled Services</i>				
Volume of traffic carried (bn):				
RPKs.....	38.4	41.3	23.1	21.5
RTKs.....	4.8	5.2	2.8	2.7
Yield (pence):				
Revenue per RPK.....	5.9	5.8	5.7	5.7
Revenue per RTK.....	52.1	51.3	51.9	50.7
Capacity (bn):				
ASKs.....	56.0	60.8	32.3	32.6
ATKs.....	7.3	8.0	4.2	4.3
Load Factors (%):				
Passenger load factor.....	68.5	68.0	71.7	66.0
Break-even passenger load factor.....	59.3	62.1	60.4	58.0
Overall load factor.....	66.1	64.8	66.7	62.8
Break-even overall load factor.....	58.2	59.8	57.2	55.9
<i>Total Airline Operations</i>				
ATKs (bn).....	7.8	8.6	4.6	4.7
Aircraft utilisation (average hours per aircraft).....	2,653	2,720	1,462	1,558
Number of passengers carried (m).....	18.4	19.7	11.2	11.0

Specialist terms

Capacity measurements

available seat kilometres (ASKs)

the number of seats made available for sale multiplied by the distance flown

available tonne kilometres (ATKs)

the number of tonnes of capacity available for the carriage of revenue load (passengers and cargo) multiplied by the distance flown

Volume measurements

revenue-passenger kilometres (RPKs)

the number of revenue passengers carried multiplied by the distance flown

revenue tonne kilometres (RTKs)

the revenue load (passengers and cargo) in tonnes multiplied by the distance flown

Yield measurements

revenue per RPK

passenger revenue from scheduled operations divided by RPKs

revenue per RTK

revenue from scheduled operations divided by RTKs

Load factors

passenger load factor

RPKs expressed as a percentage of ASKs

overall load factor

RTKs expressed as a percentage of ATKs

break-even passenger load factor

the passenger load factor required to equate scheduled passenger revenue with Airline operating costs assuming that total Airline operating surplus is attributable to scheduled passenger operations

break-even overall load factor

the overall load factor required to equate scheduled traffic revenue with Airline operating costs assuming that total Airline operating surplus is attributable to scheduled traffic operations

UNITED KINGDOM TAXATION

The comments below are of a general nature based on the Issuer's understanding of current United Kingdom law and practice and relate only to the position of persons (other than dealers) who are the beneficial owners of their Notes.

1. The Notes will constitute "quoted Eurobonds" within the terms of Section 35 of the Finance Act 1984, provided they remain in bearer form and continue to be quoted on a recognised stock exchange within the meaning of Section 535 of the Income and Corporation Taxes Act 1970. Accordingly, interest may be paid without deduction for United Kingdom income tax where:—

- (a) the person by or through whom the payment is made is not in the United Kingdom; or
- (b) the payment is made by or through a person who is in the United Kingdom and:—
 - (i) it is proved on a claim made to the Inland Revenue including, where applicable, by an appropriate form of declaration of non-residence provided to the paying agent that the person who is the beneficial owner of the Note and entitled to the interest (or where the interest is deemed by law to be income of some other person that such other person) is not resident in the United Kingdom; or
 - (ii) the Note and Coupon are held by one and the same person in a "recognised clearing system". CEDEL S.A. and Euro-clear have each been designated as a "recognised clearing system" for this purpose.

In all other cases interest will be paid under deduction of United Kingdom income tax subject to such relief as may be available under the provisions of any appropriate double taxation treaty.

2. A collecting agent in the United Kingdom obtaining payment of interest elsewhere than in the United Kingdom may be required to deduct United Kingdom income tax unless it is proved, on a claim made in advance to the Inland Revenue, that the beneficial owner of the interest and related Note is not resident in the United Kingdom.

3. The interest has a United Kingdom source and accordingly will be chargeable to United Kingdom tax by direct assessment even if the interest is paid without withholding or deduction. However, by Inland Revenue extra-statutory concession, the interest will not be assessed to United Kingdom tax in the hands of Noteholders who are not resident in the United Kingdom except where such persons:—

- (a) have an agent or branch in the United Kingdom which has the management and control of the interest; or
- (b) seek to claim relief in respect of taxed income from United Kingdom sources; or
- (c) are chargeable to corporation tax on the income of a United Kingdom branch or agency to which the interest is attributable.

4. Noteholders should note that the provisions relating to additional payments referred to under "Taxation" in "Conditions of the Notes" above would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest directly to United Kingdom tax. However, exemption from or reduction of such United Kingdom tax liability might be available under an appropriate double taxation treaty.

5. Noteholders may be subject to United Kingdom taxation under the accrued income scheme on a disposal of Notes if they are resident or ordinarily resident in the United Kingdom or if they carry on a trade in the United Kingdom through a branch or agency to which the Notes are attributable. The exemption from United Kingdom taxation on capital gains for "qualifying corporate bonds" will apply to the Notes.

6. No United Kingdom inheritance tax is charged on the death of, or on a gift of Notes by, a Noteholder who is neither domiciled nor deemed to be domiciled in the United Kingdom provided that the relevant Notes are held outside the United Kingdom at the time of death or gift.

Prospective Noteholders who are in any doubt as to their personal tax position should consult their professional advisers.

PURCHASE AND SALE

Union Bank of Switzerland (Securities) Limited, Barclays de Zoete Wedd Limited, Phillips & Drew Limited, Deutsche Bank Capital Markets Limited, Banque Bruxelles Lambert S. A., Banque Paribas Capital Markets Limited, Chemical Bank International Limited, Commerzbank Aktiengesellschaft, County NatWest Capital Markets Limited, Credit Suisse First Boston Limited, Daiwa Europe Limited, Dresdner Bank Aktiengesellschaft, Goldman Sachs International Corp., Hill Samuel & Co. Limited, IBI International Limited, Kleinwort Benson Limited, Lloyds Merchant Bank Limited, Samuel Montagu & Co. Limited, Morgan Guaranty Ltd, Morgan Stanley International, Nomura International Limited, Salomon Brothers International Limited, J. Henry Schroder Wagg & Co. Limited, Swiss Bank Corporation International Limited, Toronto Dominion International Limited, S. G. Warburg Securities and Wood Gundy Inc. (the "Managers") have entered into a Purchase Agreement with the Issuer under which the Managers will agree to purchase a purchase price of 100 1/4 per cent. of the principal amount of the Notes (being the issue price of 100 per cent. less a selling concession of 1 1/4 per cent.). The Issuer will pay the Managers a fee of 1 per cent. of the principal amount of the Notes for their services as Managers and as underwriters. In addition, the Issuer has agreed to pay £40,000 in lieu of reimbursement of the Managers' expenses.

The Notes have not been and will not be registered under the Securities Act of 1933 (the "Securities Act"). Accordingly, the Notes may not, as part of a distribution, be offered, sold or delivered, directly or indirectly, in the United States or to any U.S. person.

Each Manager has agreed to observe the foregoing restrictions on distribution of the Notes and not to make any offers, sales or deliveries, directly or indirectly, in the United States or to U.S. persons (except to other Managers outside the United States) of the Notes, however acquired, prior to 90 days following the completion of distribution of the Notes as determined by Union Bank of Switzerland (Securities) Limited (the "Exchange Date"). Notwithstanding the passing of the Exchange Date, any reoffer or resale in the United States or to any U.S. person must be made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom; neither the Issuer nor any Manager makes any representation in respect of, or has assumed any responsibility for, the availability of any such exemption, which would depend upon the facts and circumstances existing at the time of such reoffers and resales. Each Manager has further agreed to send to any person who purchases from it any of the Notes a confirmation stating substantially that (i) the Notes have not been registered under the Securities Act, (ii) such purchaser represents compliance with and agrees to the selling restrictions set forth above and (iii) if such purchaser is a dealer, it agrees to deliver a similar written confirmation to any person purchasing Notes from it.

Herein, the term "United States" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction, and the term "U.S. person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organised in or under the laws of the United States, and an estate or trust the income of which is subject to United States Federal income taxation regardless of its source.

GENERAL INFORMATION

Listing

The listing of the Notes on The Stock Exchange will be expressed as a percentage of their principal amount. Transactions on The Stock Exchange will be effected for settlement in sterling, and under current practice, for delivery on the fifth business day in London after the date of the transaction. It is expected that listing of the Notes will be granted on 1st May, 1987, subject only to the issue of the temporary global Note. Prior to official listing, however, dealings in the Notes will be permitted by the Council of The Stock Exchange in accordance with its rules.

Clearing Systems

The Notes have been accepted for clearance through CEDEL S.A. (Ref. No. 157079) and Euro-clear (Ref. No. 52555).

Authorisation

The issue of the Notes was authorised by a resolution dated 3rd April, 1987 of the Board of Directors of the Issuer.

Stabilisation

In connection with the distribution of the Notes, the Managers may, to the extent permitted by United Kingdom law, over-allot or effect transactions in the market and/or establish a long or short position with a view to stabilising or maintaining the market price of the Notes at levels other than those which might otherwise prevail in the open market. Any such transactions, if commenced, may be discontinued at any time.

Material Change

Save as disclosed herein, or in the January Listing Particulars, there has been no material adverse change in the financial position of the Issuer since 30th September, 1986.

Litigation

Save for the matters disclosed in the January Listing Particulars, none of which are material in the context of the issue of the Notes, neither the Issuer nor any subsidiary of the Issuer is involved in any litigation or arbitration proceedings which may have or have had, during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of the Group, nor is the Issuer aware of any such proceedings pending or threatened.

Financial Information

The financial information in respect of the Group for the two years ended 31st March, 1986 contained in this document does not constitute full accounts in respect of those years within the meaning of section 254 of the Companies Act 1985. Full accounts in respect of those years were delivered to the Registrar of Companies and the auditors of the Group gave unqualified reports thereon within the meaning of section 271 of the Companies Act 1985.

Documents

Copies of the following documents may be inspected at the offices of Linklaters & Paines during the usual business hours on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this Offering Circular:—

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the Annual Report and Accounts of the Issuer for the two financial years ended 31st March, 1985 and 31st March, 1986 and the Accounts of the Issuer for the two six month periods ended 30th September, 1985 and 30th September, 1986;
- (iii) the Purchase Agreement and drafts (subject to modification) of the Trust Deed constituting the Notes (incorporating the form of the Notes and the Coupons) and the Paying Agency Agreement; and
- (iv) the January Listing Particulars.

**REGISTERED OFFICE OF
THE ISSUER**

Speedbird House
Heathrow Airport
Hounslow
Middlesex TW6 2JA

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Princes House
95 Gresham Street
London EC2V 7LY

PRINCIPAL PAYING AGENT

Union Bank of Switzerland
Bahnhofstrasse 45
CH-8021 Zurich

PAYING AGENTS

Union Bank of Switzerland
117 Old Broad Street
London EC2N 1AJ

Union de Banques Suisses (Luxembourg) S.A.
36-38 Grand' Rue
L-2011 Luxembourg

Morgan Guaranty Trust Company
of New York
Avenue des Arts 35
B-1040 Brussels

LEGAL ADVISERS

To the Issuer:

Linklaters & Prines
Barrington House
59-67 Gresham Street
London EC2V 7JA

To the Managers and the Trustee:

Allen & Overy
9 Cheapside
London EC2V 6AD

BROKER

Philips & Drew Limited
120 Moorgate
London EC2M 6XP

AUDITORS

Ernst & Whinney
Becket House
1 Lambeth Palace Road
London SE1 7EU