

# Accident Exchange Group Plc

*(incorporated with limited liability in England and Wales with registered number 4360804)*

**£50,000,000**

## **5.50 per cent. Convertible Notes due 2013**

The issue price of the £50,000,000 5.50 per cent. Convertible Notes due 2013 (the “**Notes**”) of Accident Exchange Group Plc (the “**Issuer**”) is 100 per cent. of their principal amount. The Notes will bear interest from (and including) 8 January 2008 (the “**Issue Date**”) at the rate of 5.50 per cent. per annum. Interest shall be payable on the Notes semi-annually in arrear on 8 January and 8 July in each year (each an “**Interest Payment Date**”).

Each Note is convertible at the option of the holder at any time on or after 18 February 2008 and up to the close of business on (i) the date falling 14 calendar days prior to the Final Maturity Date (as defined below) or (ii) if such Note is to be redeemed at the option of the Issuer prior to the Final Maturity Date, the 14th day prior to the relevant date fixed for redemption, into newly issued and/or existing ordinary shares of £0.05 nominal value each in the Issuer (the “**Ordinary Shares**”), at an initial conversion price of £1.0733 per Ordinary Share. The conversion price is subject to adjustment in certain circumstances as described herein. For the terms of the conversion rights, see “*Terms and Conditions of the Notes – Conversion of Notes*”.

The Notes may be redeemed at the option of the Issuer in whole (but not in part) at their Accreted Principal Amount (as defined in *Condition 6(e)* of the *Terms and Conditions of the Notes*) together with accrued interest at any time if conversions and repurchases and cancellations have occurred in respect of 85 per cent. or more in principal amount of the Notes originally issued. Unless previously redeemed, converted or purchased and cancelled, the Notes will be redeemed at their Accreted Principal Amount together with unpaid accrued interest on 8 January 2013 (the “**Final Maturity Date**”).

See “*Risk Factors*” for a discussion of certain factors that should be considered in connection with an investment in the Notes.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and are subject to United States tax law requirements. The Notes have been offered outside the United States by the Lead Manager (as defined in “**Subscription and Sale**”) in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and issued in denominations of £50,000. The Notes will initially be represented by a temporary global Note (the “**Temporary Global Note**”), without interest coupons, which will be deposited on the Issue Date with a common depositary for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”). The Temporary Global Note will be exchangeable for interests in a permanent global Note (the “**Global Note**”), without interest coupons, from the 40th day after the Issue Date, (which is expected to be 18 February 2008) upon certification of non-U.S. beneficial ownership. The Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for definitive Notes in bearer form in denominations of £50,000 each, with interest coupons attached. See “*Summary of Provisions Relating to the Notes while in Global Form*”.

*Sole Bookrunner and Lead Manager*

**Morgan Stanley**

This Offering Circular comprises listing particulars given in compliance with the listing rules (the “**Listing Rules**”) made under Section 73A of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the UK Listing Authority (the “**UKLA**”). Applications have been made for the £50,000,000 5.50 per cent. Convertible Notes due 2013 (the “**Notes**”) of Accident Exchange Group Plc (the “**Issuer**”) to be admitted to the official list maintained by the UKLA for the purposes of Part VI of the FSMA (the “**Official List of the UKLA**”) and to be admitted to trading on the Professional Securities Market of the London Stock Exchange plc (the “**London Stock Exchange**”). The Professional Securities Market is an unregulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). The Issuer has undertaken to apply to have Ordinary Shares in the Issuer issuable upon conversion of the Notes admitted to the Official List and admitted to trading on the EEA Regulated Market of the London Stock Exchange. This Offering Circular is to be read in conjunction with all the documents which are incorporated by reference herein (see “*Presentation of Information — Documents incorporated by reference*”).

The Issuer accepts responsibility for the information contained in this Offering Circular. The Issuer confirms that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

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

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

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

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Lead Manager to subscribe or purchase, any Notes or Ordinary Shares.

The Notes and the Ordinary Shares have not been, and will not be, registered under the U.S. Securities Act of 1933 (the “**Securities Act**”). The Notes are being offered outside the United States in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Lead Manager to inform themselves about and to observe any such restrictions. This Offering Circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see “*Subscription and Sale*”.

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

The Lead Manager has not separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Lead Manager as to the accuracy, completeness or verification of the information contained in this Offering Circular or any other information supplied in connection with the Notes or the Ordinary Shares and nothing contained in this Offering Circular is or shall be relied upon as a promise or representation in this respect, whether as to the past or the future. The Lead Manager accordingly disclaims, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this Offering Circular or any other information supplied in connection with the Notes or the Ordinary Shares. Each person receiving this Offering Circular acknowledges that such person has: (i) not relied on the Lead Manager in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own examination of the Issuer and the merits and risks involved in investing; and (ii) relied only on the information contained in this Offering Circular, and that no person has been authorised to give any information or to make any representation concerning the Issuer, the Notes or the Ordinary Shares (other than as contained in this Offering Circular) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer or the Lead Manager.

In connection with the issue of the Notes, the Lead Manager (or any persons acting on behalf of the Lead Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Lead Manager (or any persons acting on behalf of the Lead Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date (as defined herein) of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Lead Manager (or any persons acting on behalf of the Lead Manager) in accordance with all applicable law and rules.

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

The Lead Manager is acting exclusively for the Issuer and no one else in connection with the offering of the Notes. It will not regard any other person (whether or not a recipient of this Offering Circular) as its client in relation to the offering of the Notes and will not be responsible to anyone other than the Issuer for providing the protections afforded its clients nor for giving advice in relation to the offering of the Notes or any transaction or arrangement referred to herein.

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## PRESENTATION OF INFORMATION

### Presentation of financial information

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

Unless otherwise indicated, the audited consolidated financial information as at and for the years ended 30 April 2006 and 2007 in this Offering Circular has been extracted without material adjustment from the Issuer's audited consolidated financial information as at and for the year ended 30 April 2006 and the audited consolidated financial statements as at and for the year ended 30 April 2007 and the unaudited consolidated condensed interim financial information as at and for the six months ended 31 October 2006 and 2007 in this Offering Circular has been extracted without material adjustment from the Issuer's unaudited consolidated condensed interim financial statements as at and for the six months ended 31 October 2006 and 2007. The audited consolidated financial information of the Issuer as at and for the year ended 30 April 2006 included in the prospectus referred to in the subsection below does not comprise statutory accounts within the meaning of section 240(5) of the Companies Act 1985, as amended.

### Documents incorporated by reference

This Offering Circular should be read and construed in conjunction with the audited consolidated financial information of the Issuer as at and for the year ended 30 April 2006 included in sections C and D of Part VI in the prospectus issued in connection with the Issuer's listing of its Ordinary Shares on the Official List of the UKLA dated 26 October 2006 and the audited consolidated financial statements as at and for the year ended 30 April 2007 together, in each case, with the audit report thereon and the unaudited consolidated condensed interim financial statements of the Issuer as at and for the six months ended 31 October 2006 and 2007 together in each case with the review report thereon. These documents have been previously published and have been approved by the UKLA or filed with it. Such documents shall be incorporated in, and form part of, this Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

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

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

### References

In this Offering Circular, (i) references to the "**Group**" are to the Issuer and its subsidiaries and affiliates taken as a whole; and (ii) references to "**pounds sterling**", "**£**", "**pence**" or "**p**" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the "**United Kingdom**").

### Forward-looking statements

Some of the statements in this Offering Circular include forward looking statements which reflect the Issuer's current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward looking statements both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements are of a future or forward looking nature.

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

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

## OVERVIEW OF THE OFFERING

*The following overview refers to certain provisions of the Terms and Conditions of the Notes, the Ordinary Shares and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Offering Circular. Terms which are defined in “Terms and Conditions of the Notes” have the same meaning when used in this overview.*

<b>Issuer</b>	Accident Exchange Group Plc.
<b>Notes</b>	£50,000,000 5.50 per cent. Convertible Notes due 2013.
<b>The Offering</b>	The Notes are being offered by the Lead Manager outside the United States in accordance with Regulation S under the United States Securities Act of 1933.
<b>Issue Date</b>	8 January 2008.
<b>Issue Price</b>	100 per cent. of the principal amount of the Notes.
<b>Final Maturity</b>	Unless previously purchased and cancelled, redeemed or converted, the Notes will be redeemed on 8 January 2013 (the “ <b>Final Maturity Date</b> ”) at 126.6 per cent. of their principal amount.
<b>Form and Denomination</b>	The Notes will initially be represented by a Temporary Global Note in bearer form, without interest coupons, which will be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg on or about 8 January 2008. The Temporary Global Note will be exchangeable for interests in a Global Note, without interest coupons, from the 40th day after the Issue Date upon certification as to non-U.S. beneficial ownership. The Global Note will be exchangeable for definitive Notes in bearer form in denominations of £50,000 in the limited circumstances set out in it. See “ <i>Summary of Provisions relating to the Notes while in Global Form</i> ”.
<b>Interest</b>	The Notes bear interest from (and including) the Issue Date at 5.50 per cent. per annum payable semi-annually in equal instalments in arrear on 8 January and 8 July each year, commencing on 8 July 2008.
<b>Status of the Notes</b>	The Notes constitute senior, unsubordinated, direct, unconditional and (subject to Condition 2) unsecured obligations of the Issuer and rank <i>pari passu</i> without preference among themselves. The obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 2, at all times rank at least equally with all its present and future unsecured and unsubordinated obligations.
<b>Yield</b>	A gross yield to maturity of 9.75 per cent. per annum calculated on a semi-annual basis. The yield is calculated on the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
<b>Negative Pledge</b>	So long as any Note remains outstanding, the Issuer will not create or permit to subsist, and will ensure that none of its Subsidiaries will create or permit to subsist any Security Interest upon the whole or any part of its or their present or future property or assets (including any uncalled capital) to secure any Relevant Indebtedness, or to secure any guarantee of or indemnity in respect

of any Relevant Indebtedness, as the case may be, subject to the exceptions in Condition 2. See “*Terms and Conditions of the Notes — Negative Pledge*”.

**Cross Default**

The Notes will contain a cross default provision, subject to a threshold of £5,000,000, as further described in “*Terms and Conditions of the Notes — Events of Default*”.

**Other Events of Default**

For a description of certain other events that will permit the Notes to become immediately due and payable at their principal amount, together with accrued interest, following a notice to that effect by the Trustee, see “*Terms and Conditions of the Notes — Events of Default*”.

**Redemption at the Option of the Issuer**

The Notes may be redeemed at the option of the Issuer in whole (but not in part only) at their Accreted Principal Amount (as defined herein) as at the date fixed for redemption together with accrued interest to the date fixed for redemption at any time if prior to the date on which the relevant notice of redemption is given to Noteholders, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Notes originally issued, as set out in “*Terms and Conditions of the Notes — Redemption at the Option of the Issuer*”.

**Taxation**

All payments in respect of the Notes will be made by or on behalf of the Issuer without withholding or deduction for any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall not be required to pay any additional amounts to Noteholders to compensate for such withholding or deduction.

**Conversion Right**

Unless previously redeemed or purchased and cancelled, each Note will be convertible, at the option of the holder, into Ordinary Shares of the Issuer during the Conversion Period at the prevailing Conversion Price as at the relevant Conversion Date. See “*Terms and Conditions of the Notes — Conversion of the Notes*”.

**Conversion Period**

The period beginning on and including 18 February 2008 and ending on and including the earlier to occur of:

- (1) the close of business on the date falling 14 calendar days prior to the Final Maturity Date; and
- (2) if the Notes shall have been called for redemption by the Issuer before the Final Maturity Date, the close of business on the day which is 14 calendar days before the date fixed for redemption.

**Conversion Price**

£1.0773 per Ordinary Share, subject to adjustment in accordance with the Conditions.

**Conversion Price Reset**

The Conversion Price will be reset on 9 January 2009 (the “**Reset Date**”) if the average of the Volume Weighted Average Price of the Ordinary Shares on the London Stock Exchange for the 15 dealing days immediately prior to the Reset Date is less than the Reference

	Price. See “ <i>Terms and Conditions of the Notes – Conversion Price Reset</i> ”.
<b>Conversion Price upon Change of Control</b>	In the event of a Change of Control (as defined herein), the Conversion Price will be adjusted downwards for a specified period as described in the Conditions.
<b>Redemption for a Change of Control</b>	Following the occurrence of a Change of Control, the holder of each Note will have the right at such holder’s option to require the Issuer to redeem in whole but not in part such holder’s Notes on the Change of Control Put Date at their Accreted Principal Amount as at the Change of Control Put Date, together with accrued and unpaid interest to such date.
<b>Ordinary Shares</b>	The Ordinary Shares to be delivered following conversion of the Notes will be delivered credited as fully paid, having, on the date hereof, a nominal value of £0.05 each and will rank <i>pari passu</i> in all respects with all fully paid Ordinary Shares in issue on the relevant Conversion Date, save as provided in “ <i>Terms and Conditions of the Notes</i> ”.
<b>Lock Up</b>	The Issuer has, subject to certain exceptions, and each of the directors of the Issuer holding Ordinary Shares has, agreed not to issue (in the case of the Issuer only) or sell Ordinary Shares or certain related securities for a limited period from the date of the Subscription Agreement. See “ <i>Subscription and Sale</i> ” below.
<b>Trustee</b>	BNY Corporate Trustee Services Limited
<b>Principal Paying and Conversion Agent</b>	The Bank of New York
<b>Governing Law</b>	The Notes and the Trust Deed will be governed by, and shall be construed in accordance with, English law.
<b>Listing and Trading</b>	Applications have been made for the Notes to be admitted to the Official List of the UKLA and to trading on the Professional Securities Market of the London Stock Exchange. The Issuer has undertaken to apply to have the Ordinary Shares deliverable upon conversion of Notes admitted to listing on the Official List of the UKLA and admitted to trading on the EEA Regulated Market of the London Stock Exchange.
<b>Clearing</b>	The Notes have each been accepted for clearing by Euroclear and Clearstream, Luxembourg. The Notes have the following Common Code and International Securities Identification Number (“ <b>ISIN</b> ”):  Common Code: 033496834 ISIN: XS0334968343
<b>Selling Restrictions</b>	There are restrictions on the offer, sale and delivery of the Notes, <i>inter alia</i> , in the United States and the United Kingdom. See “ <i>Subscription and Sale</i> ”.

## RISK FACTORS

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

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

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

*Investing in the Notes involves certain risks. Prospective investors should consider, amongst other things, the following:*

### **Risks relating to the Issuer and the Group**

#### ***The Enforceability Challenge and its impact on the Group***

At the end of 2006, the Issuer was confronted with a threat to the recoverability of certain of the Group’s trade receivables (the “**Enforceability Challenge**”), which the Issuer believes also casts a shadow over the standing and reputation of the Group with insurers. As a result, the recoverability of a large portion of the Group’s debtor book has been delayed for a considerable period of time to the detriment of cash flow.

In response to the cash flow impact of the Enforceability Challenge, in June 2007 the Issuer announced the refinancing and expansion of the working capital facilities available to the Group with a £45.0 million facility from Morgan Stanley Bank International Limited (“**MSBIL**”). This facility is fully drawn down. On 3 December 2007, the Issuer agreed with MSBIL a £10 million increase to this facility, which is available until, and must be repaid on, 15 January 2008. This £10 million increase has been fully drawn down.

The Enforceability Challenge absorbed a significant amount of management time over a period of twelve months or so and caused a material and adverse effect on both trading levels and cash flows. Whilst facing the Enforceability Challenge, the Issuer decided to delay the escalation of ordinary course litigation pending clarification on the issue of enforceability. Having defeated the Enforceability Challenge in two test cases heard before Designated Civil Judges, the Issuer announced on 23 October 2007 that the Group’s panel solicitors had been instructed to resume use of the litigation process fully as part of its ordinary day-to-day collection process in an effort to drive an improvement in cash flows in the second half of the current financial year and beyond.

Dialogue with some insurers in respect of the settlement of older cases has been encouraging and normal collection activity since 19 October 2007 has been improving, but because the Issuer has solicitors dealing with claims on a claim by claim basis it expects the rate of ongoing collection improvement to be steady rather than rapid.

In the announcement of its results for the six month period ended 31 October 2007, the Issuer stated that if it was unable to proceed with the issue of the Notes, it would need to put in place immediate alternative measures to manage its business, so far as possible, within the working capital facilities available to it. These measures would principally include, from a non operational perspective, seeking alternative funding and, from an operational perspective, *inter alia*, the agreement of block settlements and compromised litigated claims at higher discount rates than might otherwise need to be the case. Whilst the Issuer stated that it was confident that these operational measures would be effective from a working capital perspective, it also

stated that there could be no certainty that they would be adequate to remain within the working capital facilities currently available to the Group. Furthermore, it stated that it was likely that any combination of these operational measures would have a material adverse impact on the profitability of the Group and its future growth plans.

In their audit opinion on the Issuer's financial statements for the year ended 30 April 2007 and their review opinion on the Issuer's unaudited financial statements for the six months ended 31 October 2007, PricewaterhouseCoopers LLP included an emphasis of matter statement. In their review opinion on the Issuer's unaudited financial statements for the six months ended 31 October 2007, PricewaterhouseCoopers LLP pointed out that, while the directors of the Issuer believed that they had a reasonable basis for deriving the settlement estimation that was reflected in the preparation of the financial statements, the circumstances that are described in the section entitled "*Background*" in note 1 of those unaudited financial statements may mean that actual settlement levels may ultimately be materially different to those estimated in the preparation of the financial statements.

Additionally, and for the reasons also set out in note 1, PricewaterhouseCoopers LLP stated that the ability of the Issuer to continue as a going concern was dependent on either the closing of the issue of the Notes or the effectiveness of alternative measures taken by the Group being such that the Group's existing financing arrangements remained sufficient. PricewaterhouseCoopers LLP stated that these circumstances indicated the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors of the Issuer believed that they had a reasonable basis for preparing the financial statements on a going concern basis, and hence the financial statements did not include any adjustment that would have resulted should the Group have been unable to continue as a going concern.

As can be seen from the above, the Group has faced significant financial and operational difficulties in the recent past caused, in the opinion of the Issuer, as a result of the Enforceability Challenge. Assuming successful completion of the issue of the Notes, the Issuer believes that the Group will have the necessary financial resources in place to robustly pursue its aim of developing further its business model. If, however, the Issuer does not achieve the expected improvement in its rate of collections, or if its business fails to recover from the difficulties which it has faced as a result of the Enforceability Challenge with the speed and in the manner which it expects, this would have a significant adverse effect on the Group's financial condition and results of operations.

### ***Financing Risks***

Processing claims for the Group's services in order to achieve the optimum settlement in terms of value and time is key to the Group's profitability and its working capital management. Settlement of claims quickly without undue margin erosion requires skilled personnel and systems. There can be no guarantee that the Group will be able to operate within its working capital facilities or that these facilities will rise in line with the Group's own expectations. The Group acquires its vehicles through a range of financial instruments, which includes contract hire, operating leases and hire purchase. There can be no guarantee that these instruments will continue to be made available to the Group, or that the instruments will increase in line with the Group's growth expectations or that the VAT payable when a vehicle is purchased can be either financed within the hire purchase arrangements or, as is the case currently, reclaimed from HM Revenue & Customs.

### ***Settlement estimation and risk of challenge***

The Group's work in progress and trade receivables require an estimation of the expected adjustments that will arise, amongst other things, on the settlement of claims and the adjustments that arise as a result of this process impacting on the level of revenue disclosed by the Group. The estimation process is determined primarily on the basis of prior experience of settlements, but it is, by its very nature, judgemental.

Furthermore, the uncertainty surrounding this estimation process increased during the year ended 30 April 2007 and the six months ended 31 October 2007 due to the increased ageing of trade receivables as a result of the Enforceability Challenge referred to above.

The Issuer believes that it has a reasonable basis for its settlement estimation process as reflected in recent financial statements; however, ultimate settlements agreed through negotiation with or litigation against the

insurers in relation to the outstanding work in progress and trade receivables may be materially different to that which is estimated in the preparation of the financial statements. Any material adverse difference between the Issuer's estimates and the ultimate settlements could have an adverse effect on the Group's financial condition and result of operations.

#### ***Dependence on key personnel***

The Issuer's future success is dependent on the development and performance of its senior management. The loss of the services of any of its senior management team could adversely affect the Group's business.

#### ***Operational risks and systems***

Operational risks are present in all of the Group's businesses, including the risk of direct and/or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events.

The Group's business is dependent on processing a large number of claims and vehicle hires across the UK. The Group's systems and processes (including the Group's IT systems which have, in the main, been developed in-house) are designed to ensure that the operational risks associated with its activities are appropriately controlled, but any weakness in the systems, processes or business continuity arrangements could have a negative impact on its results or operations during the affected period.

#### ***Risks relating to the Group's receivables***

The business of credit hire involves the provision of goods and services on credit. The Group generally receives payment after a claim has been notified to and pursued against the insurer of the at fault party to the accident, which can mean that the Group can experience a long period before payment is received. Significant delays in the receipt of payment or changes in market practice, particularly by the insurance industry, have had a material adverse impact on the financial position of the Group in the recent past, and could adversely impact the solvency of the Group in the future. The Issuer's business model (in line with that of credit hire operators ("CHOs") generally) has relatively long debtor days that in periods of growth require increasing working capital finance. The Group's average debtor days rose from 130 as at 30 April 2006 to 149 as at 31 October 2006 and then (in the Issuer's view as a result of the cash flow impact of the Enforceability Challenge) to 176 as at 30 April 2007 and 203 as at 31 October 2007.

Upon acceptance of a credit hire or credit repair case on behalf of a client, the Group, acting as a credit hire provider, makes a claim against the at fault party to the accident which is then usually notified to and handled and negotiated by that at fault party's insurer. The sum recorded in the books of the Group as receivable is based on an assessment of recoverability of the hire and/or repair costs involved. This involves, amongst other things, the Group making an assessment of a third party's liability for the accident. Should the Group's assessment be wrong, there is a risk that the Group will not recover the expected amount of hire charges from the insurer. The pursuit of a credit hire or credit repair claim involves the creation of a contractual debt between the Group and the client but not with the insurer of the at fault party who will ultimately be pursued for settlement of the claim. Although claims are made in accordance with the terms of industry-wide or bilateral protocol agreements (such as the General Terms of Agreement ("GTA") of the Association of British Insurance ("ABI")) and the insurer of an at fault driver has a statutory obligation to satisfy judgment against persons insured or secured against third-party risks, there may be a greater risk that the sum is not fully recoverable than there would be if the sum resulted from a direct contractual commitment between the Group and the insurer.

#### ***Fleet costs and efficiency***

##### ***Suppliers***

One of the key propositions of the Group's business is the provision of a wide range of like-for-like prestige vehicles to the non-fault party to a road traffic accident. The Group currently has three depots within the UK and attempts to minimise overall vehicle costs and optimise vehicle utilisation. The Group sources its vehicles from a variety of automotive manufacturers and dealers on a variety of commercial terms and

discounts. In the event that the Group could not procure vehicles from its current sources, an attempt to obtain vehicles from other sources would be made. However, there could be risks to business volumes and to financial and operating results if the Group was required to seek alternative supplier arrangements. Any material adverse change by a major supplier to the terms on which the Group obtains fleet vehicles (such as a material increase in price, or a reduction in the number of vehicles they wish to sell to the Group) may not be able to be offset by sourcing alternatives from other manufacturers or dealers, and could have an adverse effect on the Group's financial condition and results of operations.

#### ***Residual value of rental vehicles***

The Group depreciates its fleet at rates which it expects to match each vehicle's residual value at the point of eventual disposal. Residual values are not ordinarily guaranteed to the Group by its fleet suppliers and the Group is therefore exposed to an adverse movement in second-hand vehicle prices, which could be a result of a number of factors, including increased capacity of vehicle manufacturers to supply new vehicles to the market, general economic conditions, model changes and legislative requirements (for example, changes to environmental legislation). Any such change in used vehicle prices or a lack of liquidity in the used vehicle market may severely hinder the Group's ability to dispose of these vehicles and could adversely affect the Group's results and cash flows. The Group seeks to address its exposure to residual value risk of its vehicles through some repurchase programmes negotiated at the point of purchase, but there is no guarantee that this will be available in the future. The Group expects vehicle depreciation to continue to be a substantial cost factor in its vehicle rental operations. If manufacturers reduce the availability of re-purchase programmes or related incentives, or impose more stringent conditions for the physical state of a vehicle prior to return, then this could have a detrimental impact on the Group's financial condition and results of operations.

It is possible that registration taxes (incurred on the acquisition of a new vehicle) could be replaced with circulation taxes (incurred over the holding period of a vehicle). If these changes were implemented, the Issuer believes that they would impact the industry by changing vehicle residual values and, to the extent that circulation taxes increased to compensate, there could be a reduction in the results of operations of the Group if the increased circulation taxes could not be passed on through recoverable rental rates.

#### ***Insurance risks***

The Group ensures that third party motor liability insurance as a basic minimum is in place in respect of all customers using rental vehicles. This insurance provides financial protection against claims (both personal injury and property damage) from third parties where the Group's customers are at fault.

The Group also insures against various risks arising in the normal course of its business, including damage to its property, business interruption and general liability. Significant risk would exist to the stability of the Group's business if access to insurance was constrained, denied or available at an increased cost that could not be passed on in increased rental prices.

The Group also provides accident assistance policies which insure customers against the irrecoverability of the hire charges arising from a credit hire transaction. These policies are underwritten by certain underwriters at Lloyds of London. There is no guarantee that the cost of underwriting will not increase and any such increase would impact upon the profitability of the Group.

#### ***Risks associated with referring partners***

The Group had relationships as at 30 April 2007 with approximately 1,119 referring partners, comprised primarily of individual motor dealerships and dealership groups. The Group's top referrer accounted for approximately 12 per cent. of the Group's revenue for the year ended 30 April 2007 and accordingly, the Issuer does not consider the Group to be dependent on any one particular referring partner. Nevertheless, given the largely fixed nature of the Group's cost base, the loss of or a substantial reduction in a major referring partner's business could have a material affect on the Group's revenue and profitability.

The Group seeks to minimise the potential risk of any loss of business from its referring partners by entering into contracts with the majority of its referring partners for periods of up to three years for the referral of prospective customers to the Group on an exclusive basis. By their nature, such contracts do not guarantee

any particular volume of referrals for the Group save that all potential referrals must be referred to the Group on an exclusive basis rather than to any other party. The Group seeks to negotiate new contracts before the expiry of existing contracts but there can be no guarantee that such contracts will be renewed.

### ***Environmental risks***

The Group is regulated by environmental laws and regulations in connection with its operations, including, among other things, with respect to the safe disposal of chemicals used in the cleaning of vehicles. The Group has incurred, and will continue to incur, expenses to comply with environmental laws and regulations. There can be no assurance that compliance with existing or future environmental legislation and regulations will not require further material expenditure by the Group or otherwise have an adverse effect on the Group's operations.

### ***Regulatory risks***

The conduct of general insurance business became subject to regulation by the FSA in January 2005. The Issuer and its principal subsidiary, Accident Exchange Limited ("**Accident Exchange**"), are each authorised by the FSA to act in the mediation of general insurance claims, such authorisation being required as they are involved in the management of general insurance claims. The Issuer's subsidiary company DCML Limited ("**DCML**") is also authorised to act in the sale of general insurance policies.

The Compensation Act 2006 received Royal Assent on 25 July 2006 and regulates claims management services and requires that those providing these services in the regulated sectors be authorised to do so. The Compensation Claims Management Services Regulation 2006 ("**Regulations**") made under the Compensation Act 2006 do not apply to the credit hire or credit repair aspects of the Issuer's or Accident Exchange's business but they do apply to personal injury claims management services. Accident Exchange may refer personal injury claims to solicitors and receive commission payments in return. The referral of such claims is a regulated service under the Regulations and accordingly Accident Exchange is authorised by the Ministry of Justice in respect of the provision of personal injury claims management services.

Whilst the Issuer believes that the Group conducts its business in compliance with all applicable regulations and will continue to seek to do so, there remains a risk that regulators will find that the business has not complied fully with such regulations and any subsequent action taken against the Group (such as withdrawal of any required authorisations) may adversely affect the Group's business.

### ***Difficulty assessing the business of the Group***

Investors may have difficulty in assessing the business of the Group because the credit hire and credit repair market is considered by the Issuer to be a developing and rapidly evolving sector in which there are few other public companies. Performance and trends are therefore more difficult to assess than in many other more established sectors.

### ***Seasonality and fixed costs***

Revenues and operating profits in the industry tend to be higher in the darker, colder and wetter months of the year, particularly the months of October to March and the Group's performance has historically reflected this trend. A significant proportion of the fleet costs, staff costs and overheads of the Group are fixed and cannot be adjusted according to short-term fluctuations in business activities. The Group manages its cost base and its investment decisions in line with its forecast activity levels and prior experience. However, any shortfall in revenues during peak trading periods against those anticipated could have a significant adverse impact on the Group's profitability and results.

### ***Price of new vehicles***

In recent years, although the average price of new vehicles has increased, the financing terms available to the Group (and the market generally) have become more competitive. The holding cost of vehicles is dependent on both the purchase price of vehicles, the discounts negotiated with manufacturers and dealers, financing terms and the residual values at the time of disposal. There is a risk that new vehicle prices will continue to increase or that financing terms or residual values will worsen, which will mean that the Group may not be

able to control effectively the average cost of its fleet by purchasing a mix of less expensive vehicles, or that the Group is unable to pass on the increased cost of vehicles through its rental rates.

### ***Utilisation of the fleet***

The Group endeavours to maximise the utilisation of the fleet so as to minimise the costs of holding non-revenue generating vehicles. The Group increased its rental fleet from 4,033 vehicles at 30 April 2007 to 4,999 at 31 October 2007 (31 October 2006: 2,925), reflecting rental day growth and capacity increase ahead of the seasonally busier second half of the year. Fleet utilisation rates ranged across vehicle bands from 56 per cent. to 75 per cent. during the six month period ended 31 October 2007 and were slightly lower than the range of 58 per cent. to 79 per cent. for the whole of the year ended 30 April 2007. This was in part a consequence of cash mitigating actions taken by the Issuer which affected revenue and therefore utilisation. Any deterioration in utilisation rates could adversely affect the Group's profitability.

### ***Interest rates***

The Group finances its fleet through a range of financial instruments which include contract hire, operating lease and hire purchase. The Group has facilities in place which fix the interest rates but if interest rates rise then the interest charge on vehicles financed after any rate increase will also rise, increasing the cost base of the business.

## **Risks relating to the Industry**

### ***Legal risks***

There have been a significant number of cases brought (mainly by insurance companies) that have challenged the enforceability of credit hire agreements and the hire rates which can be recovered by credit hire organisations on various grounds. However, the ability of a non-fault claimant to recover the costs of a replacement vehicle as well as the cost of repairing the damaged vehicle after a road accident is firmly established in law.

Despite recent challenges to the enforceability of certain of the Group's agreements, two recent County Court judgments have confirmed the enforceability of those agreements and the ability of the Group to recover hire charges from the defendant or their insurer.

However, if insurance companies were to bring further challenges to the enforceability of credit hire and repair arrangements or the rates payable, and if those challenges were protracted and/or successful, the Group's turnover, profitability, cash flow and solvency could be materially adversely affected.

There is a risk that the Issuer may recover less than it expects from insurers, if insurers challenge individual cases through the courts – whether on the ground of need, period, rate, mitigation or otherwise – in an attempt to reduce their total costs and further defer the settlement of claims. Any such decrease in recovery or increase in litigation could have a material adverse effect on the financial condition and results of operations of the Issuer.

### ***Competition***

The Group operates in a highly competitive industry. Barriers to entry into the general credit hire and repair markets at a local level are low. Although barriers to establishing a national or specialist business in this sector are higher, the Issuer is not able to assure investors that these barriers will remain or will deter new entrants or existing competitors. In addition, there is the potential for local operators to overcome these barriers and establish national networks by forming alliances. There is also the potential for insurance companies, brokers and/or providers of services to motorists or other consumer groups to enter the market, either alone or in collaboration with service providers such as the Group. If the Group is unable to respond adequately to the competitive challenges, it may lose market share. In addition, in more competitive markets there may be pressure on the Group's prices and costs, causing an adverse impact on its revenue and profitability.

### ***Insurance industry protocols***

The Group is a signatory to the GTA of the ABI which sets out a protocol between certain insurance companies and CHOs as to the manner in which claims should be processed, the documentation which clients should complete, the procedures that must be undertaken whilst a client is in a hire vehicle, the hire rates that insurance companies will pay and the timeframe for payment. There is no guarantee that insurers will continue to abide by these protocols or that these protocols will not change adversely over time. Either of these events could have a materially detrimental effect on the profitability and cash flow of the Group. Membership of the ABI GTA is voluntary and it is open to members to leave at any time.

### ***Fleet management software***

Barriers to entry into the supply of software to provide insurance for the users of courtesy cars (which is the business of the Issuer's subsidiary company DCML) are low in respect of the provision of software but higher in respect of providing an underwritten insurance product. The Group is not able to assure investors that these barriers will remain or will deter new entrants or existing competitors. There is also the potential for insurance companies, brokers and/or providers of services to motorists or other consumer groups to enter the market, either alone or in collaboration with other service providers. If the Group is unable to respond adequately to the competitive challenges, it may lose market share. In addition, in more competitive markets there may be pressure on the Group's prices and costs, causing an adverse impact on its revenue and profitability.

## **Risks relating to the Notes**

### ***Notes may not be a suitable investment for all investors***

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

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

### ***The Notes may be redeemed prior to maturity***

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

### ***Risks attached to the exercise of Conversion Rights***

Investors should be aware that the Notes, which are convertible into Ordinary Shares, bear certain additional risks. At any point when the Notes are outstanding, depending on the performance of the Ordinary Shares, the value of the Ordinary Shares may be substantially lower than when the Notes were initially purchased. In addition, because there will be a delay between when Conversion Rights are exercised and when Ordinary Shares are delivered, the value of the Ordinary Shares to be delivered may vary substantially between the date on which Conversion Rights are exercised and the date on which such Ordinary Shares are delivered. See "*Terms and Conditions of the Notes – Conversion of Notes*".

### ***There is a limited period for, and costs associated with, the exercise of Conversion Rights***

A Noteholder will, subject as more fully described herein under “*Terms and Conditions of the Notes*”, have the right to convert his or her Notes into Ordinary Shares. Conversion Rights may be exercised, subject as provided herein, at any time on or after 18 February 2008 up to the close of business (at the place where such Note is deposited for conversion) 14 days prior to the Final Maturity Date. If the Conversion Rights are not exercised by Noteholders during this period, the Notes will be redeemed at their Accreted Principal Amount, together with accrued but unpaid interest to such date on the Final Maturity Date unless the Notes are previously purchased and cancelled or redeemed in accordance with the Conditions.

### ***Noteholders have limited anti-dilution protection***

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

### ***Modification, waivers and substitution***

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

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, subject as provided in the Terms and Conditions of the Notes and the Trust Deed, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes; (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default shall not be treated as such; or (iii) the substitution of any Subsidiary of the Issuer as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 12(c).

### ***No tax gross-up***

The Issuer is not obliged under the Terms and Conditions of the Notes to make any additional payments to Noteholders in the event that payments by or on behalf of the Issuer in respect of the Notes are subject to withholding or deduction for taxation as required by law. The Noteholders do not have the right to require redemption of the Notes in the event of such deduction or withholding being required.

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

The Terms and Conditions of the Notes are governed by English law in effect as at the date of issue of the Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or United Kingdom tax law or administrative practice after the Issue Date.

### ***Risks relating to the market generally***

#### ***Legal considerations may restrict certain investments***

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should determine whether the Notes are a lawful investment for it, and the regulatory implications for it of making such an investment.

#### ***Noteholders will bear the risk of fluctuation in the price of the Ordinary Shares***

The market price of the Notes is expected to be affected by fluctuations in the market price of the Ordinary Shares and it is impossible to predict whether the price of the Ordinary Shares will rise or fall. Trading prices

of the Ordinary Shares will be influenced by, amongst other things, the financial position of the Issuer, its results of operations and political, economic, financial and other factors. Any decline in the market price of the Ordinary Shares may have an adverse effect on the market price of the Notes.

Future issues or sales of the Ordinary Shares may significantly affect the market price of the Notes and the Ordinary Shares. The future issue of Ordinary Shares by the Issuer or the disposal of Ordinary Shares by any substantial shareholder of the Issuer or the perception that such issues or sales may occur may significantly affect the trading price of the Notes and the Ordinary Shares. The Issuer has agreed to certain restrictions on its ability to issue or dispose of, and each of the directors of the Issuer holding Ordinary Shares has agreed to certain restrictions on its ability to dispose of, Ordinary Shares or related securities from the date of the Subscription Agreement to the date falling 90 days after the Issue Date. Except for such restrictions and the undertakings of the Issuer described in Condition 9 (see “*Terms and Conditions of the Notes — Undertakings*”), there is no restriction on the Issuer’s ability to issue Ordinary Shares, and there can be no assurance that the Issuer will not issue Ordinary Shares or that any substantial shareholder will not dispose of, encumber, or pledge its Ordinary Shares or related securities.

***The Global Note is held by or on behalf of Euroclear and Clearstream, Luxembourg***

The Notes will be represented initially by the Temporary Global Note and later by the Global Note. Each of the Temporary Global Note and the Global Note will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Note, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in each of the Temporary Global Note and the Global Note. While the Notes are represented by the Temporary Global Note or the Global Note, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

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

***No active trading market for the Notes***

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

## TERMS AND CONDITIONS OF THE NOTES

*The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Notes.*

The issue of the £50,000,000 5.50 per cent. Convertible Notes due 2013 (the “**Notes**”, which expression shall, unless otherwise indicated, include any Further Notes) was (save in respect of any Further Notes) authorised by a resolution of the board of directors of Accident Exchange Group Plc (the “**Issuer**”) passed on 3 December 2007. The Notes are constituted by a trust deed dated 8 January 2008 (the “**Trust Deed**”) between the Issuer and BNY Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Notes. The statements set out in these Terms and Conditions (the “**Conditions**”) are summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes and the interest coupons relating to them (the “**Coupons**”). The Noteholders and Couponholders (both as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions applicable to them which are contained in the Paying and Conversion Agency Agreement dated 8 January 2008 (the “**Agency Agreement**”) relating to the Notes between the Issuer, the Trustee and The Bank of New York (the “**Principal Paying and Conversion Agent**”, which expression shall include any successor as Principal Paying and Conversion Agent under the Agency Agreement) and the Paying and Conversion Agents for the time being (such persons, together with the Principal Paying and Conversion Agent, being referred to below as the “**Paying and Conversion Agents**”, which expression shall include their successors as Paying and Conversion Agents under the Agency Agreement). Copies of the Trust Deed and the Agency Agreement are available for inspection at the office of the Trustee at One Canada Square, London E14 5AL, and at the specified offices of the Paying and Conversion Agents.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

### 1. **Form, Denomination, Title and Status**

#### (a) ***Form and Denomination***

The Notes are in bearer form, serially numbered, in principal amounts of £50,000 each with Coupons attached on issue.

#### (b) ***Title***

Title to the Notes and Coupons will pass by delivery. The holder of any Note or Coupon will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the holder.

#### (c) ***Status***

The Notes and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 2) unsecured obligations of the Issuer ranking *pari passu* and rateably, without any preference among themselves, and equally with all other existing and future unsecured and unsubordinated obligations of the Issuer but, in the event of a winding-up, save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

### 2. **Negative Pledge**

So long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not create or permit to subsist, and will ensure that none of its Subsidiaries will create or permit to subsist, any mortgage, charge, lien, pledge or other form of encumbrance or security interest (each a “**Security Interest**”) upon the whole or any part of its or their present or future property or assets (including any uncalled capital) to secure

any Relevant Indebtedness or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness unless, in any such case, before or at the same time as the creation of the Security Interest, all action necessary shall have been taken to the satisfaction of the Trustee to ensure that:

- (i) all amounts payable by the Issuer under the Trust Deed are secured by the relevant Security Interest equally and rateably with the Relevant Indebtedness or guarantee or indemnity, as the case may be; or
- (ii) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Trust Deed, either (1) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (2) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

### 3. Definitions

In these Conditions, unless otherwise provided:

“**Accreted Principal Amount**” has the meaning provided in Condition 6(e).

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

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

a “**Change of Control**” shall occur if an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associate of the offeror (as defined in Section 988(1) of the Companies Act)), to acquire all or a majority of the issued ordinary share capital of the Issuer or if any person proposes a scheme with regard to such acquisition (other than an Exempt Newco Scheme) and (such offer or scheme having become or been declared unconditional in all respects or having become effective) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer has or will become unconditionally vested in any person and/or any associate of that person (as defined in Section 988(1) of the Companies Act).

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

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

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

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

“**Companies Act**” means the Companies Act 2006.

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

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

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

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

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

“**Couponholder**” means the holder of any Coupon.

“**Current Market Price**” means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending

on the dealing day immediately preceding such date; provided that if at any time during the said five-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

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

and provided further that if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued or transferred and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement of such Dividend or entitlement (excluding any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom),

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

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

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

- (a) where a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Dividend in cash of the greater of (i) such cash amount and (ii) the Current Market Price of such Ordinary Shares or, as the case may be, Fair Market Value of such other property or assets (as at the date of the first public announcement of such Dividend or capitalisation (as the case

may be) or if later, the date on which the number of Ordinary Shares (or amount of property or assets, as the case may be) which may be issued or transferred and delivered is determined);

- (b) any issue of Ordinary Shares falling within Condition 5(b)(ii) (and, for the avoidance of doubt, any issue or offer falling within Condition 5(b)(iv), (v) or (ix)) shall be disregarded;
- (c) a purchase or redemption or buy back of share capital of the Issuer by the Issuer or any of its Subsidiaries shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of the Issuer or any of its Subsidiaries, the weighted average price per Ordinary Share (before expenses) on any one day (a “**Specified Share Day**”) in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the closing prices of the Ordinary Shares on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange) on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price, on the five dealing days immediately preceding the date of such announcement, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by the Issuer or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the average closing price of the Ordinary Shares determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back; and
- (d) if the Issuer or any of its Subsidiaries shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by a Financial Adviser.

“**Effective Date**” has the meaning provided in Condition 5(b)(iii), Condition 5(b)(iv) or Condition 5(b)(v), as the case may be.

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

“**Extraordinary Resolution**” has the meaning ascribed to it in the Trust Deed.

“**Fair Market Value**” means, with respect to any property on any date, the fair market value of that property as determined in good faith by a Financial Adviser provided that (i) the Fair Market Value of a Dividend in cash shall be the amount of such Dividend in cash; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by a Financial Adviser), the Fair Market Value (a) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by a Financial Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the

volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall in the case of (i), be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Dividend in cash in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii), any withholding or deduction required to be made on account of tax and any associated tax credit shall be disregarded.

“**Final Maturity Date**” means 8 January 2013.

“**Financial Adviser**” means an investment bank of international repute appointed by the Issuer and approved in writing by the Trustee or, if the Issuer fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or pre-funded to its satisfaction against the costs, fees and expenses of such adviser and otherwise in connection with such appointment, appointed by the Trustee following notification to the Issuer.

“**Further Notes**” means any further Notes issued pursuant to Condition 16 and consolidated and forming a single series with the then outstanding Notes.

“**indebtedness for or in respect of moneys borrowed or raised**” means any present or future indebtedness (whether being principal, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

“**Initial Conversion Premium**” has the meaning provided in Condition 5(m).

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

“**Issue Date**” means 8 January 2008.

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

“**Newco Scheme**” means a scheme of arrangement or analogous proceeding (“**Scheme of Arrangement**”) which effects the interposition of a limited liability company (“**Newco**”) between the Shareholders of the Issuer immediately prior to the Scheme of Arrangement (the “**Existing Shareholders**”) and the Issuer; provided that only ordinary shares of Newco are issued to Existing Shareholders, that immediately after completion of the Scheme of Arrangement the only shareholders of Newco are the Existing Shareholders, that Newco is the only shareholder of the Issuer, that all Subsidiaries of the Issuer immediately prior to the scheme of arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after the scheme of arrangement and that the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement.

“**Noteholder**” means the holder of any Note.

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

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

“**Ordinary Shares**” means fully paid ordinary shares in the capital of the Issuer currently with a par value of £0.05 each.

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

**“Presentation Date”** means a day which:

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

**“Prevailing Rate”** means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined.

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

**“Reference Price”** has the meaning provided in Condition 5(m).

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

**“Relevant Date”** means, in respect of any Note or Coupon, whichever is the later of (i) the date on which payment in respect of it first becomes due and (ii) if any amount of the money payable is improperly withheld or refused the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given by the Issuer to the Noteholders in accordance with Condition 15 that, upon further presentation of the Note or Coupon, where required pursuant to these Conditions, being made, such payment will be made, provided that such payment is in fact made as provided in these Conditions.

**“Relevant Indebtedness”** means any present or future indebtedness (whether being principal, interest or other amounts), in the form of or evidenced by notes, bonds, debentures, loan stock or other similar debt instruments, whether issued for cash or in whole or in part for a consideration other than cash, and which are for the time being, or are intended, with the agreement of the Issuer, to be quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market.

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

**“Relevant Stock Exchange”** means the London Stock Exchange or if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or dealt in.

**“Reset Date”** has the meaning provided in Condition 5(m).

**“Reset Reference Price”** has the meaning provided in Condition 5(m).

**“Retroactive Adjustment”** has the meaning provided in Condition 5(c).

**“Securities”** means any securities including, without limitation, Ordinary Shares, or options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares.

**“Shareholders”** means the holders of Ordinary Shares.

**“Specified Date”** has the meaning provided in Conditions 5(b)(vii) or (viii) as the case may be.

**“Spin-Off”** means:

- (a) a distribution of Spin-Off Securities by the Issuer to Shareholders as a class; or

- (b) any issue, transfer or delivery of any property or assets (including cash or shares or securities of or in or issued or allotted by any entity) by any entity (other than the Issuer) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Issuer or any of its Subsidiaries.

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

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

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

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

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

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

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

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

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

For the purposes of Conditions 5(b), (c), (h) and (i) and Condition 9 only, (a) references to the “**issue**” of Ordinary Shares shall include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any of its Subsidiaries, and (b) Ordinary Shares held by or on behalf of the Issuer or any of its respective Subsidiaries (and which, in the case of Condition 5(b)(iv) and (vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as “**in issue**”.

References in these Conditions to listing on the London Stock Exchange (or like or similar references) shall be construed as admission to the Official List of the UK Listing Authority and admission to trading on the EEA Regulated Market of the London Stock Exchange and references to “**EEA Regulated Market**” means

a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

#### **4. Interest**

##### **(a) Interest Rate**

The Notes bear interest from (and including) the Issue Date at the rate of 5.50 per cent. per annum calculated by reference to the principal amount thereof and payable semi-annually in arrear in equal instalments on 8 January and 8 July in each year (each an “**Interest Payment Date**”), commencing with the Interest Payment Date falling on 8 July 2008.

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

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

##### **(b) Accrual of Interest**

Each Note will cease to bear interest (i) where the Conversion Right shall have been exercised by a Noteholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Issue Date (subject in any such case as provided in Condition 5(j)) or (ii) where such Note is redeemed or repaid pursuant to Condition 6 or Condition 8, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused, in which event interest will continue to accrue as provided in these Conditions.

#### **5. Conversion of Notes**

##### **(a) Conversion Period and Conversion Price**

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

Subject as provided in Condition 5(b)(x), the number of Ordinary Shares to be issued or transferred and delivered on exercise of a Conversion Right shall be determined by dividing the principal amount of the Notes to be converted by the conversion price (the “**Conversion Price**”) in effect on the relevant Conversion Date.

The initial Conversion Price is £1.0773 per Ordinary Share. The Conversion Price is subject to adjustment in the circumstances described in Condition 5(b) and Condition 5(m).

A Noteholder may exercise the Conversion Right in respect of a Note by delivering such Note to the specified office of any Paying and Conversion Agent in accordance with Condition 5(h) whereupon the Issuer shall (subject as provided in these Conditions) procure the delivery, to or as directed by the relevant Noteholder of Ordinary Shares credited as paid up in full as provided in this Condition 5.

Subject to and as provided in these Conditions, the Conversion Right in respect of a Note may be exercised, at the option of the holder thereof, at any time subject to any applicable fiscal or other laws or regulations and as hereinafter provided) from 18 February 2008 to the close of business (at the place where the relevant Note is delivered for conversion) on the date falling 14 days prior to the Final Maturity Date (both days inclusive) or, if such Note is to be redeemed pursuant to Condition 6(b) prior

to the Final Maturity Date, then up to the close of business (at the place aforesaid) on the 14th day before the date fixed for redemption thereof pursuant to Condition 6(b) unless there shall be default in making payment in respect of such Note on such date fixed for redemption, in which event the Conversion Right shall extend up to the close of business (at the place aforesaid) on the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given in accordance with Condition 15 or, if earlier, the Final Maturity Date; provided that, in each case, if the final such date for the exercise of Conversion Rights is not a business day at the place aforesaid, then the period for exercise of Conversion Rights by Noteholders shall end on the immediately preceding business day at the place aforesaid.

Conversion Rights may not be exercised (i) following the giving of notice by the Trustee pursuant to Condition 8 or (ii) in respect of a Note in respect of which the relevant holder has exercised its right to require the Issuer to redeem pursuant to Condition 6(d).

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

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

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

The Issuer will procure that Ordinary Shares to be issued or delivered on conversion will be issued or delivered to the holder of the Notes completing the relevant Conversion Notice or his nominee. Such Ordinary Shares will be deemed to be issued or delivered as of the relevant Conversion Date. Any Additional Ordinary Shares to be issued or transferred and delivered pursuant to Condition 5(c) will be deemed to be issued or delivered as of the relevant Reference Date.

(b) *Adjustment of Conversion Price*

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

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

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

where:

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

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

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

- (ii) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium

account or capital redemption reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive or (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

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

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

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

(iii)

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

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

where:

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

B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Ordinary Shares in issue and entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, by the number of Ordinary Shares in issue immediately prior to such purchase, redemption or buy back).

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

“**Effective Date**” means the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares, the date on which such purchase, redemption or buy back is made or, in the case of a Spin-Off, on the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

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

(iv) If and whenever the Issuer shall issue Ordinary Shares to Shareholders as a class by way of rights, or issue or grant to Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase any Ordinary Shares, in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of the issue or grant of such Ordinary Shares,

options, warrants or other rights (or, if that is not a dealing day, on the immediately preceding dealing day), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

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

where:

- A is the number of Ordinary Shares in issue immediately before such announcement;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

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

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

where:

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

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means the first date on which the Ordinary Shares are traded ex- the relevant Securities or ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange

- (vi) If and whenever the Issuer shall issue (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Notes or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) or issue or grant (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Notes, which term shall for this purpose include any Further Notes), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on (or, if that is not a dealing day, the immediately preceding dealing day) the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be

adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

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

where:

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

Such adjustment shall become effective on the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

- (vii) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity (otherwise than as mentioned in sub-paragraphs (b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Notes, which term shall for this purpose exclude any Further Notes) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant) (or, if that is not a dealing day, the immediately preceding dealing day), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue (or grant) by the following fraction:

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

where:

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

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

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

Such adjustment shall become effective on the date of issue of such Securities or, as the case may be, the grant of such rights.

(viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Notes, which term shall for this purpose include any Optional Notes and any Further Notes) as are mentioned in sub-paragraph (b)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification (or, if that is not a dealing day, the immediately preceding dealing day), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

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

where:

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

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange or subscription price of such Securities; and

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

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

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such Securities.

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

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

where:

A is the Current Market Price of one Ordinary Share on the dealing day immediately preceding the date on which the terms of such offer are first publicly announced; and

B is the Fair Market Value on the date of such announcement (or, if that is not a dealing day, the immediately preceding dealing day) of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

- (x) If a Change of Control shall occur, then upon any exercise of Conversion Rights where the Conversion Date falls during the Change of Control Period, the Conversion Price shall be determined as set out below:

$$\text{NCP} = \frac{[\text{Reference Price} \times (N - n)] + [(\text{OCP} \times n)]}{N}$$

where:

NCP is the new Conversion Price

Reference Price is £0.8977 (adjusted *pro rata* for any adjustments to the Conversion Price pursuant to this Condition 5(b) and Condition 5(m))

OCP is the current Conversion Price on the relevant Conversion Date

N is the number of days from (and including) the Issue Date to (but excluding) the Final Maturity Date

n is the number of days from (and including) the Issue Date to (but excluding) the date of the Change of Control

- (xi) If the Issuer (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this Condition 5(b) (even if the relevant circumstance is specifically excluded from the operation of sub-paragraphs (b)(i) to (x) above), the Issuer shall, at its own expense and acting reasonably, request a Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment (if any) should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph (b)(xi) if such Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

Notwithstanding the foregoing provisions, where the events or circumstances giving rise to any adjustment pursuant to this Condition 5(b) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be advised in good faith by a Financial Adviser to be in its opinion appropriate to give the intended result and provided further that, for the avoidance of doubt, the issue of Ordinary Shares pursuant to the exercise of Conversion Rights shall not result in an adjustment to the Conversion Price.

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

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the date of the first public announcement of the terms of issue of such Securities or, as the case may be, such options, warrants or rights, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the

Relevant Currency at the Prevailing Rate on the date of the first public announcement of the terms of issue of such Ordinary Shares or, as the case may be, Securities; and

- (d) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith.

(c) ***Retroactive Adjustments***

If the Conversion Date in relation to the conversion of any Note shall be after the record date in respect of any consolidation, reclassification or sub-division as is mentioned in Condition 5(b)(i), or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Condition 5(b)(ii), (iii) (iv), (v) or (ix), or after any such issue or grant as is mentioned in Condition 5(b)(vi) and (vii), but before the relevant adjustment to the Conversion Price becomes effective under Condition 5(b) (such adjustment, a “**Retroactive Adjustment**”), then the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued or transferred and delivered to the converting Noteholder, in accordance with the instructions contained in the Conversion Notice, such additional number of Ordinary Shares (if any) (the “**Additional Ordinary Shares**”) as, together with the Ordinary Shares issued or to be transferred and delivered on conversion of the relevant Note, is equal to the number of Ordinary Shares which would have been required to be issued or delivered on conversion of such Note if the relevant adjustment to the Conversion Price had been made and become effective immediately prior to the relevant Conversion Date.

(d) ***Decision of a Financial Adviser***

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

(e) ***Share Option Schemes***

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

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

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

Notice of any adjustments to the Conversion Price shall be given by the Issuer to Noteholders in accordance with Condition 15 and to the Trustee promptly after the determination thereof.

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

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

(g) ***Change of Control***

Within 14 calendar days following the occurrence of a Change of Control, the Issuer shall give notice thereof to the Trustee and to the Noteholders in accordance with Condition 15 (a “**Change of Control Notice**”). Such notice shall contain a statement informing Noteholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Notes pursuant to Condition 6(d).

The Change of Control Notice shall also specify:

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

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

(h) ***Procedure for exercise of Conversion Rights***

Conversion Rights may be exercised by a Noteholder during the Conversion Period by delivering the relevant Note to the specified office of any Paying and Conversion Agent, between the hours of 9:00 and 15:00, accompanied by a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from any Paying and Conversion Agent. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying and Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If such delivery is made after 15:00 or on a day which is not a business day in the place of the specified office of the relevant Paying and Conversion Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Note (the “**Conversion Date**”) shall be the business day in London immediately following the date of the delivery of the Notes and the Conversion Notice and, if applicable, the making of any payment to be made as provided below.

Each Note should be delivered upon exercise of Conversion Rights together with all Coupons relating to it which mature on or after the relevant Conversion Date, failing which the relevant holder will be required to pay the full amount of any such missing Coupon. Each amount so paid will be repaid in the manner specified in Condition 7 against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant missing Coupon at any time after the relevant Conversion Date and before the expiry of 10 years after the Relevant Date in respect of the relevant Note (whether or not a Coupon would otherwise have become void pursuant to Condition 10), but not thereafter.

A Noteholder exercising a Conversion Right must pay directly to the relevant authorities any taxes and capital, stamp, issue and registration and transfer taxes and duties arising on conversion (other than any taxes or capital, stamp, issue and registration and transfer taxes and duties payable in the United Kingdom in respect of the allotment and issue of any Ordinary Shares on such conversion or in respect of the transfer and delivery of any Ordinary Shares on such conversion (including any Additional Ordinary Shares), which shall be paid by the Issuer). Such Noteholder must also pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Note or interest therein in connection with such conversion. The Trustee shall not be responsible for determining whether such taxes or capital, stamp, issue and registration and transfer taxes and duties are payable or the amount thereof and it shall not be responsible or liable for any failure by the Issuer to pay such taxes or capital, stamp, issue and registration and transfer taxes and duties.

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

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

(i) **Ordinary Shares**

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

(j) **Interest on Conversion**

If any notice requiring the redemption of any Notes is given pursuant to Condition 6(b) on or after the fifteenth London business day prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Issue Date) in respect of any Dividend or distribution payable in respect of the Ordinary Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall accrue at the rate provided in Condition 4(a) on Notes in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion

Date falls after such record date and on or prior to the Interest Payment Date next following such record date in respect of such Dividend or distribution, in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from the Issue Date) to but excluding such Conversion Date. The Issuer shall pay any such interest by not later than 14 days after the relevant Conversion Date by transfer to a sterling account with a bank in London in accordance with instructions given by the relevant Noteholder in the relevant Conversion Notice. For the avoidance of doubt no payment under this Condition 5(j) shall be due in respect of any Dividend or distribution referred to above in any circumstances where the relevant Noteholder is entitled to receive Additional Ordinary Shares pursuant to Condition 5(c) in respect thereof.

(k) ***Purchase or Redemption of Ordinary Shares***

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

(l) ***No duty to Monitor***

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

(m) ***Conversion Price Reset***

If the average of the Volume Weighted Average Prices of the Ordinary Shares on the Relevant Stock Exchange on each dealing day in the period of 15 consecutive dealing days immediately prior to 9 January 2009 (the “**Reset Date**”) (the “**Reset Reference Price**”), is less than the Reference Price, the Conversion Price shall be adjusted in accordance with the following formula:

Adjusted Conversion Price = Reset Reference Price x (1 + Initial Conversion Premium).

“**Reference Price**” means £0.8977 (adjusted *pro rata* for any adjustments to the Conversion Price pursuant to Condition 5(b)).

“**Initial Conversion Premium**” means 20 per cent., expressed as a fraction.

Provided that:

- (i) the Conversion Price shall not be reduced on the Reset Date below £0.7541;
- (ii) the Conversion Price shall not be reduced below the par value of the Ordinary Shares unless, under applicable law then in effect but subject to applicable regulatory approval, the Notes could be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Ordinary Shares;
- (iii) for the avoidance of doubt, any adjustments to the Conversion Price made pursuant to this Condition 5(m) shall only be downward adjustments; and
- (iv) if on any such dealing day the Volume Weighted Average Price is quoted cum-Dividend, then for the purposes of this provision the Volume Weighted Average Price for such Trading Day shall be deemed to be the amount thereof reduced by the Fair Market Value (on the date of first public announcement of such Dividend) of such Dividend per Ordinary Share.

Any such adjustment shall become effective as of the Reset Date and shall be notified to the Noteholders within 10 days of the Reset Date.

## 6. Redemption and Purchase

### (a) *Final Redemption*

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

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

On giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and to the Noteholders in accordance with Condition 15, the Issuer may redeem all but not some only of the Notes on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at their Accreted Principal Amount as at such date, together with accrued but unpaid interest to such date at any time if prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Notes originally issued (which shall for this purpose include any Further Notes).

### (c) *Optional Redemption Notices*

Any Optional Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date, (ii) the Conversion Price, the aggregate principal amount of the Notes outstanding and the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice, (iii) the last day on which Conversion Rights may be exercised by Noteholders and (iv) the Accreted Principal Amount as at the Optional Redemption Date.

### (d) *Redemption at the option of Noteholders*

Following the occurrence of a Change of Control, the holder of each Note will have the right to require the Issuer to redeem that Note on the Change of Control Put Date at its Accreted Principal Amount as at such date, together with accrued and unpaid interest to such date. To exercise such right, the holder of the relevant Note must deliver such Note to the specified office of any Paying and Conversion Agent, together with a duly completed and signed notice of exercise in the form for the time being current obtainable from the specified office of any Paying and Conversion Agent (a "**Change of Control Put Exercise Notice**"), at any time during the Change of Control Period. The "**Change of Control Put Date**" shall be the fourteenth calendar day after the expiry of the Change of Control Period.

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

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

### (e) *Accreted Principal Amount*

In these Conditions, the "**Accreted Principal Amount**" in respect of each £50,000 principal amount of Notes shall mean (i) in the case of a redemption of Notes on the Final Maturity Date, £63,286, or (ii) in the case of a redemption of the Notes pursuant to Condition 6(b) or 6(d) or if the Notes become due and payable pursuant to Condition 8, the amount which is determined to be the amount which, together with unpaid accrued interest from the immediately preceding Interest Payment Date or, if none, the Issue Date, and after taking into account any interest paid in respect of the Notes in preceding periods, represents for the Noteholder on the relevant date for determination of the Accreted Principal Amount (the "**Determination Date**") a gross yield to maturity of 9.75 per cent. per annum calculated on a semi-annual basis and shall be calculated in accordance with the following formula,

rounded (if necessary) to two decimal places, with 0.005 being rounded upwards (provided that if the relevant Determination Date is an Interest Payment Date, the Accreted Principal Amount shall be as set out below in respect of such Interest Payment Date):

$$\text{Accreted Principal Amount} = (\text{Previous Accreted Principal Amount} \times (1 + r/2)^{d/p}) - \text{AI},$$

where

Previous Accreted Principal Amount = The Accreted Principal Amount on the Interest Payment Date immediately preceding the relevant Determination Date (or, if the Notes are to be redeemed or become due and payable prior to the first Interest Payment Date, £50,000):

<b>Interest Payment Date</b>	<b>Accreted Principal Amount (£)</b>
8 July 2008 .....	51,063
8 January 2009 .....	52,177
8 July 2009 .....	53,345
8 January 2010 .....	54,571
8 July 2010 .....	55,856
8 January 2011 .....	57,204
8 July 2011 .....	58,618
8 January 2012 .....	60,101
8 July 2012 .....	61,656
8 January 2013 .....	63,286

and where:

- r means 9.75 per cent. expressed as a fraction.
- d means the number of days from and including the immediately preceding Interest Payment Date (or, if the Determination Date is before the first Interest Payment Date, from and including the Issue Date) to but excluding the Determination Date.
- p means the number of days from and including the immediately preceding Interest Payment Date (or, if the Determination Date is before the first Interest Payment Date, from and including the Issue Date) to but excluding the next following Interest Payment Date.
- AI means the accrued interest on the principal amount of a Note from and including the immediately preceding Interest Payment Date (or if the Determination Date is before the first Interest Payment Date, from and including the Issue Date) to but excluding the Determination Date, calculated on the basis provided for in Condition 4(a).

If the Accreted Principal Amount payable in respect of any Note upon its redemption pursuant to Condition 6(a), (b) or (d) or upon it becoming due and payable as provided in Condition 8 is not paid when due, the Accreted Principal Amount due and payable in respect of such Note shall be the Accreted Principal Amount of such Note as described above, as though references to the Determination Date had been replaced by references to the Relevant Date, and interest shall accrue at the rate provided for in Condition 4(a) on the principal amount of such Note to the Relevant Date. The calculation of the Accreted Principal Amount in accordance with this Condition will continue to be made (as well after as before judgement) until the Relevant Date, unless the Relevant Date falls on or after the Final Maturity Date, in which case the amount due and payable shall be 9.75 per cent. of the principal amount of the Notes together with interest thereon (inclusive of interest payable pursuant to Condition 4) at the rate of 5.50 per cent. per annum from and including the Final Maturity Date to but excluding the Relevant Date.

(f) **Purchase**

Subject to the requirements (if any) of any stock exchange on which the Notes may be admitted to listing and trading at the relevant time and subject to compliance with applicable laws and regulations, the Issuer or any Subsidiary of the Issuer may at any time purchase any Notes (provided that all unmatured Coupons relating to them are purchased therewith or attached thereto) in the open market or otherwise at any price.

(g) **Cancellation**

All Notes which are redeemed or in respect of which Conversion Rights are exercised will be cancelled (together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes) and may not be reissued or resold. Notes purchased by the Issuer or any of its Subsidiaries shall be surrendered to the Principal Paying and Conversion Agent for cancellation and may not be reissued or re-sold.

(h) **Multiple Notices**

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

**7. Payments**

(a) **Principal**

Payment of the Accreted Principal Amount in respect of the Notes and payment of accrued interest payable on a redemption of the Notes (other than on an Interest Payment Date) will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the Note, at the specified office of any Paying and Conversion Agent.

(b) **Interest and other amounts**

(i) Payments of interest due on an Interest Payment Date will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the relevant Coupons, at the specified office of any of the Paying and Conversion Agents.

(ii) Payments of all amounts other than as provided in Condition 7(a) and (b)(i) will be made as provided in these Conditions.

(c) **Coupons**

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, the proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 10) or, if later, five years after the date on which the Coupon would have become void pursuant to Condition 10, but not thereafter.

(d) **Payments**

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

(e) **Payments subject to fiscal laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations.

(f) **Presentation Date**

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

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

The initial Paying and Conversion Agents and their initial specified offices are listed below. The Issuer reserves the right under the Agency Agreement at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying and Conversion Agent and appoint additional or other Paying and Conversion Agents, provided that it will (i) maintain a Principal Paying and Conversion Agent, (ii) maintain so long as the Notes are admitted to the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market of the London Stock Exchange and the rules of the UK Listing Authority or the London Stock Exchange so require, a Paying and Conversion Agent having a specified office in London and (iii) maintain a Paying and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any change in the Paying and Conversion Agents or their specified offices will promptly be given by the Issuer to the Noteholders in accordance with Condition 16.

(h) **No Charges**

None of the Paying and Conversion Agents shall make or impose on a Noteholder any charge in relation to any payment or conversion in respect of the Notes.

(i) **Fractions**

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

All payments made by or on behalf of the Issuer in respect of the Notes and the Coupons will be made subject to and after deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax required to be made by law. The Issuer will not be required to pay any additional or further amounts in respect of such deduction or withholding.

## 8. Events of Default

If any of the following events (each an “**Event of Default**”) occurs and is continuing, the Trustee at its discretion may, and if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution and provided in each case that it is indemnified and/or secured to its satisfaction shall, give notice to the Issuer at its registered office that the Notes are, and they shall accordingly immediately become due and repayable at their Accreted Principal Amount as at such date together with accrued interest (if any) to the date of payment:

- (a) **Non-Payment:** the Issuer fails to pay the principal of or any premium or interest on any of the Notes when due and such failure continues for a period of seven days in the case of principal or premium and 14 days in the case of interest; or
- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

- (c) **Cross-Default:** (i) any other present or future indebtedness for or in respect of moneys borrowed or raised of the Issuer or any of its Subsidiaries becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness for or in respect of moneys borrowed or raised is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for or in respect of moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds £5,000,000 or its equivalent (as reasonably determined by the Trustee); or
- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any (in the opinion of the Trustee) material part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 30 days; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries over the whole or any (in the opinion of the Trustee) material part of the undertaking or assets of the Issuer or any of its subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person) and in any such case is not removed, paid out or discharged within 14 days; or
- (f) **Insolvency:** the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts within the meaning of Section 123 of the Insolvency Act, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any (in the opinion of the Trustee) material part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or
- (g) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries,

provided that in the case of paragraphs (b), (c), (d) and (e) and (insofar as they relate to Subsidiaries (f) and (g)) the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

## 9. Undertakings

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

- (a) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
  - (i) by the issue of fully paid Ordinary Shares to Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Ordinary Shares or other shares or securities on a capitalisation of profits or reserves; or

- (ii) by the issue of Ordinary Shares paid up in full (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a cash dividend; or
- (iii) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or
- (iv) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office of the Issuer or any of its Subsidiaries or any associated company or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share or option scheme whether for all employees, directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or otherwise gives rise (or would, but for the provisions of Condition 5(f) relating to roundings or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price; or

- (b) not modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than the rights attaching to the Ordinary Shares but so that nothing in this Condition 9(b) shall prevent:
  - (i) the issue of equity share capital to employees or former employees or directors (including directors holding or formerly holding executive office or the personal service company of any such person) (or the spouse or relative of any such person) whether of the Issuer or any of its subsidiary or associated companies by virtue of their office or employment pursuant to an employee, director or executive share or option or incentive scheme; or
  - (ii) any consolidation, reclassification or subdivision of the Ordinary Shares; or
  - (iii) any modification of such rights which is not, in the opinion of a Financial Adviser, materially prejudicial to the interests of the holders of the Notes; or
  - (iv) any issue of equity share capital where the issue of such equity share capital results, or would, but for the provisions of Condition 5(f) relating to roundings or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share receivable therefore is at least 95 per cent. of the Current Market Price per Ordinary Share, otherwise result, in an adjustment to the Conversion Price; or
  - (v) without prejudice to any rule of law or legislation (including regulations made under Sections 783, 784(3), 785 and 788 of the Companies Act or any other provision of that or any other legislation), the conversion of Ordinary Shares into, or the issue of any Ordinary Shares in, uncertificated form (or the conversion of Ordinary Shares in uncertificated form to certificated form) or the amendment of the Articles of Association of the Issuer to enable title to securities (including Ordinary Shares) to be evidenced and transferred without a written instrument or any other alteration to the Articles of Association of the Issuer made in connection with the matters described in this Condition 9(b) or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of securities, including Ordinary Shares, dealt with under such procedures); or
  - (vi) any issue of equity share capital or modification of rights attaching to the Ordinary Shares, where prior thereto the Issuer shall have instructed a Financial Adviser to determine what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Financial Adviser shall have determined either that no adjustment is required or that an adjustment resulting in a decrease in the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is

to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);

- (c) procure that no Securities (whether issued by the Issuer or any Subsidiary of the Issuer or procured by the Issuer or any Subsidiary of the Issuer to be issued or issued by any other person pursuant to any arrangement with the Issuer or any Subsidiary of the Issuer) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 5(f) relating to roundings or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;
- (d) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on the exercise of Conversion Rights, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (e) not reduce its issued share capital, share premium account, or any uncalled liability in respect thereof, or any non-distributable reserves, except:
  - (i) pursuant to the terms of issue of the relevant share capital; or
  - (ii) by means of a purchase or redemption of share capital of the Issuer to the extent permitted by applicable law; or
  - (iii) as permitted by Section 130(2) of the Companies Act 1985;
  - (iv) where the reduction does not involve any distribution of assets; or
  - (v) solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed; or
  - (vi) a reduction of share premium account to facilitate the writing off of goodwill arising on consolidation which requires the confirmation of the High Court and which does not involve the return, either directly or indirectly, of an amount standing to the credit of the share premium account of the Issuer and in respect of which the Issuer shall have tendered to the High Court such undertaking as it may require prohibiting, so long as any of the Notes remains outstanding, the distribution (except by way of capitalisation issue) of any reserve which may arise in the books of the Issuer as a result of such reduction; or
  - (vii) to create distributable reserves; or
  - (viii) pursuant to a Newco Scheme; or
  - (ix) by way of transfer to reserves as permitted under applicable law; or
  - (x) where the reduction is permitted by applicable law and the Trustee is advised by a Financial Adviser, acting as expert, that the interests of the Noteholders will not be materially prejudiced by such reduction; or
  - (xi) where the reduction is permitted by applicable law and results in (or would, but for the provisions of Condition 5(f) relating to roundings or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made,

provided that, without prejudice to the other provisions of these Conditions, the Issuer may exercise such rights as it may from time to time be entitled pursuant to applicable law to purchase, redeem or buy back its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Noteholders;

- (f) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates of the offeror (as defined in Section 988(1) of the Companies Act or any modification or re-enactment thereof)) to acquire the whole or any part of the issued Ordinary Shares, or if any person proposes a scheme with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Noteholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of the Issuer, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Noteholders and/or to the holders of the Notes;
- (g) in the event of a Newco Scheme, the Issuer shall take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of the scheme of arrangement, at its option, either (a) Newco is substituted under the Notes and the Trust Deed as principal obligor in place of the Issuer (with the Issuer providing a guarantee) subject to and as provided in the Trust Deed; or (b) Newco becomes a guarantor under the Notes and the Trust Deed and, in either case, that (i) such amendments are made to these Conditions and the Trust Deed as are necessary, in the opinion of the Trustee, to ensure that the Notes may be converted into or exchanged for ordinary shares in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed and (ii) the ordinary shares of Newco are:
- (A) admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market; or
- (B) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market,
- and are listed, quoted or dealt in any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;
- (h) use its reasonable endeavours to ensure that the Ordinary Shares issued upon exercise of Conversion Rights will, as soon as is practicable, be admitted to listing and to trading on the Relevant Stock Exchange and will be listed, quoted or dealt in, as soon as is practicable, on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;
- (i) for so long as any Note remains outstanding, use its reasonable endeavours to ensure that its issued and outstanding Ordinary Shares shall be admitted to listing on the Relevant Stock Exchange; and
- (j) at all times keep available for issue free from pre-emptive rights out of its authorised but unissued capital sufficient authorised but unissued Ordinary Shares to enable the exercise of all Conversion Right, and all other rights of subscription and exchange for Ordinary Shares, to be satisfied in full.

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually a certificate of the Issuer, as to there not having occurred an Event of Default or Potential Event of Default since the date of the last such certificate or if such event has occurred as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer with the undertakings set forth in this Condition 9, the Trust Deed or the Notes, nor be liable to any person for not so doing.

## **10. Prescription**

Claims against the Issuer for payment in respect of the Notes or Coupons shall be prescribed and become void unless made within 10 years (in the case of Accreted Principal Amount) or five years (in the case of interest) from the appropriate Relevant Date in respect of such payment.

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

## **11. Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying and Conversion Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## **12. Meetings of Noteholders, Modification and Waiver, Substitution**

### **(a) Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if requested in writing by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the Accreted Principal Amount of, or interest on, the Notes or to reduce the amount payable on redemption of the Notes or (iii) to modify or cancel the Conversion Rights, other than pursuant to or as a result of any amendments to these Conditions and the Trust Deed made pursuant to and in accordance with the provisions of Condition 9(g) (“**Newco Scheme Modification**”), (iv) to increase the Conversion Price other than in accordance with these Conditions or pursuant to a Newco Scheme Modification, (v) to change the currency of any payment in respect of the Notes, (vi) to change the governing law of the Notes, the Trust Deed or the Agency Agreement (other than in the case of a substitution of the Issuer (or any previous substitute or substitutes) under Condition 12(c)), (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-half, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

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

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

### **(b) Modification and Waiver**

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

any agreement supplemental to the Agency Agreement, the Notes, the Coupons or these Conditions (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Notes, the Coupons or these Conditions which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders and Couponholders. The Trustee may, without the consent of the Noteholders or Couponholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Noteholders and the Couponholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders promptly in accordance with Condition 15.

(c) ***Substitution***

The Trustee may, without the consent of the Noteholders or Couponholders, agree to any substitution as provided in, and for the purposes of, Condition 9(g) or to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed of any Subsidiary of the Issuer subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Issuer, and (b) the Notes continuing to be convertible or exchangeable into Ordinary Shares as provided in these Conditions *mutatis mutandis* as provided in these Conditions, with such amendments as the Trustee shall consider appropriate provided that in any such case, (x) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, and (y) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders. Any such substitution shall be binding on the Noteholders and shall be notified promptly to the Noteholders.

(d) ***Entitlement of the Trustee***

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions 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, and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

### **13. Enforcement**

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes 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 Notes or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding, and (ii) it shall have been indemnified and/or secured to its satisfaction. No Noteholder 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.

### **14. The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking proceedings unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related

to the Issuer without accounting for any profit. The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers or investment bank, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee shall be obliged to accept and be entitled to rely on any such report, confirmation or certificate or advice where the Issuer procures delivery of the same pursuant to its obligation to do so under any provision of these Conditions or the Trust Deed and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders in the absence of manifest error.

#### **15. Notices**

All notices regarding the Notes will be valid if published in one leading daily newspaper in the United Kingdom (which is expected to be the *Financial Times*) or, if this is not possible, in one other leading English language daily newspaper with general circulation in Europe. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in all the required newspapers or in each required manner. 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 Noteholders in accordance with this Condition.

#### **16. Further Issues**

The Issuer may from time to time without the consent of the Noteholders and the Couponholders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Notes) or in all respects except for the first payment of interest on them and the first date on which conversion rights may be exercised and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Notes) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures 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 notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

#### **17. Contracts (Rights of Third Parties) Act 1999**

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

#### **18. Governing Law**

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

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

*The Global Note contains provisions which apply to the Notes while they are in global form, some of which will modify the effect of the terms and conditions of the Notes. The following is a summary of certain of those provisions.*

### 1. Exchange

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

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

“**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying and Conversion Agent is located and in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System is located.

### 2. Payments

No payment will be made on the Temporary Global Note unless exchange for an interest in the Global Note is improperly withheld or refused. Payments of amounts falling due in respect of Notes represented by the Global Note will be made against presentation for endorsement and, if no further payment falls to be made on it, surrender of the Global Note to or to the order of the Principal Paying and Conversion Agent or such other Paying and Conversion Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made. Conditions 7(b)(i) and 7(f) will apply to definitive Notes only.

### 3. Notices

So long as the Temporary Global Note or the Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System, notices required to be given to Noteholders may be given by being delivered to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, in substitution for publication as required by the Conditions in which case such notices shall be deemed to have been given to Noteholders on the date of delivery to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

#### **4. Prescription**

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

#### **5. Meetings**

The holder of the Global Note shall be treated as one person for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each £50,000 principal amount of Notes for which the Global Note may be exchanged.

#### **6. Purchase and Cancellation**

Cancellation of any Note represented by the Temporary Global Note or the Global Note which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Temporary Global Note or the Global Note, as the case may be, on its presentation to or to the order of the Principal Paying and Conversion Agent.

#### **7. Conversion**

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

#### **8. Trustee's Powers**

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

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes, after deduction of fees and commissions, are estimated to be approximately £46,000,000. The net proceeds from the issue of the Notes will be used by the Issuer to repay £5,000,000 of the Issuer's existing secured facility provided by MSBIL, provide additional working capital facilities, and to fund the projected growth of the Group.

## BUSINESS DESCRIPTION

### 1. The Issuer and the Group

#### (a) *Overview of the Group*

The Issuer is the holding company of the Group and was incorporated under the name XecutiveResearch Group Plc on 25 January 2002, under the Companies Act 1985, as amended, as a public limited company under the laws of England and Wales, with registered number 4360804. On 16 April 2002, the Issuer was granted a certificate under section 117 of the Companies Act 1985 entitling it to commence business. The Issuer changed its name to Accident Exchange Group Plc on 20 April 2004. The Issuer's issued Ordinary Shares are traded on the London Stock Exchange's main market for listed securities and have been admitted to the Official List. The International Securities Identification Number for the Ordinary Shares is GB00B00LL325.

Information on the performance of the Ordinary Shares can be obtained from the EEA Regulated Market of the London Stock Exchange on which they are traded. The applicable website of the Regulatory News Service operated by the London Stock Exchange is at [www.londonstockexchange.com/en-gb/pricesnews/prices](http://www.londonstockexchange.com/en-gb/pricesnews/prices).

The Issuer's registered office and principal place of business is Alpha 1, Canton Lane, Hams Hall, Birmingham B46 1GA.

The Issuer's principal operating subsidiary is Accident Exchange, which was formed in 2001 to provide accident management solutions to the automotive and insurance related sectors. In certain circumstances, the Group also organises the repair of vehicles on behalf of a non-fault party. Accident Exchange was acquired by the Issuer in 2004. Since then, the Group's solutions have principally involved the provision of car hire on credit to the non-fault party in motor accidents. Accident Exchange seeks to recover its car hire charges on behalf of the non-fault party from the insurer of the at fault driver.

Accident Exchange has historically targeted the prestige vehicle end of this market but now offers replacement mainstream and commercial vehicles and operates a rental fleet of approximately 5,000 vehicles.

Accident Exchange is a subscriber to the Association of British Insurers General Terms of Agreement ("GTA"). The GTA is a non-contractual set of protocols, agreed by both the credit hire and insurance industries, which sets out the procedures for the handling of claims made by credit hire operators ("CHOs"), including the setting of hire charges and other costs associated with the car hire at lower rates in return for insurers remitting prompt settlement of the claimed hire charges.

The other principal operating subsidiary of the Issuer is DCML. DCML is incorporated in England and Wales and is wholly owned by the Issuer with fully paid issued share capital. DCML provides courtesy car management software and related motor vehicle insurance to motor dealerships, body shops and manufacturers to enable them to manage and insure their own fleet of courtesy cars.

The Group's strategy for its core business is to establish and maintain relationships with referring partners, including car dealerships, dealership networks, contract hire and leasing companies and, more recently, vehicle manufacturers, distributors and insurers themselves. These referral partners refer those of their customers who they become aware have been involved in non-fault accidents to the Group which then provides a "like for like" replacement vehicle to keep the customer mobile whilst their own vehicle is being repaired. As at 30 April 2007, the Group benefited from relationships with approximately 1,119 referring partners, most of which have had exclusive contractual arrangements with the Group for periods of up to three years. The Group continues to focus on the creation and development of new relationships in all areas, including more recently with insurers themselves.

The Group is headquartered in Hams Hall, Birmingham and has vehicle distribution depots in Hams Hall, Warrington and Glasgow.

(b) ***History and development of the Group***

The Group's principal operating subsidiary is Accident Exchange, a vehicle credit hire company which was incorporated in January 2001 and commenced trading in May 2002. This business was founded by Stephen Evans, the Group's current Chief Executive Officer, who has been involved in the credit hire industry since 1983.

On 16 April 2004, Accident Exchange was acquired by the Issuer, which at that time was a cash shell company and whose shares were traded on AIM. In May 2006, the Issuer acquired the entire issued share capital of DCML for, in aggregate and including expenses, £11.4 million. The Issuer moved its shares to the Official List on 1 November 2006.

Accident Exchange has been profitable at the operating and pre-tax level since its inception. In line with the growth in the underlying referral base, its audited consolidated revenue grew from £22.4 million for the year ended 30 April 2005 to £116.9 million for the year ended 30 April 2007. Over the same period, its audited consolidated profit before tax grew from £7.3 million to approximately £13.6 million. The vehicle rental fleet grew from 667 vehicles as at 30 April 2005 to 4,999 vehicles as at 31 October 2007 and its employee headcount increased from 133 to 639 between the same dates.

Debtor day collection periods (see "*Group financing arrangements – Background*" below) in the credit hire industry can be extended and the working capital requirements of the Group have been financed primarily by bank debt secured, amongst other things, on the Group's underlying credit hire and credit repair trade receivables, which have grown from £9.4 million to £63.7 million over the three year period to 30 April 2007 and which were £86.0 million as at 31 October 2007. Vehicle acquisitions are funded primarily by the use of finance leases. In addition, the Group has previously raised additional finance by the issue of new Ordinary Shares most notably by way of a placing in June 2005, when approximately £7.7 million was raised (net of expenses) and in October 2006, when approximately £12.5 million (net of expenses) was raised.

As at 31 December 2007 (the latest practicable date prior to the publication of this Offering Circular), the Issuer's market capitalisation was £47.8 million.

(c) ***Legal position***

Accident Exchange seeks to recover the cost of the car hire provided by it to the non-fault party to an accident from the insurer of the at fault party. The ability of a non-fault party to recover the costs of a replacement vehicle, as well as the cost of repairing the damaged vehicle after a road accident, is firmly established in English law. The current legal position on the recoverability of the costs of hiring a replacement vehicle, and other ancillary costs incurred by a non-fault party, can be found and summarised principally from three decisions, namely *Dimond v. Lovell* [1999] 3WLR [2000] ALL ER 2 898 HL and [2002] 1 AC 384, *Clark v. Ardington* [2003] QB 36 and *Lagden v. O'Connor* [2003] 3 WLR 1571. The position has been further reinforced as a result of the Enforceability Challenge (referred to in (d) below and more fully described in 3(f) below) and its determination in favour of the Issuer.

These relatively recent decisions, and a growing understanding by the Group's customers of the rights that they confer, have helped to support the Group's revenue growth since its foundation.

(d) ***The GTA relationship and the current position***

Most insurers have grown to recognise that the costs involved in challenging the rates which can be recovered by a CHO outweigh the benefits on an individual case by case basis. Accordingly, the insurance and CHO industries negotiated the first GTA in September 1999 in order to try to avoid the high levels of disputes and litigation that have occurred in the past by agreeing in advance a series of hire charges across a range of vehicles that insurers will accept without contention in a situation where

there is a non-fault party to the accident. This has generally enabled a reduction in the levels of litigation and dispute between GTA subsidiary insurers and CHOs.

The Enforceability Challenge has been defeated (see “*Risk Factors – Risks relating to the Issuer and the Group – The Enforceability Challenge and its impact on the Group*”) but has materially impacted the cash flows of the Group. Notwithstanding this, the Issuer believes that the GTA still carries material benefits to insurers and even whilst it faced the Enforceability Challenge, the Group continued to receive payment from insurers under the terms of the GTA.

## **2. Business Model**

### **(a) Overview**

The Group operates a core business model which revolves primarily around winning and then developing relationships principally with prestige franchise motor vehicle dealers, dealer groups, vehicle manufacturers and insurance companies themselves. In turn, these referral sources introduce the Group to those of their customers who need a replacement vehicle because their own has been damaged in an accident for which someone else was at fault.

The Group provides a hire car, on credit, to customers who have been involved in accidents which, in the Group’s opinion, were not their fault whilst the customer’s car is not usable. Subsequently, the charges incurred are recovered from the insurer of the at fault party. The growth in the Group’s referral base and the increasing number of dealers, dealer groups, vehicle manufacturers and insurance companies with whom the Group has relationships supports an increasing penetration in this area and has driven the revenue growth experienced by the Group.

### **(b) Primary relationships have been with automotive dealerships for prestige vehicles**

The Group’s primary source of referrals has been from the prestige automotive dealership sector. The Issuer believes that, particularly within the prestige vehicle sector, a significant proportion of vehicle owners involved in accidents will, in the first instance, contact their dealership for assistance following an accident because they associate the dealer with having the required expertise to repair their vehicle properly. The Issuer believes that the likelihood of this is increased by the Group’s use of accident management services, as referred to in paragraph (d) below, which embed the Group’s presence more deeply into a dealership’s client base.

The Group pays commission to dealers and other referrers based on the revenue derived from placing vehicles on hire with their customers. In addition to paying them commission, the Group also purchases vehicles from dealers, linked to their referral volumes and the Group’s growth expectations.

The Issuer believes that the Group’s service standards are high, facilitated by the investment made in technology within the Group. For example, if notification of a non-fault accident is received, and the non-fault party vehicle is not legally driveable, the Group’s internal systems should enable the delivery of a car of equivalent brand and model within hours. The vast majority of the Group’s vehicles are less than two years old and are valeted before personal delivery by a team of experienced drivers direct to the location of choice of the customer.

The Group’s referring dealerships therefore benefit not only from the commission income stream and vehicle purchases by the Group, but also from the enhanced customer loyalty derived from the provision of a high quality and efficient service offering delivered by the Group on behalf of the dealer. The dealer is therefore well positioned to reap the rewards of this quality service over the long term as the enhanced customer loyalty is reflected in repeat purchase and service revenues when their customer renews or services their vehicle.

(c) ***Enhanced customer loyalty drove manufacturer interest in sponsoring the Group's service offering to their dealer base***

Since 2006, the Group has focused on developing relationships at vehicle manufacturer level and in Autumn 2006, the Group launched its first manufacturer sponsored accident management service in conjunction with Audi UK.

This was an important step for the Group as, for the first time, a manufacturer was requesting the whole of its UK dealer network to commence using its recommended bespoke accident management service handled exclusively by the Group.

(d) ***Extending solution to provide a generic accident management service***

Automotive dealers are increasingly recognising the benefits of customer satisfaction associated with assisting their customers when they have had a motor vehicle accident. In conjunction with its dealer partners, the Group has proactively contacted customers on the dealers' behalf, enrolling them in a dealership branded accident management service which is operated by the Group. The Group provides the dealers' customers with a contact card containing details that they can use to call for assistance if they are unfortunate enough to be involved in an accident at any time of the day or night.

This service provides assistance to the customer regardless of fault. In circumstances where the customer was at fault, their vehicle will still be recovered to the dealership for repair and a courtesy car (though not necessarily of a like-for-like vehicle) will be provided for the first 48 hours after the accident while the fault customer sources a longer term solution to maintaining mobility. The dealer benefits from enhanced customer loyalty provided to a wider proportion of their customer base and the Group benefits from a higher proportion of their customers contacting the Group as their first port of call, thereby increasing the number of non-fault parties to whom the Group can offer the like-for-like replacement service for the duration of the repair period under a credit hire agreement.

(e) ***Moving into mainstream vehicles as referrer profile changes and expands***

Since Autumn 2006, the Group has expanded its service to the provision of lower margin mainstream vehicles as it responded firstly to requests from its existing dealer partners to extend its service to their non prestige dealerships and also in response to winning two large new referrers of primarily mainstream vehicles. The Group's service standards for its mainstream fleet are equivalent to those of its prestige fleet. This move into mainstream vehicles also arose from relationships with a number of contract hire and leasing companies which have substantial fleet volumes under their management and very recently as a result of developing insurer referral relationships.

(f) ***More recent entry into insurer referral profile***

During 2007, there have been an increasing number of tenders received by the Group from insurers which are looking to refer their own non-fault customers to CHO's in return for a commission payment. In addition, insurers are tendering for "intervention work" whereby the fault party insurer agrees to provide mobility to the non-fault party via supply arrangements with CHO's which have the fleet and delivery capabilities in return for day rates being charged that are lower than if the non-fault party were introduced to a CHO under a credit hire arrangement. To date, the Group has only very recently won a small number of these tenders and therefore these do not yet form a significant part of the Group's revenues or profits.

(g) ***Application of technology***

The Issuer considers that the Group remains focused on the use of technology as the cornerstone of its strategic vision. The Issuer considers technology to have been a major contributor to the Group's operational processes. In the medium term, the Group believes there is an opportunity to apply technology to the UK motor claims supply chain to deliver cost savings and efficiency gains to the UK insurance industry. The Issuer believes that the acquisition of DCML in May 2006 was the first step towards delivery against that strategy.

(h) ***Framework for recovery of hire charges from the at fault insurer***

Apart from intervention work (for which much prompter payment arrangements are made direct with the fault insurer in exchange for discounted day rates being payable by them), the Group depends on the insurer of the at fault party paying the costs associated with the non-fault party maintaining mobility in a like-for-like replacement vehicle provided under credit hire whilst their own vehicle is repaired. This mobility right is enshrined in law which developed as a result of insurers and CHO's testing the legal framework associated with the right to mobility. Relationships with insurers improved on these issues over the last decade with the development of the GTA.

The Group endeavours to maintain high standards internally and only takes on credit hire opportunities in cases where it believes it can prove that liability for the negligent act which caused the accident rests with another party. As such, once a case is taken on, recovery of the rental charges is pursued regardless of the timeframe involved. The Group recovers payment from the insurer of the at fault party, but settlement periods can be protracted depending on the individual circumstances of each case and there can be no certainty that the Group will be able to prove non-fault status to facilitate full recovery of the charges. This risk is addressed in the standards that are applied by the Group before a customer is provided with a vehicle and which are provided under terms that state, *inter alia*, that the customer remains responsible for the outstanding hire charges until recovery is made. The Issuer considers that the risk is also addressed in the revenue recognition policies and settlement estimation procedures adopted by the Group.

### **3. Financial Review**

(a) ***Revenue***

*Credit Hire*

Revenue is derived from the Group's principal activity of providing accident management solutions to the automotive and insurance related sectors in the UK.

The Group's primary day-to-day operation is the credit hire of "like-for-like" motor vehicles to the non-fault parties of motor vehicle accidents. The non-fault party is entitled to recover the costs of maintaining mobility from the insurer of the fault party to the accident and the Group performs this task on their behalf thereby recovering the rental charge.

The Group's success in winning and then developing relationships with prestige franchise dealers, dealer groups and manufacturers has helped drive revenue growth. These relationships can be of an exclusive and contracted nature for periods of up to three years. The revenue derived from these referrers is not of a recurring nature, in so far as the identity and volume of non-fault accident victims contacting the referrer on a day-by-day basis will vary.

Credit hire rental income is ordinarily pursued from the insurer of the fault party within the terms of the GTA or some other bilateral agreement on an insurer by insurer basis. The GTA sets out, amongst other things, the agreed daily rental charge for the specific replacement vehicle provided to the non-fault party. Rental revenue is charged for the whole of the period that the non-fault party's vehicle is off the road being repaired. The rate paid by the insurer depends *inter alia* on the type of vehicle and the promptness of payment by them.

The Group has focused historically on "prestige" vehicles (reflecting the brands sold by the underlying referring motor dealerships with whom the Group has relationships) although during the year ended 30 April 2007, the Group's success in winning relationships with a number of major dealer groups and contract hire companies led to an increase in 'mainstream' vehicle hires. Whilst it is not an exhaustive list, "prestige" brands would include those such as Aston Martin, Audi, Bentley, BMW, Ferrari, Jaguar, Land Rover, Lexus, Lotus, Mercedes Benz, Porsche and Saab.

The GTA day rates effectively represent the day rates available to insurers if they remit payment within 30 days. Should payment not be made in that timeframe, the insurer foregoes a 7.5 per cent.

settlement discount after 30 days and a further 7.5 per cent. settlement discount at 60 days, and the initial day rate payable becomes commensurately higher.

This process of increasing charges was agreed under the GTA as a mechanism for providing insurers with agreed discounted day rates for vehicles in exchange, amongst other things, for their commitment to make prompt payment.

Where insurers do not take advantage of reducing their effective day rate by making payment promptly, the discounted day rates are replaced at day 91 with a commercial spot rate for the vehicle.

The financial penalty consequent from not remitting payment by day 91 is therefore “self imposed” by the insurer. After day 91, there are reduced tangible financial benefits to the insurer for remitting payment (the most notable of which would be to avoid the legal costs of defending the claim) and a consequence of this is that the Group can experience an extended debtor day period, the working capital requirements of which need to be funded by the Group.

### *Credit Repair*

In certain circumstances, the Group also organises the repair of the vehicle on behalf of the non-fault party. This can involve the Group making payment for the repair to the repairing body shop and the Group undertaking to recover the repair bill from the at fault insurer on behalf of the customer. The Group will deduct from the payment to the body shop an early settlement discount which was historically 5 per cent. of the repair bill but can now be between 0 per cent. and 10 per cent. depending on the speed with which the body shop requests payment. Payment is normally made within 30 days of receipt of the repair bill. The Group recovers the cost of the repair from the insurer and accounts for this as revenue. Payments made to the body shops (net of the Group’s settlement discount) are accounted for within cost of sales. Credit repair is undertaken primarily to drive referral of credit hire transactions and has become an increasing mechanism for driving such referrals over the last two years.

The proportion of revenue reflected by credit repair has grown since 2005 as commercially it has become a more important lever for driving credit hire starts. Historically, insurers have attempted to dominate the supply chain for vehicle repairs, using their dominance in the industry as the primary referrer of repair work to body shops to drive down labour rates, parts prices and margins. The benefit that the Group gives a body shop is that they can charge the Group “commercial rates” for the repair and therefore avoid the margin dilution that would otherwise be consequent from dealing with the insurer direct. The Group only offers credit repair on vehicles that have an associated credit hire and predominantly where the insurer has agreed that liability for the accident is not in dispute. All required repairs to vehicles are approved by an independent engineer accepted by the insurance industry before repair work commences.

Revenue derived from credit repair is not subject to the same estimation process complexity as credit hire because the cost of the repair is fixed at the end of the repair. The time taken to settle credit repair claims with insurers is considerably shorter than for the credit hire charges associated with the same claim. Additionally, the settlement adjustment that arises on recovery of the repair charges is materially lower than that for credit hire. However, credit repair has increased the working capital demands of the business over the last two years as the Group has had to fund the collection period.

### (b) ***Revenue Recognition***

The Group recognises revenue on a daily basis throughout the rental period at amounts which estimate the net amount receivable for each hire transaction. This process involves estimating both the amount of prompt settlement discount that will attach to each hire if payment is received within the time period allowed for under the GTA and the amount of any additional settlement discount that may be agreed by the Group prior to payment being received from the insurer. These estimation processes are determined primarily on the basis of prior experience of the timing and magnitude of settlements and are, by their very nature, judgmental. The uncertainty surrounding these estimation processes

increased in the year ended 30 April 2007 and through to 31 October 2007 due to the increased ageing of trade debtors as a result of the Enforceability Challenge.

(c) **Gross Margin Influencers**

Gross profit growth and margin movement reflect most notably rates of revenue growth, the mix of credit repair revenues as a proportion of the total and fleet utilisation. The dilution of gross margin from 57.1 per cent. for the year ended 30 April 2005 to 46.8 per cent. for the year ended 30 April 2006, 36.9 per cent. for the year ended 30 April 2007 and 34.6 per cent. for the half year ended 31 October 2007 is primarily a function of this mix change and changes in the level of cost of sales including commissions paid to referrers, fleet utilisation and fleet mix.

Items expensed through cost of sales include commissions payable to referrers of non-fault accidents (predominantly motor dealerships), depreciation and contract hire rental charges on the expanded fleet, fleet expenses, cleaning and valeting costs and the delivery and collection charges associated with each rental transaction (the latter two costs being predominantly the salary costs of the Group's own employees).

The Group endeavours to maximise fleet utilisation and targets internally at rates in excess of 70 per cent. although over the last 18 months rates in the low to mid 60s have become more normal. Utilisation rates obtained in each of the last three years have reduced as the expansion of the business in to mainstream rental activity and the opening of fleet depots in Warrington and Glasgow has required the fleet mix to be balanced across more than one location and a more complex mix of vehicle brands and models. The increased scale, revenue, headcount and fleet during the year ended 30 April 2007 and during the six months ended 31 October 2007 has put particular pressure on operational efficiency. Focus is also being placed on balancing the fleet mix against the anticipated fleet requirement as driven by the referral volumes from the varying referral partnership network. Improvements in balancing fleet mix take time to effect but have the consequent impact of maximising revenue from the available fleet and therefore utilisation of the fleet.

(d) **Overheads**

Overheads include, amongst other things, the salary costs of all departmental headcount including directors (but excluding valeters and drivers which are contained within cost of sales), premises costs (rent, rates, security, telephones), marketing costs, profits and losses on the disposal of fleet and legal and professional costs. Marketing costs have increased more recently reflecting the launch of the Accident Management initiative whereby the Group pro-actively contacts the underlying customer base of participating dealerships, as referred to earlier (see paragraph 2(d) of "*Business Description – Extending solution to provide a generic accident management service*"). Those costs that are related to the initial launch of a specific dealer's programme, because of the significant magnitude of the aggregated investment which is expected to drive revenue in future periods, are disclosed as exceptional items.

(e) **Working Capital**

The receipt of payment from insurers is dependent on the timeframes they take before making such payment. As mentioned above, there are financial incentives in place under the GTA whereby insurers can obtain a prompt payment discount if payment is made within 90 days. After this period, there is less financial benefit to the insurer in making payment sooner rather than later. Ultimately, the insurer will pay either in order to avoid the additional costs of defending formal litigation initiated by the Group or after a Court determines the amount of hire charges recoverable on a case by case basis.

The Issuer is of the view that insurers' inability to make timely payment of the Group's payment demands is due in part to inefficiencies in their own back office and administration processes. These issues prevent insurers from benefiting from the discounts available to them should they have been able to remit payment within the 90 days provided for in the GTA. The Issuer also believes that insurers will, over time, allocate increasing resources to remitting payment against the Group's claims

as the scale of the Group's operations have increased materially over the last three years and now merit specific attention by insurers.

This has been demonstrated on several occasions already whereby the Group has negotiated bulk settlements with several insurers, the largest of these being for over £9.0 million agreed in the six months ended 31 October 2007. These bulk settlements are normally reached with senior management within insurers and benefit both parties by avoiding what would otherwise have been a time consuming and administratively burdensome process of pursuing each claim on a case by case basis, most often with different personnel from the insurer being contacted for each claim.

That said, the Issuer believes that it has strengthened its own personnel and infrastructure resources such that it is able to undertake the administrative burden of pursuing each claim individually and also believes that it is better positioned to continue block settlement arrangements on an insurer by insurer basis.

The Group has also resourced itself, with an enlarged solicitor panel capable of handling large volumes of claims on its behalf, such that it can robustly commence formal collection processes against each individual insurer of each claim that remains outstanding in excess of 90 days.

In line with the growth in the business and, as anticipated by the Group as part of its developing collection strategies during the year ended 30 April 2007, an increased number of claims were processed by the Group's panel of approved solicitors.

The Group's focus remains on cash collection. There are currently a variety of initiatives and opportunities being pursued by the Group's panel of solicitors with the aim of accelerating claim settlement on both those cases affected by the previously litigated enforceability argument and the majority of claims which were not directly involved in the Enforceability Challenge (including £17.2 million of receivables outstanding as at 31 October 2007 on claims referred to below as "X" and "A" agreements which were the subject of the Enforceability Challenge).

The Group pays the majority of its creditors reasonably quickly and as the majority of the Group's overheads are people, fleet, commission or property related, the Group has minimal flexibility to offset working capital consumption into trade receivables by matching it against a corresponding increase in creditors (in line with growth) or via the extension of the payment periods of its liabilities.

(f) ***Enforceability Challenge and Cash Collection***

There are a variety of methods that the Issuer and the industry in general use to conclude claims against the insurer of the at fault party to a motor accident. These methods include either negotiated bulk settlements as mentioned above or individual negotiation on a case by case basis and, where the claim fails to settle inside a 90 day period under the terms of the GTA, formal litigation. It is 'ordinary course of business' that this involves the Group's client (the non-fault party to the accident) issuing formal proceedings against the at fault driver to recover the hire charges which are ultimately paid by the at fault driver's insurance company. A proportion of these claims settle on the threat of litigation but, where they do not, formal proceedings will be issued and these claims may then be defended by the third party insurer, the at fault driver's solicitors instructed and, in what has historically been a minority of the claims handled by the Group, the claims ultimately determined in court.

At the end of 2006, one firm of defendant solicitors advanced a technical argument in a number of their defences that sought to reopen the issue of the enforceability of the underlying terms and conditions used by the Group in its older rental agreements. The Issuer believed, and was advised, that this issue had been previously decided in the appellate courts. The Enforceability Challenge advanced at the end of 2006 focused on older transactions which, in the main, dated from 2004 and 2005 on terms and conditions referred to internally as "X" agreements and "A" agreements. The defence used by this firm of solicitors was subsequently mirrored by a number of other defendant solicitors. Certain insurers, to varying degrees thereafter departed from their previously established payment profiles to the Group in relation to these older cases whilst individual court cases were determined.

The Enforceability Challenge eventually focused in on two test cases which were both heard to conclusion during the summer and autumn of 2007 and were decided in the Group's favour. The written legal judgments were eventually obtained from court after the judgments were handed down and the dates by which appeals against court's decisions needed to be made expired on 19 October 2007, without any such appeals having been made. The proximity of these events to the end of the six month period ended 31 October 2007, has not allowed sufficient time for insurer responses to the court decisions to allow the cash generated from operations to show a material improvement.

Whilst the Issuer confirmed its position in relation to the enforceability of its terms and conditions, it also temporarily slowed down the 'ordinary course of business' process of litigation awaiting confirmation of court decisions.

The Issuer has empirical evidence that the litigation process is now starting to deliver the returns it had anticipated twelve months previously. The Issuer believes that this is positive affirmation of the role of solicitors in the claim settlement process and it remains confident that the use of the Group's panel of solicitors will accelerate the collection of cash without necessarily requiring every claim to proceed to a hearing date. The Group continues however to invest in the infrastructure, personnel and systems necessary to ensure that claims that are not settled within the terms of the GTA are settled in a controlled and timely manner and by litigation if required.

The Enforceability Challenge represented a specific threat to the recoverability of the Group's trade receivables and also cast a shadow over the standing and reputation of the Group with insurers. The Issuer believes that the consequent recoverability of a large portion of the Group's debtor book has been delayed for a considerable period of time to the detriment of cash flow but that the debtor book is fully recoverable.

As at 31 October 2007, 8,806 claims were in the process of formal litigation (compared to 6,891 claims as at 30 June 2007) with an aggregate claim value of £48.2 million. Of these claims, 2,874 related to "X" and "A" agreements. The Issuer believes that using solicitors to threaten litigation or to actively litigate claims will be key to the improvement in its cash flows that has been hindered over the last twelve months.

Discussions with some insurers in respect of the settlement of older cases have been encouraging and normal collection activity since 19 October 2007 has been improving but because the Issuer has solicitors dealing with claims on a claim by claim basis it expects the rate of ongoing collection improvement to be steady rather than rapid.

See also "*Risk Factors – The Enforceability Challenge and its impact on the Group*".

#### **4. Group financing arrangements**

As mentioned above, Accident Exchange has grown substantially since its foundation in 2001.

This growth has been funded primarily by bank facilities and the use of finance leases to fund vehicle expansion. In addition, the Issuer has effected three equity fundraisings (approximately £1.5 million (net of expenses) in April 2004, approximately £7.7 million (net of expenses) in June 2005 and approximately £12.5 million (net of expenses) in October 2006). These increases in external funding reflect, amongst other things:

- (i) the fact that the Group's (and the CHO industry's) business model has relatively long debtor days that, in periods of growth, require increasing working capital finance (the Group's average debtor days rose from 130 at 30 April 2006 to 149 as at 31 October 2006 and then (in the Board's view as a result of the cash flow impact of the Enforceability Challenge) to 176 as at 30 April 2007 and to 203 as at 31 October 2007);
- (ii) the growth of the Issuer, as a consequence of growth in the number of dealership relationships, requires initial investment in fleet vehicles and personnel, with more recent growth in the amount of credit repair work undertaken requiring additional availability of working capital resources; and

- (iii) the development of the Group's cash collection strategies as the size and scope of its operations has increased and the impact the Enforceability Challenge has had on the process of recovering claims through litigation. The Issuer has put in place a range of measures that it expects will significantly improve the cash collection profile of the Group and, particularly, solicitor-led cash collections in the light of very recently defeating the Enforceability Challenge.

The Issuer announced on 10 April 2007 that it was undertaking a review of the appropriateness of its financing structure as it dealt with the Enforceability Challenge and its impact on cash receipts from insurers. As a result, the Issuer sought additional bank facilities in the summer of 2007 in order to provide working capital flexibility and thereby give itself time to both defeat the Enforceability Challenge and thereafter drive improved cash flows. The Issuer announced on 15 June 2007 that it had secured the availability of a £45.0 million secured revolving credit and term loan facility from MSBIL. The Issuer has drawn down all of this facility. On 3 December 2007, the Company and MSBIL agreed a £10 million increase in the current facility, available immediately. This increase has been drawn down in full and must be repaid by 15 January 2008.

The Issuer has decided that, in order to provide flexibility in relation to working capital and cash management issues and to fund the projected growth of the Group, it should raise additional finance through the issue of the Notes.

## **5. Recent developments**

Whilst facing the Enforceability Challenge, the Issuer was advised and decided to delay the escalation of ordinary course litigation that had been planned to start in November 2006 until unequivocal legal clarification was gained on the issue of enforceability. Having defeated the Enforceability Challenge, the Issuer announced on 23 October 2007 that the Group's panel solicitors had been instructed to resume use of the litigation process fully as part of the ordinary day-to-day collection process.

The Issuer's imperatives for the current financial year as announced in July 2007 were:

- to defeat the Enforceability Challenge and implement a robust day-to-day litigation process to drive improved cash flows; and
- to consolidate the Group's position in the vertical market of automotive sector referrals, improve the volume and profitability of existing accounts, the ratios of sales and profitability per employee and deliver reduced fleet ownership costs.

The Issuer believes the first of these priorities to be well progressed and is addressing the challenge of improving profitability ratios in the automotive sector where the Group has a market leading position.

The Group's position of strength in the automotive referral sector remains. However, over the last twelve months, the marketplace in which it operates has been influenced and the total market opportunity has been expanded by many insurers modifying their own business model to embrace credit hire in order to profit from the commission and relationship management opportunity available to them by referring their own non-fault customers to credit hire companies.

The Issuer believes that the Enforceability Challenge had a negative effect on its ability to win more of these tenders, although it has recently secured a commercial agreement which is generating credit hire referral leads from one motor insurer.

To achieve more success in this market segment, the Group needs to:

- deliver innovative and creative solutions;
- demonstrate an appropriately funded business to its referral partners, both now and in the future;
- access additional working capital facilities to finance the process of collecting claims not settled within the GTA; and
- secure working capital facilities to finance further growth.

The Issuer believes that the net proceeds raised from the issue of the Notes will aid these objectives.

On 3 December 2007, the Issuer announced its results for the six months ended 31 October 2007. The following is an extract from the Chairman's Statement set out in those results.

#### **“Revenue**

*Revenue for the six months ended 31 October 2007 rose 47 per cent. to £77.4 million (2006: £52.7 million). Accident management and related services, primarily credit hire revenue (“Credit Hire Revenue”) contributed £57.5 million (2006: £40.0 million) and our lower margin credit repair revenue totalled £19.9 million, up 57 per cent. on the comparable period (2006: £12.7 million).*

*Whilst significant investment in headcount made during the second half of last year affected revenue per employee during that period, the Group is beginning to reap the benefits of this investment with Credit Hire Revenue improving to £95,000 per head for the period (2006: £90,000). Credit Hire Revenue growth of 44 per cent. reflects 514,000 rental days compared to 290,000 for the comparative period. Prestige rental days increased to 285,000 (2006: 199,000) and mainstream rental days increased to 229,000 days (2006: 91,000). The growth in lower margin mainstream rental days reflects certain large dealer account wins in the second half of last year as a result of which 45 per cent. of rental days were generated by mainstream vehicles in the current period compared to 31 per cent. in the comparative period.*

#### **Margins**

*Gross margin has reduced to 34.6 per cent. (2006: 39.8 per cent.) reflecting several factors:*

- *the evolution of the revenue mix and the relative growth of credit repair revenue compared to higher margin credit hire revenue;*
- *higher fleet depreciation charges as a result of the increase last year in the depreciation rate to 22.5 per cent. (2006: 20.0 per cent.);*
- *an increased adjustment to settlement estimation reflecting the uncertainties arising from the Enforceability Challenge;*
- *the evolution of the fleet mix and the relative higher proportion of mainstream rental days compared to prestige rental days which have higher margins; and*
- *the operational effects of changes in fleet utilisation and mix.*

*Credit repair revenue (which is a necessary driver of Credit Hire Revenue) accounted for 26 per cent. of revenue, up from 24 per cent. in 2006. Credit repair margin of 5.2 per cent. was consistent with the prior period. Whilst the Group has achieved significant growth in both Credit Hire Revenue and credit repair revenue during the period, the Board remains focused on re-establishing a higher proportion of prestige credit hire rental days to improve overall margins.*

*The impact of the changed depreciation rate is evidenced in that during the period 1,565 cars were sold at an average loss per unit of £210, compared to 721 vehicles at an average loss of £900 per unit in the comparative period. The loss on disposals reported for the period of £0.3 million represents little more than 1 per cent. of the disposal value and just 3.0 per cent. of the £10.0 million of depreciation charged on motor vehicles in the period (2006: loss of £0.6 million representing 9.9 per cent. of the £6.5 million depreciation charged).*

#### **Fleet utilisation**

*Expansion of the rental fleet from 4,033 vehicles at 30 April 2007 to 4,999 at the period end (2006: 2,925) reflects rental day growth and capacity increase ahead of the seasonally busier second half of the year. Fleet utilisation rates ranged across vehicle bands from 56 per cent. to 75 per cent. during the period and were slightly lower than the range of 58 per cent. to 79 per cent. for the whole of the year ended 30 April 2007. This was in part a consequence of cash mitigating actions taken by the Board which affected revenue and therefore utilisation.*

Management attention continues to be focused upon driving required improvement in utilisation through closer alignment of fleet volume and mix to the anticipated mix of referrals from our referral partners although this remains a medium term opportunity based on the continued growth in revenue activity.

### **Profit before tax**

Profit before tax was £6.5 million (2006: £7.9 million). Had the changes in the depreciation rate and settlement estimation which were put into effect at 30 April 2007 been applied at the time of the preparation of the results for the comparative period profit before tax for the comparative period last year would have been £6.6 million.

Adjusted profit before tax, stated before amortisation of acquired intangible assets, costs of share based payments and exceptional items was £8.6 million. Adjusted profit before tax for the comparative period was £9.4 million. This would have been £8.1 million had the revised depreciation and settlement estimation bases been applied to the comparative period last year.

Legal expenses of approximately £0.5 million have been incurred and expensed in the period in relation to the Enforceability Challenge. These costs are expected to be recovered in the second half of the year.

An effective tax rate of 30.8 per cent. (2006: 32.9 per cent.) has been estimated for the current financial year and applied to the profit before tax for the half year. The comparative effective rate of 32.9 per cent. reflects a greater proportion of non-tax deductible costs incurred in the comparative period, including exceptional administrative expenses incurred in connection with admission to the Official List.

Basic earnings per share was 6.3 pence per share (2006: 8.0 pence per share) and adjusted earnings per share (before amortisation of acquired intangible assets, costs of share based payments and exceptional items) was 8.4 pence per share (2006: 9.4 pence per share).

### **Net debt and cash flows**

As at 31 October 2007 the Morgan Stanley Facility was fully drawn down and cash at bank was £8.7 million, increasing to £10.1 million shortly after the period end following the receipt of a net £1.4 million being gross sale proceeds of £2.5 million due on cars sold in the last week of the period and on which £1.1 million of related finance lease obligation was also settled after the period end. With this receipt our headroom against available facilities as at 31 October 2007 was £10.1 million and our net debt (excluding finance lease obligations and after the offset of £1.6 million of unamortised debt issue costs) was £35.8 million (2006: £1.3 million). Total net debt (including finance lease obligations of £88.1 million (2006: £72.0 million)) was £123.9 million with the above receipt (2006: £73.3 million) reflecting the expansion of the fleet as referred to earlier.

Net cash inflow from operating activities for the six months ended 31 October 2007 is down materially at £3.6 million compared to the cash inflow of £10.1 million for the comparative period. The comparative period to 31 October 2006 was, in the Board's opinion, the last period that was unaffected by the Enforceability Challenge and the Board considers that the reduced inflow for the current period reflects the substantial impact of the Enforceability Challenge on claim settlement and the consequent absorption of working capital into trade receivables. Note 11 discloses the increase in trade and other receivables to be £14.3 million (2006: £9.1 million) though this is after the netting off of £8.1 million (2006: £6.0 million) in VAT (see below) recovered on fleet additions. Excluding these VAT cash receipts the absorption of cash into trade receivables was £22.4 million (2006: £15.1 million).

The Board also measures internally an "adjusted" operating cash flow as it considers that all fleet related cash flows (including the VAT effect mentioned above) are "operating" in nature. The adjusted operating cash flows for each of the last three six month periods ended 31 October 2007 are summarised in the table below:

**Adjusted cash generated from operations**

	6 months ended 31 October 2007 (Unaudited) £'m	6 months ended 30 April 2007 (Unaudited) £'m	6 months ended 31 October 2006 (Unaudited) £'m
Profit for the period	4.5	3.6	5.3
Depreciation and other non-cash items			
Depreciation	10.7	10.8	6.9
Amortisation of intangible assets	0.3	0.3	0.3
Loss/(profit) on disposal of vehicles, plant and equipment	0.3	–	0.6
Profit on disposal of property	–	–	–
Share based payments	0.2	0.2	0.1
Changes in working capital:			
Increase in trade and other receivables excluding VAT recovered on fleet additions	(22.4)	(21.2)	(15.1)
Decrease/(increase) in claims in progress	2.1	(4.3)	0.4
Increase in payables	(2.2)	7.0	3.6
Finance income per profit and loss account	(0.2)	(0.1)	–
Finance costs per profit and loss account	5.1	3.7	2.5
Tax	2.0	2.1	2.6
Fleet related cash flows	<u>(13.7)</u>	<u>(12.9)</u>	<u>(8.1)</u>
Adjusted cash generated from operations – after fleet related cash flows	<u>(13.3)</u>	<u>(10.8)</u>	<u>(0.9)</u>

The adjusted operating cash flows are the stated operating cash flows of the Group adjusted for all cash flows associated with fleet ownership (a majority of the fleet is acquired via the use of finance leases and therefore the cash flows of fleet ownership include the payment of finance lease interest, the repayment of finance lease borrowings, the receipt of proceeds of fleet disposal and the receipt of VAT recoverable on each fleet addition). All of the fleet related cash flows (except the VAT recovered on fleet expansion which is disclosed separately in the table below) can be identified from the statutory cash flow statements presented later.

*This shows the significant absorption of cash into trade and other receivables which is also reflected in an increase of overall debtor days from 149 as at 31 October 2006 to 203 as at 31 October 2007 (176 as at 30 April 2007). The vigorous efforts now being placed on claim settlement is expected to improve this ratio going forward. For completeness the fleet related cash flows comprise the following:*

**Analysis of fleet related cash flows**

	6 months ended 31 October 2007 (Unaudited) £'m	6 months ended 30 April 2007 (Unaudited) £'m	6 months ended 31 October 2006 (Unaudited) £'m
Proceeds of vehicle disposals	21.7	16.8	11.1
VAT recovered on fleet acquisition	8.1	5.4	6.0
Capital element of finance lease payments			
Deposits	(5.2)	(3.8)	(4.1)
Monthly repayments	(10.0)	(9.6)	(7.1)
Balloon repayment at disposal	(25.2)	(18.8)	(11.9)
Interest element of finance lease payments	(3.1)	(2.9)	(2.1)
Fleet related cash flows	<u>(13.7)</u>	<u>(12.9)</u>	<u>(8.1)</u>

*Other cash flows contained within the Consolidated Cash Flow Statement reflect the receipt of borrowings from the Morgan Stanley Facility of £45.0 million. These facilities were used in part to repay an aggregate*

of £24.4 million in relation to a revolving credit facility and a six year term loan from the Group's previous bankers. Other capital expenditure of £1.2 million was incurred primarily on IT investment in relation to headcount expansion and infrastructure improvement at the Group's Alpha 1 main distribution and administration centre. The final dividend for the year ended 30 April 2007 absorbed £1.1 million (2006: £1.3 million) and corporation tax payments were £1.0 million (2006: £0.6 million). Net interest of £0.8 million (2006: £0.4 million) was paid on the Group's bank indebtedness.

### **Balance Sheet**

The main element of capital expenditure of £44.4 million related to growth in the vehicle fleet with 2,116 vehicles added at a capital (VAT exclusive) cost of £43.5 million, funded through VAT inclusive finance leases. During the period 1,565 vehicles were sold for net proceeds of £23.8 million of which £2.1 million (£2.5 million including VAT) was received shortly after the period end. Other capital expenditure included completion of the fit-out of our Alpha 1 headquarters, IT equipment and office fixtures and fittings. Claims in progress of £14.3 million (2006: £12.0 million) reflects both the growth in the business and a shortening of the time taken to "invoice" closed claims such that the number of days' sales represented by claims in progress has reduced from 53 days as at 31 October 2006 to 44 days."

## **6. Directors and the Company Secretary**

The directors of the Issuer are as follows:

David Galloway (*Non Executive Chairman*)

Stephen Evans (*Chief Executive Officer*)

Martin Andrews (*Group Finance Director*)

David Lees (*Non Executive Director*)

Graham Stanley (*Non Executive Director*).

The Issuer's Company Secretary is Stephen Jones.

The business address of each of the directors of the Issuer is Alpha 1, Canton Lane, Hams Hall, Birmingham B46 1GA. Their functions within the Group are as set out below.

### **David Alistair Galloway, Non-Executive Chairman**

David Galloway FCA has 30 years' experience in the automotive and support services sectors. He was Managing Director of Lex Vehicle Leasing Ltd and Lex Industrial Services, and a director of RAC plc. He is currently a non-executive director of Speedy Hire plc, Carter & Carter Group plc and May Gurney Integrated Services plc. He chairs the Nomination Committee of the Board.

### **Stephen Anthony Evans, Chief Executive Officer**

Stephen Evans is the founder and Chief Executive of the Issuer. He is an entrepreneur with a proven start up track record having previously established, developed and sold Accident Assistance Limited, which specialised in handling insurance claims on behalf of the victims of road traffic accidents and which he sold in 1997. He is also former Group Marketing Director of the United Kenning Rental Group. He has 23 years' commercial experience in developing fast growth entrepreneurial businesses with a key focus on technology, automotive, claim handling and customer service delivery. During 2006 and 2007, he served as Chairman of the Accident Management Association, the leading industry trade body and he also represented members of the association, together with representatives of the insurance industry, on the Technical Committee which oversees the management and operation of the ABI General Terms of Agreement.

### **Martin John Andrews, ACA, Group Finance Director**

Martin Andrews joined Accident Exchange Group plc in November 2004 from Diagonal Plc, where he was instrumental in its successful acquisition by Morse in August 2004. Prior to this, he was finance director of Protagonia Plc, an international customer relationship management software company listed on the Official List, where he helped the company grow substantially in headcount and revenue terms. Prior to that, he was with County NatWest Corporate Finance and Price Waterhouse where he qualified as an accountant.

**David John Lees, ACA, *Non-Executive Director***

David Lees is a Chartered Accountant who qualified in Australia with KPMG. He has extensive experience in the management and promotion of public companies having raised significant funds as a co-founder of Griffiths Brothers Limited, Medeva Plc, Flare Group Plc and Skyepharma Plc. He is currently chairman of Deal Group Media Plc, Metis Biotechnologies Plc, Network Estates Limited, Foreland Oil Limited, Rift Oil Plc and The Capital Pub Company Plc as well as being finance director of Triple Plate Junction Plc. He chairs the Audit Committee of the Board.

**Graham Kemble Stanley**

Graham Stanley spent nearly 33 years working in the asset finance arm of HBOS plc. The last 19 years were devoted to heading a team specifically focused upon developing specialised wholesale funding packages and products for use by large vehicle fleet operators in the corporate, contract hire, daily rental, credit hire, car manufacturer and major dealer group sectors. He was a director of Bank of Scotland Vehicle Finance with experience of financing around 120,000 vehicles per annum. He is now a consultant to several companies and specialises in vehicle fleet funding and leasing. He chairs the Remuneration Committee of the Board.

**Stephen Jones, *Group Counsel and Company Secretary***

Stephen Jones has been with the Issuer since 31 October 2006 and prior to that worked at the law firm Eversheds LLP in Birmingham.

There are no potential conflicts of interest between the duties of the persons listed above to the Issuer and their private interests and/or other duties.

## PRINCIPAL SHAREHOLDERS

As at 31 December 2007 (the latest practicable date prior to the publication of this Offering Circular), the Issuer was aware of the following persons who, directly or indirectly, were interested in 3 per cent. or more of the voting rights attached to the Issuer's share capital:

	<i>Number of ordinary shares</i>	<i>Approximate percentage of the voting rights attached to the issued share capital</i>
S A Evans	31,796,571	44.70%
Sanlam Universal Funds Plc	4,466,149	6.28%
R H Seel	3,035,256	4.27%
M S Bramwell	3,964,543	5.57%
Credit Suisse Securities (Europe) Limited	2,332,111	3.28%
Standard Life Investments Limited	2,626,141	3.69%
Lord Young of Graffham	2,174,211	3.06%

## DESCRIPTION OF THE ORDINARY SHARES

*The following summarises certain provisions of the Articles of Association of the Issuer (the “Articles”). This summary does not purport to be complete and is subject to and is qualified in its entirety by reference to the Articles.*

### **Share capital**

As at the date of this Offering Circular, the Issuer’s authorised share capital is £10,000,000, comprising 200,000,000 ordinary shares of £0.05 each in the Issuer of which 71,138,544 have been issued, each credited as fully-paid.

The Issuer’s shares are in registered form and shares have been issued in both certificated and uncertificated form. The Issuer’s registrar is Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom.

The principal governing legislation for the shares in the Issuer is the Companies Act 1985, as amended. Some of the provisions of the Companies Act 1985 have been replaced by the Companies Act 2006 and others will be over time as different parts of it are brought into effect. The Companies Act 1985, as amended, and the Companies Act 2006 are together referred to as the “Acts”.

### **Share rights**

Subject to the Companies Act 1985, as amended, any resolutions passed by the Issuer under the Companies Act 1985 and other shareholders’ rights, shares may be issued with such rights and restrictions as the Issuer may by ordinary resolution decide or (if there is no such resolution or in so far as it does not make specific provision) as the directors of the Issuer may decide. Subject to the Articles, the Companies Act 1985 and other shareholders’ rights, unissued shares are at the disposal of the directors of the Issuer (the “Board”).

### **Voting rights**

Subject to special rights or restrictions as to voting attached to any shares by or in accordance with the Articles, at a general meeting every member present in person has one vote on a show of hands and every member present in person or by proxy has, on a poll, one vote for every share held.

Where there are joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote or votes of the other joint holder or holders. Seniority is determined by the order in which the names of the holders stand in the register.

Unless the Board otherwise determines, a member shall not be entitled to vote unless all calls or other sums due from him in respect of shares in the Issuer have been paid.

### **Dividends**

Subject to the Acts and the Articles, the Issuer may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. Subject to the Acts, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appear to the Board to be justified by the profits of the Issuer available for distribution.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up or credited as paid up (other than amounts paid in advance of calls) on the shares in respect of which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on such shares during any portion or portions of the period in respect of which the dividend is paid.

Dividends may be declared or paid in whatever currency the Board decide. Unless otherwise provided by the rights attached to the shares, dividends shall not carry a right to receive interest.

All dividends unclaimed for a period of 12 years after having been declared or becoming due for payment shall be forfeited and cease to remain owing by the Issuer.

The Board may, with the authority of an ordinary resolution of the Issuer:

- (a) offer holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid, instead of cash in respect of all or part of any dividend or dividends specified by the ordinary resolution;
- (b) direct that payment of all or part of any dividend declared may be satisfied by the distribution of specific assets.

There are no fixed or specified dates on which entitlements to dividends payable by the Issuer arise.

### **Distribution of assets on a winding-up**

On a winding-up, the liquidator may, with the authority of an extraordinary resolution of the Issuer and any other sanction required by law, divide among the members in kind the whole or any part of the assets of the Issuer and may value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, transfer any part of the assets of the Issuer to trustees on such trusts for the benefit of members as he may determine. The liquidator shall not, however (except with the consent of the member concerned) distribute to a member any asset to which there is attached a liability or potential liability for the owner.

### **Variation of class rights**

Subject to the Acts, all or any of the rights or privileges attached to any class of shares in the Issuer may be varied or abrogated in such manner (if any) as may be provided by such rights, or, in the absence of any such provision, either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of such holders of shares of that class, but not otherwise. The quorum at any such meeting (other than an adjourned meeting) is two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class in question.

The rights attached to any class of shares shall not, unless otherwise expressly provided in the rights attaching to such shares, be deemed to be varied or abrogated by the creation or issue of shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Issuer of any of its own shares.

### **Transfer of shares**

Every transfer of shares which are in certificated form must be in writing in any usual form or in any form approved by the Board and shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee.

Every transfer of shares which are in uncertificated form must be made by means of a relevant system (such as CREST).

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares if: (a) it is in respect of a share which is not fully paid up; (b) it is in respect of more than one class of share; (c) it is not duly stamped (if so required); or (d) it is not delivered for registration to the registered office of the Issuer or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued) by the relevant share certificate and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares which is in favour of: (a) a child, bankrupt or person of unsound mind; or (b) more than four joint transferees.

In the case of shares in certificated form, the registration of transfers of shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Board may from time to time determine. In the case of shares in uncertificated form, the register shall not be closed without the consent of the Operator of the relevant system (as defined in the Articles).

### Dividend Policy

The Issuer may pay dividends only out of its distributable reserves. Future dividend policy will be dependent upon distributable profits, financial condition, the terms of any then existing debt facilities and other relevant factors existing at the time. The Issuer's dividend policy continues to target paying an annual dividend of approximately one sixth of adjusted earnings per share. On or around 9 January 2008 (the date it is expected that dealings in the Notes will commence), the Board will make an announcement regarding the declaration of an interim dividend for the six months ended 31 October 2007.

### Share Plans, Options and Warrants

The Issuer has a number of existing share and incentive plans for employees, senior executives and, as the case may be, the Directors. These include the Accident Exchange Group Plc Directors and Senior Executives Long Term Incentives Plan ("LTIP"), the Approved Company Share Option Scheme (2006) (the "Approved Scheme"), the Unapproved Share Option Plan (2004) (the "Unapproved Scheme") and the Accident Exchange Group Sharesave Plan 2007, all of which are or will be approved by HM Revenue & Customs, save for the Unapproved Scheme. Options have been granted under these over Ordinary Shares, except for the Accident Exchange Group Sharesave Plan 2007, where no grants have yet been made.

As at 31 October 2007, the Issuer had the following options outstanding:

<i>Plan and date of grant</i>	<i>Number of Ordinary Shares under option</i>	<i>Price (p)</i>	<i>Exercise period</i>
<b>LTIP</b>			
29 March 2005	88,788	nil	29 March 2008–28 March 2015
22 July 2005	15,000	nil	23 July 2008–22 July 2015
15 March 2007	371,878	nil	15 March 2010–14 March 2017
14 August 2007	994,666	nil	14 August 2010–13 August 2017
<b>Approved Scheme</b>			
29 April 2005	35,389	252.50	29 April 2008–28 April 2015
22 July 2005	508,513	300.00	22 July 2008–21 July 2015
22 December 2006	56,442	407.80	22 December 2009–21 December 2016
14 August 2007	23,738	133.75	14 August 2010–13 August 2017
<b>Unapproved Scheme</b>			
29 April 2005	6,033	252.50	29 April 2008–28 April 2015
22 July 2005	33,287	300.00	22 July 2008–21 July 2015
22 December 2006	46,485	407.80	22 December 2009–21 December 2016
14 August 2007	472,991	133.75	14 August 2010–13 August 2017

Additionally, pursuant to a special resolution of the members of the Issuer passed on 21 August 2007, on 14 September 2007 the Issuer issued to Morgan Stanley & Co International Plc 718,571 warrants ("Warrants") conferring the right upon the holders of such Warrants to subscribe for a total of 718,571 Ordinary Shares at a subscription price of 105 pence per share. The Warrants are exercisable by the holders during the period commencing on the date on which the Issuer publishes its audited accounts for the year ending 30 April 2008 and expiring on 30 September 2011. Whilst the Warrants remain unexercised, the holders of the Warrants are entitled to participate in any offer or invitation to the holders of the Ordinary Shares (whether by rights issue, open offer or otherwise) as if they had exercised the Warrants immediately prior to such offer or invitation.

## UNITED KINGDOM TAXATION

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

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

*Prospective purchasers of Notes who may be subject to tax in any jurisdiction other than the United Kingdom, or who have any doubt whatsoever as to their tax position, should consult an appropriate professional adviser without delay.*

### **Withholding Tax and Interest on Notes**

The Notes will constitute “quoted Eurobonds” so long as they are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities are treated as listed on the London Stock Exchange if they are admitted to the Official List by the UKLA and are admitted to trading on the Professional Securities Market of the London Stock Exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of UK tax.

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

If interest is paid under deduction of UK income tax (for example, if the Notes cease to be listed on a recognised stock exchange), Noteholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

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

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

### **Provision of Information**

Noteholders who are individuals should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by any person in the UK acting on behalf of the Issuer (a “**paying agent**”), or is received by any person in the UK acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a “**collecting agent**”) or where amounts due on the redemption of the

Notes if they constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 are paid or received by a UK paying agent or a UK collecting agent on behalf of the relevant Noteholder, then the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue & Customs details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest or other amounts, as the case may be, have been paid subject to withholding or deduction for or on account of UK income tax and whether or not the Noteholder is resident in the UK for UK taxation purposes. Where the Noteholder is not so resident, the details provided to HM Revenue & Customs may, in certain cases, be passed by HM Revenue & Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by, or collected for, a person within its jurisdiction to an individual or certain other persons resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent., unless during such period they elect otherwise.

The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either as to provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual or certain other persons resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to an individual or certain other persons resident in one of those territories.

### **Interpretation**

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

### **Conversion, redemption and transfer of the Notes**

#### ***Noteholders within the charge to UK corporation tax***

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

#### ***Other UK taxpayers***

The Notes will be treated as “deeply discounted securities” for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005. Accordingly, Noteholders who are not within the charge to UK corporation tax and who are resident or ordinarily resident for tax purposes in the UK, or who carry on a trade, profession or vocation in the UK through a branch or agency to which the Notes are attributable (for the purposes of this section, “*UK income tax payers*”), may be subject to UK tax on income on a disposal or redemption of the Notes (including conversion).

Since the Notes are treated as deeply discounted securities, the Notes will be deemed to be “qualifying corporate bonds” pursuant to Section 117(1) or Section 117(2AA) of the Taxation of Chargeable Gains Act 1992. UK income tax payers’ basis for tax purposes in the Ordinary Shares acquired on such conversion will be the market value of the Notes as determined immediately before conversion.

### **Dividends on Ordinary Shares**

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

An individual Shareholder who is resident in the United Kingdom for tax purposes and who receives a dividend from the Issuer will be entitled to a tax credit which such Shareholder may set off against his or her total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the “**gross dividend**”), which equates to one-ninth of the dividend received. Where a United Kingdom resident individual Shareholder is liable to income tax at the starting or basic rate, he or she will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full the liability of such Shareholder to income tax on the dividend. In the case of a United Kingdom resident individual Shareholder who is liable to income tax at the higher rate, the tax credit will be set against the liability of such Shareholder on the gross dividend and such Shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which equates to 25 per cent. of the dividend received) to the extent that the gross dividend when treated as the top slice of such Shareholder’s income falls above the threshold for higher rate income tax. A United Kingdom resident individual Shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to repayment of the tax credit.

United Kingdom resident Shareholders within the charge to United Kingdom corporation tax will generally not be subject to corporation tax on dividends paid by the Issuer. Such Shareholders will not be able to claim repayment of tax credits attaching to dividends.

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

### **Disposal of Ordinary Shares**

A disposal of Ordinary Shares will constitute a disposal for the purposes of United Kingdom taxation on chargeable gains and, accordingly, may give rise to a liability to taxation for Shareholders who are resident or (in the case of individual shareholders) ordinarily resident for tax purposes in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency (in the case of individual Shareholders) or through a permanent establishment (in the case of Shareholders within the charge to corporation tax) to which the relevant Ordinary Shares are attributable, subject to any reliefs and allowances (including taper relief or indexation allowance, as appropriate) which may then be available.

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

No UK stamp duty or SDRT should be payable on the issue of the Notes.

No SDRT will generally be payable on the transfer of the Notes. No UK stamp duty will be payable on the transfer of the Notes provided that such transfer occurs by delivery and not by means of an instrument of transfer.

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

An unconditional agreement to sell an Ordinary Share will generally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration for the sale. If a duly stamped transfer in respect of the agreement is produced within six years of the date that the agreement is entered into

or (if later) the date that it becomes unconditional, any SDRT paid is repayable, generally with interest, and the SDRT charge is cancelled.

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

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Ordinary Shares into the CREST system unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent. of the amount or value of the consideration) will arise. Paperless transfers of Ordinary Shares within CREST will be liable to SDRT rather than stamp duty.

## SUBSCRIPTION AND SALE

Morgan Stanley & Co. International plc (the “**Lead Manager**”) has entered into a subscription agreement dated 3 December 2007 with the Issuer (the “**Subscription Agreement**”). Upon the terms and subject to the conditions contained therein, the Lead Manager has agreed to subscribe for the aggregate principal amount of the Notes at the issue price of 100 per cent. of their principal amount (the “**Issue Price**”).

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

The Issuer has agreed to pay to the Lead Manager a commission and to reimburse the Lead Manager for certain of its expenses incurred in connection with the management of the issue of the Notes. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

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

In addition, each of the directors of the Issuer holding Ordinary Shares has executed lock-up deeds dated as of the same date as the Subscription Agreement pursuant to which each of them has undertaken with the Lead Manager not to, amongst other things, offer or sell any Ordinary Shares or enter into transactions with a similar effect during the period commencing on the date of the lock-up deeds and ending 90 days after the Issue Date (both dates inclusive).

The Lead Manager and its affiliates have, in the past, performed investment banking and advisory services for the Issuer and the Group for which they have received customary fees and expenses. MSBIL has made available to the Issuer banking facilities aggregating £45,000,000 subject to an amendment made on 3 December 2007 which made a further £10,000,000 available to the Issuer from 3 December 2007 until 15 January 2008. These facilities are further described in “*General Information – Material Contracts*”. The Lead Manager and its respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and the Group in the ordinary course of their respective businesses.

### **Purchase of Notes and Stabilising Activities**

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

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

In connection with the offering of the Notes, the Lead Manager is permitted to engage in certain transactions that may stabilise the price of the Notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Notes.

In addition, if the Lead Manager over-allots by selling more Notes than are set out on the cover page of this Offering Circular, and thereby creates a short position in the Notes in connection with the offering, the Lead Manager may reduce that short position by purchasing Notes in the open market.

In general, purchases of a security for the purpose of stabilising or reducing a short position could cause the price of the security to be higher than it might otherwise be in the absence of such purchases.

Neither the Issuer nor the Lead Manager makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes or the price of the Ordinary Shares. In addition, neither the Issuer nor the Lead Manager makes any representation that the Lead Manager will engage in such transactions or that such transactions will not be discontinued without notice, once they are commenced.

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

### **United States**

The Notes 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (“**Regulation S**”).

The Notes 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.

The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 18 February 2008, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes 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.

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

### **United Kingdom**

The Lead Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **General**

The Lead Manager has acknowledged that no action has been or will be taken in any jurisdiction by the Issuer that would permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

# GENERAL INFORMATION

## 1. Listing

Application has been made to the UKLA for the Notes to be admitted to the Official List. Application has been made to the London Stock Exchange for the Notes to be admitted to trading on the Professional Securities Market. It is expected that admission of the Notes to the Official List of the UKLA and admission to trading of the Notes on the Professional Securities Market of the London Stock Exchange will be granted on or around 8 January 2008, subject to the issue of the Notes. It is expected that dealings in the Notes will commence on 9 January 2008.

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

The listing of the Notes on the London Stock Exchange will be expressed in pounds sterling as a percentage of their principal amount (exclusive of accrued interest). Transactions will normally be effected for settlement in pounds sterling for delivery on the third business day in London after the date of the transaction.

## 2. Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The creation and issue of the Notes has been authorised by resolutions of the Board of Directors of the Issuer dated 28 November 2007 and 3 December 2007. Pursuant to shareholder resolutions of the Issuer passed on 31 December 2007, authority was conferred on the Directors of the Issuer, amongst other things, to allot relevant securities up to a stated aggregate nominal amount pursuant to the Notes for the purposes of Section 80 of the Companies Act 1985, as amended, and to allot equity securities pursuant to the Notes as if Section 89(1) of the said Act did not apply.

## 3. Expenses

The Issuer estimates that the amount of costs and expenses related to the issue of the Notes will be approximately £4,000,000.

## 4. Clearing

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems. The Common Code for the Notes is 033496834. The International Securities Identification Number (ISIN) for the Notes is XS0334968343. The address of Euroclear is 1 Boulevard du Roi Albert I, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

## 5. Governmental, Legal or Arbitration Proceedings

Save as described in paragraph 3(f) of the section entitled “**Business Description**” herein, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware) during the 12 months before the date of this Offering Circular, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer and/or the Group.

## 6. Financial and Trading Position

In each case, save as described in the section entitled “*The Enforceability Challenge and its impact on the Group*” under **Risk Factors – Risks relating to the Issuer and the Group**, and in paragraphs 3(f), 4 and 5 of the section entitled “**Business Description**”, there has been no material adverse change in the prospects of the Group since 30 April 2007 and there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 October 2007.

## 7. Financial Information

The consolidated financial statements of the Issuer have been audited without qualification as at and for the years ended 30 April 2006 and 2007 by PricewaterhouseCoopers LLP of Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT, who are registered by the Institute of Chartered Accountants in England and Wales to carry out audit work.

The audited consolidated financial information of the Issuer as at and for the year ended 30 April 2006 incorporated by reference in "*Presentation of Information – Documents incorporated by reference*" does not comprise statutory accounts within the meaning of section 240(5) of the Companies Act 1985, as amended. Statutory accounts for the Issuer for the year ended 30 April 2006 have been delivered to the Registrar of Companies in England and Wales. The statutory accounts for the year ended 30 April 2006 were audited by PricewaterhouseCoopers LLP of Cornwall Street, Birmingham B3 2DT and their report on those accounts was unqualified and did not contain a statement under 237(2) or (3) of the Companies Act 1985.

## 8. Principal Objects

The Issuer's memorandum of association provides that the Issuer's objects are, amongst other things, to act as a holding company and to carry on business as a general commercial company. The Issuer's objects are set out in full in clause 4 of the Issuer's Memorandum of Association, which is available for inspection at the address specified in "*10. Documents on Display*" below.

## 9. Material Contracts

### (a) *Contracts relating to the Notes*

The following contracts directly concerning the issue of the Notes have been entered into by the Issuer immediately preceding the publication of this Offering Circular or will, shortly after the date of this Offering Circular, be entered into by the Issuer and are, or may be, material:

- (1) the Trust Deed to be dated 8 January 2008 between the Issuer and BNY Corporate Trustee Services Limited as Trustee, constituting the Notes and appointing the Trustee to act in that capacity and under which such fees in respect of the services of the Trustee as shall be agreed between the Issuer and the Trustee are to be paid; and
- (2) the Paying and Conversion Agency Agreement to be dated 8 January 2008 between the Issuer, The Bank of New York, the Trustee and others setting out, amongst other things, the terms of appointment and duties of The Bank Of New York in its capacity as Principal Paying and Conversion Agent and of the other agents and under which such fees in respect of the services of the agents as shall be agreed between them and the Issuer are to be paid.

### (b) *Other Agreements*

- (1) Credit Agreement dated 14 June 2007 (1) the Issuer and others and (2) MSBIL, as amended by the parties on 3 December 2007 ("**Credit Agreement**").

On 14 June 2007 MSBIL agreed to make available to the Issuer banking facilities aggregating £45,000,000 (subject as mentioned below) to enable the Issuer to repay the facilities provided by its bankers, with the balance being made available for general corporate purposes (the "**Facilities**").

The Facilities comprise a £30,000,000 term loan ("**Facility A**"), a £5,000,000 term loan ("**Facility B**") and a £10,000,000 revolving credit facility ("**Facility C**"). However, Facility C was increased to £20,000,000 pursuant to the amendment made on 3 December 2007 for the period from the effective date of amendment being 3 December 2007 to the tenth business day following the date of the shareholders meeting which was held on 31 December 2007, being 15 January 2008 and thereafter will be reduced to £10,000,000.

Save as mentioned above, the Facilities are available until, and are to be repaid in full on, 30 September 2010, except for Facility B which is repayable on 31 January 2008.

The interest payable by the Issuer on each of the Facilities is the aggregate of (a) the applicable margin (b) the applicable British Bankers Association Interest Settlement Rate and (c) the applicable Mandatory Cost Percentage Rate as calculated by MSBIL. The applicable margin for Facility A and Facility C is 3 per cent. per annum until 30 June 2008 rising to 4 per cent. per annum from 1 July 2008 to 31 December 2008 and rising to 5 per cent. per annum from 1 January 2009 to 30 September 2010. The applicable margin for Facility B is 4 per cent. per annum. Interest is payable on the last day of each interest period. Interest periods are selected by the Issuer at outset of each utilisation and are 1, 2, 3 or 6 month periods.

The Credit Agreement contains financial covenants on behalf of the Issuer which are tested quarterly. These include financial covenants as to leverage ratios, interest cover and receivables cover. It also contains events of default typical to such types of agreement which require all outstanding Facilities to be repaid including usual insolvency events, material adverse change and non-payment.

The Facilities are secured by way of cross guarantees and debentures over the assets of the Issuer, Accident Exchange and DCML.

In consideration of MSBIL making the Facilities available to the Issuer, the Issuer paid MSBIL an arrangement fee equal to 2 per cent. of the available facilities and also agreed to procure the issue to Morgan Stanley & Co. International plc of share warrants referred to at paragraph (2) below.

(2) Warrant instrument dated 14 September 2007 made by the Issuer (“**Warrant Instrument**”)

In accordance with the Credit Agreement referred to above and pursuant to a special resolution of the Issuer passed on 21 August 2007, on 14 September 2007 the Issuer entered into a warrant instrument creating 718,571 warrants (“**Warrants**”) conferring the rights upon the holders of such Warrants to subscribe for in aggregate 718,571 Ordinary Shares of 5 pence each in the capital of the Issuer at a subscription price of £1.05 per share.

The Warrants are exercisable in instalments of not less than 50,000 Warrants at any time during the period commencing on the date that the Issuer publishes its audited accounts for the period ending 30 April 2008 and ending on 30 September 2011. Ordinary Shares issued by the Issuer as a consequence of the exercise of the Warrants are to be issued within 30 days of the date of exercise.

The Warrant Instrument provides that if an offer or invitation is made by the Issuer to the holders of Ordinary Shares (whether by rights issue, rights offer, open offer or otherwise) then the Issuer shall procure that the same offer is made to the holders of the Warrants as if they had exercised the Warrants immediately prior to such offer or invitation.

The Warrant Instrument also contains certain covenants on the part of the Issuer not to modify the rights attaching to the Ordinary Shares or create any other class of equity share capital more favourable than the Ordinary Shares without the consent of the holders of the Warrants and to maintain sufficient authorities under section 80 and section 89 of the Act to enable the directors to issue Ordinary Shares upon the exercise of the Warrants.

On 14 September 2007, the Issuer issued all of the 718,571 Warrants created by the Warrant Instrument to Morgan Stanley & Co International plc in satisfaction of the Issuer’s obligation in respect of part of the arrangement fee payable to MSBIL in connection with the Credit Agreement referred to in paragraph (1) above.

## **10. Documents on Display**

Copies of the following documents may be inspected during normal business hours at the offices of the Principal Paying and Conversion Agent (currently One Canada Square, 40th Floor, London E14 5AL) during the 12 months starting on the date on which this Offering Circular is made available to the public:

- (a) the Circular to Shareholders dated 7 December 2007;
- (b) minutes of the Extraordinary General Meeting held on 31 December 2007;
- (c) the Memorandum and Articles of Association of the Issuer;
- (d) the audited consolidated annual financial statements of the Issuer as at and for the years ended 30 April 2006 and 2007, together in each case with the audit report thereon;
- (e) the unaudited consolidated condensed interim financial statements of the Issuer as at and for the six months ended 31 October 2006 and 2007, together in each case with the review report thereto;
- (f) the Trust Deed; and
- (g) the Paying and Conversion Agency Agreement.

In addition, this Offering Circular is also available at the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/en-gb/pricesnews/marketnews](http://www.londonstockexchange.com/en-gb/pricesnews/marketnews).

**REGISTERED OFFICE OF THE ISSUER**

**Accident Exchange Group Plc**

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United Kingdom

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London E14 5AL

**PRINCIPAL PAYING AND CONVERSION AGENT**

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