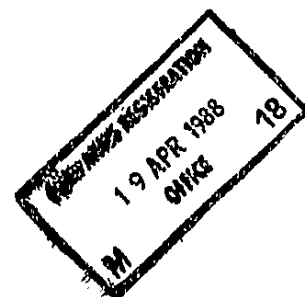


“We look to the future with confidence,
provided we are allowed to operate in an
environment of free and fair
competition.”

– *Lord King of Wartnaby*



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REPORT AND ACCOUNTS

HIGHLIGHTS OF THE YEAR

GROUP RESULTS		1986-87	1985-86
Turnover	£m	3,263	3,149
Operating surplus	£m	173	198
Profit before taxation	£m	162	195
Retained profit for year	£m	122	181
Shareholders' equity	£m	605	480
Earnings per share	p	20.5	26.8

TRAFFIC

Available tonne kilometres	m	8,751	8,601
Revenue tonne kilometres	m	5,784	5,673
Passengers carried	000	20,041	19,681
Cargo carried	tonnes 000	291	274
Overall load factor (scheduled services)	%	64.7	64.8

STAFF AND PRODUCTIVITY (AIRLINE ONLY)

Average number of staff	39,498	38,939
Available tonne kilometres per employee	222	221
Revenue tonne kilometres per employee	146	146

CHAIRMAN'S STATEMENT

The year under review saw the most significant step in the history of British Airways; our successful transition to the private sector.

Our Company today is owned by a wide range of investors. Our share register includes not only financial institutions, but many private individuals, as well as tens of thousands of our own employees. Our shares are listed on the London, New York and Toronto Stock Exchanges.

The initial offering attracted some 1.2 million investors. We now have a share register of over 400,000. This is still a much larger register than would be expected of companies of a similar size.

Ninety four per cent of eligible employees acquired shares in the Company at the time of the initial offer, and 12,700 of them have since joined our recently introduced Save As You Earn share option scheme. These numbers are an indication of the extent to which staff identify their own interests with the performance of the Company.

To all our new shareholders, I extend a warm welcome. We shall endeavour to serve them well, both as shareholders and, I trust, as customers.

British Airways today is one of the more efficient, profitable and successful airlines in the world. Our standard of customer service is high, and our growing financial strength, combined with our newly-won independence, gives us the opportunity to exploit for the first time the full potential of the Company.

In the year to 31 March 1987, we recorded pre-tax profits of £162 million. That was higher than the forecast in our Offer for Sale prospectus in January and was only 17 per cent less than the pre-tax profit for the previous year, despite a substantial decline in our summer 1986 business, which followed a number of incidents of international terrorism and the Chernobyl disaster.

We improved on the prospectus forecast for two main reasons; fuel prices did not rise as anticipated and sales revenue was much stronger than expected in the last two months of the year. Vigorous marketing campaigns on both sides of the Atlantic and prudent measures to control costs also contributed to the recovery.

After provision for taxes and dividends, we added £122 million to our reserves and reduced our borrowings from £379 million to £297 million. This gave us a year-end debt:equity ratio of 33:67.

A proposed dividend of 4.116p per share will be payable on 31 July 1987 to shareholders on the register at 11 June 1987.

Privatisation involved an extensive share marketing campaign in the City of London and the main regional cities of the UK, as well as in the United States, Canada, Japan and Switzerland. I believe that the increased understanding and respect gained during this campaign will stand to the benefit of the Company in the months ahead.

Nevertheless, let me add a note of concern. While British Airways holds an enviable place in the front rank of the world's international airlines, we see a need for a much greater understanding in Britain of the scale and nature of the competition that we face from United States, European and Far Eastern airlines.

If we are to maintain and increase our strength — and it is in the interests of the country and our customers, as well as of the Company, that we should do so — then we *must* ensure that there are no externally imposed restrictions on our growth. We look to the future with confidence, provided we are allowed to operate in an environment of free and fair competition.

I should like to record my appreciation for the steadfast support of the Board of Directors during the protracted process of privatisation. The journey to the private sector was much longer than we had originally anticipated. We encountered many obstacles in our path. Throughout this period the Directors were unstinting in their support for me and their service to the Company.

We recently welcomed to the Board Sir Francis Kennedy, who joined us after a distinguished diplomatic career. Sir Francis is a former British Consul-General in New York, and his wide experience will enable him to make a valuable contribution to the direction of the airline.

Howard Phelps, Director of Operations, and Bernard Wood, Company Secretary, both retired in 1986. On behalf of the Board I express our appreciation of their services and the contributions they made to the recovery in our fortunes.

Finally, I wish to place on record my sincere thanks to the staff of British Airways. It is no easy task to bring a company from serious indebtedness to healthy profit in a few short years. That we have been able to do so has been due to the efforts of all our staff, whose professional pride and dedicated service to the Company and its customers are becoming a by-word in our industry.



King of Wartnaby

DIRECTORS' REPORT

The Directors have pleasure in submitting to new shareholders their first Report and Accounts for the year ended 31 March 1987, and the third since the business of British Airways (BA) was transferred to a public limited company in April 1984. The accounts are set out on pages 14 to 33.

NUMBER OF SHAREHOLDERS

The number of shareholders as at 21 May 1987 was 420,526. The Company has not been informed of any notifiable interests comprising 5% or more of the issued share capital of the Company.

ACTIVITIES

BA's main activity is the operation of international and domestic scheduled and charter air services for the carriage of passengers, freight and mail. For this purpose it holds air transport licences issued by the Civil Aviation Authority and, as far as international routes are concerned, BA is designated to exercise traffic rights held by the British Government under Air Services Agreements made with other countries.

These traffic rights constitute BA's international scheduled route network which is one of the world's most extensive. It is the basis of BA's business and the Directors will continue to safeguard these rights and where appropriate seek to extend them.

In the course of providing services, such as engineering including airframe and engine overhaul, aircraft handling, catering, telecommunications and data processing for its own airline operations, BA also sells these services to third parties.

BA's principal place of business is at Heathrow Airport, London.

BA's wholly owned subsidiary, British Airtours Ltd, based at Gatwick Airport, carries out charter operations. BA's inclusive tour businesses, which are carried out under several brand names, i.e. Sovereign, Enterprise, Flair and Martin Rooks, are managed by a holding company, British Airways Tour Operations Ltd. Other inclusive tour businesses are provided by Overseas Air Travel Ltd, using the Poundstretcher and Dollarstretcher brand names, and through Alta Holidays Ltd, trading as Speedbird Holidays, in which BA owns 51% of the issued share capital. Travel Automation Services Ltd (Travicom), of which BA owns 82% of the issued share capital, promotes and provides automated multiple access travel booking services for the travel industry.

RESULTS FOR THE YEAR

The profit before tax amounted to £162m, which is £17m higher than that forecast in the Offer for Sale issued in January 1987. In the last three months of the financial year passenger traffic was stronger and fuel costs lower than were anticipated in that forecast. Profit before tax for the prior year was £195m.

A tax charge of £14m has been included in the accounts made up of £3m for the current year and £11m in respect of deferred tax now expected to arise.

As stated in the Offer for Sale, the Directors are recommending the payment on 31 July 1987 of a dividend to shareholders who have registered Interim Certificates on 11 June 1987. As the standard rate of income tax has been reduced from 29p to 27p in the £, the dividend will be 4.116p per share rather than 4p per share forecast in the Offer for Sale.

After providing £30m for the dividend, the retained profit for the year amounted to £122m.

Share Capital and Reserves have therefore increased to £605m at 31 March 1987 and borrowings have fallen from £379m at 31 March 1986 to £297m.

Details of the turnover and profits by activity and by geographical area are shown on pages 19 and 20. Statistical data is given on pages 41 and 42.

Particulars of profits (Net Income) and of net worth (Shareholders' Equity) produced in accordance with the US Generally Accepted Accounting Principles (GAAP), are shown on pages 36 and 37.

REVIEW OF THE BUSINESS

During the opening weeks of the year ended 31 March 1987 traffic fell markedly following the incidents in Chernobyl and Libya. Management responded with a variety of marketing initiatives, particularly in the USA from where the downturn in traffic was most pronounced. Following these efforts business began to recover and this trend continued throughout the rest of the year. Consequently, revenue from the carriage of passengers and cargo amounted to £2,827m compared with £2,795m in the previous year.

The price of aviation fuel started to fall in the early part of 1986 and remained at a lower level throughout the year, with the result that fuel costs incurred during the year were £199m lower than in the previous year.

However, many other items of expenditure, including staff, landing, air traffic control, selling and accommodation costs rose. In addition, with a larger number of aircraft on operating lease being charged to the operating account for a full year, the lease costs have increased from £61m to £86m.

The airline operating profit amounted to £183m compared with £205m in 1985-86. This result is much higher than that which might have been anticipated in the summer of 1986 and the Directors attribute this to the success of the marketing initiatives, prudent control of costs and lower fuel prices.

The introduction of uprated engines on Rolls-Royce powered Boeing 747s provided the opportunity to start non-stop services to Hong Kong and one-stop services to Australia. A number of changes were made to the route network, especially the introduction of new regional services from Manchester and Birmingham. The Company has been successful in acquiring non-stop Trans-Siberian rights between London and Tokyo which commence on 4 June 1987. The route network is set out on pages 44 and 45.

On 12 April 1986 the Company started operations from the new Terminal 4 at Heathrow, when all intercontinental services were transferred from Terminal 3, together with the Paris and Amsterdam routes from Terminal 1. Terminal 4 has had a significant impact in improving our customer service standards to passengers.

A revised Marketing and Operations organisation was introduced in October 1986. The change was designed to capitalise on the dramatic improvement in our customer service standards and enable the Company to enhance its selling ability worldwide. The Company continues with its objective of being one of the most cost efficient and customer concerned airlines in the world.

Summary financial statements for five years, including activity and geographical analyses, are shown on pages 38 to 40.

NEW EQUIPMENT ORDERED

During the year contracts were placed for 16 new Boeing 747-400s to be powered by Rolls-Royce engines and options taken for a further 12. Delivery will be between spring 1989 and late 1990.

BA has a facility provided by a syndicate of banks to acquire these aircraft on an operating lease basis, for an initial period of five years and with an option to extend for a further four years.

Contracts were also placed for one new Boeing 747-200, and for three Boeing 757 aircraft for delivery in the spring of 1988. Another two Boeing 757s were ordered in April 1987 for delivery in June 1988. It is at present intended to purchase all of these aircraft, which have an aggregate capital cost of approximately £180m, for cash. A further Boeing 757 aircraft was ordered for delivery in September 1987 and will be acquired under the US\$950m extendible operating lease facility arranged in 1984.

The Company has continued to place orders to replace and augment its other capital equipment in order to maintain, at a high standard, its wide range of ground equipment in support of its aircraft fleet.

NEW EQUIPMENT DELIVERED

During the year two Boeing 747-200 Combi aircraft and two Boeing 757 aircraft were delivered and a further Boeing 747-200 passenger aircraft was delivered in April 1987, all of which are now in scheduled service. The Company has acquired the two Boeing 757 aircraft for cash. The other aircraft have been acquired using the US\$950m extendible operating lease facility.

Progress continues on the upgrading of the engines on the Boeing 747-200, and the older Boeing 737 aircraft. Several of the Lockheed TriStars are being modified to enhance cargo carrying capacity and a number of Boeing 747 and Lockheed TriStar aircraft have been refurbished including replacement of galley and toilet facilities. All these programmes are scheduled to be completed during 1987-88.

Capital expenditure has included improving facilities at the passenger terminal at Kennedy Airport in New York, moving the main US reservation centre to another location in New York City, acquiring an additional Boeing 747 simulator and upgrading computer systems, particularly in Engineering.

Details of the fleet are set out on page 41.

DISPOSALS

During the year the Company sold its wholly owned subsidiary British Airways Helicopters Ltd and its property known as 'West London Air Terminal'. These sales complete the surplus asset disposal programme adopted by the Board in 1981-82.

POST BALANCE SHEET EVENTS

Since the end of the year £100m has been raised by way of a Euro-sterling note issue carrying a coupon of 9½% and being repayable in 1997. The proceeds of this issue will be used to augment the Company's working capital.

On 15 May 1987, loans from the Export-Import Bank of the United States (Exim) amounting to US\$191m and repayable between 1987 and 1995 were repaid.

In view of the Company's exposure to the US dollar arising from capital expenditure in respect of new aircraft, engines and spares, and the relative strength of sterling versus the US dollar, the Directors have currently approved the purchase of up to US\$400m for delivery over the next three years.

and the requirements of the law. In 1986-87 the Company has sought to encourage disabled people to join the Company, remain in its employment and retire on the same terms as other employees. All vacancies in British Airways for suitably qualified disabled people are passed on to the local Disablement Resettlement Officer. Wherever possible, staff who become disabled during employment with British Airways are provided with an alternative job that makes full use of their capabilities.

HEALTH AND SAFETY

The health and safety of our passengers and staff, both in the air and on the ground, is of paramount importance.

The safe operation of our aircraft is continually under review and every incident, whether large or small, is investigated to establish the cause and whether changes in procedures are required. The Ground Safety Branch continues to strive for excellence and particular attention has been paid in the past year to ground safety training, asbestos hazards in buildings and the control of contractors.

Occupational health units are available which provide an everyday medical service to staff and which promote the long term good health of employees. Furthermore medical units are available at key locations for passengers, primarily to provide immunisation facilities. Our Medical Service is continuously studying the effects of the working environment and the health of its employees and in the past year has been involved with a number of airlines in assessing the quality of sleep achieved by pilots at stopovers on long distance routes. Work has also continued on monitoring hygiene standards of hotels, catering establishments and restaurants used by our passengers and staff at home and overseas.

British Airways has established Health and Safety Committees, which include trade union representation, for the well being of employees. It has also complied with the Health and Safety at Work Act 1974 in issuing a written statement of its general policy on health and safety at work and the organisation and arrangements for carrying out that policy.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to £86,000 (1986 £38,000).

No payments were made to political parties or in any connection which in the opinion of the Directors might fall within the definition of money given for political purposes.

ALLOTMENT OF SHARES

A special resolution to renew the existing authority of the Directors to allot shares under Article 11(B) of the Company's Articles of Association is contained in the Notice of Annual General Meeting on page 46 and explained in detail on page 47.

The Stock Exchange no longer requires as hitherto the consent of shareholders of the Company to each specific issue of shares for cash made otherwise than to existing shareholders in proportion to their existing shareholding.

CLOSE COMPANY STATUS

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1970 and this position has not changed since the end of the financial year.

AUDITORS

The auditors, Ernst & Whinney, have indicated their willingness to continue in office and a resolution proposing their re-appointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

REPORT AND ACCOUNTS

BOARD MEMBERS

Lord King of Wartnaby *Chairman*
Robert Henderson *Deputy Chairman*
Colin Marshall *Chief Executive*
Basil Collins CBE
Michael Davies
Gordon Dunlop *Chief Financial Officer*
Jack Jessop CBE
Sir Francis Kennedy
Henry Lambert
Robert Ayling *Secretary*

EXECUTIVE MANAGEMENT

Colin Marshall *Chief Executive*
Robert Ayling *Secretary and Legal Director*
Captain Colin Barnes *Director of Flight Crew*
David Burnside *Director of Public Affairs*
Alistair Cumming *Director of Engineering*
Gordon Dunlop *Chief Financial Officer*
James Eyles *Director of Fuel*
Robert Falkner *Deputy Director of Marketing (Admin)*
Richard Gamble *Deputy Chief Financial Officer*
Dr Nick Georgiades *Director of Human Resources*
Jim Harris *Director of Marketing*
Captain Peter Hunt *Director of Safety Services*
David Hyde *Deputy Director of Marketing (Commercial Relations)*
Clive Mason *Director of Purchasing and Supply*
Peter Owen *Director of Operations*
Dr Frank Preston *Director of Medical Services*
John Watson *Director of Information Management*
Graham Watts *Director of Investor Relations and Marketplace Performance*
Keith Wilkins *Director of Planning*

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Speedbird House
Heathrow Airport (London)
Hounslow TW6 2JA
Telephone 01-759 5511
Registered number 1777777

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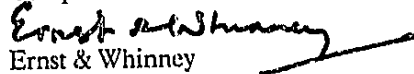
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REPORT AND ACCOUNTS

REPORT OF THE AUDITORS TO THE MEMBERS OF BRITISH AIRWAYS Plc

We have audited the accounts set out on pages 14 to 33 in accordance with approved auditing standards. The accounts have been prepared under the historical cost convention as explained in the accounting policies.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 March 1987 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.


Ernst & Whinney
Chartered Accountants
London

19 May 1987

ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention modified by the inclusion of certain properties at valuation.

BASIS OF CONSOLIDATION

The Group accounts include the accounts of the Company and its trading subsidiaries each made up to 31 March together with the attributable share of results and reserves of related companies on the basis of their latest accounts.

Goodwill arising on consolidation of subsidiaries and in respect of related companies is written off to reserves on acquisition.

In accordance with Section 228(7) Companies Act 1985 a separate profit and loss account dealing with the results of the Company only has not been presented.

TANGIBLE FIXED ASSETS

A) Tangible fixed assets are stated at cost except for certain properties which are included at valuation. Depreciation is calculated to write off the cost or valuation, less any residual value, on the straight line basis.

B) FLEET

i) Cost

The cost of certain aircraft which have been financed in part by loans and finance leases in foreign currency is adjusted at each period end to take account of the sterling cost of related repayments during the period and the translation of outstanding liabilities on such foreign currency borrowings at the period end rate of exchange or the appropriate forward rate where liabilities have been covered forward.

ii) Capitalisation of interest on progress payments

Interest attributed to progress payments made on account of aircraft under construction is capitalised and added to the cost of the aircraft concerned.

iii) Depreciation

Fleet assets owned or held on finance leases where the option exercise price is nominal, are depreciated at rates calculated to write down the cost to the estimated residual value at the end of the planned operational lives. Fleet assets held on finance leases where the option exercise price is other than nominal are depreciated over the primary lease period if this is shorter.

Operational lives and residual values are reviewed annually.

C) PROPERTY AND EQUIPMENT

All properties, other than those of a specialised use nature such as hangars and aircraft maintenance buildings, were professionally valued at open market value for existing use or open market value at 31 March 1984 and are included in these accounts on the basis of that valuation, with subsequent expenditure at cost, less depreciation.

Specialised use properties are included at cost, less depreciation.

Provision is made for the depreciation of all property and equipment, apart from freehold land, based upon their expected useful lives and, in the case of leasehold properties, over the duration of the leases if shorter.

D) LEASED ASSETS

Where assets are financed by lease arrangements (finance leases) under which substantially all the risks and rewards of ownership are transferred to the lessee, the assets are treated as if they had been purchased outright. The amount included in tangible fixed assets represents the aggregate of the capital elements of payments during the lease term, and the corresponding obligation, reduced annually by the appropriate proportion of lease payments made, is included in creditors. The aggregate of the capital elements of payments is depreciated on the basis described in the preceding paragraphs.

The annual payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account as they arise.

REPORT AND ACCOUNTS

RELATED COMPANIES AND TRADE INVESTMENTS

Companies in which the Group has equity interests in excess of 20% and not more than 50%, or in which its interest is effectively that of a partner in a consortium, are classified as related companies. The Group's share of the profits less losses of related companies is included in the consolidated profit and loss account and its share of post-acquisition retained profits in these companies is included in interests in related companies in the Group balance sheet.

STOCKS AND WORK IN PROGRESS

Stocks and work in progress are valued at the lower of cost and net realisable value.

AIRCRAFT AND ENGINE OVERHAUL EXPENDITURE

Aircraft and engine spares acquired on the introduction or expansion of a fleet are carried as tangible fixed assets and depreciated in line with the fleets to which they relate. Replacement spares and all other costs relating to the maintenance and overhaul of aircraft and engines are charged to the profit and loss account as incurred.

DEFERRED TAXATION

Provisions are made for deferred taxation, using the liability method, on short term timing differences and all other material timing differences to the extent that it is probable that the liabilities will crystallise, offset where applicable by accumulated tax losses.

RETIREMENT BENEFITS

Retirement benefits are payable for substantially all employees from the following arrangements:

- a) Funded pension schemes for UK employees which have been approved by the Inland Revenue;
- b) Funded retirement and pension benefit schemes for employees engaged in many overseas territories; or
- c) Terminal payments to employees in certain countries for which provision is made in the Group accounts.

Annual contributions to funded schemes are made on the basis of rates recommended by actuaries and charged as incurred.

FOREIGN CURRENCY BALANCES

Foreign currency balances are translated into sterling at the rates ruling at the balance sheet date except for:

- a) those loans arranged as part of HM Government's management of the UK foreign currency reserves through the Treasury's exchange cover scheme where the amounts outstanding are translated at rates of exchange fixed by HM Treasury; and
- b) certain loan repayment instalments which, at 31 March, have been covered forward and are translated at the forward contract rates.

Changes in the sterling value of outstanding non-exchange covered foreign currency loans and finance leases used for the acquisition of aircraft are reflected in the cost of those aircraft. All other profits or losses arising on translation are dealt with through the profit and loss account. The sterling/US dollar exchange rate at 31 March 1987 was £1=US\$1.60 (31 March 1986 - £1=US\$1.46).

COMPARATIVE FIGURES

Comparatives for the year ended 31 March 1986 have been extracted from accounts made up to and for the year ended on that date, adjusted to show relevant amounts relating to subsidiaries sold in the year to 31 March 1987 as discontinued activities. A provision made in the year to 31 March 1986 against the investment in a subsidiary which has been sold has now been restated as an extraordinary item in the profit and loss account for that year.

GROUP PROFIT AND LOSS ACCOUNT*For the year ended 31 March 1987*

		Group	
	Note	1987 £ million	1986 £ million
Turnover	1	3,263	3,149
Cost of sales	2a	(2,993)	(2,870)
Gross profit		270	279
Administrative expenses	2a	(97)	(81)
Operating surplus	1 & 2b	173	198
Other income	3	19	36
Profit before interest payable and taxation		192	234
Interest payable and similar charges	4	(30)	(39)
Profit on ordinary activities before taxation	1	162	195
Taxation	5	(14)	(2)
Profit on ordinary activities after taxation		148	193
Extraordinary items	6	4	(12)
Profit for the year after extraordinary items		152	181
Dividends paid and proposed (1986 - £0.4 million)	7	(30)	
Retained profit for the year	18	122	181
Earnings per share	8	20.5p	26.8p
Dividend per share	7	4.116p	0.05p

Movements in Reserves are shown in note 18 on page 30.

REPORT AND ACCOUNTS

BALANCE SHEETS

At 31 March 1987

	Note	Group		Company	
		1987 £ million	1986 £ million	1987 £ million	1986 £ million
Fixed assets					
Tangible assets					
<i>Fleet</i>		1,016	1,043	992	987
<i>Property</i>		168	166	161	154
<i>Equipment</i>		116	106	110	98
	9	1,300	1,315	1,263	1,239
Investments	10	5	5	42	72
Current assets					
Stocks	11	23	18	14	14
Debtors	12	582	518	524	476
Investments - short term loans and deposits		153	24	152	22
Cash at bank and in hand		19	33	16	28
		777	593	706	540
Creditors: amounts falling due within one year	13	(1,140)	(988)	(1,082)	(947)
Net current liabilities		(363)	(395)	(376)	(407)
Total assets less current liabilities		942	925	929	904
Creditors: amounts falling due after more than one year	14	(270)	(340)	(268)	(339)
Provisions for liabilities and charges	16	(66)	(103)	(66)	(103)
		606	482	595	462
Capital and reserves					
Called up share capital	17	180	180	180	180
Reserves	18				
<i>Profit and loss account</i>		413	278	400	264
<i>Revaluation</i>		16	19	15	18
<i>Other</i>		(4)	3		
Shareholders' equity		605	480	595	462
Minority interests		1	2		
		606	482	595	462

Lord King of Wartnaby *Chairman*
Colin Marshall *Chief Executive*
Gordon Dunlop *Chief Financial Officer*

19 May 1987

+ King
Colin Marshall
Gordon Dunlop

GROUP SOURCE AND APPLICATION OF FUNDS*For the year ended 31 March 1987*

	Group	
	1987 £ million	1986 £ million
Funds generated		
Profit on ordinary activities before taxation	162	195
Profit on tangible asset and investment disposals	(1)	(9)
Extraordinary items	4	(12)
Profit on disposal of subsidiaries	(4)	
	161	174
Adjustments not involving movement of funds		
<i>Depreciation of tangible assets</i>	188	162
<i>Other</i>	(35)	9
	153	171
Funds generated from operations	314	345
Net proceeds from:		
<i>Disposal of subsidiaries</i>	12	
<i>Tangible asset and investment disposals</i>	16	23
	28	23
Total funds generated	342	368
Movements in working capital		
<i>Liquid resources</i>	(115)	27
<i>Debtors and Stocks</i>	(79)	89
<i>Creditors</i>	162	8
	(32)	124
Funds available	310	492
Application of funds		
Capital expenditure		
<i>Fleet</i>	241	218
<i>Less refund of prior year progress payments</i>	(77)	
	164	218
<i>Property, equipment and investments</i>	81	64
	245	282
Loans and finance leases		
<i>Repaid</i>	67	241
<i>Less amounts raised</i>	(2)	(31)
	65	210
Total funds applied	310	492

The net proceeds of disposal of subsidiaries in the year ended 31 March 1987 of £12 million gave rise to a surplus over the book amount and the net assets of those subsidiaries of £4 million which is included in extraordinary items. The net assets at the date of disposal, which comprised the following amounts, have been excluded from the relevant funds movements:

	£ million
Fixed assets	40
Debtors	10
Liquid resources	3
Creditors	(45)
	8

REPORT AND ACCOUNTS

NOTES ON THE ACCOUNTS

For the year ended 31 March 1987

	Turnover		Operating surplus/(deficit)		Profit/(loss) before taxation	
	1987 £m	1986 £m	1987 £m	1986 £m	1987 £m	1986 £m
1 Analysis of Group turnover, operating surplus and profit before taxation						
a Turnover, operating surplus and profit before taxation, attributable to the different classes of the Group's business are:						
Airline operations	3,054	2,981	183	205	170	199
Inclusive tour holidays	178	120	(9)	(6)	(5)	(4)
Other	13	10		2	(1)	2
Total - continuing activities	3,245	3,111	174	201	164	197
Discontinued activities	18	38	(1)	(3)	(2)	(2)
	3,263	3,149	173	198	162	195

Turnover for airline operations comprises:

Traffic revenue		
Scheduled services		
Passenger and excess baggage	2,425	2,376
Freight and mail	261	268
	2,686	2,644
Non-scheduled services	141	151
	2,827	2,795
Aircraft maintenance and other airline services	227	186
	3,054	2,981

During the year ended 31 March 1987, the Group disposed of the whole of its interests in the issued share capital of two former subsidiaries, British Airways Helicopters Ltd and The Airways Housing Trust Ltd. Airline principally comprises British Airways Plc, British Airtours Ltd and British Airways Engine Overhaul Ltd.

The analysis of turnover, operating surplus/(deficit) and profit/(loss) before taxation is stated after adjusting for intra-group trading transactions.

The intra-group flight element of inclusive tour holidays in traffic revenue was £92m (1986-£84m).

	Group		Airline	
	1987 £m	1986 £m	1987 £m	1986 £m
b Turnover attributable to the Group's and the Airline's geographical markets is:				
UK	331	285	316	282
Continental Europe	1,085	979	974	897
Europe	1,416	1,264	1,290	1,179
The Americas	982	1,008	942	980
Africa	185	179	175	172
Middle East, Far East and Australasia	662	660	647	650
Total - continuing activities	3,245	3,111	3,054	2,981
Discontinued activities	18	38		
	3,263	3,149	3,054	2,981

Turnover of the United Kingdom market comprises airline traffic revenue from domestic flights within the United Kingdom and revenue from other airline services provided to United Kingdom customers. Turnover of overseas markets comprises (i) airline traffic revenue from inbound and outbound flights between the United Kingdom and overseas points, attributed to the area in which the relevant overseas point lies; (ii) revenue from sales of inclusive tour holidays, attributed to the area in which the holiday is taken; and (iii) revenue from other airline services, attributed to the area in which the customer resides.

Note 1 Analysis of Group turnover, operating surplus and profit before taxation (continued)

	Group		Airline	
	1987 £m	1986 £m	1987 £m	1986 £m
c Operating surplus attributable to the Group's and the Airline's geographical markets is:				
Europe	56	56	66	60
The Americas	65	85	64	85
Africa	20	14	20	14
Middle East, Far East and Australasia	33	46	33	46
Total - continuing activities	174	201	183	205
Discontinued activities	(1)	(3)		
	173	198	183	205

The United Kingdom and Continental European services are operated by a specialised shorthaul fleet, the day to day operations of which are fully integrated. It is not currently practicable to allocate certain overhead costs on a meaningful basis between the United Kingdom and Europe for the purpose of computing separate operating results. The operating results of these services are therefore combined under the heading 'Europe'. Operating surplus attributable to geographical markets is determined after allocation of fixed costs to routes, generally on a time basis, and of variable costs on the basis of resources and facilities used. Central overheads are allocated in line with fixed costs.

	Group	
	1987 £m	1986 £m
2 Operating surplus		
a Analysis of operating expenditure		
Cost of sales	2,993	2,870
Administrative expenses	97	81
Total operating expenditure	3,090	2,951
Continuing activities		
Airline		
Staff costs	722	638
Depreciation	185	153
Aircraft operating lease costs	86	61
Fuel and oil costs	371	570
Engineering and other aircraft costs	193	176
Landing fees and en route charges	233	208
Handling charges, catering and other operating costs	313	298
Selling costs	350	323
Accommodation, ground equipment and other costs	418	349
Total airline	2,871	2,776
Non-airline	200	134
Total - continuing activities	3,071	2,910
Discontinued activities	19	41
Total operating expenditure	3,090	2,951

REPORT AND ACCOUNTS

	Group	
	1987 £m	1986 £m
b The results are arrived at after charging:		
Depreciation of tangible fixed assets		
Owned assets	161	140
Finance leased aircraft	17	13
Other leasehold interests	10	9
	188	162
Operating lease costs		
Lease rentals—aircraft	86	61
—property and equipment	34	28
Hire of equipment and charter of aircraft and crews	14	13
	134	102
Cost of public share offer –		
(Total cost was £11m of which £10m was provided in prior years)	1	
Staff severance	16	16
	£	£
Auditors' remuneration	647,000	618,000
Directors' emoluments – fees	104,312	83,749
– other	260,315	332,474
	364,627	416,223
	Group and Company	
	1987 £	1986 £
c Directors' emoluments		
Chairman	52,740	52,062
The highest paid Director was in receipt of remuneration, excluding Company's pension contributions, amounting to:	112,288	100,900
The other Directors' remuneration, excluding Company's pension contributions, was within these ranges:	Number	Number
Nil – £5,000	1	3
£5,001 – £10,000	3	3
£10,001 – £15,000	2	
£45,001 – £50,000		1
£80,001 – £85,000		1
£95,001 – £100,000	1	
d Employees		
Employees of the Group in the United Kingdom who earned over £30,000 in the year:		
	Pilots and Officers	
	1987	1986
£30,001 – £35,000	681	362
£35,001 – £40,000	271	272
£40,001 – £45,000	257	190
£45,001 – £50,000	300	121
£50,001 – £55,000	131	17
£55,001 – £60,000	72	
£60,001 – £65,000	7	
£65,001 – £70,000	1	
£70,001 – £75,000		
£75,001 – £80,000		
£80,001 – £85,000		
	1,720	962
	Other employees	
	1987	1986
£30,001 – £35,000	83	53
£35,001 – £40,000	37	23
£40,001 – £45,000	14	15
£45,001 – £50,000	12	6
£50,001 – £55,000	11	3
£55,001 – £60,000	4	5
£60,001 – £65,000	7	4
£65,001 – £70,000	2	1
£70,001 – £75,000	1	1
£75,001 – £80,000	1	
£80,001 – £85,000	1	
	173	111
	1,893	1,073

Note 2 Operating surplus (continued)

			Group	
	UK	Overseas	1987 Total	1986 Total
e Staff numbers and costs				
The average number of persons employed in the Group worldwide during the year was as follows:				
Airline operations	34,149	5,349	39,498	38,939
Inclusive tour holidays	523	21	544	445
Others	398		398	251
Total - continuing activities	35,070	5,370	40,440	39,635
Discontinued activities	319		319	636
	35,389	5,370	40,759	40,271
			£m	£m
The aggregate payroll costs of these persons were as follows:				
Wages and salaries including staff bonus			610	548
Social security costs			56	45
Contributions to pension schemes			73	65
			739	658
3 Other income				
Interest receivable			17	20
Surplus on disposal of tangible fixed assets and investments			1	9
Income from shares in related companies			1	1
Other				6
			19	36
4 Interest payable and similar charges				
Interest payable				
On bank loans			12	14
Repayable wholly within five years			8	15
Repayable in whole or in part after five years				
On finance leases			5	3
Repayable wholly within five years			2	6
Repayable in whole or in part after five years				
On other loans			6	4
Repayable wholly within five years				6
Repayable in whole or in part after five years			(2)	(1)
Interest capitalised			31	47
Currency profits on general purpose loans			(1)	(3)
On revaluation of loans at year end				(5)
On repayments during the year			(1)	(8)
			30	39

Interest rates on all loans and finance leases range between 6.6% and 13.2% (1986-6.6% to 13.2%).
The average rate of interest on loans, excluding finance leases was 11.2% (1986-11.1%).

Changes in the sterling value of foreign currency loans and finance leases used specifically for the acquisition of aircraft have been included in the cost of those aircraft. This amounts to a deduction of £16m (1986 - a deduction of £50m) (see notes 9a and 9b).

	Group	
	1987 £m	1986 £m
5 Taxation (see also note 19)		
United Kingdom		
Corporation Tax at 35% (1986 - 40%)	43	1
Less: Advance Corporation Tax previously written off	(25)	
Release of amount provided through extraordinary items	(15)	
	3	1
Deferred taxation	11	
	14	1
Prior year adjustment	(1)	
	13	1
Overseas	1	1
	14	2

The provision for UK Corporation Tax has been calculated after deducting the benefit of tax losses brought forward.

If full provision for deferred taxation had been made at 35% there would have been a release in the year of £14m (1986 - a charge of £57m).

6 Extraordinary items 4 (12)

Extraordinary items

Extraordinary items comprise a credit of £3m in respect of the disposal of British Airways Helicopters Ltd after taking account of a provision of £35m (£12m of which was provided in 1985-86 and the remainder in prior years) against the value of the investment in the company and the sale proceeds of £13m; and a profit of £1m arising from the sale of The Airways Housing Trust Ltd.

The provision for future Corporation Tax of £15m which arose from refunds of past contributions to certain members of the Airways Pension Scheme who agreed to transfer their pension rights to the New Airways Pension Scheme, was originally set up as an extraordinary item. This provision has now been written back and an equivalent amount applied against the tax charge for the current year.

	Group and Company	
	1987 £	1986 £
7 Dividends		
Interim dividend		180,050
Proposed final dividend of 4.116p per share	29,643,432	180,050
	29,643,432	360,100

Following the division of the ordinary share capital (in November 1986) into ordinary shares of 25p each, the aggregate dividend for the year ended 31 March 1986 would have been equivalent to 0.05p per ordinary share.

	Group	
	1987	1986
8 Earnings per share		
Earnings per share is calculated as follows:		
Profit after taxation but before extraordinary items attributable to shareholders	£148m	£193m
Shares in issue - ordinary shares of 25p each	720,200,000	
- ordinary shares of £1 each		180,050,000
Earnings per share (based on ordinary shares issued of 25p each)	20.5p	26.8p
The dilution in earnings per share arising from the exercise of share options in issue is not significant.		

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[illegible]

Note 9 Tangible assets (continued)

c Cost/valuation

Fleet, equipment and specialised use properties are stated at cost. All other properties were valued at open market value for existing use or open market value, at 31 March 1984 by Richard Ellis, Chartered Surveyors, and this value was included in the accounts for the year then ended.

d Refund of progress payments

Progress payments amounting to £77m paid during the year ended 31 March 1986 were refunded during the year ended 31 March 1987.

e Depreciation

Depreciation of fleet is provided over periods ranging from 12 to 16 years after making allowance for residual values of between nil and 10% of cost.

Depreciation of property, apart from freehold land, is provided over the expected useful life subject to a maximum of 50 years.

Depreciation of equipment is provided over periods ranging from 3 to 16 years, according to the type of equipment.

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
f Capital expenditure commitments				
Capital expenditure authorised but not provided for in the accounts amounts to:				
<i>Authorised and contracted</i>	1,518	254	1,516	252
<i>Authorised but not contracted</i>	29	79	27	76
	1,547	333	1,543	328

Included above in 'authorised and contracted' at 31 March 1987 are outstanding commitments amounting to £1,190m which relate to the acquisition of sixteen Boeing 747-400 aircraft and ten spare engines. BA has arrangements through a facility provided by a syndicate of banks for it to acquire these aircraft on an operating lease basis for an initial period of five years, with the option to extend for a further four years. BA also has the option to convert these operating leases to finance leases for the remaining period of an eighteen year term from delivery. BA currently intends to take up the operating lease arrangements.

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	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
g Leasing commitments				
The aggregate payments, for which there are commitments as at 31 March 1987 under operating leases, fall due as follows:				
Fleet				
<i>Within one year</i>	113	79	113	79
<i>Between one and four years</i>	105	96	105	96
	218	175	218	175
Amounts payable within one year relate to commitments expiring as follows:				
<i>Within one year</i>	30		30	
<i>Between one and four years</i>	83	79	83	79
	113	79	113	79
Property and equipment				
<i>Within one year</i>	34	31	33	30
<i>Between one and five years</i>	52	61	50	59
<i>Over five years, ranging up to year 2075</i>	138	114	132	106
	224	206	215	195
Amounts payable within one year relate to commitments expiring as follows:				
<i>Within one year</i>	1			
<i>Between one and five years</i>	27	27	27	27
<i>Over five years</i>	6	4	6	3
	34	31	33	30

The fleet leasing commitments include the minimum three year rental obligations assumed under the operating leases for 16 Boeing 737, 3 Boeing 747 and 9 Boeing 757 aircraft. On completion of the three years the Company has a yearly option to renew the operating leases up to the sixth year or it has the option, at any time after three years, to convert the operating leases to finance leases for the period to 15 years from delivery of the aircraft.

If these options are not exercised, the Company may be required to meet a small share of any loss on re-sale.

10 Investments

a Group companies

Investments at cost, less amounts written off

Balance 1 April – net of provision of £13m (1986 £12m)

Exchange adjustment to opening balance

Additions

Disposals

Intra-group disposals

Other movements on advances

Balance 31 March – net of provision of £ nil (1986 £13m)

b Related companies and trade investments

Equity at cost less amounts written off

Advances less amounts written off

Attributable reserves

Total investments

The Group has no investment in a related company or trade investment exceeding £5m.

The aggregate value attributed by the Directors to these unlisted investments is £15m (1986 – £7m).

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
11 Stocks				
Raw materials, consumables and work in progress	23	18	14	14
The replacement cost of stocks is not considered to be materially different from their balance sheet values.				
12 Debtors: due within one year				
Trade debtors	482	447	450	420
Amounts owed by Group companies				1
Other debtors	34	20	33	19
Prepayments and accrued income	66	51	41	36
	582	518	524	476
13 Creditors: amounts falling due within one year				
Loans and finance leases: (see note 15)				
Bank and other loans	51	51	49	51
Finance leases	20	17	20	16
	71	68	69	67
Unsecured overdrafts	3			
Trade creditors	381	376	362	361
Amounts owed to Group companies			33	24
Other creditors including taxation and social security:				
Other creditors	61	38	57	35
Corporate taxation	32	3	31	2
Taxation and social security	16	15	16	14
	109	56	104	51
Proposed dividend	30		30	
Accruals and deferred income:				
Sales in advance of carriage	416	386	356	345
Accruals and deferred income	130	102	128	99
	546	488	484	444
	1,140	988	1,082	947
14 Creditors: amounts falling due after more than one year				
Loans and finance leases: (see note 15)				
Bank and other loans	171	230	171	230
Finance leases	55	81	54	81
	226	311	225	311
Related companies	1			
Accruals and deferred income	43	29	43	28
	270	340	268	339

REPORT AND ACCOUNTS

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
15 Loans and finance leases				
Total loans and finance leases				
Loans				
Bank US\$295m (1986 - US\$365m) and Sterling £2m (1986 - nil)	174	222	172	222
Other US\$95m (1986 - US\$114m)	48	59	48	59
Finance leases US\$119m (1986 - US\$142m) and Sterling £1m (1986 - £1m)	75	98	74	97
	297	379	294	378
Bank and other loans are repayable up to 1995-96.				
Of the bank and other loans US\$185m (1986 - US\$234m) are covered by HM Treasury against exchange risk. These have a sterling obligation of £89m (1986 - £113m).				
All loans and obligations under aircraft finance leases in foreign currencies are guaranteed as to principal and interest by HM Treasury and these guarantees will remain in force for the life of these loans or leases. In the event that any such guarantee is called, the undertaking and all property and revenues of BA would be charged with the repayment of any monies paid thereunder with priority from the date on which BA committed to or incurred the liability. Such loans and obligations under finance leases amounted to £294m at 31 March 1987 (1986 - £378m).				
Comprising:				
Bank loans				
Repayable wholly within five years	105	97	103	97
Repayable in whole or in part after five years	69	125	69	125
	174	222	172	222
Other loans and finance leases				
Repayable wholly within five years	98	40	98	39
Repayable in whole or in part after five years	25	117	24	117
	123	157	122	156
	297	379	294	378
	Bank loans £m	Other loans £m	Finance leases £m	Group total 1987 £m 1986 £m
Incidence of repayments - instalments falling due:				
Within one year (see note 13)	42	9	20	71 68
After more than one year (see note 14)				
Between one and two years	38	9	11	58 67
Between two and five years	76	30	30	136 168
In five years or more	18		14	32 76
	132	39	55	226 311
Total 1987	174	48	75	297
Total 1986	222	59	98	379
Analysis of Total 1987				
British Airways Plc	172	48	74	294 378
Subsidiary companies	2		1	3 1
	174	48	75	297 379

	Balance 1 April £m	Transfers from/(to) profit and loss account £m	Other movements £m	Provisions applied £m	Balance 31 March £m
16 Provisions for liabilities and charges					
Group and Company					
Pensions and similar obligations	16	4			20
Deferred taxation (<i>see note 19</i>)	8	11	(17)		2
Other provisions					
<i>Future Corporation Tax (see note 6)</i>	15	(15)			
<i>Anti-trust litigation costs (see below)</i>	25				25
<i>Disposal of subsidiary (see note 6)</i>	35			(35)	
<i>Sundry</i>	4	15			19
Total 1987	103	15	(17)	(35)	66
Total 1986	85	19		(1)	103

Experience with litigation in the USA has led the Board to conclude that it is prudent to continue to carry forward the provision which was made in prior years against the costs to which the Company might be exposed from any further claims.

At the end of the financial year two actions relating to the collapse of Laker Airways Ltd, which had been commenced in US District Courts in 1986, had been dismissed by those courts for lack of standing. In both cases appeals were made to appropriate US Courts of Appeals. In one case dismissal was affirmed by the appellate court, but the plaintiff has moved for reconsideration. In the other, there has been no decision by the appellate court.

17 Called up share capital

On 31 March 1986 the authorised share capital was £180,050,000 divided into 180,050,000 ordinary shares of £1 each, all of which had been allotted, called up and fully paid. On 4 November 1986, the authorised and issued share capital was subdivided into 720,200,000 ordinary shares of 25p each and, on 26 January 1987, the authorised share capital was increased to £240,000,000 by the creation of an additional 239,800,000 ordinary shares of 25p each, none of which have been issued.

At the balance sheet date there were 5,028,034 fully paid shares of 25p each under option, at a price of 178p per share, which can be exercised between 1990 and 1997.

	Distributable Profit and loss account £m	Non-distributable Revaluation reserve £m	Other reserves £m	1987 £m	1986 £m
18 Reserves					
a Group					
Balance 1 April	278	19	3	300	106
Profit for the year	122			122	181
Exchange adjustments to fleet assets (<i>note 9</i>)	5			5	14
Transfers relating to revalued property	9	(9)			
Other movements	(1)	6	(7)	(2)	(1)
Balance 31 March	413	16	(4)	425	300
b Company					
Balance 1 April	264	18		282	89
Profit for the year	122			122	179
Exchange adjustments to fleet assets (<i>note 9</i>)	5			5	14
Transfers relating to revalued property	9	(9)			
Other movements		6		6	
Balance 31 March	400	15		415	282

	Balance 1 April £m	Transfers from/(to) profit and loss account £m	Other movements £m	Provisions applied £m	Balance 31 March £m
16 Provisions for liabilities and charges					
Group and Company					
Pensions and similar obligations	16	4			20
Deferred taxation (<i>see note 19</i>)	8	11	(17)		2
Other provisions					
<i>Future Corporation Tax (see note 6)</i>	15	(15)			
<i>Anti-trust litigation costs (see below)</i>	25				25
<i>Disposal of subsidiary (see note 6)</i>	35			(35)	
<i>Sundry</i>	4	15			19
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Transfers relating to revalued property	9	(9)			
Other movements		6		6	
Balance 31 March	400	15		415	282

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
19 Deferred taxation (<i>see also notes 5 and 16</i>)				
Deferred taxation comprises:				
Timing differences in respect of property valuations	2	8	2	8
Arising during the year from accelerated capital allowances and other timing differences	11		11	
Advanced Corporation Tax on proposed dividend available for offset	(11)		(11)	
	2	8	2	8

If full provision for deferred taxation at 35% had been made the following amounts would have been required as at 31 March:

Accelerated capital allowances less unrelieved losses	216	211	234	202
Advance Corporation Tax recoverable	(11)		(11)	
Advance Corporation Tax written off		(25)		(25)
Other timing differences	(77)	(50)	(77)	(51)
Timing differences in respect of property valuations	2	8	2	8
	130	144	148	134

The Company's unrelieved tax losses carried forward are estimated to be nil (1986 - £180m).

20 Forward transactions in foreign currency

At 31 March the Company had the following forward purchase contracts outstanding:

	1987	1986
For the Company		
<i>Maturing within one year</i>		
- to cover payments in US dollars	\$127m	\$107m
- to cover payments in other currencies	£3m	
<i>Maturing after one year</i>		
- to cover payments in US dollars	\$20m	\$106m
On behalf of subsidiaries		
<i>Maturing within one year</i>		
- to cover payments in US dollar and other currencies	£49m	£19m

21 Directors' and Officers' loans and transactions

No loans or credit transactions were outstanding with Directors or Officers of the Company at the end of the year which need to be disclosed in accordance with the requirements of Schedule 6 of the Companies Act 1985. Further, no other contract of significance subsisted during or at the end of the financial year in which any Director or a person connected with any Director was materially interested.

22 Pension costs

The Group operates two defined benefit pension schemes in the UK, the Airways Pension Scheme (APS) which is closed to new members and the New Airways Pension Scheme (NAPS) to which all new full time permanent staff over the age of 18 employed by the Company or certain subsidiaries in the UK are required to become members.

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in line with inflation. Those provided under NAPS are based on final average pensionable pay reduced by an amount equivalent to one and a half times the Government's lower earnings limit and are subject to inflation increases up to a maximum of 5% in any one year.

Most staff engaged outside the United Kingdom are covered by appropriate local arrangements.

Employees' contributions, as a percentage of pensionable pay, range between 5.75% and 8.5% based on full pensionable pay to APS, and between 3.75% and 6.5% based on full pensionable pay less one and a half times the lower earnings limit to NAPS.

Contributions by the employer during the year have remained at an average of 2.5 times the employees' contributions to APS and 3.3 times (1986 - 3.5 times) the employees' contributions to NAPS.

	Group	
	1987 £m	1986 £m
Employers' contributions charged in the accounts were:		
Airways Pension Scheme	40	37
New Airways Pension Scheme	25	23
Other pension schemes and provident funds - mainly outside the United Kingdom	8	5
	73	65
UK staff	66	60
Overseas staff	7	5
	73	65

An actuarial valuation of the funds of the schemes is made at intervals not exceeding three years. The latest valuation at 30 June 1986 disclosed current, deferred and prospective liabilities which are fully covered by a combination of existing assets and the present value of future employer/employee contributions.

23 Contingencies

Contingent liabilities exist for which no provision has been made in the accounts covering obligations of the Company and guarantees given by or on behalf of Group companies and related companies.

For the Group they amount to £24m (1986 - £25m) and for the Company £56m (1986 - £58m).

24 Post balance sheet events

Since the year end £100m has been raised by way of a Euro-sterling note issue carrying a coupon of 9½% and being repayable in 1997. The proceeds of the issue will be used to augment the Company's working capital.

On 15 May 1987 loans from The Export-Import Bank of the United States (Exim) amounting to US\$191m and repayable between 1987 and 1995 were repaid.

In view of the Company's exposure to the US dollar arising from capital expenditure and the relative strength of sterling versus the US dollar, the Directors have approved the purchase of up to US\$400 million for delivery over the next three years.

REPORT AND ACCOUNTS

PRINCIPAL OPERATING GROUP COMPANIES

Principal operating Group companies at 31 March 1987, all of which were incorporated and operated in Great Britain, are wholly owned direct subsidiaries except where indicated:

Airline operations

British Airtours Ltd

British Airways Engine Overhaul Ltd

Inclusive tour holidays

Alta Holidays Ltd (51% of ordinary and preference share capital owned)

British Airways Tour Operations Ltd

British Airways Holidays Ltd (subsidiary of British Airways Tour Operations Ltd)

Martin Rooks & Co Ltd (subsidiary of British Airways Tour Operations Ltd)

Overseas Air Travel Ltd

Other

British Airways Associated Companies Ltd

British Airways Pension Administration Ltd

Chartridge Centre Ltd

Travel Automation Services Ltd (82% of ordinary share capital owned)

UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) INFORMATION

The accounts are prepared in accordance with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States. The significant differences are described below. Other differences, which include the treatment of goodwill, do not have a significant effect on either profit for the year after extraordinary items (net income) or shareholders' equity.

i) Deferred taxation

BA provides for deferred taxation on the liability method on all material timing differences to the extent that it is probable that the liabilities will crystallise. Where a provision is required, it is calculated at the rate of UK Corporation Tax expected to apply in the year in which the timing differences are expected to reverse, currently 35%. Under US GAAP, the tax effects of all timing differences would be accounted for on the deferral method at the tax rate ruling in the years in which the timing differences arose, which range from 52% to 35%.

ii) Property revaluation

Under US GAAP tangible assets must be stated at cost less accumulated depreciation in the financial statements. The revaluation of properties incorporated by BA in its accounts in the year ended March 31, 1984, would not therefore have been included in financial statements prepared in accordance with US GAAP and subsequent charges for depreciation would have been correspondingly lower. When such assets are sold, however, any revaluation surplus thus realized would be reflected in income.

iii) Dividends

Under US GAAP dividends are only incorporated in financial statements when declared. The proposed final dividend, and related Advance Corporation Tax, would not therefore have been included in financial statements prepared in accordance with US GAAP.

iv) Forward exchange contracts

Under US GAAP the notional gain or loss on foreign currency forward exchange contracts, arising on the translation of outstanding contracts at each balance sheet date at the rates of exchange ruling at that date, would have been included in the determination of net income. BA does not take account of such notional gains and losses.

v) Extraordinary items

Under US GAAP the amounts reported as extraordinary items would not have been deemed to be extraordinary items and would have been included in the determination of income before extraordinary items with no change to net income.

vi) Discontinued operations

Under US GAAP income from discontinued operations would have been reported as a separate component of income before extraordinary items.

vii) Foreign currency translation

BA finances a significant part of its aircraft purchases and leases in US dollars and a significant amount of its revenue and costs are denominated in, or related to, the US dollar and, consequently, BA treats these parts of its business as operating in a US dollar environment. Accordingly, under UK GAAP, the outstanding US dollar loans and finance lease obligations are translated into sterling at each balance sheet date at the exchange rate prevailing at such date, except that loans and finance lease obligations that are covered by the HM Treasury exchange cover scheme, or covered forward, are translated at the exchange rates fixed by HM Treasury, or the applicable forward contract rate, as the case may be. The cost of aircraft which is financed by specific US dollar loans and finance lease obligations is also adjusted at each balance sheet date to reflect repayments of the related loans and finance lease obligations during the period and the translation into sterling, at the appropriate exchange rates, of outstanding liabilities on such loans and finance lease obligations. The depreciation charge on such aircraft is computed on such translated amounts and the adjustments to the accumulated depreciation at the beginning of the period are taken to retained earnings. This accounting treatment is adopted in order to reflect the sterling cost to BA of its investment in such aircraft and as a result to match the depreciation charge more accurately with revenue.

Under US GAAP, the exchange adjustments made to the cost of aircraft are required to be treated as exchange gains or losses and included in the determination of net income. The cost of the related aircraft would be fixed in pounds sterling at the rate of exchange ruling at the date of original acquisition or lease.

The estimated effect of the significant adjustments to income before extraordinary items and net income, and to shareholders' equity, which would be required if US GAAP were to be applied instead of accounting principles generally accepted in the UK, are summarised on pages 36 and 37.

NET INCOME UNDER US GAAP

	1987 £m	1986 £m
Income (loss) before extraordinary items as reported in the consolidated statements of income		
Continuing activities	150	195
Discontinued activities	(2)	(2)
	148	193
Estimated adjustments		
Depreciation		
Fleet	6	8
Property	3	2
Other income (charges)		
Exchange gains (losses)		
<i>Arising on translation of cost of aircraft</i>	16	50
<i>Arising on revaluation of forward exchange contracts</i>	(8)	(1)
Surplus on disposal of tangible fixed assets and investments	6	3
Extraordinary items	4	(12)
Deferred taxation	(20)	(51)
	7	(1)
Estimated income (loss) before extraordinary items as adjusted to accord with US GAAP		
Continuing activities	146	203
Discontinued activities	9	(11)
	155	192
Extraordinary items		
Estimated net income (loss) as adjusted to accord with US GAAP	155	192
	Pence	Pence
Per Ordinary Share as so adjusted		
Income/(loss) before extraordinary items		
Continuing activities	21	28
Discontinued activities	1	(1)
	22	27
Net income	22	27
Per American Depositary Share as so adjusted		
Income/(loss) before extraordinary items		
Continuing activities	210	280
Discontinued activities	10	(10)
	220	270
Net income	220	270

NET INCOME UNDER US GAAP

	1987 £m	1986 £m
Income (loss) before extraordinary items as reported in the consolidated statements of income	150	195
Continuing activities	(2)	(2)
Discontinued activities	148	193
Estimated adjustments		
Depreciation		
Fleet	6	8
Property	3	2
Other income (charges)		
Exchange gains (losses)		
<i>Arising on translation of cost of aircraft</i>	16	50
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Surplus on disposal of tangible fixed assets and investments	6	3
Extraordinary items	4	(12)
Deferred taxation	(20)	(51)
	7	(1)
Estimated income (loss) before extraordinary items as adjusted to accord with US GAAP		
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Discontinued activities	9	(11)
	155	192
Extraordinary items		
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	Pence	Pence
Per Ordinary Share as so adjusted		
Income/(loss) before extraordinary items	21	28
Continuing activities	1	(1)
Discontinued activities	22	27
Net income	22	27
Per American Depositary Share as so adjusted		
Income/(loss) before extraordinary items	210	280
Continuing activities	10	(10)
Discontinued activities	220	270
Net income	220	270

SHAREHOLDERS' EQUITY UNDER US GAAP

	1987 £m	1986 £m
Shareholders' equity as reported in the consolidated balance sheets	605	480
Estimated adjustments		
Fixed assets		
Fleet	(41)	(58)
Property	(18)	(19)
Current liabilities		
Proposed dividend	30	
Deferred losses on forward exchange contracts	(10)	(3)
Long term liabilities		
Deferred losses on forward exchange contracts	(1)	
Provisions for liabilities and charges		
Deferred taxation	(155)	(129)
	(195)	(209)
Estimated shareholders' equity as adjusted to accord with US GAAP	410	271

SUMMARY FINANCIAL STATEMENTS*For the five years ended 31 March 1987*

	1982-83 £m	1983-84 £m	1984-85 £m	1985-86 £m	1986-87 £m
Group profit and loss account					
Turnover	2,497	2,514	2,943	3,149	3,263
Operating expenditure	(2,312)	(2,246)	(2,651)	(2,951)	(3,090)
Operating surplus	185	268	292	198	173
Other income	19	26	12	36	19
Interest payable and similar charges	(130)	(109)	(113)	(39)	(30)
Profit on ordinary activities before taxation	74	185	191	195	162
Taxation and minority interests	(10)	(2)	(5)	(2)	(14)
Profit for the year before extraordinary items	64	183	186	193	148
Extraordinary items	26	33	(12)	(12)	4
Profit for the year after extraordinary items	90	216	174	181	152
Dividends					(30)
Retained profit for the year	90	216	174	181	122
Group source and application of funds					
Funds generated:					
Profit on ordinary activities before taxation	74	185	191	195	162
Profit on tangible asset and investment disposals	(6)	(5)	(18)	(9)	(1)
Extraordinary items	26	33	(12)	(12)	4
Profit on disposals of subsidiaries	(28)				(4)
	66	213	161	174	161
Adjustments not involving movement of funds					
Depreciation of tangible assets	116	118	146	162	188
Other	(74)	(60)	70	9	(35)
Funds generated from operations	108	271	377	345	314
Net proceeds—tangible asset and investment disposals	66	11	48	23	16
—disposal of subsidiaries	65				12
Total funds generated	239	282	425	368	342
Movements in working capital	(25)	135	25	124	(32)
Funds available	214	417	450	492	310
Application of funds:					
Capital expenditure	180	253	120	282	245
Loans and finance leases — net decrease	34	164	330	210	65
Total funds applied	214	417	450	492	310

REPORT AND ACCOUNTS

1985-87
£m

3,263
(3,090)

173

19

(30)

162

(14)

148

4

152

(30)

122

162

(1)

4

(4)

161

188

(35)

314

16

12

342

(32)

310

245

65

310

	1982-83 £m	1983-84 £m	1984-85 £m	1985-86 £m	1986-87 £m
Group balance sheet					
Fixed assets					
<i>Tangible assets</i>	1,079	1,263	1,247	1,315	1,300
<i>Investments</i>	20	20	4	5	5
Current assets	574	511	710	593	771
Creditors: amounts falling due within one year	(717)	(766)	(998)	(988)	(1,140)
Net current liabilities	(143)	(255)	(288)	(395)	(363)
Total assets less current liabilities	956	1,028	963	925	942
Creditors: amounts falling due after more than one year	(982)	(853)	(591)	(340)	(270)
Provisions for liabilities and charges	(91)	(46)	(85)	(103)	(66)
	(117)	129	287	482	606
Capital and Reserves					
<i>Public Dividend Capital</i>	180	180			
<i>Called up share capital</i>			180	180	180
<i>Reserves</i>	(297)	(52)	106	300	425
Shareholders' equity	(117)	128	286	480	605
Minority interests		1	1	2	1
	(117)	129	287	482	606

**ANALYSIS OF GROUP TURNOVER, OPERATING SURPLUS
AND PROFIT BEFORE TAXATION BY CLASS OF BUSINESS**

For the five years ended 31 March 1987

	1982-83 £m	1983-84 £m	1984-85 £m	1985-86 £m	1986-87 £m
Turnover					
Airline operations	2,172	2,382	2,797	2,981	3,054
Inclusive tour holidays	100	79	99	120	178
Other	9	10	9	10	13
Discontinued activities	216	43	38	38	18
	2,497	2,514	2,943	3,149	3,263
Operating surplus/(deficit)					
Airline operations	170	274	303	205	183
Inclusive tour holidays	(2)	(8)	(10)	(6)	(9)
Other	1	2	1	2	
Discontinued activities	16		(2)	(3)	(1)
	185	268	292	198	173
Profit/(loss) before taxation					
Airline operations	43	185	180	199	170
Inclusive tour holidays	4	(3)	(7)	(4)	(5)
Other	5	(2)	2	2	(1)
Discontinued activities	22	5	16	(2)	(2)
	74	185	191	195	162

ANALYSIS OF TURNOVER AND OPERATING SURPLUS BY GEOGRAPHICAL AREA

For the five years ended 31 March 1987

	1982-83 £m	1983-84 £m	1984-85 £m	1985-86 £m	1986-87 £m
Turnover					
Europe	927	1,021	1,152	1,264	1,416
The Americas	628	683	876	1,008	982
Africa	163	167	190	179	185
Middle East, Far East and Australasia	563	600	687	660	662
	2,281	2,471	2,905	3,111	3,245
Discontinued activities	216	43	38	38	18
	2,497	2,514	2,943	3,149	3,263
Operating surplus/(deficit)					
Europe	58	97	81	56	56
The Americas	53	88	131	85	65
Africa	23	23	27	14	20
Middle East, Far East and Australasia	35	60	55	46	33
	169	268	294	201	174
Discontinued activities	16		(2)	(3)	(1)
	185	268	292	198	173

AIRCRAFT FLEET

	Number in service 31 March 1987 <i>Notes 1 and 4</i>	Number on order 31 March 1987	1986-87 revenue hours flown	Average fleet size	Average hours per aircraft p.a.
Concorde	7		7,873	7.00	1,125
Boeing 747-100	16		68,670	16.00	4,292
Boeing 747-200	13	1	60,378	12.92	4,673
Boeing 747-Combi (<i>note 2</i>)	3	1	9,128	2.01	4,541
Boeing 747-400		16			
TriStar 1/50	9		26,019	9.00	2,891
TriStar 200	8		29,180	8.00	3,648
TriStar 500	2		7,713	2.00	3,857
Boeing 757 (<i>note 3</i>)	26	4	60,820	24.56	2,476
Boeing 737	44		121,021	44.56	2,716
BAC 1-11/500	21		32,568	21.00	1,551
BAC 1-11/400	6		10,586	5.41	1,957
HS 748	9		15,673	8.09	1,937
Hired aircraft			1,791		
Total including British Airtours Ltd	164	22	451,420	160.55	2,801

Note 1 Excludes two Tridents used for ground training and one Trident base-parked awaiting disposal.

Note 2 Excludes one Combi acquired in March 1987 but not in service until April 1987.

Note 3 Excludes two Boeing 757s ordered in April 1987.

Note 4 Aircraft on short term leases included in the number in service at 31 March 1987 comprise:

Boeing 747 - 200	1
Boeing 747 - Combi	2
TriStar 500	2
Boeing 757	1
Boeing 737	1
BAC 1-11/400	1
HS 748	5
	13

OPERATING STATISTICS*Year ended 31 March 1987*

	1983	1984	1985	1986	1987
Scheduled services					
<i>Volume of traffic carried</i>					
Revenue passenger km (m)	36,394	34,206	38,386	41,334	41,356
Cargo tonne km (m)	986	1,122	1,292	1,356	1,444
Total revenue tonne km (m)	4,307	4,244	4,810	5,155	5,267
Number of passengers carried (000)	14,635	14,206	15,951	17,016	17,276
Tonnes of cargo carried (000)	199	229	259	274	291
<i>Capacity</i>					
Available seat km (m)	54,710	53,386	56,031	60,759	61,722
Available tonne km (m)	6,786	6,699	7,275	7,956	8,141
<i>Load factors</i>					
Passenger load factor(%)	66.5	64.1	68.5	68.0	67.0
Break-even passenger load factor(%)	60.4	54.8	59.3	62.1	62.0
Overall load factor(%)	63.4	63.4	66.1	64.8	64.7
Break-even overall load factor(%)	58.0	55.2	58.2	59.8	60.4
<i>Operations</i>					
Punctuality (% within 15 mins)	84	84	85	82	81
Regularity (%)	99.4	99.3	99.5	98.8	99.2
Unduplicated route km (000)	567	516	521	555	555
Revenue aircraft km flown (m)	222	211	229	248	257
<i>Yield</i>					
Revenue per passenger km (p)	4.89	5.57	5.87	5.75	5.86
Revenue per revenue tonne km (p)	45.6	49.8	52.1	51.3	51.0
Total Airline operations					
<i>including British Airtours Ltd</i>					
Available tonne km (m)	7,208	7,194	7,837	8,601	8,751
Revenue tonne km (m)	4,461	4,650	5,267	5,673	5,784
Average fleet size	153	151	153	159	161
Aircraft utilisation (average hrs per aircraft)	2,532	2,465	2,653	2,720	2,801
Number of passengers carried (000)	16,344	16,241	18,397	19,681	20,041
Revenue passenger flights (000)	189	184	197	210	217
Operating expenditure per ATK (p)	26.1	27.1	29.8	30.1	30.2
Average airline staff employed	39,693	36,096	36,861	38,939	39,498
ATKs per employee (000)	181.6	199.3	212.6	220.9	221.6

OPERATING STATISTICS*Year ended 31 March 1987*

	1983	1984	1985	1986	1987
Scheduled services					
<i>Volume of traffic carried</i>					
Revenue passenger km (m)	36,394	34,206	38,386	41,334	41,356
Cargo tonne km (m)	986	1,122	1,292	1,356	1,444
Total revenue tonne km (m)	4,307	4,244	4,810	5,155	5,267
Number of passengers carried (000)	14,635	14,206	15,951	17,016	17,276
Tonnes of cargo carried (000)	199	229	259	274	291
<i>Capacity</i>					
Available seat km (m)	54,710	53,386	56,031	60,759	61,722
Available tonne km (m)	6,786	6,699	7,275	7,956	8,141
<i>Load factors</i>					
Passenger load factor(%)	66.5	64.1	68.5	68.0	67.0
Break-even passenger load factor(%)	60.4	54.8	59.3	62.1	62.0
Overall load factor(%)	63.4	63.4	66.1	64.8	64.7
Break-even overall load factor(%)	58.0	55.2	58.2	59.8	60.4
<i>Operations</i>					
Punctuality (% within 15 mins)	84	84	85	82	81
Regularity (%)	99.4	99.3	99.5	98.8	99.2
Unduplicated route km (000)	567	516	521	555	555
Revenue aircraft km flown (m)	222	211	229	248	257
<i>Yield</i>					
Revenue per passenger km (p)	4.89	5.57	5.87	5.75	5.86
Revenue per revenue tonne km (p)	45.6	49.8	52.1	51.3	51.0
Total Airline operations including British Airtours Ltd					
Available tonne km (m)	7,208	7,194	7,837	8,601	8,751
Revenue tonne km (m)	4,461	4,650	5,267	5,673	5,784
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Operating expenditure per ATK (p)	26.1	27.1	29.8	30.1	30.2
Average airline staff employed	39,693	36,096	36,861	38,939	39,498
ATKs per employee (000)	181.6	199.3	212.6	220.9	221.6

REPORT AND ACCOUNTS

SHAREHOLDER INFORMATION

SHAREHOLDERS

As at 21 May 1987 there were 420,526 shareholders. An analysis by size of holding and by category of owner is given below.

Size of shareholding	% of shareholders	% of shares
1 - 1,000	98.02	13.65
1,001 - 5,000	1.28	1.61
5,001 - 10,000	0.16	0.78
10,001 - 50,000	0.29	4.36
50,001 - 100,000	0.09	3.84
100,001 - 250,000	0.08	7.98
250,001 - 500,000	0.04	7.78
500,001 - 750,000	0.01	5.20
750,001 - 1,000,000	0.01	4.50
Over 1,000,000	0.02	50.30
	100.00	100.00

DIRECTORS' SHARE INTERESTS

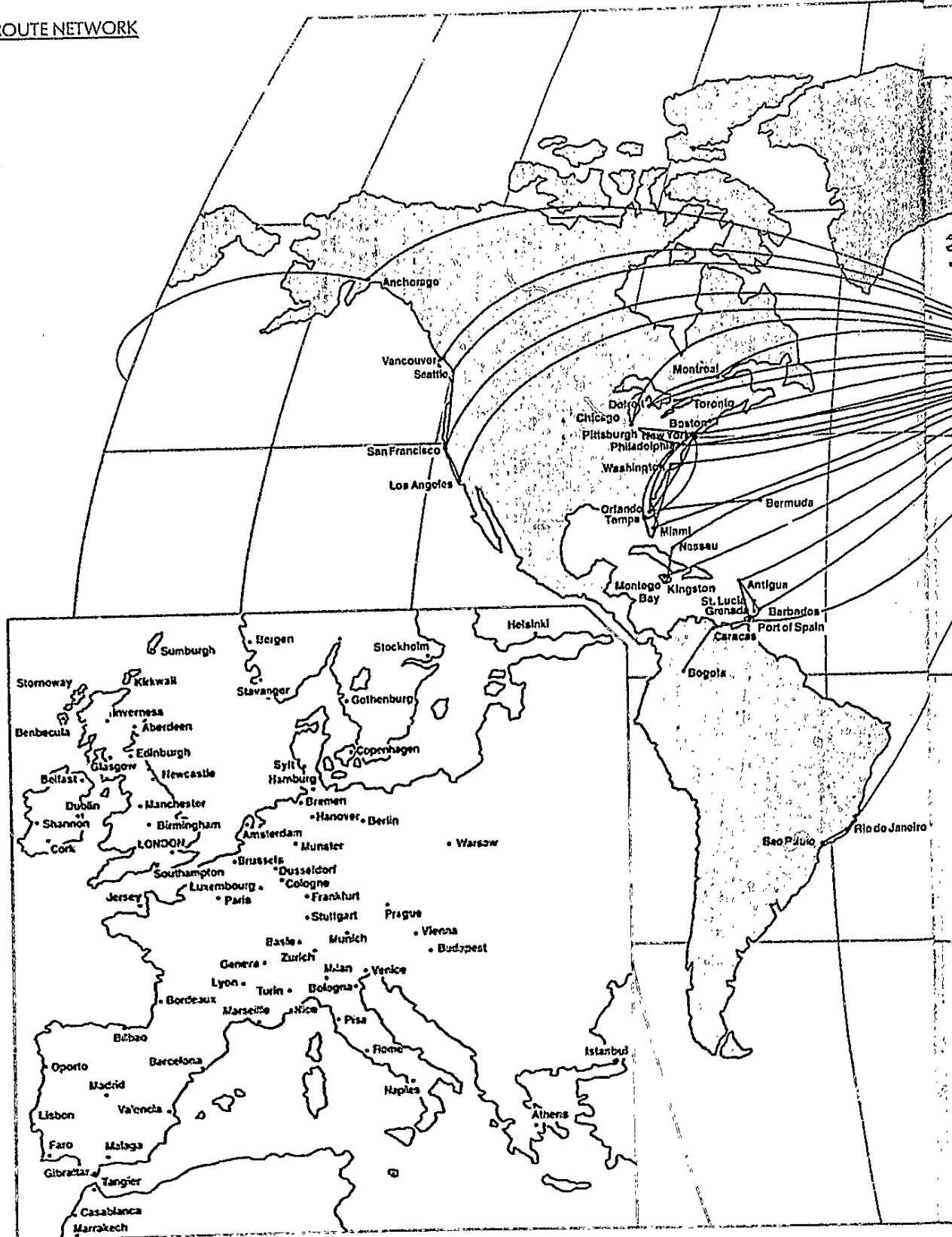
At 31 March 1987

	Ordinary shares subject to no restrictions	Ordinary shares subject to restrictions	Options Executive Share Scheme
Lord King	29,564	436	
R A Henderson	700		
C M Marshall	25,000	436	224,719
N G E Dunlop	10,000	4,120	179,775
B E S Collins	3,000		
A M Davies	5,000		
J W Jessop		3,500	
Sir Francis Kennedy	500		
H U A Lambert	1,000		
	74,764	8,492	404,494

N G E Dunlop also has 100 American Depositary Receipts on 1,000 shares

No Director had any interest in the shares of the Company on 1 April 1986. Sir Francis Kennedy was interested in the shares referred to above at the time of his appointment. The Directors' interests set out above are in each case beneficial. The options under the Executive Share Scheme are at a price of 178p per share. No Director has an interest in shares in any subsidiary of the Company. There have been no changes in the interests set out above between the end of the financial year and 29 April 1987 apart from the issue of options under a SAYE Share Option Scheme of 4,596 shares each to Lord King, C M Marshall and N G E Dunlop.

ROUTE NETWORK





NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fourth Annual General Meeting of British Airways Plc will be held at The Royal Albert Hall, Knightsbridge, London SW7, on Monday, 29 June 1987 at 12 noon for the following purposes:

ORDINARY BUSINESS

- 1 To receive and adopt the accounts for the year ended 31 March 1987 together with the report of the Directors.
- 2 To declare a dividend.

The following Directors retire by rotation in accordance with Article 89 of the Company's Articles of Association who, being eligible, offer themselves for re-election:

- 3 To re-elect Mr H U A Lambert.
- 4 To re-elect Capt J W Jessop.
- 5 To elect Sir Francis Kennedy, retiring in accordance with Article 94 of the Company's Articles of Association, who, being eligible, offers himself for election.
- 6 To re-appoint the auditors, Ernst & Whinney, and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

- 7 To consider and if thought fit to pass the resolution set out below as a special resolution:
"That:
a the proviso to Article 11(B) (i) of the Company's Articles of Association be amended to read:
"provided that the aggregate nominal amount of the equity securities allotted wholly for cash during such period otherwise than in connection with a rights issue shall not exceed two and one half per cent of the nominal amount of the ordinary share capital in issue at the beginning of such period;"
b there shall be added to Article 11(B) (iv) of the Company's Articles of Association the following new paragraph (b):
"(b) the nominal amount of any equity securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the maximum nominal amount of such shares which may fall to be allotted pursuant to such rights;"
and the existing paragraphs (b) and (c) shall be redesignated as paragraphs (c) and (d) respectively; and
c the authority and power conferred on the Directors by Article 11(B) of the Company's Articles of Association (as amended) be renewed for the period ending on the date of the Annual General Meeting in 1988 (or on 30 September 1988 if earlier) and for such period 'the prescribed amount' shall be £59,950,000."

By Order of the Board, R J Ayling *Secretary*
Registered office Speedbird House Heathrow Airport (London) Hounslow TW6 2JA

London 29 May 1987

- a Every person entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of that person. A proxy need not be a member of the Company.
- b No Directors other than Lord King, Mr C M Marshall and Mr N G E Dunlop have service contracts or service agreements with the Company or any of its subsidiaries. Copies of their service contracts and of the register of interests of Directors in the share capital of the Company are available for inspection during normal business hours at the Registered Office of the Company from the date of this notice until the time of the forthcoming Annual General Meeting and copies will also be available for 15 minutes prior to and at the meeting.
- c The Royal Albert Hall will be the Principal Place for the holding of the meeting, for the purposes of Article 52(B) of the Company's Articles of Association. Article 52(B) authorises special arrangements to accommodate high levels of attendance at general meetings. Although the space available is expected to be sufficient, if it should prove necessary the Directors may direct some of those wishing to attend to another location or locations, in each case linked to the Principal Place by means allowing participation in the meeting in the manner required by Article 52(B).

EXPLANATORY NOTES TO THE NOTICE OF AGM

The Annual General Meeting is the means by which the Company meets the legal requirement to hold a meeting of shareholders each year. There are seven resolutions before the Annual General Meeting. The first six resolutions constitute what is known as 'ordinary business,' being those matters which have to be dealt with every year, and the seventh resolution is 'special business' which also requires shareholders' approval.

ORDINARY BUSINESS

Resolution 1: Report and Accounts The Directors of the Company are required to present to the meeting the Report of the Directors and accounts of the Company for the preceding financial year. Copies of the report and accounts for the financial year ended 31 March 1987, together with the report of the Company's auditors on the accounts, are contained in this document.

Resolution 2: Declaration of a dividend As stated in the Prospectus, it was anticipated that a single net dividend of 4p per ordinary share would be payable in July 1987 in respect of the year to 31 March 1987. In the event, because of tax changes, the net dividend will be 4.116 pence per ordinary share. Approval of the meeting will permit this to be paid on 31 July 1987.

Resolutions 3 to 5: Re-election/election of Directors Under the Company's Articles of Association, a proportion of the non-executive Directors of the Company retire by rotation each year and require to be re-elected. In accordance with those provisions, Mr Henry Lambert and Captain Jack Jessop are the Directors who retire by rotation this year.

Mr Lambert, who is aged 61, joined the Board as a non-executive Director in October 1985. He joined Barclays Bank in 1948 and was deputy Chairman from 1979 to 1985. He is now a director of Barclays Bank PLC. He is chairman of the Agricultural Mortgage Corporation Plc and the Sun Alliance and London Insurance Group plc. He also holds a number of other directorships.

Captain Jessop, who is aged 66, has been a Director of the Company since its incorporation in December 1983 and before that he was a member of British Airways Board from 1977. He held a number of appointments in the airline including Flight Operations Director from 1977 to 1983 and Director of Safety Services from 1983. He retired from the Company's service in December 1985 and became a non-executive Director of the Company. Captain Jessop is Chairman of the Air Safety Committee.

The Company's Articles of Association also require any Director appointed to the Board to seek election at the first annual general meeting next following his appointment.

Sir Francis Kennedy, aged 61, at the invitation of the Directors, joined the Board on 16 March 1987, and in accordance with the Articles he offers himself for election. Sir Francis served in the colonial and diplomatic service from 1953 to 1986, retiring as Consul-General in New York where he was also Director General of British Trade and Investment for the United States. He holds a number of non-executive directorships in other companies.

Resolution 6: Re-appointment of Auditors The Auditors may not continue in that office unless re-appointed at the meeting at which the accounts are presented. This resolution proposes the re-appointment of Ernst & Whinney and authorises the Directors to determine the remuneration to be paid them.

SPECIAL BUSINESS

Resolution 7: Allotment of shares By law, shareholders' approval is required for the allotment of shares. Approval may either be given for particular allotments or be conferred by a general authority. The Articles of Association contain a general authority for the Directors to allot the Company's unissued shares. However, unless renewed, this authority will expire at the conclusion of the Annual General Meeting. One of the purposes of Resolution 7 is to renew the Directors' general authority for a period expiring at the conclusion of the 1988 Annual General Meeting or 30 September 1988 if earlier.

Shareholders' approval is also required for the issue of shares wholly for cash. The existing authority limits such issue to 5 per cent of the authorised share capital of the Company. Since the adoption of the Articles of Association, the Association of British Insurers has recommended listed companies to limit such authorities to 2½ per cent of their current issued share capital. The Directors propose that the renewed authority should follow that recommendation and Resolution 7 makes the necessary amendments to the Articles of Association.

In proposing this Resolution, the Directors consider that it is in the interests of the Company and its shareholders that the Directors should retain the ability to take advantage of business opportunities as they arise, without the need to incur the cost and delay of an Extraordinary General Meeting of the Company seeking specific authority for the allotment. The limitation on the issue of shares wholly for cash ensures that the interests of existing shareholders are safeguarded.

GLOSSARY

REVENUE PASSENGER KILOMETRES

The product of passengers carried and the distance over which they are carried.

REVENUE TONNE KILOMETRES (RTK)

The product of revenue load in tonnes and the kilometres over which it is carried.

AVAILABLE SEAT KILOMETRES

The product of seats offered for sale and the distance over which they are carried.

AVAILABLE TONNE KILOMETRES (ATK)

The measure of transport production. The available tonne kilometres produced by a flight are the capacity for payload of the aircraft measured in tonnes (2,204 lb), multiplied by the kilometres flown.

LOAD FACTOR

The percentage relationship of revenue load carried to capacity provided. The revenue load factor relates RTK to ATK; the passenger load factor relates revenue passenger kilometres to available seat kilometres.

BREAK-EVEN LOAD FACTOR

The load factor required to equate scheduled traffic revenue with operating costs, assuming that the total operating surplus is attributed to the scheduled operations.

PUNCTUALITY

The percentage of flights departing within 15 minutes of schedule.

REGULARITY

The percentage of flights completed to flights scheduled - excluding flights cancelled because of insufficient load offering.

FINANCIAL CALENDAR

Financial year end *31 March 1987*

Fourth Annual General Meeting *29 June 1987*

1986-87 final dividend payable *31 July 1987*

ANNOUNCEMENT OF 1987-88 RESULTS

First quarter - to 30 June 1987 *mid August 1987*

Second quarter - to 30 September 1987 *mid November 1987*

Third quarter - to 31 December 1987 *mid February 1988*

YEAR ENDED 31 MARCH 1988

Preliminary announcement *mid May 1988*

Report and accounts *June 1988*

ANNOUNCEMENT OF 1987-88 DIVIDENDS

Interim *mid November 1987 (payable January 1988)*

Final *June 1988 (payable July 1988)*

PICTURES

From top to bottom

A new fleet of Boeing 747-400 long range aircraft, powered by Rolls-Royce RB 211 engines, will enter British Airways' service from 1989 onwards.

HRH the Duchess of York on the flight deck of a British Airways Concorde with Senior First Officer Jock Lowe.

Engineers at work on a Rolls-Royce RB 211 engine.

British Airways cargo trucks operate a network of services within Britain and Europe.

British Airways aircraft at Heathrow's Terminal 4, which has completed a highly successful first year of operation.

New uniforms have been introduced for national stewardesses. They are the sari for those based in India, the cheongsam for those in Hong Kong and the shalwar kameez for those based in Pakistan.

Jill Devlin, Wendy Barnes and Lynn Barton are the airline's first three women pilots.

