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A copy of this document, which comprises listing particulars relating to British Airways Plc in accordance with the Listing Rules made under Part IV of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by Section 147 of that Act. Application will be made to the Council of The Stock Exchange for the new British Airways Plc ordinary shares to be issued in connection with the proposed merger with British Caledonian Group plc to be admitted to the Official List.

BRITISH AIRWAYS Plc ✓

LISTING PARTICULARS

Issue of new British Airways Plc ordinary shares
in connection with the proposed merger with

**British Caledonian
Group plc** 



DIRECTORS, SECRETARY, AUDITORS AND REGISTRARS OF BRITISH AIRWAYS Plc

DIRECTORS

The Lord King of Wartnaby (*Chairman*)
Robert Alistair Henderson*
(*Deputy Chairman*)
Sir Colin Marsh Marshall (*Chief Executive*)
Norman Gordon Edward Dunlop
(*Chief Financial Officer*)

Basil Eugene Sinclair Collins, CBE*
Angie Michael Davies*
Jack William Jessop, CBE*
Sir Francis Kennedy*
Henry Uvedale Antrobus Lambert*
* non-executive

Company Secretary
Robert Ayling

all of
Speedbird House, Heathrow Airport (London), Hounslow TW6 2JA
(the registered office of the Company)

Auditors

Ernst & Whinney, Chartered Accountants, Becket House, 1 Lambeth Palace Road, London SE1 7EU.

Registrars and Receiving Bank to the Offer

Lloyds Bank Plc, Registrar's Department, Goring-by-Sea, Worthing, West Sussex BN12 6DA.

DEFINITIONS

BA, British Airways or Company

BA shares
new BA shares

offer for sale

BA Group
B-Cal
B-Cal Group
B-Cal shares
B-Cal Share Option Scheme

Secretary of State
Lazard Brothers
Directors
Offer

Offer Document
Cash Alternative

British Airways Plc or, where appropriate, British Airways Board
ordinary shares of 25p each in BA
the BA shares to be issued, credited as fully paid, pursuant to the Offer
the offer for sale of BA shares made by Hill Samuel & Co. Limited on behalf of the Secretary of State on 27th January, 1987
BA and its subsidiaries
British Caledonian Group plc
B-Cal and its subsidiaries
fully paid Ordinary shares of £1 each in B-Cal
the British Caledonian Group plc Executive Share Option Scheme
the Secretary of State for Transport
Lazard Brothers & Co., Limited
the members of the Board of directors of the Company
the offer made by Lazard Brothers on behalf of BA to acquire the whole of the issued share capital of B-Cal as described below
the document dated 28th July, 1987 containing the Offer the cash alternative described in paragraph 2 of Part I of this document

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PART I GENERAL INFORMATION AND THE OFFER

1. Responsibility for listing particulars

B-Cal and the directors of B-Cal whose names appear in Part III are the persons responsible for the information on the B-Cal Group and themselves contained in Part III and for the information contained in Part IV relating to the indebtedness of the B-Cal Group. To the best of the knowledge and belief of those directors (having taken all reasonable care to ensure that such is the case) that information is in accordance with the facts and does not omit anything likely to affect the import of such information. The directors of B-Cal accept responsibility accordingly.

The directors of British Airways whose names appear on page 2 are the persons responsible for all other information contained in this document. To the best of the knowledge and belief of those directors (having taken all reasonable care to ensure that such is the case) that information is in accordance with the facts and does not omit anything likely to affect the import of such information. The directors of British Airways accept responsibility accordingly.

2. The Offer and the Cash Alternative

On 16th July, 1987 the Boards of British Airways and B-Cal announced that they had reached agreement on the terms of a recommended offer to be made on behalf of British Airways for the B-Cal shares. Full details of the Offer including all its terms and conditions are set out in the Offer Document which is available for inspection as indicated in Section L of Part V below.

Under the terms of the Offer accepting holders of B-Cal shares will receive 115 new BA shares for every 22 B-Cal shares. These listing particulars relate to the proposed issue by British Airways of up to 108 million new BA shares in connection with the Offer.

The Offer Document also contains details of the Cash Alternative which is a separate offer by Lazard Brothers to purchase or procure purchasers for each new BA share to which holders of B-Cal shares accepting the Offer will become entitled at a price of 205p per new BA share free of all expenses.

Based on the middle market quotation of the BA shares of 159p at close of business on 24th July, 1987 (the latest practicable date prior to the printing of this document), the aggregate value of the new BA shares to be issued assuming full acceptance of the Offer for the B-Cal shares presently in issue is £229 million. This amount could be increased up to a maximum of approximately £236 million as a result of the exercise of rights under the B-Cal Share Option Scheme.

Under the terms of the Offer, fractions of new BA shares will not be allotted to accepting shareholders of B-Cal.

The new BA shares representing the aggregate of fractional entitlements will be sold in the market and the net cash proceeds distributed *pro rata* to relevant accepting shareholders of B-Cal, except that individual amounts of less than £2 will not be distributed but will be retained for the benefit of British Airways.

Irrevocable undertakings to accept the Offer have been received from the Directors of B-Cal and certain other shareholders in respect of a total of 11,855,412 B-Cal shares (representing approximately 59.3 per cent. of B-Cal's issued share capital).

3. Availability of new BA shares

Save as described in this document, the new BA shares have not been sold to, nor are they available in whole or part to, the public in conjunction with the application for their listing.

4. Listing

The existing BA shares are listed on The Stock Exchange and are dealt in on the New York and Toronto Stock Exchanges in the form of American Depositary Receipts. The new BA shares have not been and will not be registered in the United States and will not be able to be dealt in on the New York or Toronto Stock Exchanges for six months from the date of their allotment.

5. Authority for issue

The issue of the new BA shares under the Offer requires the approval of shareholders of BA. An Extraordinary General Meeting has been convened for 14th August, 1987 at which a resolution will be proposed to approve the acquisition of B-Cal, to increase BA's share capital and to authorise the directors of BA pursuant to section 80 of the Companies Act 1985 for a

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period of one year from the passing of the resolution, to allot up to 108,000,000 new BA shares pursuant to the terms of the Offer. This authority is in addition to that contained in BA's articles of association. The new BA shares will be issued pursuant to resolutions of the board of directors of British Airways or of a duly constituted committee thereof.

6. Rights attaching to the new BA shares

The new BA shares will be issued credited as fully paid and will rank *pari passu* in all respects with the fully paid BA shares currently in issue except that they will not rank for the final dividend of 4.116p net per share payable on 31st July, 1987 in respect of the year ended 31st March, 1987.

7. Settlement provisions under the Offer and the Cash Alternative

The first closing time of the Offer is 3.00 p.m. on 18th August, 1987. The Offer will remain open thereafter until such time as British Airways specifies (subject to the rules of the City Code on Take-overs and Mergers) but shall not be capable of becoming unconditional as to acceptances after 5.00 p.m. on 25th September, 1987 nor of being kept open after that time unless it has previously become unconditional as to acceptances, provided that British Airways reserves the right (with the permission of the Panel on Take-overs and Mergers) to extend the Offer to a later time and date.

The Cash Alternative is a separate offer by Lazard Brothers and is conditional upon the Offer becoming or being declared unconditional in all respects. The Cash Alternative will be available for acceptance until 3.00 p.m. on 18th August, 1987 and if the Offer has become unconditional as to acceptances by that time the Cash Alternative will not be extended thereafter. If the Offer is not then unconditional as to acceptances and is extended beyond that time, Lazard Brothers (with the agreement of British Airways) reserves the right to close or extend the Cash Alternative, but if the Cash Alternative closes or lapses at a time when the Offer remains conditional as to acceptances, the right is also reserved to introduce a new cash alternative so long as the Offer is still then conditional as to acceptances.

Subject to the Offer becoming unconditional in all respects and provided that the Form of Acceptance and the share certificate(s) and/or other document(s) of title are in order in all respects definitive share certificates for the new BA shares and where applicable cheques resulting from elections for the Cash Alternative and any fractional entitlements will be despatched to accepting shareholders:—

- (i) in the case of acceptances received complete in all respects by the date when the Offer becomes unconditional in all respects, within 21 days after such date; or
- (ii) in the case of acceptances received after such date but while the relevant offer remains open for acceptance, within 21 days of acceptances being received complete in all respects.

8. Transfers and dealings

No temporary documents of title will be issued for the new BA shares. Pending the despatch of the definitive share certificates, transfers will be certified against the register. It is expected that dealings in the new BA shares will commence on the first business day following the date on which the Offer becomes unconditional in all respects.

9. Restrictions on the Offer

The new BA shares have not been, and are not intended to be, registered under the United States Securities Act of 1933, as amended (the "1933 Act"). The Company is therefore precluded by United States securities laws from issuing new BA shares to any B-Cal shareholder who either (i) has a registered address in the United States; or (ii) fails to make the declaration incorporated in the Form of Acceptance to the effect that he is not a US person, does not hold any B-Cal shares in respect of which he has accepted the Offer on behalf of a US person and will not hold or acquire any new BA shares for the account or benefit of a US person or with a view to the offer, sale or delivery of any new BA shares in the United States or to US persons.

Accordingly any such B-Cal shareholder who accepts the Offer whilst it remains open and either does not elect for the Cash Alternative or does so after it has closed will have the new BA shares allocated to them sold by Lazard Brothers on their behalf on The Stock Exchange and the net sale proceeds distributed to them.

Sales and transfers of new BA shares will be restricted to those in favour of persons making a like declaration until the date six months after the date of first allotment of the new BA shares and in connection therewith the ancillary provisions (including those relating to delivery of certificates for new BA shares on The Stock Exchange) set out in paragraph 6 of Appendix I to the Offer Document will apply.

Part II OPERATING AND FINANCIAL INFORMATION RELATING TO BRITISH AIRWAYS

(A) OPERATING INFORMATION

1. Activities

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

The centre of the BA Group's operations is Heathrow Airport, London.

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

2. Fleet

In recent years, the BA Group has undertaken a major programme of aircraft acquisition, modification and refurbishment. Details of the fleet of aircraft currently operated by the BA Group are set out below:—

Aircraft	Number	Aircraft	Number
Longhaul (Intercontinental services)		Shorthaul (principally European services)	
Concorde	7	TriStar 1	6
Boeing 747-100	16	Boeing 757	25
Boeing 747-200	14	Boeing 737	43
Boeing 747-200-Combi	4	BAC 1-11-500	21
TriStar 50	3	BAC 1-11-400	5
TriStar 200	8	HS 748	9
TriStar 500	2		
	<u>54</u>		<u>109</u>

Between 1st April, 1980 and 30th June 1987 56 new aircraft were purchased, representing a total capital investment of approximately US\$1,200 million, and 28 aircraft with an initial purchase price to the lessors of approximately US\$900 million were obtained under an extendible operating lease facility. In the same period, BA disposed of 117 aircraft which were either less efficient or less suited to BA's requirements. The BA Group currently operates 7 aircraft under finance leases and a number of aircraft under short-term operating leases.

The BA Group has undertaken a major programme of engine modification and refurbishment of aircraft interiors and between Autumn 1984 and Spring 1988 it is expected that expenditure of some £247 million will have been incurred on this programme.

3. Future Fleet Developments

A Boeing 757 due for delivery in Autumn 1987 is to be obtained under the extendible operating lease facility referred to above. BA has also agreed to purchase one Boeing 747-Combi and five Boeing 757s for delivery in the first half of 1988. The total purchase price of these aircraft is expected to be approximately US\$290 million.

In order to replace the Boeing 747-100s, the oldest aircraft in the longhaul fleet, BA has committed to obtain sixteen new long range Rolls-Royce powered Boeing 747-400s and ten spare

engines. These aircraft are scheduled for delivery between Spring 1989 and late 1990. In December 1986, BA entered into a US\$2,300 million facility with a group of international banks to finance the acquisition of these aircraft and engines. In addition, BA has options on a further twelve aircraft and five spare engines of this type for subsequent delivery.

Current Trading

Since the year ended 31st March, 1987, on which the Directors have recently reported, trading has continued at a very satisfactory level with BA's response to an increasingly competitive marketplace maintaining a healthy demand for the Company's services. In the absence of unforeseen circumstances, such as those which occurred in the early months of the last financial year, the Directors expect this position to continue during the important summer months.

(B) FINANCIAL INFORMATION

1. Nature of Information

The financial information in this part has been taken from the audited accounts of British Airways for the five years ended 31st March 1987 which in the case of the accounts for the four years ended 31st March 1986 were adjusted in the prospectus dated 27th January 1987 relating to the Offer for Sale principally to present the financial information to comply with present accounting policies. The accounts for each of these years were audited by Ernst & Whinney.

"Airline", when referred to in this section, principally comprises British Airways, British Airtours Limited and British Airways Engine Overhaul Limited.

2. 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 BA Group accounts include the accounts of BA and its trading subsidiaries each made up to 31st 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.

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 31st March 1984 and are included in the 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.

Related companies

Companies in which the BA Group has equity interests in excess of 20 per cent. and not more than 50 per cent., or in which its interest is effectively that of a partner in a consortium, are classified as related companies. The BA 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 BA 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 BA 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 31st 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.

3. Consolidated profit and loss accounts

The following is a summary of the consolidated profit and loss accounts of the BA Group for the five years ended 31st March 1987:—

	Notes	Year ended 31st March				
		1983 £m	1984 £m	1985 £m	1986 £m	1987 £m
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	(i)	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	(ii)	(10)	(2)	(5)	(2)	(14)
Profit for the year before extraordinary items		64	183	186	193	148
Extraordinary items	(iii)	26	33	(12)	(12)	4
Profit for the year after extraordinary items		90	216	174	181	152
Dividends	(iv)	—	—	—	—	(30)
Retained profit for the year		90	216	174	181	122
Earnings per share	(v)	8.9p	25.4p	25.8p	26.8p	20.5p

4. Consolidated balance sheets

The following is a summary of the consolidated balance sheets of the BA Group at 31st March in each of the five years 1983 to 1987:—

	Notes	31st March				
		1983 £m	1984 £m	1985 £m	1986 £m	1987 £m
Fixed assets						
<i>Tangible assets</i>	(vi)	1,079	1,263	1,247	1,315	1,300
<i>Investments</i>	(vii)	20	20	4	5	5
Current assets	(viii)	574	511	710	593	777
Creditors: amounts falling due within one year	(ix)	(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	(x)	(982)	(853)	(591)	(340)	(270)
Provisions for liabilities and charges	(xi)	(91)	(46)	(85)	(103)	(56)
		(117)	129	287	482	606
Capital and reserves						
<i>Public Dividend Capital</i>	(xiii)	180	180	—	—	—
<i>Called up share capital</i>	(xiv)	—	—	180	180	180
<i>Reserves</i>	(xv)	(297)	(52)	106	300	425
Shareholders' equity		(117)	128	286	480	605
Minority interests		—	1	1	2	1
		(117)	129	287	482	606

5. Consolidated statements of source and application of funds

The following is a summary of the consolidated statements of source and application of funds of the BA Group for the five years ended 31st March 1987 are as follows:—

	Year ended 31st March				
	1983 £m	1984 £m	1985 £m	1986 £m	1987 £m
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 movements of funds					
<i>Depreciation of tangible assets</i>	116	118	146	162	188
<i>Other</i>	(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
—disposals 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

6. Notes to the consolidated accounts

(i) Operating surplus		1986	1987
		£m	£m
<i>(a) Analysis of operating expenditure</i>			
Cost of sales		2,870	2,993
Administrative expenses		81	97
Total operating expenditure		2,951	3,090
Continuing activities			
Airline			
Staff costs		638	722
Depreciation		153	185
Aircraft operating lease costs		61	86
Fuel and oil costs		570	371
Engineering and other aircraft costs		176	193
Landing fees and en route charges		208	233
Handling charges, catering and other operating costs		298	313
Selling costs		323	350
Accommodation, ground equipment and other costs		349	418
Total airline		2,776	2,871
Non-airline		134	200
Total—continuing activities		2,910	3,071
Discontinued activities		41	19
Total operating expenditure		2,951	3,090
<i>(b) The results are arrived at after charging:</i>			
Depreciation of tangible fixed assets			
Owned assets		140	161
Finance leased aircraft		13	17
Other leasehold interests		9	10
		162	188
Operating lease costs			
Lease rentals—aircraft		61	86
—property and equipment		28	34
Hire of equipment and charter of aircraft and crews		13	14
		102	134
		£	£
Auditors' remuneration		618,000	647,000
Directors' emoluments—fees		83,749	104,312
—other		332,474	260,315
		416,223	364,627

(ii) Taxation

	1986	1987
	£m	£m
United Kingdom Corporation Tax at 35% (1986—40%)	1	43
Advance Corporation Tax previously written off	—	(25)
Release of amount provided through extraordinary items	—	(15)
Deferred taxation	—	11
Prior year adjustment	—	(1)
Overseas tax	1	1
	<u>2</u>	<u>14</u>

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 1987 of £14m (1986—a charge of £57m).

(iii) Extraordinary Items

	1986	1987
	£m	£m
Extraordinary items	(12)	4

Extraordinary items in 1987 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 Airways Pension Scheme, was originally set up as an extraordinary item. This provision was written back in 1987 and an equivalent amount applied against the tax charge for the current year.

(iv) Dividends

	1986	1987
	£	£
Interim dividend	180,050	—
Proposed final dividend of 4.116p per share for 1987	180,050	29,643,432
	<u>360,100</u>	<u>29,643,432</u>

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

(v) Earnings per share

	1986	1987
Earnings per share is calculated as follows:		
Profit after taxation but before extraordinary items attributable to shareholders	£ 193m	£ 148m
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)	26.8p	20.5p

(vi) Fixed assets — tangible

	Total		1987		
	1986	1987	Fleet	Property	Equipment
	£m	£m	£m	£m	£m
<i>Cost or valuation</i>					
Balance 1st April	2,493	2,695	2,188	268	239
Adjustments to opening balance — exchange	(50)	(16)	(16)	—	—
— other	24	4	4	—	—
Additions	281	316	241	32	43
Disposals	(53)	(80)	(43)	(17)	(20)
Assets of subsidiaries disposed	—	(93)	(77)	(10)	(6)
Refund of progress payments	—	(77)	(77)	—	—
Reclassifications	—	—	(2)	—	2
Balance 31st March	2,695	2,749	2,218	273	258
<i>Depreciation</i>					
Balance 1st April	1,246	1,380	1,145	102	133
Adjustments to opening balance — exchange	(14)	(5)	(5)	—	—
— other	25	4	4	—	—
Charge for the year	162	188	146	12	30
Disposals	(39)	(66)	(41)	(5)	(20)
Assets of subsidiaries disposed	—	(53)	(46)	(4)	(3)
Reclassifications	—	1	(1)	—	2
Balance 31st March	1,380	1,449	1,202	105	142
<i>Net book amounts</i>					
31st March, 1987	—	1,300	1,016	168	116
31st March, 1986	1,315	—	1,043	166	106
<i>Utilisation at 31st March 1987</i>					
Assets in current use					
Owned	1,038	1,017	766	152	99
Finance leased	95	100	99	—	1
Payments on account	169	182	151	15	16
Assets not in current use	13	1	—	1	—
	1,315	1,300	1,016	168	116

(vi) Fixed assets—tangible (continued)

(vi) Fixed assets—tangible (continued)			
		1986	1987
		£m	£m
<i>The net book amount of property comprises:</i>			
Freehold		28	26
Long leasehold		22	13
Short leasehold		116	129
		<u>166</u>	<u>168</u>
	Valuation/ cost £m	Depreciation £m	Net book amount £m
Revalued properties are included in the 1987 accounts at the following amounts	61	19	42
If these properties had not been revalued they would have been included at the following amounts	35	11	24

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 31st March 1984 by Richard Ellis, Chartered Surveyors, and this value was included in the accounts for the year then ended.

Refund of progress payments

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

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 per cent 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.

Capital expenditure commitments

Capital expenditure authorised but not provided for in the accounts amounts to:

	1986 £m	1987 £m
Authorised and contracted	254	1,518
Authorised but not contracted	79	29
	<u>333</u>	<u>1,547</u>

Included above in "authorised and contracted" at 31st March 1987 were 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.

(vii) Fixed assets—investments

	1986 £m	1987 £m
Equity at cost less amounts written off	3	9
Advances less amounts written off	1	—
Attributable reserves	1	(4)
Total investments	5	5

The BA Group had no investment in a related company or trade investment exceeding £5m. The aggregate value attributed by the Directors to these unlisted investments was £15m at 31st March, 1987 (1986—£7m).

(viii) Current assets

	1986 £m	1987 £m
Stocks—(a)	18	23
Debtors: amounts due within one year—(b)	518	582
Short-term loans and deposits	24	153
Cash at bank and in hand	33	19
	593	777

(a) Stocks

Raw materials, consumables and work in progress	18	23
---	----	----

The replacement cost of stocks was not considered to be materially different from their balance sheet values.

(b) Analysis of debtors

Trade debtors	447	482
Other debtors	20	34
Prepayments and accrued income	51	66
	518	582

(ix) Creditors: amounts falling due within one year

	1986 £m	1987 £m
Loans and finance leases (see note xii)		
Bank and other loans	51	51
Finance leases	17	20
	68	71
Unsecured overdrafts	—	3
Trade creditors	376	381
Other creditors including taxation and social security:		
Other creditors	38	61
Corporate taxation	3	32
Taxation and social security	15	16
	56	109
Proposed dividend	—	30
Accruals and deferred income:		
Sales in advance of carriage	386	416
Accruals and deferred income	102	130
	488	546
	988	1,140

(x) Creditors: amounts falling due after more than one year

	1986 £m	1987 £m
Loans and finance leases (see note xii)		
Bank and other loans	230	171
Finance leases	81	55
	<u>311</u>	<u>226</u>
Related companies	—	1
Accruals and deferred income	29	43
	<u>340</u>	<u>270</u>

(xi) Provisions for liabilities and charges

	Balance 1st April 1986 £m	Transfers from/(to) profit and loss account £m	Other movements £m	Provisions applied £m	Balance 31st March 1987 £m
Pensions and similar obligations	16	4	—	—	20
Deferred taxation — (a)	8	11	(17)	—	2
Other provisions					
Future Corporation Tax (see note iii)	15	(15)	—	—	—
Anti-trust litigation costs — (b)	25	—	—	—	25
Disposal of subsidiary (see note iii)	35	—	—	(35)	—
Sundry	4	15	—	—	19
Total 1987	103	15	(17)	(35)	66
Total 1986	85	19	—	(1)	103

(a) Deferred taxation

Deferred taxation comprises:

Timing differences in respect of property valuations	8	2
Arising during the year from accelerated capital allowances and other timing differences	—	11
Advance Corporation Tax on proposed dividend available for offset	—	(11)
	<u>8</u>	<u>2</u>

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

Accelerated capital allowances less unrelieved losses	211	216
Advance Corporation Tax recoverable	—	(11)
Advance Corporation Tax written off	(25)	—
Other timing differences	(50)	(77)
Timing differences in respect of property valuations	8	2
	<u>144</u>	<u>130</u>

The Company's unrelieved tax losses carried forward at 31st March 1987 were estimated to be nil (1986—£180m).

(ix) Provisions for liabilities and charges (continued)**(b) Anti-trust litigation costs**

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 31st March 1987 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.

(xii) Loans and finance leases

	1986 £m	1987 £m
Total loans and finance leases		
Loans		
Bank US\$295m (1986—US\$365m) and Sterling £2m (1986—nil)	222	174
Other US\$95m (1986—US\$114m)	59	48
Finance leases US\$119m (1986—US\$142m) and Sterling £1m (1986—£1m)	98	75
	<u>379</u>	<u>297</u>

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).

At 31st March 1987 substantially all loans and obligations under aircraft finance leases in foreign currencies were 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 31st March 1987 (1986—£378m), comprising the following:

	1986 £m	1987 £m
Bank loans		
Repayable wholly within five years	97	105
Repayable in whole or in part after five years	<u>125</u>	<u>69</u>
	222	174
Other loans and finance leases		
Repayable wholly within five years	40	98
Repayable in whole or in part after five years	<u>117</u>	<u>25</u>
	157	123
	<u>379</u>	<u>297</u>

(xii) Loan and finance leases (continued)

	Total		1987		
	1986 £m	1987 £m	Bank loans £m	Other loans £m	Finance leases £m
Incidence of repayments— instalments falling due:					
Within one year	68	71	42	9	20
After more than one year:					
Between one and two years	67	58	38	9	11
Between two and five years	168	136	76	30	30
In five years or more	76	32	18	—	14
	311	226	132	39	55
Total 1987	—	297	174	48	75
Total 1986	379	—	222	59	98

(xiii) Public Dividend Capital

The Public Dividend Capital at 31st March 1983 and 1984 comprised payments by HM Government totalling £340m made pursuant to sections 7(1) and 8(b) of the British Airways Board Act 1977 of which £160m was cancelled pursuant to section 1 of the Civil Aviation Act 1980 in connection with the financing arrangements for the Concorde fleet.

(xiv) Called up share capital

On 31st 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 4th November 1986, the authorised and issued share capital was subdivided into 720,200,000 ordinary shares of 25p each and, on 26th 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 had at that date been issued.

At 31st March 1987 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.

(xv) Reserves

	Total		1987		
	1986 £m	1987 £m	Distributable Profit and loss account £m	Non-distributable Revaluation reserve £m	Other reserves £m
Balance 1st April	106	300	278	19	3
Profit for the year	181	122	122	—	—
Exchange adjustments to fleet assets	14	5	5	—	—
Transfers relating to revalued property	—	—	9	(9)	—
Other movements	(1)	(2)	(1)	6	(7)
Balance 31st March	300	425	413	16	(4)

(xvi) Leasing commitments

	1986 £m	1987 £m
The aggregate payments, for which there were commitments at 31st March under operating leases, fall due as follows:		
Fleet		
Within one year	79	113
Between one and four years	96	105
	<u>175</u>	<u>218</u>
Amounts payable within one year relate to commitments expiring as follows:		
Within one year	—	30
Between one and four years	79	83
	<u>79</u>	<u>113</u>
Property and equipment		
Within one year	31	34
Between one and five years	61	52
Over five years, ranging up to year 2075	114	138
	<u>206</u>	<u>224</u>
Amounts payable within one year relate to commitments expiring as follows:		
Within one year	—	1
Between one and five years	27	27
Over five years	4	6
	<u>31</u>	<u>34</u>

The fleet leasing commitments at 31st March 1987 included 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.

(xvii) Contingencies

Contingent liabilities existed for which no provision had 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 BA Group they amounted at 31st March 1987 to £24m (1986—£25m) and for the Company £56m (1986—£58m).

(xviii) Post balance sheet events

Since 31st March 1987 £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 15th May 1987 loans from The Export-Import Bank of the United States (Exim) amounted 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.

7. Analysis of turnover and operating results

The following tables set out the recent turnover and results of the BA Group by activity and geographical area:—

	Year ended 31st March		
	1985 £m	1986 £m	1987 £m
By Activity			
Turnover			
Continuing activities			
Scheduled services			
Passenger	2,254	2,376	2,425
Cargo	252	268	261
Charter	131	151	141
Airline traffic revenue	2,637	2,795	2,827
Other Airline services	160	186	227
Airline Operations	2,797	2,981	3,054
Non-Airline	108	130	191
Total continuing activities	2,905	3,111	3,245
Discontinued activities	38	38	18
	2,943	3,149	3,263
Operating surplus/(deficit)			
Total Airline	303	205	183
Non Airline	(9)	(4)	(9)
Discontinued activities	(2)	(3)	(1)
	292	198	173
	Year ended 31st March		
	1985 £m	1986 £m	1987 £m
By Geographical area			
Turnover			
Europe (including UK)	1,152	1,264	1,416
The Americas	876	1,008	982
Africa	190	179	185
Middle East, Far East and Australasia	687	660	662
	2,905	3,111	3,245
Discontinued activities	38	38	18
	2,943	3,149	3,263
Operating surplus/(deficit)			
Europe (including UK)	81	56	56
The Americas	131	85	65
Africa	27	14	20
Middle East, Far East and Australasia	55	46	33
	294	201	174
Discontinued activities	(2)	(3)	(1)
	292	198	173

Note: In this table Airline traffic revenue from flights to or from the United Kingdom has been attributed to the area in which the overseas origin or destination lies. Revenue from the sale of inclusive tour holidays is attributed to the area in which the holiday is taken. Airline traffic revenue is attributed to the area in which the customer resides. The operating surplus attributable to each area is determined after allocation to each route of fixed costs, 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.

8. The following table shows the average number of employees of the BA Group over its last three financial years:—

Activity	Year ended 31st March		
	1985	1986	1987
Marketing	9,167	9,734	15,495
Operations	22,123	22,876	17,229
Support departments	3,689	3,839	4,360
Total BA	34,979	36,549	37,084
British Airtours	1,006	1,521	1,550
BA Engine Overhaul	876	869	864
Total Airline	36,861	38,939	39,498
Inclusive tour holidays	398	445	544
Others	194	251	398
Total continuing activities	37,453	39,635	40,440
Discontinued activities (mainly British Airways Helicopters Limited)	684	636	319
Total Group	38,137	40,271	40,759

Note: Following reorganisation during the year to 31st March, 1987 the number of employees in the Marketing and Operations department of BA are not strictly comparable over the period.

PART III FINANCIAL AND OTHER INFORMATION RELATING TO B-CAL

1. DIRECTORS

The Directors of B-Cal are:—

Sir Adam Thomson, C.B.E., L.L.D., F.R. Ae.S., F.C.I.T., *Chairman & Chief Executive*
 Trevor E. Boud, F.C.A., *Executive Vice-Chairman and Group Finance Director*
 Alastair T. Pugh, C.B.E., F.R. Ae.S., F.C.I.T., *Executive Vice-Chairman and Director of Strategy*
 David A. Coltman, *Managing Director B-Cal Airways*
 Leonard N. Bebhick, (U.S.A.)
 David A. Beety, F.R. Ae.S.
 R. Marshall Gibson, V.R.D., M.A., F.C.I.I.
 Sir Peter G. Masefield, M.A. C.Eng., F.R. Ae.S., F.C.I.T., Hon. F.A.I.A.A.
 Lawrence V. D. Tindale, C.B.E., C.A.

2. ACCOUNTANTS' REPORT

The following is a copy of a report received from the reporting accountants, Ernst & Whinney, Chartered Accountants.

The Directors
 British Airways Plc

and

The Directors
 Lazard Brothers & Co., Limited

28th July, 1987

Gentlemen,

We have examined the audited accounts of British Caledonian Group plc (the "Company") and its subsidiary and related companies, collectively referred to as the "Group", for each of the five years ended 31st October, 1982 to 1986. We have acted as auditors to the Company and all its principal subsidiaries throughout this period and our audits were conducted in accordance with approved auditing standards.

The financial information set out below has been derived from the audited accounts of the Group after making such adjustments as we consider appropriate and our work has been carried out in accordance with the auditing guideline: Prospectuses and the reporting accountant.

In our opinion the financial information set out below gives, on the basis of the historical cost convention as modified by the revaluation of certain tangible fixed assets, a true and fair view of the results and source and application of funds of the Group for each of the five years ended 31st October, 1982 to 1986 and of the state of affairs of the Group at 31st October, 1982 to 1986.

No audited accounts for the Company or its subsidiary and related companies have been prepared in respect of any period subsequent to 31st October 1986.

ACCOUNTING POLICIES

The financial information has been prepared using the following principal accounting policies, which have been consistently applied in arriving at the financial information set out in this report:

(a) Basis of accounts

The accounts have been prepared under the historical cost convention except for certain tangible fixed assets, which are included at valuations and subsequent cost.

The consolidated accounts of the Group include the trading results of the Company and its subsidiary companies and the assets and liabilities of all Group companies. Also included is the Group's attributable share of post-acquisition profits less losses and reserves of related companies.

(b) Accounting for tangible fixed assets

Expenditure on tangible fixed assets, including those subject to hire purchase agreements, is capitalised. Tangible fixed assets operated under the terms of finance leases are also capitalised at a value equal to the cost incurred by the lessor in acquiring the relevant assets and depreciated in the same manner as owned assets. Leases are regarded as finance leases where their terms transfer to the lessee substantially all the benefits and burdens of ownership other than the right to title. The capital element of future lease payments is included under loans and term finance. Interest attributed to progress payments made on account of aircraft under construction and on aircraft between the date of delivery and introduction to service is capitalised and added to the cost of the aircraft.

Depreciation and amortisation of tangible fixed assets is calculated to write off the cost, less any residual value, commencing in the year of purchase, by equal annual instalments as follows:

Aircraft fleet

Operational lives and residual values are reviewed annually in the light of experience and changing circumstances and for aircraft fleets currently range as set out below with a residual value of 10 per cent. of cost for wide-bodied aircraft.

- wide-bodied 18 years from new
- narrow-bodied Remaining period to 31st December, 1992
- helicopters Remaining estimated commercial lives, which vary between 3 and 12 years.

Aircraft support equipment

- wide-bodied Remaining period to 30th April, 1999
- narrow-bodied Remaining period to 31st December, 1992
- helicopters Between 3 and 12 years

Freehold hotels and related equipment

Hotel buildings - see below.

Other land and buildings

Related equipment - between 3 and 12 years
Land is not depreciated.
Freehold buildings - 50 years.
Lesser of unexpired term of lease or expected life of leasehold buildings and fittings.
Between 3 and 15 years

Other plant and fixtures

The nature of the hotel trade in the United Kingdom requires the maintenance of property to a high standard in order to protect that trade. Maintenance expenditure is charged to profit as incurred and is such that the directors consider the freehold premises to have a residual value at least equal to the net book value. Accordingly, any charge for depreciation of freehold premises would not be material.

The Spanish hotels were similarly maintained to a high standard but a full depreciation charge would not be material.

(c) Intangible assets

Expenditure on intangible assets is deferred and amortised in equal annual instalments over the expected useful life of each category as follows:

- Aircraft introductory costs 6 years from date of introduction into service
- Initial crew training to provide base complement of pilots 6 years from completion of training
- Launch advertising and publicity on new routes 3 years from commencement of services
- Acquisition costs of new hotels 5 years from date of acquisition

(d) Stocks and work in progress

Consumable engineering stores are stated at the latest purchase price and amortised over the remaining aircraft life. Repair facility stocks, together with all other stocks, are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. In the case of work in progress, cost comprises direct materials, direct labour and an appropriate proportion of manufacturing fixed and variable overheads. The allocation of such overheads has regard to budgeted normal production.

(e) Deferred taxation

Provision for deferred taxation is made using the liability method for all timing differences, except where it is considered that no liability will arise within the foreseeable future.

(f) Overhauls of aircraft fleet and support equipment

Overhaul costs of airframes, support equipment and engines are charged against revenue as engineering work becomes necessary, with the exception of all overhaul costs for the helicopter fleet, which are based upon a rate per flying hour.

(g) Foreign currencies

Foreign currency items are expressed in sterling at rates ruling at the year end, apart from tangible fixed assets of United Kingdom subsidiary companies acquired in foreign currencies, which are translated at rates ruling at the time of acquisition or related payment therefor. Exchange adjustments arising are dealt with as follows:—

- (i) adjusted on the cost of tangible fixed assets where these have been financed by loans in foreign currency;
- (ii) included in operating profit for current assets and liabilities; and
- (iii) included in reserves where these arise on revaluation of investments in foreign subsidiary companies.

(h) Revenue from the overhaul of aircraft engines

Where engine overhauls are undertaken by a fixed period contract at a predetermined revenue rate per hour flown, income is taken to the profit and loss account as it becomes receivable. The appropriate proportion of the anticipated material cost of future overhauls within the contract term is provided for and all labour and overhead costs are written off when incurred.

Where engine overhauls are undertaken on a time and materials basis, costs and revenues are taken to the profit and loss account when the work is completed.

(i) Grants

Regional development grants are taken to a deferred income account and credited to profit and loss account as other operating income in the proportion to which depreciation on the relevant tangible fixed asset is charged. Selective financial assistance, in respect of initial investment interest and project training, is credited to other operating income as it becomes receivable.

(j) Pensions

The Group operates a pension scheme covering the majority of its employees. Contributions based on the most recent actuarial valuation together with advice from its professional advisers are charged against profit as they are made.

The latest actuarial valuation as at 1st October, 1986 confirmed that the funds held at that date were sufficient to provide all members in service with the benefits to which they were entitled in respect of their service and their pensionable salaries at 30th September, 1986. The actuaries have also confirmed that in their opinion the present contributions will enable the assets of the scheme to provide pensions and other benefits as they fall due.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

The summarised consolidated profit and loss accounts of the Group for the five years ended 31st October, 1986 are as follows:

	Notes	Year ended 31st October,				
		1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Revenue	i	400,056	428,484	526,186	602,013	567,023
Operating costs	ii	(385,717)	(411,581)	(503,716)	(564,031)	(505,747)
Operating profit	iii	14,339	16,903	22,470	37,982	61,276
Other income (expenses)	iv	(65)	1,987	8,830	12,523	25,321
Exceptional items	v	2,400	—	4,950	(600)	(77,882)
Interest payable and similar charges	vi	(15,577)	(16,350)	(18,368)	(27,522)	(28,026)
Employee profit share		—	—	(808)	(953)	—
Profit (loss) on ordinary activities before taxation	vii	1,097	2,540	17,074	21,430	(19,311)
Taxation	viii	(811)	(1,686)	(3,357)	(3,509)	7,893
Profit (loss) on ordinary activities after taxation		286	854	13,717	17,921	(11,418)
Extraordinary items	ix	—	(592)	(579)	(3,622)	(3,035)
Minority interests		—	—	—	(12)	(1)
Profit (loss) attributable to ordinary share holders		286	262	13,138	14,287	(14,454)
Dividends	x	—	—	(2,179)	(2,988)	—
Retained profit (loss)	xxiii	286	262	10,959	11,299	(14,454)
Earnings (loss) per share (pence)	xi	1.4	4.3	69.0	90.0	(57.1)

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

The summarised consolidated source and application of funds of the Group for the five years ended 31st October, 1986 are as follows:

	Year ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Sources of funds					
<i>From operations:</i>					
Profit (loss) on ordinary activities after taxation and extraordinary items	286	262	13,138	14,287	(14,454)
Items not involving the movement of funds					
Depreciation and amortisation	18,059	20,808	25,853	31,195	38,058
Retained in related companies	(16)	(91)	(15)	(8)	125
Exchange adjustments	219	99	(6)	(60)	—
Adjustment on disposal of subsidiaries	—	—	—	—	(218)
Provisions against fixed asset investments	—	—	—	—	213
Deferred taxation	—	—	—	1,034	(1,034)
Minority interests	—	—	—	12	1
Funds generated from operations	18,548	21,078	38,970	46,460	22,691
<i>Other sources:</i>					
Disposal of tangible fixed assets	1,210	2,409	2,107	15,983	135,873
Disposal of intangible fixed assets	—	—	—	335	2,196
Disposal of fixed asset investments	30	9	1,387	17	18
Loans and leases finance received	25,069	62,732	104,998	134,701	96,055
Increase in share capital	—	—	—	115	70
Secured deposits released	3,790	4,765	8,269	14,753	33,207
Deferred income	(207)	4	115	(14)	4,733
Minority interests	—	—	—	456	(136)
Long-term creditors	—	—	—	107	1,185
Total Sources	48,440	90,997	155,846	212,913	295,892

	Year ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Application of funds:					
Expenditure on intangible fixed assets	1,442	120	3,234	5,896	1,044
Purchase of tangible fixed assets	17,496	10,405	102,807	129,692	79,233
Purchase of fixed asset investments	31	1,809	27	67	1,486
Acquisition of subsidiaries	—	3,646	348	(23)	—
Other	50	1,044	—	—	—
Loan and lease finance repayments	25,051	65,870	42,443	78,281	193,462
Secured deposits placed	—	—	5,476	—	—
Dividends paid	—	—	2,179	2,988	—
Movements in working capital					
Increase (decrease) in stocks	2,811	1,487	8,964	10,511	31,001
Increase (decrease) in debtors	3,224	11,004	14,827	13,805	11,326
Increase (decrease) in advance sales	(80)	(12,271)	(4,690)	4,106	5,730
Increase (decrease) in trade and other creditors	(14,673)	3,081	(27,044)	(7,869)	11,546
Total applications	35,352	86,195	148,571	237,454	334,828
Increase (decrease) in net liquid funds	13,088	4,802	7,275	(24,541)	(38,936)
Cash at bank and in hand	18,286	12,754	431	3,445	(21,370)
Bank loans and overdrafts	(5,198)	(7,952)	6,844	(27,986)	(17,566)

CONSOLIDATED BALANCE SHEETS

The summarised consolidated balance sheets of the Group at 31st October, 1982 to 1986 are as follows:

	Notes	31st October,				
		1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Fixed assets						
Intangible assets	xii	3,814	2,290	4,198	7,946	4,301
Tangible assets	xiii	228,394	243,184	338,881	417,597	337,901
Investments	xiv	453	3,088	1,743	1,981	3,112
		132,661	248,562	344,822	427,524	345,314
Current assets						
Stocks and work in progress	xv	17,820	19,307	28,271	38,782	69,783
Debtors	xvi	73,100	84,104	98,931	112,736	124,062
Cash at bank and in hand	xvii	56,473	69,158	69,575	72,996	51,624
		147,393	172,569	196,777	224,514	245,469
Creditors—amounts falling due within one year	xviii	(163,258)	(190,388)	(223,105)	(263,945)	(264,474)
Net current liabilities		(15,865)	(17,819)	(26,328)	(39,431)	(19,005)
Total assets less current liabilities		216,796	230,743	318,494	388,093	326,309
Creditors—amounts falling due after more than one year	xix	(158,773)	(160,297)	(234,804)	(286,225)	(222,215)
Deferred income	xx	(2,031)	(2,035)	(2,150)	(2,136)	(6,869)
		55,992	68,411	81,540	99,732	97,225
Capital and reserves						
Called-up share capital	xxi	19,807	19,807	19,807	19,922	19,992
Revaluation reserve	xxii	13,798	24,381	24,893	26,911	34,396
Capital reserve		—	475	475	475	475
Profit and loss account	xxiii	22,387	23,748	36,365	51,956	42,030
Minority interests		—	—	—	468	332
		55,992	68,411	81,540	99,732	97,225

NOTES TO THE FINANCIAL STATEMENTS

(i) Revenue

Revenue comprises traffic revenue from airline operations and inclusive tour holidays with departure dates before the year end, together with sales of other activities, excluding sales-based taxes. Revenue may be analysed between the principal activities of the Group as follows:—

	Year ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Air transport:					
Airline operations	347,081	362,135	414,911	486,532	471,039
Helicopter operations	4,932	5,305	9,542	10,232	11,878
Overhaul of aero engines—Discontinued	12,447	11,102	18,676	32,710	36,825
Inclusive tour holidays—Discontinued	42,665	48,235	76,946	67,024	37,444
Hotel operations	6,980	7,990	12,097	11,224	13,409
Less: intra group sales	(14,049)	(6,283)	(5,986)	(5,709)	(3,572)
	400,056	428,484	526,186	602,013	567,023

Revenue may be analysed geographically as follows:—

	Year ended 31st October,									
	1982 £000	%	1983 £000	%	1984 £000	%	1985 £000	%	1986 £000	%
United Kingdom										
domestic	52,752	13	67,056	16	79,605	15	89,577	15	109,274	20
Europe	107,605	27	88,229	21	95,343	18	96,413	16	69,922	12
North Africa	16,344	4	13,350	3	9,474	2	17,671	3	9,269	2
West and Central Africa	95,066	24	100,600	23	103,661	20	109,588	18	99,509	17
South America	30,333	8	21,561	5	17,208	3	8,934	1	1,347	—
North America and Caribbean	78,178	19	105,900	25	166,924	32	191,850	32	174,040	31
Middle and Far East	33,827	8	38,071	9	59,957	12	93,689	16	107,234	19
Less: intra group sales	(14,049)	(3)	(6,283)	(2)	(5,986)	(2)	(5,709)	(1)	(3,572)	(1)
	400,056	100	428,484	100	526,186	100	602,013	100	567,023	100

(ii) Operating costs

Operating costs comprise:—

	Year ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Cost of sales	328,460	344,290	423,035	467,408	463,609
Marketing costs	28,692	32,709	42,085	51,014	56,200
Administration expenses	29,405	35,095	38,808	55,396	66,227
Other operating income	(840)	(513)	(212)	(787)	(224)
Less: exceptional events (note (v))	—	—	—	(9,000)	(80,065)
	385,717	411,581	503,716	564,031	505,747

(iii) Operating profit

Operating profit is arrived at:—

	Year ended 31st October,				
	1982	1983	1984	1985	1986
	£000	£000	£000	£000	£000
(a) after crediting:—					
Selective financial assistance	231	331	127	135	118
(b) after charging:—					
Depreciation and amortisation	16,404	19,120	24,483	29,169	35,521
Amortisation of intangible fixed assets	1,611	1,644	1,326	1,983	2,493
Hire of aircraft and equipment	6,391	6,900	6,916	7,246	12,689
Directors' emoluments	222	278	344	399	427
Auditors' remuneration	192	210	272	304	309

(iv) Other income (expenses)

Other income (expenses) comprises:—

	Year ended 31st October,				
	1982	1983	1984	1985	1986
	£000	£000	£000	£000	£000
Profits (losses) on disposal of tangible fixed assets and investments	(178)	1,851	8,783	12,478	25,420
Income from shares in related companies	94	116	15	8	(125)
Income from fixed asset investments	19	20	32	37	26
	(65)	1,987	8,830	12,523	25,321

(v) Exceptional items

Exceptional items comprise:—

	Year ended 31st October,				
	1982	1983	1984	1985	1986
	£000	£000	£000	£000	£000
Termination of rate per hour contract	2,400	—	—	—	—
Losses on closure of South American stations	—	—	(1,050)	—	—
Currency dealing	—	—	(2,700)	3,450	—
Reduction in interest on renegotiation of finance leases	—	—	8,700	—	—
Aircraft refinancing	—	—	—	4,950	2,183
Exceptional events:					
Impact of terrorism	—	—	—	—	(35,500)
Nigerian devaluations	—	—	—	(9,000)	(34,500)
Severance programme	—	—	—	—	(10,035)
	2,400	—	4,950	(600)	(77,882)

(vi) Interest payable and similar charges

Interest payable comprises:—

	Year ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Interest payable on:					
Bank overdrafts and short term loans	4,482	5,479	5,665	13,482	11,339
Loans and term finance repayable within five years by instalments	6,067	4,302	4,989	10,660	11,932
Loans and term finance repayable after five years by instalments	17,328	17,431	19,974	16,134	11,402
Less:					
Interest received on secured deposits	(10,746)	(7,674)	(7,447)	(7,535)	(3,908)
	6,582	9,757	12,527	8,599	7,494
Capitalised interest	—	—	—	(1,624)	(715)
Loan capital	71	69	69	69	69
	17,202	19,607	23,248	31,186	30,119
Less:					
Interest receivable	(1,625)	(3,257)	(4,880)	(3,664)	(2,093)
	15,577	16,350	18,368	27,522	28,026

(vii) Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities before taxation may be analysed between principal activities as follows:—

	Year ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Air transport:					
Airline operations	(1,105)	2,360	17,147	21,602	(25,467)
Helicopter operations	(125)	(1,478)	(1,100)	(388)	(3,373)
Overhaul of aero engines	928	412	1,356	2,262	2,542
Inclusive tour holidays	383	26	(605)	(1,959)	(2,939)
Hotel operations	862	1,138	1,044	848	6,249
Holding company income	154	82	41	18	1,677
Less: Employee profit share	—	—	(308)	(953)	—
	1,097	2,540	17,074	21,430	(19,311)

(viii) Taxation

The taxation charge based on profits or losses for the year comprises:—

	Year ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Overseas taxation	762	1,686	2,423	1,194	(252)
Deferred taxation on chargeable gain	—	—	—	1,034	(1,034)
Related companies	49	—	—	—	—
Advance corporation tax (prepaid) written off	—	—	934	1,281	(3,538)
UK corporation tax	—	—	—	—	19
Release of provisions no longer required	—	—	—	—	(3,028)
	811	1,686	3,357	3,509	(7,893)

Apart from minor provisions in subsidiaries, liability to mainstream United Kingdom corporation tax has not arisen during the period of this report as a result of the tax losses available for offset against United Kingdom taxable profits.

Advance corporation tax was previously written off as incurred but in the year ended 31st October, 1986 the accumulated amount written off of £3,538,000 was reinstated in the accounts as a prepayment in anticipation of its utilisation against a prospective liability to mainstream United Kingdom corporation tax which, under present circumstances, may not be wholly utilised as previously forecast.

Taxation deferred and not provided for amounts to £22.2m (1985: £19.6m) in respect of accelerated capital allowances (excluding industrial building allowances), less advance corporation tax of £ Nil (1985: £3.5m) and after taking into account tax losses being carried forward of £27m (1985: £113m). The charge to profit and loss account for United Kingdom corporation tax would have been £2.6m (1985: credit £1.1m) had deferred taxation been provided for in full.

No provision has been made for corporation tax on chargeable gains that would arise upon realisation of tangible fixed assets at their revalued amounts. Similarly, no such provision has been made in respect of chargeable gains of £9.8 million, arising from the disposal of certain aircraft in 1985 and 1986. It is intended that the relevant sale proceeds will be rolled over into replacement assets, and therefore the tax liability will not crystallise in the foreseeable future.

(ix) Extraordinary items

Extraordinary items comprise:—

	Year ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Cessation of tour operation activities	—	—	—	—	3,035
Settlement and associated legal costs of an anti-trust suit	—	592	579	3,034	—
Expenses and other costs in connection with proposed flotation	—	—	—	588	—
	—	592	579	3,622	3,035

(x) Dividends

Dividends paid are as follows:—

	Year ended 31st October,	
	1984	1985
	£000	£000
Ordinary dividend (1984: 11p per share, 1985: 15p)	2,179	2,988

(xi) Earnings (loss) per share

Earnings per share is calculated on the profit or loss on ordinary activities after taxation and after minority interests and the weighted average number of ordinary shares in issue of:—

Year ended 31st October,	Weighted average number of shares
1982	19,806,952
1983	19,806,952
1984	19,806,952
1985	19,921,952
1986	19,991,952

(xii) Intangible assets

Intangible assets comprise:—

	31st October,	
	1985	1986
	£000	£000
Cost		
Training costs	8,246	7,499
Aircraft introductory costs	610	299
Route start up costs	4,651	4,627
Hotel pre-opening costs	51	10
Goodwill	1,162	—
	<u>14,720</u>	<u>12,435</u>
Amortisation		
Training costs	5,463	5,550
Aircraft introductory costs	376	275
Route start up costs	786	2,309
Hotel pre-opening costs	3	—
Goodwill	146	—
	<u>6,774</u>	<u>8,134</u>
Net book amount	<u>7,946</u>	<u>4,301</u>

(xiii) Tangible assets

Tangible assets comprise:—

	31st October,	
	1985	1986
	£000	£000
Cost or valuation		
Aircraft fleet – owned	139,533	16,161
leased	211,008	235,549
Aircraft support equipment – owned	35,396	27,157
leased	7,822	7,815
Freehold hotels and related equipment	12,861	14,220
Other land and buildings (see below)	43,859	57,136
Other plant and fixtures – owned	35,942	36,241
leased	25,855	17,060
	<u>512,276</u>	<u>411,339</u>
Depreciation or amortisation		
Aircraft fleet – owned	23,167	2,249
leased	36,323	37,689
Aircraft support equipment – owned	8,718	9,012
leased	589	1,160
Freehold hotels and related equipment	575	—
Other land and buildings	1,603	1,289
Other plant and fixtures – owned	16,904	16,723
leased	6,800	5,316
	<u>94,679</u>	<u>73,438</u>
Net book amount	<u>417,597</u>	<u>337,901</u>

The Gatwick base properties and certain other UK land and buildings with a cost or valuation of £36,020,000 were revalued as at 31st October, 1986 by Henry Butcher & Co., International Valuers and Surveyors, at £39,540,000 on the basis of their open market value for the existing use in the business.

Land and buildings at Prestwick were also revalued on the same basis as at 31st October, 1986 by Henry Butcher & Co. These had a cost or valuation of £5,584,000 and were revalued at £7,400,000. The freehold hotel and related equipment owned by the Copthorne Hotel at Gatwick were revalued at the same date by Richard Ellis, Chartered Surveyors, on the same basis. These had a cost or valuation of £5,935,000 and were revalued at £10,016,000.

In each case, the surplus arising from revaluations over net book value has been taken to revaluation reserve and is being amortised over the remaining lives of the relevant assets.

The cost or valuation of other land and buildings comprises:—

	31st October,	
	1985	1986
	£000	£000
Cost or valuation		
Freehold properties	137	9,033
Leashold properties having a tenure unexpired of:—		
Over 50 years	5,919	625
50 years or less	37,863	47,478
	<u>43,859</u>	<u>57,136</u>

(xiv) Investments

The Group's investments comprise:—

	31st October,	
	1985	1986
	£'000	£'000
Related companies—unlisted shares	1,286	2,243
share of profits	115	519
Trade investments—unlisted shares	580	350
	<u>1,981</u>	<u>3,112</u>

The investments in related companies comprise:—

Company	Class of Share	Proportion Held	Country of Incorporation
Cal Air International Limited	Deferred £1 Shares and Ordinary 1p Shares	50%	Scotland
British Caledonian Flight Training Limited	Ordinary £1 Shares	50%	England
Caledonian Air Leasing Limited	Ordinary £1 Shares	50%	England
Copthorne Squash Club Limited	Ordinary £1 Shares	40%	England
Northdraw Limited	Ordinary £1 Shares	33⅓%	England
Copthorne Aberdeen Limited	Ordinary £1 Shares	26%	England
Diplomat Hotel Holding Limited	Ordinary £1 Shares	26%	England
SA Arcade Stephanie	Bearer Shares	25%	Belgium

British Caledonian Flight Training Limited ceased to be a wholly-owned subsidiary of the Airline, following the sale of a 50% interest in June 1986 for £4 million. The profit on the sale of this interest is included in profits (losses) on disposal of tangible fixed assets and interest is included within other income (expenses).

The investments in trade investments include:—

Company	Class of Share	Proportion Held	Country of Incorporation
Gambia Airways Limited	Ordinary shares of D.5 each	40%	The Gambia
Travel Automation Services Limited	Ordinary £1 shares	18%	England
Nigerian Aviation Handling Company Limited	Ordinary shares of N1 each	12½%	Nigeria
Gatwick Park Hospital Limited	Ordinary £1 shares and loan stock	10%	England
Manchester Handling Limited	Ordinary £1 shares and loan stock	10%	England

Trade investments were valued by the directors at 31st October, 1986 at £350,000 (1985 £580,000).

(xv) Stocks and work in progress

Stocks and work in progress comprise:—

	31st October,	
	1985 £000	1986 £000
Raw materials and consumables	33,132	30,132
Work in progress	3,760	3,873
Finished goods and goods for resale	1,890	35,778*
	<u>38,782</u>	<u>69,783</u>

* Including aircraft £32 million.

(xvi) Debtors

Debtors are as follows:—

	31st October,	
	1985 £000	1986 £000
Trade debtors	96,594	92,009
Other debtors	8,992	23,979
Prepayments and accrued income	7,150	8,074
	<u>112,736</u>	<u>124,062</u>

Included in other debtors are debts amounting to £5,074,000 (1985: £3,600,000) which are due after more than one year.

(xvii) Cash at bank and in hand

Cash at bank and in hand comprises:—

	31st October,	
	1985 £000	1986 £000
Held in United Kingdom	18,743	9,469
Held overseas	54,253	42,155
	<u>72,996</u>	<u>51,624</u>

Cash held overseas in the normal course of business is remittable to the United Kingdom subject to the availability of foreign currency in certain of the countries concerned.

Included in the figure of cash held overseas at 31st October, 1986 was £39 million held in bank accounts which are not freely remittable, and the majority of which is held at protected rates of exchange. These monies had a value of some £26 million at market rates of exchange at 31st October, 1986. The directors consider that substantially all cash held overseas will either be remitted to the United Kingdom in due course, or utilised to fund local expenditure, at the exchange rates used in those accounts. Accordingly, no provision has been made for this possible diminution in value. In this respect, comparative figures for 1985 are not considered appropriate.

(xviii) Creditors—amounts falling due within one year
Creditors due within one year comprise:—

	31st October,	
	1985 £000	1986 £000
Loans and term finance (see note xix)	51,292	51,533
Bank loans and overdrafts	39,352	56,916
Advance sales	56,570	50,840
Trade creditors	75,896	47,422
Taxation	5,399	2,354
Social security	1,214	1,082
Other creditors	6,471	14,572
Accruals	24,763	39,755
Dividend	2,988	—
	<u>263,945</u>	<u>264,474</u>

(xix) Creditors—amounts falling due after more than one year
Creditors due after more than one year comprise:—

	31st October,	
	1985 £000	1986 £000
Loans and term finance	285,084	220,923
Other creditors	107	1,292
Deferred taxation	1,034	—
	<u>286,225</u>	<u>222,215</u>

Loans and term finance (including that repayable within one year) comprise:—

	31st October,	
	1985 £000	1986 £000
Loan capital—unsecured loan stock 1990/95	655	655
Secured bank loans	69,565	49,406
—Sterling	56,798	20,250
—US dollars	12,050	10,000
Unsecured bank loans	3,244	—
—Sterling	—	—
—US dollars	—	—
Term finance—wholly repayable within five years:		
Hire purchase agreements	1,460	13,831
—Sterling	11,989	9,130
—US dollars	300	180
Mortgage loan	47,500	19,371
Lease finance	—	—
—Sterling	—	—
Term finance—not wholly repayable within five years:		
Hire purchase agreements	25,676	—
—Sterling	58,084	3,016
Mortgage loan	4,075	—
—US dollars	—	1,107
—Swiss francs	—	—
Lease finance	98,866	166,381
	<u>390,262</u>	<u>293,327</u>
	<u>(53,886)</u>	<u>(20,871)</u>
Deposits	<u>336,376</u>	<u>272,456</u>

The secured bank loans and term finance are generally secured by fixed charges on the tangible fixed assets being financed or by floating charge principally over cash and debtors. The deposits are pledged as security for, and their levels are geared to, the repayment of the amounts outstanding to the providers of lease finance.

The term finance is at various interest rates, with the highest being 14.875 per cent. (1985: 14.875 per cent.).

Loans and term finance are repayable as follows:—

	31st October,	
	1985 £000	1986 £000
Within one year	51,292	51,533
Between one and two years	34,868	64,377
Between two and five years	163,246	56,384
Over five years	86,977	100,162
	285,084	220,923
	336,376	272,456

(xx) Deferred income

Deferred income comprises:—

	31st October,	
	1985 £000	1986 £000
Surplus on aircraft refinancing (see note below)	—	4,454
Regional development grants	2,136	2,415
	2,136	6,869

Two leased DC 10-30 aircraft, with a written down value of £46,376,000, were refinanced in March 1986. This gave rise to a profit of £2,183,000, which has been included in the profit and loss account as an exceptional item (note(v)). The surplus arising on the refinancing, less associated costs and a provision for taxation of £2.5 million, has been taken to deferred income and will be released over the remaining lives of the aircraft.

(xxi) Called-up share capital

At 31st October 1986 the authorised and issued share capital of the Company was as follows:—

	Authorised £000	Allotted called-up and fully paid £000
Ordinary shares of £1 each	25,000	19,992

(xxii) Revaluation reserve

The movements in the consolidated revaluation reserve for the five years ended 31st October 1986 are as follows:—

	Years ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Reserve brought forward	10,325	13,798	24,381	24,893	26,911
Exchange differences	(264)	(373)	351	(518)	932
Adjustments on acquisition and disposal of subsidiaries and related companies	—	452	(11)	374	(1,880)
Surplus on revaluation of:					
-aircraft	—	11,603	899	—	—
-property	4,183	—	958	6,434	11,465
Distributable element arising from depreciation:					
-aircraft	—	(582)	(1,120)	(1,007)	(567)
-property	(446)	(517)	(565)	(579)	(777)
Transfer on sale of revalued assets	—	—	—	(2,706)	(1,688)
Reserve carried forward	13,798	24,381	24,893	26,911	34,396

(xxiii) Profit and loss account

The movements in the consolidated profit and loss account for the five years ended 31st October 1986 are as follows:—

	Years ended 31st October,				
	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
Balance brought forward	21,655	22,387	23,748	36,365	51,956
Adjustments on acquisition and disposal of subsidiaries	—	—	(27)	—	1,496
Transfers on sale of revalued aircraft	—	—	—	2,706	1,688
Distributable element of revaluation reserve arising from depreciation:—					
-aircraft	—	582	1,120	1,007	567
-property	446	517	565	579	777
Retained profit (loss) for the year	286	262	10,959	11,299	(14,454)
Balance carried forward	22,387	23,748	36,365	51,956	42,030

(xxiv) Commitments**(a) Capital**

The directors had authorised future capital expenditure which amounted to:—

	31st October,
	1986
	£m
Contracted	344.4
Not contracted	4.0

(b) Financial

The group has commitments under operating leases which expire as follows:—

	31st October,
	1986
	£000
Up to 1 year	18,329
1 – 5 years	23,003
Over 5 years	154
	<u>41,486</u>

(xxv) Contingent liabilities

The Group had, at 31st October, 1986, given guarantees and indemnities amounting to £8,203,000.

(xxvi) Post balance sheet event

On 4th March, 1987 the Company sold Caledonian Airmotive Limited for some £22 million. The turnover and results of Caledonian Airmotive Limited are set out in notes (i) and (vii) respectively under the heading "Overhaul of aero engines" and its net assets at 31st October, 1986 amounted to £3.5 million.

Yours faithfully

Ernst & Whinney
Chartered Accountants

3. MATERIAL CONTRACTS

The following contracts have been entered into by a member of the B-Cal Group in the two years preceding the date of this document not being contracts entered into in the ordinary course of business and which are or may be material in the context of the BA Group, as enlarged by the acquisition of the B-Cal Group:

- (i) An Agreement dated 26th November, 1986 between British Caledonian Airways Limited ("B-Cal Airways") and McDonnell Douglas Corporation ("MDC") which provides that MDC will manufacture and B-Cal Airways will purchase three MD-11 aircraft for delivery in April and May, 1990. The Agreement gives B-Cal Airways the option to purchase up to six additional MD-11 aircraft for delivery at various time during 1991-1993. The base price for each MD-11 aircraft equipped with General Electric CF6-80 engines selected by B-Cal Airways is approximately \$83,000,000 and is subject to escalation, and various adjustments and credits. The Agreement also makes provision for a comprehensive package of training and support facilities and services.
- (ii) An Agreement dated 3rd March, 1987 between B-Cal and Aviall of Texas, Inc. ("Aviall") which provided for the sale (completed on 4th March, 1987) by B-Cal to Aviall of all the issued shares in the capital of Caledonian Airmotive Limited ("CAL"). The consideration for the sale was approximately £22 million subject to adjustment and retention. On completion CAL also repaid certain indebtedness to B-Cal. The Agreement also contained provisions providing for later adjustments, yet to be finalised, in respect of the consideration.

Part IV INFORMATION ON THE COMBINED GROUP

Pro forma statement of combined net assets

The following is an illustrative statement of the combined net assets of British Airways and British Caledonian following the proposed merger. The figures are based on the audited consolidated balance sheet of British Airways at 31st March, 1987 and the audited consolidated balance sheet of British Caledonian at 31st October, 1986.

	British Airways £m	British Caledonian £m	Combined £m
Fixed assets			
Intangible		4	4
Tangible	1,300	338	1,638
Investments	5	3	8
Total fixed assets	1,305	345	1,650
Current assets	777	245	1,022
Creditors – amounts falling due within one year	(1,140)	(264)	(1,404)
Net current liabilities	(363)	(19)	(382)
Total assets less current liabilities	942	326	1,268
Creditors – amounts falling due after one year	(270)	(222)	(492)
Provisions for liabilities and charges	(66)	(7)	(73)
Net assets	606	97	703

Note: No adjustments have been made for the results of either group since their last balance sheet dates or for the estimated expenses of the offer.

Working Capital

The Directors of BA are of the opinion that the BA Group, as enlarged by the acquisition of the B-Cal Group and on the basis of information provided by B-Cal, and taking into account available facilities, has sufficient working capital for its present requirements.

Indebtedness

A. British Airways

At the close of business on 30th June, 1987 the BA Group had outstanding the following borrowings and capital obligations under finance leases:—

	£m
Bank and other loans repayable:	
Within one year	23
After more than one year	174
	197
Capital obligations under finance leases payable:	
Within one year	21
After more than one year	51
	72
Total	269

Substantially all borrowings and capital obligations under finance leases are denominated in US dollars. In relation to certain borrowings, HM Treasury has given the BA Group cover against losses arising from changes in exchange rates under the Treasury exchange cover scheme, an

arrangement operated in respect of various nationalised industry borrowings as part of HM Government's management of foreign currency reserves. The BA Group accounts for these borrowings as sterling obligations and they are translated at the rates of exchange fixed by HM Treasury when the cover was effected. At such rates of exchange such borrowings amounted to \$84 million at 30th June, 1987. All other borrowings and capital obligations under finance leases which are denominated in foreign currency have been translated into sterling at the rates of exchange prevailing at the close of business on 30th June, 1987 or, where the loan repayment instalments have been covered forward, at the applicable forward contract rate.

Until 1st April, 1984, BA was able to enter into arrangements for borrowings and finance lease obligations with the benefit of guarantees provided by HM Treasury. At 30th June, 1987 principal and interest in respect of all outstanding borrowings and payments amounting to \$65 million in respect of capital obligations under finance leases were guaranteed by HM Treasury and these guarantees will remain in force for the life of these loans and finance leases. If any such guarantee is called, the undertaking and all the property and revenues of BA would be charged with the repayment of any monies paid thereunder with priority from the date on which BA committed to or incurred the liability. At 30th June, 1987 there was no other security in respect of any of the BA Group's outstanding indebtedness.

At 30th June, 1987, the BA Group had contingent liabilities in respect of obligations of the Company and guarantees given by or on behalf of subsidiaries and related companies amounting to \$23 million.

Cash balances and short-term deposits amounted to £289 million at 30th June, 1987.

Save as aforesaid and apart from intra-Group indebtedness and guarantees, neither the Company nor any of its subsidiaries had, at 30th June, 1987, any loan capital outstanding or created but unissued, term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire-purchase commitments, mortgages or charges, commitments under finance leases, guarantees or other material contingent liabilities.

BA is a party to certain operating leases which, at its option, may be converted into finance leases. None of these leases has been so converted and hence obligations thereunder have not been included in the above statement.

B. British Caledonian

At the close of business on 30th June 1987, British Caledonian and its subsidiaries had the following borrowings and capital obligations under finance leases:—

		£000
Loan capital – unsecured loan stock 1990/95		655
Loans and term finance		
Secured bank loans		
– Sterling		26,768
– US Dollars		15,477
Unsecured bank loans	– Sterling	10,000
Term finance – wholly repayable within five years		
Hire purchase agreements	– Sterling	626
Lease finance	– Sterling	15,426
Term finance – not wholly repayable within five years		
Hire purchase agreements	– Sterling	36,333
Lease finance	– Sterling	197,636
		302,921
Less: deposits		(17,014)
		285,907
Bank overdrafts (secured £36,620,000)		65,855
		351,762

Loans and the capital element of lease finance are repayable as follows:—

	£000
Within one year	50,660
2 - 5 years	87,609
Over 5 years	147,638
	<u>285,907</u>

As at 30th June 1987, British Caledonian and its subsidiaries also had cash balances and short term deposits amounting to some £46.4 million of which some £37.2 million was held in bank accounts which are not freely remittable and the majority of which is held at protected rates of exchange. At 30th June 1987, the value of those amounts if they could only be remitted at current market rates of exchange was some £17.1 million.

At 30th June 1987, British Caledonian had contingent liabilities as follows:—

	£000
Guarantees given in respect of aircraft hire purchase and finance lease liabilities of subsidiaries	254,904
Guarantees given in respect of future equipment lease rentals of subsidiaries	30,504
Guarantees and indemnities entered into as part of, and arising from, the ordinary course of business	<u>67,413</u>
	<u>352,821</u>

Save as mentioned above in respect of certain overseas cash balances, all borrowings, contingent liabilities and cash balances denominated in foreign currencies have been translated into sterling at the rates of exchange prevailing at the close of business on 30th June 1987.

Save as aforesaid and apart from intra-group indebtedness, neither British Caledonian nor any of its subsidiaries had, at 30th June 1987, any loan capital outstanding or created but unissued, term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, mortgages or charges, commitments under finance leases, guarantees or other material contingent liabilities.

PART V ADDITIONAL INFORMATION RELATING TO BRITISH AIRWAYS

A. Incorporation and share capital

The Company was incorporated in England on 13th December, 1983 with registered number 1771777, as a public limited company under the Companies Acts 1948 to 1983 with the object of succeeding to the undertaking of the British Airways Board and carrying on business as an airline and air transport undertaking. The principal legislation under which the Company operates is the Companies Act 1985 and regulations made thereunder. The objects of the Company are described in Clause 4 of the Memorandum of Association of the Company.

The Company was incorporated with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, two of which were subscribed at par by nominees of the Secretary of State, and the remainder of which were issued for cash at par to the Secretary of State on 27th March, 1984. On 22nd December, 1983, Orders were made under the Civil Aviation Act 1980 nominating the Company as the successor company to the British Airways Board and providing for all the British Airways Board's property, rights, liabilities and obligations to be vested in the Company with effect from 1st April, 1984. On 23rd March, 1984, the authorised share capital of the Company was increased from £50,000 to £180,050,000 by the creation of 180,000,000 ordinary shares of £1 each, all of which were issued, credited as fully paid, to the Secretary of State pursuant to section 4 of the Civil Aviation Act 1980 on 6th April, 1984. On 4th November, 1986, the 180,050,000 ordinary shares of £1 each were divided into 720,200,000 ordinary shares of 25p each and on 26th January, 1987, the authorised share capital of the Company was increased to £240,000,000 by the creation of an additional 239,800,000 ordinary shares. On 27th January, 1987 up to 720,200,000 BA shares were offered for sale on behalf of the Secretary of State at 125p per share. The issued share capital of the Company at the date hereof is £180,050,000 divided into 720,200,000 BA shares. Full acceptance of the Offer (assuming the exercise of outstanding options under the B-Cal Share Option Scheme) would involve the issue of approximately 108 million new BA shares.

The Directors are generally authorised pursuant to section 80 of the Companies Act 1985 to allot shares or securities convertible into shares, or grant options to subscribe for shares, having an aggregate nominal value of £59,950,000 (being the Company's authorised but unissued share capital) and such authority expires on the date of the Company's next annual general meeting, or 30th September, 1988 if earlier, unless previously revoked or renewed.

The provisions of section 89(1) of the Companies Act 1985, to the extent they are not disapplied, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash. The provisions of section 89(1) are presently disapplied (pursuant to the authority referred to in the previous paragraph) in connection with a rights issue or if the equity securities to be allotted for cash, when taken together with any other equity securities allotted for cash during the period of the disapplication (other than any so allotted under an employees' share scheme or a rights issue), do not in aggregate exceed 2.5 per cent. in nominal value of the Company's issued share capital.

Save as disclosed in this section A and in section E below no share or loan capital of the Company or of any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.

At the time of the offer for sale the Company undertook that no material issue of shares of the Company (other than to shareholders pro rata to their existing shareholdings or pursuant to the employees' share schemes described in section E below) would be made within one year of the date of the offer for sale without the prior sanction of the shareholders of the Company in general meeting.

B. Articles of Association

The Company's Articles of Association (the "Articles") contain provisions, inter alia, to the following effect:—

(a) *Transfer of shares and registration declaration*

The BA shares are in registered form. Shares are transferable by an instrument of transfer in the usual form or in any other form which the Directors may approve. The Directors may, in their absolute discretion and without assigning any reason therefor, decline to register any transfer of any share which is not a fully paid share. Save as referred to in (c) below and subject to the furnishing of a registration declaration as described below, there is no restriction on the registration of a duly stamped transfer of fully paid shares provided the transfer (i) is lodged at the transfer office or such other place as the Directors may appoint, accompanied by the relevant share certificate and such other evidence of ownership as the Directors may require; (ii) is only in respect of one class of share; and (iii) is in favour of not more than four transferees. If any of the above conditions are not complied with the Directors have a discretion whether or not to register the transfer in question.

Except in respect of any shares issued under a capitalisation issue, the Directors shall not register any person other than a Stock Exchange Nominee or a Depositary (defined in the Articles to mean a custodian or other person appointed under contractual arrangements with the Company (or a nominee for such custodian or other person) for the purpose of issuing depositary receipts in respect of shares of the Company) as a shareholder unless he has furnished a signed declaration stating (i) the name and nationality of any person who has an interest (as defined in (c) below) in any such share and (if such declaration or the Directors so require) the nature and extent of such interest or (ii) such other information as the Directors may determine. The Directors may require any such person to provide such evidence or information as to the matters referred to in the declaration as they think fit.

(b) *Disclosure of interests*

The Directors may by a Disclosure Notice require any member or other person appearing to be or to have been interested in Ordinary shares to disclose such information as the Directors shall require relating to the ownership of or interests in the shares in question. If any member or person appearing to have an interest in any shares fails to give to the Company, within 28 days of the service on him of a Disclosure Notice, the information required, the registered holder of those shares shall not be entitled to attend or vote at any general meeting of the Company or any meeting of holders of any class of shares of the Company.

(c) *Restrictions on ownership of shares*

For the purpose of ensuring that, so long as any operating rights or status as an airline of the Company or any subsidiary are conditional on the Company being to any degree owned or controlled by United Kingdom nationals, it is so owned and controlled, the following provisions apply:—

(i) The following terms are defined, broadly, as follows:—

"Interest" means any interest which would (subject as provided below) be taken into account, or which any person would be taken as having, in determining for the purposes of Part VI of the Companies Act 1985, whether a person has a notifiable interest and including an interest referred to in section 209(1)(a), (b), (e) and (j) of that Act but not an interest which a person would be deemed to have in shares in which his spouse or any infant child or stepchild (or, in Scotland, pupil or minor) of his is interested by virtue of that relationship or which he holds as a bare or custodian trustee under the laws of England or a simple trustee under the laws of Scotland;

"Intervening Act" means the refusal, withholding, suspension or revocation of any right enabling an air service to be operated which is granted to, or applied for or enjoyed by, the Company or any subsidiary or the imposition of any conditions or limitations upon any such operating right which materially inhibit the exercise thereof, in either case by any state, authority or person in reliance upon any provision or by reason of any matter or circumstance relating to the nationality of persons owning or controlling the Company;

"Relevant Person" means: (a) any individual who is not a British citizen as defined by the British Nationality Act 1981; (b) any body corporate other than a body corporate which is incorporated under the laws of any part of, and which has its principal place of business and central management and control in, the United Kingdom; (c) a government or governmental department, agency or body, other than of the United Kingdom or any part thereof; (d) any municipal, local or statutory or other authority or any undertaking or body formed or established in any country other than the United Kingdom; and (e) any person who both falls within any of the foregoing paragraphs of this definition and would be taken to be interested in any shares pursuant to the provisions of section 203 of the Companies Act 1985 if a body corporate were interested in those shares;

"Relevant Share" means any share in which a Relevant Person has an interest or which is declared by the Directors to be a Relevant Share pursuant to (i) below, other than one particulars of which are removed from the separate register pursuant to (ii) below and other than one held by (a) a trustee of an employees' share scheme of the Company or any subsidiary; (b) a trustee of a pension scheme approved by the Inland Revenue for the Company or any other business or undertaking carried on wholly or mainly in the United Kingdom; or (c) a charity which is registered or exempt under the Charities Act 1960;

- (ii) The Directors shall maintain a separate register in which shall be entered particulars of any share in which a Relevant Person has been acknowledged to hold an interest or in which the Directors consider there may be an interest of a Relevant Person and have not been otherwise satisfied within 21 days of notice to the registered holder or to any other person who appears to them to be interested in that share, other than any share which they determine is not, or should not be treated as, a Relevant Share. Registered holders of shares which have not been acknowledged to be Relevant Shares will be obliged to notify the Directors if they become aware of interests of Relevant Persons in shares held by them. The Directors are entitled to assume that all or any shares held by a Depository are Relevant Shares unless the contrary is established to their satisfaction;
- (iii) The provisions of (iv) to (xi) below shall apply if the Secretary of State on the application of the Directors, determines that it is necessary to take steps in order to protect any operating right of the Company or any subsidiary or the status of the Company or such subsidiary as a United Kingdom airline because (a) an Intervening Act has taken place or is contemplated, threatened or intended; or (b) the aggregate number of shares in the separate register or the ownership or control of the Company is otherwise such that an Intervening Act may occur;
- (iv) After such a determination the Chairman or the Directors shall take such of the following steps as seem to him or them necessary or desirable to overcome, prevent or avoid an Intervening Act:—
 - (a) the Chairman (or any other Director duly acting in place of the Chairman) may remove any Director from office;
 - (b) the Directors may seek to identify those shares which gave rise to the determination or would have given rise to a determination; or
 - (c) the Directors may specify a maximum aggregate number of Relevant Shares provided that the maximum shall never be less than 25 per cent.;
- (v) Shares identified pursuant to (iv)(b), and shares in excess of the maximum specified in (iv)(c), may be treated as Affected Shares. The Directors shall give a notice to the registered holder of any share which they determine to deal with as an Affected Share and to any other person who appears to the Directors to be interested in that share stating which of the following provisions shall apply to such share. The holder and any such other person may make representations to the Directors as to why any share should not be treated as an Affected Share;

- (vi) A registered holder of an Affected Share on whom a notice so specifying has been served and not withdrawn shall not be entitled to attend or vote in respect of such share at any general or class meeting of the Company but the votes attached to such share shall vest in the chairman of any such meeting;
 - (vii) The persons on whom a notice so specifying has been served shall within 21 days thereafter dispose of either the Affected Share or Interests therein such that it ceases to be an Affected Share and if, after 21 days, the Directors are not satisfied that a suitable disposal has been made, the Directors may arrange for the sale of such Affected Share on behalf of the registered holder so that it is no longer capable of being treated as an Affected Share at the best price reasonably obtainable at the relevant time, based upon advice obtained by them for the purpose. The net proceeds of sale shall be held on trust by the Company for and paid (together with interest at such rate as the Directors deem appropriate) to the former registered holder on surrender of the certificate for such Affected Share;
 - (viii) In deciding which shares are to be dealt with as Affected Shares the Directors shall be entitled to have regard to which Interests in their opinion have caused the determination by the Secretary of State but, subject thereto, shall have regard to the chronological order in which particulars of Relevant Shares have been entered in the separate register, except where in their opinion to do so would be inequitable, in which case the Directors shall apply such other criteria as they may consider appropriate;
 - (ix) The transfer of any share shall be subject to the approval of the Directors if, in the opinion of the Directors, such share would upon transfer become or be capable of becoming or being treated as an Affected Share and the Directors may refuse to register the transfer of any such share;
 - (x) At any time when the Directors have specified a maximum for the number of Relevant Shares or determined to deal with shares as Affected Shares they will publish in the United Kingdom, the United States and Canada notice of the determination of the Secretary of State, of any such maximum specified and of the provisions which can apply to Affected Shares and the name of any person who will answer enquiries relating to Affected Shares. At other times the Directors shall from time to time publish information as to the number of shares particulars of which have been entered in the separate register. The Directors will not be required to make the separate register available for inspection but will provide information to bona fide enquirers as to the number of Relevant Shares from time to time on such register;
 - (xi) If at any time when a determination has been made and not withdrawn anyone enquires of the Directors whether the number of Relevant Shares exceeds any maximum specified or whether any shares which he proposes to buy or in which he proposes to acquire an Interest would, in the opinion of the Directors, be capable on acquisition of becoming Affected Shares, the Directors shall, on sufficient information being given to them, notify the enquirer whether in their opinion the shares would in such circumstances be capable of becoming Affected Shares. Such notification shall not, however, be binding on the Directors or the Company;
 - (xii) If the Secretary of State, after consulting the Directors, resolves that grounds for the making of a determination have ceased to exist, he shall withdraw the determination and, on withdrawal, the above provisions shall cease to apply and the Directors shall give notice to any holder of an Affected Share on whom a notice under (v) above has been served and shall remove any maximum specified and shall publicise a notice of such withdrawal in a newspaper in the United Kingdom, the United States and Canada.
- For the purpose of preventing, until 31st January, 1992, any person (other than the Custodian Bank under the Instalment Agreement entered into in connection with the offer for sale, a Depository, a trustee of an employees' share scheme of the Company or any subsidiary, a Stock Exchange Nominee, the chairman of a meeting or underwriters in respect of contingent obligations to take up shares pursuant to an underwriting or sub-underwriting agreement) from retaining an Interest in shares which carry 15 per cent. or more of the votes attaching to the issued share capital of the Company the following provisions apply until 31st January, 1992:—
- (i) Any person who has an Interest (as defined above but including any interest which a person would be taken as having by reason of section 203(1) of the Companies Act 1985) in shares which carry 5 per cent. or more of the votes attaching to the issued share capital of the Company is required to notify the Company of that Interest;
 - (ii) If any person has, or appears to the Directors to have or, if the Directors are unable to ascertain whether such a person has an Interest in the shares and so resolve, is deemed to have, an Interest in shares which carry 15 per cent. or more of the total votes attaching to the issued shares of the Company, the Directors shall serve a written notice on the registered holder of the shares concerned and on any other person who appears to the Directors to be interested in these shares. Such notice shall set out the restrictions referred to below and shall call for the Interest concerned to be reduced to less than 15 per cent. by a disposal of shares or Interests therein within 21 days of the service of the notice (or such longer period as the Directors consider reasonable). The holder and any such other person may make representations to the Directors to the effect that no person having an Interest in shares which carry 15 per cent. or more of the votes attaching to the issued share capital of the Company is interested in such shares. No transfer of the shares comprised in the Interest may be made except for the purpose of reducing such Interest to less than 15 per cent.;
 - (iii) If such a notice is served and is not complied with in all respects to the satisfaction of the Directors and has not been withdrawn, the Directors shall arrange for the sale of shares on behalf of the registered holder at the best price reasonably obtainable at the relevant time, based upon advice obtained by them for the purpose. The net proceeds of sale shall be held on trust by the Company for and paid (together with interest at such rate as the Directors deem appropriate) to the former registered holder on surrender of the certificate for the shares concerned;
 - (iv) A registered holder on whom a notice referred to in (ii) has been served is not entitled in respect of the share or shares comprised in the Interest, until such notice has been withdrawn or complied with to the satisfaction of the

Directors, to attend or vote at any general or class meeting of the Company and the votes attaching to such shares shall vest in the chairman of any such meeting.

Any resolution or determination of, or decision or exercise of any discretion or power by, the Chairman or the Directors in relation to the provisions of this paragraph (c) shall be conclusive and binding on all persons concerned and shall not be open to challenge and they shall not be obliged to give reasons therefor. The Directors shall not be obliged to serve any notice required under the provisions of this paragraph (c) on any person if they do not know his identity or address. The absence of service in such circumstances or any accidental error in or failure to give any notice required shall not prevent the implementation of or invalidate any procedure referred to hereunder.

(d) *Dividends and other distributions and return of capital*

The Company may by ordinary resolution declare final dividends and the Directors may declare interim dividends but no final dividend shall be declared in excess of the amount recommended by the Directors and no dividend shall be payable otherwise than out of profits available for the purpose under applicable legislation. Except in so far as the rights attaching to, or the terms of issue of, any shares otherwise provide (no such shares currently being in issue), all dividends shall be apportioned and paid pro rata according to the amounts paid up thereon. On any distribution by way of capitalisation, the amount to be distributed will be appropriated pro rata amongst the holders of Ordinary shares according to the amounts paid up on their shares respectively. On a return of capital, whether in a winding-up or otherwise, the Ordinary shares will rank *pari passu* in all respects.

The Directors may, in their discretion, fix any date as the record date for any dividend or distribution. Any dividend unclaimed after a period of twelve years from the date of declaration thereof will be forfeited and revert to the Company. No dividends or other moneys payable on or in respect of a share shall (except as specified in the Articles) bear interest against the Company.

(e) *Voting*

Subject to disfranchisement in the event of non-payment of calls or non-compliance with a Disclosure Notice or pursuant to the provisions summarised in (c) above and subject to any special terms as to voting attached to any shares (of which there are none at present), every member present in person (including any corporation present by a duly authorised representative) at a general meeting of the Company shall upon a show of hands have one vote and on a poll every member present as aforesaid or by proxy shall have one vote for every share held by him.

(f) *General meetings*

The Directors may make arrangements to control the level of attendance at any place specified for the holding of a general meeting and, in any such case, shall direct that the meeting be held at a specified place, where the chairman of the meeting shall preside, and make arrangements for simultaneous attendance and participation by members at other locations. The chairman of a general meeting has authority to adjourn the meeting if, in his opinion, it appears impractical to hold or continue the meeting because of weight of numbers.

(g) *Variation of rights and changes in capital*

(i) The special rights and privileges for the time being attached to any class of shares may be varied or abrogated with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the class. To every such separate meeting the provisions of the Articles as to general meetings shall apply except that the necessary quorum shall be two persons at least holding or representing by proxy one-third in nominal value of the issued shares of the class, that any holder of shares of the class present in person or by proxy may demand a poll, that the holders of shares of the class shall on a poll have one vote for each share of the class held by them respectively and that if at any adjourned meeting of such holders a quorum as defined above is not present then any holder of shares of the class present in person or by proxy shall be a quorum.

(ii) The Company may by ordinary resolution increase its share capital, consolidate all or any of its shares into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person.

(iii) The Company may reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner and with and subject to any incident authorised and consent required by law.

(h) *Untraced shareholders*

The Company may sell the shares of a member or person entitled on death or bankruptcy of a member if such person or member has not claimed at least three dividends over a period of twelve years and the Company has, after giving notice in certain newspapers, received no notice either of the whereabouts of or the existence of the member or other person. The Company shall be obliged to account to the person entitled thereto for the net proceeds of the sale.

C. Directors' and other interests

- () If the Offer becomes unconditional, Investors in Industry plc will, unless it elects for the Cash Alternative in respect of the whole or part of its holding of B-Cal shares, become interested in 5.2 per cent. of the enlarged share capital of the Company. The Directors are not aware of any other person who may be interested directly or indirectly in 5 per cent. or more of the issued share capital of the Company immediately following the Offer or of any other persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

- (b) The interests all of which are beneficial of the Directors and their immediate families in the share capital of the Company as shown in the register of directors' interests required to be kept under the Companies Act 1985 are as follows:—

	Ordinary shares subject to no restrictions	Ordinary shares subject to restrictions†	Options Executive Share Scheme	Options SAYE share option scheme
Lord King	29,564	436	289,855	4,596
R A Henderson	700			
Sir Colin Marshall	25,000	436	510,433	4,596
N G E Dunlop	10,000	4,120	265,489	4,596
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	1,065,777	13,788

† The BA shares subject to restrictions are held in Trust and may not be dealt in for a minimum period of two years following subscription.

N G E Dunlop also has 100 American Depositary Receipts representing a total of 1,000 shares.

The options under the Executive Share Option Scheme are at a price of 175p per share in relation to 404,494 options held by Sir Colin Marshall and N G E Dunlop, at a price of 210p per share in relation to 371,428 options held by Sir Colin Marshall and N G E Dunlop and at a price of 207p per share in relation to the options held by Lord King. The options under the SAYE share option scheme are at a price of 161p per share. No Director has an interest in shares in any subsidiary of the Company.

- (c) No Director has any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the BA Group and which was effected by the Company since 1st April, 1987 or which was effected prior to that date and remains in any respect outstanding or unperformed.
- (d) The aggregate emoluments (including pension contributions) of the Directors from the Group for the financial year ended 31st March, 1987 was £364,627. The emoluments of the Directors will not be affected by the acquisition of B-Cal nor by any other associated transaction.

D. Directors' service agreements

Lord King, Sir Colin Marshall and Mr. Dunlop have entered into service agreements with the Company which agreements were made available for inspection at the last annual general meeting of BA. Other than these agreements, there are no existing or proposed service agreements between any of the Directors and any member of the BA Group.

E. Employee share schemes

The Company has established the following employee share schemes. These schemes, which are subject to limits on the number of shares which may be acquired by subscription, may be amended by the Directors, but any changes that would benefit participants (and in particular the limitations on participation and on the numbers of ordinary shares that may be issued thereunder as described below) cannot be made without the prior sanction of the Company in general meeting and all amendments to the schemes for UK employees require the approval of the Inland Revenue.

(a) Profit sharing share schemes

The British Airways Profit Sharing Share Scheme (the "BA Profit Sharing Scheme"), which has been approved by the Inland Revenue under the provisions of the Finance Act 1978, is constituted by a trust deed dated 10th August, 1984, as amended by supplemental trust deeds dated 19th August, 1985, 18th March, 1986 and 19th January, 1987, between the Company, Lloyds Bank Plc (the "Trustees") and certain subsidiaries of the Company ("Scheme Subsidiaries"). Similar schemes (together with the BA Profit Sharing Scheme, the "Profit Sharing Schemes") have been established by other subsidiaries of the Company.

The Profit Sharing Schemes may be operated to acquire BA shares on behalf of eligible employees when the Trustees may be provided with funds for this purpose by the Company and Scheme Subsidiaries or, as the case may be, other subsidiaries. The Profit Sharing Schemes contain limitations on the amount of funds which may be so provided and on the maximum value of ordinary shares which may be appropriated to any individual participant in any year.

Shares acquired by the Trustees at the expense of the Company and Scheme Subsidiaries or, as the case may be, other subsidiaries will be held by them for the periods prescribed by the Finance Act 1978, being currently a minimum of two years, during which they may not generally be sold. For the following three years the Trustees will retain such shares unless the participant concerned otherwise instructs, and thereafter they will be transferred to the participant. While any BA ordinary shares are so held in trust, the respective participants will be the beneficial owners and entitled to receive dividends and direct the exercise of voting rights.

Any ordinary shares subscribed for and issued under the Prof. Sharing Schemes will be subscribed at the higher of (i) the average of the middle-market quotations derived from the Daily Official List over the three consecutive dealing days preceding the date of subscription and (ii) their nominal amount. Application will be made to the Council of The Stock Exchange for their admission to the Official List.

(b) Savings related share option scheme

The Company has adopted a Savings Related Share Option Scheme (the "SAYE Scheme"), which has been approved by the Inland Revenue under the provisions of the Finance Act 1980. Options may only be offered by the Directors within six weeks of the date on which dealings in the ordinary shares commence on The Stock Exchange and subsequently within six weeks of the preliminary announcement of the Group's interim or final results in respect of any financial year. Invitations to apply for options may be made to all employees and directors who are required under the terms of their employment to work for at least 16 hours per week and who have been continuously employed by participating companies within the Group for one year at or about the time of the invitation and to such other employees and directors of BA and participating companies as the Directors shall decide. Options are not transferable.

Each eligible employee will be entitled to apply for options to subscribe for BA shares at a price determined by the Directors, being not less than the higher of (i) 90 per cent. of (where BA shares are traded on The Stock Exchange as fully paid for) the average market value of such shares over three consecutive dealing days at about the time of the invitation or (where ordinary shares are not so traded as fully paid for) market value as agreed with the Inland Revenue and (ii) their nominal amount.

An option holder may generally only exercise his options for a period of six months commencing on the appropriate fifth or seventh anniversary of the commencement of the contractual savings scheme ("Savings Contract") entered into by him in connection with his options. Application will be made to the Council of The Stock Exchange for the admission to the Official List of BA shares issued following the exercise of options.

BA has granted options over a total of 23,319,395 BA shares under this Scheme.

(c) US employee share purchase plan

The Company has adopted an Employee Share Purchase Plan (the "Share Purchase Plan") for its US employees. The terms of the Share Purchase Plan are similar to those of the SAYE Scheme described above, except that the concept of a Savings Contract, as described above in relation to the SAYE Scheme, does not exist in the Share Purchase Plan. Options under the Share Purchase Plan have been granted in respect of 820 BA shares to each US employee who on 1 July 1987 had been continuously employed by BA during the preceding 12 months.

(d) Executive share option schemes

The Company has adopted an Executive Share Option Scheme (the "Option Scheme"), which has been approved by the Inland Revenue under the provisions of the Finance Act 1984. Options may only be granted by the Directors within six weeks of the date on which dealings in the ordinary shares commenced on The Stock Exchange and subsequently within six weeks of the preliminary announcement of the interim or final results of the Group in respect of any financial year.

All employees of the Group (including executive Directors) who are required to devote substantially all their time to working for the BA Group and are required under the terms of their employment to work for at least 20 hours per week (or in the case of directors of the Company or any subsidiary, 25 hours per week) are eligible to be nominated for participation in the Option Scheme. Nominations for participation are made by the Directors, who have a discretion in selecting the persons to whom options are to be granted.

Options are not transferable. Options entitle the recipient to subscribe for BA shares at a price determined by the Directors, being not less than the higher of (i) (where ordinary shares are traded on The Stock Exchange as fully paid for) the average market value of such shares on the three consecutive dealing days immediately preceding the date of grant of the options or (where ordinary shares are not so traded as fully paid for) a price as agreed with the Inland Revenue and (ii) their nominal amount. Each individual's participation shall be limited so that the aggregate price of all ordinary shares issued and remaining issuable under options granted to him during the previous ten years under the Option Scheme and any other share option scheme established by the Group, other than the SAYE Scheme or the Share Purchase Plan, will not exceed four times his remuneration or, if his remuneration is not chargeable to PAYE, four times his annual salary or £100,000, whichever is the lower.

An option will normally be exercisable between the third and tenth anniversaries of the date on which the option was granted. Application will be made to the Council of The Stock Exchange for the admission to the Official List of ordinary shares issued following the exercise of options.

The Company has adopted an Executive Share Option Plan (the "Share Option Plan") for its US executive employees which is substantially similar to the Option Scheme described above.

The first grant of options under the Option Scheme was made in March 1987 when 76 executives (including executive Directors) received in total 5,028,034 options at a subscription price of 178p per share. Two further grants of options were made in May 1987 when 92 executives (including executive Directors) received a total 1,891,051 options at a subscription price of 210p per share and 289,855 options at a subscription price of 207p per share. Options under the Share Option Plan have been granted to 5 executives over 138,066 shares at a subscription price of 224.5p per share.

F. Principal subsidiaries

The Company is the holding company of the BA Group. The following are the principal subsidiaries of the Company:—

Principal subsidiary companies and registered offices (<i>Note 1</i>)	Date of incorporation	Issued and fully paid up share capital and percentage owned by the Group	Principal activity
British Airtours Limited Airtours House, Gatwick Airport, Gatwick, West Sussex RH6 0LF	31st August, 1955	£1,300,000 (100%)	Provision of whole-aircraft passenger charter services.
British Airways Engine Overhaul Limited Caerphilly Road, Nantgarw, Cardiff, South Glamorgan CF4 7YJ	30th December, 1966	£1,000,000 (100%)	Aircraft engine overhaul services for the BA and British Airtours fleets and for third parties.
British Airways Tour Operations Limited	4th March, 1935	£300,000 (100%)	Provision of package holidays.
British Airways Holidays Limited	7th October, 1985	£300,000 (100%)	
Alta Holidays Limited ("Alta Holidays") 152 King Street, London W6 0QU	9th September, 1965	£393,609 (51%)	
Middle East Visitors Services Limited	20th December, 1979	£1,000 (100%)	Provision of travel facilities and assistance for visitors from the Middle East and India.
Overseas Air Travel Limited	6th September, 1955	£250,000 (100%)	Markets seat-only sales and package holidays on charter and scheduled services.
British Airways Associated Companies Limited	6th September, 1957	£675,000 (100%)	Holding company for investment in certain related companies and certain trade investments.
Travel Automation Services Limited (<i>Note 2</i>) Grove Park, Waltham Road, White Waltham, Maidenhead, Berkshire SL6 3LB	15th April, 1976	£440,000 (82%)	Provides computer communication systems for the travel industry.
British Airways Pension Administration Limited Kershaw House, Great West Road, Hounslow, Middlesex TW5 0BX	30th April, 1947	£760 (100%)	Pension administration.

Note 1: All of the companies referred to above are incorporated in England and, except as indicated above, have their registered offices at Speedbird House, Heathrow Airport, Hounslow TW6 2JA.

Note 2: The remaining issued shares in Travel Automation Services Limited are held by B-Cal.

G. Principal properties

The following are the principal properties of the Group:—

Principal properties	Description	Approximate gross internal floor areas (in square feet)	Nature of title
London Heathrow airport			
No. 1 Maintenance Area			
(i) East Base	Offices (including head office), computer centres, aircraft maintenance hangars and workshops	3,290,000	Lease from Heathrow Airport Limited ("HAL"), a subsidiary of BAA, due to expire on 30th April, 2055 (subject to earlier termination by either party on or after 29th September, 2000). Current rent paid is £218,970 p.a., subject to a partial review in 1990 and a full review in 2000.
(ii) West Base	Offices, aircraft maintenance hangars and workshops	1,652,000	Lease from HAL due to expire on 30th June, 2055. Current rent paid is £75,495 p.a., subject to a partial review in 1990 and a full review in 2000.
Motor Transport and Ground Support Equipment Base, Catering Centre North and TriStar House	Offices, motor transport and group equipment workshops, aircraft catering centre and air cabin crew operations centre	272,385	Lease from HAL due to expire on 30th September, 2011. Current rent paid is £63,190 p.a., subject to partial reviews in 1990, 1995, 2000 and 2005.
Cargo Centre	Offices and storage/handling areas for freight	629,500	Lease from HAL due to expire on 31st December, 2019. Current rent paid is £207,731 p.a., increasing to £239,710 p.a. on 1st January, 1990 and increasing again on 1st January, 2005 to £271,679 p.a. for the remainder of the term.
Cranebank Wales	Training centre	275,630	Freehold.
Engineering Works, Nantgarw, South Glamorgan	Aircraft engine overhaul workshops and test beds	253,560	Freehold.
New York			
Terminal Building, John F. Kennedy International airport	Passenger terminal	331,220	Sublease from BIDL Properties, Inc. ("BIDL") due to expire on 30th November, 1994. Current rent paid is US\$3,595,282 p.a. (Note 2).

Note 1: All leasehold interests held from HAL contain extensive prohibitions on disposal of the properties.

Note 2: In connection with the financing of the construction of BA's passenger terminal building at John F. Kennedy International airport, BIDL issued notes of which at 30th June, 1987, US\$17.2 million were outstanding and are repayable by December 1994. BA has entered into a security agreement with the trustee of the notes under which BA undertakes to pay all sums due in respect of the notes in the event that BIDL fails to pay such sums. This undertaking by BA has been guaranteed by HM Treasury.

H. Material contracts

The following contract, in addition to those which have been on view in the two years preceding the date of this document not being a contract entered into in the ordinary course of business, has been entered into by a member of the BA Group within such period and is, or may be, material:—

An agreement dated 16th July, 1987 between the Company (1) and Lazard Brothers (2) pursuant to which Lazard Brothers undertook to purchase or procure purchasers for cash at 205p per share (the "Cash Alternative Price") any new BA shares

to which a B-Cal shareholder accepting the Offer will become entitled on validly electing for the Cash Alternative. The following fees (plus VAT thereon) are payable by the Company:

- (i) for the first 30 days of Lazard Brothers' commitment a commitment fee of 1¼ per cent. on the value of the Cash Alternative Price of the maximum number of new BA shares issuable pursuant to the Offer (½ per cent. being passed on to the sub-underwriters) and provided the Offer becomes unconditional in all respects, an additional sub-underwriting commission of ¾ per cent. on the value at the Cash Alternative Price of the number of new BA shares falling to be issued in respect of valid acceptances of the Offer received on or before the first closing date of the Offer;
- (ii) thereafter a further commitment fee of ¼ per cent. on the value at the Cash Alternative Price of the maximum number of new BA shares issuable pursuant to the Offer for each subsequent 7-day period or part thereof up to and including the earlier of (A) the first day on which the Cash Alternative is closed and the Offer has become or been declared unconditional in all respects and on which Lazard Brothers is notified of any underwriting liability and (B) the date on which the Offer lapses (provided that such fee shall not be payable if the Offer is referred to the Monopolies and Mergers Commission); and

The Agreement contains warranties and an indemnity in favour of Lazard Brothers. If prior to the Offer becoming unconditional any of the warranties cease to be true and accurate, or anything arises which is inconsistent with them in any material respect Lazard Brothers can determine its obligations under the Agreement.

I. UK Taxation

- (a) The Company is not and has not since incorporation been a close company as defined in the Income and Corporation Taxes Act 1970.
- (b) Under current legislation, no tax will be withheld by the Company when it pays a dividend. However, when paying a dividend the Company is obliged to account to the Inland Revenue for advance corporation tax ("ACT"). The rate of ACT is fixed by reference to the basic rate of income tax and at present equals 27 per cent. of the aggregate of the dividend and of the related ACT.

A holder of an interim certificate under the offer for sale of ordinary share who is resident (for tax purposes) in the United Kingdom and who receives a dividend from the Company will be entitled to a tax credit of an amount equal to the related ACT. A company so resident will be able to treat any dividend received and the related tax credit as franked investment income. An individual so resident will be taxable upon the total of the dividend received and the tax credit, but the tax credit will discharge his liability to basic rate income tax and, if the tax credit exceeds his liability to tax on the dividend, he will be able to claim the excess.

Subject to certain exceptions for Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands and certain others, the right of a holder of an interim certificate or Ordinary share who is not resident in the United Kingdom to claim any part of the tax credit will depend upon the existence and terms of any double tax convention between the United Kingdom and the country in which he is resident. A holder who is not resident in the United Kingdom should consult his own tax advisers concerning his tax liabilities on dividends received, whether he is entitled to reclaim any part of the tax credit and, if so, the procedure for doing so.

A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. Any person who is in doubt as to his taxation position should consult an appropriate professional adviser.

J. Litigation

- (a) An action was commenced in January 1986 in the US District Court for the Central District of California against three defendants, including the Company, by a travel agency which formerly conducted business with Laker Airways Limited. Further actions (now consolidated) were commenced against 14 defendants, including the Company and B-Cal Airways, by former employees of Laker group companies, in February and March 1986, in the US District Court for the District of Columbia. In each case the matters alleged were substantially the same as were alleged by the liquidator of Laker Airways Limited in the proceedings brought by him against the Company, B-Cal Airways and others which were settled in 1985 and trebled damages were claimed. Each of these actions has been dismissed for lack of standing by orders of the relevant US District Courts. In both cases appeals were made to the appropriate US Courts of Appeal. In the case of the travel agency, the dismissal has been affirmed by the appellate court, but the Plaintiff has moved for reconsideration. In the case of the employees the appellate court has not yet given its decision.
- (b) Experience with litigation arising from the collapse of Laker Airways Limited has shown the extent to which US courts apply US anti-trust laws to conduct, whether inside or outside the United States, in relation to international air services. No claims other than those described above alleging breach of US anti-trust laws are current or are threatened against the Group. It is however possible that further claims could be asserted in relation to BA's past services to or from North America and, if asserted, such further claims could, as is common in anti-trust actions in the United States, seek substantial amounts and involve significant expenditure. Accordingly the Directors have, after consultation with the Secretary of State, considered it prudent to maintain a provision in the accounts against the cost to which BA could be exposed.

The Directors are of the opinion that the outcome of any such claims, combined with those asserted in the actions referred to in (a) above, would not in the aggregate have a material adverse effect on the business, financial condition or prospects of the Group, although in view of the uncertainties of anti-trust litigation, no assurance can be given to that effect. The opinion of the Directors is based on all relevant factors including a consideration of the grounds on which, if asserted, such claims might be defended and of methods by which they might be resolved, the provision made by the Directors and the Directors' assessment of the likelihood that HM Government will continue its stated policies towards the application of US anti-trust laws to international air transport.

- (c) In July and November 1986, the EEC Commission wrote to BA, as well as to a number of other airlines established in the European Community, saying that it considered certain practices, based on the provisions of a number of

long-standing inter-airline agreements, to contravene the competition provisions of the EEC Treaty and that, in the absence of modification to these practices, the EEC Commission would make a formal decision to that effect. BA has informed the EEC Commission that, in respect of a number of the agreements cited by the EEC Commission, some of the practices objected to are no longer followed and that, without accepting that it is under any legal obligation to do so, it is in any event BA's intention, for commercial reasons and so far as permissible under the terms of BA's operating permits, to modify the arrangements such that, in the opinion of the Directors, the EEC Commission would have no basis on which to continue with its proceedings. No liabilities have been incurred by BA in respect of the matters referred to in the EEC Commission's letters.

- (d) In August 1985, the liquidators of an Israeli charter operator, Maof Airlines Limited and Maof Charter One Limited ("Maof"), threatened to bring proceedings in Israel against the Company, alleging that certain practices adopted by the Company were designed to, and had the effect of, putting Maof out of business. Maof's liquidators alleged damages totalling US\$30 million. Although Maof's liquidators obtained leave to commence proceedings against the Company and a number of other airlines from the Israeli court in March 1986, no proceedings have been commenced.
- (e) Pursuant to an order made against HM Government and BA on 3rd February, 1987, the US Department of Transportation has found that the Traffic Distribution Rules made under the Airports Act 1986, which could have the effect of precluding all cargo-only carriers from operating to Heathrow and Gatwick airports during peak hours, constitute a discriminatory practice. This order, made following a complaint by a US cargo-only carrier, further states that if the operation of cargo-only carriers at those airports during peak hours were restricted, the Department of Transportation would impose commensurate restrictions on BA's operations during such hours at high density US airports. To date, cargo-only carriers have not been precluded from operating to Heathrow and Gatwick airports during peak hours.

Save as mentioned above, neither the Company nor any of its subsidiaries is engaged in or is aware of any litigation, claims or arbitration proceedings pending or threatened against them which may have, or have had in the past twelve months, a significant effect on the Group's financial position.

K. General

- (a) The financial information in respect of the BA Group for the five financial years ended 31st March, 1987 contained in this document does not constitute full accounts in respect of those years within the meaning of section 254 of the Companies Act 1985. BA's first accounting reference period ended on 31st March, 1985. In respect of the two financial years to 31st March, 1984, the British Airways Board prepared its accounts in accordance with the British Airways Board Act 1977 and was not required to prepare accounts under what is now section 227 of the Companies Act 1985. Accordingly, full accounts in respect of those periods were not delivered to the Registrar of Companies, nor were the auditors of the British Airways Board required to make a report thereon under what is now section 236 of the Companies Act 1985. Full accounts in respect of the three financial years ended 31st March, 1987 were delivered to the Registrar of Companies and the auditors of BA Group gave unqualified reports thereon within the meaning of section 271 of the Companies Act 1985.
- (b) Save as disclosed herein, there has been no significant change in the financial or trading position of the BA Group since 31st March, 1987, the date to which the latest audited accounts of the BA Group were made up.
- (c) Each of Lazard Brothers and Goldman Sachs International Corp. has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they are included. Ernst & Whinney have given and have not withdrawn their written consent to the issue of this document with the inclusion of their report and the references to their name in the form and context in which they are included.
- (d) On the assumption that the Offer becomes unconditional in all respects, the total expenses of, or incidental to, the preparation and circulation of the Offer and these listing particulars and other related documents payable by the Company including underwriting commission (as to which, see section H above) are estimated to amount to approximately £5 million (excluding stamp duty, stamp duty reserve tax, capital duty and value added tax).
- (e) Any person (including any natural person, company, government or political sub-division thereof) who becomes the "beneficial owner" (as defined in the United States Securities Exchange Act of 1934, as amended) of more than five per cent. of the BA shares becomes subject, under the terms of that Act, to an obligation to file prescribed reports of beneficial ownership (and reports of changes in such ownership) with the SEC, the New York Stock Exchange and the Company on a form prescribed by the SEC. Any person (including any individual, partnership or trustee) or company that becomes the beneficial owner of more than ten per cent. of the BA shares becomes subject, under the terms of the securities legislation in certain provinces of Canada, to an obligation to file prescribed reports of beneficial ownership (and reports of changes in such ownership) with the Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia securities commissions and with The Toronto Stock Exchange, in a prescribed form.
- (f) As at 24th July, 1987 approximately 16 per cent. of the BA shares were Relevant Shares (as defined in section B above).

L. Documents for inspection

Copies of the following documents may be inspected at the offices of Linklaters & Paines, 59-67 Gresham Street, London EC2V 7JA during usual business hours on any weekday (public holidays excepted) whilst the Offer remains open for acceptance:—

- (a) the Memoranda and Articles of Association of BA and B-Cal;
- (b) the audited consolidated accounts of the BA Group and the B-Cal Group for the two years ended 31st March, 1987 and 31st October, 1986 respectively;
- (c) the Offer Document and the Form of Acceptance;

- (d) the Accountants' Report set out in Part III;
- (e) the service agreements referred to in section D above and the agreements relating to the B-Cal Directors referred to in paragraph 2(ii)(f) of Appendix II to the Offer Document;
- (f) the documents constituting the Profit Sharing Schemes, the SAYE Scheme, the Share Purchase Plan, the Option Scheme and the Share Option Plan referred to in section E above;
- (g) the documents constituting the B-Cal Share Option Scheme and Profit Sharing Schemes;
- (h) the material contracts referred to in section H above and section 3 of Part III above;
- (i) the written consents referred to in section K above; and
- (j) the irrevocable undertakings referred to in paragraph 2(ii)(b) of Appendix II to the Offer Document.

28th July 1987