

REPORT AND ACCOUNTS 1985-86

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BRITISH AIRWAYS

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REPORT AND ACCOUNTS

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YEAR IN BRIEF 1985-86

GROUP RESULTS

| | | 1985-86 | 1984-85 |
|--------------------------------|----|---------|---------|
| Turnover | £m | 3,149 | 2,943 |
| Operating surplus | £m | 198 | 292* |
| Profit before taxation | £m | 183 | 168 |
| Profit transferred to reserves | £m | 181 | 176 |
| Shareholders' equity | £m | 480 | 286 |
| Earnings per share | p | 100.5 | 91.9 |

*1984-85 before exceptional item

STAFF AND PRODUCTIVITY

| <i>Airline only</i> | | 1985-86 | 1984-85 |
|---|-----|---------|---------|
| Average number of staff | | 38,939 | 36,861 |
| Available tonne kilometres | m | 8,601 | 7,837 |
| Revenue tonne kilometres | m | 5,673 | 5,267 |
| Available tonne kilometres per employee | 000 | 221 | 213 |
| Revenue tonne kilometres per employee | 000 | 146 | 143 |



1994-1995 ANNUAL REPORT

CHAIRMAN'S STATEMENT



THE RIGHT HON THE LORD KING OF WARTNABY REPORTS:

The year to March 1986 marked the end of the second phase of our restructuring programme. British Airways is now one of the more efficient, profitable and productive airlines in the world.

It is a tribute to the efficiency of the company that in a difficult year, we raised pre-tax profits to £183 million against £168 million the previous year. Turnover of £3.1 billion earned an airline operating surplus of £205 million in 1985-86 after higher aircraft leasing costs.

In the past four financial years, we have produced operating surpluses totalling £943 million and pre-tax profits totalling £609 million.

We have reduced our capital indebtedness from £1,053 million to £379 million, and it was the reduced interest upon those borrowings that was in large measure responsible for our higher pre-tax profits.

Over the past four years, our capital and reserves have grown from a deficit of £195 million to a surplus of £480 million. By any standards, that is a remarkable turnaround.

We experienced a number of difficulties last year. As a result of the route exchange with British Caledonian, agreed under the Civil Aviation Review, we no longer operate to Saudi Arabia which was previously one of our most profitable destinations. We have also been unable to fly to Teheran, another normally lucrative source of business.

The rate of traffic growth began to decline following a series of airline accidents in different parts of the world, including our own tragic loss of a British Airtours Boeing 737 at Manchester.

We also had to cope with the effects of terrorism and of rising costs, many of them outside our control. These were only partly offset by a decline in our expenditure on aviation fuel which also benefitted from the higher use of more fuel efficient aircraft.

Although our results were below the targets we had set ourselves, they are not unsatisfactory in the circumstances.

This year, in common with most of the tourist-related industry we are experiencing a significant decline in business, particularly by comparison with the transatlantic results of 1985. This stems largely from the very misleading impression that American holidaymakers have been given about

the supposed hazards of visiting Europe. It is sad that there is not a more accurate presentation in the USA of the relatively safe and peaceful life that we live in this country, where, as the Prime Minister has said, a visitor has about as much chance of being struck by lightning as of being the victim of a terrorist attack.

We are determined to defend and sustain our record of profitability and we have initiated a creative marketing programme on both sides of the Atlantic to tell people the true facts, with encouraging results.

We are taking prudent measures to control costs by stopping the recruitment of 1,500 summer staff and reviewing all operating costs and capital expenditure. If tough action is needed the company will act, including cutting manpower if necessary. I believe we would have the full understanding of our staff, whose loyalty and dedication have contributed so much to our success.

We have made great strides in implementing the new corporate image of British Airways which has been well received. We have largely completed the task of repainting our aircraft fleet in its new livery and we have made a good start on introducing new uniforms, new travel shop decor and the many other facets of our new look.

We have moved our intercontinental services, including Concorde, together with the Paris and Amsterdam routes into the new Terminal 4 at Heathrow, where they are settling in well. We have also completed a major refurbishment of our terminal at John F Kennedy Airport, New York.

Sir Leo Pliatzky retired from the Board at the end of November 1985. Sir Leo has given most valuable service to British Airways over a crucial period in its history, and we are much indebted to him.

Captain Jack Jessop retired from his executive appointment as Director of Safety Services at the end of a distinguished civil aviation career in the air and on the ground. However he has agreed to stay on the Board, where his practical experience will be available in fields such as the Board Air Safety Review Committee of which he is chairman.

There are items of litigation outstanding from the collapse of Laker Airways, and the task of resolving them is going well. Together with the expected renegotiation of the capacity annex to the Bermuda II agreement

which expires in July, this should allow the Government to make a decision on the privatisation of British Airways shortly thereafter.

Privatisation is an essential step towards realising the full potential of British Airways. Free from the constraints of public ownership, we shall be able to concentrate single-mindedly on doing what is best for the company, for its customers and for all who work for it both now and during future expansion.

The aim of British Airways is to be the best and the most successful airline in the world, and we are well on the way to the attainment of those goals. I look forward to the future with confidence and optimism.

A handwritten signature in black ink, appearing to read 'King of Wartnaby'.

King of Wartnaby

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and accounts of British Airways Plc (BA) for the year to 31 March 1986. Since 1 April 1984 all the issued share capital of BA has been held by The Secretary of State for Transport.

MEMORANDUM OF UNDERSTANDING

Whilst the Directors of the Company have been bound by the Companies Acts since 1 April 1984, a Memorandum of Understanding between the Directors and The Secretary of State for Transport dated 27 March 1984 established separate controls. The Memorandum specifies that so long as The Secretary of State remains the sole shareholder and guarantees creditors against default, he will continue to exercise controls over investment, borrowing and financial planning to enable him to discharge his responsibilities to Parliament.

SIGNIFICANT EVENTS OF THE YEAR

RESULTS

While the airline operating profit for 1985-86 was lower than that of the previous year, the profit before tax of £183m was above the 1984-85 level of £168m largely because the cost of borrowings was substantially less. However the profit for 1984-85 was arrived at after charging a provision of £33m, as an exceptional item, for the cash costs of the Laker anti-trust and associated Class Action out of Court settlements.

ACCIDENT

In August 1985 Boeing 737 G-BGJL operated by British Airtours was the subject of a tragic accident on the runway at Manchester. This led to the loss of 55 lives. A number of the 82 survivors were injured. The Board recorded its most sincere regret and sent its deepest sympathy to the bereaved. This accident is currently the subject of an inquest by the Manchester Coroner which is expected to take place in September 1986 and the subject of an investigation by the Accident Investigation Branch of the Department of Transport.

The preliminary conclusions of the Accident Investigation Branch identified the cause of the accident as an explosive rupture of the combustion chamber outer casing in Number 1 engine, resulting from the loss of integrity of the Number 9 combustion can, part of which punctured the fuel access panel immediately outboard of the Number 1 engine. Fuel was released in large quantities from the puncture and immediately ignited. The full report is unlikely to be available for some time.

LITIGATION

In October 1985 an out of Court settlement was reached between the liquidator of Laker Airways and a number of airlines, including BA, whom it was alleged had conspired to put Laker Airways out of business and that in so doing they had acted in violation of US anti-trust laws.

In March 1986 another out of Court settlement was reached in a consolidated anti-trust Class Action in which it was alleged that following Laker's cessation of business in 1982 the defendants, including BA, had conspired to fix prices for certain categories of fares for US/UK air travel causing members of the class to pay higher prices for such air travel.

Both actions were filed with the US District Court in Washington DC and both settlements were approved by the same Court on a dismissal 'with prejudice' and without admission of liability basis. Particulars of the Laker Airways settlement and the expected settlement of the Class Actions were given in the Report of the Directors in respect of the year to 31 March 1985 which was published in December of that year.

REPORT AND ACCOUNTS

PRIVATISATION

On 12 March 1986 The Secretary of State for Transport announced that due to difficulties which had arisen in the negotiations with the US Government on the renewal of the UK/US Air Services Agreement, known as Bermuda II, HM Government could still not set a firm timetable for privatisation. The Directors are obviously disappointed with this further delay but remain totally committed, along with HM Government, to privatisation at the earliest opportunity.

OTHER EVENTS

BOEING 747 CHECKS

Earlier this year frame cracks occurred in the front fuselage of several Boeing 747 aircraft operated by various airlines around the world. The aircraft affected were the earlier version of the Boeing 747 which have been in operation since the early 1970s. Similar cracks were found, on inspection, in a number of our older Boeing 747-136 aircraft. BA has agreed with the Civil Aviation Authority (CAA) a repair programme that will meet in every way the Authority's standards of airworthiness. In conjunction with the CAA and the manufacturers, we are planning to undertake work on the affected aircraft that will permit their continued safe operation.

BRITISH AIRWAYS HELICOPTERS LIMITED

In view of its unsatisfactory trading record, and because its business is not compatible with BA's activities, negotiations have been taking place for the disposal of British Airways Helicopters Ltd (BAHL). Since the year end agreement in principle has been reached, subject to contract, for the sale of BAHL to a company jointly owned by the Scottish Daily Record and Sunday Mail Limited and Mr Robert Maxwell.

AIRPORTS

Since the publication of the Government White Paper on Airports Policy in June 1985 the Government has approved the first phase of the Stansted development to handle eight million passengers per annum by the winter of 1990. The British Airports Authority (BAA) has delayed completion of the second (North) Terminal at Gatwick until early 1988 and the Government has commissioned consultants to study the options for improvements to the A4/M4 corridor from Heathrow to Central London, including a possible rail link. The BAA and the Thames Water Authority have also commissioned a feasibility study on the options and costs of relocating the Perry Oaks sludge works with a view to releasing the site as soon as possible for airport use at Heathrow.

In addition the Airports Bill has now been enacted; its main features include taking powers to privatise the BAA, and establishing local authority airports as public limited companies. The Government will also take powers to set annual air traffic movements at airports, but not at Heathrow and Gatwick, to allocate airport capacity if necessary, including runway slots in the event of demand exceeding capacity and to implement traffic distribution rules, primarily for South East airports.

BA hopes that the powers to be taken by the Government in connection with airport capacity and traffic distribution are primarily reserve powers, otherwise it could result in greater Government interference to the detriment of market forces.

ROUTE SUPPORT COSTS

In its White Paper *Airline Competition Policy* (Cmnd 9366) the Government decided that BA's regional routes to Europe should not be compulsorily transferred to other airlines. However, in order to assist smaller airlines in establishing new routes, it accepted BA's proposal to make available to any airline, other than British Caledonian Airways Limited (BCAL), up to £450,000 per route spread over three years, for a maximum of 15 routes from the six regional airports from

which BA currently operates. On the recommendation of the Department of Transport agreements have been entered into with eight airlines to provide finance in support of 15 routes. Payments started in 1986.

SECURITY

The Directors are deeply concerned at the recent increase in terrorist activity which has been directed against civil aviation, both on the ground and in the air. In conjunction with the relevant authorities in the UK and elsewhere, BA has taken steps, as far as is practically possible, to protect its passengers, staff, property and equipment against such outrages. These preventative measures are under continuous review.

ACTIVITIES

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

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

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

BA's wholly owned subsidiary, British Airtours Limited, based at Gatwick Airport, carries out substantial charter operations. BA's inclusive tour businesses, which are carried out under several brand names, ie Sovereign, Enterprise, Flair and Martin Rooks, are managed by British Airways Tour Operations Limited. Other inclusive tour businesses are provided by Overseas Air Travel Ltd, using the Poundstretcher and Dollarstretcher brand names, and British Airways Holidays (Canada) Ltd. Travel Automation Services Ltd (Travicom) (55% owned by BA at March 1986 subsequently increased to 82%) promotes and provides automated multiple access travel booking services for the travel industry. British Airways Helicopters Ltd, the sale of which has been agreed in principle subject to contract since the year end, operates a fleet of helicopters, most of which serve the oil and gas industry in the North Sea.

ORGANISATION

The present airline organisation came into being in July 1983. The principal departments are Marketing, Operations, Finance, Information Management and Human Resources. Under Marketing there are seven market centres which cover all the scheduled services and three businesses – Cargo, Charters and Tours. Each centre and business is profit accountable. Subsequent changes have been made in the light of experience gained, primarily to strengthen the organisation and management structure, so as to provide the highest standard of service to customers.

THE YEAR'S RESULTS

Details of the Group's results for 1985-86 are set out in the accounts on pages 22 and 23. Further details by activity and by geographical area are set out in Note 1 to the accounts on pages 25 and 26. Commentaries on the performance of the individual market and business centres are covered in more detail in the Review which is enclosed with the Report and Accounts.

The growth experienced in 1984-85 continued through the summer of 1985, but this decreased progressively during the autumn and winter months. Lower traffic in the winter months was in part due to a series of accidents and incidents which occurred to a number of aircraft owned by different airlines throughout the world. In addition the increasing scale of acts of terrorism had an adverse effect on passenger traffic, which has become more pronounced in the current year.

REPORT AND ACCOUNTS

In 1985-86 the actual volume of scheduled airline traffic increased over the previous year by 7% in passengers carried and 8% in revenue passenger kilometres. The largest increases were recorded on routes across the North Atlantic and to Hong Kong and Tokyo. In the Middle East we suffered from the loss of the highly profitable Saudi Arabian business (transferred to BCAL on 1 April 1985) and our inability to operate to Iran. The new routes to South America were successfully launched in the year, but the associated development costs and lower average load factors on South American routes, coupled with higher costs in the US, resulted in a significant reduction in the operating surplus earned by the 'Americas' market compared with 1984-85 (see Note 1c on the accounts – page 26). Freight carryings increased but mail remained static. Charter business suffered because a TriStar was out of service for five months following the accident at Leeds/Bradford in May 1985.

The passenger load factor in 1985-86 was half a point below that of 1984-85 at 68%. Yields per passenger kilometre were lower, reflecting the weakening of many currencies against sterling – including those of Australia and South Africa, both of which are important sources of business. Greater competition and the reluctance of regulatory authorities to approve applications for fare increases were also contributory factors. Consequently airline traffic revenue, including non-scheduled services, only increased by £158m – or 6% to £2,795m.

Total capacity offered during the year, measured in terms of available tonne kilometres, increased by 10%. Staff numbers increased by 6% and staff productivity, measured by available tonne kilometres per employee, increased by 4%. Net airline operating costs, after allowing for cost recoveries for services provided to third parties, increased by £223m – or 9% to £2,590m. This was accounted for through higher costs associated with staff, aircraft leasing and maintenance, passenger services in flight, commissions and currency exchange differences. However, in a period when flying hours increased by 7%, the cost of fuel in terms of sterling fell by the same percentage. The effect of changes in exchange rates on both total revenue and expenditure was effectively neutral. However, with the strengthening of sterling, losses amounting to £22m were incurred on the settlement of overseas receivables less payables compared with a gain of £12m in the previous year.

After taking account of all revenue and expenditure the airline operating surplus was £205m, compared with £303m recorded in the previous year. This result for 1985-86 fell well short of our target but was not unsatisfactory in the circumstances.

Our tour operations again showed an operating loss but this was less than the previous year. Other subsidiaries recorded results similar to the previous year.

After taking account of other income, Group profit before interest was £222m. Interest payable and associated charges amounted to £39m compared with £113m in the previous year. The lower cost of money was due to the continued reduction in borrowings, together with a favourable revaluation of general purpose foreign currency borrowings arising from the strengthening of sterling.

After taking account of taxation and minority interests the Group profit for the year was £181m. This compared favourably with the £176m recorded last year, which included an extraordinary credit of £11m.

DIVIDEND AND TRANSFER TO RESERVES

An interim dividend of £180,000, representing 0.1 pence per share, was paid in December 1985. The Directors recommend that a final dividend of £180,000, representing 0.1 pence per share, be paid in respect of the year 1985-86. After providing for these dividends the balance of £181m has been transferred to Reserves. These dividends are being made in order to preserve the trustee status of BA's ordinary shares under the Trustee Investment Act.

BALANCE SHEET

Borrowings have been reduced again. During 1985-86 the reduction was from £647m to £379m (in both cases including amounts payable within the next twelve months). There were net repayments of £210m and the strengthening of sterling further reduced the value of borrowings by £58m. Share Capital and Reserves of £480m at the year end now exceeds our borrowings, and consequently BA's debt/equity ratio at 31 March 1986 was 44/56 compared with 69/31 a year ago.

ACCOUNTING POLICIES

No significant changes in accounting policy and practice were adopted in the year.

Because our aircraft are generally acquired from US suppliers and financed by US\$ borrowings, it is our policy to adjust the cost of these assets at each year end to take account of the sterling cost of related loan repayments during the year, and the amount outstanding at the year end which is translated at the year end rate or the forward contract rate if repayments have been covered forward. The cost of the aircraft concerned has been reduced by £49m reflecting the strengthening of sterling during the year.

All properties of the Company and its subsidiaries, other than those of a specialised use nature, were valued at open market value at 31 March 1984 by Richard Ellis, Chartered Surveyors, and this value was included in the accounts for the year then ended. A further valuation of certain properties was undertaken as at 31 March 1986 and this revealed no material difference from the valuation already included in the accounts.

CURRENT COST ACCOUNTS

In accordance with the requirements of HM Government, current cost accounts are set out on pages 40 to 43. The principal feature of these accounts is that the additional depreciation that arises from the revaluation of assets on a current cost basis, which amounts to £94m, is more than covered by the amount of £181m transferred to reserves in the historic cost accounts.

FLEET GENERAL

Throughout the year BA's new livery continued to be incorporated on our aircraft, ground equipment, vehicles, airport facilities, sales shops, executive lounges and stationery. By Spring 1987 almost all the aircraft will be in the new external livery and will have common fabrics and matching colours in the cabins. New uniforms for flight crew, cabin crew and ground staff are being introduced between April 1986 and January 1987.

Most of the expenditure associated with the new livery is being written off as incurred. In 1985-86 this amounted to £12m. However, the cost of new internal aircraft fittings such as galleys is being capitalised and written off over the remaining lives of the aircraft.

AIRCRAFT

For the shorthaul operations a further eight Boeing 757 aircraft were acquired – seven on operating leases and one purchased – bringing the fleet size for this type to 24 at 31 March 1986. One additional Boeing 737 was also acquired on an operating lease, bringing the number of Boeing 737s to 46. The delivery of these aircraft coincided with the withdrawal from service of the last of our Trident aircraft, which as of 1 January 1986 could not comply with current noise regulations. A further Boeing 757 was delivered in May 1986 and another Boeing 757 is due for delivery in March 1987.

The seventh Concorde, which had been subject to extensive modifications, rejoined the fleet in April 1985. Two secondhand TriStar 500 aircraft were leased to operate our new South American routes and two secondhand Boeing 747-Combi aircraft were leased to provide greater cargo carrying capacity, particularly in the winter months. Orders have recently been placed for two new Boeing 747-Combi aircraft and a standard Boeing 747-200 passenger aircraft for delivery in Spring 1987.

In view of the heavy modification and refurbishment programmes for the Boeing 747 fleet a secondhand Boeing 747-283B was acquired on a short term operating lease to enhance the integrity of the Boeing 747 scheduled operations. Subsequent to the year end negotiations have been completed for the short term lease of two HS 748 aircraft for use on our German internal and Scottish routes.

CAPITAL EXPENDITURE

Capital expenditure in 1985-86, excluding the purchase of replenishment spares, was limited by the Government to £250m. Actual capital expenditure on aircraft, property, equipment and investments amounted to £245m, which was just within the Government limit. With expenditure on replenishment spares amounting to £37m, total capital expenditure in the year was £282m.

BORROWINGS AND LIQUIDITY

Cash generated from operations, together with other miscellaneous receipts but after charging interest payable, was sufficient to finance all capital expenditure and allow a net reduction in borrowings of £210m. This was in line with the External Financing Limit set by the Government which required a repayment of £210m. Details are shown in the source and application of funds statement on page 24.

It should be noted that the reduction in borrowings in recent years has been financed from cash generation which in part arises from increases in forward bookings. These are reflected in what is known as 'sales in advance of carriage'. When forward bookings decline, as happened in the opening weeks of the current financial year 1986-87, this source of finance ceases and could go into reverse, if the downward trend continues.

FINANCIAL SUMMARY

Summaries of the trading results, profits, cash sources and dispositions and the balance sheets for the past five years are given on pages 14 and 15. Further details by activity and by geographical area are given on pages 16 and 17.

EMPLOYEE INVOLVEMENT

During the year the Company continued to encourage involvement of all its employees in the running of the business. In November 1985 the Company launched a programme entitled 'A day in the life' which is part of the Putting People First campaign. This is designed to allow staff to get a better appreciation of what their colleagues do in other areas and sections of the airline. 'A day in the life' presentations last a whole day, are presented every week day, and will continue until late 1986 when nearly all 39,000 employees will have attended.

Our successful 'Putting People First' training gave everyone within the airline a better insight into how to go about their jobs everyday and in every way. As a follow up to this a 'Managing People First' course has been devised which is specifically concerned with helping anyone who has the responsibility for managing other people, whether staff or other managers, to become more expert at getting the best from him or herself in every situation. Eleven hundred managers and technical staff have already attended the course and the general reaction is very positive and favourable.

Consultation takes place through management and trade union committees at varying levels within the Company where a wide range of business and employment issues are discussed. Specialist consultative groups exist for such topics as safety and 'Customer First' teams have been established in many sections in which volunteer employees meet regularly to seek ways of improving customer service in their own area.

A Profit Sharing Scheme has existed since 1983-84 and for the year 1985-86 every eligible staff member is due to receive just over two weeks basic pay.

A 'Brainwaves' staff suggestion scheme exists which acknowledges original workable suggestions with rewards of up to £5,000 per suggestion. 337 awards were made in the year under review.

British Airways News, which provides up to date information to staff on what is happening in the airline, is issued free to staff each week. Wide use is now being made of video presentations on a varied range of subjects.

OFFER FOR SALE OF SHARES TO STAFF

Arrangements were made in the summer of 1984 and 1985 to enable employees in receipt of the 1983-84 and 1984-85 profit shares to have their entitlement, without any deduction for income tax under Schedule E (PAYE), held in a Trust until the shares of BA were offered for sale. The funds could then be used to acquire shares in the Company.

As a result of the delay in the Offer for Sale, the Company, with the consent of the Inland Revenue, has agreed to continue the Trust and has established similar opportunities and arrangements for the 1985-86 profit share. However, if no Offer for Sale has taken place by 31 March 1987, the Trust arrangements will terminate and the profit shares will have to be distributed in cash, less income tax, unless a further extension is agreed with the Inland Revenue.

Some 8,800 employees have elected to have their profit shares for all or some of the three years held in trust, amounting in aggregate to just over £8m.

DISABLED PERSONS

British Airways' policy is to promote equal opportunity in employment, regardless of physical or mental disability, subject only to capability and suitability for the task in question and the requirements of the law. In 1985-86 we have sought to encourage disabled people to join the Company, remain in its employment and retire on the same terms as other employees. All vacancies in British Airways for suitably qualified disabled people are passed on to the local Disablement Resettlement Officer. Wherever possible, staff who become disabled during employment with British Airways are provided with an alternative job that makes full use of their capabilities.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to £38,000 (1985-£79,000). Additionally, staff supported by the Company launched an appeal which provided much needed assistance to the Dhaka orphanage in Bangladesh.

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

DIRECTORS

The names of the present Directors are listed on page 13. Sir Leo Pliatzky retired from the Board at the end of November 1985.

In accordance with the Company's Articles of Association Messrs Robert Henderson, Basil Collins and Michael Davies retire by rotation and being eligible offer themselves for re-election.

None of the Directors had any interests in the share capital of the Company nor in the share capital of any subsidiary other than as nominees for the holding company.

None of the Directors had any interest in any contract with the Company.

Two Directors currently have service agreements which remain in force until or unless terminated by either side giving three years' notice.

AUDITORS

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

REPORT AND ACCOUNTS

BOARD MEMBERS

Lord King of Wartnaby *Chairman*
Robert Henderson *Deputy Chairman*
Colin Marshall *Chief Executive*
Basil Collins CBE
Michael Davies
Gordon Dunlop
Jack Jessop CBE
Henry Lambert

Bernard Wood *Secretary* (Bob Hammond from 7 June 1986)

EXECUTIVE MANAGEMENT

C M Marshall *Chief Executive*
R J Ayling *Legal Director*
Captain C A Barnes *Chief Pilot*
D W B Burnside *Head of Public Affairs*
A Cumming *Engineering Director*
G Dunlop *Chief Financial Officer*
R A Gamble *Deputy Chief Financial Officer*
Dr N Georgiades *Director of Human Resources*
J Goasdoué *Senior General Manager Market Centres*
J R Harris *Director of Marketing*
Captain P J Hunt *Head of Safety Services*
D Hyde *Deputy Director of Marketing*
D V Jones *Senior General Manager Marketing Planning*
C Mason *Director of Purchasing and Supply*
P E Owen *Deputy Director of Operations*
H T H M Phelps *Director of Operations*
Dr F S Preston *Director of Medical Services*
G Watts *Director of Marketplace Performance*
J O Watson *Director of Information Management*
H K Wilkins *Planning Director*
B C Wood *Company Secretary* (J R J Hammond from 7 June 1986)

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SUMMARY FINANCIAL STATEMENTS*For the five years ended 31 March 1986*

| | 1981-82 £m | 1982-83 £m | 1983-84 £m | 1984-85 £m | 1985-86 £m |
|---|---------------|---------------|---------------|---------------|---------------|
| Group profit and loss account | | | | | |
| Turnover | 2,241 | 2,497 | 2,514 | 2,943 | 3,149 |
| Operating expenditure | (2,229) | (2,312) | (2,246) | (2,651) | (2,951) |
| Operating surplus | 12 | 185 | 268 | 292 | 198 |
| Other income/(charges) | (3) | 18 | 26 | (11)* | 24 |
| Interest payable and similar charges | (120) | (130) | (109) | (113) | (39) |
| Profit/(loss) on ordinary activities before taxation | (111) | 73 | 185 | 168 | 183 |
| Taxation and minority interests | (4) | (10) | (4) | (3) | (2) |
| Profit/(loss) for the year before extraordinary items | (115) | 63 | 181 | 165 | 181 |
| Extraordinary items | (429) | 26 | 33 | 11 | |
| Profit/(loss) for the year transferred to reserves | (544) | 89 | 214 | 176 | 181 |
| Group source and application of funds | | | | | |
| Funds generated: | | | | | |
| Profit/(loss) on ordinary activities before taxation | (111) | 73 | 185 | 168 | 183 |
| Profit/(loss) on tangible asset and investment disposals | (7) | (34) | (5) | 5 | 3 |
| Extraordinary items | (429) | 26 | 33 | 11 | |
| | (547) | 65 | 213 | 184 | 186 |
| Adjustments not involving movement of funds | | | | | |
| <i>Amortisation and depreciation of tangible assets</i> | 338 | 116 | 118 | 146 | 162 |
| <i>Miscellaneous**</i> | 229 | 8 | (34) | 22 | (15) |
| Cash generated from operations | 20 | 189 | 297 | 352 | 333 |
| Net proceeds from tangible asset and investment disposals | 18 | 110 | 12 | 48 | 23 |
| Total cash generated | 38 | 299 | 309 | 400 | 356 |
| Movements in working capital | (53) | (92) | 105 | 49 | 136 |
| Public dividend capital issued | 10 | | | | |
| Cash available | (5) | 207 | 414 | 449 | 492 |
| Application of funds: | | | | | |
| Capital expenditure | 153 | 173 | 250 | 119 | 282 |
| Loans and lease finance – net decrease/(increase) | (158) | 34 | 164 | 330 | 210 |
| Total cash applied | (5) | 207 | 414 | 449 | 492 |

*1984-85 includes exceptional charge of £33m

**1981-82 mainly provision for severance. Subsequent years mainly exchange adjustments.

REPORT AND ACCOUNTS

| | 1981-82 £m | 1982-83 £m | 1983-84 £m | 1984-85 £m | 1985-86 £m |
|--|---------------|---------------|---------------|---------------|---------------|
| Group balance sheet | | | | | |
| Fixed assets | | | | | |
| <i>Tangible assets</i> | 1,034 | 1,079 | 1,263 | 1,247 | 1,315 |
| <i>Investments</i> | 22 | 20 | 20 | 4 | 5 |
| Current assets | 577 | 573 | 511 | 710 | 593 |
| Creditors: amounts falling due within one year | (751) | (716) | (768) | (1,021) | (1,023) |
| Net current liabilities | (174) | (143) | (257) | (311) | (430) |
| Total assets less current liabilities | 882 | 956 | 1,026 | 940 | 890 |
| Creditors: amounts falling due after more than one year, including provisions for liabilities and charges | (1,074) | (1,073) | (899) | (653) | (408) |
| | (192) | (117) | 127 | 287 | 482 |
| Capital and Reserves | | | | | |
| <i>Public Dividend Capital</i> | 180 | 180 | | | |
| <i>Called up share capital</i> | | | | 180 | 180 |
| <i>Reserves</i> | (375) | (297) | (54) | 106 | 300 |
| | (195) | (117) | 126 | 286 | 480 |
| Minority interests | 3 | | 1 | 1 | 2 |
| | (192) | (117) | 127 | 287 | 482 |

BRITISH AIRWAYS Plc 1985-86

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

For the five years ended 31 March 1986

| | 1981-82 £m | 1982-83 £m | 1983-84 £m | 1984-85 £m | 1985-86 £m |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Turnover | | | | | |
| Airline operations | 2,010 | 2,172 | 2,382 | 2,797 | 2,981 |
| Helicopter operations | 38 | 41 | 43 | 38 | 38 |
| Inclusive tour holidays | 87 | 100 | 79 | 99 | 120 |
| Other | 8 | 9 | 10 | 9 | 10 |
| Discontinued activities | 98 | 175 | | | |
| | 2,241 | 2,497 | 2,514 | 2,943 | 3,149 |
| Operating surplus/(deficit) | | | | | |
| Airline operations | 5 | 170 | 274 | 303* | 205 |
| Helicopter operations | 3 | — | — | (2) | (3) |
| Inclusive tour holidays | (2) | (2) | (8) | (10) | (6) |
| Other | (1) | 1 | 2 | 1 | 2 |
| Discontinued activities | 7 | 16 | | | |
| | 12 | 185 | 268 | 292* | 198 |
| Profit/(loss) before taxation | | | | | |
| Airline operations | (115) | 43 | 185 | 159 | 187 |
| Helicopter operations | (1) | — | 2 | 6 | (2) |
| Inclusive tour holidays | (4) | 4 | (3) | (7) | (4) |
| Other | (1) | 7 | (1) | 1 | 2 |
| Discontinued activities | 10 | 19 | 2** | 9** | |
| | (111) | 73 | 185 | 168 | 183 |

*1984-85 before exceptional item

**Represents share of attributable results and profit on disposal of certain related companies

REPORT AND ACCOUNTS

ANALYSIS OF TURNOVER AND OPERATING SURPLUS

BY GEOGRAPHICAL AREA

For the five years ended 31 March 1986

| | 1981-82 £m | 1982-83 £m | 1983-84 £m | 1984-85 £m | 1985-86 £m |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Turnover | | | | | |
| Europe | 985 | 1,030 | 1,135 | 1,256 | 1,368 |
| The Americas | 556 | 620 | 670 | 862 | 990 |
| Africa | 143 | 154 | 154 | 178 | 169 |
| Middle East, Far East and Australasia | 459 | 518 | 555 | 647 | 622 |
| | 2,143 | 2,322 | 2,514 | 2,943 | 3,149 |
| Discontinued activities | 98 | 175 | | | |
| | 2,241 | 2,497 | 2,514 | 2,943 | 3,149 |
| Operating surplus/(deficit) | | | | | |
| Europe | 4 | 62 | 104 | 83 | 55 |
| The Americas | (6) | 52 | 86 | 130 | 84 |
| Africa | 20 | 22 | 22 | 26 | 14 |
| Middle East, Far East and Australasia | (13) | 33 | 56 | 53 | 45 |
| | 5 | 169 | 268 | 292 | 198 |
| Discontinued activities | 7 | 16 | | | |
| | 12 | 185 | 268 | 292 | 198 |

BRITISH AIRWAYS Plc 1985-86

AIRCRAFT FLEET – FIXED WING

Changes between 31 March 1981 and 31 March 1986

| | 31 March 1981 (Note 1) | Additions | Disposals (Note 2) | 31 March 1986 (Note 3) | Average age of fleet at 31 March 1986 Years (Note 4) | Method of disposal |
|-------------------------------------|------------------------------|-----------|-----------------------|------------------------------|--|---|
| Shorthaul including Airtours | | | | | | |
| Boeing 757 | | 24 | | 24 | 2 | |
| Boeing 737 | 25 | 21 | | 46 | 4 | |
| TriStar 1 | 9 | | | 9 | 11 | |
| Trident 3 | 25 | | 25 | | | 10 sold, 8 scrapped |
| Trident 2 | 16 | | 16 | | | 3 sold, 11 scrapped, 1 given to museum |
| Trident 1 | 11 | | 11 | | | 8 sold, 2 scrapped, 1 given to museum |
| BAC 1-11/500 | 21 | | | 21 | 15 | |
| BAC 1-11/400 | 5 | | | 5 | 13 | |
| HS748 | 2 | 4 | | 6 | 6 | |
| Viscount | 8 | | 8 | | | Sold |
| | 122 | 49 | 60 | 111 | | |
| Longhaul | | | | | | |
| Concorde | 7 | | | 7 | 8 | |
| Boeing 747-236 | 10 | 2 | | 12 | 7 | |
| Boeing 747-136 | 16 | | | 16 | 14 | |
| Boeing 747 F | 1 | | 1 | | | Sold |
| Boeing 747 Combi | | 2 | | 2 | | |
| TriStar 500 | 6 | 2 | 6 | 2 | | Sold |
| TriStar 200 | 4 | 4 | | 8 | 5 | |
| Boeing 707-436 | 4 | | 4 | | | Traded in against goods and services supplied by Boeing |
| Boeing 707-336 | 11 | | 11 | | | 10 sold, 1 scrapped |
| | 59 | 10 | 22 | 47 | | |
| Total fleet | 181 | 59 | 82 | 158 | | |

Note 1 Includes two BAC 1-11/400s on short term operating leases.

Note 2 Includes seven Trident 3Bs base parked awaiting disposal and one Trident 2E used for training.

Note 3 Includes one Boeing 757, three Boeing 737s, two BAC 1-11/400s, two HS748s, two Boeing 747 Combis and two TriStar 500s on short term operating leases.

Includes nine Boeing 757s and sixteen Boeing 737s on extended operating leases.

Excludes one leased Boeing 747-283B undergoing modification before entering service.

Note 4 Average age excludes aircraft on short term operating leases.

REPORT AND ACCOUNTS

REPORT OF THE AUDITORS TO THE MEMBERS

We have examined the accounts of British Airways Plc set out on pages 20 to 39 and page 44. These have been prepared under the historical cost convention modified as explained in the accounting policies on pages 20 and 21. Our audit has been carried out in accordance with approved auditing standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group, so far as concerns members of the Company, at 31 March 1986 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.

In our opinion the Group current cost statements set out on pages 40 to 43 have been properly prepared in accordance with the policies and methods described therein.

Ernst & Whinney
Chartered Accountants
London

Ernst & Whinney.

19 May 1986

ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention modified in respect of certain land and buildings which are included at valuation.

The accounting policies are consistent with those adopted in 1984-85.

BASIS OF CONSOLIDATION

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

Goodwill arising on consolidation of subsidiaries is written off to reserves on acquisition.

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

TANGIBLE FIXED ASSETS

A) BASIS

Tangible fixed assets are stated at cost except for certain properties which are included at valuation.

Amortisation and depreciation charges are calculated to write off the cost or valuation, less any residual value, on a straight line basis.

B) FLEET

i) *Foreign currency adjustments*

The cost of certain aircraft, which have been financed in part by loans and lease finance in foreign currencies (excluding those covered by the HM Treasury Exchange cover scheme), is adjusted at each year end to take account of the sterling cost of related repayments during the year, and the year end translation of outstanding liabilities on such foreign currency borrowings except where repayments have been covered forward, in which case such repayments have been translated at the forward contract rates.

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) *Amortisation and depreciation*

Owned aircraft and technical spares, together with aircraft held on finance leases where the option exercise price is nominal, are amortised at rates which are calculated to write down their cost to their estimated residual values on planned withdrawal from service or at expected date of disposal.

Leased aircraft, where the option exercise price is other than nominal, are amortised over the shorter of the primary lease period and the operational lives ascribed to owned aircraft of a similar type.

Operational lives and residual values are reviewed annually in the light of experience and changing circumstances.

REPORT AND ACCOUNTS

C) PROPERTY AND EQUIPMENT

All properties, other than those of a specialised use nature, were professionally valued at open market value on 31 March 1984 and have been included in these accounts on the basis of that valuation, with subsequent expenditure at cost less depreciation.

Specialised use properties are included at cost less depreciation.

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

D) LEASED ASSETS

The aggregate of the capital elements of payments under finance leases for aircraft and other major items of equipment is capitalised and subsequently amortised on the basis described in the preceding paragraphs.

STOCKS AND WORK IN PROGRESS

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

DEFERRED TAXATION

Provisions are made for deferred taxation, using the liability method, on short term timing differences and all other material timing differences not expected to continue for the foreseeable future, offset where applicable by accumulated tax losses.

RETIREMENT BENEFITS

Provision for retirement benefits is made by way of annual contributions charged against operations and payable to the Airways Pension Scheme, the New Airways Pension Scheme and to other schemes.

FOREIGN CURRENCY BALANCES

Foreign currency balances are translated into sterling at the rates ruling at the respective balance sheet dates 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 have, at 31 March 1986, 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 lease finance used for the acquisition of aircraft are reflected in the cost of those aircraft. All other profits/losses arising on translation are dealt with through the profit and loss account. The sterling/US dollar exchange rate at 31 March 1986 was £1=US\$1.463 (31 March 1985 – US\$1.237).

GROUP PROFIT AND LOSS ACCOUNT*For the year ended 31 March 1986*

| | | Group | |
|--|-------|-------------------|-------------------|
| | Note | 1986 £ million | 1985 £ million |
| Turnover | 1 | 3,149 | 2,943 |
| Cost of sales | | (2,870) | (2,574) |
| Gross profit | | 279 | 369 |
| Administrative expenses | | (81) | (77) |
| Operating surplus before exceptional item | 1 & 2 | 198 | 292 |
| Exceptional item | 3 | | (33) |
| Operating surplus after exceptional item | | 198 | 259 |
| Other income | 4 | 24 | 22 |
| Profit before interest payable and taxation | | 222 | 281 |
| Interest payable and similar charges | 5 | (39) | (113) |
| Profit on ordinary activities before taxation | 1 | 183 | 168 |
| Taxation and minority interests | 6 | (2) | (3) |
| Profit on ordinary activities before extraordinary item | | 181 | 165 |
| Extraordinary item | 7 | | 11 |
| Profit for the year after extraordinary item | | 181 | 176 |
| Dividends paid and proposed (1986-£.4 million, 1985-nil) | 8 | | |
| Profit for the year transferred to reserves | 10 | 181 | 176 |
| Profit for the year retained by: | | | |
| British Airways Plc | | 179 | 200 |
| Subsidiary and related companies | | 2 | (24) |
| | | 181 | 176 |
| Earnings per share – before extraordinary item | 9 | 100.5p | 91.9p |

REPORT AND ACCOUNTS

BALANCE SHEETS

At 31 March 1986

| | Note | Group | | Company | |
|--|------|-------------------|-------------------|-------------------|-------------------|
| | | 1986 £ million | 1985 £ million | 1986 £ million | 1985 £ million |
| Fixed assets | | | | | |
| Tangible assets | | | | | |
| <i>Fleet</i> | | 1,043 | 996 | 987 | 942 |
| <i>Property</i> | | 166 | 158 | 154 | 143 |
| <i>Equipment</i> | | 106 | 93 | 98 | 86 |
| | 11 | 1,315 | 1,247 | 1,239 | 1,171 |
| Investments | 12 | 5 | 4 | 72 | 77 |
| Current assets | | | | | |
| Stocks | 13 | 18 | 17 | 14 | 12 |
| Debtors | 14 | 518 | 608 | 476 | 561 |
| Investments – short term loans and deposits | | 24 | 64 | 22 | 62 |
| Cash at bank and in hand | | 33 | 21 | 28 | 20 |
| | | 593 | 710 | 540 | 655 |
| Creditors: amounts falling due within one year | 15 | (1,023) | (1,021) | (982) | (982) |
| Net current liabilities | | (430) | (311) | (442) | (327) |
| Total assets less current liabilities | | 890 | 940 | 869 | 921 |
| Creditors: amounts falling due after more than one year | 16 | (340) | (584) | (339) | (585) |
| Provisions for liabilities and charges | 18 | (68) | (69) | (68) | (67) |
| | | 482 | 287 | 462 | 269 |
| Capital and reserves | | | | | |
| Called up share capital | 19 | 180 | 180 | 180 | 180 |
| Reserves | 10 | | | | |
| Distributable | | | | | |
| <i>Profit and loss account</i> | | 278 | 81 | 264 | 68 |
| Non Distributable | | | | | |
| <i>Revaluation</i> | | 19 | 23 | 18 | 21 |
| <i>Other</i> | | 3 | 2 | | |
| Shareholders' equity | | 480 | 286 | 462 | 269 |
| Minority interests | | 2 | 1 | | |
| | | 482 | 287 | 462 | 269 |

Lord King of Wartnaby *Chairman*
Colin Marshall *Chief Executive*
Gordon Dunlop *Chief Financial Officer*
19 May 1986

King
Gordon Dunlop

GROUP SOURCE AND APPLICATION OF FUNDS*For the year ended 31 March 1986*

| | Group | |
|--|-------------------|-------------------|
| | 1986 £ million | 1985 £ million |
| Funds generated | | |
| Profit on ordinary activities before taxation | 183 | 168 |
| Loss on tangible asset and investment disposals | 3 | 5 |
| Extraordinary item | | 11 |
| | 186 | 184 |
| Adjustments not involving movement of funds | | |
| <i>Amortisation and depreciation of tangible assets</i> | 162 | 146 |
| <i>Exchange adjustments to balances at beginning of year</i> | (15) | 22 |
| | 147 | 168 |
| Cash generated from operations | 333 | 352 |
| Net proceeds from tangible asset and investment disposals | 23 | 48 |
| Total cash generated | 356 | 400 |
| Movements in working capital | | |
| <i>Liquid resources</i> | 27 | (51) |
| <i>Other</i> | 109 | 100 |
| | 136 | 49 |
| Cash available | 492 | 449 |
| Application of funds | | |
| Capital expenditure | | |
| <i>Fleet</i> | 218 | 77 |
| <i>Property, equipment and investments</i> | 64 | 42 |
| | 282 | 119 |
| Loans and lease finance | | |
| <i>Repaid</i> | 241 | 330 |
| <i>Less amounts raised</i> | (31) | |
| | 210 | 330 |
| Total cash applied | 492 | 449 |

REPORT AND ACCOUNTS

NOTES ON THE ACCOUNTS

For the year ended 31 March 1986

| | Turnover | | Operating surplus/(deficit) | | Profit/(loss) before taxation | |
|--|------------|------------|-----------------------------|------------|-------------------------------|------------|
| | 1986 £m | 1985 £m | 1986 £m | 1985 £m | 1986 £m | 1985 £m |

1 Analysis of Group turnover, operating surplus and profit before taxation

a Turnover, operating surplus (1985—before exceptional item) and profit before taxation, attributable to the different classes of the Group's business is:

| | | | | | | |
|-------------------------|-------|-------|-----|------|-----|-----|
| Airline operations | 2,981 | 2,797 | 205 | 303 | 187 | 159 |
| Helicopter operations | 38 | 38 | (3) | (2) | (2) | 6 |
| Inclusive tour holidays | 120 | 99 | (6) | (10) | (4) | (7) |
| Other | 10 | 9 | 2 | 1 | 2 | 1 |
| Discontinued activities | | | | | | 9 |
| | 3,149 | 2,943 | 198 | 292 | 183 | 168 |

Turnover for airline operations comprises:

Traffic revenue

Scheduled services

Passenger and excess baggage 2,376 2,254

Freight and mail 268 252

2,644 2,506

Non-scheduled services 151 131

2,795 2,637

Aircraft maintenance and other airline services

186 160

2,981 2,797

Airline principally comprises British Airways Plc, British Airtours Ltd and British Airways Engine Overhaul Ltd.

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

Discontinued activities refers to certain related companies whose turnover and operating results are not included in the Group's figures.

| | Group | | Airline | |
|--|------------|------------|------------|------------|
| | 1986 £m | 1985 £m | 1986 £m | 1985 £m |

b Turnover attributable to the Group's and the Airline's geographical markets is:

| | | | | |
|---------------------------------------|-------|-------|-------|-------|
| UK | 423 | 388 | 383 | 349 |
| Continental Europe | 945 | 868 | 863 | 799 |
| Europe | 1,368 | 1,256 | 1,246 | 1,148 |
| The Americas | 990 | 862 | 963 | 839 |
| Africa | 169 | 178 | 162 | 173 |
| Middle East, Far East and Australasia | 622 | 647 | 610 | 637 |
| | 3,149 | 2,943 | 2,981 | 2,797 |

Turnover attributable to geographical markets comprises all traffic originating or terminating within each of the geographical areas. UK turnover relates solely to domestic operations. Non traffic revenue is included in the territory in which the services are rendered.

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

| | Group | | Airline | |
|--|------------|------------|------------|------------|
| | 1986 £m | 1985 £m | 1986 £m | 1985 £m |
| c Operating surplus (1985 – before exceptional item) attributable to the Group's and the Airline's geographical markets is: | | | | |
| Europe | 55 | 83 | 63 | 93 |
| The Americas | 84 | 130 | 84 | 132 |
| Africa | 14 | 26 | 14 | 26 |
| Middle East, Far East and Australasia | 45 | 53 | 44 | 52 |
| | 198 | 292 | 205 | 303 |

Operating surplus attributable to geographical markets is determined after allocation of fixed costs to routes generally on a time basis, and variable costs on the basis of resources and facilities used. Central costs are allocated in line with fixed costs.

UK and Continental Europe services are operated largely by a specialised shorthaul fleet, the day to day operations of which are fully integrated. The Directors therefore consider that it is more appropriate, because of the high level of judgemental cost allocation, for the operating result for these services to be combined under the heading 'Europe'.

| | Group | |
|--|------------|------------|
| | 1986 £m | 1985 £m |
| 2 Operating surplus | | |
| a The results are arrived at after charging: | | |
| Amortisation and depreciation of tangible fixed assets | | |
| <i>Owned assets</i> | 140 | 123 |
| <i>Finance leased aircraft</i> | 13 | 14 |
| <i>Other leasehold interests</i> | 9 | 9 |
| | 162 | 146 |
| Operating lease rental payments | | |
| <i>Operating lease rentals – aircraft</i> | 61 | 12 |
| – <i>property</i> | 28 | 24 |
| <i>Hire of equipment and charter of aircraft and crews</i> | 13 | 10 |
| | 102 | 46 |
| Staff severance | 16 | |
| | £ | £ |
| Auditors' remuneration | 618,000 | 604,900 |
| Directors' emoluments | 416,223 | 366,174 |

REPORT AND ACCOUNTS

| | Company | |
|--|---------|------|
| | 1986 | 1985 |
| | £ | £ |

b Directors' emoluments

| | | |
|---|---------|--------|
| Chairman | 52,062 | 51,419 |
| The highest paid Director was in receipt of remuneration, excluding company's pension contributions, amounting to | 100,900 | 96,852 |
| The other Directors' remuneration, excluding company's pension contributions, was within these ranges: | Number | Number |
| Nil - £5,000 | 3 | 4 |
| £5,001 - £10,000 | 3 | |
| £20,001 - £25,000 | | 1 |
| £45,001 - £50,000 | 1 | |
| £50,001 - £55,000 | | 1 |
| £80,001 - £85,000 | 1 | 1 |

c Employees

Employees of the Group in the United Kingdom who earned over £30,000 in the year:

| | Pilots and Officers | | Other employees | | Group number | |
|-------------------|---------------------|------|-----------------|------|--------------|------|
| | 1986 | 1985 | 1986 | 1985 | 1986 | 1985 |
| £30,001 - £35,000 | 362 | 221 | 53 | 38 | 415 | 259 |
| £35,001 - £40,000 | 272 | 285 | 23 | 22 | 295 | 307 |
| £40,001 - £45,000 | 190 | 157 | 15 | 8 | 205 | 165 |
| £45,001 - £50,000 | 121 | 37 | 6 | 5 | 127 | 42 |
| £50,001 - £55,000 | 17 | 3 | 3 | 5 | 20 | 8 |
| £55,001 - £60,000 | | | 5 | 3 | 5 | 3 |
| £60,001 - £65,000 | | | 4 | 1 | 4 | 1 |
| £65,001 - £70,000 | | | 1 | | 1 | |
| £70,001 - £75,000 | | | 1 | | 1 | |
| | 962 | 703 | 111 | 82 | 1,073 | 785 |

d Staff numbers and costs

The average number of persons employed in the Group worldwide during the year was as follows:

| | | |
|-------------------------|--------|--------|
| Airline operations | 38,939 | 36,861 |
| Helicopter operations | 619 | 665 |
| Inclusive tour holidays | 445 | 398 |
| Others | 268 | 213 |
| | 40,271 | 38,137 |
| | £m | £m |

The aggregate payroll costs of these persons were as follows:

| | | |
|--|-----|-----|
| Wages and salaries including staff bonus | 548 | 495 |
| Social security costs | 45 | 40 |
| Contributions to pension schemes | 65 | 62 |
| | 658 | 597 |

| | | Group | |
|----------|---|-----------|-----------|
| | | 1986 | 1985 |
| | | £m | £m |
| 3 | Exceptional item | | |
| | Cash costs relating to the settlements of Laker Anti-Trust and associated Class Actions. | Nil | 33 |
| | <p>The action brought in the United States against the Company and other parties by the liquidator of Laker Airways Limited was settled in October 1985. The associated Class Action suit was finally settled on 19 March 1986 by an order of the US District Court for the District of Columbia.</p> <p>Provision has been made for the cash to be disbursed which, under these two agreements, is estimated to aggregate £33m and which was charged as an exceptional item in the year to 31 March 1985.</p> <p>The settlement of the Class Action against BA, Pan Am and TWA involves a fund of coupons, with a maximum aggregate value of US\$30m, which will be issued among those passengers who travelled between the United States and the United Kingdom in the relevant period and who have substantiated a claim. The coupons are valid for five years and will be available for part payment for travel across the Atlantic on these carriers' scheduled services.</p> <p>It is impractical to determine how many of the coupons will be borne by BA, and therefore the actual costs, which are not expected to be material to BA's annual turnover or results, will be borne as coupons are utilised for travel on BA. Accordingly, no provision for this has been made.</p> | | |
| | | Group | |
| | | 1986 | 1985 |
| | | £m | £m |
| 4 | Other income | | |
| | Interest receivable | 20 | 19 |
| | Realised gains, less provision for losses on disposals | 3 | |
| | Income from shares in related companies | 1 | 3 |
| | | 24 | 22 |

REPORT AND ACCOUNTS

| | Group | |
|--|------------|------------|
| | 1986 £m | 1985 £m |
| 5 Interest payable and similar charges | | |
| Interest payable | | |
| On bank loans | | |
| Repayable wholly within five years | 14 | 20 |
| Repayable in whole or in part after five years | 15 | 36 |
| Other loans and lease finance | | |
| Repayable wholly within five years | 7 | 5 |
| Repayable in whole or in part after five years | 12 | 29 |
| Interest capitalised | (1) | (1) |
| | 47 | 89 |
| Currency (profits)/losses on general purpose loans | | |
| On revaluation of loans at 31 March | (3) | 21 |
| On repayments during the year | (5) | 3 |
| | (8) | 24 |
| | 39 | 113 |

The average rate of interest borne on loans (excluding lease finance) was 11% (1985 – 12%). These loans are repayable up to 1994/95.

In respect of all loans, including lease finance, repayable in whole or in part after five years, the final repayment date is March 1997 and the interest rates range from 7% to 13% (1985 – 7% to 15%).

Changes in the sterling value of foreign currency loans and lease finance used specifically for the acquisition of aircraft have been included in the cost of those aircraft. This amounts to a deduction of £49m (1985 – an addition of £51m).

| | Group | |
|---|------------|------------|
| | 1986 £m | 1985 £m |
| 6 Taxation and minority interests (see also note 20) | | |
| a Taxation | | |
| United Kingdom Corporation tax at 40% (1985 – 45%) | | |
| Current | 1 | 1 |
| Prior years | | (1) |
| Development Land tax | | |
| Prior years | | (1) |
| | 1 | (1) |
| Overseas | 1 | 2 |
| Related companies | | 1 |
| | 2 | 2 |
| b Minority interests | | |
| Outside shareholders interests in profits of subsidiaries | | 1 |
| | 2 | 3 |

If full provision for deferred taxation had been made at 35% there would have been a charge in the year of £57m (1985 – £73m).

| | | Group | | | | |
|----|---|----------------------------------|------------------------------|-------------------------|------------|------------|
| | | 1986 £m | 1985 £m | | | |
| 7 | Extraordinary item | | | | | |
| | Release of severance and associated provisions | Nil | 11 | | | |
| | | Company | | | | |
| | | 1986 £ | 1985 £ | | | |
| 8 | Dividends | | | | | |
| | Interim dividend of 0.1p per share paid 24 December 1985 | 180,000 | | | | |
| | Proposed final dividend of 0.1p per share | 180,000 | | | | |
| | | 360,000 | Nil | | | |
| | | Group | | | | |
| | | 1986 | 1985 | | | |
| 9 | Earnings per share | | | | | |
| | Earnings per share is calculated as follows: | | | | | |
| | Profit before extraordinary item attributable to shareholders | £181m | £165m | | | |
| | Ordinary shares in issue | 180,050,000 | 180,050,000 | | | |
| | Earnings per share | 100.5p | 91.9p | | | |
| | | Distributable | Non-distributable | Total | | |
| | | Profit and loss account £m | Revaluation reserve £m | Other reserves £m | 1986 £m | 1985 £m |
| 10 | Reserves | | | | | |
| | a Movements in the year | | | | | |
| | Balance 1 April | 81 | 23 | 2 | 106 | (54) |
| | Profit for the year | 180 | | 1 | 181 | 176 |
| | Exchange adjustments to opening balances of British Airways Plc's fleet assets | 14 | | | 14 | (12) |
| | Transfers relating to revalued property | 4 | (4) | | | |
| | Other movements | (1) | | | (1) | (4) |
| | Balance 31 March | 278 | 19 | 3 | 300 | 106 |
| | b Analysis of closing balance | | | | | |
| | British Airways Plc | 264 | 18 | | 282 | 89 |
| | Subsidiary and related companies | 14 | 1 | 3 | 18 | 17 |
| | | 278 | 19 | 3 | 300 | 106 |

REPORT AND ACCOUNTS

| | Fleet £m | Property £m | Equipment £m | 19% £m | Total 1985 £m |
|---|-------------|----------------|-----------------|-----------|---------------------|
| 11 Tangible assets | | | | | |
| a Group | | | | | |
| Cost or valuation | | | | | |
| Balance 1 April | 2,033 | 252 | 208 | 2,493 | 2,411 |
| Adjustments to opening balance – exchange | (49) | | | (49) | 48 |
| – other | 23 | | | 23 | |
| Additions | 218 | 24 | 39 | 281 | 120 |
| Reclassifications | 1 | | (1) | | (5) |
| Disposals | (38) | (8) | (7) | (53) | (81) |
| Balance 31 March | 2,188 | 268 | 239 | 2,695 | 2,493 |
| Depreciation | | | | | |
| Balance 1 April | 1,037 | 94 | 115 | 1,246 | 1,149 |
| Adjustments to opening balance – exchange | (14) | | | (14) | 9 |
| – other | 25 | | | 25 | |
| Charge for the year | 127 | 10 | 25 | 162 | 146 |
| Reclassifications | 1 | | (1) | | |
| Disposals | (31) | (2) | (6) | (39) | (58) |
| Balance 31 March | 1,145 | 102 | 133 | 1,380 | 1,246 |
| Net book amounts | | | | | |
| 31 March 1986 | 1,043 | 166 | 106 | 1,315 | |
| 31 March 1985 | 996 | 158 | 93 | | 1,247 |
| Utilisation | | | | | |
| Assets in current use | 901 | 145 | 87 | 1,133 | 1,212 |
| Payments on account and assets in course of construction | 142 | 8 | 19 | 169 | 33 |
| Assets not in current use | | 13 | | 13 | 2 |
| | 1,043 | 166 | 106 | 1,315 | 1,247 |
| Tangible assets include the following amounts relating to finance leased aircraft and equipment: | | | | | |
| Cost | 206 | | 1 | 207 | 216 |
| Accumulated depreciation | (101) | | | (101) | (97) |
| Net book amount | 105 | | 1 | 106 | 119 |
| The net book amount of property comprises: | | | | | |
| Freehold property | | | | 28 | 31 |
| Long leasehold property | | | | 22 | 21 |
| Short leasehold property | | | | 116 | 106 |
| | | | | 166 | 158 |
| Revalued properties included in tangible fixed assets are: | | | | | |
| Revalued amount | | | | 62 | 69 |
| Accumulated depreciation | | | | (19) | (19) |
| Net book amount | | | | 43 | 50 |
| If the properties had not been revalued at 31 March 1984 (see note 11(d)) they would have been included at the following amounts: | | | | | |
| Cost | | | | 30 | 36 |
| Accumulated depreciation | | | | (14) | (17) |
| Net book amount | | | | 16 | 19 |

Note 11 Tangible assets (continued)

| | Fleet £m | Property £m | Equipment £m | 1986 £m | Total 1985 £m |
|---|-------------|----------------|-----------------|------------|---------------------|
| b Company | | | | | |
| Cost or valuation | | | | | |
| Balance 1 April | 1,930 | 229 | 192 | 2,351 | 2,269 |
| Adjustments to opening balance – <i>exchange</i> | (49) | | | (49) | 49 |
| Additions | 204 | 23 | 35 | 262 | 113 |
| Transfers from/(to) group companies | (1) | 4 | | 3 | |
| Reclassifications | 1 | | (1) | | (16) |
| Disposals | (38) | (8) | (6) | (52) | (64) |
| Balance 31 March | 2,047 | 248 | 220 | 2,515 | 2,351 |
| Depreciation | | | | | |
| Balance 1 April | 988 | 86 | 106 | 1,180 | 1,082 |
| Adjustments to opening balance – <i>exchange</i> | (14) | | | (14) | 12 |
| Transfers from/(to) group companies | (1) | 1 | | | |
| Charge for the year | 116 | 9 | 23 | 148 | 135 |
| Reclassifications | 1 | | (1) | | |
| Disposals | (30) | (2) | (6) | (38) | (49) |
| Balance 31 March | 1,060 | 94 | 122 | 1,276 | 1,180 |
| Net book amounts | | | | | |
| 31 March 1986 | 987 | 154 | 98 | 1,239 | |
| 31 March 1985 | 942 | 143 | 86 | | 1,171 |
| Utilisation | | | | | |
| Assets in current use | 846 | 132 | 79 | 1,057 | 1,137 |
| Payments on account and assets in course of construction | 141 | 9 | 19 | 169 | 32 |
| Assets not in current use | | 13 | | 13 | 2 |
| | 987 | 154 | 98 | 1,239 | 1,171 |
| Tangible assets include the following amounts relating to finance leased aircraft: | | | | | |
| Cost | | | | 206 | 216 |
| Accumulated depreciation | | | | (101) | (97) |
| Net book amount | | | | 105 | 119 |
| The net book amount of property comprises: | | | | | |
| Freehold property | | | | 23 | 26 |
| Long leasehold property | | | | 22 | 21 |
| Short leasehold property | | | | 109 | 96 |
| | | | | 154 | 143 |
| Revalued properties included in tangible fixed assets are: | | | | | |
| Revalued amount | | | | 55 | 55 |
| Accumulated depreciation | | | | (16) | (14) |
| Net book amount | | | | 39 | 41 |
| If the properties had not been revalued at 31 March 1984 (see note 11(d)) they would have been included at the following amounts: | | | | | |
| Cost | | | | 25 | 24 |
| Accumulated depreciation | | | | (12) | (12) |
| Net book amount | | | | 13 | 12 |

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c Depreciation

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

Depreciation of property is over 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.

d Market value of property

All properties of the Company and its subsidiaries, other than those properties of a specialised use nature, were valued at open market value at 31 March 1984 by Richard Ellis, Chartered Surveyors and this value was included in the accounts for the year then ended.

| | Group | | Company | |
|--|-------|------|---------|------|
| | 1986 | 1985 | 1986 | 1985 |
| | £m | £m | £m | £m |

e Capital expenditure commitments (see note 21)

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

| | | | | |
|--------------------------------------|-----|-----|-----|-----|
| <i>Authorised and contracted</i> | 254 | 127 | 252 | 126 |
| <i>Authorised but not contracted</i> | 79 | 69 | 76 | 64 |
| | 333 | 196 | 328 | 190 |

Included in the above are outstanding commitments relating to two Boeing 747 Combi aircraft amounting to £50m. The Company has options under arrangements with a group of banks whereby the ownership of these aircraft will be assumed by these banks at the time of delivery. The banks will then rent these aircraft to the Company on an operating lease basis. The Company intends to exercise these options.

There are further options available to the Company which enable it to elect to extend these leases beyond six years. If these options are not exercised, the Company may be required to meet a small share of any loss on re-sale.

f Leasing commitments

Future payments, for which there are commitments as at 31 March 1986 under operating leases, fall due as follows:

| | | | | |
|---|-----|-----|-----|-----|
| Fleet | | | | |
| <i>Within one year</i> | 79 | 44 | 79 | 42 |
| <i>Between one and two years</i> | 67 | 52 | 67 | 52 |
| <i>Between two and three years</i> | 23 | 47 | 23 | 47 |
| <i>Between three and four years</i> | 6 | 12 | 6 | 12 |
| | 175 | 155 | 175 | 153 |
| Property and equipment | | | | |
| <i>Within one year</i> | 29 | 21 | 28 | 21 |
| <i>Between one and two years</i> | 19 | 16 | 18 | 16 |
| <i>Between two and three years</i> | 15 | 13 | 15 | 13 |
| <i>Between three and four years</i> | 11 | 10 | 11 | 10 |
| <i>Between four and five years</i> | 8 | 7 | 7 | 7 |
| <i>Over five years, ranging up to year 2075</i> | 107 | 111 | 99 | 111 |
| | 189 | 178 | 178 | 178 |

BRITISH AIRWAYS Plc 1985-86

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 1986 £m | 1985 £m | 1986 £m | 1985 £m |
| 12 Investments | | | | |
| a Group companies: investments at cost, less amounts written off | | | | |
| Balance 1 April | | | 76 | 71 |
| Provision charged | | | (1) | |
| Intra-group disposals | | | (1) | |
| Net movements on advances | | | (4) | 5 |
| Balance 31 March | | | 70 | 76 |
| b Related companies and trade investments | | | | |
| Balance 1 April | 4 | 20 | 1 | 1 |
| Disposals | | (11) | | |
| Increase/(decrease) in attributable reserves in the year | 1 | (4) | | |
| Investments acquired in the year | 1 | | 1 | |
| Reclassifications | (1) | | | |
| Other movements | | (1) | | |
| Balance 31 March (<i>valuation – see below</i>) | 5 | 4 | 2 | 1 |
| Analysis of closing balance: | | | | |
| Related companies | 1 | | | |
| Trade investments | 4 | 4 | 2 | 1 |
| | 5 | 4 | 2 | 1 |
| The Group has no investments in related companies or trade investments exceeding £2m. | | | | |
| The aggregate value attributed by the Directors to these unlisted investments is £7m (1985 – £8m). | | | | |
| c Total investments | 5 | 4 | 72 | 77 |
| 13 Stocks | | | | |
| Raw materials and consumables | 13 | 12 | 13 | 11 |
| Work in progress | 4 | 4 | 1 | 1 |
| Finished goods | 1 | 1 | | |
| | 18 | 17 | 14 | 12 |
| The replacement cost of stocks is not considered to be materially different from the balance sheet value. | | | | |

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| | Group | | Company | |
|---|--------------|--------------|------------|------------|
| | 1986 £m | 1985 £m | 1986 £m | 1985 £m |
| 14 Debtors: due within one year | | | | |
| Trade debtors | 447 | 514 | 420 | 483 |
| Amounts owed by group companies | | | 1 | 4 |
| Other debtors | 20 | 30 | 19 | 29 |
| Prepayments and accrued income | 51 | 64 | 36 | 45 |
| | 518 | 608 | 476 | 561 |
| 15 Creditors: amounts falling due within one year | | | | |
| Loans and lease finance: (see note 17) | | | | |
| Bank and other loans | 51 | 63 | 51 | 63 |
| Lease finance | 17 | 18 | 16 | 18 |
| | 68 | 81 | 67 | 81 |
| Unsecured overdrafts | | 1 | | |
| Trade creditors | 376 | 341 | 361 | 320 |
| Amounts owed to group companies | | | 24 | 30 |
| Other creditors including taxation and social security: | | | | |
| Other creditors | 38 | 56 | 35 | 53 |
| Corporate taxation | 3 | 3 | 2 | 3 |
| Taxation and social security | 15 | 15 | 14 | 13 |
| | 56 | 74 | 51 | 69 |
| Accruals and deferred income: | | | | |
| Sales in advance of carriage | 386 | 404 | 345 | 366 |
| Accruals | 131 | 116 | 129 | 113 |
| Deferred income | 6 | 4 | 5 | 3 |
| | 523 | 524 | 479 | 482 |
| | 1,023 | 1,021 | 982 | 982 |
| 16 Creditors: amounts falling due after more than one year | | | | |
| Loans and lease finance: (see note 17) | | | | |
| Bank and other loans | 230 | 451 | 230 | 451 |
| Lease finance | 81 | 115 | 81 | 115 |
| | 311 | 566 | 311 | 566 |
| Accruals and deferred income: | | | | |
| Accruals | 23 | 11 | 23 | 12 |
| Deferred income | 6 | 7 | 5 | 7 |
| | 29 | 18 | 28 | 19 |
| | 340 | 584 | 339 | 585 |

| | Group | | Company | |
|---|------------------|-------------------|---------------------|---------------------------|
| | 1986 £m | 1985 £m | 1986 £m | 1985 £m |
| 17 Loans and lease finance | | | | |
| Total loans and lease finance | | | | |
| Loans | | | | |
| Bank US\$365m (1985 – US\$530m) | 222 | 371 | 222 | 371 |
| Other US\$114m (1985 – US\$277m) | 59 | 143 | 59 | 143 |
| Lease finance – US\$142m (1985 – US\$165m) and sterling £1m (1985 – nil) | 98 | 133 | 97 | 133 |
| | 379 | 647 | 378 | 647 |
| All US dollar loans and US dollar lease finance are guaranteed by HM Treasury. Of the bank and other loans US\$234m (1985 – US\$414m) are covered by HM Treasury against exchange risk. These have a sterling obligation of £113m (1985 – £196m). | | | | |
| Comprising: | | | | |
| Bank loans | | | | |
| Repayable wholly within five years | 97 | 37 | 97 | 37 |
| Repayable in whole or in part after five years | 125 | 334 | 125 | 334 |
| | 222 | 371 | 222 | 371 |
| Other loans and lease finance | | | | |
| Repayable wholly within five years | 40 | 45 | 39 | 45 |
| Repayable in whole or in part after five years | 117 | 231 | 117 | 231 |
| | 157 | 276 | 156 | 276 |
| | 379 | 647 | 378 | 647 |
| | Bank loans £m | Other loans £m | Lease finance £m | Group total 1986 £m |
| | | | | 1985 £m |
| Incidence of repayments – instalments falling due: | | | | |
| Within one year (see note 15) | 42 | 9 | 17 | 68 |
| After more than one year (see note 16) | | | | |
| Between one and two years | 41 | 9 | 17 | 67 |
| Between two and three years | 40 | 9 | 16 | 65 |
| Between three and four years | 35 | 9 | 13 | 57 |
| Between four and five years | 28 | 6 | 12 | 46 |
| In five years or more | 36 | 17 | 23 | 76 |
| | 180 | 50 | 81 | 311 |
| Total 1986 | 222 | 59 | 98 | 379 |
| Total 1985 | 371 | 143 | 133 | 647 |
| Analysis of Total 1986 | | | | |
| British Airways Plc | 222 | 59 | 97 | 378 |
| Subsidiary companies | | | 1 | 1 |
| | 222 | 59 | 98 | 379 |

| | Group balance 1 April £m | Transfers from/(to) profit and loss account £m | Contri- bution to future tax liability £m | Transfer to creditors £m | Provisions applied £m | Group balance 31 March £m |
|--|-----------------------------------|---|---|-----------------------------------|-----------------------------|------------------------------------|
| 18 Provisions for liabilities and charges | | | | | | |
| Movements in the year | | | | | | |
| Pensions and similar obligations | 13 | 3 | | | | 16 |
| Deferred taxation | 8 | | | | | 8 |
| Other provisions: | | | | | | |
| Future Corporation tax (a) | 15 | | | | | 15 |
| Anti-trust litigation costs (b) | 20 | 5 | | | | 25 |
| Route support costs | 7 | | | (7) | | |
| Sundry | 6 | (1) | | | (1) | 4 |
| Total 1986 | 69 | 7 | Nil | (7) | (1) | 68 |
| Total 1985 | 46 | 17 | 15 | Nil | (9) | 69 |
| Analysis of Total 1986 | | | | | | |
| British Airways Plc | 67 | 8 | | (7) | | 68 |
| Subsidiary companies | 2 | (1) | | | (1) | |
| | 69 | 7 | Nil | (7) | (1) | 68 |

(a) In 1985 certain members of the Airways Pension Scheme who agreed to transfer their pension rights to the New Airways Pension Scheme, received refunds of past contributions. Those amounts were refunded to the Company in whose hands they are taxable. The members agreed to contribute £15m towards this tax liability which is expected to arise in 1987-88.

(b) As stated in note 24 (b) experience with the Laker litigation has shown the extent to which the US Courts apply anti-trust laws to conduct, whether inside or outside the United States, in relation to international air services. The Board has therefore considered it prudent to maintain a provision against the costs to which the Company could be exposed.

The balance brought forward was previously included in 'Creditors: amounts falling due within one year'. In the light of present circumstances it has been redesignated and to aid comparison the corresponding figures have been restated accordingly. This reclassification has no effect on the profit and loss account.

| | Number of shares | | £m |
|---|------------------|------|---------|
| 19 Called up share capital | | | |
| Authorised, allotted and fully paid: Ordinary shares of £1 each | 180,050,000 | | 180 |
| | Group | | Company |
| | 1986 | 1985 | 1986 |
| | £m | £m | £m |

20 Deferred taxation (see also notes 6 and 18)

Deferred taxation comprises:

| | | | | |
|--|------|------|------|------|
| Timing differences in respect of property valuations | 8 | 8 | 8 | 8 |
| If full provision for deferred taxation at 35% had been made the following amounts would have been required as at 31 March 1986: | | | | |
| Accelerated capital allowances less unrelieved losses | 211 | 126 | 202 | 114 |
| Advance Corporation tax written off | (25) | (25) | (25) | (25) |
| Other timing differences | (50) | (22) | (51) | (23) |
| Timing differences in respect of property valuations | 8 | 8 | 8 | 8 |
| | 144 | 87 | 134 | 74 |

The Company's unrelieved tax losses carried forward are estimated at £180m 1985 - £439m ..

21 Forward transactions in foreign currency

A substantial portion of capital expenditure and leasing commitments (see note 11) are payable in US dollars. In addition fuel purchases are based on US dollar prices. As US dollar expenditure on both capital and operating accounts, together with US dollar-related expenditure, is only partly covered by US dollar receipts, forward purchase contracts amounting in aggregate to US\$107m outstanding at 31 March 1986 and maturing over the next year have been made to cover part of the exposure risk. Of these US\$86m have been purchased against sterling and the balance against certain currencies in which surpluses of receipts over expenditure will arise in the future. Forward purchase contracts amounting to US\$106m at 31 March 1986 have also been made to cover repayments of US dollar loans and progress payments in subsequent financial years. On behalf of group companies forward purchase contracts to the value of £19m maturing in 1986-87, have also been arranged.

22 Directors' and Officers' loans and transactions

No loans or credit transactions were outstanding with Directors or Officers of the Company at the end of the year which need to be disclosed in accordance with the requirements of Schedule 6 of the Companies Act 1985. Furthermore, no other transactions or arrangements were entered into with parties in which the Directors or persons connected with Directors had any material interest.

23 Pension costs

Prior to 1 April 1984 staff were required to join the Airways Pension Scheme (APS). Since 1 April 1984 all new full time permanent staff, over the age of 18, employed by the Company and certain subsidiaries, other than those engaged locally at overseas stations, are required to join the New Airways Pension Scheme (NAPS). On 1 July 1984 over 50% of APS membership transferred to NAPS.

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

Most locally engaged staff overseas are covered by appropriate local arrangements.

Rates of contribution by most employees during the year as a percentage of pensionable pay, ranged between 5.75% and 8.5% based on full pay to APS, and between 3.75% and 6.5% based on full pay less the lower earnings limit to NAPS.

Contributions by British Airways and certain group companies during the year, as previously recommended by the Schemes' Actuaries, were an average of 2.5 times the employees' contribution to APS and 3.5 times the employees' contribution to NAPS.

| | Group | |
|---|------------|------------|
| | 1986 £m | 1985 £m |
| British Airways contributions charged in its accounts were: | | |
| Airways Pension Scheme | 37 | 41 |
| New Airways Pension Scheme | 23 | 15 |
| Other pension schemes and provident funds – mainly overseas | 5 | 6 |
| | 65 | 62 |
| UK staff | 60 | 56 |
| Overseas staff | 5 | 6 |
| | 65 | 62 |

An actuarial valuation of the funds of the Schemes is made at intervals not exceeding three years. The latest valuation at 30 September 1985 disclosed current, deferred and prospective liabilities which are fully covered by a combination of existing assets and the present value of future employer/employee contributions. Based on the valuation the average contribution payable by British Airways to NAPS has been reduced as of 1 April 1986 from 3.5 times the employees' contribution to 3.3 times and that to APS will remain unchanged at 2.5 times.

24 Contingencies**a Financial**

Contingent liabilities exist for which no provision has been made in the accounts covering obligations of the Company and guarantees given by or on behalf of group companies and related companies. For the Group they amount to £12m (1985 – £16m) and for the Company £45m (1985 – £36m).

b Litigation

The action brought by the liquidator of Laker Airways Ltd was settled in 1985 and provision made for the costs thereof in the accounts for the year to 31 March 1985. The associated Class Action was settled in March 1986 with the approval by the US District Court in Washington DC of the coupon settlement agreement. As stated in the Report and Accounts for the year to 31 March 1985 and in note 3 of these accounts, the Directors do not consider that the total cost of coupons to be borne by British Airways will be material and accordingly the cost of coupons will be borne as they are utilised for travel.

Two further actions relating to the collapse of Laker Airways Ltd were commenced in January 1986. Subject to appeals which have been entered by the claimants both actions have been dismissed by orders of US District Courts for lack of standing.

No other claims alleging breach of US anti-trust laws have been brought or threatened against the Company. However, experience with litigation arising from the collapse of Laker Airways 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. It is possible that further claims could be asserted in relation to BA's past services to or from North America and, if asserted, such claims could, as is common in anti-trust actions in the United States, seek substantial amounts and involve significant expenditure. Accordingly the Board has, after consultation with the Secretary of State for Transport, considered it prudent to maintain a provision (see note 18b) against the cost to which the Company could be exposed.

GROUP CURRENT COST STATEMENTS*Year ended 31 March 1986*

| Current cost profit and loss account | | Group | |
|---|-------------|--------------|------------|
| | <i>Note</i> | 1986 £m | 1985 £m |
| Turnover | | 3,149 | 2,943 |
| Historic cost operating surplus before exceptional item | | 198 | 292 |
| Exceptional item | 3 | | (33) |
| Historic cost operating surplus after exceptional item | | 198 | 259 |
| Current cost adjustment | | | |
| <i>Additional amortisation and depreciation</i> | 4 | (94) | (85) |
| Current cost operating profit | | 104 | 174 |
| Other income | 5 | 24 | 22 |
| Current cost adjustment | | | |
| <i>Adjustment to historic cost surplus on disposal of tangible assets and investments</i> | 6 | (4) | (13) |
| | | 20 | 9 |
| Current cost profit before interest payable and similar charges | | 124 | 183 |
| Gearing adjustment | | 43 | 50 |
| Interest payable and similar charges | | (39) | (113) |
| | | 4 | (63) |
| Current cost profit before taxation | | 128 | 120 |
| Taxation and minority interests | | (2) | (3) |
| Current cost profit before extraordinary item | | 126 | 117 |
| Extraordinary item | 7 | | 11 |
| Current cost profit for the year transferred to other reserves | 11 | 126 | 128 |

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| Current cost balance sheet | Note | Group | |
|---|-------|--------------|--------------|
| | | 1986 £m | 1985 £m |
| Fixed assets | | | |
| Tangible assets | 2 & 8 | 1,985 | 2,145 |
| Investments | 2 | 7 | 8 |
| | | 1,992 | 2,153 |
| Net current liabilities | | (430) | (311) |
| Creditors: amounts falling due after more than one year | | (340) | (584) |
| Provisions for liabilities and charges | | (68) | (69) |
| | | 1,154 | 1,189 |
| Financed by | | | |
| Called up share capital | | 180 | 180 |
| Current cost reserve | 10 | 1,055 | 1,229 |
| Other reserves | 11 | (83) | (223) |
| | | 1,152 | 1,186 |
| Minority interests | | 2 | 3 |
| | | 1,154 | 1,189 |

NOTES ON THE GROUP CURRENT COST STATEMENTS

- 1 The accounting policies adopted in the current cost accounts are the same as those used in the historic cost accounts except as stated below.
- 2 Tangible assets are stated at the lower of current replacement cost less amortisation and depreciation and the amounts estimated to be recoverable from operations over their remaining lives. These amounts have been derived as follows:
- a where new aircraft of the same or similar type are still being purchased, at current cost based on latest delivery prices;
 - b where aircraft will be replaced by different types, at the current cost of the replacement aircraft adjusted to reflect the differences in capacity and technology;
 - c non-specialised use properties, by reference to current market value on an existing use basis;
 - d equipment and specialised use properties by applying appropriate factors taken from relevant indices to the historic cost.
- Investments in related companies and trade investments are stated at Directors' valuation taking account of the applicable proportion of the historic cost net assets of each company, the differences from their current cost amounts being considered immaterial.

| | 1986 £m | 1985 £m |
|--|------------|------------|
| 3 Exceptional item | | |
| Cash costs, relating to the settlements of Laker Anti-Trust and associated Class Actions | Nil | 33 |
| 4 The current cost charge for amortisation and depreciation is based on the gross replacement cost of the tangible assets averaged over the year using the same operational lives as those in the historic cost accounts. | | |
| | 1986 £m | 1985 £m |
| 5 Other income | | |
| Interest receivable | 20 | 19 |
| Realised gains, less provision for losses on disposals | 3 | |
| Income from shares in related companies | 1 | 3 |
| | 24 | 22 |
| 6 The historic cost surplus on disposal of tangible assets and investments has been adjusted to reflect the difference between the historic cost and current cost book amounts of the assets concerned. | | |

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| | | | 1986 £m | 1985 £m |
|--|--|----------------------------|----------------------------|----------------------------|
| 7 Extraordinary item | | | | |
| Release of severance and associated provisions | | | Nil | 11 |
| | Current cost 1986 £m | Depreciation 1986 £m | Current cost 1985 £m | Depreciation 1985 £m |
| 8 Tangible assets at 31 March consisted of: | | | | |
| Fleet | 2,774 | 1,273 | 2,970 | 1,281 |
| Property | 646 | 280 | 606 | 256 |
| Equipment | 393 | 275 | 352 | 246 |
| | 3,813 | 1,828 | 3,928 | 1,783 |
| 9 | As stocks are not generally held for resale no adjustment has been made for cost of sales. No monetary working capital adjustment has been made as the relevant liabilities exceed the relevant assets; the excess is reflected in the gearing adjustment. | | | |
| | | | | £m |
| 10 Current cost reserve | | | | |
| Balance 1 April 1985 | | | | 1,229 |
| Surplus/(deficit) on revaluation | | | | |
| <i>Fleet</i> | | | | (154) |
| <i>Property</i> | | | | 19 |
| <i>Equipment</i> | | | | 5 |
| <i>Investment</i> | | | | (1) |
| | | | | (131) |
| Gearing adjustment | | | | (43) |
| Balance 31 March 1986 | | | | 1,055 |
| 11 Other reserves | | | | |
| Balance 1 April 1985 | | | | (223) |
| Exchange adjustments to opening balances of fleet assets | | | | 14 |
| Current cost profit for the year | | | | 126 |
| Balance 31 March 1986 | | | | (83) |

BRITISH AIRWAYS Plc 1985-86

PRINCIPAL OPERATING GROUP COMPANIES

Principal operating group companies at 31 March 1986 all of which were incorporated in Great Britain and operate from there, are wholly owned except where indicated

AIRLINE OPERATIONS

British Airtours Ltd

British Airways Engine Overhaul Ltd

INCLUSIVE TOUR HOLIDAYS

Alta Holidays Ltd (51% owned)

British Airways Tour Operations Ltd

Martin Rooks & Co Ltd

Overseas Air Travel Ltd

HELICOPTER OPERATIONS

British Airways Helicopters Ltd

OTHER

British Airways Associated Companies Ltd

British Airways Pension Administration Ltd

Chartridge Centre Ltd

Travel Automation Services Ltd (55% owned at March 1986 subsequently increased to 82%)