

REPORT AND ACCOUNTS 1984 - 85

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BRITISH AIRWAYS

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R E P O R T A N D A C C O U N T S

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YEAR IN BRIEF 1984-85

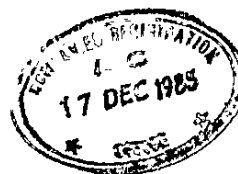
GROUP RESULTS

		1984-85	1983-84
Turnover	£m	2,943	2,514
Operating surplus	£m	292*	268
Profit before taxation	£m	168	185
Profit transferred to reserves	£m	176	214
Shareholders' equity	£m	286	126
Earnings per share	p	91.9	100.7

*1984-85 before exceptional item

STAFF AND PRODUCTIVITY

AIRLINE ONLY		1984-85	1983-84
Average number of staff		36,861	36,096
Available tonne kilometres	m	7,837	7,194
Revenue tonne kilometres	m	5,267	4,650
Available tonne kilometres per employee	000	213	199
Revenue tonne kilometres per employee	000	143	129





CHAIRMAN'S STATEMENT
THE RT HON
THE LORD KING OF WARTNABY
REPORTS

1984-85 was another successful year for British Airways. Before charging the exceptional item for the out of court litigation settlements an operating surplus of £292m was recorded. This is the highest operating surplus ever achieved by the Group. After all other items set out in the Accounts £176m was transferred to reserves.

During 1984-85 our borrowings were reduced from £901m to £647m and our net worth (share capital and reserves) at 31 March 1985 was £286m, compared with £126m a year ago.

We have recorded substantial operating surpluses for three consecutive years and we are now among the world's most profitable airlines.

R E P O R T A N D A C C O U N T S

We continue to invest in the most suitable aircraft and equipment. The airline's new livery was successfully introduced and a comprehensive programme to co-ordinate our new corporate identity is well under way. We have safeguarded, and continue to build, our extensive international route network, which is the largest in the world. Perhaps the most significant achievement of all has been the creation, at every level, of a new spirit of co-operation and determination within the company to excel in terms of the service we provide to our customers and in every aspect of the company's performance.

British Airways is above all a service company whose reputation with customers is the very life blood of its existence. That reputation has been endorsed by our winning over 20 awards this year covering every aspect of our business including *Executive Travel* magazine's 'Airline of the Year' for the second year running.

Following the publication of the CAA proposals in the summer of 1984 and the Government's response in the autumn, we were able to preserve the bulk of our route network. The degree of support from our staff at every level was both heart-warming and effective during this period.

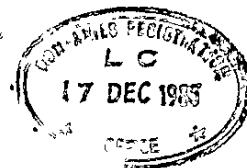
During the year Mr Alex Dibbs, Deputy Chairman, retired from the Board, and I would like to record my sincere thanks for his considerable contribution. We note with much sadness his death on 28 November 1985. Mr Robert Henderson has been appointed Deputy Chairman and I welcome Mr Henry Lambert to the Board.

THE FUTURE

Operating conditions have not been as auspicious as they were. The rate of traffic growth has declined, aviation fuel prices have risen steeply, particularly in the United Kingdom and Europe, and currency movements have had an adverse effect on the operating profits. Nevertheless, the results for the half year to 30 September 1985 will be satisfactory.

In conclusion, I would like to thank my Board colleagues, and the management and staff of the airline, for their outstanding efforts and continuing support. I have no hesitation in saying that I view the future with confidence.

King



KING OF WARTNABY

DIRECTORS' REPORT

The Directors have pleasure in submitting their first report and accounts of British Airways Plc (BA) for the year to 31 March 1985, the property, rights, liabilities and obligations of British Airways Board (BAB) having been vested in BA on 1 April 1984. From that date BA commenced trading. All the issued share capital of BA is held by The Secretary of State for Transport.

MEMORANDUM OF UNDERSTANDING

Whilst the Directors of the Company are now bound by the Companies Acts, 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 while 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, similar to those previously exercised over the BAB, to enable him to discharge his responsibilities to Parliament.

SIGNIFICANT EVENTS OF THE YEAR

In addition to another year's satisfactory results, 1984-85 was dominated by three important issues two of which have continued into the current year. They were the review by the Civil Aviation Authority (CAA) on airline competition policy, which was settled in a White Paper issued in October 1984; the out of Court settlements after the year-end of two legal proceedings in the United States against certain airlines, including BA, whom it was alleged had acted in violation of US anti-trust laws; and the Inspector's Report on the future of London's Airports by Mr Graham Eyre QC and the White Paper issued on 5 June 1985. Statements on these appear respectively on pages 10, 13 and 14 of this Report.

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 wholly owned subsidiary, British Airways Helicopters Limited, operates a fleet of helicopters, most of which serve the oil and gas industry in the North Sea. 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. Poundstretcher continues as a separate company. Travel Automation Services Ltd (Travicom) promotes and provides automated multiple access travel booking services for the travel industry.

R E P O R T A N D A C C O U N T S

ORGANISATION

The present organisation of the airline came into being in July 1983 and was described fully in last year's Report. One significant change has occurred since then namely the amalgamation of the managements of the BA Southern Europe Market Centre and of British Airtours Limited. This is because both serve mainly the holiday market, with many common destinations in the Mediterranean area. Other 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 1984-85 are set out in the Accounts on pages 26 and 27. Further details by activity and by geographical area are set out in Note 1 to the accounts on pages 29 and 30. 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 since the end of 1983 continued throughout the year ended 31 March 1985, with the volume of scheduled airline traffic increasing over the previous year by 12.3% in passengers carried and 12.2% in revenue passenger kilometres. These increases arose throughout the network, but gains to many points in the United States, Canada, Europe and the Far East were more marked than those elsewhere. Freight, mail and charters were also buoyant.

The passenger load factor on scheduled airlines services at 68.5% was 4.4 points above the level in the previous year. Yields per passenger kilometre were slightly higher, but when the benefit of changes in exchange rates are eliminated, they are little different from the previous year. Volume increases and to a lesser extent the effects of exchange rate changes led to growth in airline traffic revenue from £2,225m to £2,637m.

The cost of fuel in sterling increased substantially because of the weaker sterling/US \$ exchange rate, but this was offset partially by lower fuel prices which are denominated in US dollars.

Staff costs were higher due to higher pay and a 2% increase in staff numbers, the first for some years. Productivity measured by Available Tonne Kilometres per employee increased by 6.7% in 1984-85 compared with a gain of 9.7% in 1983-84.

Costs rose due to greater volume of flying – Available Tonne Kilometres were up 8.9% – and there were increases in commission, promotion, aircraft leasing, depreciation and maintenance.

The effect of all of these was an increase in airline operating surplus, including British Airtours, from £274m in 1983-84 to £303m in 1984-85 – an increase of 10.5% compared to the 61% gain achieved a year ago. This is a satisfactory result in terms of the amount of profit earned and in relation to the volume of revenue generated by the traffic carried.

The British Airtours result was satisfactory and Travicom again showed improved results. The results of the other subsidiaries were generally unsatisfactory. The Tour operations again showed a loss due to heavy and severe competition, and the results of the Helicopter business suffered similarly.

After taking account of other income, and the exceptional item under Litigation, the profit before interest was £281m.

With the major reduction in borrowings, interest payable has fallen. However the increased liability on US\$ general purpose loans (as distinct from loans to finance the purchase of aircraft) due to the weaker exchange rate was significantly higher, with the result that the cost of borrowings is little changed. The cost of borrowings is expected to be lower in the current financial year.

As the voluntary severance scheme, introduced some years ago to facilitate the significant reduction in staff numbers, has virtually come to an end, the unused balance of the provision set up for that scheme, amounting to £11m, has been released and credited to the profit and loss account as an extraordinary item. Future severance costs will be charged to the operating account as they arise.

After taking account of these and all other minor items the balance of profit of £176m has been transferred to Reserves.

ACCOUNTING POLICIES

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 for changes in the sterling/US\$ exchange rate on the outstanding balance of borrowings. At 31 March 1985, US\$ loans utilised to finance the acquisition of aircraft have been increased by £51m to reflect the fall in the value of sterling from \$1.442 a year ago to \$1.237. The sterling cost of the aircraft concerned has been increased by a corresponding amount.

A year ago the Report stated that the Board in conjunction with Richard Ellis, a leading firm of chartered surveyors, was considering whether it was possible to establish an acceptable economic valuation in respect of the large portfolio of specialised use properties—situated principally at Heathrow—on long leases from the British Airports Authority. The Board has decided that it is not possible to establish an acceptable economic valuation of these properties and accordingly these properties continue to be incorporated in the accounts on their historic cost basis.

The aggregate value of non-specialised properties, valued on an existing use basis, is not materially different from the book amounts reflected in the balance sheets at 31 March 1985.

CURRENT COST ACCOUNTS

In accordance with the wishes of HM Government Current Cost Accounts are set out in pages 44 to 47. 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 £85m, is more than covered by the amount of £176m transferred to reserves in the historic cost accounts.

BALANCE SHEET

Borrowings have been reduced from £901m to £647m (in both cases including amounts payable within the next 12 months). Share Capital and Reserves now aggregate £286m. Consequently BA's debt/equity ratio at 31 March 1985 was 69/31 compared with 88/12 a year ago.

FLEET - GENERAL

In December 1984, we introduced the new British Airways' livery which will be adopted throughout the airline on all aircraft, ground equipment, transport, airport facilities, sales shops, executive lounges and stationery. This incorporates a combination of tradition - the airline's crest and part of the Union Jack - with a modern image represented by the striking red speedwing.

By spring 1987 almost all the fleet will be in the new external livery and will have common fabrics and matching colours in the cabins.

Together with the extensive programmes of refurbishment on the Boeing 747, Lockheed TriStar and BAC1-11 fleets, these changes will give our customers much higher standards of comfort and an environment in which 'The World's Favourite Airline' will be immediately recognisable. In the case of Concorde the external colour is principally white because of the need to reflect heat at its operating speed and altitude.

Most of this expenditure will be written off as incurred in 1985-86 and 1986-87. However, the cost of new internal fitments such as galleys will be capitalised and written off over the remaining lives of the aircraft.

AIRCRAFT

During the year BA took delivery of 14 new Boeing 737-200 aircraft, increasing its fleet of this type from 28 to 42. A further two Boeing 757 aircraft were delivered in the closing months of 1984-85 and this fleet at 31 March 1985 numbered 15 aircraft. In addition three Boeing 737s and one Boeing 757 were leased from Air Europe. Another two Boeing 757s came into service in spring 1985.

It was intended that the delivery of the above aircraft would enable the airline to retire/dispose of all of its Trident aircraft before the beginning of the 1985 summer timetable. On account of passenger growth on the domestic and European routes and despite improved aircraft utilisation, in terms of hours flown per annum, a number of Tridents have been retained until the autumn of 1985, when a further three Boeing 757 aircraft will have been delivered. Another four Boeing 757s will be delivered in spring 1986.

On the intercontinental or longhaul routes, in spite of the release of aircraft on the services to Saudi Arabia and improved aircraft utilisation, it has been necessary to obtain additional capacity, comprising two secondhand TriStar 500s and one secondhand Boeing 747-100 Combi aircraft. The Combi is a standard Boeing 747, the rear section of which has either a conventional passenger layout or all cargo. It is intended to operate this aircraft in its full passenger configuration in the summer months and in the maximum cargo combination during the winter. Negotiations to acquire another secondhand Boeing 747 Combi aircraft have been completed in the current year.

The year's average utilisation, or revenue hours flown per aircraft, increased by 8% from 2,465 to 2,653 hours. A further increase is planned for 1985-86. The Directors and Management believe, however, with continuing traffic growth, load factors between 65% and 70% and the airline's route network, aircraft utilisation is reaching the maximum that can be achieved with the existing fleet.

Details of the fixed wing fleet, at 31 March 1985, together with the average age and a comparison of the position five years ago are set out on page 22.

EXPENDITURE ON CAPITAL EQUIPMENT

In the autumn of 1983, BA obtained from a banking consortium, a facility that would enable the airline to lease on an annual basis up to 31 Boeing 737 aircraft on terms which would leave BA the option in three to six years time to acquire, without penalty, another type should traffic growth and/or airframe or engine development make this desirable. This arrangement is known as an 'operating lease' which imposes upon the lessee a short term commitment, as opposed to a finance lease which usually commits the lessee to a full payout of the entire capital cost of the equipment over a longer period.

The 14 Boeing 737-200 aircraft delivered during 1984-85 and a further two delivered in April 1985, have been acquired on this operating lease basis.

In the light of the traffic growth that has occurred since the end of 1983, it became increasingly clear that the airline would be better to exercise its option to acquire more Boeing 757 aircraft with 189 seats rather than Boeing 737 aircraft with 114 seats.

Agreement was sought and obtained from the banking consortium to substitute nine Boeing 757 aircraft for the remaining 15 Boeing 737 aircraft in the operating lease facility provided by the consortium. Consequently the airline cancelled its option for the 15 additional Boeing 737s and substituted three of the Boeing 757 aircraft which were delivered in 1984-85, together with the three delivered in the late autumn of 1985 and three of the four which the airline wishes to obtain delivery of in spring 1986 – previously referred to in the paragraph headed 'Aircraft'. Contractual arrangements for these have been concluded during the current year.

The effect of having three of the Boeing 757 aircraft delivered in 1984-85 under the operating lease facility reduced BA's capital expenditure in 1984-85 (and consequently improved BA's actual external financing requirement which affects the Government's Public Sector Borrowing Requirement) to a low level of £119m, covering payments on two Boeing 757s and other non-aircraft equipment.

Capital expenditure in 1985-86 has been limited by the Government at a level of £250m. Beyond that further increases in annual capital expenditure are inevitable if the airline is to accommodate traffic growth and compete with other airlines with modern equipment.

BORROWINGS

For the first time for many years the airline did not draw upon any new borrowings. Cash generated from operations and the sale of miscellaneous assets, and after charging £89m for interest payable, was sufficient to finance capital expenditure and also to repay £330m of borrowings – compared with the External Financing Limit requiring a repayment of £162m. This is shown in more detail on the source and application of funds statement on page 28.

FINANCIAL SUMMARY

The Group has come a long way since March 1982, when its liabilities exceeded its assets.

Summaries of the trading results, profits, cash sources and dispositions and the balance sheets for the past five years appear on pages 18 and 19. Further details by activity and by geographical area are given on pages 20 and 21.

STAFF — CUSTOMERS AND OBJECTIVES

During the last 18 months substantial effort has gone into a series of programmes entitled 'Putting People First'. These seminars combine the objectives of enabling different groups of employees to appreciate and understand their interdependence upon one another for a congenial 'people orientated' environment which in turn forms the basis for focusing the airline's attention on the customer and meeting his or her needs. Over 20,000 employees who have direct contact with customers have each attended a course devoted to these purposes.

Since October 1984 similar programmes have taken place for those other staff — numbering some 17,500 — who are not normally directly in contact with customers. Here the purposes are to promote the same 'people orientated' environment, together with the need to provide the necessary support to those staff who are in contact with the public.

Both programmes emphasise the need for teamwork and co-operation within and between departments. It is intended to initiate further programmes to maintain these objectives in the future.

Similar programmes, but more specialised, started in April 1985 for all senior, middle and junior managers. These seminars are designed to concentrate the minds upon attaining the corporate objective of being the best and most successful airline in the world and retaining that position.

PROFIT SHARE

The Board has continued the staff Profit Sharing Scheme based upon actual results. For 1984-85 every eligible staff member received an extra three and one third weeks basic pay.

OFFER FOR SALE OF SHARES TO STAFF

Arrangements were made in the summer of 1984 to enable employees in receipt of the 1983-84 profit share to put their entitlement without any deduction for Income Tax under Schedule E (PAYE), into a Trust to be held until the shares of BA are offered for sale.

As a result of the delay in the Offer for Sale of the shares of BA, the Inland Revenue has agreed to a limited extension of the Trust arrangements. The employees were given the option to withdraw in cash less income tax their 1983-84 profit share from the Trust, or transfer it into the 1984-85 Trust, with a view to buying shares if an Offer for Sale should take place before 31 March 1986. If no Offer for Sale has taken place by then, the profit share will have to be distributed in cash, less income tax, unless the Inland Revenue is prepared to agree to a further extension.

The same opportunities and arrangements applied to employees in receipt of the 1984-85 profit share.

Currently some 9,000 employees, whose profit share aggregates to nearly £7m, have elected to put their profit share for both years, or one or other of the years, into the Trust.

PENSION SCHEME

The Board decided to close the Airways Pension Scheme (APS) to new entrants from 1 April 1984. This Scheme provided, inter alia, for full indexation for inflation of pensions and for no account to be taken in the calculation of benefits under APS of the State Pension.

Simultaneously, the Board started the New Airways Pension Scheme (NAPS) for new entrants which provides a similar level of benefits to those

of many leading UK employers. Like these other companies in the private sector, the new Scheme does not provide for full indexation for inflation, but limits this annually to the lower of 5% or the actual rate of inflation. In addition, under NAPS, a full deduction is made for the State Pension in calculating pension benefits.

Employees who were members of APS were offered the opportunity of either staying in APS without any change in benefits and contributions, or transferring to NAPS. Every member of APS was advised that on electing to transfer to NAPS his or her accrued benefits to date under NAPS would be less than they were under APS.

Upon transfer to NAPS the ensuing difference was applied in one of two ways at the option of the member or employee. Under one option the full amount of the difference could be used to purchase additional years of pensionable service. The other option was to take cash. The Inland Revenue, however, had ruled that for those who elected to take cash the relevant monies had to be paid from APS to BA and that these monies would be treated for Corporation tax assessment purposes as a trading, and therefore taxable, receipt of BA; but that the payment of these monies by BA to those who had elected to take the cash option would not be treated for Corporation tax assessment purposes as a deductible expense of BA.

In view of these circumstances, BA made it a condition of the offer to those members of APS who elected to transfer to NAPS and who elected to take the cash option that the company could withhold 15% of the cash amount payable to meet, in part, the future Corporation tax liability on the transaction.

Of the membership of APS at 30 June 1984, 17,007 employees or 53% elected to transfer to NAPS. The vast majority decided to take the cash option. Full particulars of the financial consequences are set out in Notes 7 and 23 to the Accounts on respectively pages 33 and 42.

EMPLOYEES

Throughout BA consultative procedures exist which enable management and employees to meet and discuss the airline's performance, objectives and other matters of mutual interest. The British Airways Trade Union Council is a particularly effective forum in this consultative process.

It is BA's policy to give full and fair consideration to the employment, promotion and training of disabled persons having regard to their particular aptitudes and abilities.

THE CAA REPORT (CAP500) AND THE GOVERNMENT'S RESPONSE IN A WHITE PAPER

AIRLINE COMPETITION POLICY CMND 9366

In December 1983 The Secretary of State for Transport asked the CAA to conduct a review of airline competition policy. The CAA Report (CAP500) was published in July 1984. Its principal conclusions were that there should be some reduction in the size of BA relative to that of other British airlines; that BA's routes to Saudi Arabia and Harare should be transferred to British Caledonian Airways (BCAL); that BA's scheduled service routes from Gatwick and the European routes from regional airports should be taken over by other British airlines; that other airlines operating domestic trunk services should be given access to Heathrow if necessary by reducing BA's frequencies; that there should be much greater freedom of entry and of pricing on UK domestic routes. The CAA also

recommended that its own powers should be enhanced in order to promote the sound development of a competitive British airline industry and deal with anti-competitive behaviour.

BA strongly contested the proposals that some of its routes should be taken from it and that it should be precluded from operating scheduled services from Gatwick. BA also objected to the proposal that the CAA should be given added powers to enable it to substitute, for reasons of 'structural balance', other airlines for BA on routes on which BA was offering a satisfactory service.

The Government published its response in a White Paper *Airline Competition Policy (Cmnd 9366)* in October 1984. The Government decided:

- ☐ that there would be no forced reduction in BA's size relative to the rest of the British airline industry
- ☐ that the best prospects for introducing extra competition lay in the shorthaul routes to continental Europe and that competition would develop mainly (but not exclusively) between BA at Heathrow and BCAL at Gatwick
- ☐ that the development of Gatwick would be helped if BA continued to operate and develop its Gatwick services
- ☐ that BA's regional routes to Europe should not be compulsorily transferred to other airlines. In order to assist smaller airlines in operating on these routes, however, it had accepted BA's proposal to make available to any airline, other than BCAL, up to £450,000 per route spread over three years and to help them with supporting services. The offer would extend to a maximum of 15 routes from the six regional airports at which BA currently operates
- ☐ that there should be no compulsory transfer of routes from BA to BCAL. However, the Government welcomed an arrangement made to strengthen BCAL financially under which each airline would withdraw from certain routes which the other would then take up. In implementation of this BA withdrew from Jeddah and Dhahran in Saudi Arabia on 31 March 1985 and BCAL commenced operations in its place. At the same time BCAL withdrew from its South American routes and surrendered its unused licences to Denver and Morocco. BA was licensed to serve these points in place of BCAL and has, in addition, been licensed to serve Tampa and Orlando in Florida
- ☐ that in relation to intercontinental services the Government would, wherever it considered it to be sensible to do so, seek to negotiate dual designation and opportunities for less direct competition (such as designating two British carriers on routes to different points in the same country). It was recognised, however, that progress on terms acceptable to the UK is likely to be slow.

The Government endorsed the CAA's proposals for reducing regulation in relation to domestic services and agreed with the CAA's view that BA should not be precluded from whole plane charters or be required to dispose of British Airtours Ltd. In relation to safeguards against anti-competitive behaviour, the Government confirmed that the CAA remained the main regulator of the civil air transport industry and the principal

bulwark against airlines acting in a predatory fashion towards their competitors. Nevertheless the Government intended to expand the role of the Director General of Fair Trading and to bring civil aviation more into the mainstream of the competition rules as they apply to industry generally.

As regards the proposed enhancement of the CAA's powers the Government considered that the existing statutory framework had proved sufficiently flexible and adaptable to allow the competitive development of airline services and would be sufficient to implement the policies expressed in the White Paper.

The Board much regretted the loss of its routes to Saudi Arabia to which it had been providing scheduled services since 1965 and takes the opportunity of thanking the authorities, officials, staff, agents and customers in Saudi Arabia for their help, support and custom during this period.

The Board welcomes the opportunity to return to South America. Twice weekly services direct to Rio de Janeiro and then to Sao Paulo and also to Caracas and Bogata via Trinidad commenced on 1 April 1985: it is hoped that these can be extended in due course. The outcome also enhanced the airline's ability to increase its flights to additional cities in the US over the next few years.

While on balance the arrangements represent a fair decision, the loss of the routes to Saudi Arabia and the addition of those to South America will initially reduce airline operating profits by an estimated £18m per annum.

CAA REVISED STATEMENT OF POLICIES

The CAA published a new Statement of Policies in January 1985 and this took effect on 1 March 1985.

In addition to the CAA's proposals relating to greater freedom of entry and of pricing on domestic routes the principal changes from the previous Statement of Policies are:

- ☐ in considering applications for new licences the CAA will now have less regard for the effect on existing services operated by other airlines and will be ready to license competing services, even at the risk of some impairment of an existing service. Loss of profit to an incumbent carrier is not in itself a bar to the licensing of a competing service
- ☐ in its attitude to competition the CAA will now place increased emphasis on the interests of users, which it considers are best served by the existence of a number of efficient and profitable British airlines strong enough to compete with each other where the opportunity offers or can usefully be created, as well as with foreign airlines
- ☐ there should be at least one airline fit and able to replace the incumbent operator whenever the need for substitution may arise, although the CAA will not substitute one airline for another in order to achieve structural changes within the industry
- ☐ when considering applications for competing or substitute services the CAA will now have regard to whether the incumbent operator is demonstrating in practice its whole-hearted commitment and it will not protect indefinitely a service that, for whatever reason, is proving difficult to bring into profit

☐ in exercising its regulatory powers generally the Authority will intervene to prevent or remedy anti-competitive behaviour.

LITIGATION

In October 1984 a US grand jury investigation into possible breaches of US anti-trust laws in relation to air transport across the North Atlantic was brought to an end by the United States Government with no indictments being preferred by the grand jury.

At the beginning of October 1985 there was filed with the US District Court in Washington a dismissal 'with prejudice' and without admission of liability, of the action which Mr Christopher Morris, the liquidator of Laker Airways had instituted against a number of airlines (including British Airways) and others claiming that these airlines and others had conspired to put Laker Airways out of business and that in so doing they had acted in violation of US anti-trust laws.

This followed an agreement between the defendants and the liquidator which included undertakings from him, the shareholder of the former Laker Airways Company and other parties not to re-institute fresh proceedings against these former defendants – the airlines and others – at any later date. The agreement also provided for the payment of monies from the airlines and others to a separate company which will distribute these monies to the creditors of Laker Airways and other interested parties in accordance with the terms agreed by all concerned. Releases have been given by Sir Freddie Laker and Lorrho PLC in respect of claims asserted by them in respect of events after the collapse of Laker Airways.

BA, Pan American and TWA are also defendants in a consolidated anti-trust class action filed on 21 November 1984 in the same United States District Court, which claimed unquantified damages and penalties on behalf of transatlantic air passengers following Laker's cessation of business in February 1982. The complaint alleged that the defendants 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 during the period from 1 March 1982 to at least 3 December 1983.

Although the defendant airlines believe that such action should not succeed, proposals to settle it, without admission of liability, by the issue of coupons which could be used in respect of future travel, have been provisionally approved by the US District Court for Washington. The Board expects that the action can be finally settled on that basis early in 1986. The settlement agreement involves a fund of coupons, with a potential value of US\$30m, which will be issued among those passengers who travelled in that period and who as a result of the advertisement of this agreement can substantiate a claim. The coupons will be valid for five years and will be available for part payment for travel across the Atlantic on these carriers' scheduled services.

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 will be borne as coupons are utilised for travel on BA. Accordingly, no provision for this is considered to be necessary.

Provision has, however, been made for the cash to be disbursed which, under these two agreements, is estimated to aggregate £33m (US\$38m) and which is charged as an exceptional item in the year to 31 March 1985.

AIRPORTS POLICY

Following the public inquiries on the future policy towards Stansted and Terminal Five at Heathrow, the Inspectors Report was published in December 1984. The Inspector recommended approval of the planning application to develop Stansted to handle 15 million passengers per annum and that its ultimate capacity should not exceed 25 million passengers per annum on a single runway. For Heathrow the strategic aim should be to provide further terminal accommodation, additional to Terminal Four, for approximately 15 million passengers per annum, leading to a total capacity of 53 million passengers per annum by the mid 1990s or before, thereby fully utilising the capacity of Heathrow's existing runways.

On 5 June 1985 the Government published a White Paper on Airports Policy. The main conclusions were:

Heathrow

- ☐ All reasonable steps will be taken to maintain Heathrow's leading position in world aviation
- ☐ The proposal to limit annual air transport movements to 275,000 will not be pursued
- ☐ Removal of the Perry Oaks sludge works was highly desirable. The BAA and the Thames Water Authority would be invited to study urgently the options and costs with a view to releasing the site to the airport as soon as possible
- ☐ Improvements are needed to surface access links, whether or not further development takes place. A study of the options for improvements to the A4/M4 corridor and a possible rail link would be commissioned urgently. Consultations will take place on improvements to local roads
- ☐ The possibility of a fifth terminal would be kept under review, but the Government could not make any commitment at this stage. Any proposal would require planning permission
- ☐ The BAA will be invited to consider any possible improvements which could help to raise the passenger throughput of the airport's four terminals above 38 million passengers per annum, at acceptable standards

Stansted

- ☐ Planning permission has been given for the provision of a terminal with a capacity of about 15 million passengers per annum and associated facilities, subject to certain conditions, which includes phased development, the first phase being limited to handling some 7-8 million passengers per annum
- ☐ subject to enactment of the proposed legislation, an annual air transport movement limit will be set in line with the size of the first phase of development. Increases in the movements limit will be subject to Parliamentary approval
- ☐ The Government does not intend that a second main runway should be constructed

Luton

- ☐ Luton Borough Council will be invited to bring forward proposals to increase the airport's capacity to about 5 million passengers per annum, subject to normal planning procedures

R E P O R T A N D A C C O U N T S

Regional

☐ Manchester International

The Government will encourage the development of Manchester as a regional hub airport. The steps already taken by BA and other airlines for new international services from Manchester will greatly aid the airport's development.

British Airways welcomed the Inspector's findings, which after an exhaustive inquiry recognised the importance of Heathrow and the need to provide both a fifth terminal and to modernise the airport. It also welcomed this realistic change in policy but was disappointed that the Government did not commit itself specifically to a fifth terminal. The timescale for its approval and development is long and the procedures potentially difficult. British Airways will continue to advocate the earliest provision of Terminal Five including acceleration of the approval procedures to achieve this.

STOLPORT

On 23 May 1985 the Government granted planning approval for the development of a Stolport, in the Royal group of docks in East London, with a capacity of one million passengers per annum. It has been designed to accommodate short take off and landing aircraft, primarily the 50 seat de Havilland Canada Dash 7, and services are expected to be provided to a number of Domestic and European destinations.

OTHER STATUTORY INFORMATION

CHARITABLE DONATIONS

Charitable donations made by the Group, during the year, amounted to £79,000 (1984 £71,000). No payments were made to political parties or in any connection which in the opinion of the Directors might fall within the definition of money given for political purposes.

DIRECTORS

In accordance with the requirements of the Company's Articles of Association, all the Directors listed on page 17, apart from Henry Lambert, retired at the Annual General Meeting held on 8 February 1985 and were re-elected. Alex Dibbs, who was re-elected at the meeting, subsequently retired on 3 May 1985 as a Director and Deputy Chairman.

Lord King of Wartnaby, Captain J W Jessop and Sir Leo Pliatzky will retire by rotation at the next Annual General Meeting. Lord King and Captain Jessop, being eligible, will offer themselves for re-election and resolutions for their re-election will be proposed. Sir Leo Pliatzky has indicated that he does not wish to offer himself for re-election.

Henry Lambert was appointed a Director on 1 October 1985.

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, were appointed at the first meeting of the Directors and have indicated their willingness to continue in office. Resolutions proposing their re-appointment and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

PRIVATISATION

The Board looks forward to concluding with HM Government all the outstanding matters on privatisation so that the Company's shares can be offered for sale during 1986.

EVENTS SUBSEQUENT TO 31 MARCH 1985

The Directors have to record, with deep regret, the loss of Boeing 737 G-BGJL operated by British Airtours in a tragic accident on the runway at Manchester on 22 August 1985 which led to the loss of 55 lives out of the 137 passengers and crew on board. Most of the survivors suffered from shock but some were injured. The Board has sent its deepest sympathy to the bereaved.

The Accident Investigation Branch preliminary report has identified the cause of the accident as an explosive rupture of the combustion chamber outer casing in the 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 1985 summer season was also marred by the damage sustained by a TriStar operated by British Airtours, which overshot the runway at Leeds, fortunately without harm to any of the passengers and crew.

Investigation work on both accidents will take some time to be completed and until then the matters are sub-judice.

R E P O R T A N D A C C O U N T S

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

Sir Leo Pliatzky KCB

Bernard Wood
Secretary

Board of British Airways
as at
1 December 1985

British Airways Head Office
Speedbird House
Heathrow Airport
London TW6 2JA

Telephone 01-759 5511

EXECUTIVE MANAGEMENT

C M Marshall
Chief Executive

R 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

D Hyde
Deputy Director of Marketing

Captain J W Jessop
Director of Safety Services

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

D Tunncliffe
Director of Marketplace Performance

J O Watson
Director of Information Management

H K Wilkins
Planning Director

B C Wood
Company Secretary

SUMMARY FINANCIAL STATEMENTS

FOR THE FIVE YEARS ENDED 31 MARCH 1985

	1980-81 £m	1981-82 £m	1982-83 £m	1983-84 £m	1984-85 £m
Profit and loss account					
Turnover	2,060.6	2,241.3	2,496.5	2,513.7	2,942.5
Operating expenditure	(2,153.4)	(2,229.5)	(2,311.4)	(2,246.0)	(2,650.4)
Operating result	(92.8)	11.8	185.1	267.7	292.1
Other income/(charges)	23.8	(2.3)	18.5	26.0	(11.0)*
Interest payable and similar charges	(67.8)	(120.1)	(130.2)	(108.7)	(113.0)
Profit/(loss) on ordinary activities before taxation	(136.8)	(110.6)	73.4	185.0	168.1
Taxation	(3.7)	(5.4)	(9.5)	(3.2)	(2.2)
Profit/(loss) on ordinary activities after taxation	(140.5)	(116.0)	63.9	181.8	165.9
Minority interests	(.7)	.7	(1.3)	(.5)	(.5)
Profit/(loss) for the period before extraordinary items	(141.2)	(115.3)	62.6	181.3	165.4
Extraordinary items		(428.9)	26.0	33.2	10.7
Profit/(loss) for the period transferred to reserves	(141.2)	(544.2)	88.6	214.5	176.1
Source and application of funds					
Funds generated:					
Profit/(loss) on ordinary activities before taxation	(136.8)	(110.6)	73.4	185.0	168.1
Profit/loss on tangible asset and investment disposals	(13.9)	(7.0)	(34.1)	(5.5)	5.1
Extraordinary item		(428.9)	26.0	33.2	10.7
	(150.7)	(546.5)	65.3	212.7	183.9
Adjustments not involving movement of funds					
<i>Amortisation and depreciation of tangible assets</i>	106.9	337.9	116.0	117.8	146.2
<i>Miscellaneous</i>	(9.6)	228.8	8.1	(33.3)	21.1
Cash generated from operations	(53.4)	20.2	189.4	297.2	351.2
Dividend paid	(7.0)				
Net cash generated from operations	(60.4)	20.2	189.4	297.2	351.2
Net proceeds from tangible asset and investment disposals	37.4	17.5	110.3	11.4	48.2
Total cash generated	(23.0)	37.7	299.7	308.6	399.4
Movements in working capital	(9.6)	(52.4)	(92.3)	105.4	49.4
Loans and lease finance raised	325.8	196.9	64.1	47.5	
Public dividend capital issued	10.0	10.0			
Cash available	303.2	192.2	271.5	461.5	448.8
Application of funds:					
Capital expenditure	271.0	153.0	172.7	250.2	119.2
Repayments of loans and lease finance	32.2	39.2	98.8	211.3	329.6
Total cash applied	303.2	192.2	271.5	461.5	448.8

*1984-85 includes exceptional charge of £33m

R E P O R T A N D A C C O U N T S

SUMMARY FINANCIAL STATEMENTS

FOR THE FIVE YEARS ENDED 31 MARCH 1985

	1980-81 £m	1981-82 £m	1982-83 £m	1983-84 £m	1984-85 £m
Balance sheet					
Fixed assets					
<i>Tangible assets</i>	1,193.5	1,033.5	1,079.2	1,262.6	1,246.9
<i>Investments</i>	19.0	22.2	20.4	20.1	4.2
Current assets	470.0	576.6	573.3	511.0	709.9
Creditors falling due within one year	(593.6)	(750.8)	(716.8)	(768.1)	(1,048.2)
Net current liabilities	(123.6)	(174.2)	(143.5)	(257.1)	(338.3)
Total assets less current liabilities	1,088.9	881.5	956.1	1,025.6	912.8
Creditors falling due after more than one year, including provisions for liabilities and charges	(739.2)	(1,073.6)	(1,073.5)	(899.1)	(625.9)
	349.7	(192.1)	(117.4)	126.5	286.9
Capital and Reserves					
<i>Public Dividend Capital</i>	170.0	180.0	180.0	180.0	180.0
<i>Called up share capital</i>					
<i>Reserves</i>	177.0	(374.7)	(297.7)	(54.3)	105.6
Minority Interests	2.7	2.6	.3	.8	1.3
	349.7	(192.1)	(117.4)	126.5	286.9

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

FOR THE FIVE YEARS ENDED 31 MARCH 1985

	1980-81 £m	1981-82 £m	1982-83 £m	1983-84 £m	1984-85 £m
Turnover					
Airline Operations	1,873.0	2,010.0	2,172.0	2,382.1	2,796.7
Helicopter Operations	32.8	38.3	40.8	43.0	37.6
Inclusive Tour Holidays	80.3	87.1	100.6	79.0	99.0
Other	5.2	8.1	8.6	9.6	9.2
Discontinued activities	69.3	97.8	174.5		
	2,060.6	2,241.3	2,496.5	2,513.7	2,942.5
Operating surplus/(deficit)					
Airline Operations	(102.0)	4.6	169.8	273.5	303.0*
Helicopter Operations	4.8	3.3	(.4)	—	(2.2)
Inclusive Tour Holidays	(.7)	(2.2)	(2.2)	(7.6)	(10.3)
Other	.6	(1.1)	1.5	1.8	1.6
Discontinued activities	4.5	7.2	16.4		
	(92.8)	11.8	185.1	267.7	292.1*
Profit/(loss) before taxation					
Airline Operations	(162.1)	(114.5)	43.1	185.3	158.7
Helicopter Operations	1.8	(.4)	—	2.1	6.5
Inclusive Tour Holidays	5.7	(4.4)	4.4	(3.5)	(6.9)
Other	6.1	(1.3)	6.9	(1.2)	.8
Discontinued activities	11.7	10.0	19.0	2.3**	9.0**
	(136.8)	(110.6)	73.4	185.0	168.1

* 1984-85 before exceptional item

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

R E P O R T A N D A C C O U N T S

ANALYSIS OF TURNOVER AND OPERATING SURPLUS BY GEOGRAPHICAL AREA

FOR THE FIVE YEARS ENDED 31 MARCH 1985

	1980-81 £m	1981-82 £m	1982-83 £m	1983-84 £m	1984-85 £m
Turnover					
Europe	902.3	985.5	1,030.0	1,134.9	1,256.1
The Americas	491.0	556.0	620.0	669.9	862.0
Africa	137.0	143.0	154.0	153.8	177.8
Middle East, Far East and Australasia	461.0	459.0	518.0	555.1	646.6
	1,991.3	2,143.5	2,322.0	2,513.7	2,942.5
Discontinued activities	69.3	97	174.5		
	2,060.6	2,241.3	2,496.5	2,513.7	2,942.5
Operating surplus/(deficit)					
Europe	(47.7)	4.2	61.5	103.9	83.4
The Americas	(17.5)	(6.1)	52.1	85.3	129.6
Africa	17.9	20.2	22.0	22.3	26.2
Middle East, Far East and Australasia	(50.0)	(13.7)	33.1	56.2	52.9
	(97.3)	4.6	168.7	267.7	292.1
Discontinued activities	4.5	7.2	16.4		
	(92.8)	11.8	185.1	267.7	292.1

AIRCRAFT FLEET - FIXED WING

CHANGES BETWEEN 31 MARCH 1980 AND 31 MARCH 1985

	31 March 1980 (note 1)	Additions	Disposals	31 March 1985 (note 2)	Average age of fleet at 31 March 1985 Years	Method of disposal
Shorthaul including Airtours						
Boeing 757		16		16	1	
Boeing 737	6	39		45	3	
TriStar 1	9			9	10	
Trident 3	25		12	13	13	4 sold, 8 scrapped
Trident 2	16		15	1	17	3 sold, 11 scrapped, 1 given to museum
Trident 1	15		15			8 sold, 6 scrapped, 1 given to museum
BAC 1-11/500	19	2		21	14	
BAC 1-11/400	7		2	5	12	2 returned to lessor
HS748	2	4		6	4	
Viscount	20		20			18 sold, 2 scrapped
	119	61	64	116		
Longhaul						
Concorde	5	1		6	8	
Boeing 747-236	9	3		12	6	
Boeing 747-136	18		2	16	12	2 sold
Boeing 747 Freighter		1	1			Sold
TriStar 500	4	2	6			6 sold
TriStar 200	1	7		8	4	
Boeing 707-436	7		7			7 traded in against goods and services supplied by Boeing
Boeing 707-336	11		11			10 sold, 1 scrapped
Super VC10	15		15			15 sold
	70	14	42	42		
Total fleet	189	75	106	158		

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

Note 2 Excludes one Concorde pending completion of extensive modifications.

Includes one Boeing 757, three Boeing 737s, two HS748s and two BAC 1-11/400s on short term operating leases.

Includes fourteen Boeing 737s and two Boeing 757s on extended operating leases.

R E P O R T A N D A C C O U N T S

REPORT OF THE AUDITORS TO THE MEMBERS

We have examined the accounts of British Airways Plc set out on pages 24 to 43 and 48. These have been prepared under the historical cost convention modified as explained in the accounting policies on page 24. 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 1985 and of the profit and source and application of funds of the Group for the period then ended and comply with the Companies Act 1985.

In our opinion the Group current cost statements set out on pages 44 to 47 have been properly prepared, in accordance with the policies and methods described therein, to give the information required by Statement of Standard Accounting Practice No 16, modified for the reason given in Note 7 to include a gearing adjustment.

Ernst & Whinney
Chartered Accountants
London

11 December 1985

COMPANY STRUCTURE

British Airways Plc (BA) was incorporated on 13 December 1983. Pursuant to the Civil Aviation Act 1980, BA was nominated as the successor company to British Airways Board (BAB) and an order made under the Act provided that with effect from 1 April 1984 all the property, rights, liabilities and obligations of BAB vested in BA. BA did not trade prior to 1 April 1984, but the profit and loss account covers the period from incorporation. The comparative figures shown relate to BAB and are for the year ended 31 March 1984.

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 1983-84.

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 profits 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.

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.

R E P O R T A N D A C C O U N T S

c) Property and equipment

All properties, other than those of a specialised use nature, were professionally valued at open market value at 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.

STORES AND WORK IN PROGRESS

Stores 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 have been translated into sterling at the rates ruling at the respective balance sheet dates except for those borrowings arranged as part of HM Government's management of the UK foreign currency reserves through the Treasury's exchange cover scheme where the amount outstanding is translated at rates of exchange fixed by HM Treasury.

Increases and decreases in the sterling value of outstanding non-exchange covered foreign currency borrowings used for the acquisition of aircraft are reflected in the cost of those aircraft. All other profits or losses arising on translation are dealt with through the profit and loss account.

The sterling/US dollar exchange rate at 31 March 1985 was £1 = US \$1.237 (31 March 1984 – US \$1.442).

GROUP PROFIT AND LOSS ACCOUNT

	Note	Group 1985 £m	Group 1984 £m
Turnover	1	2,942.5	2,513.7
Cost of sales		(2,580.5)	(2,175.7)
Gross profit		362.0	338.0
Administrative expenses		(69.9)	(70.3)
Operating surplus before exceptional item	1 & 2a	292.1	267.7
Exceptional item	3	(33.0)	
Operating surplus after exceptional item		259.1	267.7
Other income/(charges)	4	19.0	23.6
Income from shares in related companies		2.6	2.4
Income from other fixed asset investments		.2	.1
Provisions released/(written off) against investments		.2	(.1)
Profit before interest payable and taxation		281.1	293.7
Interest payable and similar charges	5	(113.0)	(108.7)
Profit on ordinary activities before taxation	1	168.1	185.0
Taxation	6	(2.2)	(3.2)
Profit on ordinary activities after taxation		165.9	181.8
Minority interests		(.5)	(.5)
Profit for the period before extraordinary item		165.4	181.3
Extraordinary item	7	10.7	33.2
Profit for the period transferred to reserves	8	176.1	214.5
Profit for the period retained by:			
British Airways Plc		199.5	235.7
Subsidiary companies		(18.7)	(21.8)
Related companies		(4.7)	.6
		176.1	214.5
Earnings per share – before extraordinary item	19	91.9p	100.7p

R E P O R T A N D A C C O U N T S

BALANCE SHEETS

	Note	Group 1985 £m	Group 1984 £m	Company 1985 £m	Board 1984 £m
Fixed assets					
Tangible assets					
<i>Fleet</i>		995.8	1,008.6	942.0	953.7
<i>Property</i>		158.2	168.8	142.5	154.5
<i>Equipment</i>		92.9	85.2	86.8	78.4
	9	1,246.9	1,262.6	1,171.3	1,186.6
Investments					
<i>Group companies</i>	10			75.7	71.3
<i>Related companies</i>	11	.6	16.9		.1
<i>Trade investments</i>	11	3.6	3.2	.5	.5
		4.2	20.1	76.2	71.9
Current assets					
Stocks	12	17.2	15.0	11.8	11.0
Debtors	13	607.4	462.3	561.1	433.3
Investments—short term loans and deposits		64.3	18.0	62.3	16.3
Cash at bank and in hand		21.0	15.7	19.8	13.2
		709.9	511.0	655.0	473.8
Creditors					
Amounts falling due within one year	14	(1,048.2)	(768.1)	(1,008.7)	(751.4)
Net current liabilities		(338.3)	(257.1)	(353.7)	(277.6)
Total assets less current liabilities		912.8	1,025.6	893.8	980.9
Creditors					
Amounts falling due after more than one year	15	(577.2)	(852.7)	(577.5)	(853.1)
Provisions for liabilities and charges	17	(48.7)	(46.4)	(47.4)	(44.5)
		286.9	126.5	268.9	83.3
Capital and reserves					
Called up share capital	18	180.0	180.0	180.0	180.0
Reserves					
Distributable					
<i>Profit and loss account</i>	8	80.9	(99.5)	67.6	(126.1)
Non distributable					
<i>Revaluation</i>	8	23.1	30.4	21.3	29.4
<i>Other</i>	8	1.6	14.8		
Minority interests		1.3	.8		
		286.9	126.5	268.9	83.3

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

11 December 1985

Ken
Gordon Dunlop

GROUP SOURCE AND APPLICATION OF FUNDS

	1985 £m	1984 £m
Funds generated		
Profit on ordinary activities before tax	168.1	185.0
(Profit)/loss on tangible asset and investment disposals	5.1	(5.5)
Extraordinary item	10.7	33.2
	183.9	212.7
Adjustments not involving movement of funds		
<i>Amortisation and depreciation of tangible assets</i>	146.2	117.8
<i>Miscellaneous</i>	21.1	(33.3)
	167.3	84.5
Cash generated from operations	351.2	297.2
Net proceeds from tangible asset and investment disposals	48.2	11.4
Total cash generated	399.4	308.6
Movements in working capital		
<i>Liquid resources</i>	(50.6)	2.7
<i>Other</i>	100.0	102.7
	49.4	105.4
Loans and lease finance raised		47.5
Cash available	448.8	461.5
Application of funds		
Capital expenditure		
<i>Fleet</i>	76.6	209.0
<i>Property and equipment</i>	42.6	41.2
	119.2	250.2
Repayment of loans and lease finance	329.6	211.3
Total cash applied	448.8	461.5

R E P O R T A N D A C C O U N T S

NOTES ON THE ACCOUNTS

Turnover		Operating surplus/(deficit)		Profit/(loss) before tax	
1985 £m	1984 £m	1985 £m	1984 £m	1985 £m	1984 £m

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

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

Airline operations	2,796.7	2,382.1	303.0	273.5	158.7	185.3
Helicopter operations	37.6	43.0	(2.2)		6.5	2.1
Inclusive tour holidays	99.0	79.0	(10.3)	(7.6)	(6.9)	(3.5)
Other	9.2	9.6	1.6	1.8	.8	(1.2)
Discontinued activities					9.0	2.3
	2,942.5	2,513.7	292.1	267.7	168.1	185.0

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

Turnover for airline operations comprises:

Traffic revenue

Scheduled services

Passenger and excess baggage	2,253.6	1,905.6
Freight and mail	252.5	207.8

	2,506.1	2,113.4
Non-scheduled services	130.7	111.8

	2,636.8	2,225.2
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Aircraft maintenance and other airline services

	159.9	156.9
	2,796.7	2,382.1

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

Discontinued activities refers to certain related companies which, because of their status, are not included in turnover or operating result.

	Group		Airline	
	1985 £m	1984 £m	1985 £m	1984 £m

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

UK	388.5	381.6	349.6	332.0
Continental Europe	867.6	753.3	798.6	684.3
Total Europe	1,256.1	1,134.9	1,148.2	1,016.3
The Americas	862.0	669.9	839.0	663.4
Africa	177.8	153.8	172.8	151.2
Middle East, Far East and Australasia	646.6	555.1	636.7	551.2
	2,942.5	2,513.7	2,796.7	2,382.1

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

	Group		Airline	
	1985 £m	1984 £m	1985 £m	1984 £m
c Operating surplus (before exceptional item) attributable to the Group's and the Airline's geographical markets is:				
Europe	83.4	103.9	92.7	110.9
The Americas	129.6	85.3	131.6	84.7
Africa	26.2	22.3	26.5	22.2
Middle East, Far East and Australasia	52.9	56.2	52.2	55.7
	292.1	267.7	303.0	273.5

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 1985 £m	Group 1984 £m
2 Operating surplus		
a The results are arrived at after charging		
Amortisation and depreciation of tangible fixed assets:		
<i>Owned assets</i>	123.0	98.5
<i>Finance leased aircraft</i>	14.2	12.8
<i>Other leasehold interests</i>	9.0	6.5
Operating lease rental payments:		
<i>Hire of equipment and charter of aircraft and crews</i>	21.6	12.2
<i>Other operating leases</i>	24.4	22.9
Auditors' remuneration	.6	.7
Directors' emoluments	.4	.3
	Company 1985 £	Board 1984 £
b Directors' emoluments		
Chairman	51,419	30,820
The highest paid Director was in receipt of remuneration, excluding pension contributions, amounting to	96,852	78,720
The other Directors' remuneration was within these ranges:	Number	Number
Nil - £5,000	4	4
£5,001 - £10,000		1
£10,001 - £25,000	1	
£25,001 - £30,000		1
£30,001 - £45,000		1
£45,001 - £55,000	1	
£55,001 - £65,000		1
£65,001 - £85,000	1	

R E P O R T A N D A C C O U N T S

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	
	1985	1984	1985	1984	1985	1984
£30,001 - £35,000	221	276	38	14	259	290
£35,001 - £40,000	285	166	22	6	307	172
£40,001 - £45,000	157	35	8	5	165	40
£45,001 - £50,000	37	1	5	2	42	3
£50,001 - £55,000	3		5	1	8	1
£55,001 - £60,000			3		3	
£60,001 - £65,000			1		1	

d Staff numbers and costs

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

Airline operations	36,861	36,096
Helicopter operations	665	711
Inclusive tour holidays	398	312
Others	213	128
	38,137	37,247

The aggregate payroll costs of these persons were as follows:

	£m	£m
Wages and salaries including staff bonus	494.7	440.2
Social security costs	40.6	36.7
Contributions to pension schemes	61.7	59.9
	597.0	536.8
	Group	Group
	1985	1984
	£m	£m

3 Exceptional item

Cash costs relating to the settlements of

Laker Anti Trust and associated Class Actions	33.0
---	------

Since 31 March 1985 an out-of-court settlement has been reached in the action brought against the Company and other parties by the liquidator of Laker Airways Limited and proposals to settle, without admission of liability, the associated Class Action suit have been provisionally approved by the US court.

Provision has been made for the cash to be disbursed which, under these two agreements, is estimated to aggregate £33m (US\$38m) and which is charged as an exceptional item in the year to 31 March 1985.

The proposals for settlement of the Class Action suit against BA, Pan Am and TWA involve a fund of coupons, with a maximum aggregate value of US\$30m, which will be issued among those passengers who travelled between the US and the UK in the relevant period and who as a result of the advertisement of these proposals can substantiate a claim. The coupons will be valid for five years and will be available for part payment for travel across the Atlantic on these carriers' scheduled services.

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.

	Group 1985 £m	Group 1984 £m
4 Other income/(charges)		
Interest receivable	18.7	15.1
Realised gains, less provision for losses on disposals	.3	8.5
	19.0	23.6
	Group and Company	
	1985 £m	1984 £m
5 Interest payable and similar charges		
Interest payable		
On bank loans		
Repayable wholly within five years	20.2	9.3
Repayable in whole or in part after five years	36.2	63.2
Other loans and lease finance		
Repayable wholly within five years	4.7	4.5
Repayable in whole or in part after five years	28.6	29.0
Interest capitalised	(.6)	(1.9)
On loans from the National Loans Fund (repaid in 1983-84)		1.9
	89.1	106.0
Currency losses on general purpose loans		
On revaluation of loans at 31 March	20.9	2.7
On repayments during the period	3.0	
	23.9	2.7
	113.0	108.7

The average rate of interest borne on loans (excluding lease finance) was 11.77% (1984 - 12.14%). 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 6.44% to 13.81% (1984 - 6.44% to 11.69%).

Changes in the sterling value of foreign currency loans and lease finance used specifically for the acquisition of aircraft and amounting to £51.4m (1984 - £9.1m) have been added to the cost of those aircraft.

R E P O R T A N D A C C O U N T S

	Group 1985 £m	Group 1984 £m
6 Taxation (see also note 20)		
United Kingdom Corporation tax at 45% (1984–50%)		
<i>Current</i>	.7	.3
<i>Prior years</i>	(1.2)	
<i>Deferred</i>		.2
Advance Corporation tax		
<i>Current</i>	(.2)	(.2)
<i>Prior years</i>		(.1)
Development Land tax		
<i>Prior years</i>	(.5)	
	(1.2)	.2
Overseas	2.2	1.8
Related companies	1.2	1.2
	2.2	3.2

The credit for prior years' UK Corporation tax represents amounts received in respect of the surrender of past losses to a former subsidiary.

If full provision for deferred taxation had been made at 35% there would have been a charge in the period of £72.8m (1984–£1.6m).

	Group 1985 £m	Group 1984 £m
7 Extraordinary item		
Release of severance and associated provisions	10.7	33.2

In addition, £14.7m was retained by the Company from the amount of £97.8m received from the New Airways Pension Scheme (NAPS) in respect of those members of the now closed Airways Pension Scheme (APS) who elected to transfer from APS to NAPS on 30 June 1984 and who opted to take a cash payment upon transfer to NAPS rather than added years of pensionable service in NAPS.

This £14.7m has been retained as a provision to meet the future UK Corporation tax liability on this transaction as set out in notes 17 and 23.

	Distributable Profit and loss account £m	Non-distributable Revaluation reserve £m	Other reserves £m	Total 1985 £m	Total 1984 £m
8 Reserves					
a Movements in the period					
Balance 1 April	(99.5)	30.4	14.8	(54.3)	(297.7)
Profit for the period	180.8		(4.7)	176.1	214.5
Exchange adjustments to opening balances of fleet assets	(12.7)		.2	(12.5)	(1.3)
Transfers relating to revalued property	7.3	(7.3)			
Other movements	5.0		(8.7)	(3.7)	(.2)
Surplus on revaluation of property					30.4
Balance 31 March	80.9	23.1	1.6	105.6	(54.3)
b Analysis of closing balance					
British Airways Plc	67.6	21.3		88.9	(96.7)
Subsidiary companies	13.3	1.8	1.3	16.4	29.0
Related companies			.3	.3	13.4
	80.9	23.1	1.6	105.6	(54.3)

	Fleet £m	Property £m	Equipment £m	Total 1985 £m	Total 1984 £m
9 Tangible assets					
a Group					
Cost or valuation					
Balance 1 April	1,967.6	258.0	185.7	2,411.3	2,171.5
Exchange adjustments to opening balance	47.6			47.6	56.0
Additions	77.6	11.3	31.3	120.2	252.8
Reclassifications	(5.4)	.2	(.2)	(5.4)	8.8
Disposals	(54.7)	(17.3)	(8.7)	(80.7)	(77.8)
Balance 31 March	2,032.7	252.2	208.1	2,493.0	2,411.3
Depreciation					
Balance 1 April	959.0	89.2	100.5	1,148.7	1,092.3
Exchange adjustments to opening balance	9.7	(.1)		9.6	11.1
Charge for period	113.2	10.3	22.7	146.2	117.8
Reclassifications		.2	(.2)		
Disposals	(45.0)	(5.6)	(7.8)	(58.4)	(72.5)
Balance 31 March	1,036.9	94.0	115.2	1,246.1	1,148.7
Net book amounts					
31 March 1985	995.8	158.2	92.9	1,246.9	
31 March 1984	1,008.6	168.8	85.2		1,262.6
Utilisation					
Assets in current use	983.4	150.4	78.2	1,212.0	1,194.2
Payments on account and assets in course of construction	12.4	5.9	14.7	33.0	50.7
Assets not in current use		1.9		1.9	17.7
	995.8	158.2	92.9	1,246.9	1,262.6
Tangible assets include the following amounts relating to leased aircraft:					
Cost				216.4	191.8
Accumulated depreciation				(97.4)	(75.2)
Net book amount				119.0	116.6
The net book amount of property includes the following elements of cost and valuation:					
Freehold property					
at valuation less depreciation				20.7	24.9
at cost less depreciation				10.3	9.0
Long leasehold property					
at valuation less depreciation				12.6	20.4
at cost less depreciation				8.5	8.4
Short leasehold property					
at valuation less depreciation				16.8	19.3
at cost less depreciation				89.3	86.8
				158.2	168.8

R E P O R T A N D A C C O U N T S

	Fleet £m	Property £m	Equipment £m	Total 1985 £m	Total 1984 £m
b Company					
Cost or valuation					
Balance 1 April	1,861.5	236.5	171.1	2,269.1	2,029.3
Exchange adjustments to opening balance	49.7	(1.2)		48.5	55.0
Additions	72.9	10.2	30.3	113.4	241.4
Reclassifications	(15.9)	.2	(.2)	(15.9)	8.8
Disposals	(38.3)	(17.3)	(8.4)	(64.0)	(65.4)
Balance 31 March	1,929.9	228.4	192.8	2,351.1	2,269.1
Depreciation					
Balance 1 April	907.8	82.0	92.7	1,082.5	1,023.8
Exchange adjustments to opening balance	11.7	(.1)		11.6	10.9
Charge for period	104.5	9.5	20.9	134.9	110.0
Reclassifications		.2	(.2)		
Disposals	(36.1)	(5.7)	(7.4)	(49.2)	(62.2)
Balance 31 March	987.9	85.9	106.0	1,179.8	1,082.5
Net book amounts					
31 March 1985	942.0	142.5	86.8	1,171.3	
31 March 1984	953.7	154.5	78.4		1,186.6
Utilisation					
Assets in current use	929.6	135.6	72.3	1,137.5	1,118.3
Payments on account and assets in course of construction	12.4	5.0	14.5	31.9	50.6
Assets not in current use		1.9		1.9	17.7
	942.0	142.5	86.8	1,171.3	1,186.6
Tangible assets include the following amounts relating to leased aircraft:					
Cost				216.4	191.8
Accumulated depreciation				(97.4)	(75.2)
Net book amount				119.0	116.6
The net book amount of property includes the following elements of cost and valuation:					
Freehold property					
at valuation less depreciation				18.3	22.9
at cost less depreciation				8.0	7.7
Long leasehold property					
at valuation less depreciation				12.5	20.4
at cost less depreciation				8.5	8.4
Short leasehold property					
at valuation less depreciation				9.7	12.4
at cost less depreciation				85.5	82.7
				142.5	154.5

Note 9 Tangible assets (continued)

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 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 1985 £m	Group 1984 £m	Company 1985 £m	Board 1984 £m
e Capital expenditure commitments (see note 22)				
Capital expenditure authorised but not provided for in the accounts amounts to:				
<i>Authorised and contracted</i>	126.9	181.3	126.2	180.7
<i>Authorised but not contracted</i>	69.5	57.6	63.4	51.5
	196.4	238.9	189.6	232.2

f Leasing commitments

Future payments, for which there are commitments as at 31 March 1985 under operating leases, fall due as follows:

Fleet

<i>Within one year</i>	44.4	2.2	41.8	1.6
<i>Between one and two years</i>	51.9	1.8	51.9	1.5
<i>Between two and three years</i>	47.2	1.5	47.2	1.5
<i>Between three and four years</i>	11.6	1.4	11.6	1.4
<i>Between four and five years</i>		.9		.9
	155.1	7.8	152.5	6.9

Property and equipment

<i>Within one year</i>	20.7	15.0	20.6	14.9
<i>Between one and two years</i>	15.5	9.0	15.4	8.9
<i>Between two and three years</i>	13.0	7.5	12.9	7.4
<i>Between three and four years</i>	10.5	5.5	10.4	5.4
<i>Between four and five years</i>	7.2	3.9	7.1	3.8
<i>Over five years, ranging up to year 2055</i>	111.3	93.4	111.2	93.3
	178.2	134.3	177.6	133.7

R E P O R T A N D A C C O U N T S

	Investment at cost less amounts written off	
	Total 1985 £m	Total 1984 £m
10 Interests in group companies		
Movements in the period		
Balance 1 April	71.3	77.7
Exchange adjustment to opening balance	.2	
Provisions released/(charged)	.1	(2.3)
Net additions/(repayment) of advances	4.1	(4.1)
Balance 31 March	75.7	71.3
	Group 1985 £m	Group 1984 £m

11 Investments

a The Group's investments comprise:

Balance 1 April	20.1	20.4
Exchange adjustment to opening balance	.3	
Disposals	(10.6)	(.6)
Increase/(decrease) in attributable reserves in the period	(4.7)	.6
Other movements	(.9)	(.3)
Balance 31 March (<i>valuation – see note 11b</i>)	4.2	20.1

Analysis of closing balance:

Related Companies		
Equity and advances	.3	3.5
Attributable reserves	.3	13.4
	.6	16.9
Trade Investments	3.6	3.2
	4.2	20.1

The Group has no investments in related companies or trade investments exceeding £1m.

b Unlisted investments

The aggregate value attributed by the Directors to the equity in these unlisted investments is not materially different from the book amounts.

	Group 1985 £m	Group 1984 £m	Company 1985 £m	Board 1984 £m
12 Stocks				
Raw materials and consumables	12.1	11.8	11.2	11.0
Work in progress	4.2	2.5	.6	
Finished goods	.9	.7		
	17.2	15.0	11.8	11.0

The replacement cost of raw materials, consumables and finished goods is not considered to be materially different from the balance sheet value.

	Group 1985 £m	Group 1984 £m	Company 1985 £m	Board 1984 £m
13 Debtors: due within one year				
Trade debtors	514.1	396.3	483.2	372.8
Amounts owed by group companies			4.3	5.2
Other debtors	30.0	13.3	28.6	12.0
Prepayments and accrued income	63.3	52.7	45.0	43.3
	607.4	462.3	561.1	433.3
14 Creditors: amounts falling due within one year				
Loans and lease finance: (see note 16)				
Bank and other loans	62.8	46.4	62.8	46.4
Lease finance	18.4	15.1	18.4	15.1
	81.2	61.5	81.2	61.5
Unsecured overdrafts	1.1	.1		
Trade creditors	341.0	290.7	320.0	265.7
Amounts owed to group companies			30.0	44.8
Amounts owed to related companies		.2		.2
Other creditors including taxation and social security:				
Other creditors	65.8	42.4	63.0	40.1
Corporate taxation	3.6	2.9	2.8	2.7
Taxation and social security	14.8	10.7	13.2	10.4
	84.2	56.0	79.0	53.2
Accruals and deferred income:				
Sales in advance of carriage and other deferred income	405.4	299.3	366.0	268.3
Accruals	135.3	60.3	132.5	57.7
	540.7	359.6	498.5	326.0
	1,048.2	768.1	1,008.7	751.4
15 Creditors: amounts falling due after more than one year				
Loans and lease finance: (see note 16)				
Bank and other loans	450.9	725.4	450.9	725.4
Lease finance	114.7	114.2	114.7	114.2
	565.6	839.6	565.6	839.6
Other creditors:				
Accruals	11.6	13.1	11.9	13.5
	577.2	852.7	577.5	853.1

	Group 1985 £m	Group 1984 £m	Company 1985 £m	Board 1984 £m
13 Debtors: due within one year				
Trade debtors	514.1	396.3	483.2	372.8
Amounts owed by group companies			4.3	5.2
Other debtors	30.0	13.3	28.6	12.0
Prepayments and accrued income	63.3	52.7	45.0	43.3
	607.4	462.3	561.1	433.3
14 Creditors: amounts falling due within one year				
Loans and lease finance: (see note 16)				
Bank and other loans	62.8	46.4	62.8	46.4
Lease finance	18.4	15.1	18.4	15.1
	81.2	61.5	81.2	61.5
Unsecured overdrafts	1.1	.1		
Trade creditors	341.0	290.7	320.0	265.7
Amounts owed to group companies			30.0	44.8
Amounts owed to related companies		.2		.2
Other creditors including taxation and social security:				
Other creditors	65.8	42.4	63.0	40.1
Corporate taxation	3.6	2.9	2.8	2.7
Taxation and social security	14.8	10.7	13.2	10.4
	84.2	56.0	79.0	53.2
Accruals and deferred income:				
Sales in advance of carriage and other deferred income	405.4	299.3	366.0	268.3
Accruals	135.3	60.3	132.5	57.7
	540.7	359.6	498.5	326.0
	1,048.2	768.1	1,008.7	751.4
15 Creditors: amounts falling due after more than one year				
Loans and lease finance: (see note 16)				
Bank and other loans	450.9	725.4	450.9	725.4
Lease finance	114.7	114.2	114.7	114.2
	565.6	839.6	565.6	839.6
Other creditors:				
Accruals	11.6	13.1	11.9	13.5
	577.2	852.7	577.5	853.1

R E P O R T A N D A C C O U N T S

		Group and Company	
		1985 £m	1984 £m
16	Loans and lease finance		
Total loans and lease finance			
Loans			
Bank US\$529.6m (1984 – US\$1,128.1m)		370.8	608.5
Other US\$276.9m (1984 – US\$330.2m)		142.9	163.3
Lease finance US\$164.6m (1984 – US\$186.4m)		133.1	129.3
		646.8	901.1
All these loans including lease finance are guaranteed by HM Treasury. Of the bank loans US\$413.9m (1984 – US\$986.5m) are covered by HM Treasury against exchange risk, which have a sterling obligation of £196.3m (1984 – £444.6m).			
Comprising:			
Bank loans			
Repayable wholly within five years		36.8	23.8
Repayable in whole or in part after five years		334.0	584.7
		370.8	608.5
Other loans and lease finance			
Repayable wholly within five years		44.6	30.8
Repayable in whole or in part after five years		231.4	261.8
		276.0	292.6
		646.8	901.1

Group and Company					
	US\$ Bank loans £m	Other US\$ loans £m	Lease finance £m	Total 1985 £m	Total 1984 £m
Incidence of repayments – instalments falling due:					
Within one year (see note 14)	46.5	16.3	18.4	81.2	61.5
After more than one year (see note 15)					
Between one and two years	50.6	17.9	19.2	87.7	82.8
Between two and three years	62.4	19.5	20.1	102.0	117.5
Between three and four years	61.8	19.5	19.2	100.5	133.2
Between four and five years	57.8	19.5	14.4	91.7	131.9
In five years or more	91.7	50.2	41.8	183.7	374.2
	324.3	126.6	114.7	565.6	839.6
Total 1985	370.8	142.9	133.1	646.8	
Total 1984	608.5	163.3	129.3		901.1

	Pensions and similar obligations £m	Deferred tax £m	Severance £m	Other £m	Total 1985 £m	Total 1984 £m
17 Provisions for liabilities and charges						
a Movements in the period						
Balance 1 April	11.4	7.9	20.0	7.1	46.4	91.1
Transfers (to)/from profit and loss account	1.7		(10.7)	6.2	(2.8)	(32.6)
Contribution to future tax liability (see notes 7 and 23)				14.7	14.7	
Provisions applied			(9.3)	(.3)	(9.6)	(19.8)
Transfer from revaluation reserves						7.7
Balance 31 March	13.1	7.9		27.7	48.7	46.4
b Analysis of closing balance						
British Airways Plc	13.1	7.7		26.6	47.4	44.5
Subsidiary companies		.2		1.1	1.3	1.9
	13.1	7.9		27.7	48.7	46.4
				No. of shares	£m	
18 Called up share capital						
Authorised: Ordinary shares of £1 each				180,050,000	180.0	
Allotted, called up and fully paid Ordinary shares of £1 each						
Shares issued on 1 April				180,000,000	180.0	
Shares issued for cash prior to vesting				50,000		
Balance 31 March				180,050,000	180.0	
On 1 April 1984 the property, rights, liabilities and obligations of the British Airways Board were vested in British Airways Plc. The public dividend capital amounting to £180m formerly held by the Board was replaced by share capital of £180m in British Airways Plc, divided into 180 million Ordinary shares of £1 each.						
				Group 1985	Group 1984	
19 Earnings per share						
Earnings per share is calculated as follows:						
Profit before extraordinary item attributable to shareholders				£165.4m	£181.3m	
Ordinary shares (1984 – public dividend capital) in issue				180,050,000	180,000,000	
Earnings per share				91.9p	100.7p	

R E P O R T A N D A C C O U N T S

	Group 1985 £m	Group 1984 £m	Company 1985 £m	Board 1984 £m
20 Deferred taxation (<i>see also notes 6 and 17</i>)				
Deferred taxation comprises:				
Accelerated capital allowances	.2	.2		
Timing differences in respect of property valuations	7.7	7.7	7.7	7.7
	7.9	7.9	7.7	7.7

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

Accelerated capital allowances	125.7	6.6	113.9	
Advance Corporation tax written off	(25.0)		(25.0)	
Other timing differences	(21.8)	(.5)	(23.1)	
Timing differences in respect of property valuations	7.7	7.7	7.7	7.7
	86.6	13.8	73.5	7.7

The Company's unrelieved tax losses carried forward are estimated at £439m (1984 – £794m).

21 Forward transactions in foreign currency

A substantial portion of capital expenditure and leasing commitments (*see note 9*) 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\$54.9m outstanding at 31 March 1985 and maturing over the next year, have been made to cover part of the exposure risk. All of these have been purchased against certain currencies in which surpluses of receipts over expenditure will arise in the future. Forward purchase contracts to the value of £27.3m maturing in 1985-86 have been arranged on behalf of group companies to meet operating requirements.

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 period 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

On 1 April 1984 the Company introduced a New Airways Pension Scheme (NAPS) and from that date 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 NAPS. Prior to 1 April 1984 staff were required to join the Airways Pension Scheme (APS).

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.

All members of APS in employment on 1 April 1984 were offered the opportunity to transfer to NAPS on terms under which their existing pensionable service in APS would be preserved in NAPS. In addition all eligible members were offered the option of added years of pensionable service in NAPS or a cash payment from the Company based on the actuarial valuation of the difference between benefits accrued to date under APS and NAPS. The offer closed on 30 June 1984 by which time 17,007 members of APS, representing 53% of the total membership, had elected to transfer to NAPS, which became effective on 1 July 1984.

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

Rates of contribution during the period to APS and NAPS by most employees as a percentage of pensionable pay were:

	APS		NAPS	
General Staff:	male 7.25%	female 5.75%	male 5.25%	female 3.75%
Air Cabin Crew:	male 8.5%	female 7.0%	male 6.5%	female 5.0%
Pilots and Officers:	8.5%		6.5%	
	(based on full pay)		(based on full pay less lower earnings limit)	

Contributions by British Airways and certain group companies during the period as recommended by the Schemes' Actuaries were at the following multiples of the employees' contributions:

	APS	NAPS
General Staff:	2.0 times	3.4 times
Air Cabin Crew:	2.6 times	3.9 times
Pilots and Officers:	3.4 times	4.4 times
	(based on full pay)	(based on full pay less lower earnings limit)

	Group 1985 £m	Group 1984 £m
British Airways' contributions charged in its accounts were:		
Airways Pension Scheme	41.2	54.6
New Airways Pension Scheme	14.6	
Other pension schemes and provident funds	5.9	5.3
	61.7	59.9
UK staff	56.0	54.6
Overseas staff	5.7	5.3
	61.7	59.9

An actuarial valuation of the funds of the Schemes is made at intervals not exceeding three years. The liabilities are covered by a combination of existing assets and present value of future employer/employee contributions.

For those staff who opted for a cash payment, which represented the difference between the accrued benefits under APS and those under NAPS, the Inland Revenue ruled that the cash had to be paid, in the first instance to the Company, which would be treated as a trading receipt assessable for Corporation tax. The Inland Revenue also ruled that the payment of cash to the staff who had opted for the cash payment would not be allowed as a deduction for Corporation tax.

The difference in the accrued benefits amounted to £97.8m of which £83.1m has been paid out to staff who opted for the cash payment. The balance of £14.7m, representing 15% of the total amount paid to the Company, has been retained to meet the future UK Corporation tax liability (see notes 7 and 17).

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 £16.1m (1984 – £18.0m) and for the Company £36.2m (Board 1984 estimate).

b Litigation

Save for the action brought by the liquidator of Laker Airways Limited and the associated Class Action suit, no other claims alleging breach of US anti-trust laws have been brought and no other claims, which in the opinion of the Board may have a significant effect on the Group's financial position, have been brought or are threatened, but the possibility of further claims being asserted in relation to BA's past services to and from North America cannot be excluded and, if asserted, such claims could, as is common in anti-trust actions in the United States, seek substantial amounts.

GROUP CURRENT COST STATEMENTS

Current cost profit and loss account	<i>Note</i>	1985 £m	1984 £m
Turnover		2,943	2,514
Historic cost operating surplus before exceptional item		292	268
Exceptional item	3	(33)	
Historic cost operating surplus after exceptional item		259	268
Current cost adjustment			
Additional amortisation and depreciation	4	(85)	(75)
Current cost operating profit		174	193
Other income/(charges)	5	19	24
Net income from investments		3	2
Current cost adjustment			
Adjustment to historic cost surplus on disposal of tangible assets and investments	6	(13)	(2)
		9	24
Current cost profit before interest payable and similar charges		183	217
Interest payable and similar charges			
Gearing adjustment	7	50	48
Interest payable		(89)	(106)
Currency losses		(24)	(3)
		(63)	(61)
Current cost profit before taxation		120	156
Taxation and minority interests		(3)	(4)
Current cost profit before extraordinary item		117	152
Extraordinary item	8	11	33
Current cost profit for the period transferred to other reserves	12	128	185

R E P O R T A N D A C C O U N T S

Current cost balance sheet	<i>Note</i>	1985 £m	1984 £m
Fixed assets			
Tangible assets	<i>2 and 9</i>	2,145	1,972
Investments	<i>2</i>	8	23
		2,153	1,995
Net current liabilities		(338)	(258)
Creditors: amounts falling due after more than one year		(577)	(853)
Provisions for liabilities and charges		(49)	(47)
		1,189	837
Financed by			
Called up share capital		180	180
Current cost reserve	<i>11</i>	1,229	995
Other reserves	<i>12</i>	(223)	(341)
		1,186	834
Minority interests		3	3
		1,189	837

NOTES ON THE GROUP CURRENT COST STATEMENTS

- 1 These statements have been prepared in accordance with Statement of Standard Accounting Practice No 16 on Current Cost Accounting issued by the Accounting Standards Committee modified in the manner referred to in Note 7 below.
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;
 - e investments in related companies and trade investments, 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.

	1985 £m	1984 £m
3 Exceptional item		
Cash costs relating to the settlements of Laker Anti Trust and associated Class Actions	33	
4 The current cost charge for amortisation and depreciation is based on the gross replacement cost of the tangible assets averaged over the period using the same operational lives as those in the historic cost accounts.		
	1985 £m	1984 £m
5 Other income/(charges)		
Interest receivable	19	15
Realised gains, less provision for losses, on disposals		9
	19	24
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.		

R E P O R T A N D A C C O U N T S

- 7 Statement of Standard Accounting Practice No 16 states that no gearing adjustment should be made in the accounts of Nationalised Industries. However HM Government has stated that those industries which it has decided to return to the private sector should adopt the gearing adjustment.

1985 1984
£m £m

8 **Extraordinary item**

Release of severance and associated provisions 11 33

	Current cost 1985 £m	Depre- ciation 1985 £m	Current cost 1984 £m	Depre- ciation 1984 £m
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9 **Tangible assets at 31 March consisted of:**

Fleet	2,970	1,281	2,487	930
Property	606	256	474	161
Equipment	352	246	331	229
	3,928	1,783	3,292	1,320

- 10 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 £m

11 **Current cost reserve**

Balance 1 April	995
Transfer to other reserves	(3)
Surplus on revaluation	
<i>Fleet</i>	228
<i>Property</i>	56
<i>Investments</i>	3
	287
Gearing adjustment	(50)
Balance 31 March	1,229

12 **Other reserves**

Balance 1 April	(341)
Exchange adjustments to opening balances of fleet assets	(13)
Transfer from current cost reserve	3
Current cost profit for the period	128
Balance 31 March	(223)

PRINCIPAL OPERATING GROUP COMPANIES

Principal operating group companies at 31 March 1985 all of which were incorporated in Great Britain and are wholly owned except where indicated

AIRLINE OPERATIONS

British Airtours Ltd
British Airways Engine Overhaul Ltd

HELICOPTER OPERATIONS

British Airways Helicopters Ltd

INCLUSIVE TOUR HOLIDAYS

Alta Holidays Ltd (51% owned)
British Airways Tour Operations Ltd
Martin Rooks & Co Ltd
Overseas Air Travel Ltd

OTHERS

British Airways Associated Companies Ltd
British Airways Pension Administration Ltd
The Airways Housing Trust Ltd
Travel Automation Services Ltd (55% owned)

BRITISH AIRWAYS

PO Box 10
Heathrow Airport (London)
Hounslow
TW6 2JA

Telephone: 01-562 5394
Cables: Britishair
Telex: 8813983 Bawysc G

16 December 1985

Bernard Wood
Company Secretary

Registrar of Companies,
Department of Trade and Industry,
Companies House,
Crown Way,
Maindy,
Cardiff CF4 3UZ

Dear Sir,

BRITISH AIRWAYS Plc - Number 1777777

In accordance with section 241 of the Companies Act, 1985, I attach a copy of the Accounts of this company for the year ended 31 March 1985.

Yours faithfully,



BERNARD WOOD



British Airways Plc,
Registered office,
Spedding House,
Heathrow Airport, London
Hounslow TW6 2JA
Registered in England No. 1777777