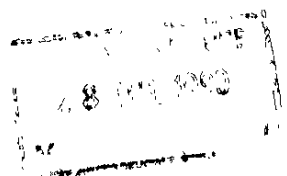


AIRLINES OF BRITAIN HOLDINGS PLC

AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT AND ACCOUNTS

2107441 31ST DECEMBER, 1989



AIRLINES OF BRITAIN HOLDINGS PLC

CHAIRMAN'S REPORT 1989

Following four years of sustained improvement in profitability, the 1989 results for Airlines of Britain Holdings plc ("ABH") reflect the significant cost to the Group, in the first year, of our five-year programme of fleet renewal and route expansion which I am confident will place the Group in a strong position to achieve good results in the single European domestic market of 1993 and beyond.

Whilst British Midland, Manx Airlines and Loganair remained profitable, the continuing impact of losses at London City Airways together with the costs associated with the delivery of 7 new aircraft to the Group have combined to reverse last year's satisfactory result to a Group loss before taxation of £3.47 million for the year ended 31 December 1989. This result includes a sum of £689,000 which relates to expenditure in the aftermath of the British Midland Boeing 737-400 aircraft accident in January 1989 which was unrecoverable from our insurers.

The Group carried 4.48 million passengers in 1989, an increase of 24.3% compared with the previous year and significantly above the industry average. However, the total increase in capacity was higher than the improvement in passenger numbers and consequently the overall load factor of the Group declined from 61.5% achieved in 1988 to 56.7% for 1989. These figures underline the growth from new routes offset by the initial impact of the introduction of new and larger sized aircraft.

Total revenues for 1989 advanced by 26.7% compared with the previous year to £232.71 million.

The 7 new aircraft received during the year comprised 3 Boeing 737-300/400 series jets for British Midland; 1 BAe ATP for Manx Airlines; 1 BAe 146 jet and 1 BAe ATP for Loganair, and 1 De Havilland Dash 7 for London City Airways.

The delivery of further Boeing 737-300/400 series aircraft with all-weather capability together with other new aircraft types in the fleets of companies within the Group gives an average age of aircraft operated by the Group of 7.9 years.

The year under review marks the first full year of partnership with Scandinavian Airlines ("SAS"), who acquired 24.9% of the enlarged share capital of ABH in December 1988. A number of important and valuable synergies have already emerged giving benefit to both Groups.

In addition to a number of sales and marketing initiatives, the contract for heavy maintenance of the British Midland DC9 jet fleet has been placed with the SAS facility in Oslo, and reductions in unit costs for a number of important areas of expenditure have been identified.

The investment by SAS in our Group is a timely example of how the partnership by a large European airline in a smaller Group can strengthen airline competition for the benefit of the

customer. As a result of the new capital available to ABH, it has been possible to embark on a five year programme of fleet renewal and route development which will enable our principal company, British Midland, to compete effectively and on a more equal basis with airlines established in dominant market positions.

Conversely, we remain resolutely opposed to large national airlines of countries wholly within the present European Community who seek to take cross-shareholdings and establish joint ventures with each other to further enhance their dominant position in specific markets. It is our view that these actions preclude the establishment of genuine competition and do little to benefit the consumer either by the introduction of lower fares or improved standards of service.

Successive U.K. Governments have supported a multi-airline industry in Britain with a number of airlines serving an expanding market. In contrast, the air transport industry in many European countries is far more polarised, often with a single airline dominating all scheduled routes.

If the aspirations of the European Community towards a more liberalised and de-regulated air transport industry are to be achieved, it will be vital to the future prospects of our Group that a level playing field for competition can be established free from the preferred status which a number of our competitors and potential competitors have enjoyed for

many years through the patronage of their respective Governments.

We look to our Government, and those in Europe, to ensure that sufficient headroom is available in capacity, particularly at congested airports, for our Group to implement competition on routes for which it has been licensed but has, so far, been unable to secure appropriate landing 'slots' and other necessary operational requirements.

During the year we have actively sought the intervention of the regulatory authorities both in the U.K. and Europe where we believe anti-competitive issues arise.

London City Airways continues to be overshadowed by the difficulties peculiar to the development of London City Airport. In retrospect it is clear that the establishment of the excellent terminal and airport facilities were considerably ahead of the necessary and vital surface infrastructure of roads and other access facilities needed to support the new airport.

Until London City Airport can accept larger aircraft and jet operations it is unlikely that the Group will recover the investment in this project.

In the meantime, we have scaled down our activities and transferred two aircraft to other activities pending the outcome of the planning inquiry which will determine if the

airport has a long-term future through the provision of a modest runway extension and the authorisation of operations by the BAe 146 jet for which the Group already has the operational capability.

Despite the difficulties which I have outlined, I am confident that the Group is especially well placed to take every advantage of growth in European air transport during the next decade. Our strategic position at London Heathrow Airport and other UK airports and our maturing regional airlines give us an excellent base for expansion and I am hopeful that when our investment in new aircraft and routes has been fully deployed - it will be rewarded by a satisfactory level of profitability commensurate with the scale of our efforts.

I am pleased to report that both the new British Midland routes to Europe from Heathrow to Paris and Dublin are developing well ahead of target. A sharp recovery in profits at Loganair is underway. Manx Airlines is experiencing reduced profits in the short-term arising from the introduction of new aircraft at a time of high financing costs but I am confident it will restore its customary level of profitability before too long.

The current year's trading is providing a range of challenges which the management of all our companies are tackling with vigour. The persistent high level of interest rates in the U.K. is undermining a satisfactory improvement in passenger carryings, and causing a deferment of a more prompt return to profitability than we would have anticipated.

In the short-term the results of the Group are likely to continue to reflect the cost of our investment programme for a five-year development plan but I am hopeful that the Group will begin to produce more positive results from this investment during the 1991 financial year.

During a year in which the Group has especially been the subject of public and media attention, the Board extends its special appreciation to all our staff who through their personal efforts have maintained high professional standards and contributed so much to the development of our airlines.

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

DIRECTORS

M. D. Bishop	C.B.E.	(Chairman)
J. T. Wolfe		
S. F. Balmforth		
A. Reid	C.A.	
G. N. Elliott	F.C.A.	(non-executive)
L. Bergvall		(non-executive)

SECRETARY AND REGISTERED OFFICE

S. F. Balmforth  
Donington Hall  
Castle Donington  
DERBY  
DE7 2SB

AUDITORS

KPMG Peat Marwick McLintock  
1 Puddle Dock  
Blackfriars  
LONDON  
EC4V 3PD

BANKERS

National Westminster Bank plc  
Colmore Centre  
103 Colmore Row  
BIRMINGHAM  
B3 3NS

Isle of Man Bank Limited  
Market Street  
Castletown  
ISLE OF MAN

Royal Bank of Scotland plc  
113 Buchanan Street  
GLASGOW  
G1 2SP



AIRLINES OF BRITAIN HOLDINGS PLCAND SUBSIDIARY COMPANIESREPORT OF THE DIRECTORS

The directors present their report and the accounts for the year ended 31st December, 1989.

BUSINESS REVIEW

The principal activity of the group comprises the provision of services as an airline operator. There has been no change in the character of this activity during the year.

	<u>1989</u> <u>£000</u>	<u>1988</u> <u>£000</u>
Turnover	232,714	183,692
(Loss)/profit before taxation	<u>(3,470)</u>	<u>11,135</u>

The loss for the financial year of £48,000 has been transferred to reserves. (1988 : profit £11,135,000).

FIXED ASSETS

Changes in fixed assets during the year are shown in note 10.

On 20th December, 1989 British Midland Airways Limited sold and leased back four DC9-30 aircraft. The effects of this transaction are shown in the notes to the accounts.

PARENT COMPANY

The ultimate holding company is The BBW Partnership Limited, incorporated in England, the sole shareholders of which are Messrs Bishop, Balmforth and Wolfe.

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES  
REPORT OF THE DIRECTORS

DIRECTORS AND THEIR INTERESTS

The directors at the year end and details of their interests in the shares of the company were as follows:

	<u>Ordinary Shares</u>
M D Bishop C.B.E.	22,171,906
J T Wolfe	10,988,954
S F Balmforth	10,988,953
A Reid C.A.	158,333
G N Elliott F.C.A.	506,000
L Bergvall	-
	<u>44,814,146</u>

The above shareholdings include the shares held by The BBW Partnership Limited.

INCOME AND CORPORATION TAXES ACT 1988

The close company provisions of this Act apply to the company.

EMPLOYEES

The group recognises the importance of promoting and maintaining good communications with its employees. During the year regular meetings were held with employee representatives.

The group continues to employ disabled persons and affords the same training, career development and promotional opportunities as for all other employees and provides all possible assistance to persons temporarily or permanently disabled whilst in the group's employment.

DONATIONS

Donations for charitable purposes amounted to £3982.

AUDITORS

On 1st January 1990, our auditors changed the name under which they practice to KPMG Peat Marwick McLintock, and accordingly have signed the audit report in their new name.

In accordance with Section 384 of the Companies Act 1985 a resolution proposing the re-appointment of ~~KPMG Peat Marwick McLintock~~ as auditors of the company will be proposed at the forthcoming Annual General Meeting.

By order of the board  
S.F. BALMFORTH  
Secretary

REPORT OF THE AUDITORS TO THE MEMBERS OF  
AIRLINES OF BRITAIN HOLDINGS PLC

We have audited the accounts on pages 5 to 23 in accordance with 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 at 31st December, 1989 and of the loss and source and application of funds of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

LONDON

15 May 1990

KPMG Pest Mennik McLintock  
Chartered Accountants

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31ST DECEMBER, 1989

	NOTE	1989	1988
		£000	£000
TURNOVER	1	232,714	183,692
Cost of sales		(188,950)	(141,759)
GROSS PROFIT		43,764	41,933
Distribution costs and administrative expenses		(48,684)	(37,501)
Other operating income		4,673	3,903
Operating (loss)/profit:			
The group excluding LCA		5,295	13,192
LCA	2	(5,542)	(4,857)
OPERATING (LOSS)/PROFIT		(247)	8,335
Other interest receivable		543	524
Amounts written back on investments		-	140
Interest payable and similar charges	3	(6,221)	(3,610)
Income from other fixed asset investments		89	37
Profit on sale of aircraft		3,055	5,709
		(2,781)	11,135
Exceptional Item:			
Non recoverable costs re B737-400 aircraft accident	2	(689)	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	(3,470)	11,135
Tax	5	660	(3,380)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(2,810)	7,755
Minority Interest		-	(133)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE SHAREHOLDERS	6	(2,810)	7,622
Dividends	9	-	(250)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR		(2,810)	7,372

The movements on reserves are shown in note 21.

The notes on pages 11 to 23 form part of these accounts.

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER, 1989

	NOTE	1989	1988
		£000	£000
FIXED ASSETS			
Tangible assets	10	68,673	58,876
Intangible assets	11	1,688	2,484
Investments	12	<u>1,255</u>	<u>892</u>
		71,616	62,252
CURRENT ASSETS			
Stock		5,830	4,236
Aircraft maintenance costs		615	319
Debtors	13	44,648	29,994
Cash at bank and in hand		<u>15,814</u>	<u>20,780</u>
		66,907	55,329
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	( <u>67,314</u> )	( <u>44,502</u> )
NET CURRENT (LIABILITIES)/ASSETS		(407)	10,827
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>71,209</u>	<u>73,079</u>
CREDITORS : AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15	(36,589)	(34,938)
PROVISION FOR LIABILITIES AND CHARGES	18	( <u>9,717</u> )	( <u>10,412</u> )
NET ASSETS		24,903	27,729
CAPITAL AND RESERVES			
Called up share capital	19	14,997	14,997
Balance arising on re-organisation	20	(12,143)	(12,143)
Share premium	21	13,102	13,102
Revaluation reserve	21	609	697
Statutory reserve	21	14	-
Profit and loss account	21	8,324	11,076
		<u>24,903</u>	<u>27,729</u>

The notes on pages 11 to 23 form part of these accounts.

Approved by the Board of Directors  
on 15th MAY 1990

Directors

AIRLINES OF BRITAIN HOLDINGS PLC  
BALANCE SHEET AT 31ST DECEMBER, 1989

	NOTE	1989 £000	£000	1988 £000	£000
FIXED ASSETS					
Tangible assets	10	8,843		9,531	
Intangible assets	11	281		332	
Investments	12	<u>30,261</u>	39,385	<u>30,612</u>	40,475
CURRENT ASSETS					
Debtors	13	5,385		4,635	
Cash at bank		<u>5,000</u>		<u>12,945</u>	
		10,385		17,580	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	<u>(16,837)</u>		<u>(19,883)</u>	
NET CURRENT LIABILITIES			(4,452)		(2,303)
TOTAL ASSETS LESS CURRENT LIABILITIES			32,933		38,172
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15		(8,822)		(8,883)
PROVISIONS FOR LIABILITIES AND CHARGES	18		<u>(1,145)</u>		<u>(658)</u>
NET ASSETS			22,966		28,631
CAPITAL AND RESERVES					
Called up share capital	19		14,997		14,997
Share premium	21		13,102		13,102
Profit and loss account	21		<u>(5,133)</u>		<u>532</u>
			22,966		28,631

The notes on pages 11 to 23 form part of these accounts.

Approved by the Board of Directors  
on 15th MAY 1990

Directors

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
FOR THE YEAR ENDED 31ST DECEMBER 1989

	1989		1988
	£000	£000	£000
(Loss)/Profit before taxation		(3,470)	11,135
Adjustment for items not involving the movement of funds:			
Depreciation	8,989		5,654
Profit on sale of tangible fixed assets	(3,016)		(5,723)
Tax on Franked income	(12)		(9)
Amortisation of deferred expenditure	1,884		783
Release of provision against investments	-		(140)
	<u>7,845</u>		<u>565</u>
	4,375		11,700
 MOVEMENT IN WORKING CAPITAL			
(Increase) in stocks	(1,594)		(282)
(Increase) in debtors	(14,654)		(7,413)
(Increase) in aircraft maintenance costs-excluding disposals	(350)		86
Increase in creditors falling due within one year	<u>16,036</u>		<u>10,526</u>
	(562)		2,917
	3,813		14,617
 Issue of share capital	-		15,504
Capital expenditure	(34,865)		(31,842)
Purchase of intangible assets	(1,088)		(1,917)
Development support	-		667
Proceeds on disposals of fixed assets	19,110		17,692
Purchase of investments	(363)		-
Acquisition of minority interest in a subsidiary	-		(900)
Tax paid	-		(160)
Dividend paid	-		(250)
	<u>(13,393)</u>		<u>13,411</u>
 MOVEMENT IN BANK LOANS	5,234		8,975
 MOVEMENT IN CASH BALANCES AND CASH AT VERDRAFT	<u>(8,159)</u>		<u>22,386</u>

The notes on pages 11 to 23 form part of these accounts.

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared under the historical cost convention adjusted by the revaluation of aircraft.

Basis of consolidation

Details of subsidiaries are given in note 23. The consolidated accounts have been prepared from the accounts of the company and its subsidiaries, all of which have been drawn up for the year ended 31st December 1989. A separate profit and loss account dealing with the results of the holding company only has not been presented. Except where merger accounting is adopted any difference between the net assets of subsidiaries acquired and the purchase consideration is adjusted against reserves.

Depreciation

Aircraft and technical spares are amortised using a straight line basis calculated to write down their cost or valuation to the current estimated residual values on the anticipated date of withdrawal from service or disposal. These estimates are reviewed regularly and adjusted as appropriate.

The current estimates of residual value and economic life are as follows:

<u>Aircraft Type</u>	<u>Residual value (each) £</u>	<u>Economic Life</u>
DC 9-32 Spare Engines	198,000	- period to 31st December, 1995
Shorts 360	431,000	- fifteen years from date of purchase
Twin Otters	15% of cost	- fourteen years from date of purchase
Islanders	15% of cost	- thirteen years from date of purchase
Boeing 737-300	30% of cost	- fifteen years from date of purchase
De Havilland Dash 7	20% of cost	- twelve years from date of purchase
British Aerospace 146-200	Nil (spares only)	- fifteen years from date of purchase

All other plant and equipment and motor vehicles are depreciated on a straight line basis over 5 years and 4 years respectively.

Freehold premises are being written down at 2% on cost per annum on the structure of the building and at 10% on cost per annum on refurbishments.

Profits or losses arising on disposals of assets are calculated by reference to original cost.

Stocks

Stocks consist of raw materials, consumable spares and sundry supplies and are valued at the lower of cost and net realisable value.



AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

ACCOUNTING POLICIES

Aircraft Maintenance Costs

Expenditure on major aircraft overhauls is charged to the Profit and Loss account on a flying hours basis. Routine maintenance is expensed in the year in which it is incurred.

Foreign Currency Translations

Monetary assets and liabilities denominated in foreign currencies are expressed at the rates prevailing at the balance sheet date, or at the forward contract rate where applicable.

Transactions during the year denominated in foreign currencies are translated using the rates prevailing at the date the transaction occurred, or at the contracted rate where applicable.

Deferred Taxation

Taxation deferred by capital allowances and other timing differences is provided, except to the extent that a liability is not expected to arise in the foreseeable future.

Leased Assets

The capitalised costs of finance leases are included in the accounts under Aircraft, Engines and Spares. The interest element of the leasing costs is being amortised over the period of the respective leases in proportion to the capital invested. Payments made under operating lease agreements are expensed as incurred.

Intangible Assets

Expenditure on new operations and aircraft introductory costs are amortised over the following periods:

Legal fees incurred on acquisition of aircraft on the group's operation from London City Airport	7 years from acquisition of aircraft
Licence applications, aircrew training, advertising and marketing and aircraft introductory costs on the group's operation from London City Airport	4 years from commencement of passenger carrying services
Introductory costs on aircraft fleet additions	Within 2 years of commencement of passenger carrying services
New routes operated	1 year from commencement of passenger carrying services

Pension Costs

The group operates a number of defined benefit pension schemes, and contributes to these schemes in accordance with recommendations from independent actuaries. Contributions are charged to the profit and loss account so as to spread the costs over the remaining working lives of the employees with the group.

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

1. TURNOVER

Turnover may be analysed as follows:

	<u>1989</u> £000	<u>1988</u> £000
Passenger scheduled services	208,930	161,386
Charter and leasing	15,536	13,631
Cargo services	5,568	5,640
Bond and bar sales	<u>2,680</u>	<u>3,035</u>
	232,714	183,692
	<u>=====</u>	<u>=====</u>

Analysis of turnover by geographical area:

	<u>1989</u> £000	<u>1988</u> £000
United Kingdom	181,325	152,917
Europe	<u>51,389</u>	<u>30,775</u>
	232,714	183,692
	<u>=====</u>	<u>=====</u>

Turnover attributable to Europe comprises traffic revenue from inbound and outbound flights between the United Kingdom and European points.

2. a) Operating loss of LCA

Since 31st December 1989, the Directors have decided to reduce the scale of operations of London City Airways Limited.

b) Non recoverable costs re B737-400 Aircraft accident

On 8th January 1989, one of the group's B737-400 jet aircraft was involved in an accident. The company is advised that all liabilities will be covered by insurance with the exception of £689,000, as disclosed in the profit and loss account.

3. INTEREST PAYABLE

	<u>1989</u> £000	<u>1988</u> £000
On bank loans, overdrafts and other loans repayable within five years	3,026	1,818
On other loans	<u>3,195</u>	<u>1,792</u>
	6,221	3,610
	<u>=====</u>	<u>=====</u>

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

4. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/Profit on ordinary activities before taxation is stated after charging or (crediting) the following:

	<u>1989</u> £000	<u>Group</u> <u>1988</u> £000
(Profit) on sale of tangible fixed assets	(3,016)	(5,723)
Depreciation of tangible fixed assets	8,989	5,654
Amortisation of intangible fixed assets	1,884	783
Directors' emoluments	812	438
Hire of plant, machinery and aircraft	29,773	17,825
Auditors' remuneration and expenses	152	128
Net (Gains)/losses in foreign currency borrowings less deposits	(329)	43
Income from listed investments	<u>49</u>	<u>37</u>

5. TAXATION

	<u>1989</u> £000	<u>Group</u> <u>1988</u> £000
Withholding tax at 20%	100	100
Tax on franked income	12	9
Prior year adjustment	(96)	60
Deferred taxation	(676)	3,211
	<u>(660)</u>	<u>3,380</u>

Deferred Taxation

Deferred taxation has been provided at 35%. Detailed analysis is contained in note 18.

6. (LOSS)/PROFIT ON ORDINARY ACTIVITIES ATTRIBUTABLE TO THE SHAREHOLDERS

Of the group loss attributable to shareholders, £5,665,000 is dealt with in the accounts of the holding company.  
(1988: profit £659,000).

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

Page 13

NOTES TO THE ACCOUNTS

7. STAFF NUMBERS AND COSTS

- (a) The average number of persons employed by the group during the year was as follows:

	<u>1989</u>	<u>1988</u>
Finance & Administration	448	385
Commercial	670	549
Operations	1086	861
Engineering	641	549
Sales & Marketing	341	271
	<u>3,186</u>	<u>2,615</u>

- (b) The aggregate payroll costs of these persons were as follows:

	<u>1989</u> <u>£000</u>	<u>1988</u> <u>£000</u>
Wages and salaries	38,808	30,570
Social security costs	3,412	2,621
Other pension costs	1,689	1,178
	<u>43,909</u>	<u>34,369</u>

8. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES (EXCLUDING PENSION CONTRIBUTIONS)

	<u>1989</u> <u>£000</u>	<u>1988</u> <u>£000</u>
The emoluments of the chairman who is also the highest paid director, were	<u>134</u>	<u>101</u>

The emoluments of the other directors were within the following ranges:

	<u>No.</u>	<u>No.</u>
£0 - £5,000	1	1
£15,001 - £20,000	1	1
£70,001 - £75,000	-	1
£90,001 - £95,000	-	2
£105,001 - £110,000	1	-
£120,001 - £125,000	1	-
£125,001 - £130,000	1	-

The number of employees whose emoluments fell within the following ranges were:

£30,001 - £35,000	73	20
£35,001 - £40,000	31	21
£40,001 - £45,000	25	24
£45,001 - £50,000	9	13
£50,001 - £55,000	6	8
£55,001 - £60,000	2	-
£60,001 - £65,000	2	-

During the year Mr J. T. Wolfe, a director of Airlines of Britain Holdings PLC purchased a property at net book value from the group for £83,450, which in the Directors' opinion approximated to its market value at the date of sale.

AIRLINES OF BRITAIN HOLDINGS PLC  
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

9. DIVIDENDS

No dividend has been proposed (1988 : £250,000)

10. TANGIBLE FIXED ASSETS

The Group

Aircraft,  
Engines and Spares

	<u>Freehold Property</u> £000	<u>Short Leasehold Property</u> £000	<u>Owned</u> £000	<u>Held Under Finance Leases</u> £000	<u>Plant and Machinery</u> £000	<u>Motor Vehicles</u> £000	<u>TOTAL</u> £000's
Cost/valuation:							
At 1st Jan 1989	2,531	1,515	50,007	12,644	7,365	629	74,691
Transfer	-	-	1,298	(1,298)	36	(36)	-
Additions	3,697	754	27,215	732	2,331	136	34,865
Disposals	(92)	-	(23,199)	-	(169)	(81)	(23,541)
At 31st Dec 1989	<u>6,136</u>	<u>2,269</u>	<u>55,321</u>	<u>12,078</u>	<u>9,563</u>	<u>648</u>	<u>86,015</u>
Depreciation:							
At 1st Jan 1989	685	449	9,257	2,535	2,592	297	15,815
Transfer	-	-	183	(183)	-	-	-
Charged in year	134	188	6,223	871	1,460	113	8,989
Disposals	(4)	-	(7,253)	-	(145)	(60)	(7,462)
At 31st Dec 1989	<u>815</u>	<u>637</u>	<u>8,410</u>	<u>3,223</u>	<u>3,907</u>	<u>350</u>	<u>17,342</u>
Net book value:							
At 31st Dec 1989	<u>5,321</u>	<u>1,632</u>	<u>46,911</u>	<u>8,855</u>	<u>5,656</u>	<u>298</u>	<u>68,673</u>
At 31st Dec 1988	<u>1,846</u>	<u>1,066</u>	<u>40,750</u>	<u>10,109</u>	<u>4,773</u>	<u>332</u>	<u>58,876</u>

The Company

	<u>Aircraft engines and spares owned</u> £000	<u>Plant &amp; machinery</u> £000	<u>Total</u> £000
Cost/Valuation:			
At 1st January and 31st December, 1989	<u>10,000</u>	<u>5</u>	<u>10,005</u>
Depreciation:			
At 1st January, 1989	473	1	474
Charged in year	<u>687</u>	<u>1</u>	<u>688</u>
At 31st December, 1989	<u>1,160</u>	<u>2</u>	<u>1,162</u>
Net Book Value:			
At 31st December, 1989	<u>8,840</u>	<u>3</u>	<u>8,843</u>
At 31st December, 1988	<u>9,527</u>	<u>4</u>	<u>9,531</u>

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- (a) At 31st December, 1989 the group had capital commitments for which no provision has been made in these accounts as follows:

	<u>Group</u>
	<u>1989</u> <u>1988</u>
	<u>£000</u> <u>£000</u>
Authorised and contracted	3,291      3,853
Authorised but not contracted	<u>2,179</u> <u>10,454</u>
	<u>5,470</u> <u>14,307</u>

- (b) The aircraft, engines and spares stated on the basis of original cost to the group would be as follows:

	<u>Group</u>
	<u>1989</u> <u>1988</u>
	<u>£000</u> <u>£000</u>
Cost	66,558      61,876
Accumulated depreciation	<u>(11,383)</u> <u>(11,632)</u>
Net book value	<u>55,175</u> <u>50,244</u>

- (c) The company's aircraft, engines and spares are leased by a subsidiary under an operating lease.

11. INTANGIBLE FIXED ASSETS

	<u>Group</u>	<u>Company</u>
	<u>£000</u>	<u>£000</u>
Cost:		
At 1st January, 1989	3,352	362
Cost incurred during the year	<u>1,088</u>	<u>-</u>
At 31st December, 1989	<u>4,440</u>	<u>362</u>
Amortisation:		
At 1st January, 1989	868	30
Charged during the year	<u>1,884</u>	<u>51</u>
At 31st December, 1989	<u>2,752</u>	<u>81</u>
Net book value at 31st December, 1989	<u>1,688</u>	<u>281</u>
Net book value at 31st December, 1988	<u>2,484</u>	<u>332</u>

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12. INVESTMENTS

	<u>Group</u>		<u>Company</u>	
	<u>1989</u> £000	<u>1988</u> £000	<u>1989</u> £000	<u>1988</u> £000
Investments listed on the International Stock Exchange (market value £1,726,934 (1988:£1,126,052))	1,225	864	-	-
Unquoted investments at cost	30	28	-	-
Investments in and advances to subsidiaries at cost less provisions	-	-	30,261	30,612
	<u>1,255</u>	<u>892</u>	<u>30,261</u>	<u>30,612</u>
	<u><u>1,255</u></u>	<u><u>892</u></u>	<u><u>30,261</u></u>	<u><u>30,612</u></u>

13. DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>1989</u> £000	<u>1988</u> £000	<u>1989</u> £000	<u>1988</u> £000
Amounts falling due within one year:				
Trade debtors	26,401	20,176	-	-
Amounts owed by group companies	-	-	5,309	4,596
Other debtors	6,615	5,746	49	9
Prepayments and accrued income	11,632	4,072	27	30
	<u>44,648</u>	<u>29,994</u>	<u>5,385</u>	<u>4,635</u>
	<u><u>44,648</u></u>	<u><u>29,994</u></u>	<u><u>5,385</u></u>	<u><u>4,635</u></u>

AIRLINES OF BRITAIN HOLDINGS PLC  
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14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>Group</u>		<u>Company</u>	
	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Bank loans and obligations under finance leases and hire purchase contracts	9,214	5,631	515	1,412
Overdrafts	6,575	3,382	4,527	2,349
Payments on account	277	122	-	-
Trade creditors	22,255	15,531	-	-
Amounts owed to group companies	-	-	11,581	14,915
PAYE and NI deductions	1,003	924	-	-
Other creditors	1,565	1,964	-	1,012
Accruals and deferred income	26,425	16,948	214	195
	<u>67,314</u>	<u>44,502</u>	<u>16,837</u>	<u>19,883</u>

The bank loans and overdrafts are secured by fixed and floating charges over the assets of the group. The finance leases are secured on the assets which form the object of the lease.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>Group</u>		<u>Company</u>	
	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Bank loans and obligations under finance leases and hire purchase contracts:				
Repayable within five years	14,519	21,879	3,778	2,800
Repayable after more than five years	20,070	11,059	5,044	6,083
Other Loans	2,000	2,000	-	-
	<u>36,589</u>	<u>34,938</u>	<u>8,822</u>	<u>8,883</u>

The bank loans are secured by fixed and floating charges over the assets of the group. The finance leases are secured on the assets which form the object of the lease.



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16. OPERATING LEASE COMMITMENTS

The minimum non-cancellable operating lease payments to which the group was committed, as at 31st December, 1989, to pay during 1990, analysed into the year in which the lease commitment expires, are as follows:

	<u>Group</u> £000
Lease expiry date in the years ending 31st December:	
1990	383
1991 - 1994	22,053
After 1994	8,323
	<u>30,759</u>

17. FINANCE LEASE COMMITMENTS

The future minimum finance lease payments, net of related finance charges, to which the group is committed as at 31st December, 1989 under finance lease obligations are as follows:

	<u>Group</u> £000
Payable in the year ending 31st December:	
1990	2,028
1991 - 1994	7,124
After 1994	148
	<u>9,300</u>

18. PROVISIONS FOR LIABILITIES AND CHARGES

The Group

	<u>Deferred</u> <u>taxation</u> £000
At 1st January, 1989	10,412
Charge for the year comprised as follows:	
Current year's timing differences	(676)
Sale of revalued assets	(19)
	<hr/>
At 31st December, 1989	<u>9,717</u>

AIRLINES OF BRITAIN HOLDINGS PLC  
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18. PROVISIONS FOR LIABILITIES AND CHARGES (Continued)

Deferred taxation provided and the full potential liabilities (at appropriate tax rates) can be analysed as follows:

	<u>Amounts provided</u>		<u>Full potential liability</u>	
	1989	1988	1989	1988
	£000	£000	£000	£000
Excess of capital allowances over depreciation charged	9,719	9,395	11,130	10,547
Other timing differences	65	833	65	833
Revaluation of assets	(67)	184	(67)	184
Trading losses	-	-	(651)	(519)
	<u>9,717</u>	<u>10,412</u>	<u>10,477</u>	<u>11,045</u>

The Company

	<u>Deferred taxation</u> £000
At 1st January, 1989	658
Charge for the year (current year's timing differences)	487
	<u>      </u>
At 31st December, 1989	1,145
	<u>      </u>

Deferred taxation provided and the full potential liabilities (at appropriate tax rates) can be analysed as follows:

	<u>Amounts Provided and Full Potential Liability</u>	
	1989	1988
	£000	£000
Excess of capital allowances over depreciation charged	1,084	710
Other timing differences	61	(52)
	<u>      </u>	<u>      </u>
	1,145	658
	<u>      </u>	<u>      </u>

AIRLINES OF BRITAIN HOLDINGS PLC  
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19. SHARE CAPITAL

	<u>1989</u> <u>Authorised</u> <u>£000</u>	<u>Issued</u> <u>£000</u>	<u>1988</u> <u>Authorised</u> <u>£000</u>	<u>Issued</u> <u>£000</u>
68,987,590 Ordinary Shares of 25p each of which 59,989,208 are fully paid	<u>17,247</u>	<u>14,997</u>	<u>17,247</u>	<u>14,997</u>

20. BALANCE ARISING ON REORGANISATION

	<u>Group</u> <u>1989</u> <u>£000</u>	<u>1988</u> <u>£000</u>
At 1st January and 31st December	<u>12,143</u>	<u>12,143</u>

This balance arose in 1987 following the reorganisation of the group and formation of the Airlines of Britain Holdings PLC. It represents the difference between the nominal value of shares issued in Airlines of Britain Holdings PLC and the nominal value of shares in British Midland Holdings Limited acquired in exchange.

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21. RESERVES

The reserves of the group and the company are as follows:

Profit and loss account

	<u>Group</u>		<u>Company</u>	
	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1st January	11,076	3,635	532	123
(Loss)/Profit for year retained	(2,810)	7,372	(5,665)	409
Transfers - Revaluation account	72	165	-	-
- Statutory Reserve	(14)	-	-	-
Movement on acquisition of minorities	-	(96)	-	-
At 31st December	<u>8,324</u>	<u>11,076</u>	<u>(5,133)</u>	<u>532</u>

Statutory reserve

	<u>Group</u>	
	<u>1989</u>	<u>1988</u>
	<u>£000</u>	<u>£000</u>
Movement during the year:	<u>14</u>	<u>-</u>

This reserve arises as a result of a statutory transfer from the profit and loss account reserve of the group's insurance subsidiary. It may only be distributed upon the fulfillment of certain conditions and with the approval of the Isle of Man Insurance Authority

Revaluation surplus

	<u>Group</u>	
	<u>1989</u>	<u>1988</u>
	<u>£000</u>	<u>£000</u>
At 1st January	697	4,148
Movements during the year:		
Revaluation	-	350
Release on disposals	(16)	(3,531)
Transfers - profit and loss account	(72)	(165)
- deferred taxation	-	(105)
At 31st December	<u>609</u>	<u>697</u>

The amounts shown as transfers from the Revaluation Account represent the depreciation charged on the revaluation surplus (net of deferred taxation).

Share Premium Account

	<u>Group &amp; Company</u>	
	<u>1989</u>	<u>1988</u>
	<u>£000</u>	<u>£000</u>
At 1st January and 31st December	<u>13,102</u>	<u>13,102</u>

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22. PENSIONS

The group operates a number of defined benefit pension schemes. The total pension cost for the group was £1,689,000 (1988 £1,178,000). Contributions to the scheme are charged to the profit and loss account so as to spread the cost of the pensions over the employees' remaining working lives with the group.

Pension costs relating to the schemes have been assessed in accordance with the advice of qualified actuaries based on valuations conducted within the last three years. At the dates of the latest actuarial valuations the value of the schemes' investments fully covered the benefits that had accrued to members, after allowing for expected future increases in earnings. The assumptions used in the valuations were that investment returns would be 8.5% per annum, dividends would grow by 8% per annum, salaries would increase by 6.5% per annum and that pensions would increase at approximately the same rate as the cost of living (estimated at 5.5% per annum).

Contributions, as a percentage of annual earnings for the group and employees vary between 3% and 13.4% and 4% and 8.5% respectively.

23. SUBSIDIARY COMPANIES

Airlines of Britain Holdings PLC has the following trading subsidiaries:

	Direct or indirect % owned	Nature of Business	Where Incorporated
British Midland Airways Limited	100	Civil Airline Operator	England
British Midland Holdings Limited	100	Investment Holding Co.	England
British Midland (Acceptances) Limited	100	Property Company	England
International Cargo Marketing Limited	100	Freight Carrying Agent	England
Loganair Limited	100	Civil Airline Operator	Scotland
London City Airways Limited	100	Civil Airline Operator	England
Manx Airlines Holdings Limited	100	Investment Holding Co.	England
Manx Airlines Limited	100	Civil Airline Operator	I.O.M.
Diamond Insurance Limited	100	Insurance Underwriting Company	I.O.M.

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24. CONTINGENT LIABILITIES

A substantial portion of capital expenditure and leasing commitments are payable in US dollars. In addition, the price of fuel is based on US dollar-related prices. Forward purchase contracts maturing within one year amounting in aggregate to US \$39 million outstanding at 31st December, 1989, have been made to cover part of the exposure risk.

A group company has been assessed for Value Added Tax on inflight catering. A test case involving British Airways plc and H.M. Customs and Excise was heard by the VAT Tribunal in June 1987 and it was held that catering was a separate taxable supply chargeable at the standard rate. In June 1988 British Airways plc successfully appealed in the High Court against the decision of the VAT Tribunal. H.M. Customs and Excise have appealed against the High Court's decision; this appeal is expected to be heard in the Court of Appeal during 1990. On the basis of legal advice, and in view of the decision by the High Court, the directors do not consider that it is necessary to make any provision in the accounts. In the event that H.M. Customs are successful in the case, the liability as at 31 December 1989 would be of the order of £3 million.