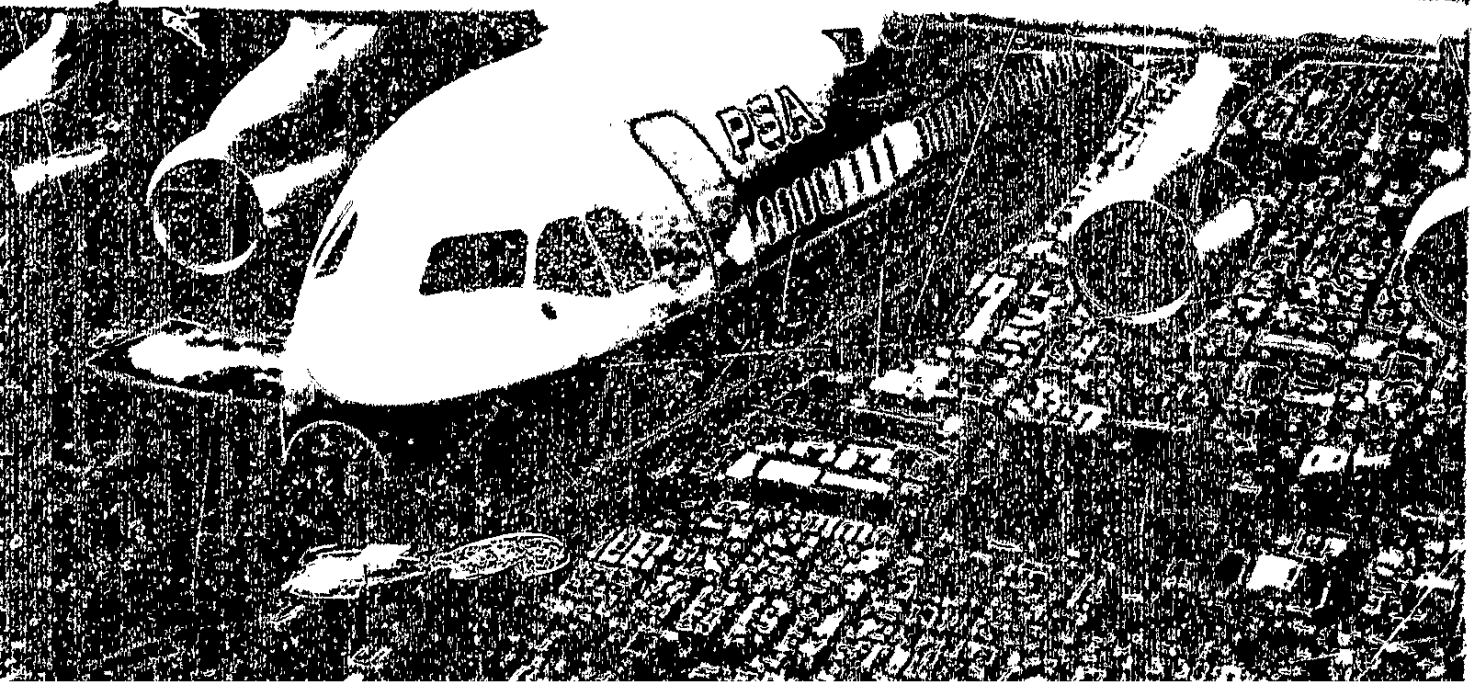
BRITISH AEROSPACE
PUBLIC LIMITED COMPANY

Annual Report & Accounts 1985

BAe 146-200 of Pacific Southwest Airlines over San Diego California.



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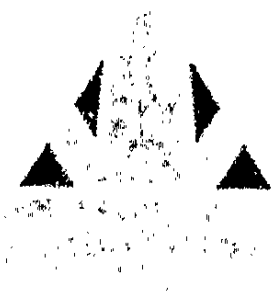
Results in Brief

		1985	1984
Turnover	£m	2,648	2,468
Exports	£m	1,623	1,564
Trading profit	£m	180	166
Profit before taxation	£m	150	120
Profit after taxation	£m	127	108
Earnings per share	p	56.4	53.5
Dividends per share	p	15.8	13.65
Net cash inflow	£m	289	66
Orders on hand	£m	5,138	4,829
Numbers employed—year end	000s	75.8	75.8



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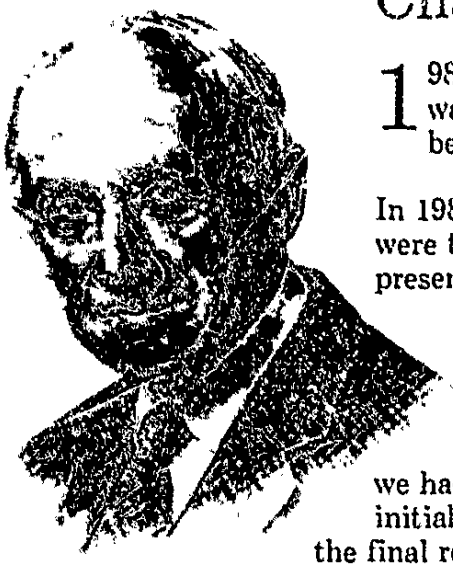
Chairman's Statement



Sir Austin Pearce

1985 was a significant year for British Aerospace in that it was a very successful year and also the year in which we became a fully privatised company.

In 1981 the first step of denationalisation took place and we were the first Company to go through this process under the present Government's privatisation programme. In 1985 we completed the process earlier than either we or the Government had initially planned, and in this second step we had the combination of a Government share sale and a Company capital raising issue. Again we were the pioneers and, although we had the problem of a falling share price between the initial payment in May and the final payment in September, the final result was an undoubted success. As a result of the Offer for Sale £179 million has been added to the Company's resources, placing it in a very strong financial position. It was particularly gratifying to have the clear support of the shareholders in that over 75% took up their preferential entitlement.

The amount of effort demanded of our top management was considerable, but by selective use of our resources we both completed the share sale and increased our product sales and profitability, which is a credit to our management and demonstrates its capability and flexibility.

Although not affecting the results in 1985, undoubtedly the marketing highlight of the year was the signing of the Memorandum of Understanding between HM Government and the Royal Saudi Government for the supply of aircraft and support services to Saudi Arabia through British Aerospace as the prime contractor. The first key contracts have been signed and the others are now being negotiated. This is a significant achievement for the Company and the responsibility accepted by management to fulfil these contracts on time and to specification is being met with enthusiasm and total commitment.

The agreement of the four European countries—UK, Germany, Italy and Spain—to go ahead with the development of the European Fighter Aircraft was another important step for taking the Company into the '90s and beyond.

Our missile sales and the development of new products are encouraging and form an essential part of our strategy for the future.

Total sales increased by 7% over 1984 to £2,648 million providing a profit before tax of £150 million, an increase of some 25% over 1984. This is a very creditable performance in the face of continuing competitive pressures and the overall increase in margins on sales is confirmation that measures taken in recent years to improve efficiency and reduce costs are beginning to show through and will be continued.

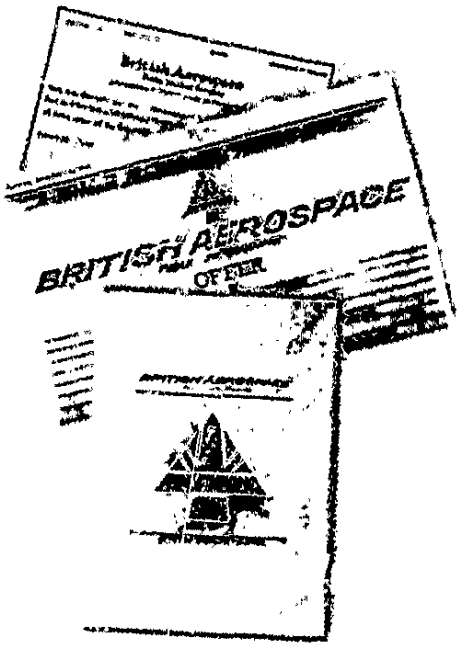
Further changes in organisation have taken place. We have reduced the length of the management chain by eliminating the two Group

structures, clarifying the position of the Managing Director (now designated Chief Executive) and moving the corporate executives into one consolidated headquarters with strengthened functional roles. We have combined the aircraft divisional activities into just two divisions—one for military aircraft and one for civil aircraft—and, with effect from 1st January, 1986, all the Managing Directors of the divisions now report directly to the Chief Executive.

The results from military aircraft orders and deliveries have been excellent. It was particularly pleasing to gain the first export sale of Tornado to Oman and we are encouraged by the progress of the Harrier and the Hawk collaborative projects with McDonnell Douglas in the USA.

Our guided weapons business has also shown a good advance—again largely based on the Rapier, but with excellent support from Sky Flash, Sea Eagle, Seawolf and Milan.

As regards space and communications, the corrective action taken has resulted in a small profit for the second half of 1985, but a loss of £2 million for the whole year. We believe that we can now look forward to modest profit improvements from this business.



Offer of ordinary shares for sale May, 1985

The civil aircraft loss of £5 million demonstrates the continuing difficulties of this market. With the dollar/sterling exchange rate fluctuating during just one year between $1.03 and $1.50 it is very difficult to get sales contracts exactly right, especially when many contracts are entered into more than two years before delivery. Nevertheless, against the general economic background for the business, we have gained some notable sales over the year and the work that has been undertaken with prospective customers to date is encouraging for the future.

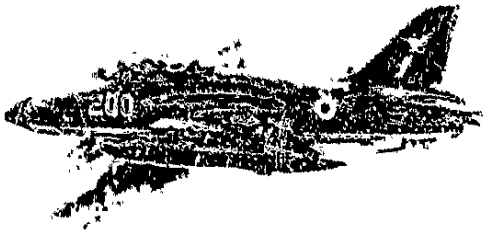
Airbus Industrie has had a good year for orders and the market penetration of the A320 is particularly pleasing. However, we wish to see further progress in ensuring that new orders will result in sustainable future profits.

Dividends

The Board is proposing a final dividend of 10p per share, making a total dividend for 1985 of 15.8p. This reflects an increase of 15.8% over 1984 with the total dividend being covered 3.2 times by net earnings.

Employees

We have had a good year for industrial relations and I take this opportunity of thanking all our employees for their contribution to the successful outturn for 1985. It is only with the co-operation of everyone in the Company that we can meet and beat the competition and thus secure the future for both the Company and those who work in it. It is only by getting orders that we can provide jobs, and that means satisfying the customer.



Hawk 200 (top) and EAP first flights, summer 1986

The latest actuarial valuation of our Pension Scheme showed it to be in a healthy position. We in British Aerospace have always taken a prudent approach to our funding, but we also recognise the interests of the contributors and this year we have taken the opportunity to improve pension benefits for those in service and those in retirement, still achieving a reduction in the Company's contributions.

A further offer was made to employees in 1985 under the SAYE Share Option Scheme which was again well supported. The first options were granted under the new Executive Share Option Scheme following the Annual General Meeting in 1985 and the details appear in the Directors' Report.

A number of employees were honoured during 1985 as indicated in the Directors' Report and I was particularly pleased that Mr. B. E. Friend, our Director of Finance, was awarded a CBE, together with Mr. R. J. Parkhouse, the Managing Director of Army Weapons Division, and Mr. F. E. Roe, Managing Director of the Military Aircraft Division.

During the year three of our Directors retired. Mr. T. G. Kent CBE on 31st August after 45 years service to the aerospace industry and Mr. J. T. Stamper on 31st December, after 39 years. Both have played major parts in the formation of what is today British Aerospace and, in thanking them for their efforts, we wish them both a long and happy retirement. As I reported last year, Mr. C. J. Wells retired by rotation at the last Annual General Meeting.

Future

As mentioned earlier, there have been some significant achievements during 1985 which have secured a very sound base for the Company's foreseeable future, in particular the Memorandum of Understanding with Saudi Arabia which is now being embodied in firm contracts, the agreement to go ahead with the European Fighter Aircraft and the successful combined Offer for Sale of the Company's shares. There are other important programmes from which the Company will benefit in the years to come and we have good reason to be optimistic for the future.

This in no way lessens our resolve and determination to improve our efficiency. We have already made good progress, but we need to ensure that, by adapting to change and taking the necessary action, we shall be competitive as a truly international company. The change in organisation from 1st January, 1986 is designed to produce better communications and quicker decisions and place greater responsibility upon our younger and up and coming management.

Through the activities of our Management Resources Committee we can now identify and develop the human resources of the Company, as has been demonstrated by some of our recent appointments.

We shall continue to combine all the technological and other skills that we have in depth in the Company to produce products and related systems that match the customers' highest expectations providing them with integrated equipment that meets their total needs, whether it is in the area of defence or commercial application. If we consider that there are related opportunities to our mainstream business that are supportive of our future strategy, we shall take the appropriate decisions, whether it is by in-house investment or acquisition. We have come a long way since we were partially privatised in 1981 and, now that we are wholly in the private sector, we do not intend to give up in any measure our position in the world markets.

To be successful in this business as in most others, we need resources and determination. The capital raising activity in 1985 plus our order book, cash flow and profitability has put us in a very strong financial position.

Since 1980 we have invested heavily in new equipment, research and development and new products, which will form the basis for future sales.

The Company is playing a major part in Industry Year '86, the effort being locally inspired rather than being directed from the centre and, in particular, we are concentrating on local relationships with schools, polytechnics and universities to ensure we can recruit the skills and calibre we need.

I have no doubt, therefore, that we have and will continue to have the resources and the future will be decided by how determined we are to use them effectively.

That is the challenge for this Company; it is the challenge for the worker on the shop floor; it is the challenge for our divisional management; it is the challenge for the headquarters staff, including the Board; it is also the challenge for the financial institutions with whom we work and for Government to create the environment in which these challenges can be met successfully.

Too often we read and hear criticisms of British Industry, too frequently by those who do not work in it. We in British Aerospace are confident we can prove those criticisms to be ill-founded and that successful industry is essential for the prosperity and stability of this nation.

Sir Austin Pearce
Chairman

25th March, 1986

Company Executive Organisation

1st January, 1966

Chairman
Sir Austin Pearce

Chief Executive
Sir Raymond Lygo

Deputy Chief Executive (Operations)
H. Metcalfe

Deputy Chief Executive (Engineering)
I. R. Yates

Director of Finance
B. E. Friend

Commercial Director
J. L. Glasscock

Marketing
L. A. Sanson

Company Secretary and Legal Adviser
B. Cookson

Public Affairs
D. McClen

Personnel
R. T. Worsley

Divisional Managing Directors

F. E. Roe | S. Gillibrand | R. J. Parkhouse | B. J. Rosser | D. Rowley | P. Brighton | J. A. Holt

Military Aircraft Division (30,567)	Civil Aircraft Division (21,344)	Army Weapons Division (6,813)	Air Weapons Division (6,053)	Naval Weapons Division (4,817)	Electronic Systems & Equipment Division (3,106)	Space & Communications Division (2,026)
Weybridge	Hatfield	Stevenage	Hatfield	Bristol	Bracknell	Stevenage
Brough	Bristol	Henlow	Lostock	Weymouth	Plymouth	Bristol
Dunsfold	Chadderton	Plymouth				
Hamble	Chester					
Kingston	Prestwick					
Preston	Weybridge					
Salisbury						
Warton						

Overseas subsidiaries/Headquarters (1,107)

Figures in brackets = numbers employed at 31st December, 1965

Company Profile

British Aerospace employs 75,800 people, of which 72,900 are employed in the United Kingdom and 2,900 overseas in 32 countries. The total includes some 22,000 professional staff. British Aerospace is engaged in the design and manufacture of a greater range of aerospace products than any other company in the world.

These high technology products include spacecraft, a complete family of civil aircraft and a range of military aircraft, electronic systems and guided weapon systems which form an integral part of national defence. British Aerospace is a recognised leader in the aerospace field and currently exports over 61% of a £2,648 million turnover to more than 40 countries.

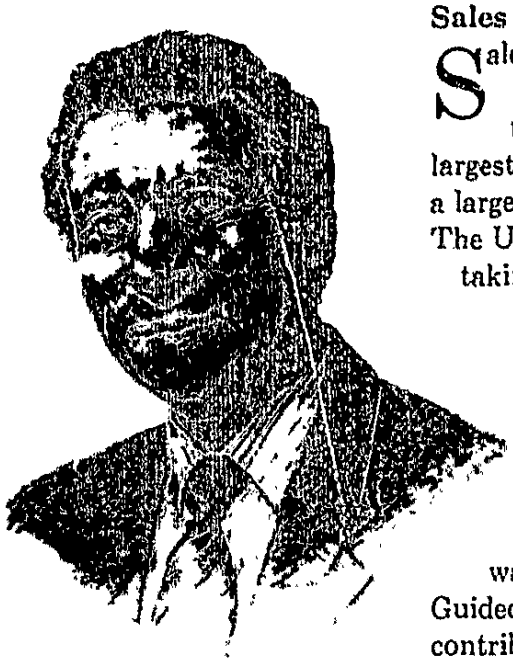
Many of these programmes are the result of international collaboration as demonstrated by our industrial agreements with 24 countries.

The continued success of British Aerospace depends, among other things, on maintaining its position at the frontiers of technology and this depends on the quality of its people. The Company is therefore committed to a programme of continuous training involving some 3,100 [illegible] and maintains close links with [illegible] establishments.

[illegible] excellence of British [illegible]

UK operating locations

Financial Review



B E Friend, Director of Finance

Sales

Sales for 1985 were £2,648 million — an increase of 7% over 1984. Exports accounted for over 61% of the total, continuing the pattern of recent years. Although Europe was again the largest overseas market, it is noteworthy that the USA and Canada took a larger share of exports, increasing from 23% in 1984 to 29% in 1985. The UK Ministry of Defence was the Company's largest customer taking 36% of total sales with a wide product spread.

Military aircraft and support service sales at £945 million in 1985, some 36% of total turnover, were somewhat less than the previous year, with Tornado reaching its planned production levels.

The value of deliveries of new civil aircraft, including wing sets for the Airbus programme, and spares for over 2,100 civil aircraft now supported around the world was £650 million — an increase of 14% over 1984.

Guided weapon sales, with Rapier a continuing prominent contributor but with support from other growing business lines, were £923 million in 1985 — an increase of 17% over 1984.

Space business increased its turnover from the low 1984 level to £180 million in 1985, an increase of 18%.

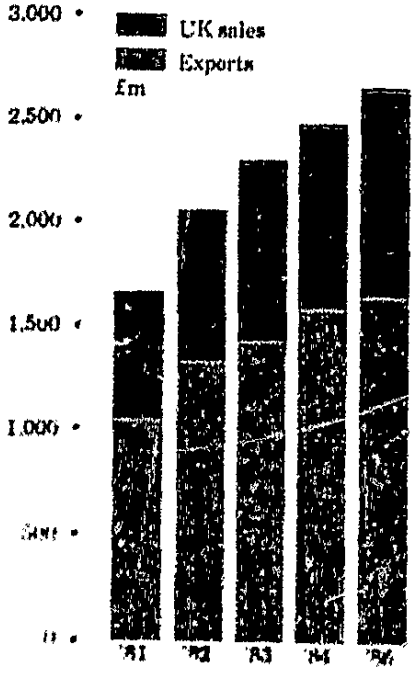
Profits

Trading profit of £186 million in 1985, before reorganisation costs of £6 million, was 12% ahead of 1984 and, although there were continuing pressures on prices to customers, margins have increased.

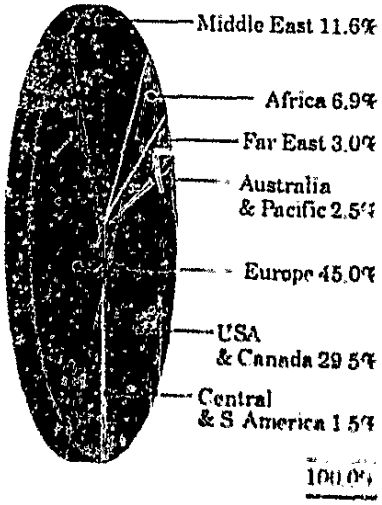
Military aircraft profits at £136 million were 19% up on 1984, benefiting from longer production runs and improved efficiency.

It was again a difficult year for civil aircraft. In addition to strong competitive conditions in the airline markets, the fluctuation in the

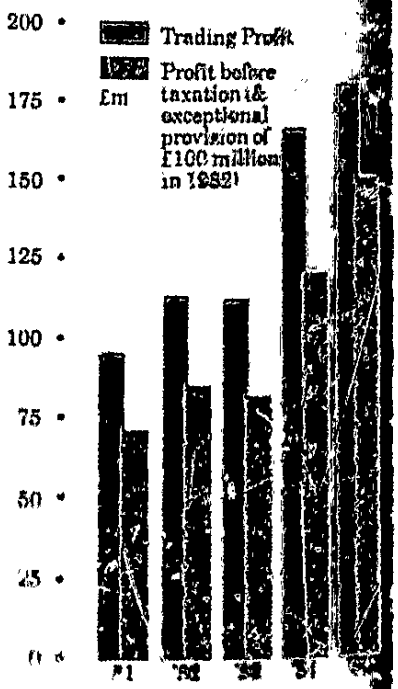
Turnover



Export Sales by Region



Profits



sterling/US dollar exchange rate, with an overall strengthening of sterling against the US dollar during 1985, made the achievement of profits in sterling more difficult on many contracts. This resulted in a loss for the year of £5 million on civil aircraft business, which takes account of anticipated losses on future deliveries already contracted for. Despite the setback in 1985, there has been increasing market interest in the Company's civil aircraft products and, with less volatility in exchange rates, it is expected that there will be greater stability in sterling selling prices.

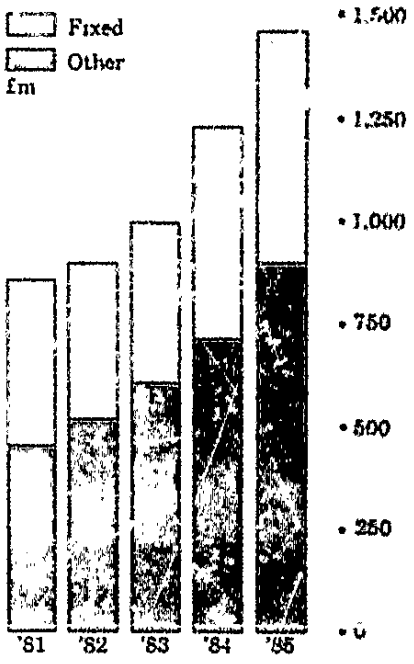
Guided weapons again turned in an excellent performance with trading profit increasing from £105 million in 1984 to £112 million in 1985. All product lines are making profit contributions, with Rapier results outstanding.

At the half year, space business was showing a loss of £3 million which has been reduced for the full year to £2 million, reflecting a marginal profit for the second six months.

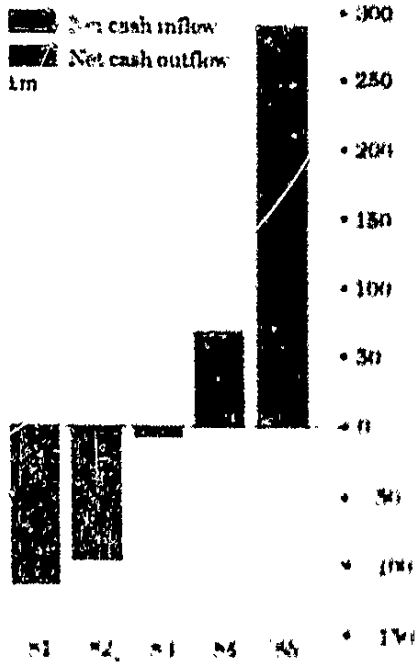
Launching costs of £52 million written off in 1985 were virtually the same as in 1984. Net interest receivable in 1985 of £19 million was considerably higher than in 1984 as a result of both increased cash balances and differential interest rates between the UK and the USA. The Company has benefited from differential interest rates as the majority of its liquid assets are held in sterling deposits whereas borrowings are mainly in US dollars as a hedge against future dollar denominated trading.

Profit before taxation has increased from £120 million in 1984 to £150 million in 1985 — a 25% improvement. The charge for taxation is some 16% of profits, somewhat higher than previous years as a result of the cessation of stock relief and changes in capital allowances. Also, with the Company moving towards a more normal tax charge, it has been decided prudent to set aside £5 million as a deferred tax provision. Thus, profit after taxation for 1985 was £127 million as compared with £108 million in 1984.

Assets Employed



Cash Flow



Assets employed

Assets employed, excluding net liquid assets, at 31st December, 1985 were £815 million, compared with £837 million the previous year. The launching costs carried forward in inventories (excluding Airbus A320 costs which are currently met by Government launch aid) were £183 million, £13 million lower than in 1984.

Cash flow

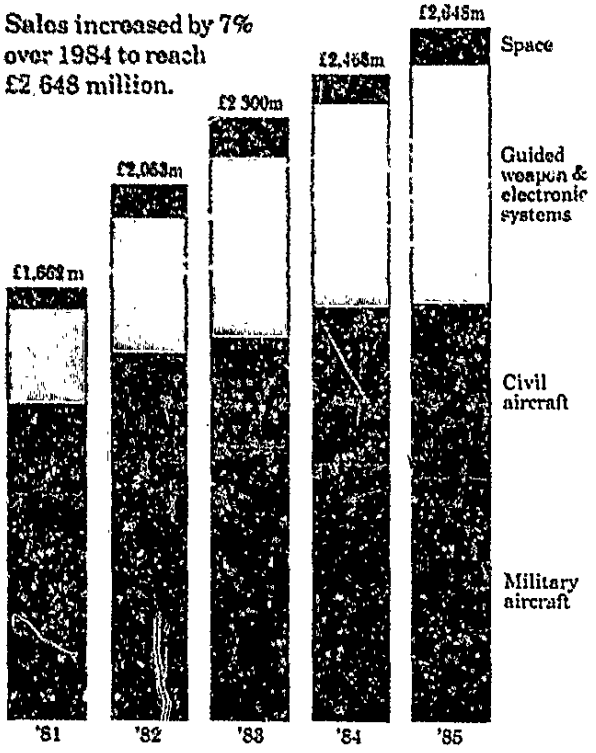
Cash inflow from operations was £200 million during 1985. To this is added £179 million from the Offer for Sale making a total inflow of £379 million. Net liquid assets at 31st December, 1985 totalled £636 million, exceeding loans by £371 million. This places the Company in a very strong financial position.

The net cash inflow was £289 million after meeting expenditures on fixed assets of £99 million, including cost saving projects such as flexible manufacturing systems, and £55 million on research, development and new products, in addition to the launch costs for civil aircraft programmes.

Quick view of the Company's progress over 5 years

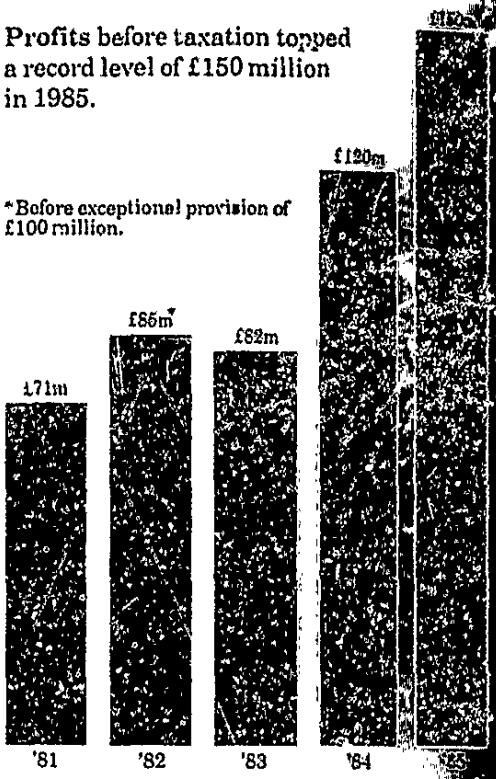
1/ Our results for 1985 . . .

Sales increased by 7% over 1984 to reach £2,648 million.



Profits before taxation topped a record level of £150 million in 1985.

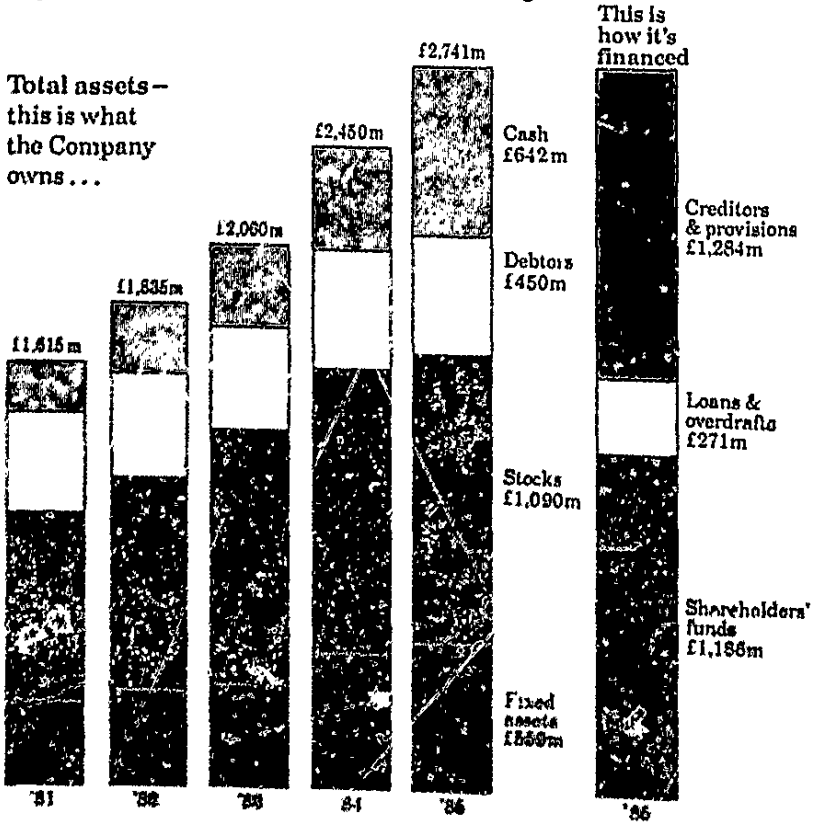
*Before exceptional provision of £100 million.



2/ How we stand financially . . .

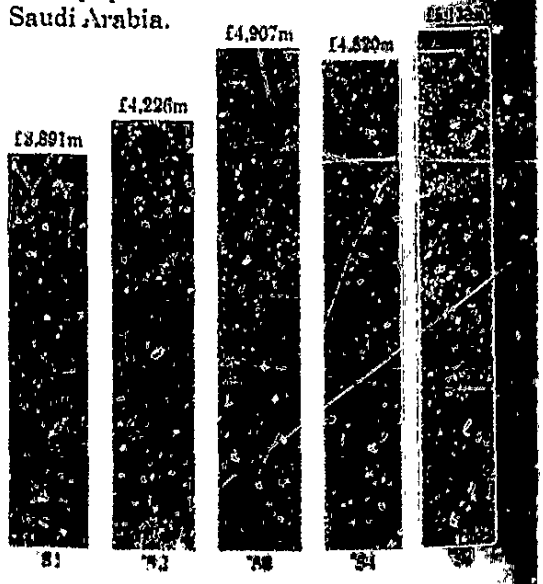
Total assets – this is what the Company owns . . .

This is how it's financed

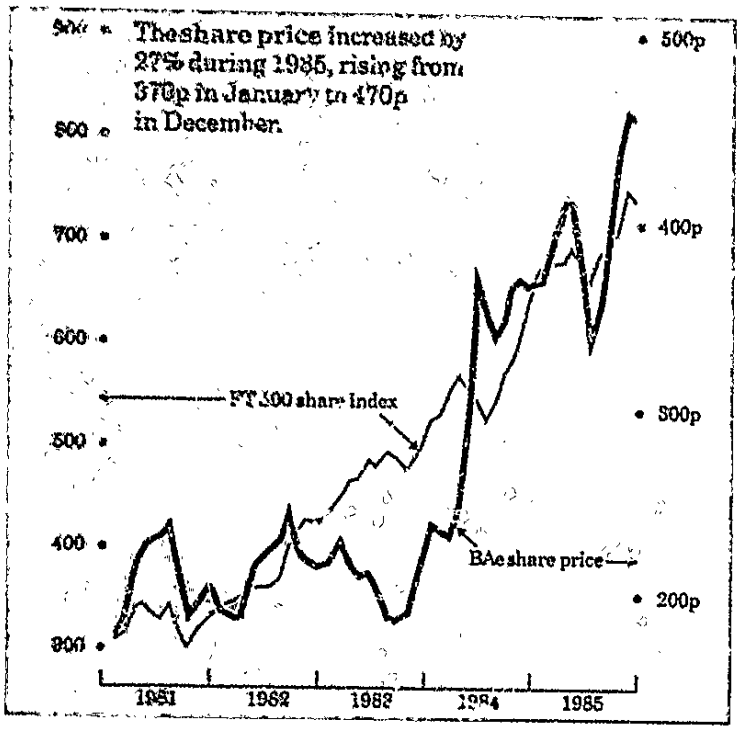


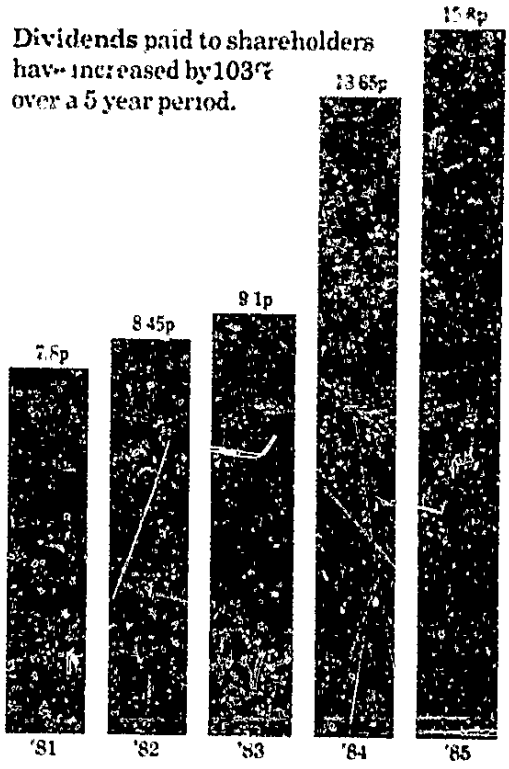
3/ and for the future . . .

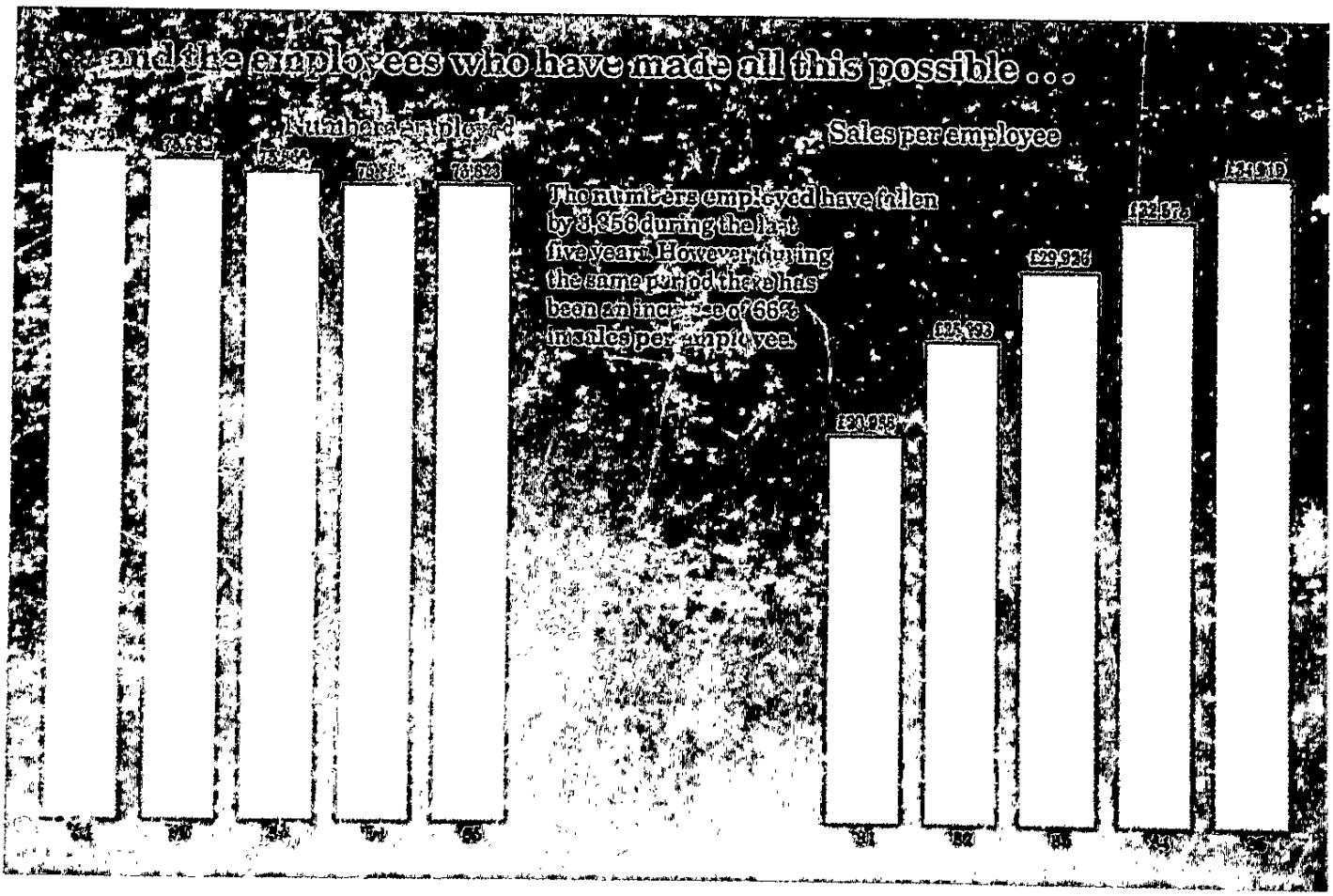
Outstanding orders for our products now total £5,138 million, the highest level ever reached. In addition to this a multi-billion pound Memorandum of Understanding has been signed for supplying aircraft and equipment to Saudi Arabia.

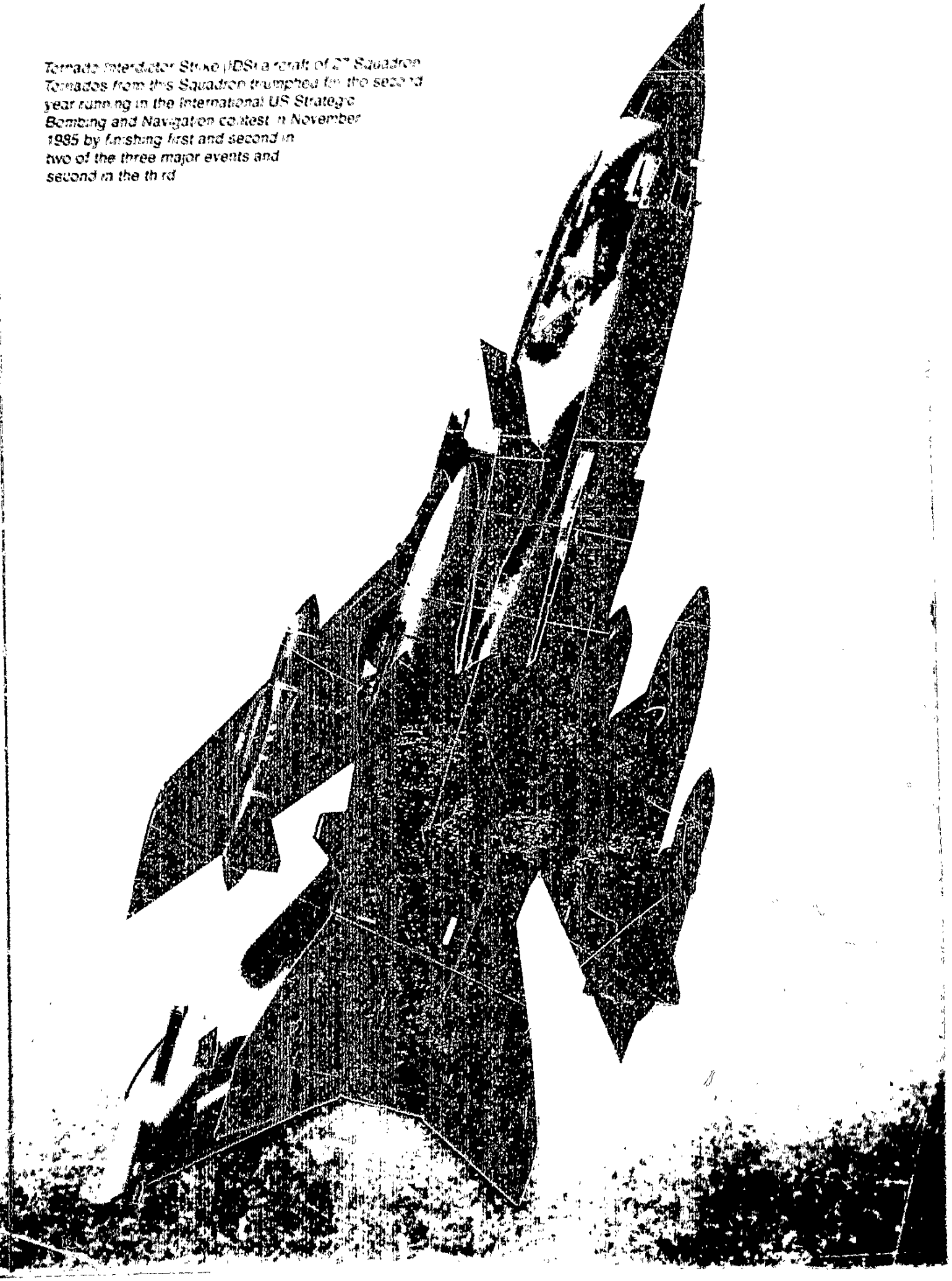


4 What we have achieved for our shareholders . . .



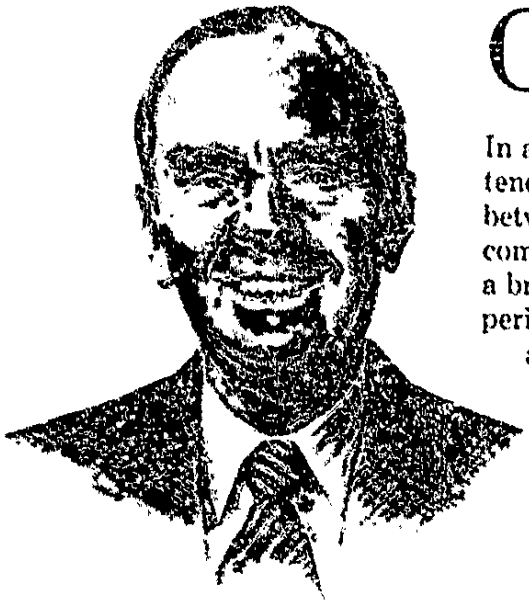






Tornado Interdictor Strike (IDS) aircraft of 2° Squadron. Tornados from this Squadron triumphed for the second year running in the International US Strategic Bombing and Navigation contest in November 1985 by finishing first and second in two of the three major events and second in the third

Operating Review



Sir Raymond Lygo, Chief Executive

Our 1985 results demonstrate once again the strength of our total systems capability in world markets with its wide range of products at various stages of maturity.

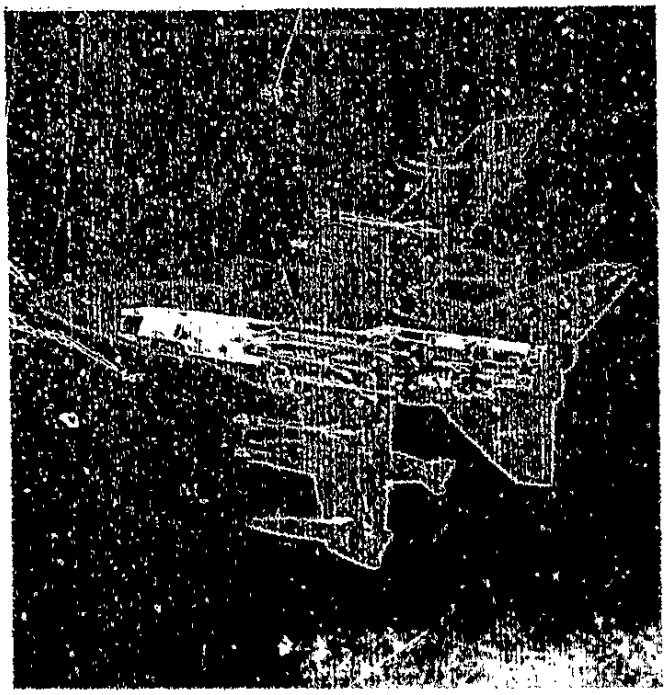
In a high technology industry such as ours, development time scales tend almost inevitably to be lengthy, typically with a long gap between the inception of new projects and the beginning of real commercial returns. It is important, therefore, for us to maintain a broad spread of capabilities and programmes to ride out periods of depression in some sectors of the market while taking advantage of more buoyant conditions in others. It is also essential to make the necessary investment in research and development to keep us poised to take advantage of relevant opportunities.

Experience continues to demonstrate the value of collaborative arrangements in achieving large scale programmes. In addition, they make possible longer production runs which enable unit costs to be brought down and provide improved opportunities for market penetration.

Two significant developments in 1985 provided particularly powerful illustrations. First was the conclusion in August of the inter-governmental agreement on proposals for the new European Fighter Aircraft, on which we are now working with three European partners. Second was the outstanding success of the Airbus A320 which gained 39 orders and 118 options and letters of intent in the year.

The European Fighter Aircraft

In terms of the future of our military aircraft activities and of the air defence of Europe itself, by far the most significant event of recent years was the conclusion last August of the agreement between the Governments of the UK, Germany and Italy (the partners in



The air launched anti radar missile (ALARM) carried on a Tornado IDS

Tornado) on a common basis for the European Fighter Aircraft (EFA) planned to enter service in the mid-1990s. Shortly afterwards, Spain joined the consortium and the proposed work-shares are 33% each for the UK and Germany, 21% for Italy and 13% for Spain.

The basic organisation between the partners has been created and perfected in the Tornado programme through our very successful partnership with Messerschmitt-Bölkow-Blohm and Aeritalia in Panavia Aircraft GmbH and we will thus be able to start way down the learning curve of co-operation on EFA.

This challenging new programme will provide the customer nations with a fighter weapon system which will out perform all anticipated adversaries in air-to-air combat situations and will bring a formidable new capability to the air defence of Europe. Many of its advanced concepts will be demonstrated in the Experimental Aircraft Programme (EAP), which has involved the UK Government, British Aerospace, Aeritalia and partner equipment companies in the UK, Italy and Germany. Most of the leading companies in the UK aerospace industry have joined with British Aerospace to provide 50% of the UK funding. The EAP aircraft, which is being prepared at Warton, is on schedule for its first flight in summer, 1986.

Tornado leads an export breakthrough

The Tornado programme—the largest and most advanced collaborative venture yet undertaken by European aerospace manufacturers—began over 15 years ago and more than 500 of the total initial requirement for 809 aircraft for the three partner nations have now been delivered. The proven operational success of Tornado, highlighted by the RAF's spectacular success in the US international bombing competition two years running, has now resulted in major export achievements.

The breakthrough into the export market has been on a grand scale and vividly illustrates the system approach of our product programmes. The first success was the contract from Oman, valued at over £250 million, for eight Tornado Air Defence Variant aircraft armed with our Sky Flash air-to-air missiles. This was followed by the signing of a Memorandum of Understanding between the Governments of Saudi Arabia and the UK to supply the Royal Saudi Air Force with a total of 72 Tornados (48 of the Interdictor Strike version and 24 of the Air Defence Variant).

Also included in this Memorandum of Understanding are 30 of our Hawk advanced jet trainers and 30 Pilatus PC-9 turboprop basic trainers. The PC-9s will be supplied to us in basic form by the Swiss manufacturer, Pilatus, and British Aerospace will equip them for delivery to the Royal Saudi Air Force.

British Aerospace will supply all the major guided weapons and electronic warfare systems for all these aircraft.

There are likely to be 13 different contracts, the largest of which have already been signed in 1986, covering all aspects of the package for which British Aerospace will be the prime contractor on behalf of HM Government, i.e. all equipment, spares and support will be provided through British Aerospace.

Apart from the excellence and availability of a total weapon system package, a major factor in securing these massive orders from Saudi Arabia—Britain's biggest ever aerospace export success—was the long and close relationship

which the UK has built up with the Saudi Kingdom over the past two decades. The most important aspect of this is the Saudi Defence Support Contract, which has been our responsibility since 1973 and has to date been worth more than £1.4 billion.

This breakthrough in exports has stimulated increased interest in Tornado which will contribute to the success of the new multi-national military aircraft programme, the European Fighter Aircraft (EFA).

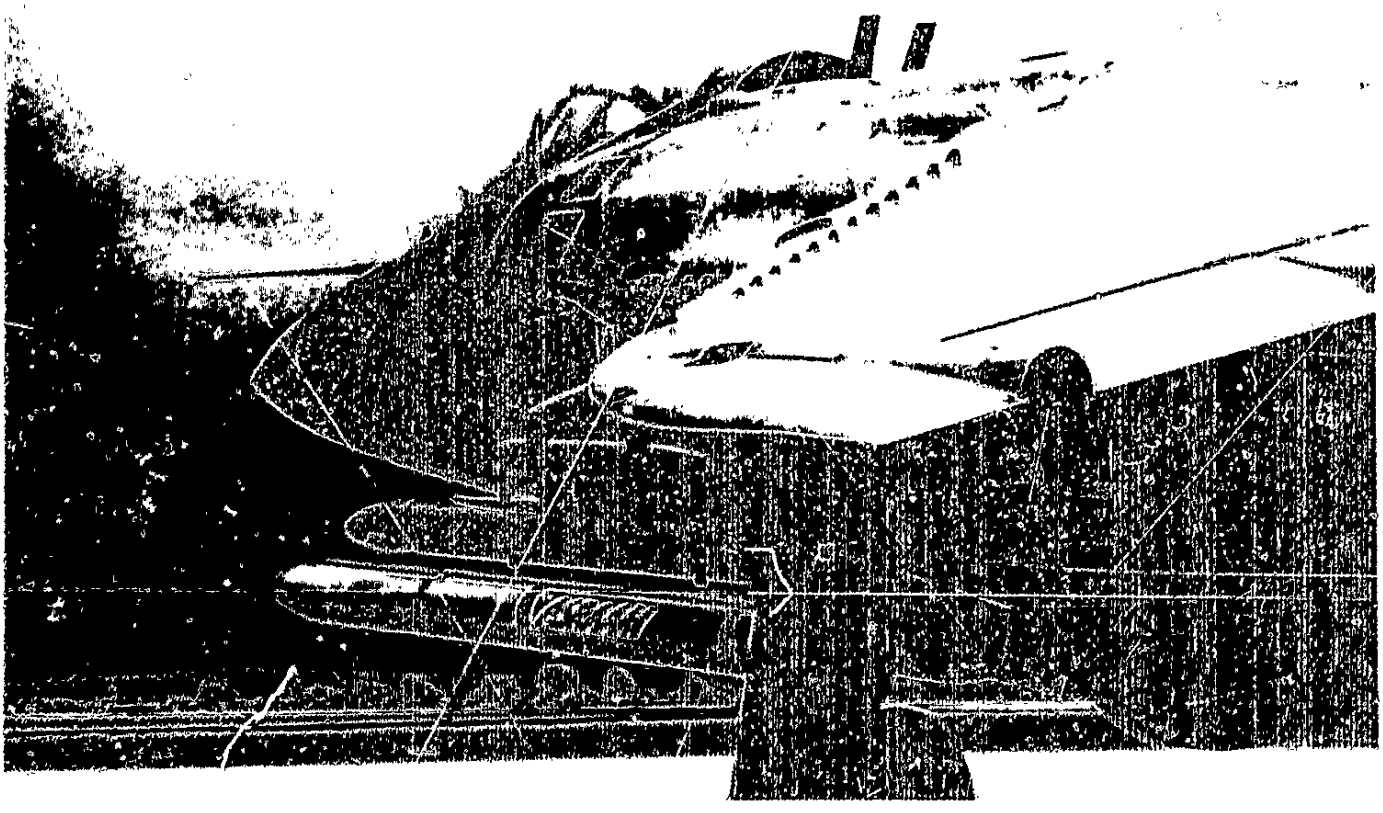
The Tornado Air Defence Variant entered squadron service with the RAF in 1985 armed with Sky Flash missiles. Development also continued with the new **ALARM** anti-radar missile which will be used on RAF Tornado Interdictor Strike aircraft, already in full squadron service. Airborne trials have included a Tornado being flown with nine of these missiles.

We regard Tornado as the best value-for-money military aircraft available today.

European missile programmes

Our commitment to the principle of multi-national collaboration on high technology programmes vital to the defence of Europe is also evident in our missile systems activities.

Our experience of collaboration with European companies in this field goes back many years and we are today involved in numerous important programmes of design, development and manufacture. As a member of the Euromissile Dynamics Group we have taken, and are continuing to take, a leading role in the development of a third generation family of anti-tank missile systems, **Trigat**. There are three Trigat systems, short/medium range ground-launched, long range vehicle-launched and long range air-launched and, while we are active in all three, we have particular responsibility for the long range vehicle mounted missile system. In due course, the Trigat missile will supersede our own second generation, long range anti-tank weapon, **Swingfire**, which we continued to manufacture throughout 1985.



Tawed Rapier low level
air defence system

British Aerospace has a leading role in the development of a new NATO family of air-to-air missile systems. In partnership with Bodenseewerk Gerätetechnik of Germany we are responsible for development of the advanced short range air-to-air missile (ASRAAM), with the participation of other nations. The advanced medium range air-to-air missile (AMRAAM) is being developed in the USA and we have led a study into the feasibility of manufacturing this missile in Europe.

Further European missile commitments include a share in the joint manufacture of the US AIM-9L Sidewinder air-to-air missile.

British Aerospace has been chosen to lead a seven nation consortium in a 15 month competitive feasibility study of a short range anti-radiation missile (SRARM). We are also participating in two other such studies: one, as a member of an international consortium, for a long range stand-off missile (LRSOM) and the other, as a member of a wholly British consortium, for an airborne anti-tank system.

Rapier order intake exceeds £2.8 billion

Our leadership and credibility as a partner in major multi-national programmes has been founded on the many successful missile programmes undertaken by British Aerospace in its own right. Unquestionably the most outstanding is the **Rapier** low level air defence system. With orders worth over £450 million received in 1985, bringing their total value to over £2.8 billion, Rapier is one of the most successful of all the western world's present day anti-aircraft missile systems.

A major export success in 1985 was the order from the Republic of Indonesia which followed an initial contract in December, 1984 and a further order from Turkey. An order has also been placed with us by the US Government for **Towed Rapier** air-defence systems to protect US Air Force bases in Turkey. These units will be operated by Turkish personnel, in the same way that Towed Rapier units purchased by the USA for the defence of its air bases in the UK are manned by the RAF.

Following the US Government's abandonment of its Divad low level air-defence weapon programme, **Tracked Rapier** has become an active contender to meet this major US Army requirement.

Today, Rapier is the most widely deployed combat-proven, low level, air-defence missile system in the western world. Developments continue to meet the constantly changing threat in attack. In the short term these include a combined visual/ thermal-imaging sight to enable Tracked Rapier also to engage attacking aircraft by night. This sight will be fitted to Tracked Rapier units already in service with the British Army.

Development of the **Rapier Laserfire** system, a low cost, fully automatic, local area air-defence weapon, is also continuing as a company funded venture. Longer term developments are also being explored with the UK Ministry of Defence to ensure that Rapier continues to be a viable challenger in world markets well into the next century.

The **Merlin** terminally-guided, anti-armour mortar bomb is continuing its development with the first guided test firings scheduled for early 1987.

We are examining potential new anti-aircraft weapon systems and work on the project definition of the **Thunderbolt** man-portable.

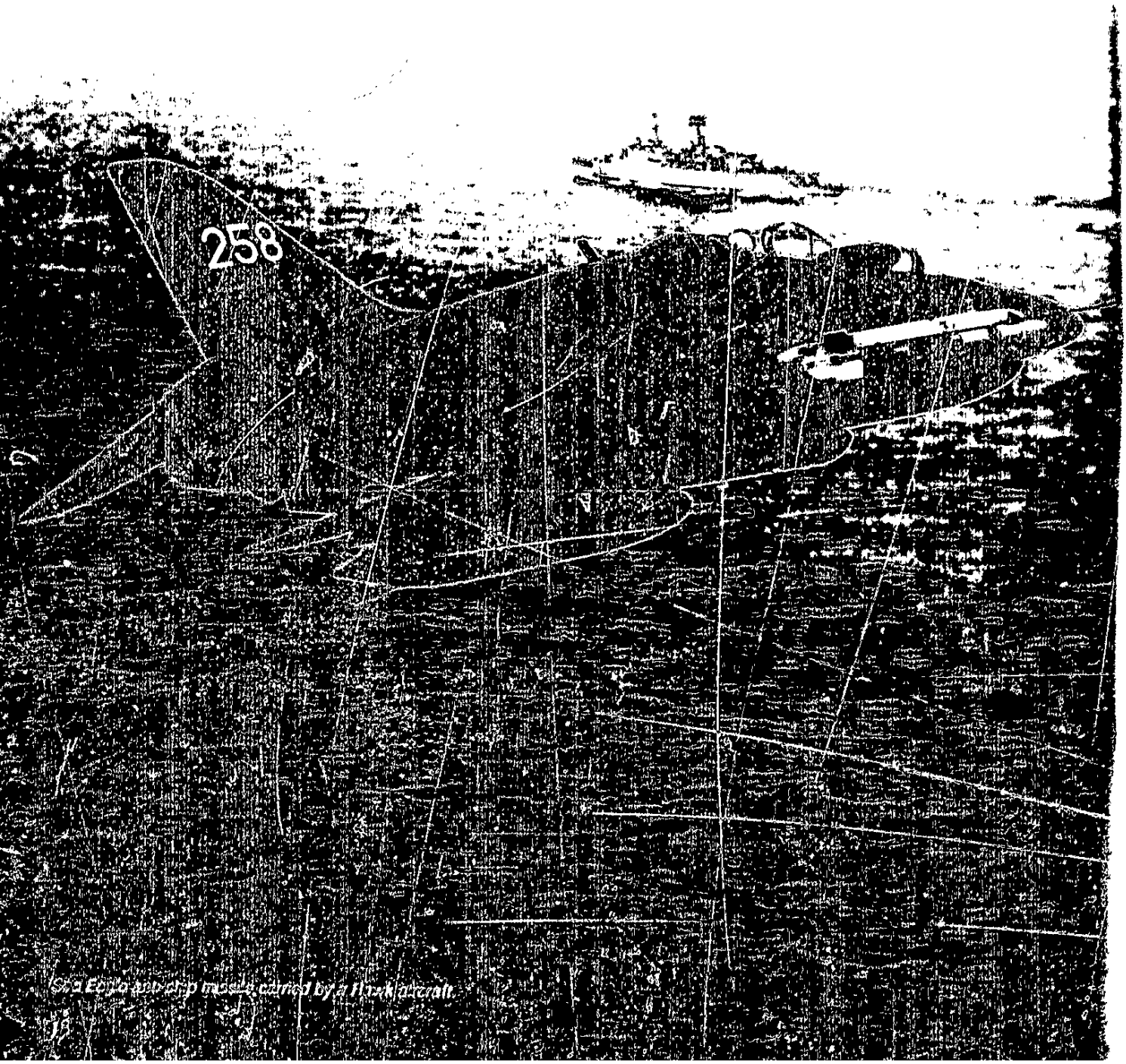
Merlin anti-armour mortar bomb

high velocity missile continued during 1985 and is due for completion in 1986.

The events of recent years have focussed attention worldwide on the importance of missile systems in sea warfare and we have continued to develop our range of ship weapons.

Firings of **Vertical Launch Seawolf** anti-aircraft missile missiles from the specially converted sea-going trials barge, "Longbow", began in 1985 and will continue throughout 1986. A contract was also received to provide a low cost, simple to install four barrel launcher for lightweight versions of the **Seawolf** ship-defence system to be fitted to Seacat equipped ships or as a stand-alone system.

A new stage in the longer term development of Seawolf—the **GWS27** system—began in 1985. This is designed to meet the need for an air-defence system to counter the threat posed by new generations of anti-ship missiles from the year 2000 onwards.



Sea Eagle anti-ship missile carried by a Harrier aircraft.

Firing of a Vertical Launch Seawolf anti-missile missile.

Despite the undoubted success of Seawolf, navies perceive a need for guns to provide ships with a multiple defence against air attack and so we have begun work on the design of a course correcting shell to improve the effectiveness of ship mounted guns against anti-ship missiles.

At the same time, we are vigorously developing and marketing our own anti-ship missiles. The combat-proven helicopter-launched **Sea Skua**, already in service with the Royal Navy, has now been selected for the naval forces of three other nations. **Sea Eagle**, the air-launched, long range, sea skimming, anti-ship missile, is entering service with the RAF and Royal Navy and is also to be supplied to the Indian Navy and other overseas customers. A surface launched version is under discussion.

Hawk and Harrier progress

We are developing, with McDonnell Douglas, the **T45A** version of our successful **Hawk** trainer, now officially named "Goshawk" by the US Navy which requires 300 of these aircraft for its advanced jet training programme.

Orders and commitments for the Hawk, including the US Navy requirement, now total more than 600 aircraft and overseas interest in this versatile aircraft has been stimulated by the Saudi Arabian order mentioned earlier. The Swiss Government has named Hawk as one of the two aircraft selected for detailed evaluation for their new jet trainer requirement, two other rival types having been eliminated. Intensive testing of Hawk will be carried out in Switzerland during 1986.

Considerable interest is also being shown in world markets, particularly by existing Hawk customers, in **Hawk 200**, the privately funded single-seat fighter version. This is on schedule for its maiden flight this summer.

Twelve of the fourteen **Sea Harriers** ordered by the Royal Navy in 1982 were delivered during the year and work is progressing on the follow-on contract for an additional nine aircraft. We also secured a contract for the project definition phase of a mid-life update of the existing Royal Navy Sea Harriers. This will take advantage of new avionics and weapons technology.

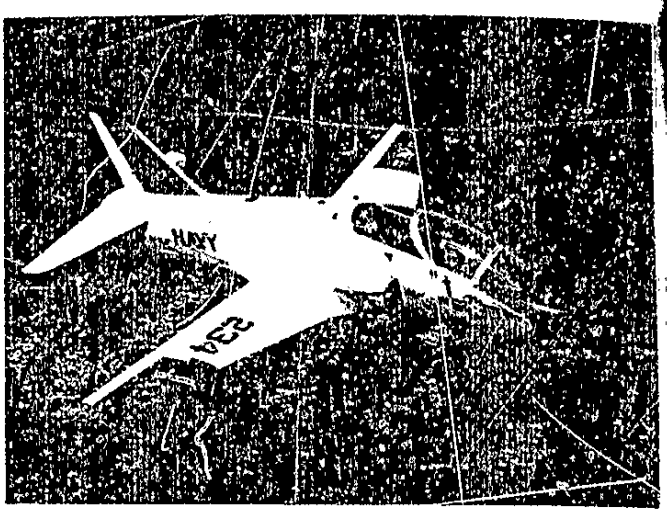
During the year, the Indian Government contracted to purchase a second batch of Sea Harriers.

The most important of our current Harrier programmes, however, is joint production with McDonnell Douglas of the advanced Harrier II. This provides for the supply of 328 aircraft, designated the **AV8B**, to the US Marine Corps and 62 to the RAF under the designation **GR5**. The maiden flight of the Harrier GR5 took place in April, 1985.

The Harrier II and Hawk T45A are the largest Anglo-US collaborative aerospace programmes yet undertaken.

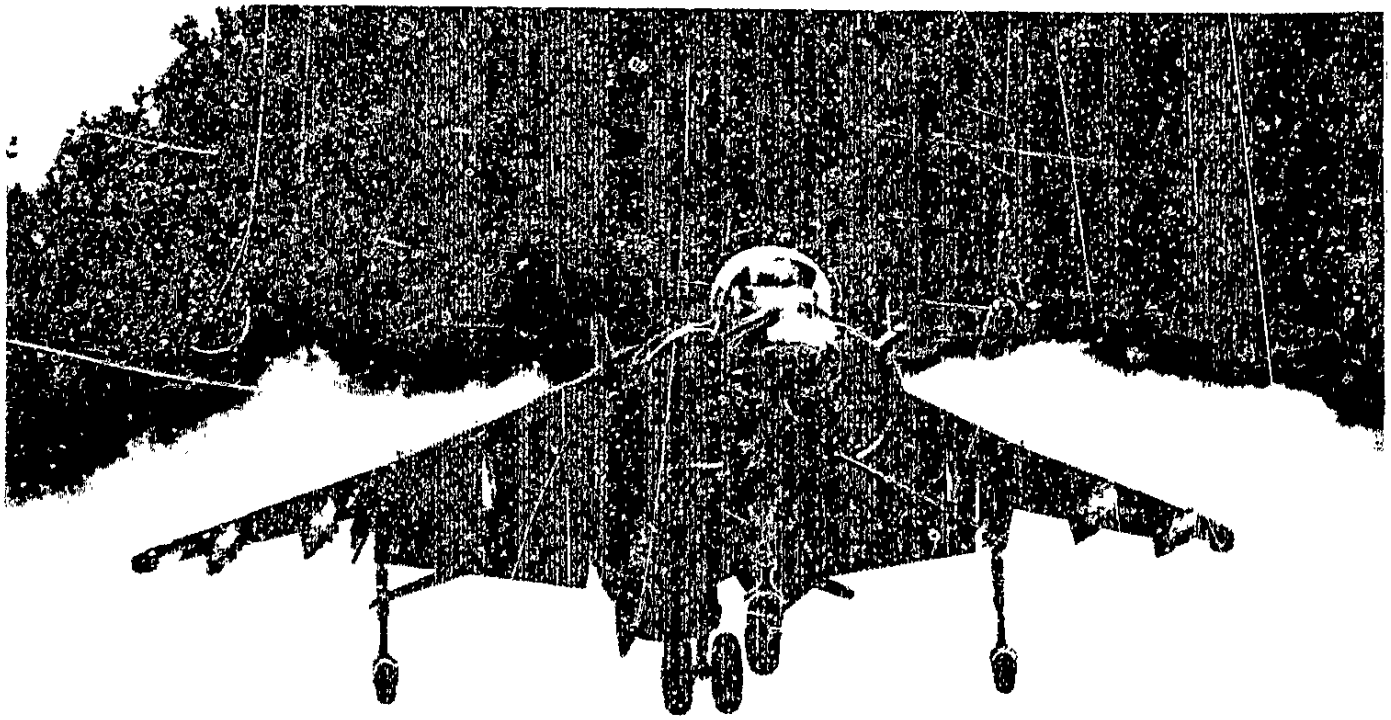
Of our other military aircraft programmes, the **Nimrod MR Mk 2** conversion programme for the RAF was completed on time in 1985 and we are completing our part of the **Nimrod AEW** (airborne early warning) programme to the satisfaction of the RAF.

The order for 18 **Jaguar** International aircraft for the Nigerian Air Force, placed in 1984, was also completed during the year. Licensed production of Jaguar is continuing in India.



T45A version of the Hawk being developed for the US Navy

Contracts were also received for updating and improving RAF **Buccaneer** and Phantom aircraft and for further inspection and test work on F-111 fighter bombers of the US Air Force, bringing the order intake for the latter activity to nearly £100 million.



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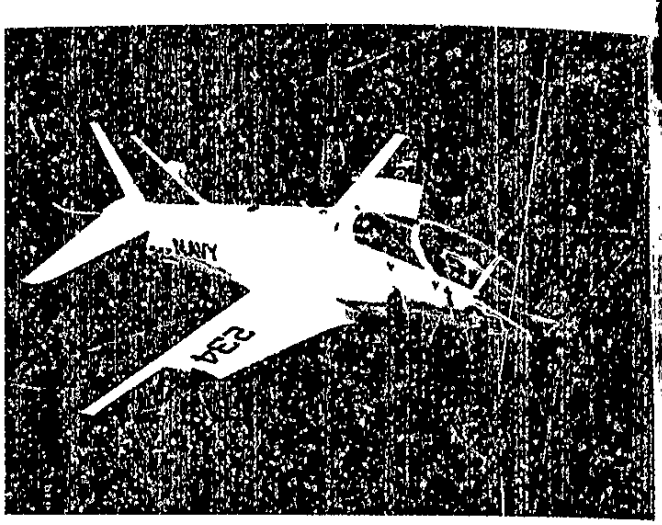

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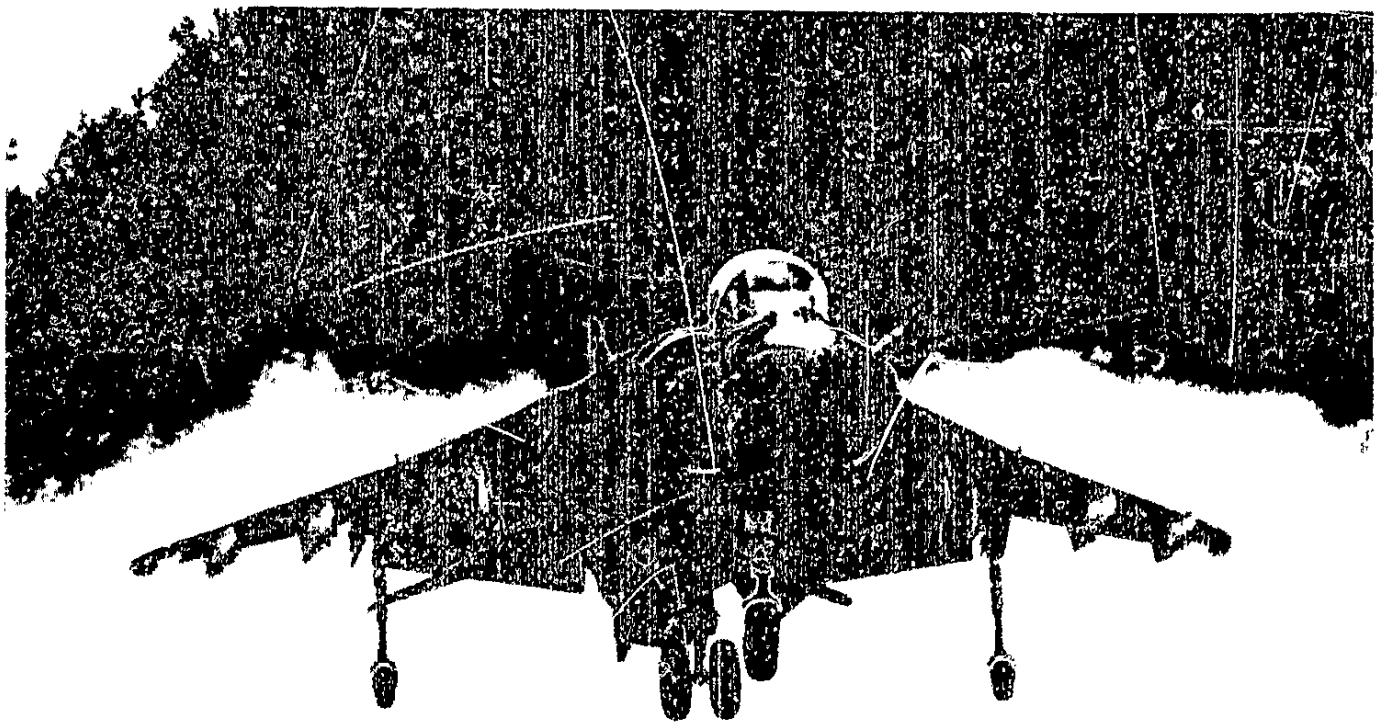


Record civil aircraft orders

The theme of multi-national collaboration, so evident in our military aircraft and missile activities, is also an important feature of our civil aircraft programmes. In 1985, these programmes achieved a record level of orders for the Company with an intake of over £1 billion.

Airbus Industrie took orders in the year totalling some $4 billion—the highest level yet reached in one year. In fact, Airbus outsold Boeing by more than 2 to 1 in the important world market for wide-bodied, twin-jet airliners. As a 20% partner, British Aerospace will share substantially in the results.

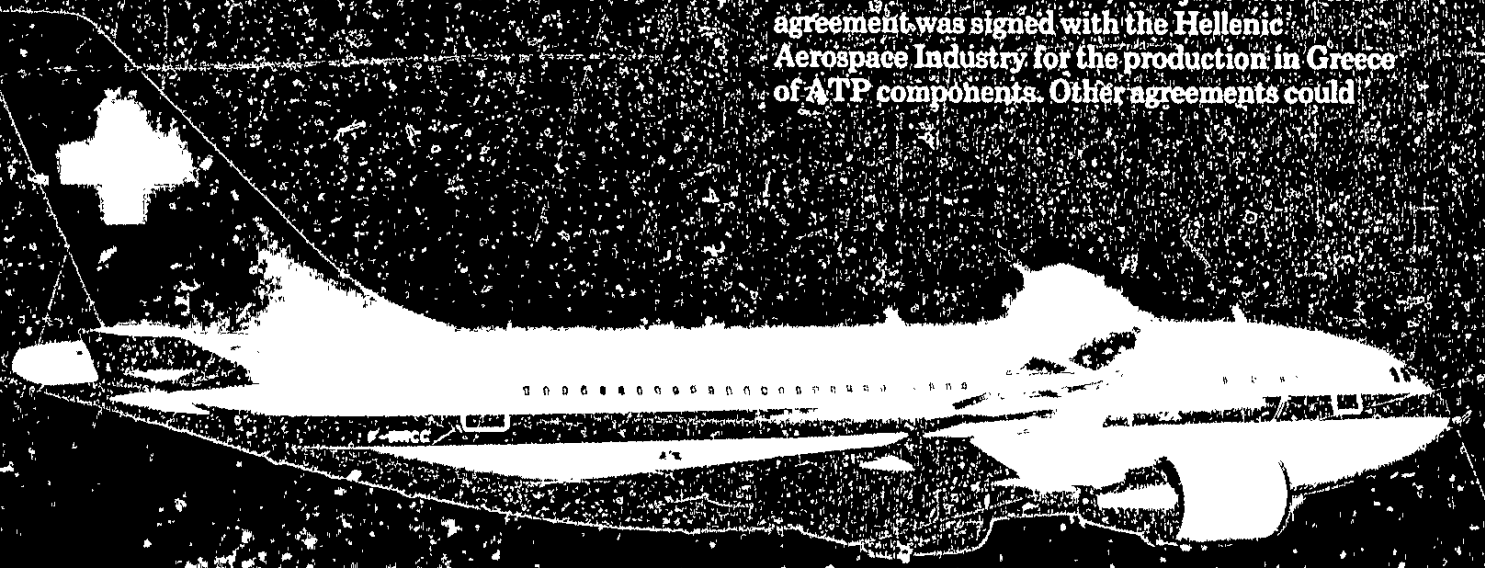
Our forecast (supported by a number of independent surveys) is that airline traffic will rise to three times its current level over the next 20 years. The potential value in markets of interest to the Company over this period is more than £70 billion.

In order to concentrate resources and offer our own "family of civil aircraft", all our civil transport programmes have been brought together in the new Civil Aircraft Division.

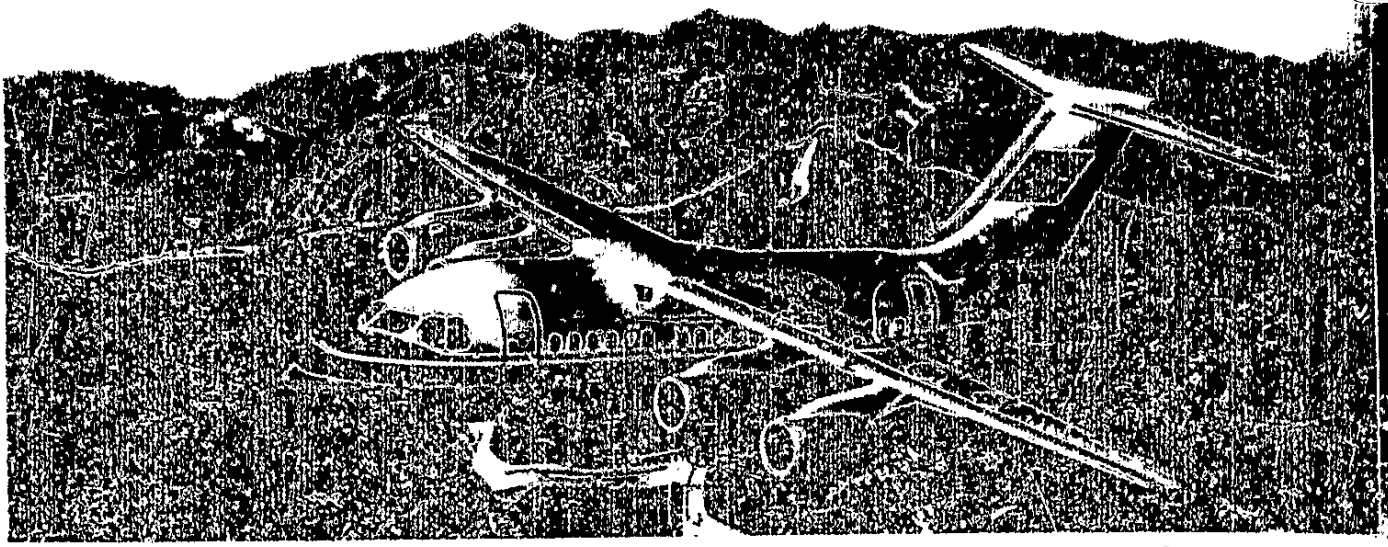
As an illustration of the advantages of continuing development of successful design concepts, contracts for eight **BAe 748s** and **Super 748s** were received during 1985, bringing total orders for BAe 748 Series aircraft to 386 for 82 operators in 51 countries. This included two Super 748s for the Caribbean carrier, LIAT, who have also signed a Memorandum of Understanding for two of our new **ATP** airliners.

Meanwhile, a launch order from British Midland Airways for three ATPs was announced. This new turboprop airliner, seating up to 72 passengers, will make its first flight in summer, 1986 and enter service in 1987.

Towards the close of 1985, a major collaborative agreement was signed with the Hellenic Aerospace Industry for the production in Greece of ATP components. Other agreements could



Swissair Airbus A310-300.



A BAe 146-100 in the livery of the Civil Aviation Administration of China, the country's national airline, which has ordered 10 aircraft

follow, leading to a long term association through to the turn of the century.

Orders for BAe 146

During 1985 orders for 27 aircraft were received for the **BAe 146**, the world's quietest jetliner, which achieved for the Company a 1985 Queen's Award for Technology. By the end of 1985, total firm orders for the aircraft had reached 65 plus 24 options.

It is a clear vote of confidence in a product when an existing customer comes back to order more. It was therefore particularly satisfying when the biggest BAe 146 operator—Pacific Southwest Airlines (PSA) of California—exercised an option to buy four more Series 200 aircraft to add to its original 20 strong fleet. This followed a successful year's operation when the low airport noise levels characteristic of the BAe 146 made it possible for PSA to operate without the restrictions imposed on other aircraft, so increasing the frequency of operation on important routes. As a direct result of this competitive advantage on the crowded Californian routes, an order for six BAe 146-200s was received from AirCal shortly before the close of the year.

A new market opened up when, in May, 1985, China placed a contract for ten Series 100 aircraft with deliveries commencing during 1986. China is already sharing in BAe 146 component manufacture and we foresee the continuation of British Aerospace involvement in China which started with the Trident airliner.

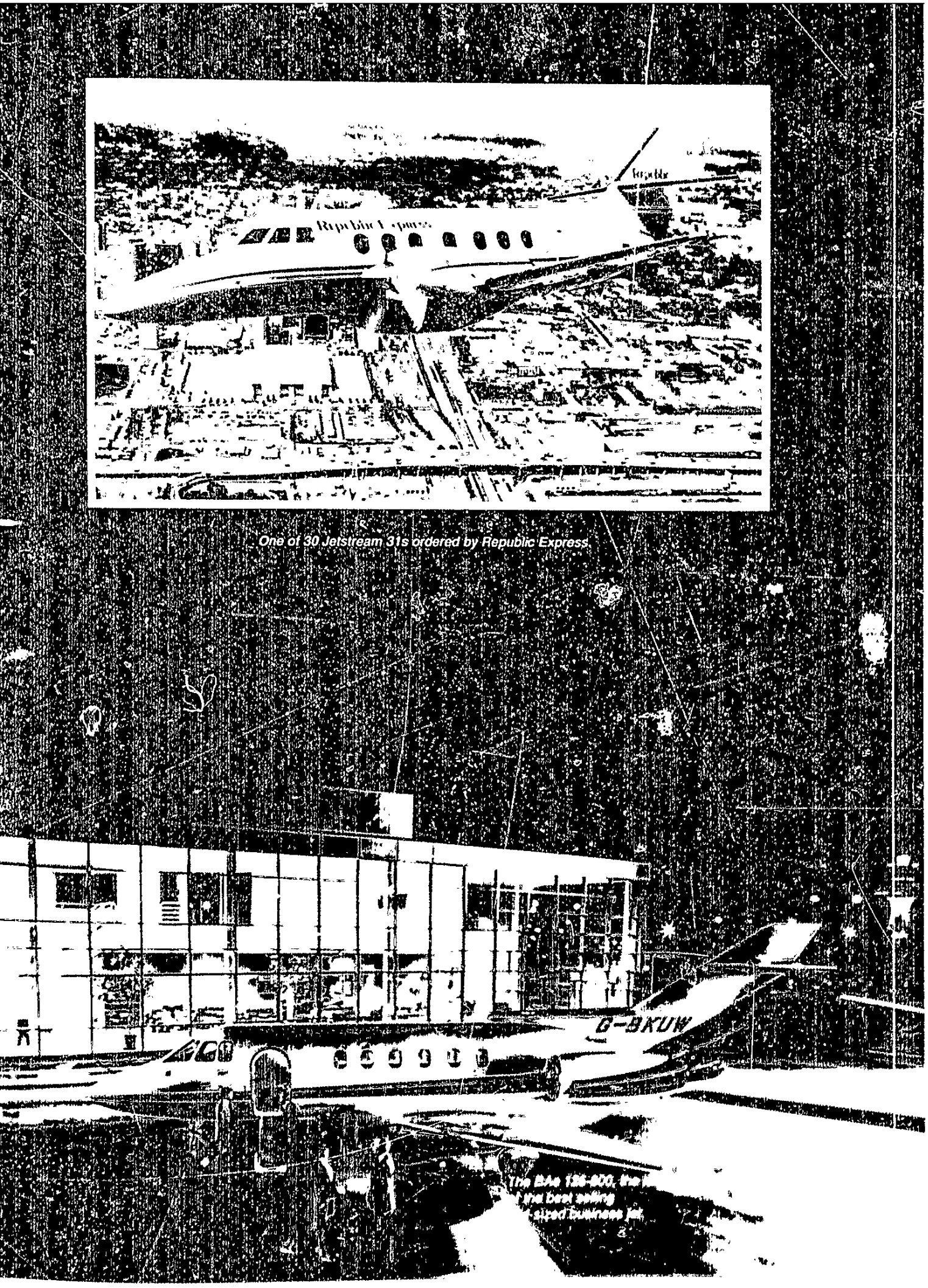
Progress continues by adding a freighter version of the BAe 146-200 to the family and work is well advanced on the first prototype. Study continues on a BAe 146-300.

Record year for Jetstream 31

The **Jetstream 31** is a light turboprop, designed to meet the requirements of commuter and business travellers seeking a high level of comfort in a large pressurised cabin. With orders for 51 aircraft (bringing total orders received to 117 by the end of 1985, with 10 options) it enjoyed a record year. The aircraft gained for the Company a 1985 Queen's Award for Export Achievement and, as a result of growing worldwide interest by commuter/regional airline operators, production is being increased to 48 per year.

The most notable successes have been in the fiercely competitive US market where a total of 45 aircraft configured in the 18/19 seat commuter layout were ordered in 1985 by three airline operators, Republic Express, CCAIR and American Eagle; these included sizeable repeat orders, two of them within a year of the original contracts. Jetstream 31 operators in the USA have formed feederline relationships with major trunk carriers and fly passengers, on a high frequency basis, into the majors' hubs for direct connection with bigger jet aircraft for onward destinations.

Important contracts were also received in 1985 from the Netherlands and Australia, raising the total number of Jetstream 31 operators to 19 worldwide. Prospects for further advances in the market are excellent.



One of 30 Jetstream 31s ordered by Republic Express

Artist's impression of the Airbus A320

BAe 125 improves market position

The smallest of our civil range, the **BAe 125**, has improved its market position among the world's best selling mid-sized business jets and has now achieved orders of well over £750 million, 82% of which have been for export. The new Series 800 version, introduced into service in 1984, has contributed to this success with 27 firm orders—one more BAe 125 than in the preceding year. What was especially creditable about this performance was that the bulk of orders came from the US, despite strong competition there.

In June, the 600th order was celebrated and by the end of 1985 this figure had risen to 624.

Partners in Airbus success

As mentioned earlier, the **Airbus** family of jetliners—on which British Aerospace has particular responsibility for the high technology wings—achieved record orders in 1985 for 92 aircraft worth some $4 billion (as against 35 in 1984). This order intake was made up of 24 **A300** aircraft (including 10 for the improved A300-600 version), 29 **A310** aircraft and—most significantly—39 for the new **A320**, which is not due to fly until 1987. British Aerospace has a 25% work share in this latest addition to the Airbus family. With "off the drawing board" orders standing at 90 by the end of 1985, the A320 has achieved an outstanding early market penetration which should ensure its long term success.

By the end of the year, firm orders for Airbus jetliners had reached 482 aircraft from more than 50 operators worldwide, eloquent proof that the European industry can offer a viable challenge to US domination of the large airliner market.

Airbus Industrie and its partner companies are now engaged in discussions of possible additions to the family. The aircraft proposed include the A330, a 310 seat medium to long range wide-bodied aircraft with twin engines and the A340, a 260 seat very long range version with four engines. Both aircraft will share commonality of design in the fuselage and wing. It is proposed that the new aircraft will enter service in the early 1990s.

Probing the frontiers of space

There are no areas of British Aerospace activity in which multi-national collaboration is so vital as in space technology. It is a mark of our technological and management capability that we have been chosen to lead international consortia on many of Europe's most important projects.

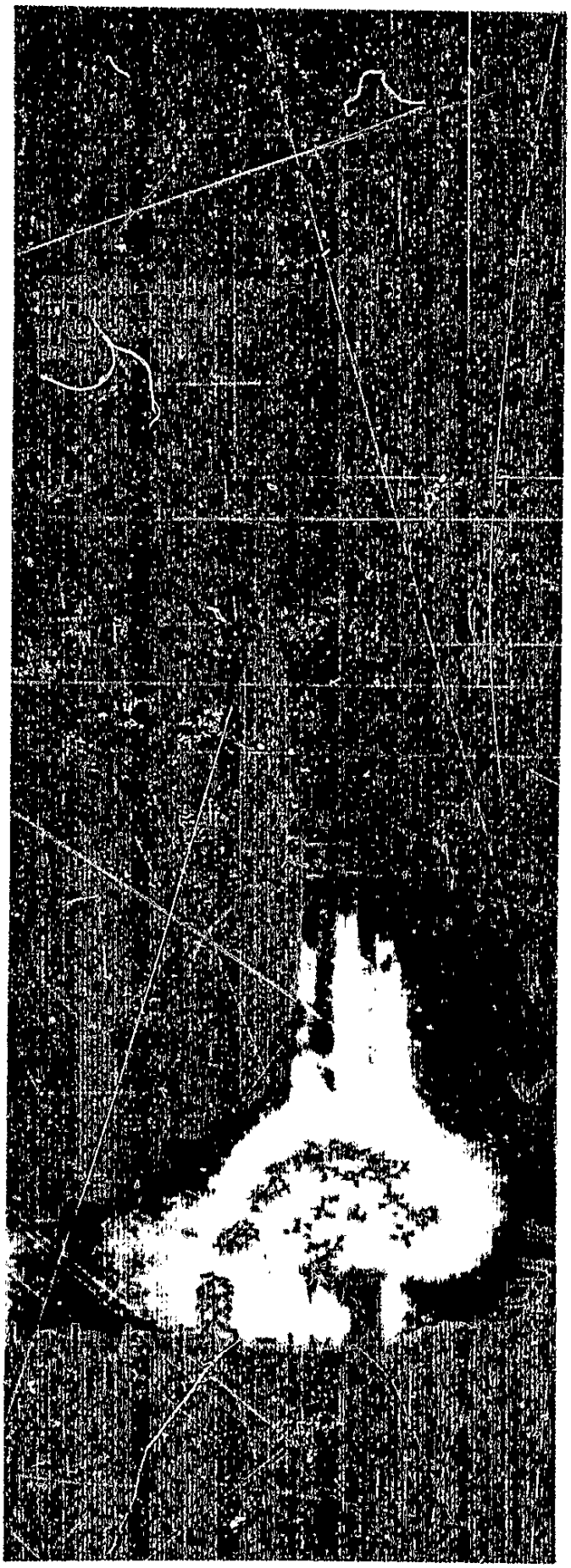
During 1985, our space activities achieved exceptional public prominence as the result of the great interest in Halley's Comet and consequently in the **Giotto** spacecraft, for which we were the prime contractor. Launched on 2nd July, 1985, Giotto successfully intercepted the Comet on 14th March, 1986 and has relayed to earth data of immense scientific value.

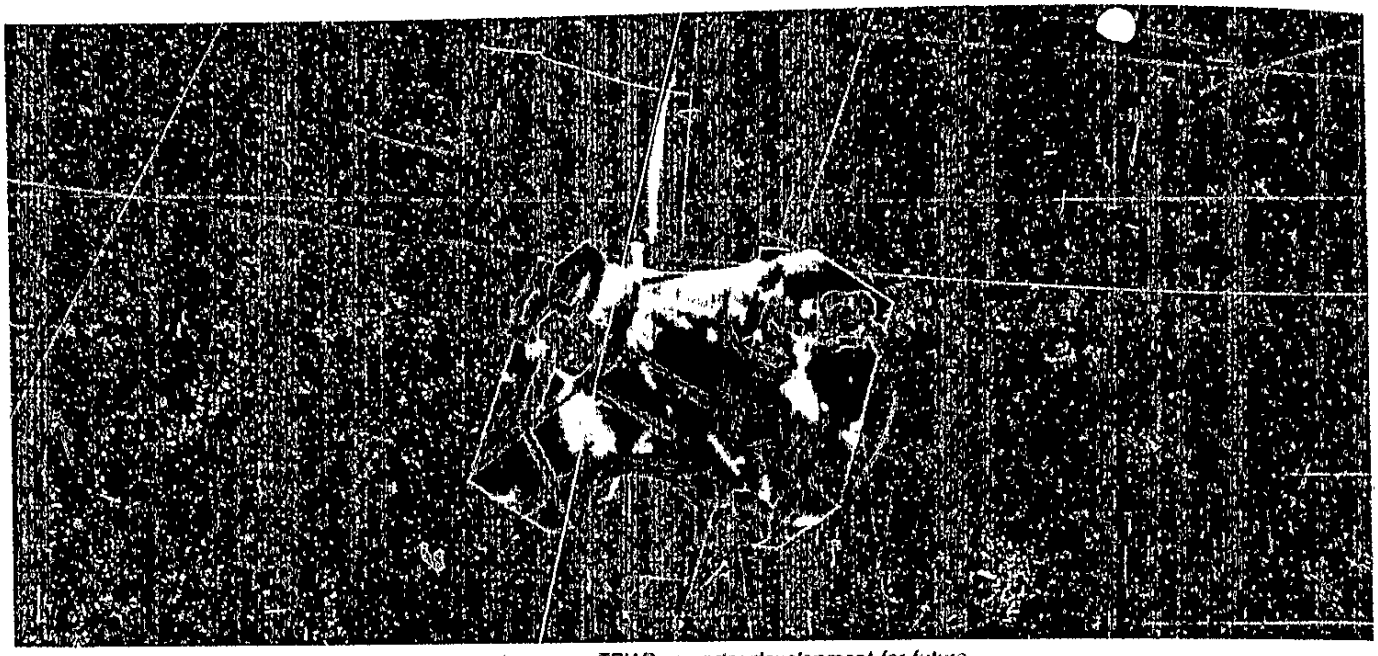
In the course of the year, British Aerospace, as prime contractor, received orders for four new communications satellites. The International Maritime Satellite Organisation signed contracts for three **Inmarsat-2** second generation satellites to relay telecommunications traffic between shore stations and ships at sea. In addition, the UK Ministry of Defence confirmed its requirement for a third **Skynet 4** military communications satellite designed and built by us.

Another technologically challenging project was completed with the supply of the photon detector assembly and roll out solar arrays for the Hubble Space Telescope, which will open up a new era of astronomical observation when it is placed in orbit. Galaxies and stars never before seen by man will be revealed by this Space Telescope, to which we have made vitally important contributions.

For the future, we are continuing studies to determine the most effective designs for two new projects which we ourselves have proposed: Hotol and the Space Platform. **Hotol** is a reusable spaceplane, capable of taking off horizontally from, and returning to, a conventional runway. It will be able to launch satellites into low-earth orbit. The **Space Platform** is one of four major projects forming the European Columbus programme. It is an unmanned, free flying vehicle designed to operate in conjunction with the US Manned Space Station which is scheduled to enter service in the late 1990s.

Today's developments will provide a sound base for future profitable business.





This revolutionary design for a three axis laser gyro known as TRIAD is under development for future aircraft and missile applications

Leaders in precision gyros

Complementing our major aircraft, missile and space programmes is a wide range of activities in different fields of advanced electronics and high technology systems, some directly related to aerospace products and others applying our technological capabilities to other markets.

British Aerospace is a recognised European leader in the design and manufacture of precision gyroscopes and gyro-based instruments. Our dominant position in this sector of the UK industry was confirmed in 1985 by the conclusion of agreements to develop laser gyro navigation systems for high speed, highly manoeuvrable military aircraft and for the Anglo-Italian EH101 helicopter—the first helicopter in the world to have such a system as standard equipment.

We are also working with Teldix of Germany to bid for laser gyro inertial navigation system business arising from major European projects such as the European Fighter Aircraft and we are continuing research into the related product field of fibre optic gyros.

Several successes were achieved with our extensive range of mechanical gyroscopes. A rapid start gyro was chosen for the US Navy's Skipper II missile, our **Microflex gyro** was selected for the MLRS III (Multiple Launch Rocket System) anti tank weapon evaluation programme and a contract was received for development of the strapdown inertial measuring unit for the Vertical Launch Seawolf missile.

British Aerospace's gyro expertise has also been further developed in the fields of stabilised surveillance equipment and sighting systems.

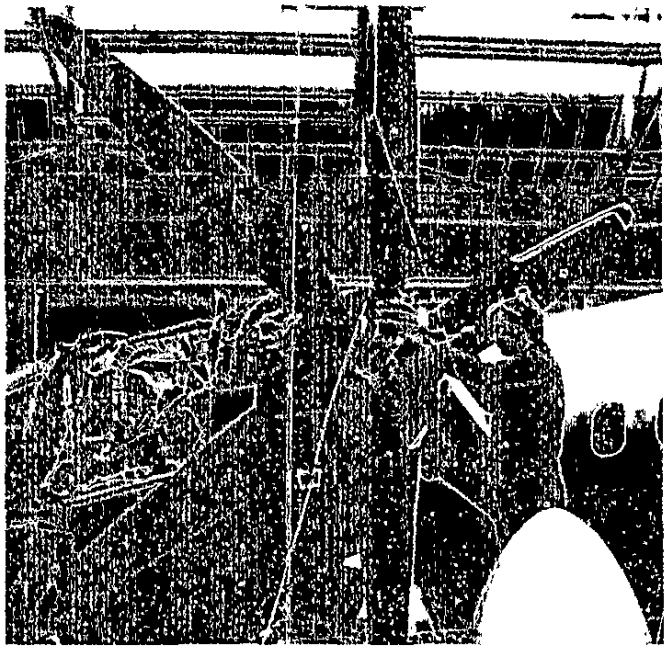
Other high technology products

The extent of our technological capabilities and experience is evident in the very wide diversity of other products which we have developed and are manufacturing and marketing.

For instance, in 1985 a very successful series of flight trials was completed with an advanced air navigation system, **Terprom** (Terrain Profile Matching). These were carried out with F-16s in the USA and with Tornados in the UK.

Flight trials were also begun for an advanced airborne infra-red reconnaissance system required by the RAF for its Tornado aircraft. This system embodies a sideways looking infra-red sensor and a miniature high resolution **Linescan 4000** surveillance system. We have granted Hughes Aircraft a licence for US manufacture of our Linescan 2000 and 4000 systems.

In association with Hamilton Standard we are producing the new technology, low noise, six-bladed high efficiency propellers and control units for our own ATP airliner. Endurance testing of this propeller was completed in [illegible]



Six bladed advanced technology propeller developed for the ATP airliner

Another area of activity is the production of "hardened" computers dedicated to specific military tasks. For example, we are supplying the Swiss Army with BC81 computers for their Fargo field artillery fire control systems. We are also producing Air Defence Command Post Processor systems for the British Army for its Towed Rapier missile units.

A contract has been obtained to supply **GSA8/GPEOD** gunfire control systems for the Royal Navy's Type 22 and 23 frigates. This new digital system is being offered to other navies as the **Sea Archer 30** system.

Amongst our other naval systems under development is a new high performance Active Towed Array Sonar (**ATAS**), suitable for small ships, designed to detect submarines at long range. We are also confident that overseas orders will shortly be received for our Versatile Exercise Mine Systems (**VEMS**) and air-launched depth charges.

We have secured a contract to produce shipborne message handling systems for the Royal Navy.

Research, development and manufacturing technology

In order to ensure the future worldwide success of British Aerospace products at sea, on land, in the air and in space, the Company is continuing a substantial investment in research, development and manufacturing technology and the wide range of scientific and engineering skills involved.

During 1985, new advanced engineering, acoustic, environmental and missile combat simulation facilities have been commissioned and many existing facilities have been updated. Computer integrated systems continue to be developed, further enhancing operational links between engineering, finance and marketing for increased effectiveness.

Recent manufacturing developments include the start of work on the Airbus A320 wing assembly centre and the availability of a laser gyro production unit. Advanced manufacturing technology continues to be developed and further automated manufacturing facilities have been installed.

Parallel arrangements to co-operate with educational institutions in the study of robotics for production engineering applications have also been established.

We are continuing the development of applications of new materials such as high strength aluminium-lithium alloys and advanced composites and have also extended the range of production applications for superplastic forming and diffusion bonding.

Whilst a high proportion of the British Aerospace research and development effort concerns advanced aircraft, missiles and a variety of military equipment, there is a spin-off into less spectacular but nevertheless important technologies. For example, we have developed an excellent cargo examination system to help prevent the entry of contraband material and to assist in the fight against terrorism. We are also becoming increasingly involved in wind energy programmes.

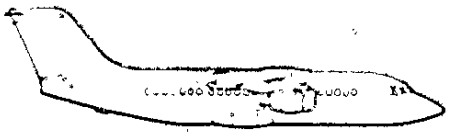
British Aerospace continues to pursue collaborative research, development and manufacturing technology agreements with firms worldwide.

As we face the challenging prospects for the 21st century, we can be confident that our present programmes and our research for the future will keep British Aerospace in the forefront of the world's high technology markets and well placed to continue our success.

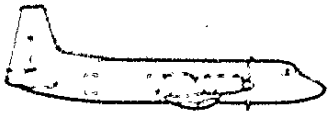
Major Products & Programmes

Civil aircraft

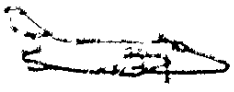
Airbus A300/A310
Wide-bodied, twin-engined, turbofan short/medium haul airliners offering 220-345 seats (A300) and 190-252 seats (A310). Both incorporate advanced wing technology to give weight saving and improved fuel economy. Several developments, including A300-600 and longer range A310-300 version, are being delivered. Orders received to end 1985 for 275 A300s and 117 A310s.



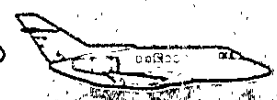
BAe 146-100/200
Designed as a quiet, fuel efficient, turbofan regional airliner, built in two versions offering 80-100 seats. Freighter version in production and stretched BAe 146-300 version seating typically 120 passengers being studied. To end 1985, 65 aircraft ordered, 41 by US operators.



BAe 748 Series
Twin turboprop transport seating 44-50 passengers. Latest Super 748 version offers lower noise levels and improved operating economics. Orders to end 1985 total 386 aircraft for 82 operators in 51 countries.

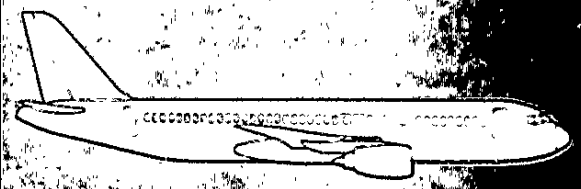


Jetstream 31
Twin turboprop light transport available as 15/19 seat commuter, 12 seat executive shuttle or 8-10 seat corporate aircraft. All models feature 6ft internal diameter pressurised cabin with stand-up headroom. To end 1985 117 aircraft ordered by 19 operators in USA, UK, Europe and Australia.

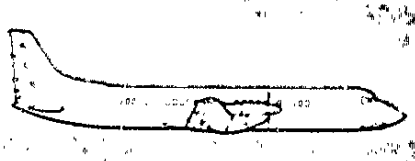


BAe 125 Series
Fast, economical 6-10 seat business jet. Over 80 per cent of sales exported, mainly to North America. Latest series 800 offers major improvements in design and performance. To end 1985 624 BAe 125 aircraft ordered in 37 countries, including some 350 in highly competitive North American market.

Major development programmes



Airbus A320
New generation, twin turbofan, single aisle, 150-180 seat airliner to complement existing Airbus family of short/medium haul aircraft. Due to fly in 1987 and enter airline service in 1988. Already, by end 1985, orders received for 70 aircraft and options and letters of intent for 167.



ATP
New generation, twin turboprop, 64-72 seat airliner which includes, among its major improvements, six-bladed advanced design propellers. First flight scheduled for summer 1986, with entry into airline service in 1987. Launch orders received late 1985 for 4 aircraft.

Major support programmes

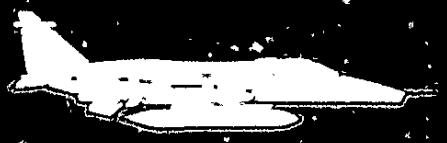
Concorde supersonic airliner

BAC One-Eleven jet airliner

Trident jet airliner

Tornado
Variable-geometry combat aircraft built jointly by British Aerospace, Messerschmitt-Bölkow-Blohm and Aeritalia through Panavia. Two versions: Interdictor Strike (IDS) and Air Defence Variant (ADV). In service in Germany, Italy and UK, to be delivered to Saudi Arabia and Oman. Orders and requirements for 889 aircraft to end 1985.

Harrier
GR.Mk. 5, all-proven VSTOL (Vertical/Short Take Off and Landing) aircraft. In service with RAF, US Marine Corps and Spanish Navy and maritime version, Sea Harrier, with Royal Navy and Indian Navy. Latest advanced version, Harrier II, being produced jointly with McDonnell Douglas for US Marine Corps as AV-8B and for RAF as GR5. Deliveries and requirements for Harrier family total over 700 to end 1985.



Jaguar
Tactical support fighter built jointly with Dassault-Breguet. In service with six Air Forces, including RAF and French Air Force. Updated Jaguar International in service with Oman, Ecuador, Nigeria and India. Purchase agreement with India includes licensed production.

Nimrod
MR.Mk.2 maritime reconnaissance version in service with RAF to monitor surface and submarine movements. Airborne early warning version (AEW Mk. 3) being developed.

Defence support programmes

Royal Small Arms Factory supplied with range of ammunition and associated services, involving over 2,000 British Aerospace employees.
Integrated air defence system, based on Jaguar, installed for Omani Air Force.

Hawk
Transonic jet trainer/ground attack aircraft in service with RAF and several overseas air forces. Some RAF Hawks fulfil air-defence role. Hawks also equip famous RAF aerobatic team, the Red Arrows. T-45A Goshawk version being developed with McDonnell Douglas for US Navy training system. Hawk 200, single-seat, fighter-type version, scheduled to make maiden flight summer, 1986. Deliveries and requirements for Hawk family total over 600 to end 1985.

Major development programmes

New Fighter Aircraft
Experimental Aircraft Programme (EAP) part-funded by UK Government. Launched 1983 to investigate technologies applicable to future fighter projects. Outcome has been single-seat, delta-canard research aircraft, powered by two RB.199 turbofans from Rolls-Royce. First flight scheduled for summer, 1986. Will make major contribution to recently announced European Fighter Aircraft (EFA) involving UK, Germany, Italy and Spain, for entry into service mid-1990s.

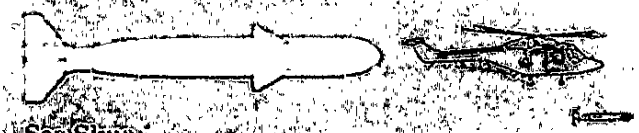
Major support programmes

Buyer-furnished equipment
Building primary structure
Complete aircraft
Hunter ground-attack aircraft
Jet Provost basic trainer
Lightning interceptor fighter
PC-9 turboprop basic trainer
Short-distance take-off and warning aircraft
Strikemaster light strike aircraft
VC10 tanker
Weapons and refuelling equipment

Guided weapons

Air weapon systems

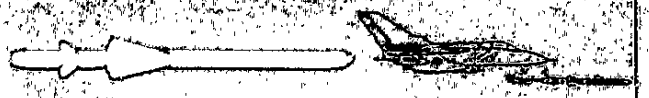
Sky Flash
Medium range air-to-air weapon, in operational service on RAF Phantoms and Tornado ADVs. Also in service with Swedish Air Force on SAAB Viggen JA37.



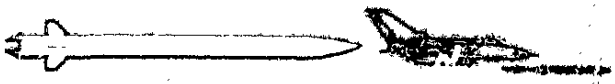
Sea Skua
Helicopter-launched anti-ship weapon. Combat proven on Royal Navy Lynx helicopters. Selected for three overseas navies.

Sea Eagle
Long range air-launched, sea skimming, anti-ship weapon. Entering service on RAF Buccaneer and Royal Navy Sea Harrier aircraft and may later be fitted to Tornado. Helicopter-launched version ordered by Indian Navy for Sea King helicopters. Ship-launched version available.

Major development programmes



ALARM
Air-launched, anti-radar missile to be carried by strike and close support aircraft for attacking enemy radars, especially those associated with anti-aircraft weapon installations.



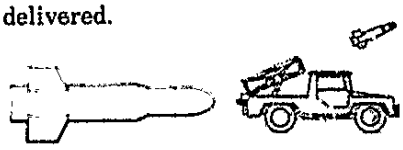
ASRAAM
Advanced short range, air-to-air missile capable of attacking targets from any direction. Being developed jointly with Bodenseewerk Geratetechnik for NATO.

Joint manufacturing programme

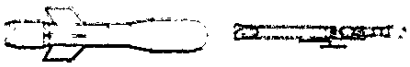
Participation in European project manufacturing AIM-9L Sidewinder air-to-air weapon.

Army weapon systems

Rapier
Ground-launched, low level, anti-aircraft weapon system deployed all over the world. Two versions in service, Towed Rapier and Tracked Rapier, with day and night, all weather capability. Some 20,000 missiles delivered.



Swingfire
Long range, ground-launched, anti-tank weapon capable of being fired from variety of platforms, including tracked Striker vehicle. More than 45,000 missiles produced. In service with British, Belgian and Egyptian Armies.



Milan
Man-portable, anti-tank missile being built for British Army under licence from Euromissile. With command to line-of-sight guidance, can penetrate advanced armour plating.

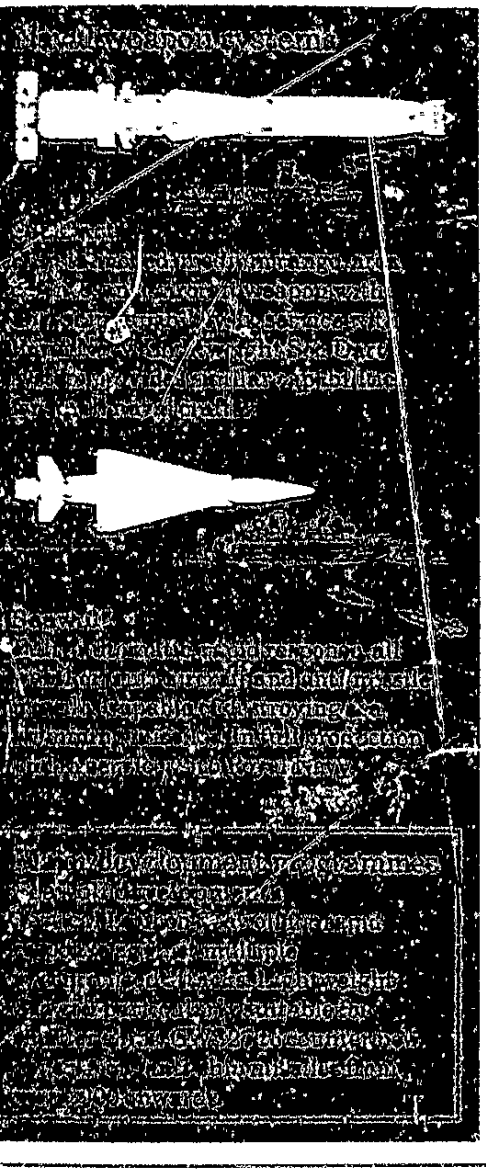
Major development programmes

Trigat
Third generation, anti-tank missile systems, being developed under EMDG programme. Three systems: short/medium range ground-launched, long range vehicle-launched and long range air-launched.

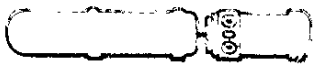
Rapier Laserfire
Low cost, fully automatic, local area, anti-aircraft weapon system.

Merlin
Terminally-guided, fire-and-forget, 81mm, anti-armour mortar bomb being developed for infantry.

Thunderbolt
Low cost, man-portable, close range, anti-aircraft missile.



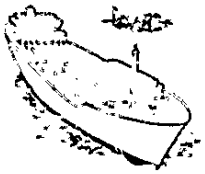
Mines and mine countermeasures
Naval ground mines, exercise mines, acoustic mine sweeping systems, computer-based mine clearance, tactical planning, acoustic ranges and associated equipment.



Versatile Exercise Mine System (VEMS)
Provides realistic training and evaluation of mine warfare

Weapon control systems
Naval interceptor surveillance and weapon control systems, Sea Archer and Sapphire gunfire control systems and shipborne missile launch computers for coastguard and offshore patrol vessels, logistics craft and fast patrol boats. Artillery fire control computers.

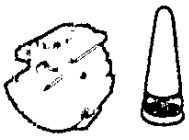
Weapon systems components
Aerodynamic and thrust vector control actuators, navigation and power supply systems for missiles and torpedoes.



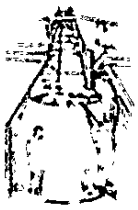
Shipborne Containerised Air Defence Systems (SCADS)
Concept for rapid conversion of merchant ships for defence applications.

Precision products, naval and aircraft navigation systems
Gyroscopes, gyro-based systems and high-precision electro-mechanical instruments. Ships' Inertial Navigation Systems (SINS). Vertical references. Aircraft laser-based inertial navigation systems, gyro compasses and attitude indicators. Flight data recorders. Stabilised sights. Electro-optical systems.

Communication systems
Electronic warfare equipment, message switching systems and disc memories. Vehicle, satellite and aircraft antennae.



Infra-red equipment
Includes missile infra-red guidance systems, fuzes and airborne surveillance equipment such as Linescan.



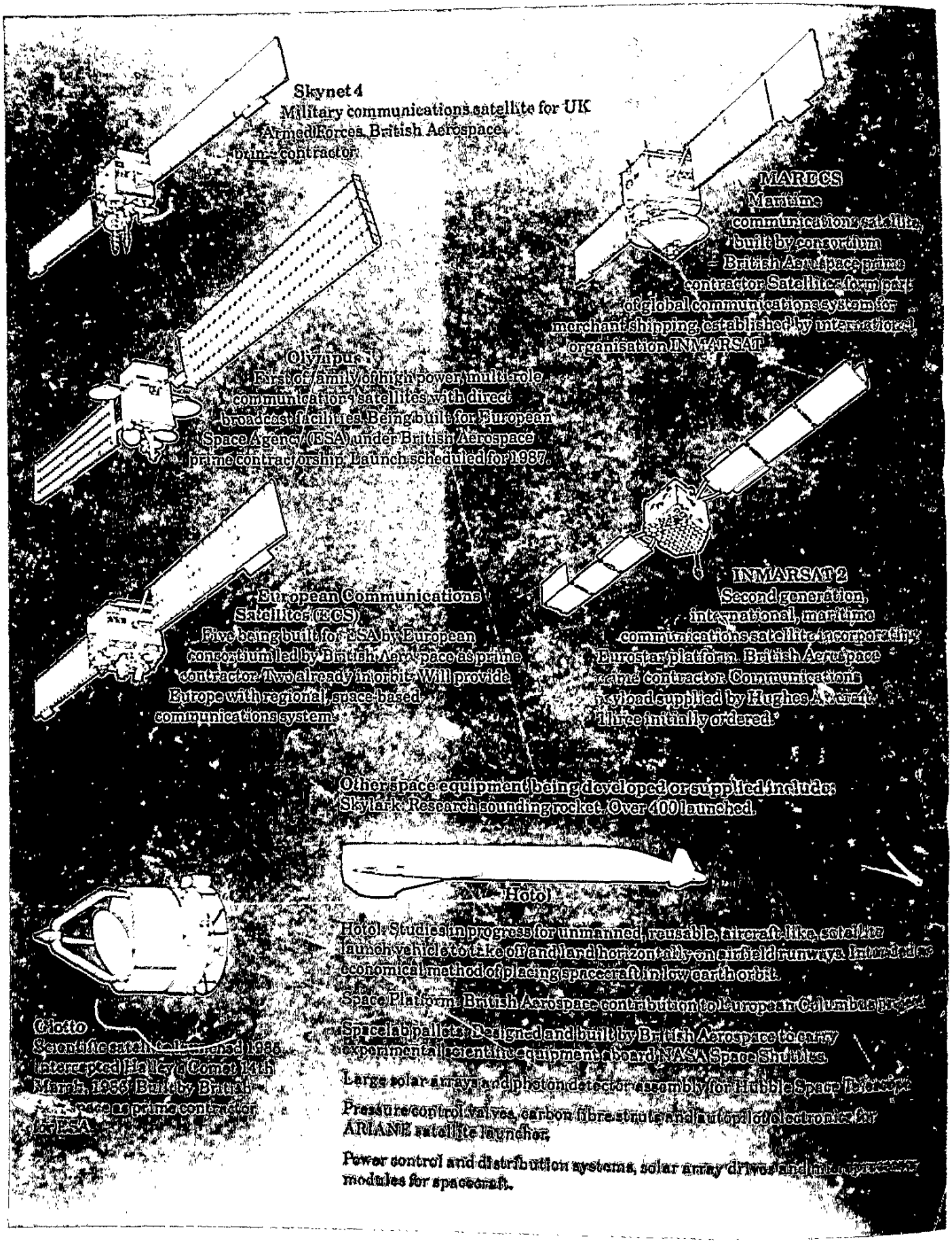
Microwave equipment
Components including aircraft, ship and missile radomes, antennae and Luneberg lenses. Technology covers conventional and hybrid composites, ceramics, infra-red transparencies and engineering thermoplastics.

Cargo examination system
Anti-smuggling system to enable containers, vehicles and airfreight to be examined for contraband by use of X-rays and gas spectrographic analysis without being unloaded.

Air conditioning systems
Air conditioning systems and equipment for vehicles and aircraft

Advanced propellers
Large propellers developed and produced for aircraft, hovercraft and wind energy applications, including the new six bladed propeller for British Aerospace's Advanced Turboprop (ATP) airliner

Communications satellites & space technology



Tracked Rapier missile

British Aerospace Public Limited Company

Board of Directors

Sir Austin Pearce, C.B.E.†

Chairman
A Director since 1977, Chairman since 1980. Formerly Chairman and Chief Executive of Esso Petroleum Company. A Director of Pearl Assurance, Jaguar Cars and a Vice Chairman of The Royal Bank of Scotland. Pro-Chancellor of the University of Surrey.

Sir Raymond Lygo, K.C.B.

Chief Executive
A Director since 1980. Formerly Vice Chief of Naval Staff. Joined British Aerospace in 1978, became Chief Executive of the Dynamics Group in 1980, Managing Director of the Company in 1983 and Chief Executive in 1985.

K. M. Bevins, C.B.E., T.D.*

Non-executive Director
A Director since 1980. HM Government appointed Director since 1981. A Director and former Chief General Manager of Royal Insurance Company.

Sir Kenneth Durham†

Non-executive Director
A Director since 1980. Chairman of Unilever, a Director of Delta Group, Woolworth Holdings and Morgan Grenfell Holdings and a Governor of the London Business School.

B. E. Friend, C.B.E.*

Director of Finance
A Director since 1977. Formerly Chairman and Managing Director of Esso Chemical UK. A Director of The Iron Trades Employers Insurance Association and Iron Trades Mutual Insurance Company.

D. O. Gladwin, C.B.E.†

Non-executive Director
A Director since 1977. Regional Secretary (Southern) of the General Municipal Boilermakers & Allied Trades Union and a Board member of the Post Office.

J. L. Glasscock

Commercial Director
A Director since 1982. Joined British Aerospace in 1953, became General Manager of Hawker Siddeley Aviation. Appointed Deputy Chief Executive of the Aircraft Group in 1982 and Commercial Director of the Company on 1st January, 1986.

H. A. Hitchcock, D.F.C.*

Non-executive Director
A Director since 1980. Formerly a Director and Deputy Chief Executive (International Business) of National Westminster Bank. A member of the London Board of the Bank of New Zealand. Involved in international shipping business.

H. Metcalfe, O.B.E.

Deputy Chief Executive (Operations)
A Director since 1982. Joined British Aerospace in 1951, became Divisional Managing Director of Bristol and Hatfield Divisions. Appointed Chief Executive of the Dynamics Group in 1982 and a Deputy Chief Executive of the Company on 1st January, 1986.

Sir Jack Wellings, C.B.E.†

Non-executive Director
A Director since 1980. Chairman of the 600 Group since 1966 and previously closely associated with the aircraft industry.

I. R. Yates, C.B.E.

Deputy Chief Executive (Engineering)
A Director since 1982. Joined British Aerospace in 1950, became Divisional Managing Director, Warton. Appointed Chief Executive of the Aircraft Group in 1982 and a Deputy Chief Executive of the Company on 1st January, 1986.

*Member of the Audit Committee, †Member of the Compensation Committee

B. Cookson*
Secretary and Legal Adviser

J. D. Hanson
Treasurer

A. Smith
Company Comptroller

Peat, Marwick, Mitchell & Co.
Auditors

Hoare Govett Limited
Brokers

Registered Office
100 Pall Mall, London SW1Y 5HR
Registrar
Lloyds Bank PLC, Registrar's Department, Goring-by-Sea, Worthing, West Sussex BN2 6DA

Directors' Report

The Directors present their report, together with the accounts, for the year ended 31st December, 1985.

Capital structure

In January, 1985 the Government and the Company announced that they had agreed to make a combined offering of shares under which HM Government would sell the whole of its remaining shareholding in the Company and the Company would make an issue of new shares. Accordingly the authorised ordinary share capital was increased from £115,000,000 to £150,000,000 by a Special Resolution of the Company passed on 29th April, 1985 and at the same time the shareholders approved amendments to the Articles of Association of the Company to create and issue one special share of £1 to be held by HM Government in order to protect the provisions in the Articles of Association of the Company relating to UK control and the appointment of a Government Director.

On 1st May, 1985 a total of 146,852,746 ordinary shares of 50p each were offered for sale on behalf of HM Government and the Company at a price of 375p per share. The Offer comprised 96,852,746 ordinary shares, representing 48.43% of the Company's then issued ordinary share capital, offered for sale by HM Government, and 50,000,000 new ordinary shares issued by the Company. Existing ordinary shareholders were given preferential entitlements to acquire the new ordinary shares on the basis of one new ordinary share for every four existing ordinary shares held by them at the date of the Offer. In addition HM Government made available a limited number of the ordinary shares it was offering for sale for preferential allocation to employees of the Company.

At the year end the authorised share capital of the Company was £150,000,001 divided into 300,000,000 ordinary shares of 50p each and one special share of £1 of which 250,019,747 ordinary shares and the £1 special share were issued and fully paid; since 31st December, 1985 the exercise of options under the British Aerospace SAYE Share Option Scheme has increased the issued ordinary shares to 250,029,464 shares. At 31st December, 1985 the Trustees of the British Aerospace Employee Share Ownership Scheme held 1.3% of the issued ordinary share capital and the balance of 98.7% was held by some 136,500 public shareholders. Since the year end, the release of Employee Share Ownership Scheme Shares from trust has resulted in the issued ordinary share capital being held by some 139,000 shareholders at 25th March, 1986. The number of ordinary shares shown in the register of members at 31st December, 1985 as Foreign-held Shares pursuant to Article 40 of the Company's Articles of Association was 31,922,907 (12.77% of the issued ordinary share capital of the Company) and at 25th March, 1986 was 27,690,839 (11.08%). At 25th March, 1986 no person had notified the Company of an interest of 5% or more in the issued share capital of the Company.

The Directors are seeking the approval of shareholders at the Annual General Meeting to extend their authority, originally conferred in 1981 and extended in 1985 until this Annual General Meeting, to allot relevant securities (as defined in Section 80 of the Companies Act 1985) and, pursuant to that authority, to allot equity securities (as defined in Section 94 of the Act) as if the pre-emption rights contained in Section 89 of the Act did not apply.

Principal activities and business review

The principal activities of the Company and its subsidiaries are the design, development, production and sale of military and civil aircraft, guided weapon and space systems, electronics and related technologies and the provision of support services.

The Chairman's Statement and the Operating Review accompanying this report give a more detailed description of the Company's products and business activities during the year, important events affecting the Company since the end of the year and likely future developments and give an indication of its activities in the field of research and development.

Results and dividend

The profit after taxation attributable to shareholders is £127.0 million and, subject to approval of the proposed final dividend, is dealt with as shown in the consolidated profit and loss account on page 40 of the accounts. The Directors propose a final dividend of 10p per ordinary share which, with the interim dividend of 5.5p per ordinary share paid on 1st November, 1985,

makes a total dividend of 15.8p per ordinary share for the year. The final dividend, if approved, will be paid on 3rd June, 1986 to shareholders registered at the close of business on 18th April, 1986.

Fixed assets

Changes in fixed assets arising in the normal course of business are detailed in note 14 to the accounts on page 52. The Company's freehold and leasehold land and buildings were revalued at 31st December, 1984; the Directors do not consider there is any significant difference between the book value and market value of land and buildings at 31st December, 1985.

Charitable donations

During 1985 the Company made donations in the United Kingdom for charitable purposes amounting to £139,000 (1984 £111,000). No contributions were made for political purposes.

Directors

The names of the present Directors of the Company are listed on page 34.

On 30th April, 1985 Sir Kenneth Durham ceased to be a Government Director appointed under Article 72 of the Company's Articles of Association and was on the same day appointed a Director pursuant to Article 88; he was re-elected a Director at the fifth Annual General Meeting. The sole Government Director is now Mr. K. M. Bevins.

On 14th May, 1985, Mr. C. J. Wells ceased to be a Director, having retired from office at the fifth Annual General Meeting. On 31st August, 1985, Mr. T. G. Kent resigned from the Board and on 31st December, 1985, Mr. J. T. Stamper resigned from the Board, both on their retirement from service with the Company.

The Directors retiring by rotation at the sixth Annual General Meeting in accordance with Article 82 are Mr. D. O. Gladwin, Mr. H. Metcalfe and Mr. I. R. Yates, who, being eligible, will offer themselves for re-election.

The unexpired periods, from the date of this report, of service contracts with retiring executive Directors are:

Mr. H. Metcalfe	33 months
Mr. I. R. Yates	33 months

In accordance with their terms, these contracts will continue beyond these periods unless and until they are determined by either party giving to the other not less than twelve months' notice in writing but not so as to extend the contract beyond the Director's normal retirement date.

The beneficial, including family, interests in the share capital of the Company of the persons who were Directors during the year were as follows:

	At 31st December, 1985*		At 1st January, 1985	
	Ordinary shares of 50p each	Share options	Ordinary shares of 50p each	Share options
Sir Austin Pearce	2,341	112,384	1,473	1,950
Sir Raymond Lygo	4,916	85,787	3,063	1,950
K. M. Bevins	875	—	600	—
Sir Kenneth Durham	200	—	—	—
B. E. Friend	3,500	63,782	1,473	1,950
D. O. Gladwin	—	—	—	—
J. L. Glasscock	591	45,468	473	1,950
H. A. Hitchcock	5,000	—	5,000	—
T. G. Kent	473	1,950	473	1,950
H. Metcalfe	572	66,479	458	1,950
J. T. Stamper	473	1,950	473	1,950
Sir Jack Wellings	1,250	—	600	—
C. J. Wells	—	1,950	—	1,950
I. R. Yates	473	54,937	473	1,950

*or (where applicable) earlier date of retirement.

Share options were granted to certain executive Directors (a) on 1st July, 1985 under the British Aerospace SAYE Share Option Scheme for employees, exercisable at a subscription price of £3.80 per share on completion of the related five year SAYE contract and (b) on 5th July, 1985 under the British Aerospace Executive Share Option Scheme, exercisable at a subscription price of £3.85 per share normally between 1988 and 1995.

There have been no changes in the interests of persons presently Directors of the Company between 31st December, 1985 and 25th March, 1986. None of the Directors had any non-beneficial interest in the share capital of the Company during the year nor in the period from the year end to 25th March, 1986. The Board is not aware of any contract of significance (other than service contracts or as disclosed in note 7 to the accounts) in relation to the Company or its subsidiaries in which any Director has, or has had, a material interest.

Employment

Disabled persons — It is the policy of the Company to employ disabled persons whenever practicable in jobs suited to their individual circumstances and, as appropriate, to consider them for recruitment opportunities, career development, promotion and training. Special consideration is given to re-training those who become disabled whilst in the Company's employment. Two of the Company's sites won Manpower Services Commission "Fit for Work" Awards during 1985: this Award is made in recognition of "exemplary policies and practical achievements in the employment of disabled people".

Health and safety at work — The Company pays close attention to the health and safety of its employees, contractors and other persons on its premises with particular regard to the requirements of the Health and Safety at Work etc. Act 1974 and related legislation. Some 6,500 employees attended a total of 488 safety training seminars. Six of the Company's sites are in receipt of awards for meeting the high standards of safety performance set by the Engineering Employers Federation.

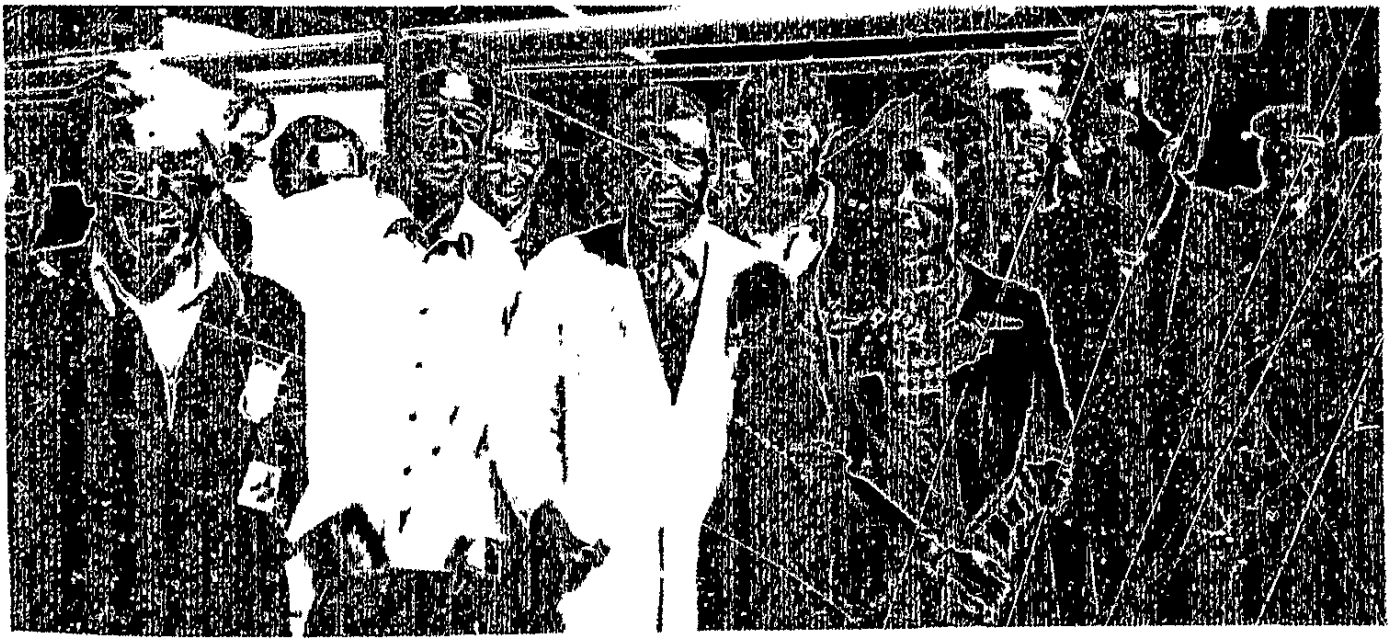
Equal opportunity — The Company is an equal opportunity employer. Its policy is accordingly to ensure that, subject only to considerations of national security, no job applicant or employee receives less favourable treatment on the grounds of sex, marital status, race, colour, nationality or ethnic or national origin. Selection criteria and procedures are reviewed periodically to ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities.

Employee involvement — The Company is committed to employee involvement, that is to say keeping employees as fully informed as possible with regard to the Company's performance and prospects and seeking their views, wherever practicable, on matters which particularly affect them as employees. Reflecting its origins and policy of devolving substantial autonomy to its operating units, the Company uses a wide variety of employee involvement systems. It believes strongly in developing these arrangements by evolution.

The most important systems of employee involvement in the Company are those operated locally. These are too varied and numerous to describe fully in this report, but typically include divisional councils, factory councils, briefing groups, video presentations, newspapers and news sheets, joint working parties, quality circles and their equivalents.

Corporate channels for consultation and communication include:

Chairman's annual communications meetings — presentations by and discussion with the Chairman on the Company's performance and prospects. In 1985 three presentations were made



to employees representing a cross-section of the Company's workforce; a video recording was subsequently made available to employees at all its sites.

Report to Employees — each year on publication of the accounts the Company newspaper includes a special "Report to Employees", incorporating a message from the Chairman and a review of the financial results. In 1985 the Company won the "Kilncraft Award" for the best report in the Accountancy Age/Industrial Society Employee Reports Competition.

Seminars at St. George's House — residential discussions at Windsor on the future of the Company started in 1981 for small representative groups of employees. Three seminars were held during 1985.

Share Ownership Schemes — employees holding shares or share options through participation in the Company's Share Ownership Schemes receive the full report and accounts and other information distributed to shareholders.

Training

During 1985 over £30 million was expended on training and education. The Company continued to provide a variety of technical, management and commercial training programmes. Preparatory work was completed with an international business school (INSEAD) for a new programme of training for senior managers. During the year there were 3,100 craft and technician apprentices, undergraduate and graduate trainees engaged in full time training.

Honours

The following employees were honoured in HM The Queen's 1985 Birthday and 1986 New Year Honours Lists: **CBE** *B. E. Friend, R. J. Parkhouse, F. E. Roe;* **MBE** *H. Abraham, E. Briggs, G. E. Errington, D. W. Morgan, D. L. Raffle, J. F. White;* **BEM** *F. Bond, A. L. Greaves, J. D. Lawrence, E. R. Webb, R. Whitby.*

Employee Share Ownership Schemes

At 31st December, 1985, the Trustees of the British Aerospace Employee Share Ownership Scheme held 3,244,000 shares on behalf of 45,079 participants in the Employee Share Ownership Scheme introduced at the time of the Offer for Sale in February, 1981. In accordance with the Finance Act 1985, the period for which Free Shares appropriated to Scheme participants had to be held in trust ended five years after the original allocation and on 19th February, 1986 these shares were transferred out of trust and registered in participants' names. No further appropriation of shares has been made under this Scheme.

Since the introduction of the British Aerospace SAYE Share Option Scheme in June 1983, offers of participation have been made annually to employees. A further offer of participation on 10th April, 1985 resulted in 1,901 employees being granted options over 1,046,905 shares at an option price of £3.80 per share, normally exercisable in 1990. As a result, at 31st December, 1985 options were held by 6,029 participants over 6,921,086 shares and at 25th March, 1986 by 5,982 participants over 6,869,147 shares. Further offers of participation can be expected in 1986 and future years.

Following approval of the British Aerospace Executive Share Option Scheme by shareholders at the Annual General Meeting on 14th May, 1985 and by the Inland Revenue, initial offers of participation in the Scheme were made on 12th June, 1985 to selected executives (including executive Directors). As a result, options were granted to 30 executives over 1,025,820 shares at an option price of £3.85 per share, normally exercisable between 1988 and 1995. The position was unchanged at 31st December, 1985 and at 25th March, 1986.

Close company status

The close company provisions of the Income and Corporation Taxes Act 1970 do not apply to the Company.

Auditors

The auditors of the Company, Messrs. Peat, Marwick, Mitchell & Co., have indicated their willingness to continue in office and a resolution proposing their re-appointment will be put to the Annual General Meeting of the Company.

By order of the Board
B. Cookson
Secretary

25th March, 1986

Auditors' Report

To the shareholders of British Aerospace Public Limited Company

We have audited the accounts on pages 40 to 61 in accordance with approved auditing standards.

In our opinion the accounts set out on pages 40 to 61, which have been prepared on the basis of the accounting policies set out in note 1 on pages 43 and 44, give a true and fair view of the state of affairs of the Company and of the Company and its subsidiaries at 31st December, 1985 and of the results and source and application of funds of the Company and its subsidiaries for the year to that date and comply with the Companies Act 1985.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

London
25th March, 1986

Consolidated Profit and Loss Account

for the year ended 31st December, 1985

	Note	1985 £m
Turnover	2	2,647.7
Cost of sales	3	(2,467.6)
Trading profit	2	180.1
Launching costs	4	(51.6)
Profit before interest		128.5
Share of profits of related companies		3.4
Net interest receivable	5	18.6
Profit before taxation		150.5
Taxation	8	(23.5)
Profit after taxation	9	127.0
Dividends	10	(39.5)
Retained profit	29	87.5
Earnings per share	11	56.4p

The notes on pages 43 to 61 form part of these accounts

Balance Sheets

at 31st December, 1985

	Note	Company and subsidiaries 1985 £m	Company and subsidiaries 1984 £m	Company 1985 £m	Company 1984 £m
Fixed assets					
Tangible assets	14	538.7	502.5	524.9	491.1
Investments	15	20.0	11.4	71.8	64.0
Current assets					
Stocks	17	1,090.3	1 076 7	1,050.4	1 027 2
Debtors	18	450.3	455 6	426.0	459.0
Investments	19	526.0	346 6	521.1	343.0
Cash at bank and in hand		116.3	56 9	115.1	55.0
		2,182.9	1 935 8	2,112.6	1,884.2
Current liabilities					
Loans and overdrafts	20	6.2	13 6	4.8	11.0
Creditors	21	1,043.4	944 1	1,018.4	920 3
Net current assets		1,133.3	978.1	1,089.4	952.9
Total assets less current liabilities		1,692.0	1 492 0	1,686.1	1,508.0
Liabilities falling due after one year					
Loans	20	265.1	308.3	241.8	304.2
Creditors	21	43.0	63.5	38.2	61.5
Provisions for liabilities and charges	24	197.7	201.6	196.7	196.7
		1,186.2	918.6	1,209.4	945.6
Capital and reserves					
Called up share capital	26	125.0	100 0	125.0	100.0
Share premium account	27	220.0	65 6	220.0	65.6
Statutory reserve	28	202.1	202 1	202.1	202 1
Revaluation reserve	29	101.8	97 6	101.8	97 6
Capital reserve	29	108.3	108 3	119.3	119 3
Profit and loss account	29	429.0	345 0	441.2	361.0
		1,186.2	918.6	1,209.4	945.6

Approved by the Board on 25th March, 1986

Sir Austin Pearce Chairman
B. E. Friend Director of Finance

The notes on pages 43 to 61 form part of these accounts

Consolidated Statement of Source and Application of Funds

for the year ended 31st December, 1985

	1985 £m	1984 £m
Source of funds		
Profit before taxation	150.5	120.2
Adjustments for items not involving the movement of funds:		
Depreciation	56.2	54.2
Provisions	(3.9)	(27.5)
Other	(3.2)	(0.5)
Funds from operations	199.6	146.4
Proceeds from share issue	179.4	—
Total source of funds	379.0	146.4
Application of funds		
Net additions to fixed assets	98.8	76.3
Taxation paid	16.9	8.2
Dividends paid	31.3	21.7
	147.0	106.2
Changes in working capital:		
Stocks—increase	13.6	106.8
Debtors—(decrease)/increase	(8.9)	65.8
Creditors—decrease/(increase)	16.5	(127.0)
Advances—(increase)	(78.6)	(73.0)
	(57.4)	(25.6)
Total application of funds	89.6	80.6
Movement in net liquid assets and loans	289.4	65.8

The notes on pages 43 to 61 form part of these accounts

Notes on the Accounts

Accounting policies

Basis of preparation

The accounts are drawn up under the historical cost convention as modified by the revaluation of land and buildings

Basis of consolidation

The consolidated accounts of the Company incorporate the accounts of the Company and its subsidiary and related companies, all of which were made up to 31st December.

Trading profit

Trading profit is recognised at the time of sale; in the case of contracts with extended delivery programmes, it is arrived at by reference to the estimated overall profitability of the contract. Full provision is made for any losses in the year in which they are first foreseen

Depreciation

Depreciation is provided on a straight line basis on the cost or valuation of all tangible fixed assets, except freehold land and assets in the course of construction.

Buildings are written off over 25 years or, if leasehold and the term of the lease is shorter than 25 years, such shorter term. Buildings erected specifically and exclusively for a research or production programme are written off over the expected life of the programme. Plant, machinery, fixtures, fittings and equipment are generally written off over eight years.

Research and development

Expenditure on research and development, other than that on buildings or specifically recoverable under contract, is written off as incurred and charged in arriving at trading profit.

Launching costs

The costs of launching a new civil aircraft project fall into three principal categories: design and development, jigs and tools, and education.

Design and development expenditure arises mainly in the early years of a project and, with the exception of the A320 programme, is written off as incurred under the heading of launching costs in the profit and loss account. Initial launching costs on the A320 programme are covered by HM Government launch aid and, as a result, the design and development expenditure is carried forward and will be amortised, based on an appropriate assessment of sales, when deliveries commence

Expenditure on jigs and tools is normally incurred only after the decision to manufacture has been taken

Education costs arise early in the production cycle of a new aircraft when project skills and expertise are being acquired and unit costs are therefore relatively high They comprise the excess of such unit production costs over the level of unit costs anticipated at a more advanced stage of the production programme

Expenditure on jigs, tools and education is carried forward in stocks for amortisation in respect of each project by reference to an appropriate assessment of sales (the 'pool'), subject to the status of the project and the overriding concept of financial prudence The amortisation of jigs, tools and education is charged in arriving at trading profit

Accounting policies (continued)

Taxation
Provision for deferred taxation is made where a liability is likely to arise in the foreseeable future

Stocks
Stocks are valued at the lower of cost (including all relevant overhead expenditure) and net realisable value, less progress payments and HM Government launch aid.

Stocks include launching costs carried forward and the Company's interest in Airbus Industrie.

Exchange rates
Transactions in overseas currencies are converted into sterling at the rates then ruling and assets and liabilities at the balance sheet date are translated into sterling at the rates ruling at that date. The resulting gains and losses are dealt with in the profit and loss account except where they relate to borrowings made to hedge future overseas currency revenues, in which case they are credited or charged to the relevant contract or project, and carried forward until realised.

Differences on translation of the opening net assets of overseas subsidiaries at the rates ruling at the balance sheet date are taken direct to reserves. The sales and profits of overseas subsidiaries are translated at the rates ruling at the balance sheet date.

Airbus Industrie
As a member of Airbus Industrie, British Aerospace participates in the Airbus A300, A310 and A320 civil aircraft programmes. The Company is responsible for the overall design of the wings, production of wing boxes and the purchase of certain components from other UK manufacturers.

The Company also shares in the overall results of Airbus Industrie. Profits and losses are shared in proportion to members' interests except that, until the accumulated losses incurred since the first production phase of the A300 programme have been fully recovered by profits, each member's participation in profits is calculated in proportion to the accumulated losses that it has borne.

Since the Company's participation in Airbus Industrie relates to particular Airbus production programmes which are effectively carried out on a joint venture basis, profits or losses on the British Aerospace work are consolidated with the Company's share in the overall results of Airbus Industrie in assessing both the trading profits and the realisable value of work undertaken by the Company for Airbus Industrie. Outstanding amounts relating to the participation are carried forward in stocks.

Turnover and trading profit

Turnover represents the net value of deliveries made, work completed or services rendered during the year and includes adjustments arising from the use of estimated prices in previous years

Exports include sales to overseas related companies under collaborative contracts, some of which relate to work on products delivered to the United Kingdom

	1985			1984		
	UK £m	Export £m	Total £m	UK £m	Export £m	Total £m
Civil aircraft	47.9	602.3	650.2	72.5	500.0	572.0
Military aircraft and support services	329.6	615.6	945.2	298.5	656.6	955.1
Guided weapon and electronic systems	603.7	319.2	922.9	504.0	287.3	791.3
Space	43.2	86.2	129.4	29.6	79.9	109.5
	1,024.4	1,623.3	2,647.7	904.1	1,563.8	2,467.9

The geographical distribution of exports was as follows

	1985 £m	1984 £m
Europe	730.4	657.6
Africa	112.2	190.6
Middle East	187.6	209.4
Far East	49.5	93.8
Australasia and Pacific	40.5	24.1
USA and Canada	478.9	365.5
Central and South America	24.2	22.8
	1,623.3	1,563.8

The trading profit was made up as follows

	1985 £m	1984 £m
Civil aircraft	(4.9)	2.1
Military aircraft and support services	136.4	118.3
Guided weapon and electronic systems	111.6	104.9
Space	(2.2)	(15.2)
Company funded research and development	(54.9)	(45.3)
Reorganisation costs	(5.6)	--
Trading profit	180.1	166.2

Cost of sales

	1985 £m	[illegible]
Cost of sales is made up as follows		
Expenses		
Raw materials and consumables	138.9	[illegible]
Purchases of bought out equipment, components and other external charges	1,563.0	[illegible]
Staff costs (note 6)	908.5	845 3
Depreciation	56.2	54 2
Other operating charges	70.7	89 5
	2,767.3	2 491 5
Less:		
Increase in stocks of finished goods and work in progress, after amortisation of jigs, tools and education	180.7	95 6
Own work capitalised	0.4	1 0
Other operating income	67.0	42 1
	2,519.2	2 352 8
Less:		
Design and development expenditure included above, charged to launching costs (note 4)	51.6	51 1
Cost of sales	2,467.6	2 301 7
Included within cost of sales are:		
Expenses:		
Operating lease charges:		
Plant and machinery	1.9	5.0
Other, including aircraft	24.1	14 4
Hire of plant and machinery, other than under operating leases	8.3	21 2
Company funded research and development	54.9	45 3
Auditors' remuneration	0 6	0 5
Income:		
Rental income from:		
Operating leases	20.0	7 2
Finance leases	2.5	0 9

Launching costs

	1985 £m	1984 £m
BAe 146	27.3	25 5
Airbus	6.9	14 0
BAe 125 800	1.5	4 9
ATP	15.9	6 7
	51.6	[illegible]

The amortisation of jigs, tools and education has been charged in arriving at cost of sales (note 3).

Net interest receivable

	1985	1984
	£m	£m
Interest receivable	33.7	25.9
Income from government securities	15.5	17.3
	49.2	43.2
Interest payable		
On bank overdrafts and loans repayable within 5 years	(2.9)	(2.3)
On other loans	(27.7)	(36.0)
	18.6	4.9

Employees

The average weekly number of employees, including executive Directors, during the year was made up as follows:

	Number of employees	
	1985	1984
Civil aircraft, military aircraft and support services	51,919	52,725
Guided weapon and electronic systems and space	22,588	22,208
Headquarters and subsidiaries	1,138	1,071
	75,645	75,904

The aggregate payroll costs of these employees and Directors were:

	1985	1984
	£m	£m
Wages and salaries	784.5	719.8
Social security costs	53.7	53.3
Other pension costs	70.3	72.2
	908.5	845.3

The emoluments, excluding pension contributions, of higher paid employees (other than Directors—see note 7) fell within the following ranges:

	Number of employees	
£ £	1985	1984
30,001 to 35,000	50	28
35,001 to 40,000	17	15
40,001 to 45,000	10	13
45,001 to 50,000	6	4
50,001 to 55,000	2	
55,001 to 60,000	2	
60,001 to 65,000	—	
65,001 to 70,000	1	

Directors

(a) Emoluments

The aggregate emoluments including pension contributions of the Directors amounted to £879,000 of which £35,000 was in respect of their service as Directors of the Company

The emoluments, excluding pension contributions of the Chairman, who was the highest paid Director, were £121,660

The emoluments excluding pension contributions, of the Chairman and Directors of the Company fell within the following ranges

		Number of Directors	
£	£	1985	1984
5,001 to	10,000	5	5
20,001 to	25,000	1	—
40,001 to	45,000	1	—
50,001 to	55,000	—	2
55,001 to	60,000	1	2
60,001 to	65,000	1	1
65,001 to	70,000	1	2
70,001 to	75,000	2	—
95,001 to	100,000	—	1
100,001 to	105,000	—	1
105,001 to	110,000	1	—
120,001 to	125,000	1	—

(b) Transactions

(1) During 1985, Sir Raymond Lygo continued to occupy a leasehold house in London purchased by the Company and him in 1983 to assist him to fulfil his duties as Chief Executive. As noted in previous accounts, the house is held by the Company and Sir Raymond on the terms of a trust deed dated 3rd March, 1983 whereunder Sir Raymond is entitled to occupy the house without payment of any rent due to the Company (but subject to the payment of the rent due to the freeholder and other normal outgoings) until three months after he ceases to be Chief Executive of the Company. On the termination of Sir Raymond's right of occupation, either the Company or Sir Raymond can require the house to be sold and the proceeds of sale to be shared between them in the proportions in which they contributed to the purchase price (the Company nine-tenths and Sir Raymond one-tenth).

The Companies Act requires accounts to state the 'value' of any such arrangement and provide that, if such value cannot be expressed as a specific sum of money, it is deemed to exceed £50,000. The Directors consider that Sir Raymond Lygo's right to occupy the property in accordance with the provisions of the Trust Deed cannot be expressed as a specific sum of money, however they believe that the real value of this right is much smaller than £50,000.

Directors (continued)

(2) As was noted in previous accounts under a Housing Loan Scheme operated by the Company, Mr H Metcalfe and Mr I R Yates have bank loans incurred in buying their respective houses Mr Metcalfe's loan is secured by a second mortgage on his house Mr Yates's loan is secured on his house and certain insurance policies Each loan bears interest at 5% per annum For the duration of each loan the Company maintains with the bank a deposit equal to the amount outstanding under the loan such deposit bears interest at 3¾% per annum and is available as additional security for the loan Mr Metcalfe's loan is repayable not later than 31st August, 1990 and Mr Yates's not later than 18th May, 1997 Mr Metcalfe and Mr Yates have each agreed to indemnify the Company against any liability it may incur to the bank by reason of their respective loans

The amounts of principal and accrued interest outstanding under these loans were as follows:

	At 31st December, 1985		At 1st January, 1985	
	Principal	Interest	Principal	Interest
	£	£	£	£
Mr Metcalfe	10,571	24	12,539	26
Mr Yates	45,000	99	45,000	92

The maximum amount of principal and accrued interest outstanding at any time during 1985 under each loan was as follows

	£
Mr Metcalfe	12,589
Mr. Yates	45,604

All interest which has become payable under the loans has been paid

(3) At 31st December, 1985 there was an aggregate balance of £159,357 outstanding on house purchase loans made to or arranged for four officers to assist with their relocation at the Company's request.

Taxation

	1985	1984
	£m	£m
UK corporation tax at 41.25%	40.0	—
Advance corporation tax	(22.9)	11.7
Deferred taxation	5.0	—
Related companies	1.7	0.5
Overseas taxation current	0.1	—
prior years' adjustment	(0.4)	—
	23.5	12.2

The taxation charge for the year has reflected the following

	1985	1984
	£m	£m
Stock relief	—	(0.6)
Accelerated capital allowances and other timing differences	15.6	4.7
Advance corporation tax utilised/(written off)	22.9	(11.7)
	38.5	4.4

Profit after taxation

A separate profit and loss account dealing with the results of the Company only has not been presented. Of the consolidated profit after taxation of £127.0 million [illegible] £125.3 million [illegible] has been dealt with in the accounts of the Company.

Dividends

	1985 £m	1984 £m
Interim paid 5.8p [illegible]	14.5	10.5
Final proposed 10p [illegible]	25.0	16.8
	39.5	27.3

Earnings per share

The earnings per share is calculated by reference to the profit after taxation and 225,181,473 ordinary shares [illegible] being the weighted average number of ordinary shares in issue during the year.
The earnings per share for 1984 has been restated to reflect the share issue in 1985.

Lease commitments

	Company and subsidiaries		Company	
	1985 £m	[illegible]	1985 £m	[illegible] £m
Commitments under finance leases falling due				
In one year or less	22.7		15.6	15.5
Between one and five years	44.5		41.6	[illegible]
In five years or more	13.6		13.6	[illegible]
Finance charges	(13.0)		(12.0)	[illegible]
	67.8		61.8	[illegible]

Lease commitments (continued)

	Company and subsidiaries		Company	
	1985 £m	1984 £m	1985 £m	1984 £m
Commitments under operating leases falling due:				
In one year or less	28.2	25.5	5.0	7.9
Between one and two years	25.8	21.7	2.7	4.2
Between two and three years	25.0	19.8	2.1	2.6
Between three and four years	24.4	19.2	1.4	2.0
Between four and five years	23.5	18.2	0.8	1.0
Later years	186.3	145.0	4.0	3.8
	313.2	259.4	16.0	21.5

The majority of the operating lease commitments shown above, together with certain finance lease commitments, relate to civil aircraft sold to lessors and leased back to the Company or its subsidiaries These commitments are broadly matched by income due under sub-leases of the aircraft to customers which range for periods from 5 to 12 years. The minimum future sub-lease rentals receivable after 31st December, 1985 are as follows:

	Company and subsidiaries	
	1985 £m	1984 £m
In one year or less	26.8	20.0
Between one and two years	26.4	20.0
Between two and three years	26.4	20.0
Between three and four years	25.3	20.0
Between four and five years	24.8	19.7
Later years	197.1	160.7
	325.8	260.4

Capital commitments

	Company and subsidiaries		Company	
	1985 £m	1984 £m	1985 £m	1984 £m
Capital expenditure not provided for in the accounts				
Firm orders	28.5	25.1	27.1	25.1
Approved but not ordered	14.1	12.6	13.2	12.2
	42.6	37.7	40.3	37.3

Fixed assets
tangible assets

	Land and buildings			Plant and machinery	Fixtures fittings and equipment	Assets in the course of construction	
	Freehold £m	Long leasehold £m	Short leasehold £m	£m	£m	£m	
Company and subsidiaries							
Cost or valuation							
At 1st January, 1985	300.0	8.7	2.8	235.6	71.0	20.4	638.5
Exchange adjustment	(0.1)	—	(0.1)	(0.7)	(4.2)	—	(5.1)
Reclassifications	4.6	—	—	8.6	0.8	(14.0)	—
Adjustment to valuation surplus	5.4	—	—	—	—	—	5.4
Additions	9.0	0.1	0.1	39.4	19.6	28.7	96.9
Disposals	(0.2)	—	—	(0.7)	(6.8)	—	(7.7)
At 31st December, 1985	318.7	8.8	2.8	282.2	80.4	30.1	723.0
Depreciation							
At 1st January, 1985	—	—	0.3	100.3	35.4	—	136.0
Exchange adjustment	—	—	(0.1)	(0.3)	(2.3)	—	(2.7)
Charge for the year	9.4	0.3	0.2	35.5	10.8	—	56.2
Disposals	—	—	—	(0.5)	(4.7)	—	(5.2)
At 31st December, 1985	9.4	0.3	0.4	135.0	39.2	—	184.3
Net book value							
At 31st December, 1985	309.3	8.5	2.4	147.2	41.2	30.1	538.7
At 31st December, 1984	300.0	8.7	2.5	135.3	[illegible]	20.4	[illegible]
Company							
Cost or valuation							
At 1st January, 1985	299.5	8.7	2.3	233.5	50.3	20.4	614.7
Reclassifications	4.6	—	—	8.6	0.8	(14.0)	—
Adjustment to valuation surplus	5.4	—	—	—	—	—	5.4
Additions	5.1	0.1	0.1	39.3	15.4	28.1	88.1
Disposals	(0.2)	—	—	(0.6)	(3.1)	—	(3.9)
At 31st December, 1985	314.4	8.8	2.4	280.8	63.4	29.5	699.3
Depreciation							
At 1st January, 1985	—	—	—	99.5	24.1	—	123.6
Charge for the year	9.4	0.3	0.1	35.4	8.7	—	53.9
Disposals	—	—	—	(0.5)	(2.6)	—	(3.1)
At 31st December 1985	9.4	0.3	0.1	134.4	30.2	—	174.4
Net book value							
At 31st December, 1985	305.0	8.5	2.3	146.4	33.2	29.5	524.9
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	20.4	[illegible]

Fixed assets –tangible assets (continued)

The UK land and buildings of the Company were valued at 31st December, 1984 on an open market basis, other tangible fixed assets, including subsequent additions to UK land and buildings, are included at cost

The historic cost of land and buildings is as follows

	Company and subsidiaries			Company		
	Freehold £m	Long leasehold £m	Short leasehold £m	Freehold £m	Long leasehold £m	Short leasehold £m
Cost	256.8	6.8	3.2	252.3	6.8	2.8
Depreciation	42.5	1.3	1.0	42.5	1.3	0.7
Net book value						
At 31st December, 1985	214.3	5.5	2.2	209.8	5.5	2.1
At 31st December 1984	206.0	5.4	2.2	205.5	5.4	2.1

Fixed assets –investments

The operating subsidiaries, all of which were owned directly by the Company, and the principal related companies are as follows:

	Issued share capital	Proportion held
Subsidiary companies		
British Aerospace (Insurance) Limited *Country of incorporation and operation: England.* Self insurance for certain risks of the Company.	£200,000	100%
British Aerospace (Insurance Brokers) Limited *Country of incorporation and operation: England.* Insurance broking service for Company and employees.	£100	100%
British Aerospace Australia Limited *Country of incorporation and operation: Australia.* Manufacturer of electronic systems.	A$4,000,000	100%
British Scandinavian Aviation AB *Country of incorporation and operation: Sweden.* Agency.	SKr 50,000	100%
British Aerospace (Holdings) Inc. *Country of incorporation and operation: United States of America.* Marketing and support activities.	US$4,700,000	100%
Related companies		
Société Européene de Production de l'Avion ECAT SA *Country of incorporation and operation: France* Co-ordinating the Jaguar programme	FF250,000	50%
Panavia Aircraft GmbH *Country of incorporation and operation: Federal Republic of Germany.* Managing the Tornado programme	DM20,000,000	42½%

Fixed assets –investments (continued)

	Company and subsidiaries			Company			
	Investments	Related companies	Total	Subsidiary companies	Investments	Related companies	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1st January, 1985	8 6	0.8	9 4	232.8	8.6	0.7	242.1
Exchange adjustment	(1 7)	—	(1.7)	(6.6)	(1 7)	—	(8.3)
Net additions	9 1	0.3	9 4	2 3	9 1	0.4	11.8
At 31st December, 1985	16 0	1 1	17.1	228.5	16.0	1.1	245.6
Retained profits							
Share of post acquisition reserves at 1st January, 1985		2.0	2.0				
Share of retained profits for the year		0.9	0.9				
		2.9	2.9				
Loans to subsidiaries							
At 1st January, 1985				8.8			8.8
At 31st December, 1985				13.1			13.1
Loans from subsidiaries							
At 1st January, 1985 and 31st December, 1985				(186.9)			(186.9)
Net book value							
At 31st December, 1985	16 0	4.0	20.0	54.7	16.0	1.1	71.8
At 31st December, 1984	8 6	2 8	11 4	54.7	8 8	0 7	64.2

Included in fixed assets – investments is the Company's interest in non-trading subsidiaries whose assets comprise loans to the Company totalling £186.9 million which have been offset against the cost of the Company's investment.

Groupements d'Intérêt Economique

At 31st December, 1985 the Company had interests in three Groupements d'Intérêt Economique ('GIEs') as follows:

Airbus Industrie	20%
Euromissile Dynamics Group	33⅓%
Satcom International	50%

A GIE is an organisation incorporated under French law with separate legal personality. It has certain similarities with a partnership formed under English law (see page 22 on page 58). The accounting policy relating to Airbus Industrie is set out in Note 1 on page 44

Stocks

	Company and subsidiaries		Company	
	1985	[illegible]	1985	1984
	£m	[illegible]	£m	£m
Raw materials and consumables	67.1	[illegible]	67.1	56.3
Work in progress	568.7	[illegible]	567.4	457.6
Airbus work in progress and participation	195.6	276.0	195.6	278.6
Finished goods and goods for resale	71.6	77.8	33.0	30.2
Payments on account to suppliers	4.6	5.0	4.6	5.6
	907.6	880.5	867.7	831.3
Unamortised launching costs:				
Design and development	69.8	16.4	69.8	16.4
Jigs and tools	105.6	78.3	105.6	78.3
Education	116.4	121.6	116.4	121.6
Less: launch aid receivable	(109.1)	(20.4)	(109.1)	(20.4)
	182.7	195.9	182.7	195.9
	1,090.3	1,076.7	1,050.4	1,027.2

Stocks are shown net of progress payments received amounting to £961.1 million (1984 £903.7 million) for the Company and its subsidiaries, and £954.6 million (1984 £898.7 million) for the Company only.

The balance on Airbus Industrie account is included above in accordance with the accounting policy set out in note 1 on page 44.

Unamortised launching costs, which relate to civil aircraft programmes with long production cycles, are expected to be realised over a number of years. In accordance with normal practice in the aerospace industry, jigs and tools are included within stocks.

HM Government has agreed to provide up to £250 million launch aid for British Aerospace's contribution to the A320 project. As part of these arrangements, British Aerospace has agreed to make to HM Government payments aggregating £50 million over the three years 1990 to 1992 and to pay levies on A320 sales, which are designed to recover HM Government's launch aid together with a return thereon. In accordance with the accounting policy set out in note 1 on pages 43 and 44, launching costs are being carried forward and will be amortised when deliveries commence. Stocks have been reduced by the launch aid carried forward. The payments to HM Government of £50 million referred to above, will be deducted from the launch aid carried forward; the levies will be deducted both from the launch aid carried forward and from profits as appropriate, when the relevant deliveries are made.

Debtors

	Company and subsidiaries		Company	
	1985 £m	1984 £m	1985 £m	1984 £m
Amounts falling due within one year				
Trade debtors	308.9	296.6	293.5	286.8
Amounts owed by subsidiaries	—	—	16.8	18.9
Amounts owed by related companies	0.2	—	0.2	—
Other debtors	40.3	76.0	37.8	73.8
Prepayments and accrued income	41.3	33.9	39.8	32.4
	390.7	406.5	388.1	410.9
Amounts falling due after more than one year				
Trade debtors	28.8	48.0	28.8	48.0
Other debtors	25.1	1.1	3.4	0.1
Advance corporation tax recoverable	5.7	—	5.7	—
	59.6	49.1	37.9	48.1
	450.3	455.6	426.0	459.0

Current assets —investments

	Company and subsidiaries		Company	
	1985 £m	1984 £m	1985 £m	1984 £m
Government securities				
Fixed interest	120.1	103.3	120.1	103.3
Index linked	23.2	21.5	23.2	21.5
Local authority bonds and mortgages	12.2	11.2	12.2	11.2
Other deposits	370.5	210.6	365.6	207.0
	526.0	346.6	521.1	343.0

Fixed interest Government securities are stated at cost — market value £121.3 million (1984 £ million). Index linked Government securities are stated at market value — cost 221.0 million (1984 £ million).

Loans and overdrafts

	Company and subsidiaries		Company	
	1985	1984	1985	1984
	£m	£m	£m	£m
Loans falling due within one year				
Bank loans and overdrafts	2.2	9.6	0.8	7.0
National Loans Fund	4.0	4.0	4.0	4.0
	6.2	13.6	4.8	11.0

The bank loans and overdrafts include £1.3 million (1984 £1.7 million) secured by charges on assets.

	Company and subsidiaries		Company	
	1985 £m	1984 £m	1985 £m	1984 £m
Loans falling due after one year				
National Loans Fund:				
9⅞% loan, final instalment 1987	0.9	2.7	0.9	2.7
15⅜% loan, final instalment 1990	7.7	9.9	7.7	9.9
14⅜% sterling bank loan, final instalment 1992	50.0	50.0	50.0	50.0
US dollar revolving bank loans (at variable interest rates)	183.2	241.6	183.2	241.6
Other bank loans (secured by a fixed charge)	23.3	4.1	—	—
	265.1	308.3	241.8	304.2

	Company and subsidiaries		Company	
	1985 £m	1984 £m	1985 £m	1984 £m
The above loans and overdrafts are repayable as follows:				
In one year or less	6.2	13.6	4.8	11.0
Between one and two years	4.6	4.4	3.1	4.0
Between two and five years	31.1	[illegible]	25.5	7.5
Later years	229.4	[illegible]	213.2	292.7
	271.3	321.9	246.6	315.2

In the case of loans drawn down under revolving credit facilities, the date of repayment shown above is the date of the expiry of the facility.

Creditors

	Company and subsidiaries		Company	
	1985	1984	1985	1984
	£m	£m	£m	£m
Creditors falling due within one year				
Advances	376.4	[illegible]	395.2	794.8
Trade creditors	412.2	[illegible]	397.7	[illegible]
Amounts owed to subsidiaries	—		5.4	[illegible]
Amounts owed to related companies	0.3	[illegible]	0.8	[illegible]
Corporation tax	28.9	[illegible]	28.7	[illegible]
Other taxes and social security costs	33.1	[illegible]	32.9	[illegible]
Dividend	25.0	[illegible]	25.0	[illegible]
Other creditors	66.2	[illegible]	64.3	[illegible]
Accruals and deferred income	102.3	[illegible]	68.9	[illegible]
	1,043.4	[illegible]	1,018.4	[illegible]

Creditors (continued)

	Company and subsidiaries		Company	
	1985	[illegible]	1985	[illegible]
	£m	[illegible]	£m	[illegible]
Creditors falling due after one year				
Advances	0.9	[illegible]	0.9	[illegible]
Trade creditors	35.0	[illegible]	35.0	37.0
Other creditors	0.5	[illegible]	0.5	20.5
Accruals and deferred income	6.6	[illegible]	1.8	2.1
	43.0	[illegible]	38.2	61.5

Advances represent deposits received and receivable in advance of work carried out and are deducted from work in progress as costs are incurred.

Contingent liabilities

Contingent liabilities of £10 million (1984 £11 million), relating to sales of civil aircraft, exist in respect of both guarantees and residual credit risk on supplier credit agreements entered into under Export Credits Guarantee Department arrangements.

The Company has, with other companies, given joint and several indemnities, with liability limited in the aggregate to some £22 million (1984 £21 million), in connection with certain overseas collaborative contracts; each party will indemnify the other where a liability arises due to its default.

As a member of Groupements d'Intérêt Economique ('GIEs') the Company is jointly and severally liable with the other members to third parties for the debts and obligations of those GIEs, subject to recourse amongst the members in accordance with the terms of the membership agreements.

In addition, contingent liabilities exist in respect of claims related to products, although in the opinion of the Board no material loss is likely to be incurred as a result of any of these claims.

Civil aircraft financing

With the exception of progress payments received in advance of delivery, the payment for civil aircraft is normally on delivery of the aircraft to the customer. However, orders for civil aircraft are frequently subject to the arrangement of finance (including lease finance) on extended terms, provided either by the manufacturer or by third parties (where the terms may involve recourse to the manufacturer in certain circumstances). In addition to its own civil aircraft projects, British Aerospace has obligations in relation to transactions entered into by Airbus Industrie.

At 31st December 1985 the total amount of customer debt, lease commitments and third party recourse in respect of civil aircraft sales, including British Aerospace's share of Airbus Industrie transactions, after deducting provisions made and the estimated realisable value of the underlying security (generally the related aircraft), was £167 million [illegible] This figure includes the lease commitments shown in note 12 and the contingent liabilities shown in note 22. Of the total amount of £167 million, three airline customers account for approximately 60%.

Provisions for liabilities and charges

	Pensions and similar obligations	Other provisions	Total
	£m	£m	£m
Company and subsidiaries			
At 1st January, 1985	12.6	189.0	201.6
Exchange adjustment	—	(0.5)	(0.5)
Expenditure charged against provisions	(1.9)	(10.8)	(12.7)
Provisions created	—	9.3	9.3
At 31st December, 1985	10.7	187.0	197.7
Company			
At 1st January, 1985	12.6	184.1	196.7
Expenditure charged against provisions	(1.9)	(10.3)	(12.2)
Provisions created	—	12.2	12.2
At 31st December, 1985	10.7	186.0	196.7

Other provisions comprise:

	Company and subsidiaries		Company	
	1985	1984	1985	1984
	£m	£m	£m	£m
Product and contract provisions	176.8	186.4	176.3	182.3
Other	10.2	2.6	9.7	1.8
	187.0	189.0	186.0	184.1

Deferred taxation

The components of deferred taxation calculated at 35% (1984 35%) are as follows:

	Company and Group			
	Full potential liability		Amount provided	
	1985	1984	1985	1984
	£m	£m	£m	£m
Accelerated capital allowances and other timing differences	51.1	17.9	5.0	—
Unrealised gains on fixed assets	56.2	57.6	—	—
Advance corporation tax recoverable	(24.5)	(35.7)	(10.7)	—
	82.8	39.8	(5.7)	—

The excess of advance corporation tax recoverable over the provision for deferred taxation, £5.7 million, is included within debtors (note 13).

Share capital

On 29th April, 1985 the authorised share capital was increased from £115,000,000 to £150,000,001 by the creation of 70,000,000 new ordinary shares of 50p each and a special share of £1. The special share may only be held by HM Government.

The issue of new shares coincided with HM Government's sale of 48.43 per cent of the Company's existing issued ordinary share capital. The net proceeds will be used for the longer term development of the Company's business.

	Special share of £1	Ordinary shares of 50p	Nominal value £m
Authorised			
At 1st January, 1985	—	230,000,000	115.0
Creation of new shares	1	70,000,000	35.0
At 31st December, 1985	1	300,000,000	150.0
Issued and fully paid			
At 1st January, 1985	—	200,003,125	100.0
Issue of new shares	1	50,000,000	25.0
Exercise of options under the SAYE Scheme	—	16,622	—
At 31st December, 1985	1	250,019,747	125.0

Under the SAYE Share Option Scheme for employees, options to purchase ordinary shares of 50p each are exercisable normally on completion of the related five year savings contracts. The number of options exercised (in accordance with the Rules of the Scheme) and outstanding at 31st December, 1985, together with their exercise prices, were as follows:

Granted	Exercise price	Exercised	Outstanding
1983	£2.00	19,747	5,244,135
1984	£2.08	—	640,746
1985	£3.80	—	1,036,205
		19,747	6,921,086

At 31st December, 1985 options to purchase shares under the British Aerospace Executive Share Option Scheme were outstanding in respect of 1,025,820 ordinary shares of 50p each at a subscription price of £3.85 per share exercisable normally between 1988 and 1995.

Share premium account

	£m
At 1st January, 1985	66.6
Premium of £3.25 on 50,000,000 shares	162.5
Expenses of issue	(8.1)
At 31st December, 1985	220.0

Statutory reserve

The balance of the former Government investment, following the issue on 2nd January, 1981 of fully paid ordinary shares in the Company to HM Government under Section 3 of the British Aerospace Act 1980, was designated as 'the statutory reserve' in accordance with Section 4 of the Act. This reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

Other reserves

	Revaluation reserve	Capital reserve	Profit and loss account
	£m	£m	£m
Company and subsidiaries			
At 1st January, 1985	97.6	108.3	345.0
Profit for year	—	—	87.5
Exchange adjustment	—	—	(4.7)
Depreciation on valuation surplus	(1.2)	—	1.2
Adjustment to valuation surplus	5.4	—	—
At 31st December, 1985	101.8	108.3	429.0
Company			
At 1st January, 1985	97.6	119.3	361.0
Profit for year	—	—	85.8
Exchange adjustment	—	—	(6.8)
Depreciation on valuation surplus	(1.2)	—	1.2
Adjustment to valuation surplus	5.4	—	—
At 31st December, 1985	101.8	119.3	441.2

Pension scheme

The British Aerospace Pension Scheme ('the Scheme') was introduced on 6th April, 1979. An actuarial valuation of the Scheme as at 6th April, 1985 showed that accrued liabilities were fully funded on a discontinuance basis and also on the basis of the security target then adopted by the Board and the trustee of the Scheme. Following the valuation, the Board and the trustee have approved a higher security target and, following consultations with member representatives, the Company has approved a number of improvements in the benefits provided by the Scheme, both for active members and for pensioners. Notwithstanding the implementation of these improvements the actuary has confirmed that the accrued liabilities were still fully funded on a discontinuance basis and also on the basis of the new higher security target. A further valuation of the Scheme will be carried out as at 6th April, 1988

Five Year Summary

	1985 £m	1984 £m	1983 £m	1982 £m	1981 £m
Profit & Loss					
Turnover	2,647.7	2,467.9	2,300.3	2,053.9	1,661.8
Trading profit	180.1	166.2	112.0	112.6	95.1
Launching costs	(51.6)	(51.1)	(42.6)	(49.2)	(50.5)
Profit before interest	128.5	115.1	69.4	63.6	44.6
Profit before taxation and exceptional item	150.5	120.2	82.3	84.7	70.6
Exceptional provision in respect of civil aircraft programmes	—	—	—	(100.0)	—
Taxation	(23.5)	(12.2)	—	(7.8)	(8.0)
Profit/(Loss) after taxation	127.0	108.0	82.3	(23.1)	62.6
Capital Employed					
Fixed assets	558.7	513.9	392.5	379.4	340.3
Net current assets					
Stocks	1,090.3	1,076.7	968.1	791.9	703.7
Creditors less debtors	(593.1)	(488.5)	(372.0)	(355.6)	(309.8)
Liquid assets less overdrafts	636.1	389.9	275.2	245.1	182.6
	1,133.3	978.1	871.3	681.4	579.5
Provisions and long term creditors	(240.7)	(265.1)	(265.3)	(164.6)	(126.2)
Assets employed	1,451.3	1,226.9	998.5	896.2	793.6
Loans	(265.1)	(308.3)	(259.4)	(222.0)	(93.8)
Shareholders' funds	1,186.2	918.6	739.1	674.2	719.8
Other Financial Information					
Capital expenditure	98.8	76.3	61.8	58.7	57.7
Depreciation	56.2	54.2	46.5	36.9	29.6
Orders received	2,979.9	2,381.4	2,990.9	2,388.9	2,054.4

Shareholder Information

Financial calendar

Financial year end	31st December
Sixth Annual General Meeting	13th May, 1986
1985 final dividend payable	3rd June, 1986
1986 interim results announcement	September, 1986
1986 interim dividend payable	November, 1986
1986 full year results: preliminary announcement	March, 1987
report and accounts	April, 1987
1986 final dividend payable	June, 1987

Analysis of ordinary share register at 31st December, 1985

	Accounts		Ordinary shares of 50p each	
	Number	% of total	Number	% of total
By category of shareholder				
Individual holders				
Male	87,104	63.81	16,595,556	6 64
Female	31,224	22.87	6,695,826	2 68
Joint accounts	11,718	8.58	3,508,563	1 40
	130,046	95 26	26,799,965	10 72
Banks (including clients' accounts)	2,039	1.50	37,853,826	15.14
Nominee companies	2,296	1.68	24,797,559	9 92
Insurance companies	358	0.26	44,243,355	17 70
Pension funds	364	0.27	102,480,224	40 99
Limited companies	1,167	0.86	4,910,880	1 96
Other corporate bodies (colleges, schools, councils, etc.)	233	0 17	5,689,938	2 27
	136,503	100 00	246,775,747	98 70
Trustees of Employee Share Ownership Scheme	2	—	3,244,000	1 30
	136,505	**100.00**	**250,019,747**	**100.00**
By size of holding				
1–99	20,206	14.81	982 552	0 39
100–499	103,193	75 60	15,942,449	6 36
500–999	6,906	5 06	4,643,826	1 86
1,000–4,999	4,697	3 44	7,612,216	3 04
5,000–9,999	366	0 27	2 350 589	0 94
10,000–49,999	565	0 41	13,073 486	5 23
50,000–99,999	207	0 15	13 973,263	5 59
100,000–999,999	318	0 23	85 416,390	34 16
1,000,000 and over	45	0 03	102 780,974	41 11
	136 503	100 00	246 775 747	98 70
Trustees of Employee Share Ownership Scheme	2	—	3 244 000	1 30
	136,505	**100.00**	**250,019,747**	**100.00**

Notice of Meeting

Tuesday 13th May, 1986 at The Royal Aeronautical Society, 4 Hamilton Place, London W1

NOTICE IS HEREBY GIVEN that the sixth Annual General Meeting of British Aerospace Public Limited Company will be held at The Royal Aeronautical Society 4 Hamilton Place London W1 on Tuesday 13th May, 1986 at 3.00 p.m. for the purpose of transacting the following business

As routine business

1 to receive and adopt the accounts of the Company for the year ended 31st December 1985 and the reports of the Directors and auditors thereon.

2 to declare a dividend.

3 to re-elect the Directors who retire by rotation at this Annual General Meeting in accordance with the Company's Articles of Association

4 to re-appoint Messrs. Peat, Marwick, Mitchell & Co. as auditors of the Company

5 to authorise the Directors to determine the remuneration of the auditors; and

As special business

6 to consider and, if thought fit, to pass the following resolution which will be proposed as a SPECIAL RESOLUTION

"THAT

(a) The Directors be generally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise for the period ending on the date of the next Annual General Meeting or on 31st May, 1987, whichever is the earlier, all the powers of the Company to allot and to make offers or agreements to allot relevant securities up to an aggregate nominal amount of £24,985,268 provided that equity securities allotted or offered or agreed to be allotted wholly for cash otherwise than in connection with a rights issue shall not exceed the aggregate nominal amount of £7,500,000

(b) The Directors be empowered to allot and to make offers or agreements to allot equity securities pursuant to and during the period of the said authority as if Section 89(1) of the said Act did not apply to any such allotment,

(c) The said authority and the said power shall allow and enable the Directors to make offers or agreements which would or might require the making of allotments after the expiry of the said period; and

(d) For the purposes of this Resolution
(i) "rights issue" means an offer of securities open for acceptance for a period fixed by the Directors to holders of ordinary shares on the register on a fixed record date in proportion to their then holdings of such shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory); and
(ii) words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 bear the same meaning."

By order of the Board

B. Cookson
Secretary

100 Pall Mall, London SW1Y 5HR
25th March, 1986

Directors for re-election

It may be helpful to shareholders to have the following information about those members of the Board who retire at the Annual General Meeting who, being eligible, offer themselves for re-election

Mr. D. O. Gladwin, C.B.E.

Mr. Gladwin is Regional Secretary (Southern) of the General Municipal Boilermakers & Allied Trades Union and a Board member of the Post Office. He was appointed a part-time Board member of British Aerospace in 1977 and a non-executive Director of the Company in 1981. He is aged 55.

Mr. H. Metcalfe, O.B.E.

Mr. Metcalfe joined the Bristol Aeroplane Company in 1951. After a number of missile design and project responsibilities he became Dynamics Group Director, Naval Weapons in 1978 and, following two successive appointments as a Divisional Managing Director, he was appointed Chief Executive of the Dynamics Group and a Director of the Company in 1982 and was appointed Deputy Chief Executive (Operations) of the Company on 1st January, 1986. Mr. Metcalfe is also a Director of British Aerospace Australia Limited and Vice Chairman of Arab British Dynamics Company. He is aged 57.

Mr. I. R. Yates, C.B.E.

Mr. Yates joined English Electric in 1950. After a number of military aircraft project responsibilities, he became Managing Director of the Warton Division in 1978. He was appointed Director of Engineering and Project Assessment of the Aircraft Group in 1981, Chief Executive of the Aircraft Group and a Director of the Company in 1982 and was appointed Deputy Chief Executive (Engineering) of the Company on 1st January, 1986. Mr. Yates is also a Director of British Aerospace Inc., Chairman of Panavia Aircraft GmbH and a Director of Sepecat SA. He is aged 56.

Notes

1 Proxies

A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. A form of proxy is enclosed. Lodgement of a form of proxy will not preclude a member from attending and voting in person at the Meeting if subsequently the member is able to attend. Subject to the provision for proxies, only registered shareholders of the Company are entitled to attend and vote at the Meeting.

2 Documents for inspection

The following will be available for inspection during normal business hours at the Company's registered office from this date until the date of the Meeting and at the place of the Meeting from 2.45 p.m. until its conclusion:

(i) the register of Directors' interests in the share capital of the Company;

(ii) copies of the Directors' contracts of service.

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Tenth Birthday congratulations to Concorde

Concorde celebrated 10 years of passenger service in January, 1986. The aircraft is seen here cruising at Mach 2.