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SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
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NBPM.

7 January 1987

Prime Minister 2
For information.
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Dear David,

BRITISH AIRWAYS PRIVATISATION: PATHFINDER PROSPECTUS, 8 JANUARY 1986

The Prime Minister and other members of the Cabinet may like to know in advance of the main features of tomorrow's launch of the BA Pathfinder Prospectus (signalled in my letter to Joan MacNaughton of 6 January).

I enclose a copy of the current draft of the Press Notice which will be released by Hill Samuel on behalf of my Secretary of State at 11 am tomorrow. Publicity associated with the launch will include, as long as cloud cover is not too low, a Concorde flypast and the release of 50,000 balloons from Lancaster House.

I am copying this letter, with the enclosure, to the Private Secretaries to all Cabinet Ministers, to Murdo Maclean and Rhodri Walters, and to Trevor Woolley.

Yours,

Richard.

R A ALLAN
Private Secretary

Final Draft 7.1.87 STRICTLY PRIVATE & CONFIDENTIAL

8th January, 1987

BRITISH AIRWAYS PATHFINDER PROSPECTUS LAUNCHED

- £145 million (approx.) profit before taxation forecast for the year ending 31st March, 1987
- Forecast actual earnings per share of 19.9p per Ordinary share
- 720.2 million Ordinary shares to be offered for sale
- Price to be payable in two instalments
- Up to 20 per cent. of Ordinary shares to be offered in the USA, Canada, Japan and Switzerland
- Notional dividend of 6.0p net per Ordinary share

The Pathfinder Prospectus for the Offer for Sale of shares in British Airways Plc was released today by Hill Samuel & Co. Limited on behalf of the Secretary of State for Transport.

The Pathfinder is a draft of the final prospectus giving details of the forthcoming Offer for Sale but not the share price or the amount of each instalment, nor consequential information such as the forecast yield. It includes a profit forecast for the year to 31st March, 1987 of approximately £145 million before tax and forecast actual earnings per Ordinary share of 19.9p (13.1p on the basis of a pro-forma 35 per cent. tax charge). The Pathfinder also indicates that the first dividend payment to shareholders will be in July, 1987, and is expected to amount to 4.0p net per share. If the Offer for Sale had taken place at the beginning of this financial year, the Directors would have expected, on the basis of the profit forecast above, to recommend dividends totalling 6.0p net per share.

The share price is expected to be announced on Tuesday, 27th January and the Prospectus published in national newspapers on Friday, 30th January. In addition, Prospectuses and Mini-Prospectuses will be available from all branches of Lloyds

Bank in the UK, all branches of the Bank of Ireland in Northern Ireland, certain branches of Barclays, Bank of Scotland and National Westminster in the UK and from certain brokers and financial advisers. Members of the public who have contacted the British Airways Share Opportunity office will automatically receive a Mini-Prospectus including an Application Form.

All share applications must be received by 10.00 am on Friday, 6th February when the Offer for Sale is due to close.

Between now and 22nd January, a series of roadshows in the United Kingdom and overseas will present the Pathfinder to institutional investors and financial advisers.

Launching the Pathfinder, Mr John Moore, the Secretary of State for Transport, said:-

"This is an important milestone in the Government's privatisation programme and in the history of British Airways. I want to pay tribute to John King and his management team, and all the staff of British Airways who have worked so hard to bring the Company to the point of a successful flotation. BA, like our other airlines belongs in the private sector and I am delighted that the Public will now have the opportunity to buy shares in it. The management, I know, are looking forward to meeting the challenges of the private sector. This financial year has not been an easy one for the Company, but the financial record, set out in the Prospectus, shows the ability of the Company to respond to external pressures such as those of last spring.

"There will be three main elements in the Offer for Sale.

"First, UP TO ten per cent. of the share capital will be set aside for applications on concessionary terms by employees. If employee applications on concessionary terms exceed ten per cent., these will nevertheless be met in full. If they do not reach ten per cent., the balance, up to that limit, will be used to satisfy employee and pensioner priority applications at the full price.

"Secondly, up to twenty per cent. of the share capital will be allocated to the specific overseas markets we have targetted. We plan to make public offerings in the USA and Canada and private placements in Japan and Switzerland and presentations are also planned for institutions from these countries. It is intended that British Airways shares will be listed (in the form of American Depositary Shares) on the New York and Toronto Stock Exchanges. Following heavy over-subscription in the UK public offer, the amounts allocated overseas would be subject to clawback.

British Airways Plc

"Thirdly, the balance, will be offered for sale in the UK. Approximately 60 per cent. of the UK offer will be placed firm with institutions. Around 20 per cent. of the shares placed with UK institutional investors and of those available in the overseas offerings will be subject to clawback and made available to meet demand in the UK public offer. The level of subscription at which this will operate is likely to be 3 times. Firm decisions on the precise allocations and the level of clawback will not be taken until just before Impact Day.

"The Offer for Sale will be at a fixed price, payable in two instalments. The second instalment will be payable in August. The minimum investment will be for 400 shares.

"We are expecting substantial demand from the public and the structure of the issue should allow for at least 30 per cent. of the shares to be bought by the public rising to over 40 per cent., following the operation of clawback. I expect that this issue will be taken up largely by those who already hold shares.

"We want the sale to be conducted in as fair a manner as possible, and I have therefore appointed a leading firm of auditors to police multiple applications and commission payments."

David Bucks, Vice-Chairman of Hill Samuel & Co. Limited commented:-

"The British Airways Share Opportunity is the first offer of a major international airline on the UK stock market.

"British Airways is one of the world's leading airlines. In 1985, the latest year for which relevant industry statistics are available, BA carried more international scheduled passengers than any other airline.

"During the current financial year, following April's events in Libya and at Chernobyl, passenger traffic on scheduled services fell substantially. The management's response included imaginative marketing campaigns such as "Go for it America" and "Concorde Challenge". By the end of the first half year traffic volume was recovering and in October and November traffic was higher than in the same months of the previous year.

British Airways Plc

"British Airways has the advantage of having one of the world's most extensive route networks and operating from Heathrow airport, one of the air transport industry's principal hubs."

Lord King, Chairman of British Airways Plc commented:-

"British Airways welcomes the opportunities and challenges that privatisation will bring. Everyone at British Airways has contributed to the remarkable change that has occurred in the Company's fortunes in recent years.

"I am confident that privatisation will allow the general public, financial institutions and our employees to participate in British Airways' future as an independent public company.

"The Directors expect demand for airline services to grow at a rate at least equal to the growth of economic activity in the parts of the world served. Although the way in which HM Government's civil aviation policy is implemented will be an important factor, the Directors consider that, having regard to British Airways' resources and its position as one of the world's leading international airlines and the largest in the United Kingdom, it will be able to take advantage of such growth by developing its existing services and new routes where licences can be obtained.

"The greater liberalisation of the regulatory framework, particularly within the EEC, should lead to opportunities for growth as well as an increase in the keen competition which British Airways already faces on many of its routes. The Directors, however, believe that with the benefit of British Airways' existing route network and commitment to marketing and service, the Airline is well able to meet fair competition.

"The airline industry is susceptible to extraneous factors, including sudden and unforeseeable developments such as those that occurred in the early months of 1986/87. However, the wide spread of British Airways' route network offers some protection against unforeseen downturns in demand in any particular part of the world and British Airways' swift response to the difficulties in early 1986/87 has demonstrated its ability to react to such events. In the absence of any further such developments, the Directors expect the recovery in demand in the latter part of 1986/87 to be sustained in 1987/88."

British Airways Plc

Hill Samuel & Co. Limited are acting as financial advisers to HM Government and Lazard Brothers & Co., Limited as financial advisers to British Airways Plc.

- ENDS -

For further information, contact:-

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David Bucks) Mark Wrightson) Tim Martin)	Hill Samuel & Co. Limited	- 01 628 8011
Peter Grant) Ned Dawnay)	Lazard Brothers & Co., Limited	- ⊠

British Airways Plc

NOTES TO EDITORS

1. PLANNED TIMETABLE

Tuesday, 27th January	IMPACT DAY Offer for Sale price announced
Friday, 30th January	Prospectus expected to be published in national press
Friday, 6th February	10.00 am Offer for Sale due to close
Wednesday, 11th February	By 9.00 am Announcement of Allocation 2.30 pm Dealings expected to begin
Monday, 16th February	Renounceable Letters of Allocation due to be posted
Tuesday, 18th August	Final instalment due

2. FINANCIAL INFORMATION

2.1 CURRENT TRADING AND PROFIT FORECAST

The results for the six months ended 30th September, 1986, which are described in Part IV of the Prospectus, showed turnover of £1,696 million and profit before taxation of £141 million. In October and November, the volume of scheduled service traffic continued to recover and in the two month period was higher than for the same period in the previous year. Yield was little changed. Airline operating expenditure in these months was slightly above the comparable months of the previous year, with increased staff, aircraft and engineering costs. Aviation fuel costs have been significantly lower than in the comparable period of the previous year, although they have recently been increasing. It is expected that in the remainder of the year the volume of scheduled service traffic and operating expenditure will both be above that in the comparable months of the previous year.

The Directors forecast that, in the absence of unforeseen circumstances and on the bases and assumptions set out in the Prospectus, the Group's profit before taxation for the year to 31st March, 1987 will be approximately £145 million. Due to the availability of past years' tax losses, the tax charge is estimated to be only £2 million and the share of profit attributable to minority interests is estimated to be less than £1 million. Net earnings before extraordinary items are forecast to be approximately £143 million, equivalent to 19.9p per Ordinary share. On the basis of a pro-forma 35 per cent. tax charge, forecast earnings before extraordinary items would be approximately £94 million, equivalent to 13.1p per Ordinary share.

2.2 DIVIDENDS

The Directors expect to pay a single dividend in July, 1987 of 4.0p per share net in respect of the current financial year, in the absence of unforeseen circumstances. Had the Offer for Sale taken place at the beginning of the financial year the Directors would have expected to pay dividends totalling 6.0p per share net.

3. OFFER FEATURES

3.1 BONUS SHARES

Individuals buying shares may be eligible to receive a loyalty bonus of one extra share for every ten shares held continuously up to 28th February, 1990, up to a maximum value of approximately £500.
OF BONUS SHARES.

3.2 MINIMUM INVESTMENT AND INSTALMENT PAYMENTS

The minimum investment will be for 400 shares. Payment will be in two instalments.

3.3 DETAILS OF CLAWBACK

Around 20 per cent. of the shares placed with UK institutional investors and of those available in the overseas offerings will be subject to clawback and made available to meet demand in the UK public offer. The level of subscription at which this will operate is likely to be 3 times.

4. RETAIL ADVERTISING

A successful press advertising campaign has been launched, together with a mailing to financial intermediaries and selling agents, the establishment of a Share Opportunity office and a customer merchandising campaign. The main television and press campaign started shortly after Christmas and will continue up to the closing of the lists.

5. EMPLOYEE OFFERS

Generous offers are being made to employees of British Airways in recognition of the role they have played in British Airways' success. The offers include the opportunity to acquire free, matching, discounted and priority shares depending on eligibility. BA pensioners who are UK resident will also receive priority if sufficient shares are available. In total, up to 10 per cent. of the issue (or, if greater, sufficient shares to satisfy in full the free, matching, discounted and Profit sharing scheme offers) is available for employees.

6. ROADSHOW TIMETABLE

Presentations to institutions and financial advisers are being held in the following locations.

DATE	LOCATION
Thursday, 8th January	Belfast
Friday, 9th January	Birmingham, Manchester
Monday, 12th January	Aberdeen, Glasgow
Tuesday, 13th January	Edinburgh Newcastle
Wednesday, 14th January	Leeds
Thursday, 15th January	Boston, Massachusetts New York, New York
Friday, 16th January	Chicago, Illinois Naples, Florida
Monday, 19th January	Geneva Zurich London

DATE	LOCATION
Tuesday, 20th January	Cardiff Bristol
Wednesday, 21st January	London: Canadian Institutions
Thursday, 22nd January	Edinburgh London: Japanese Institutions

7. MULTIPLE APPLICATIONS

ONLY ONE APPLICATION MAY BE MADE FOR THE BENEFIT OF ANY PERSON. If a person makes or authorises anyone else to make an application for their benefit under the Offer for Sale, they cannot make or authorise any other such application for their benefit. Criminal proceedings may be instituted against anyone knowingly making or authorising more than one such application for the benefit of any person. Each and every multiple application or attempted multiple application constitutes a separate offence. Multiple applications or suspected multiple applications are liable to be rejected.

In keeping with the policy of earlier privatisations, Peat Marwick Mitchell/KMG Thomson McLintock have been appointed by HM Government to act as auditors for the proposed sale of shares in British Airways Plc. Their role will be to scrutinise the issue for multiple applications, review the claiming of selling commissions by selling agents and where necessary liaise with the Fraud Squad.

8. RESTRICTIONS ON OWNERSHIP OF SHARES

Rights of British Airways to operate, in particular on international routes, could be withdrawn if the Company ceased to be substantially owned and effectively controlled by UK nationals. Accordingly, the Articles of Association contain powers which may be used to limit the number or voting rights of shares in which non-UK nationals own interests or, if necessary, to require their compulsory disposal, or to restrict the transferability of shares.

The Articles also restrict, until 31st January, 1992, the maximum proportion of the Company's issued share capital in which any person (including connected persons) may be interested to 15 per cent.