



CONFIDENTIAL

PRIME MINISTER

BRITISH AIRWAYS

I understand that you have asked to discuss British Airways in a restricted group rather than in E(NI) as was originally planned.

As a basis for discussion I attach the paper which I was on the point of circulating to E(NI). The paper deals in turn with a number of complex and difficult issues. But it leaves us with a simple choice. Do we keep open the option of privatising BA in late 1983 or early 1984 - if so we must legislate now for a capital reconstruction? Or do we hold back from immediate legislation and thus postpone privatisation until the summer of 1984 at the earliest and probably much later even than that?

Neither course will be popular with our supporters. They will not welcome a further deferment of privatisation. But nor will they relish another "hand-out" to a nationalised industry even if it is to pay for past inefficiencies: in particular, it will be argued that what appears to be generosity to BA is unfair to British Caledonian and other private sector airlines.

The "unfairness" lies simply in the fact that BA will be given £x million to pay off its debts while British Caledonian will receive no such generosity but will have to carry the burden of its debts until it can pay them off itself. This frankly is no more than another aspect of the general problem that nationalised industries have access to an apparently bottomless public purse while private sector companies have to sink or swim by reference to their own efforts.

What British Caledonian really want is to pick up some (no doubt the more profitable) of BA's routes (as for example Adam Thomson proposed in his letter to you of 26 August). This would of course be a simple matter if BA were liquidated, and looked at in this way the "unfairness" of bailing out British Airways is that British Caledonian is being denied this opportunity. But I understand in any case that John King and Adam Thomson have been having confidential discussions about their respective route structures, and as you recognised in your reply of 10 September to Adam Thomson this is clearly the most constructive way to proceed.

CONFIDENTIAL



CONFIDENTIAL



[Copies of the correspondence are attached].

BA will continue to embarrass us for as long as it remains in the public sector. That is why, despite the immediate political difficulties, I believe we must legislate quickly for a capital reconstruction. Early reconstruction is the only route to early privatisation. Moreover it is the only way of ensuring that our hands are free to move whenever an opportunity presents itself.

Quite apart from the question of privatisation I believe an early reconstruction is the only way we can consolidate the progress we have made and ensure that henceforth BA is really run as a commercial enterprise.

I hope therefore that you can agree the conclusions at para 22 of the attached paper.

I am copying this minute to Geoffrey Howe, Leon Brittan, John Sparrow and Sir Robert Armstrong.

*Arthur Cockfield*

LORD COCKFIELD

Department of Trade

4 November 1982

CONFIDENTIAL

Aerospace : Future & Structure  
of India Airways  
March '82





# CONFIDENTIAL

## BRITISH AIRWAYS: PRIVATISATION AND CAPITAL RECONSTRUCTION

### INTRODUCTION

1 At a meeting of E(NI) on 26 July (E(NI)(82)6th meeting), the Sub-Committee endorsed the general strategy proposed by British Airways' (BA) Corporate Plan (subject to certain qualifications). The meeting also agreed that we should continue to plan for the privatisation of BA in late 1983 (though this would be difficult), recognising that before privatisation could take place legislation would be needed for a capital reconstruction.

2 In this note I report on:-

- (a) BA's current financial position and immediate prospects;
- (b) BA's latest financial plan;
- (c) the current prospects for privatisation; and
- (d) the need for a capital reconstruction, and for legislation to achieve it.

### BRITISH AIRWAYS' FINANCIAL POSITION

3 BA's 1981/82 accounts, which have just been published, show a Group loss of £550m. But the bulk of this (£426m) reflects non-recurring items - the cost of severance payments and more prudent depreciation policies. If they were not charged in the 1981/82 accounts, then future years' results would only look worse. Interest charges amounted to £111m and there was in fact a small operating profit (after normal depreciation) of £13m.

4 The underlying trading position, however, continues to improve. The 1981/82 operating profit of £13m before interest compares with an operating loss in 1980/81 of nearly £100m. For the present financial year BA are forecasting an operating profit of about £170m (which they are on track for achieving), a very considerable improvement.

### BA'S NEW FINANCIAL PLAN

5 I have now received from BA a new financial plan for the next five years, which reflects improvements on the Corporate Plan which the Sub-Committee considered in July. At that meeting, I commented on the desirability of BA securing further reductions in manpower levels, in unprofitable routes, and in uncommitted investment in the later years of the Plan. The plan now reflects BA's new manpower target of achieving a reduction to 35,000 by next March. This compares with a figure of 58,000 in 1979, a reduction of nearly 40%. It reflects BA's recent decision to withdraw from a further nineteen unprofitable routes. BA argue that further reductions in manpower or routes are impracticable immediately, but they will be keeping the situation under review. Capital investment at the end of the planning period, too, now shows a substantial reduction.



## CONFIDENTIAL

6 The key feature of the plan is a target of profits before deducting interest of around £200m per year from 1983 onwards. This figure is struck after charging £85m supplementary depreciation based on replacement costs. If these profits can be achieved they would represent a remarkable improvement. Annex B shows BA's forecasts as given in their Plan.

7 If we privatised BA in late 1983, it would therefore be on the basis - according to present estimates - of the following profits before interest and after historic (but not supplementary) depreciation:-

- (a) for 1982/83, profits of about £170m (these results would be available in June 1983);
- (b) for the first four months of 1983/84 profits of perhaps about £100m (this is an unduly short period but it is specified by Hill Samuel as a minimum);
- (c) for 1983/84 as a whole, forecast profits of around £265m.

### PROSPECTS FOR PRIVATISATION

8 I have obtained advice from Hill Samuel on whether BA's present position - and these forecasts - provide an adequate basis for privatisation within the timescale we have in mind. At Annex A I attach a copy of their conclusions, the most important of which are as follows:

- (a) A flotation in late 1983 is unlikely to succeed, though it cannot absolutely be ruled out. A flotation in the first part of 1984 stands a somewhat greater chance of success, though even this depends on everything going well. However, a flotation will be well nigh impossible, if a General Election is still in prospect, because of the effect this would have on the market.
- (b) A capital reconstruction is essential before privatisation and should take place by the end of March 1983 if possible. (Hill Samuel assume its cost at around £500-£700m.) Hill Samuel strongly favour this on grounds of propriety, commercial discipline and morale, even if the prospects for privatisation remain uncertain.
- (c) Hill Samuel strongly favour the conversion of BA into a Government-owned limited company at the same time. This would clear the way for privatisation as soon as BA was ready.
- (d) Hill Samuel regard it as impossible to forecast the proceeds of privatisation with any certainty, but they estimate a market capitalisation of around £450m (so that in theory the sale of about 50% of BA - the proportion we have envisaged - would bring in about £200-£250m). They suggest that, if BA's recovery



## CONFIDENTIAL

proves well-founded, the proceeds could well be substantially higher in late 1984 than a year earlier.

- (e) BA's pension liabilities should be clarified and limited as soon as possible.

9 I see no reason to disagree with this advice. It means that we are now most unlikely to achieve a flotation before the next Election; but, if the Election were out of the way, we might still just be able to privatise BA in late 1983 or, more plausibly, early 1984. However, since we should probably get a better price by delaying privatisation for a further year or so after that, privatisation in late 1983 is unlikely to be justifiable on purely economic grounds: it would be a political decision.

### CAPITAL RECONSTRUCTION

10 The situation which now exists is largely a product of the decision taken many years ago that BA should be financed largely by loans from commercial banks, guaranteed by Government, instead of by direct advances from Government itself.

11 As the Sub-Committee has already noted at its July meeting, we cannot privatise BA without a capital reconstruction. There is also a strong case - recognised by Hill Samuel - for a capital reconstruction quite irrespective of the case for privatisation.

BA's debt:equity ratio has deteriorated so far that their liabilities now substantially exceed their assets. No company in the private sector could continue trading with such a capital structure; and BA's interest burden is now so heavy that it threatens to damage the management's motivation further to improve operating efficiency. Moreover, an early capital reconstruction could improve the prospects of privatisation whenever privatisation occurs as it will enable BA to demonstrate better profits in their published accounts over a longer period.

12 The best way of achieving a reconstruction is to provide a cash injection into BA, which BA would then use to pay off its debts to private banks; the cash would be provided by a combination of direct grant (to wipe out the negative reserves) and an injection of public dividend capital (pdc) (as an element of new "equity" investment by the Government). As part of the package, BA's relatively small borrowings from the National Loans Fund (NLF) could be written off. Although such a capital reconstruction would involve a significant cash outlay by the Government, the effect on the public sector borrowing requirement (PSBR) would be neutral, since the cash injection would be offset by an equal reduction in BA's indebtedness. But it could be said to involve a substantial subsidy because the taxpayer would be relieving BA of much of its debt servicing obligations.

### AMOUNT OF RECONSTRUCTION

13 BA are seeking a capital reconstruction costing £750m. This would give them a debt:equity ratio at the end of March 1983 (on the basis of BA's current profit forecasts) of 30:70. Hill Samuel advise that BA could not be privatised with a debt:equity ratio less favourable than 50:50. To achieve this on 31 March 1983 would - again on the basis of BA's forecasts - cost



## CONFIDENTIAL

about £600m. But it is possible that, between now and privatisation, BA will achieve profits which, though adequate for a flotation, are below forecast levels. In that event, £600m may not be enough to achieve and maintain a 50:50 debt:equity ratio, and a larger sum might be needed. I therefore think it essential that in proposing to Parliament soon a figure for a reconstruction we go for a figure above £600m (but not more than the £750m BA have asked for).

14 It is clearly essential we should be able to justify the reconstruction, to the independent airlines and others, as not over-generous. But it is obviously also essential that the reconstruction should be big enough to give a good prospect of a successful flotation. It would be disastrous to have to reconstruct a second time through being too hesitant now. I suggest therefore that the figure for which we seek Parliament's approval should be expressed as a maximum, the actual amount to depend on BA's position when the reconstruction is effected, with a reasonable safety margin.

15 If colleagues accept the principle, I would aim to agree separately with the Chief Secretary within the next two or three weeks the maximum figure (within the range of £600m-£750m) for which we should go to Parliament (this without prejudice to the amount we eventually decide to inject). I am also prepared to discuss with the Chief Secretary and Hill Samuel other ways of guarding against accusations of over-generosity (eg a mechanism for reconverting some of BA's equity into Government loans immediately before privatisation, should events by then have shown the reconstruction to be too large; and a cancellation of BA's tax losses commensurate with the size of the reconstruction).

### THE NEED FOR LEGISLATION

16 Legally the required payment to British Airways could be made without new specific legislation. However the Treasury takes the view that Parliamentary propriety requires specific legislative backing for such a large payment and for such a purpose.

17 It would take us a further step towards privatisation and help attitudes within the airline if, once a capital reconstruction had been effected, we were to vest BA into a limited company. My powers in the British Airways Board Act 1977 automatically lapse on vesting, and I shall need to be sure I retain adequate control over BA plc while it remains wholly Government-owned. Having taken legal advice I am satisfied that I can exercise sufficient control between vesting and privatisation through the successor company's memorandum and articles of association and my power as sole shareholder.

18 One other item might require legislation. The British Airways Pension Scheme (APS) is index-linked; and it is conceivable that BA would not be saleable unless it were completely discontinued. BA have just announced they are considering its closure to new entrants, but it remains to be seen if this will go far enough. BA are proposing to seek a declaratory judgement on the extent of their liability to the APS in the event of complete discontinuance. If (contrary to expectations) the judgement were to make BA liable for very large



## CONFIDENTIAL

sums in the event of complete discontinuance Hill Samuel might advise that privatisation could not proceed unless the Government were to give BA some comfort or guarantee in respect of the pensions liabilities. If such a guarantee were to be necessary I should need a statutory power; but I shall not know till sometime next year whether such a provision would be necessary. If we decide to go ahead immediately with legislation, we must therefore do so on the assumption that this special provision will not be necessary.

19 We need, then, legislation providing authority to pay to BA sums up to a specified maximum amount in public dividend capital or grant, together with authority to write off BA's NLF loans within this maximum. I realise that this puts us in a difficult position, because of the problem of securing Parliamentary time for the passage, desirably by the end of next March, of what will be a short but controversial Bill. But unless we can secure the necessary legislation for a capital reconstruction, there is no hope of privatising BA before the second half of 1984 and probably much later.

20 If colleagues see no room for a separate Bill this Session, then we should consider using the 1983 Finance Bill or a suitable piece of general legislation (eg the miscellaneous financial provisions Bill that I understand the Treasury are hoping to introduce in the new Session). I appreciate the difficulty of encumbering Treasury legislation with additional controversial clauses and I well understand Treasury objections to this course. Nevertheless this appears the only other way of keeping our options open for privatisation this Parliament.

### EUROPEAN COMMUNITY IMPLICATIONS

21 We should need to clear the proposals with the European Community, though they are unlikely to object.

### CONCLUSIONS

22 If we are to keep open the option of privatising British Airways in late 1983 or early 1984, we must reconstruct BA's balance sheet, and for that we need legislation. Even if we do not consider privatisation likely within this timescale, there are still persuasive grounds, supported by Hill Samuel, for an early reconstruction of BA's capital. I therefore invite my colleagues to agree:-

- (i) to a capital reconstruction of BA, as proposed in paragraphs 12-15 above;
- (ii) to the vesting of BA in the successor company under the Civil Aviation Act 1980 directly after the reconstruction (paragraph 17);
- (iii) to the introduction of legislation in the new Session to this end containing the provisions described in paragraph 19, either:-



**CONFIDENTIAL**

- (a) in a separate Bill for introduction as early as possible in the Session;  
or
  - (b) failing that, in the 1983 Finance Bill or a suitable miscellaneous financial provisions Bill; and
- (iv) to the employment of Parliamentary Counsel for the urgent drafting of clauses for (iii)(a) or (b) above.



**CONFIDENTIAL**

CONCLUSIONS OF HILL SAMUEL'S MEMORANDUM OF 13 OCTOBER 1982 ON  
PROSPECTS FOR PRIVATISATION OF BRITISH AIRWAYS IN LATE 1983

ANNEX A

CONCLUSIONS

1. The possibility of privatisation by the end of 1983
  - (a) We believe it is highly unlikely that privatisation of BA will be achievable in late 1983 in the form of a conventional and successful offer for sale to the public of a controlling interest. The current management has undoubtedly taken positive and vigorous action to restore BA's immediate profitability and to re-establish it as a viable business in the longer term. However, the effects of this action are only now beginning to be felt. We think it most improbable that those involved (HMG, BA and their advisers) will by the end of 1983 believe that BA's recovery is sufficiently well established to consider it responsible to issue a prospectus to the public. On an important point of detail, we doubt whether those involved would feel able to put their names to the necessary forecast of profits for the financial year to 31st March, 1984.
  - (b) However, on the latter point of forecasting, we believe it far more likely that a proper public forecast of profits for the year to 31st March, 1984 could be made in early 1984. By this time interim results for the six months to September, 1983 would be available, and there would be some experience of the traditionally weaker winter months.
  - (c) We believe it possible but not likely, if circumstances are particularly favourable, to achieve privatisation by the end of 1983 in an unconventional form, involving the sale of shares mainly to investment institutions, who would be

**CONFIDENTIAL**



sufficiently sophisticated to make their own assessment of the potential and the risks involved in BA's business, and with perhaps some limited offer to the public.

The circumstances we are envisaging are those in which there was a "good story" to tell the investors about BA's recovery and prospects, albeit with a degree of confidence falling short of that needed to make a conventional offer for sale to the public.

2. Action required between now and the end of 1983

In order to keep open the possibility, however slight, of privatisation by the end of 1983, and, in any event, to optimise the prospects for successful privatisation as soon as practicable the following action is required:-

- (a) For the reasons given in our letter of 13th September, 1983, legislation should be brought forward to reconstruct the balance sheet of BA and vest its business in the successor company by the earliest practicable date, namely 1st April, 1983. We believe that the commercial and financial arguments for the capital reconstruction are overwhelming. New capital is, in reality, needed to replace losses already incurred. It is clearly unsatisfactory for a major nationalised industry to continue in a state of quasi-insolvency. Finally, a decision to delay the reconstruction implies an indefinite deferment of privatisation, and the effect of this on the internal morale at BA would, in our view, be very damaging to the airline's prospects for continued recovery.



- (b) We have already raised a number of important commercial, managerial and financial matters. An action plan requires to be formulated to address these matters. All of the areas identified will need to be substantially resolved if privatisation is to take place.
- (c) We have, in this report, dealt separately with BA's pension arrangements, in view of their importance and the specific reference to them in your letter of instruction.

3. The proceeds of privatisation in late 1983

It will be clear from what we have already said that we would at this time regard such a calculation as an artificial exercise in view of the enormous uncertainties involved. As a matter of investment arithmetic, the valuation placed on BA in an issue in late 1983 would be based on its profit forecast for the year to 31st March, 1984 and this is a figure that has not yet been estimated by BA. In the circumstances we can only give a theoretical indication of the market capitalisation of BA if its shares were already listed and held by the public.

Assuming BA achieves its forecast for the current year to 31st March, 1983 of profits before tax of £160 million (ignoring supplementary depreciation, and after adjusting for notional interest savings arising from the £750 million capital reconstruction proposed by BA), we would expect a theoretical market capitalisation of around £450 million. This would represent, on the above assumptions, a fully taxed historical price earnings multiple of around 6, and a fully taxed prospective multiple of BA's "annualised" projection for 1983/84 of 3.4. This market capitalisation would compare with net tangible assets at 31st March, 1983, on the same assumptions, of £567 million.



4. Next General Election

In our view (and ignoring election considerations, as you have asked us initially to do) privatisation by the end of 1983 is highly unlikely; if the envisaged highly favourable combination of circumstances existed, the decision to proceed would, necessarily, still be very finely balanced, in terms of the then state of BA and the airline industry generally. This would be readily apparent to potential investors. Any additional external uncertainty, such as the imminence of a general election would almost certainly prove fatal. General adverse comment on possible political reasons for premature flotation, coupled with the direct attacks from opponents of privatisation (witness the Britoil affair) would draw attention to the past problems of BA and the short lived nature of its turn around. The opposition, or factions within it, would no doubt pledge immediate re-nationalisation. All in all, against the background of an imminent election the investment climate would almost certainly be poisoned against participating in any conventional issue, if it were otherwise possible.

In our view the impending election is another reason to delay privatisation beyond 1983. If BA's recovery proves to be well-founded, the potential proceeds from privatisation, if delayed by a further year, (i.e. after the general election) could be substantially higher.

5. Amount of Capital Reconstruction

In our memorandum dated 14th July, 1982 our estimate of the required capital reconstruction was in the range of £500 million to £700 million.

This estimate was, of course, based on the then available information. We have had insufficient time to discuss with BA or the Department the implications of the draft



## CONFIDENTIAL

1981/82 Accounts of BA, or the "BAB Financial Plan 1983/87" dated 30th September, 1982. In the circumstances, we have no evidence which would lead us to alter our earlier estimate. We have noted BA's own proposal that its borrowings should be reduced by £750 million, and that its forecasts are based on this assumption. In the circumstances, we have in this report used (but not accepted) BA's projections, although the sum proposed by BA is slightly above the upper end of the range indicated by us.

As we have previously indicated, there may be methods to structure the capital reconstruction so as to improve the potential return to HMG from the funds committed to reconstruct BA's balance sheet. These would take the form of (i) ensuring some flexibility in the initial arrangements so that any surplus over the requirement at the time of privatisation can be returned to HMG and (ii) devising a capital structure at the time of privatisation which permitted the sale of voting control but maximised the prospects for HMG to obtain a return from its initial capital injection. We should be pleased to examine these possibilities in detail in due course in conjunction with the detailed discussions which will be necessary in connection with the capital reconstruction/vesting process.

### 6. Airways Pension Scheme ("APS")

There is at present conflicting actuarial and legal advice as to the precise nature of BA's financial commitment to the APS. The September 1982 triennial valuation of the APS will not be available until March 1983. In addition, we understand that BA is proposing to (i) introduce a new pension scheme for new employees with lower contributions than the existing Scheme and reduced (but acceptable by private sector standards) benefits, in

CONFIDENTIAL



particular in relation to limited indexation, (ii) close the existing Scheme to new entrants, and (iii) offer members of the existing Scheme the opportunity to transfer to the new scheme.

In the circumstances, it is clearly impossible to express any precise view over the degree of comfort, if any, which would be required from the Government in respect of BA's pension obligations at the time of privatisation.

We think it unlikely, however, that any cash injection would be required; some form of long-stop guarantee in relation to BA's obligations towards the APS cannot be ruled out.

In order to advance matters we recommend, as a matter of urgency, that:-

- (i) An authoritative view of BA's obligations towards the APS in the event of discontinuance be sought. Counsel have indicated that a declaratory judgement from the Courts might be obtainable.
- (ii) The new pension scheme should be developed and introduced as soon as is, in the view of the Board of BA, practicable.
- (iii) The September 1982 actuarial valuation of the APS should be progressed with all speed.



## CASH PROJECTIONS

Plan A	83/4 £m	84/5 £m	85/6 £m	86/7 £m	Total £m
1) Operating result	180	230	230	230	870
2) Interest on capital borrowings	(30)	(30)	(28)	(25)	(113)
3)	150	200	202	205	757
4) Interest on new cash	-	18	30	34	82
5) Result before tax	150	218	232	239	839
6) Corporation and overseas tax	(75)	(109)	(116)	(120)	(420)
7) Available for dividend	75	109	116	119	419
8) Dividend payable	(50)	(50)	(50)	(50)	(200)
9) Transfer to revenue reserves	25	59	66	69	219
10) HC + supp. depreciation	200	200	200	200	800
11) Book value of disposals	15	-	14	-	29
12) Timing of dividend & tax payments	125	34	7	4	170
13) Internal funds available	365	293	287	273	1,218
14) Loan repayments	(35)	(40)	(40)	(40)	(155)
15) Capital expenditure	(185)	(160)	(213)	(250)	(808)
16)	145	93	34	(17)	255
17) Eximbank loans drawn down	40	18	12	-	70
18) New cash generated (required)	185	111	46	(17)	325

## Plan B

1) Operating result	180	230	230	230	870
2) Interest on capital borrowings	(30)	(30)	(28)	(25)	(113)
3)	150	200	202	205	757
4) Interest on new cash	-	20	24	22	66
5) Result before tax	150	220	226	227	823
6) Corporation and overseas tax	(75)	(110)	(113)	(114)	(412)
7) Available for dividend	75	110	113	113	411
8) Dividend payable	(50)	(50)	(50)	(50)	(200)
9) Transfer to revenue reserves	25	60	63	63	211
10) HC + supp. depreciation	200	200	200	200	800
11) Book value of disposals	40	-	-	-	40
12) Timing of dividend & tax payments	125	35	3	1	164
13) Internal funds available	390	295	266	264	1,215
14) Loan repayments	(35)	(40)	(40)	(40)	(155)
15) Capital expenditure	(199)	(234)	(258)	(126)	(817)
16)	156	21	(32)	98	243
17) Eximbank loans drawn down	40	18	12	-	70
18) New cash generated (required)	196	39	(20)	98	313

Note: This and the following page show BA's current (October 1982) profit and balance sheet projections. The figures are in constant prices and assume unchanged operating profits in real terms, once BA's current measures to improve profitability are complete. The difference between Plan A and Plan B reflects different assumptions about whether BA will obtain exemption from noise regulations due to come into force in 1986 and over the timing of certain aircraft disposals. The figures also reflect BA's proposal for a capital reconstruction to give them a 30:70 debt:equity ratio by 31 March 1983.



**CONFIDENTIAL**

BALANCE SHEET PROJECTIONS

Plan A

	At 31 March	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
		£m	£m	£m	£m	£m
<u>Net Assets</u>						
1) Fixed assets & investments		964	1,019	1,064	1,148	1,283
2) Cash at bank			185	296	342	325
3) Dividends & tax payable			( 125)	( 159)	( 166)	( 170)
4) Net current liabilities		( 144)	( 144)	( 144)	( 144)	( 144)
5)		<u>820</u>	<u>935</u>	<u>1,057</u>	<u>1,180</u>	<u>1,294</u>
<u>Financed by</u>						
6) Share capital & reserves		482	507	566	632	701
7) Replacement reserves		85	170	255	340	425
8) Capital borrowings		250	255	233	205	165
9) Minorities		3	3	3	3	3
10)		<u>820</u>	<u>935</u>	<u>1,057</u>	<u>1,180</u>	<u>1,294</u>
11) Debt:Equity ratio		30:70	27:73	22:78	17:83	13:87

Plan B

<u>Net Assets</u>						
1) Fixed assets & investments		964	1,008	1,127	1,270	1,281
2) Cash at bank		-	196	235	215	313
3) Dividends & tax payable		-	( 125)	( 160)	( 163)	( 164)
4) Net current liabilities		( 144)	( 144)	( 144)	( 144)	( 144)
5)		<u>820</u>	<u>935</u>	<u>1,058</u>	<u>1,178</u>	<u>1,286</u>
<u>Financed by</u>						
6) Share capital & reserves		482	507	567	630	693
7) Replacement reserves		85	170	255	340	425
8) Capital borrowings		250	255	233	205	165
9) Minorities		3	3	3	3	3
10)		<u>820</u>	<u>935</u>	<u>1,058</u>	<u>1,178</u>	<u>1,286</u>
11) Debt:Equity ratio		30:70	27:73	22:78	17:83	13:87

**CONFIDENTIAL**