



BRITISH  
AIRWAYS

WORKING  
TOGETHER TO  
BUILD A NEW  
BRITISH AIRWAYS

Report & Accounts  
1997-8

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From the passenger cabin of a high-flying British Airways aircraft the world seems a very small place. At 35,000 feet, it becomes clear that there really is only one earth.

Not only do international boundaries disappear, but the nationalities of the men, women and children flying over them become immaterial. Wherever they may have been born they become, for a time, part of the cherished British Airways family.

Our aim is to provide those customers, whoever they are, with the finest service to be found anywhere. We want to offer them the widest choice of fares, of routes and of times of their flights.

And because air travel has now become a truly global industry we are determined to forge ever closer links with airlines of like-mind throughout the world to deliver together the service our customers desire.

Already we have formed alliances in Europe, in Canada and in Australia. And our nine franchise partners are now setting new standards of efficiency and service under the British Airways name. Soon we hope to form the most important partnership of them all, with American Airlines to bring all those benefits, and many more, to even more business and leisure travellers.

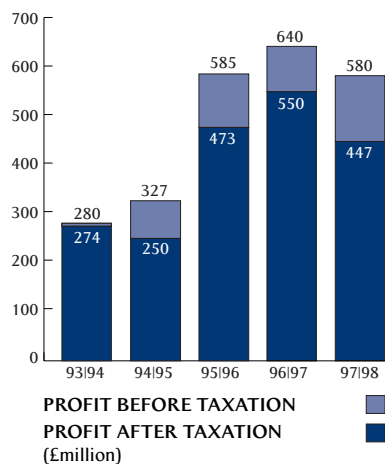
Eventually we will forge further alliances in the Far East and so create a seamless, integrated, efficient and high quality service for everyone, everywhere. Then we can really compete. Then we can really be truly global.

We are a British airline, and proud of it. But that alone is not enough. We have global obligations – to our customers, to our staff in 85 countries, to our shareholders, and to the world itself.

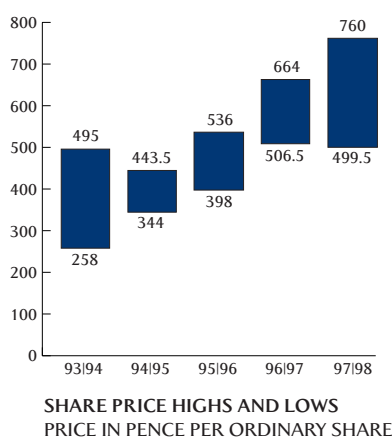
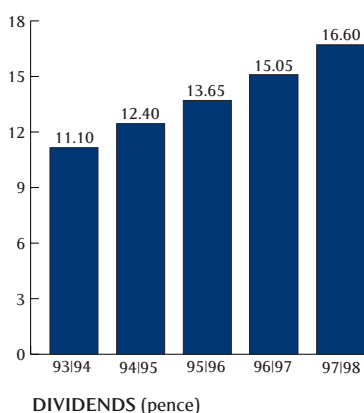
British Airways will fulfil its mission to be the undisputed leader in world travel. We cannot, however, achieve that alone. While boundaries exist on the ground we must join other airlines, in other parts of the world, in bringing the highest possible standards of safety, style, comfort and service to the people of every nation around the globe.



## Highlights of the Year



“Strengthening  
fundamentals for  
the future.”



			1997-98	1996-97
<b>Group Results</b>				
Turnover	(£million)	up 3.4%	8,642	8,359
Operating profit	(£million)	down 7.7%	504	546
Profit before taxation	(£million)	down 9.4%	580	640
Attributable profit for the year	(£million)	down 16.8%	460	553
Capital and reserves	(£million)	up 11.3%	3,321	2,984
Earnings per share <i>basic</i>	(pence)	down 19.7%	44.7	55.7
<b>Key Financial Statistics</b>				
Operating margin	(per cent)	down 0.7 points	5.8	6.5
Net debt/Total capital ratio	(per cent)	up 1.1 points	58.1	57.0
<b>Operating Statistics</b>				
Passengers carried <i>Group</i>	(000)	up 7.3%	40,955	38,180
Revenue tonne kilometres <i>Group</i>	(million)	up 7.5%	15,406	14,336
Available tonne kilometres <i>Group</i>	(million)	up 9.1%	22,403	20,542
Passenger load factor <i>Mainline scheduled services</i>	(per cent)	down 1.9 points	71.3	73.2



## Chairman's Statement

The year's profit attributable to shareholders was £460 million, 16.8 per cent less than the previous year's record result. Your Board has recommended a final dividend of 11.9 pence per ordinary share. When added to the interim dividend of 4.7 pence, this will give total dividends of 16.6 pence per share for the year ended March 31, 1998.

### The Year In Retrospect

Although British Airways has experienced mixed fortunes, we must recognise that this was also a period of continuing, significant progress.

The strike by some members of cabin crew took place during the peak summer period with a serious effect on revenue and profit. Subsequent resolution of the dispute on a basis of mutual commitment to future success, through cost-efficiency and improved working practice, was an important outcome with good implications for the longer term.

More serious and sustained impact resulted from the high value of sterling on the foreign exchange markets. The strong pound has hindered the financial performance of many British businesses in which foreign earnings contribute to overall profit; and your Company has been no exception. Since the end of the financial year, the announcement of the first European countries to go into Economic and Monetary Union, together with the pegging of interest rates by the Bank of England, has started to bring sterling to a more acceptable lower level.

The losses from these factors were partly balanced by gains from the ongoing Business Efficiency Programme (BEP) which delivered £250 million of further cost performance improvements during the year. Other important

benefits came from the sale of assets including: our shareholding in US Airways; part of the stake in the Galileo International computerised reservations system; and our last-remaining, owned and operated in-flight catering unit at Heathrow.

Although the airline's unit operating costs continued to come down, in line with BEP objectives, yields fell more sharply, due to the depressed sterling value of the 53 per cent of our sales made in foreign currencies. Overall, the operating margin was reduced.

Your Company remains committed to achieving increased cost competitiveness and greater efficiency, on a global scale.

### The Global Marketplace

Our established strategy to secure strong global market presence through international alliances continues. The existing range of British Airways' partnerships involving Qantas, Deutsche BA, Air Liberté and Canadian Airlines International, has been expanded to include Finnair and LOT Polish Airlines. A memorandum of understanding was signed with the Spanish carrier, Iberia; and discussions are taking place with a number of other parties. The alliances are complemented by the portfolio of franchise operators which effectively takes the British Airways brand and world-wide network into smaller but important markets in Britain and other countries.

The strategy to develop Gatwick Airport as a network hub, working in tandem with Heathrow, progressed very satisfactorily.

Your Board approved plans for the formation of a stand-alone subsidiary to compete, from a base at Stansted Airport, in the fast-growing, European low-cost, 'no-frills' alternative air travel market. The new airline, 'go', launched Boeing 737 services to Milan and Rome at the end of May. A third destination, Copenhagen, will be added in June.



Sir Colin Marshall  
Chairman

**"The hallmark of British Airways' success, so far, has been a dedication to invest relentlessly in the continuous up-grading of our business..."**





**“The investment in e-ticketing, self-ticketing and on-line booking has eased congestion at the airport – making the customers happier and my job more enjoyable.”**

*Patty Clay-Hahn,  
Check-In Agent, USA*

### **Regulatory Matters**

Further delays to the implementation of our planned alliance with American Airlines, while other competitive airline combines are operating, has been a source of continued frustration. We believe that all reasonable concerns raised by the regulatory authorities in London, Brussels and Washington have been answered; and that the alliance should now be allowed to proceed.

At the centre of questions concerning this alliance (and the air transport industry's competitive evolution, in general), is the matter of airport infrastructure, especially landing and take off slots. The obvious answer of increased runway capacity at key, hub airports is, on environmental grounds, rarely a viable option. Despite views to the contrary within the European Commission, we still believe that a system of slot trading among airlines, as effectively practised in the United States, remains the most satisfactory and transparent of all possible solutions.

### **Infrastructure Investment**

The hallmark of British Airways' success, so far, has been a dedication to invest relentlessly in the continuous up-grading of our business infrastructure. This year, commitment was made for £2 billion of further investment, principally in the aircraft fleet.

One of the year's more significant developments was the completion of Waterside, your Company's custom-built, £200 million combined business centre at Harmondsworth, close to Heathrow. Replacing obsolescent office accommodation at Hatton Cross and elsewhere in west London, Waterside is designed to increase efficiency and reduce cost, while providing a pleasant

**Investment in technology means check-in becomes faster and more convenient ...**

The growth in technology continues to shape radical changes in the airline industry and we are embracing this new age to make life easier for our customers.

Our innovative approach includes Internet selling through our award-winning website, the extension of domestic electronic ticketing to our international routes, self-service machines at domestic check-in, and bringing the convenience of telephone check-in to more and more customers. Our new business centre for frequent flyers at Heathrow's Terminal 1 is equipped with the latest in computer software enabling travellers to access valuable business information via the Internet and email.



working environment. The development includes the creation of a 240-acre park which will be open to the local community.

The new 'Terminal 1 British Airways' at Manchester Airport has been completed and now handles all of our services under one roof.

New domestic lounges have also been opened at Heathrow's Terminal 1. At JFK International Airport, the British Airways terminal is undergoing an extensive US\$100 million renovation. When completed, at the end of 1999, it will be New York's most advanced air passenger facility. The new, £250 million World Cargo Centre at Heathrow will open for business in January, 1999. The 1998 opening of the Heathrow Express rapid-transit rail service linking the airport with central London, is a substantial and much-awaited customer benefit. The inquiry into plans for Terminal 5 at Heathrow has gone into its third year and we continue to look forward to a successful, if protracted, outcome.

**"Your company remains committed to achieving increased cost competitiveness and greater efficiency, on a global scale."**

#### Our People

Investment in our people is, as always, to the fore. While education, training and career progression for the employees of today is a top priority, your Company is also planning recruitment for the years ahead. The objective is to secure the best talents available well into the next century.

This year, the quality, integrity and sheer professionalism of our people has been tested to the extreme. I congratulate all of them on their performance. Their contribution is recognised in the Profit Sharing Share Scheme which – in this year of depleted results – will give each eligible employee a bonus equivalent to a half-week's pay. Those electing to receive payment in shares, are offered a bonus enhancement of 20 per cent. The commitment of employees to their Company was nowhere more evident than in the overwhelming response to a new Sharesave Scheme which, for the first time, was made available to overseas staff, as well as those in the UK.

As ever, I pay tribute to the executive management team and to my fellow Board members. Your directors' support, wise counsel and corporate stewardship on behalf of Shareholders is much appreciated.

#### Community and Environment

Your Company makes its mark in communities around the world, through the extensive Community Relations programme. Its many goodwill projects and employee-inspired charities deliver care, compassion and practical help to many hard-pressed people. 'Change For Good', operated on behalf of UNICEF has, for instance, raised £5.5 million in the four years since its inception.

Close attention to responsibilities for environmental care and concern continue to form a benchmark for much of the rest of commerce and industry. Our efforts and achievements in this vital area will once again be open to public scrutiny through the latest annual Environment Report to be published in July, 1998.

#### Millennium Change

The implications for computerised systems of the year 2000 date change – the so called 'Millennium Bug' – have long been recognised by your Company. Preventative measures to ensure the safety and security of customers and employees, together with the continuity of business systems, are the responsibility of a special task force, the Year 2000 Project Board. £100 million is estimated as the cost of ensuring that all activities of British Airways and its associates are ready for the Millennium change.

**"British Airways is facing the future with confidence and ambition."**







**“There’s something thrilling knowing that I will be working in the world’s largest cargo centre.”**

*John McVey,  
Cargo Agent*

We continue our investigations into the state of preparedness of suppliers throughout the world, including government authorities and international bodies responsible for air traffic control and other technical services. An information booklet on the work of the Year 2000 Project Board is available to shareholders.

#### **Outlook**

British Airways is facing the future with confidence and ambition. The new corporate design, featuring a revised logostyle and the vibrant ‘Global Images’ artwork, signifies a dynamic regeneration. So, too, does the Waterside complex.

We remain well positioned in a world industry which continues to offer substantial growth and rising market sophistication. Future success will be defined by our ability to respond with invention, innovation and investment, to an increasing demand for globally-integrated travel and transport services. We believe our prospects are good, with forward strategies geared to these objectives.

**Sir Colin Marshall**  
*Chairman*

#### **New World Cargo centre ready for 21st Century ...**

Cargo is a £600 million business for British Airways and our new £250 million World Cargo centre at Heathrow is testament to the importance we place on global trade. The highly automated building will double the existing capacity for cargo through Heathrow to 800,000 tonnes a year, with the potential to grow to one million tonnes. The combination of this new building together with skilled and flexible employees will help deliver our vision to be a world-class cargo airline.



## Chief Executive's Statement

British Airways is a great British company.

British Airways is one of Britain's best modern companies.

British Airways carries on an international business, whose history is in state ownership and regulated markets, but which today is in private ownership in de-regulating markets. In tomorrow's world British Airways must compete in a global airline economy in de-regulated markets. And we must prepare for that future.

During the last twelve months we have been preparing the Company once again to face these and to ensure that above all we remain competitive.

This has meant that some quite far reaching changes have been necessary.

I would like to thank each and every employee of our Company for the contribution they have made to that change and to our investment in the future.

But radical change can be upsetting and the changes last year did cause upset both within the Company and to our customers.

But as we look forward to the year ahead customer confidence has returned and there is a new spirit of confidence and optimism in the Company. Our record breaking punctuality and baggage delivery

performances – two vitally important factors in the perception our customers have of the airline have helped this.

Thanks to the efforts of our people and our continued evolution as a Company we will be recruiting 15,000 new employees over the next three years. They will come from all parts of the world, reflecting the fact that British Airways

is becoming a truly global Company. More than 60 per cent of our customers come from outside the UK and we expect this soon to rise to 80 per cent.

We are proud of our British heritage, but we must never forget that our customers and service belong to the world.

These are just some of the highlights of the financial year ending March 31, 1998.

We were in the second year of our business efficiency drive aimed at saving £1 billion a year by the turn of the century. We are still on track to achieve this despite external factors such as the continued strength of sterling.

We reacted quickly to the economic crisis in the Asia-

Pacific region by realigning capacity with an increase in some services and a reduction in others.

The cabin crew dispute resulted in a one-off cost of £125 million – but we did secure the £42 million a year savings which was required from the cabin crew budget.

The savings in operating costs have enabled us to plan the investment of £6 billion over three years on new services, products, aircraft and training.



Bob Ayling  
Chief Executive

**“British Airways  
is one of Britain’s  
best modern  
companies.”**

**“I would like to  
thank each and every employee  
of our Company for the  
contribution they have made...”**







“In the current environment of fierce global competition, I am confident that British Airways’ Special Services helps provide that ‘competitive edge’ which ensures that we have premium products which are second-to-none.”

*Francis de Souza,  
Special Services Executive*

The new corporate identity, which attracted so much attention during the year and which was warmly received throughout much of the world, was part of that investment.

During the year we put out to tender a potential £600 million spend to equip our highly successful regional subsidiaries with new aircraft for the new millennium. The new aircraft will enable us to provide better service to our customers who fly from the regions and it will help in our efforts to drive down operating and maintenance costs and to meet the stringent new noise regulations which come into effect in 2002.

Our fleet of older Boeing 747-136 aircraft will be disposed of and we will retire all our McDonnell Douglas DC10s and replace them with modern aircraft that have greater customer appeal.

We have introduced a new reward scheme for travel agents in the UK and US to encourage those agents who work hard to increase the sale of British Airways tickets.

Work began on fitting out a new £250 million World Cargo centre at Heathrow which, when it is opened in January 1999, will double the capacity for freight and mail.

The launch of the new low-cost carrier ‘go’ is our response to the growing demand for budget air travel. It will operate as a stand alone company, based at Stansted and we are confident that ‘go’ will add to customer choice, stimulate the market and provide healthy competition for other carriers.

#### **Expanding the brand to provide greater customer service ...**

In our drive to deliver a world-class travel experience, we are evolving into a world travel business stretching our brand into new business areas. The licensing of the British Airways brand on travel-related products and services, and our global cash-less phone service are but two examples of a building programme to drive British Airways towards new, yet related, profitable business opportunities.



In Europe we made great strides to meet the competitive challenge of established carriers and existing alliances. We are linking LOT Polish Airlines and Finnair to our subsidiaries of Deutsche BA and Air Liberté and together we will be able to offer customers a seamless service across Europe.

We still await approval for the alliance with American Airlines and the realisation of true 'open skies'.

The benefits of such an alliance are well understood, and we are hopeful of full approval by the autumn. The conditions upon which this can

go ahead, however, must be realistic and much depends upon the number of take off and landing slots each of us is asked to relinquish.

Meanwhile we continue to invest in developing our hub at Gatwick and this year we celebrated a decade of growth from the airport's North Terminal. Capacity has increased by 20 per cent, new larger aircraft have increased frequencies on existing services and eight new routes start this summer.

And we continue to nurture our global partnerships. Our links with Qantas, for example, are now delivering real benefits to both airlines with a total of 138 services between Australia and London offering our customers more flexibility on timings, routes and fares than ever before.

We are confident that our new service to Denver planned to launch in August will go ahead with full Department of Transportation agreement.

Increasingly we will harness new technology to make life easier for our customers with developments such as Internet selling through our award winning website and the extension of electronic ticketing to our

international as well as domestic routes where it proved so successful.

Following demand from our customers, we introduced one hundred per cent no-smoking during the year and have been very encouraged by the response.

Agreement was reached during the year on a new deal with the unions which had to include pay freezes, new lower starter rates of pay, new rostering agreements,

voluntary severance and early retirement for many. But now we have stability until the end of the century.

An ever-increasing number of employees can now benefit from a world-wide share save scheme, which is the largest of its kind.

I am a firm believer in involving everyone in the business. That is why we introduced BATV, the first truly global corporate television network to help improve our people's understanding of the business, its complexities, and the thinking behind management decision.

**"The savings in operating costs have enabled us to plan the investment of £6 billion over three years on new services, products, aircraft and training."**

**"My priority now is to keep your airline as the world's number one. Through investment in people and in the service we offer our customers, we will achieve that goal."**





**“Our move to an innovative workplace and our million pound investment in staff training will enhance our traditional quality of service to even greater levels.”**

*Kathleen Lee,  
Operational Research  
Analyst*

I would particularly like to thank our customers who gave their unwanted foreign coins to our dedicated cabin crew. As a result we collected £5.5 million for the children's charity, UNICEF.

My priority now is to keep your airline as the world's number one. Through investment in people and in the service we offer our customers, we will achieve that goal.

**Robert Ayling**  
*Chief Executive*

**Providing a new environment to improve productivity ...**

We are moving 2,800 of our people into a new, purpose built £200 million business centre, near Heathrow. It will be a catalyst for change for the airline, transforming the way we do business and improving productivity and business efficiency. 240-acres of the site will be open to the community as the biggest new public park to be created in the London area this century. The centre is called, Waterside, reflecting the rivers and lakes that surround the six adjoining buildings.





### Board Members

#### Sir Colin Marshall

Sir Colin Marshall is the Chairman, having succeeded Lord King in 1993. Before that he was Deputy Chairman and Chief Executive and joined BA in 1983. He is a member of the Nominations Committee. His earlier working life was spent with Sears Holdings plc, Norton Simon Inc., Avis Inc. and Hertz Corporation. Sir Colin is also President of the Confederation of British Industry, Chairman of Inchcape plc, Deputy Chairman of Siebe PLC and British Telecommunications plc. He is Chairman of London Development Partnership and a director of HSBC Holdings plc. Now 64, Sir Colin is married to Janet with one daughter. He enjoys playing tennis and watching most types of football.

#### Sir Michael Angus

Sir Michael is the Deputy Chairman and the senior non-executive director on the Board. He chairs the Audit, Remuneration and Nominations Committees of the Board. Sir Michael joined Unilever after leaving the RAF in 1954 and concluded a distinguished career there as Chairman from 1986 to 1992. After retiring from Unilever, he became non-executive Chairman of Whitbread PLC and The Boots Company PLC. He joined the Board of National Westminster Bank PLC as a director in 1991 as well as becoming Chairman of Governors of Ashridge Management College. Now 68, Sir Michael is married to Isabel and they have two sons, a daughter and seven grandchildren. Sir Michael loves the countryside, wine and mathematical puzzles.

#### Robert Ayling

Bob Ayling is the Chief Executive, responsible to the Board for the day-to-day management of BA. Before assuming the top management role, he worked under Sir Colin Marshall as Group Managing Director and before that as Director of Marketing and Operations, Director of Human Resources, Company Secretary and Legal Director. Bob is a qualified solicitor who worked initially in private practice and then as a civil service lawyer before joining BA in 1985. Now 51, Bob is married to Julia and they live in London with their three children. Bob spends any free time out of doors hill walking or sailing. Bob's other directorships include: Qantas Airways Ltd (as nominee for BA), Royal Sun Alliance Group PLC and Millennium Central Ltd. Bob also represents BA as a member of Business in the Community and the Association of European Airlines.

#### Derek Stevens

Derek Stevens is the Chief Financial Officer and joined the Board in that position in 1989, after working as Finance Director for TSB Group Plc. Derek is also a director of Galileo International Inc. (as nominee for BA) and a director of Commercial Union plc. Now 59, Derek lives in West London with his wife Clare and enjoys horse riding, mainly in Richmond Park. They have four children and one grandson.

#### Captain Colin Barnes

Captain Barnes chairs the Board's Safety Review Committee. A career pilot with BA, Colin Barnes retired as a full time executive in 1991 as the Chief Pilot and Director of Flight Crew of the airline. He is also a member of the Policy Committee and the Council of The Air League and attends meetings of the Flight Safety Foundation on behalf of BA. He was elected a Fellow of the Royal Aeronautical Society in 1997. Now 64, Colin is married to Brenda with two daughters and a son. He plays tennis regularly.

#### Michael Davies

Michael Davies is a non-executive director of the Company and a member of the Audit, Remuneration, Nominations and Safety Review Committees of the Board. An accountant by profession, Michael is also Chairman of Perkins Foods PLC, Simon Group PLC and National Express Group PLC. Now 63, he lives in Surrey with his wife Jane, assisting her with her work for the Mark Davies Injured Riders Fund. They have three daughters.

#### Dr Ashok Ganguly

Ashok Ganguly is a non-executive director of the Company and a member of the Audit and Safety Review Committees of the Board. An Indian citizen and a scientist by profession, Ashok's principal career of 35 years was with Unilever from which he retired in 1997 as director responsible for world-wide research and technology. He was elected a fellow of the Royal Society of Chemistry in 1991. He is also Chairman of ICI India Ltd, Technology Network and a director of ICICI, Mahindra & Mahindra Ltd and Sedgwick Parekh Health Management Ltd. Now 62, he divides his time between Mumbai and London. He is married to Connie with two daughters. He is a keen weekend golfer.

#### Baroness O'Cathain

Detta O'Cathain is a non-executive director of the Company and a member of the Audit, Remuneration, Nominations and Safety Review Committees of the Board. She is an economist by profession, working first for Aer Lingus and subsequently for British Leyland, the Milk Marketing Board and as Managing Director of the Barbican Centre in the City of London. Detta was made a Life Peer in 1991 and takes an active part in the House of Lords. She is also a director of Tesco Plc, Thistle Hotels PLC, BNP UK (Holdings) Ltd and SAUR Water Services plc. Now 60, she loves music, swimming and walking and lives in Sussex with her husband Bill.

#### Lord Renwick of Clifton

Robin Renwick is a non-executive director of the Company and a member of the Safety Review Committee of the Board. He had a distinguished diplomatic career culminating in his appointment as H M Ambassador to South Africa and then to Washington. He was made a Life Peer in 1997.





“Our dedicated management team is committed to delivering value to the people who invest in British Airways – shareholders and employees alike – by preparing their company for the new millennium.”

*Bob Ayling,  
Chief Executive*

He is Chairman of Robert Fleming Inc. and Fluor Daniel Ltd and a director of the Fluor Corporation, Billiton plc, Liberty International plc, Canal Plus and Compagnie Financiere Richemont AG. Now 60, Robin lives in London with his wife, Annie. They have a son and a daughter. Robin has written several books, the latest of which, *Unconventional Diplomacy*, was published in 1997.

**The Hon. Raymond Seitz**

Raymond Seitz is a non-executive director of the Company and a member of the Safety Review Committee of the Board. An American citizen, Ray pursued a career in the United States diplomatic service and was US Ambassador to London between 1991 and 1994. He is Vice-Chairman of Lehman Brothers International and a director of The Chubb Corporation, General Electric Company plc, Cable and Wireless plc, The Telegraph Group plc and Rio Tinto plc. Now 57, Ray lives in London with his wife, Caroline. They have two sons and a daughter. He broadcasts regularly about Anglo-American relations and has recently published a book entitled *Over Here*.

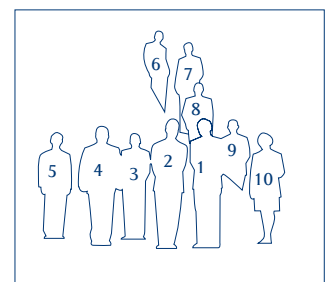
**President Emeritus**

The Rt. Hon. The Lord King of Wartnaby (80)  
*Chairman 1981-93, President 1993-97*

**EXECUTIVE TEAM\***

- Bob Ayling (51)  
*Chief Executive*
- Martin George (36)  
*Director of Marketing*
- Charles Gurassa (42)  
*Director of Passenger & Cargo Business*
- David Holmes (63)  
*Director of Corporate Resources*
- Captain Mike Jeffery (53)  
*Director of Flight Crew*
- Colin Matthews (42)  
*Managing Director, BA Engineering*
- Roger Maynard (55)  
*Director of Investments & Joint Ventures*
- John Patterson (50)  
*Director of Strategy*
- Derek Stevens (59)  
*Chief Financial Officer*
- Mike Street (50)  
*Director of Customer Service & Operations*
- Mervyn Walker (39)  
*Director of Human Resources*
- Simon Walker (44)  
*Director of Communications*
- Peter White (51)  
*Director of Sales*

\*Membership as at May 27, 1998



1. Sir Colin Marshall
2. Bob Ayling
3. Dr Ashok Ganguly
4. Sir Michael Angus
5. Derek Stevens
6. The Hon. Raymond Seitz
7. Lord Renwick of Clifton
8. Captain Colin Barnes
9. Michael Davies
10. Baroness O’Cathain



## The Board and Board Committees

The Board of British Airways Plc has ten members, including a balance of executive and non-executive directors. Two of the directors, the Chief Executive and the Chief Financial Officer, are full time executives and have service contracts with the Company. Of the eight non-executive directors of the Board, the Chairman, Sir Colin Marshall and Captain Colin Barnes, who chairs the Safety Review Committee, were formerly executives of the Company. The other six, Sir Michael Angus, Mr Michael Davies, Dr Ashok Ganguly, Baroness O’Cathain, Lord Renwick of Clifton and The Hon. Raymond Seitz are fully independent non-executive directors drawn from a diversity of business, financial and diplomatic backgrounds bringing a broad range of views and experiences to Board deliberations. Sir Michael Angus is the non-executive Deputy Chairman and the senior non-executive director.

**“Investment in our people is, as always, to the fore.”**

The Board meets ten times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the Company and to this end the Board has drawn up a schedule of matters which require Board decision. In recognition of the nature of the Company’s business, the Board holds three of its meetings each year at important destinations on British Airways’ route network.

All directors receive regular information about the Company so that they are equipped to play as full as possible a part in Board meetings. In addition all Board members have access to the Company Secretary for any further information they require. Non-executive directors are encouraged to visit the Company’s operations and to speak with customers and employees whenever they fly. Independent professional advice would be available to directors in appropriate circumstances, at the Company’s expense.

The Board has four standing Board Committees which meet regularly under their own terms of reference:

The Audit Committee meets quarterly under the chairmanship of the non-executive Deputy Chairman, Sir Michael Angus. Its members, in addition to Sir Michael are Mr Michael Davies, Dr Ashok Ganguly and Baroness O’Cathain, all of whom are independent non-executive directors. The external and internal auditors and the Legal Director attend all meetings of the Committee and executives attend as required. The Committee reviews the Company’s financial statements to ensure that these present fairly its financial position. It also reviews accounting policies, internal audit

reports, compliance procedures including the Year 2000 programme and the Company’s Code of Business Conduct.

The Safety Review Committee meets every other month under the chairmanship of Captain Colin Barnes, a former Chief Pilot of the airline. Its members are Mr Michael Davies, Dr Ashok Ganguly, Baroness O’Cathain, Lord Renwick and The Hon. Raymond Seitz. The Committee considers matters relating to the operational safety of the airline and subsidiary airlines as well as health and safety issues.

The Nominations Committee meets once a year and additionally if required to consider the balance of the Board’s membership, to identify any additional skills or experience which might benefit the Board’s performance and to interview and recommend appointments to the Board. The Committee also reviews the performance of any director seeking re-election at the forthcoming annual general meeting. Its Chairman is non-executive Deputy Chairman Sir Michael Angus and its members are Sir Colin Marshall, Mr Michael Davies and Baroness O’Cathain. No member of the Committee participates in any discussion of his or her own performance.

The Remuneration Committee of the Board meets at least once a year to determine the Company’s policy on executive directors’ remuneration, to review that remuneration, to consider and decide grants under the Company’s Long Term Incentive Plan and to advise on remuneration for senior executives below Board level. The Committee is chaired by Sir Michael Angus, non-executive Deputy Chairman and its other members are Mr Michael Davies and Baroness O’Cathain.

### REPORT OF THE REMUNERATION COMMITTEE

The Company has continued to pursue a policy on remuneration aimed at providing compensation packages at market rate which reward successful performance and attract, retain and motivate senior executives. The remuneration packages offered by the Company are comparable with other international businesses of similar size and nature to British Airways.

The remuneration package consists of a basic salary, an annual bonus and participation in a Long Term Incentive Plan. The Company also provides private health care, a car and fuel.

In framing its remuneration policy, the Committee has given full consideration to Section B of the best practice provisions annexed to the London Stock Exchange Listing Rules.

### Basic Salary and Benefits

The basic salary reflects the level of responsibility of the executive director, his market value and individual performance. In reviewing basic salary, independent external advice is taken on salaries for comparable jobs in companies similar to British Airways, as well as the remuneration earned by leaders of other international airlines.





### Annual Bonus

Executive directors and senior executives participate in an annual bonus scheme which is designed to reward achievement of pre-tax profit targets agreed by the Committee and linked to the budget approved by the Board. For executive directors, maximum bonus is capped at 50% of salary which is payable only if the pre-tax profit target (which is in itself stretching) is exceeded by a significant margin. Robert Ayling and Derek Stevens participated in this scheme, but no annual bonus was achieved in the year under review.

### Long Term Incentive Plan

The British Airways Long Term Incentive Plan 1996 was approved by the shareholders at the annual general meeting in July 1996. The Plan permits the Remuneration Committee to make awards of options over shares to selected executives conditional upon the Company's performance relative to other companies in the FTSE-100 index. Awards become unconditional as to one third on the third, fourth and fifth anniversaries of the start of the financial year in which the award was made if the Company's ranking by total shareholder return (TSR) places it at 75th or above. A lower number of options are awarded pro-rata if the Company is ranked between 41st and 74th and no shares are awarded if the TSR is at or below the 40th percentile. All awards are subject to the Remuneration Committee being satisfied that the Company's overall financial performance justifies the grant of the option.

Robert Ayling and Derek Stevens received conditional awards under the Plan during the year under review, details of which may be found on page 15.

### Service Contracts

Robert Ayling and Derek Stevens hold two year service contracts with the Company. This was market practice at the time of their respective appointments and no change is proposed. Neither service contract has provision for pre-determined compensation on termination but full mitigation would be sought. In the event of a new appointment, the length of service contract would be determined by the Committee in the light of the then prevailing market practice and the Committee acknowledges that the trend is towards contract periods which reduce to one year after an initial period.

### Non-executive Directorships

The Board encourages executive directors to broaden their experience outside the Company. Accordingly they are permitted to take up a limited number of non-executive appointments from which they may keep any fee.

### Pension Schemes

Executive directors participate in the New Airways Pension Scheme which is the main contributory pension scheme open to employees of the Company. Under Robert Ayling's and Derek Stevens' service contracts, pensionable remuneration includes any

annual bonus paid, as this was the prevailing practice for senior executives in the Company at the time Mr Ayling and Mr Stevens joined. The Committee does not propose to change these arrangements since these are contractual rights. Future appointments of executive directors will not however include the annual bonus for pensionable purposes. Provision for payment of a widow's pension on death and life insurance providing payment of a lump sum for death in service is also made.

**“Our established strategy  
to secure strong  
global market presence  
through international  
alliances continues.”**

### Non-executive Directors' fees

The Chairman's fee is determined by the Remuneration Committee. Fees for the non-executive directors (other than the Chairman) are determined by the Board on the recommendation of the Chairman. Neither the Chairman nor the non-executive directors participate in the Long Term Incentive Plan nor are their fees pensionable. Sir Colin Marshall and Captain Barnes, being former executives of the Company, are in receipt of a pension under the New Airways Pension Scheme.

Details of the directors' remuneration for the year under review and their share interests as at March 31, 1998 may be found on pages 14 and 15.



REPORT OF THE REMUNERATION COMMITTEE (continued)

Directors' Remuneration, Share Interests and Long Term Incentive Plan

The remuneration of the Executive Directors was:	Robert Ayling		Derek Stevens	
	1998	1997	1998	1997
£' 000				
Basic salary	450	400	260	235
Taxable benefits	8	13	9	7
Performance related bonus		100		59
<b>Total</b>	<b>458</b>	<b>513</b>	<b>269</b>	<b>301</b>

Taxable benefits include a company car, fuel and private health insurance. Performance related bonuses are driven by corporate performance targets set at the beginning of each financial year by the Remuneration Committee.

Pensions

	Age as at March 31, 1998	Annual pension earned during 1997-98	Total annual Pension as at March 31, 1998	Transfer value of increase in accrued benefit
Robert Ayling	51	30,674	211,015	415,682
Derek Stevens	59	5,031	183,481	56,752

Transfer values indicate cost to the pension scheme, they cannot meaningfully be added to annual remuneration.

The fees paid to Non-Executive Directors were:

	1998	1997
£' 000		
Sir Colin Marshall	251	265
Sir Michael Angus	71	70
Captain Colin Barnes	47	47
Michael Davies	26	26
Dr Ashok Ganguly	27	23
Baroness O'Cathain	29	26
Lord Renwick	26	27
The Hon. Raymond Seitz	24	24

Sir Colin Marshall's fee as Non-Executive Chairman was £250,000 per annum in addition to which he enjoyed taxable benefits of £1,000. Sir Michael Angus' fee as Non-Executive Deputy Chairman was £67,340 per annum also reflecting his chairmanship of the Audit, Remuneration and Nominations Committees. Captain Colin Barnes received £11,500 per annum for his chairmanship of the Safety Review Committee in addition to the fee paid to the other Non-Executive Directors. This comprised for the year under review a basic £20,000 per annum plus £500 for each Board Committee separately attended. The annual basic fee has been revised to £22,500 per annum with effect from April 1, 1998. Reviews are conducted every three years.

Directors' Share Interests at March 31, 1998

Number	British Airways Plc				British Airways Capital Limited	
	Ordinary shares subject to no restrictions		Ordinary shares subject to restrictions		Convertible Capital Bonds	
	March 31, 1998	April 1, 1997	March 31, 1998	April 1, 1997	March 31, 1998	April 1, 1997
Sir Colin Marshall	52,961	49,789	3,224	5,080	11,304	11,304
Sir Michael Angus	4,488	3,876			1,333	1,333
Robert Ayling	37,872	36,503	4,397	4,593		
Derek Stevens	14,682	13,673	4,397	4,233	109	109
Captain Colin Barnes	20,769	20,571			644	644
Michael Davies	5,224	5,224			2,221	2,221
Dr Ashok Ganguly	100					
Baroness O'Cathain	5,100	5,100				
Lord Renwick	2,000	1,000				
The Hon. Raymond Seitz						
	<b>143,196</b>	<b>135,736</b>	<b>12,018</b>	<b>13,906</b>	<b>15,611</b>	<b>15,611</b>

No director has any beneficial interest in any subsidiary undertaking of the Company other than those shown above in the 9.75 per cent Convertible Capital Bonds 2005 of British Airways Capital Limited.

There were no changes to the directors' interests shown above from April 1, 1998 to May 27, 1998.



### Directors' Share Options at March 31, 1998

The following directors held options to purchase ordinary shares of British Airways Plc granted under the British Airways Executive Share Option Scheme 1987:

	Date of grant	Number of options	Option price	Exercisable for seven years from
Sir Colin Marshall	June 9, 1993	81,911	293p	June 9, 1996
	July 1, 1994	12,903	372p	July 1, 1997
	Aug 11, 1994	95,465	419p	Aug 11, 1997
Balance at April 1, 1997 and March 31, 1998		190,279		
Robert Ayling	June 9, 1993	102,389	293p	June 9, 1996
	July 1, 1994	16,129	372p	July 1, 1997
	Aug 11, 1994	81,145	419p	Aug 11, 1997
	June 30, 1995	14,814	405p	June 30, 1998
Balance at April 1, 1997 and March 31, 1998		214,477		
Derek Stevens	May 26, 1989	208,640	192p	May 26, 1992
	June 1, 1990	143,183	196p	June 1, 1993
	June 16, 1992	46,022	261p	June 16, 1995
	June 9, 1993	13,651	293p	June 9, 1996
	July 1, 1994	5,645	372p	July 1, 1997
	June 30, 1995	7,654	405p	June 30, 1998
Balance at April 1, 1997 and March 31, 1998		424,795		

In addition to the above, Sir Colin Marshall, Robert Ayling and Derek Stevens each hold 1,326 options at 286 pence under the 1993 operation of the British Airways Savings Related Share Option Scheme 1987 which will be exercisable on December 1, 1998. Robert Ayling and Derek Stevens also each hold 559 options at 418 pence under the 1998 operation of the British Airways Savings Related Share Option Scheme 1996, exercisable on May 1, 2001. The options held by Sir Colin Marshall were granted whilst he was an executive of the Company. No options lapsed during the year. No further grants under the British Airways Executive Share Option Scheme 1987 will be made.

### Long Term Incentive Plan 1996

The following directors held conditional awards of options over ordinary shares of British Airways Plc granted under the British Airways Long Term Incentive Plan 1996 on August 2, 1996 (1) and June 13, 1997 (2):

Robert Ayling: 57,034 shares (1), 46,940 shares (2) Derek Stevens: 33,507 shares (1), 27,121 shares (2)

One third of each individual award may vest at the end of the third, fourth and fifth financial years from the year of the grant if the performance of the Company, measured by total shareholder return (TSR) from the year of the grant through to the end of the year in question, places the Company at or above the 75th percentile when compared with the TSR for each of the companies in the FTSE-100 index. If the Company's TSR for the period to that financial year end is at or below the 40th percentile, no options will be granted. If the Company's TSR for that period is between the 41st and 74th percentiles, the number of options will be determined pro-rata on a straight line basis. No payment is due upon exercise of options. Options are exercisable for seven years from vesting. All grants of options are subject to the Remuneration Committee being satisfied that the Company's overall financial performance justifies the grant of an option.

Mid-market prices of the ordinary shares	1998	1997
At March 31	607.5p	655.5p
Highest in the year	760.0p	664.0p
Lowest in the year	499.5p	506.5p

On behalf of the Board

Gail Redwood

Company Secretary

May 27, 1998





## Directors' Report

The directors have pleasure in presenting their Report and Accounts for the year ended March 31, 1998. The accounts are set out on pages 30 to 58.

### Principal Activities

The main activities of British Airways Plc and its subsidiary undertakings are the operation of international and domestic scheduled and charter air services for the carriage of passengers, freight and mail and the provision of ancillary services.

### Results for the Year

Profit for the year attributable to members of British Airways Plc amounted to £460 million, against £553 million in the previous year. The Board recommends a final dividend of 11.9p per share. An interim dividend of 4.7p per share was paid in January making a total of 16.6p per share, an increase of 10.3 per cent on the previous year. After providing £176 million for dividends, the retained profit for the year amounted to £284 million.

### Directors

The membership of the Board has remained unchanged during the year to March 31, 1998.

Sir Michael Angus, Mr Derek Stevens and The Hon. Raymond Seitz retire by rotation in accordance with the Company's Articles of Association at the annual general meeting to be held on July 14, 1998. Sir Michael Angus is the non-executive Deputy Chairman of the Company and seeks re-election until the annual general meeting in the year 2000 by which time he will have reached his 70th birthday and will be obliged to retire under the Company's Articles of Association. Derek Stevens is the Chief Financial Officer of the Company and has a service contract with the Company. The Hon. Raymond Seitz is a non-executive director of the Company. Biographical notes about the directors seeking re-election are set out on pages 10 and 11 and in the explanatory notes to the notice of annual general meeting.

The names and details of all the directors are set out on pages 10 and 11. Their membership of Board Committees and the report of the Remuneration Committee are set out on pages 12 and 13. The remuneration and share interests of the directors are set out on pages 14 and 15.

### Employee Involvement

The Company is committed to recognising the contribution to its success by its well motivated and dedicated employees and to involve them fully in the Company's fortunes.

As in previous years, the Company is operating a Profit Sharing Share Scheme for eligible employees world-wide. This year the scheme will generate a bonus equivalent to half a week's basic pay. The Company will again be offering an additional bonus of 20 per cent, as an incentive for employees who use their profit share

payment to acquire shares in the Company instead of taking this in cash. The offer of taking the profit share payment in shares instead of cash is again being extended to employees outside the UK where local tax regulations permit.

The Company is also fully committed to increasing employee participation and would like to see the number of staff holding shares and their shareholding increased from the current levels of some 83 per cent and 4.1 per cent respectively. To that end the Company has two Savings Related Share Option Schemes currently in operation.

The 1993 Savings Related Share Option Scheme enables employees to save up to £55 a month, with the option, after five years, to purchase shares at the price of 286 pence per share; or alternatively to redeem the savings in the normal way. The scheme will mature in December 1998.

In February 1998 the Company launched a new scheme, which enables employees to save up to £60 a month, with the option, after three years, to purchase shares at the price of 418 pence per share; or alternatively to redeem the savings in the normal way. This scheme was offered to eligible employees in the United Kingdom and 79 other countries. A similar scheme operates in the USA.

The Company intends to operate further Savings Related Share Option Schemes every other year.

### Equal Opportunity

British Airways' Equal Opportunity Policy and Code of Practice is underpinned by a Steering Group chaired by the Director of Human Resources and comprising senior line managers who champion equal opportunity and diversity throughout the Company. By this means, the Company ensures its Policy is translated into actions and that those actions take account of local departmental circumstances.

The Company continues to be actively involved in Opportunity 2000 and Race for Opportunity, a national campaign to help and encourage ethnic minorities to succeed in areas of employment, community affairs and business activity. In addition, the Chief Executive has signed the Commission for Racial Equality's Leadership Challenge, through which business leaders commit themselves to promote racial equality and diversity.

### Charitable and Political Donations

British Airways charitable donations in the year under review were £1,214,000 being a 13 per cent increase on 1997 (£1,070,000).

Our investment in the community is much greater than indicated by the above figure. As members of the Per Cent Club, our contributions were audited by Business in the Community in 1996/7 and totalled £7.3 million – this latter total (unlike the charitable donations figure) includes the market value of gifts in kind (notably air tickets) and services donated.





**“Our constant focus on all aspects of safety, combined with new services such as the award winning Flying Beds in First; Goodnight Service in Club World and the improvements in World Traveller have truly made the in-flight experience a quality one.”**

*Estelle Moffat,  
Cabin Crew*

Our Change for Good programme with UNICEF has now raised over £5.5 million for needy children around the world. We collect unwanted foreign currency in-flight from our customers and pass the proceeds to UNICEF for investment in projects for children.

We are proud of the achievements of some of our employees in their charitable endeavours:

Pat Pearce Cabin Services Director and Derek Pereira Flight Engineer received the MBE from H. M. The Queen for their work for Dreamflight, the charity they founded ten years ago to take seriously ill children on the trip of a lifetime to Disneyworld in Florida.

David Mustill, a dispatcher at Heathrow, has raised all the funds for, and physically helped build a school where none previously existed for over 500 children in a community 30kms outside Accra, Ghana.

British Airways Happy Child led by Dougie Wood MBE continues to raise funds and provide fun and excursions for seriously disadvantaged children in the United Kingdom.

Britt Angel, founder of the British Airways Runners (who deliver much needed provisions and clothing to destitute street children around the world), was recognised by her selection as Airline Personality of

#### **Providing a world-class experience in the air ...**

Being the world's favourite airline is about exceeding our customers' expectations with the premium products and services we offer. In the near future, new world traveller will offer a compelling package of benefits which will surpass those of our competitors and reinforce the premium image of the British Airways brand. This package will reflect the very broad range of passengers we carry in world traveller, whether it be in terms of cultural diversity or their reason for travel. New world traveller will be a significant demonstration of the substance behind our new identity – a great British airline with a clear focus on superior customer service.



the Year in a poll of frequent business flyers by Executive Travel magazine.

The Dhaka Orphanage is still strongly supported by British Airways employees and Pat Kerr MBE formerly a stewardess with British Airways was the subject of a Carlton Television documentary charting its achievements over the past 10 years.

No political donations were made during the year (1997: nil).

### Environment

One of the Company's five key values is to be a "Good Neighbour" showing concern for the environment and the community.

This is supported by a strong statement of environmental policy. There is a small central environmental group charged with implementing the policy through provision of support and advice, as well as measuring and monitoring of performance.

This programme includes site audits and reviews of specific topics within key areas of: noise; fuel efficiency and emissions to the atmosphere; waste, materials and water; congestion in the air and on the ground; and tourism and conservation.

The airline supports two major environmental outreach programmes: the British Airways Tourism for Tomorrow Awards, recognising environmental responsibility in the industry; and British Airways Assisting Conservation, which works largely by provision of assistance with travel to leading world-wide conservation organisations.

The airline has received awards for its environmental programmes from a number of organisations including ACCA (the Association of Chartered Certified Accountants), the Royal Geographical Society, the Smithsonian Institution and the World Travel and Tourism Council. Each year the airline publishes an Environmental Report in which progress against specific targets and specific environmental indicators are recorded. Copies of the 1997-98 report can be obtained on request from: Environmental Branch, British Airways Plc, Waterside (HBBC), PO Box 365 Harmondsworth, UB7 0GB, UK.

### Shareholders – Non-UK Nationals

At March 31, 1998, 30 per cent of the ordinary shares of the Company were held by non-UK nationals (1997: 22 per cent). Having regard to all relevant factors including the fact that there are no large interests of single or associated non-UK nationals and, in the absence of unforeseen developments, the directors do not expect (but without limiting their freedom to act) to seek to exercise their powers to restrict non-UK share ownership.

### Corporate Governance

The Company has complied throughout the year under review with the Code of Best Practice published in

December 1992 by the Committee on the Financial Aspects of Corporate Governance and with Section A of the best practice provisions annexed to the listing rules of the London Stock Exchange.

### Internal Financial Control

The directors are responsible for the Company's system of internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding:

- (a) the safeguarding of assets against unauthorised use or disposition, and
- (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The key procedures that the directors have established to provide effective internal financial controls are as follows:

Corporate objectives are communicated to all staff through the distribution of the mission, values and goals, supported by the Code of Business Conduct which conveys ethical values and establishes the norms of business behaviour throughout the Company.

A clear organisational structure exists detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, accountability, control consciousness and identifies appropriate training requirements. Action plans are consequently prepared and implemented to ensure that staff obtain the required skills to fulfil their responsibilities, and that the Company can meet its future management requirements.

A three year business plan sets the business agenda. The plan communicates the corporate strategy, agrees targets for financial return and service standards, identifies and prioritises improvement opportunities to deliver the targets and agrees capital and manpower requirements. The business plan priorities link into the annual budget process which defines specific departmental action plans. The budget confirms the targeted result can be achieved, satisfies departments that their plans are robust and establishes performance indicators against which departments can be evaluated. The budget is approved by the Board on an annual basis.

A comprehensive management accounting system is in place providing both key financial and operational performance indicators to executive management. Detailed management accounts are prepared to cover each major area of the business. Variances from budget are analysed, explained and acted on in a timely manner. The Board meets ten times a year to discuss performance and specific projects are discussed as and when required. Information systems are developed to support the Company's long-term objectives and are managed by a professionally staffed Information





Management Department. The Company follows a professional approach to financial reporting.

Manuals of policies and procedures are in place covering all significant areas of the business. These detail lower level controls including authorisation and approval processes.

Business controls are reviewed on an ongoing basis by the Internal Audit Department which operates internationally and to a programme based on risk assessment. The department is managed by professionally qualified personnel with experience gained from both inside and outside the industry. The department also ensures that recommendations made by both internal and external auditors to improve controls are followed up by management. The Audit Committee, comprising four non-executive directors, considers significant control matters raised by management and both the internal and external auditors. The Committee reports its findings to the Board.

The Board of Directors has reviewed the effectiveness of the Company's internal financial control system considering the processes set out above.

#### Going Concern

After making enquiries, the directors consider that the Company has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

#### Payment Policy

British Airways is a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and is committed to the payment of its suppliers to agreed terms. Further information in respect of this code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU.

Specific actions in pursuit of this commitment include the publication in 1995 of a corporate purchasing policy document which clearly sets out the Company's approach to supplier payment and the introduction of an integrated procurement and payment management system during 1997 with effective supplier payment as one of its core objectives. The number of days' purchases in creditors as at March 31, 1998 in respect of the Company is calculated as 40 days (1997: 43 days). (Calculation basis as defined by The Companies Act 1985.)

#### Auditors

The auditors, Ernst & Young, have indicated their willingness to continue in office and resolutions proposing their reappointment and authorising the directors to determine their remuneration will be proposed at the Annual General Meeting.

On behalf of the Board  
Gail Redwood  
*Company Secretary*  
May 27, 1998

## Report of the Auditors to British Airways Plc on Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed the directors' statement on page 18 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

#### Basis of Opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the directors' statements on internal financial control and going concern are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

#### Opinion

With respect to the directors' statement on internal financial control and going concern on pages 18 to 19, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company and examination of relevant documents, in our opinion the directors' statement on page 18 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Ernst & Young  
*Chartered Accountants*  
London  
May 27, 1998



### SUMMARY

Group profit before tax for the year was £580 million, down £60 million or 9.4 per cent on last year.

Operating profit was down £42 million on last year at £504 million. The reduction is more than explained by the strength of sterling throughout the year, which cost £200 million, partly offset by the benefit of lower fuel prices (£115 million). In addition to the impact of sterling's strength, this year's operating profit was also adversely affected by the Summer industrial dispute which cost £125 million, whilst the previous year's result included an exceptional restructuring charge of £127 million. Excluding all of these, operating profit would have risen by 6.1 per cent with cost efficiencies of £250 million delivered by the Business Efficiency Programme (BEP) partly offset by losses from Air Liberté (which joined the Group in January 1997) and higher engine maintenance charges.

During the year, the Group disposed of its investment in US Airways Group, Inc. for a profit of £129 million. A further profit of £45 million was achieved through the partial disposal of the Group's investment in Galileo International Inc. Last year's results included benefits of £125 million from restating the US Airways investment at its original purchase price, as well as dividends received of £45 million.

### OPERATING REVIEW

#### Business Performance

The year to March 31, 1998 saw the operating margin decline by 2.3 points from last year (excluding the exceptional operating charge of £127 million) to 5.8 per cent reflecting yields falling faster than unit costs. Yields (total traffic revenue per available tonne kilometre – ATK) fell by 5 per cent year-over-year reflecting the impact of the strong pound, and a lower seat factor, partly offset by fare increases. Unit costs (net operating expenditure per ATK) were 2.5 per cent down on a year ago and benefited from sterling's strength, lower fuel prices (14.8 per cent lower per US gallon) and particularly by cost improvements delivered by the BEP. These were partly offset by price increases charged by our suppliers, the impact of wage awards, higher engine maintenance charges and the inclusion of Air Liberté for the full year.

#### Turnover

For the year ended March 31, 1998, Group turnover increased by 3.4 per cent to £8,642 million.

Mainline scheduled passenger traffic (revenue passenger kilometres – RPKs) increased by 4.3 per cent while capacity (available seat kilometres – ASKs) rose 7.1 per cent. Passenger load factor for the year was 71.3 per cent, down 1.9 points. Yields (passenger revenue per RPK) declined by 1.4 per cent reflecting the increased strength of sterling partly offset by fare increases. Excluding the impact of the strong

pound, yields would have increased by 3.5 per cent year-over-year.

Cargo revenue rose by £30 million, or 5.3 per cent, to £595 million, with growth in volume (cargo tonne kilometres – CTKs) of 10.3 per cent offset by a decline in yields (cargo revenue per CTK) decline of 5.1 per cent caused mainly by the strength of sterling.

At the Group level total traffic (revenue tonne kilometres – RTKs) increased 7.5 per cent with total capacity (available tonne kilometres – ATKs) up by 9.1 per cent, slightly increased on a constant exchange basis.

#### Expenditure

Group operating expenditure (excluding last year's exceptional charge) increased by 5.9 per cent in the year to £8,138 million on a flying schedule (ATKs) 9.1 per cent above last year, resulting in a unit cost reduction of 2.5 per cent, slightly increased on a constant exchange rate basis.

The average number of employees in the Group for the year rose 4.2 per cent to 60,675. In terms of average manpower equivalent (MPE), the increase was 2.6 per cent to 60,770. Productivity, as measured in terms of Group ATKs per MPE, was up by 6.3 per cent. Employee costs decreased by 1.6 per cent to £2,211 million, reflecting the reduction in employee profit share bonus, exchange rate benefits and savings on outsourced activities partly offset by an increase in staff numbers (mainly customer contact staff), and the impact of pay settlements.

Depreciation costs increased by 8.9 per cent reflecting the increase in fleet size, whilst aircraft operating lease costs rose by 6.7 per cent. Fuel and oil costs fell by £52 million or 6.2 per cent on a year ago with benefits from lower fuel prices partly offset by a higher volume of flying.

Engineering and other aircraft costs increased 30.9 per cent to £614 million reflecting increased sub contract maintenance costs, higher overhaul activity and the inclusion of Air Liberté for the full year. In addition, £16 million of the costs charged this year were due to engine maintenance charges relating to the previous year.

Landing fees and en route charges rose by only 4.5 per cent to £703 million, with volume related increases partly offset by savings from exchange rates and negotiated reductions on specific routes. Handling charges, catering and other operating costs increased 9.9 per cent in line with increased volumes. Selling costs increased marginally by 2.5 per cent with volume related increases largely offset by exchange rate savings.

Accommodation, ground equipment costs and currency differences were 30.1 per cent higher than last year reflecting exchange losses on translation of assets held in foreign currencies, higher levels of expenditure on computer software and networks and other sub-





**“British Airways has invested significant time and resources into building a world-class financial services product range to deliver a truly ‘world travel’ service.”**

*Charles Weiser,  
Head of Financial Services  
and Business Partners*

contracted services. There have also been a number of changes in provisions relating to prior years, including provisions being made against certain old balances and the releases of the long-standing litigation provision and sundry other provisions. There has been no net effect on the result for the year from these provision changes.

#### **Geographical Analysis**

Operating results in all Regions were adversely impacted by the strong pound, although the effects were ameliorated in the Americas region by sterling's increased purchasing power. This negative impact was partly offset by the lower fuel prices which benefited all Regions.

Operating results in the UK and Europe fell significantly from a £6 million profit last year (excluding the exceptional charge) to a loss of £127 million this year. The Summer dispute hit this region's results harder than any other as most of the disruptions affected shorthaul traffic within Europe. In addition, the strength of sterling and the impact of the security stand-off over Air Algérie in Paris also affected the region's results as did the inclusion of Air Liberté for the full year.

Operating results in the Americas region increased by £31 million to £395 million with better passenger yields, particularly in premium cabins, more than offsetting lower seat factors.

#### **New products for a world travel service ...**

British Airways' shift of mission to become the 'undisputed leader in world travel' creates a new set of demands upon both the product range of the Company and its traditional customer relationships. Towards this end, British Airways has invested significant time and resources into building a world-class financial services product range to deliver a 'world-travel' service. Our customers bear testimony to the success of these developments to date: over £200 billion is spent on British Airways credit/charge cards world-wide; customers have taken out £200 billion worth of emergency medical cover via our global travel insurance and our customers have exchanged the equivalent of £40 million via the British Airways Travel Money foreign exchange service. We fully intend to build upon these successes.





Africa, Middle East and Indian sub-continent profits fell by £32 million to £125 million. This result was affected by the forced cessation of flights to Nigeria from May 1997, and the terrorist attack on Luxor. In the Far East and Australasia, profits were down £35 million to £111 million, both regions' results adversely affected by the strong pound.

#### Business Efficiency Programme

The Company announced the Business Efficiency Programme two years ago with a target to identify and deliver £1 billion of annual efficiency savings by March 2000. The programme continues on track and has delivered £250 million of cost efficiencies already.

Achievements over the last year include:

- Agreements with Cabin Crew 89 and British Airways Stewards and Stewardess Association (BASSA);
- The outsourcing of in-flight catering at Heathrow to Gate Gourmet, part of the SAir Group in December;
- Changes within the Engineering operation with the sale of the Wheels and Brakes business and the Landing Gear overhaul unit. A long-term contract was awarded to EDS to supply information technology to Engineering;
- A new travel agents commission scheme had been introduced in the UK and US.

Continuation of these cost improvements, improving the profitability of our European subsidiaries and improved asset utilisation will assure achievement of the £1 billion target.

#### Year 2000

In line with our goal of being a safe and secure airline, we have in place a structured and systematic programme to identify potential Year 2000 risks to our systems, equipment and supply chains and to take action where necessary. The investigation into our in-house computer systems is on track with major work and testing scheduled to be completed by the end of 1998.

It is recognised that many of the critical infrastructures and services on which we rely world-wide are the responsibility of other organisations in the aviation industry. We have taken a leading role in the work being undertaken by IATA and with suppliers and governments world-wide to protect against the 'Millennium Bug'.

The likely cost of the Year 2000 programmes has been estimated at £100 million. This takes into account amounts already spent and includes some spend incorporated into existing or planned investment in next generation systems and programmes.

#### Economic and Monetary Union (EMU)

As an international company with important markets and activities in Europe, the introduction of the single currency on January 1, 1999 is of particular importance

to British Airways, even though the UK has chosen not to join the EMU at present. British Airways has been preparing for EMU since early 1997 with many departments involved in analysing the potential impact and opportunities.

#### Alliance Benefits

During the last financial year British Airways extended its alliance network, signing memorandums of understandings with Finnair, Iberia of Spain and LOT Polish Airlines. Beyond Europe, British Airways developed its codesharing partnerships with Canadian Airlines and America West, and the now well-established relationship with Qantas was further strengthened by developments in the Joint Services Agreement. Opportunities to build relationships with other airlines in the Asia-Pacific region continue to be explored.

Discussions continue with the Office of Fair Trading and the European Commission on the proposed alliance with American Airlines. Their decisions are expected during the Summer.

By the early autumn, it is expected that the US Department of Transportation will complete its examination of the alliance and the related negotiation between the UK and the US Governments for a new bilateral air service agreement.

It is hoped that the outcome will allow British Airways to deliver the wide range of consumer benefits that would stem from such a world-wide alliance and would also ensure that the airline competes on equal terms with other existing alliance groupings.

#### Qantas

The year saw continued co-operation and progress for the British Airways/Qantas alliance. In March the two organisations celebrated five years of British Airways' 25 per cent investment in the Australian airline. Schedules continued to grow, with the two airlines expanding their co-operation on the 'kangaroo routes' between Europe and Australia. This included the launch of code-sharing services via Bangkok in addition to code-sharing via Singapore, offering customers the widest choice of flights, schedules and destinations between the two continents.

In November Qantas moved its Heathrow operations to Terminal 4, making it easier for the customers to transfer onto British Airways' extensive global network.

The two organisations continued to co-ordinate sales and marketing activity around the world and recently opened a new joint office in Kuala Lumpur, adding to the existing joint offices in Bangkok, Singapore and Japan. The two airlines continue to invest in joint airport facilities, with two new lounges in Bangkok and Kuala Lumpur, offering the best in customer service to all their passengers.





**“Our investment in over 44 exciting new planes will ensure that British Airways has one of the most effective, efficient and valued fleet in the aviation world.”**

*Captain Geoff Brousson,  
B757/767 Base Trainer*

Qantas pre tax profit for the six months ended December 31, 1997 (consolidated in our March quarter result) amounted to A\$271 million, an increase of 9.4 per cent on the corresponding period last year. Group profit after tax amounted to A\$166 million compared to A\$151 million in the prior period. Revenue for the six months was A\$4,194 million, up 5.6 per cent compared to last year with passenger revenues accounting for almost three quarters of the increase. Growth in operating costs was kept to 4.5 per cent, reflecting performance improvements. Total passenger revenue growth for the half year was healthy at 5.2 per cent, reflecting an increase in passenger yield of 3.0 per cent, which included a favourable impact from foreign currency movements. Excluding exchange movements, passenger yield increased by 1.7 per cent. A\$205 million was realised during the half year from new cost reduction, cost avoidance, productivity and revenue enhancement initiatives. Overall, cost per ASK, excluding the impact of unfavourable exchange movements, rose by 1 per cent partly due to growth in commission costs resulting from increases in passenger and freight revenues, and some changes in sales mix together with planned investment in product and service programmes.

#### **A new fleet for a new millennium ...**

Our fleet refinement programme will give British Airways one of the most modern and fuel efficient aircraft fleets in the world. Our aim is to provide our customers with the best possible service into the next millennium. These refinements accelerate the retirement of our older less efficient aircraft replacing them with models with greater customer appeal.



### Deutsche BA (DBA)

Operating losses (in sterling terms) reduced by a quarter during the year, even though DBA faced increasingly fierce competition in both its domestic and international markets. The move to an all Boeing 737-300 fleet from January 1998 has helped to rationalise operating costs. Further improvements are expected as older aircraft are handed back to lessors and new aircraft join the fleet by Spring 1999.

During the year DBA operated seven domestic and two international routes to Gatwick. In October 1997 it ceased flights between Gatwick and Berlin to allow resources to be used elsewhere in the Group. Two further codeshare agreements were signed with LOT and Finnair strengthening DBA's links to Eastern Europe and Scandinavia.

With the British Airways Group identity re-launch, DBA was re-branded in June 1997 using art work representing German culture. As part of its focus on core business DBA sold its catering subsidiary to Gate Gourmet and its engineering spare parts to FLS. On March 31, 1998, DBA became a wholly owned subsidiary of British Airways following the acquisitions of the remaining 51 per cent of shares previously held by German banks.

### Air Liberté

This year saw the merging of the operations of Air Liberté (acquired in January 1997) with TAT European Airlines. Whilst the losses to the Group increased compared to last year following the acquisition of Air Liberté, the full year losses of the combined operation were less than half of those made by the two (separate) airlines in 1996-97. This reflects consolidation of the route network, improved yields and lower unit costs, partially offset by the cost of restructuring the business.

Air Liberté has followed its strategy of market penetration through the development of commercial relationships with a number of regional carriers as well as American Airlines. The route network and frequencies were further revised in line with the consolidation of the fleet and international services to Morocco were closed.

### Franchising

As at March 1998, 113 aircraft have been franchised into British Airways colours, operating to 100 different destinations world-wide of which 74 are additional to the British Airways mainline network.

## FINANCIAL REVIEW

### Income From Interests In Associated Undertakings

British Airways' share of profits from associated undertakings decreased by £53 million to £61 million during the year with £34 million of the decrease attributed to preferred stock dividends received from US Airways last year. The airline's 25 per cent share of

the results of Qantas fell by £11 million over last year mainly due to the strength of sterling.

### Profit On Sale Of Fixed Assets

Net profit on disposal of fixed assets amounted to £164 million mainly due to the profit on disposal of investment in US Airways Group, Inc. of £129 million and the profit on the partial disposal of investment in Galileo International Inc. of £45 million.

### Net Interest Payable

Net interest payable fell by £14 million to £168 million principally due to the benefits from the devaluation of Yen loans. This reflects the fall in the value of Yen against the pound.

### Taxation

The analysis of the tax charge is set out in Note 11 to the accounts.

The charge for the year has been affected by tax losses generated in the UK largely as a result of an excess of tax allowances over depreciation arising from the acquisition of aircraft. Such losses have been carried back and utilised against profits of earlier periods and carried forward to be used against future profits. The tax charge has also been affected by the write off of surplus advance corporation tax, the recoverability of which is not foreseen in the next financial year. Overseas taxation has increased due to the tax on disposal profits from the sale of equity in US Airways Group, Inc. and Galileo International Inc.

### Earnings Per Share

Profit attributable to the members of British Airways decreased by 16.8 per cent to £460 million, after a higher tax charge this year as a result of the disposals in the US. Earnings per share for the year are 44.7p per share compared with 55.7p last year.

### Dividends

The Board recommends a final dividend of 11.9p per share, giving a total dividend for the year of 16.6p per share, compared with 15.05p per share in the previous year, an increase of 10.3 per cent.

### Share Capital

On June 16, 1997, 32,386,086 ordinary shares were issued in exchange for 75,788,829 Convertible Capital Bonds on the basis of one ordinary share for every 2.34 Bonds held. During the year, more than two million shares were issued on the exercise of options under employee share option schemes.

### Net Debt/Total Capital Ratio

Borrowings net of cash and short-term loans and deposits amount to £4,603 million at the year end, an increase of £645 million on last year. This is mainly the result of new finance lease and hire purchase borrowings (£1,302 million), offset to an extent by an increase in short-term loans and deposits (£90 million),





exchange effects (£126 million) and net repayment of borrowings (£394 million). Capital and reserves rose £337 million, giving a net debt / total capital ratio of 58.1 per cent, a 1.1 point increase over last year.

#### Review Of Cash Flow

Net cash inflow from operating activities totalled £736 million, down £476 million on last year. During the year there was significant investment in fixed assets (£1,638 million), including loans and leasing arrangements undertaken to finance new aircraft deliveries. The sale of the Group's holding in US Airways Group, Inc. and the sale of part of the Group's holding in Galileo International Inc. generated proceeds of £379 million and £82 million respectively and some strategic disposals of business units within British Airways and other miscellaneous disposals generated further proceeds of £118 million. The net financing requirement for the year amounted to £869 million. Overall cash decreased by £29 million.

#### Working Capital

At March 31, 1998, net current liabilities were £576 million, down £420 million on last year. This change reflects increased short-term loans and deposit holdings, a switch of some borrowings from short-term to long-term, a reduction in the restructuring provision made last year, which has been largely utilised, and lower year-over-year profit share provisions. In addition, sales in advance of carriage fell as a result of later booking profiles.

#### Capital Expenditure

Group capital expenditure on tangible assets is set out in Note 14e to the accounts.

#### Aircraft Fleet Changes

The number of aircraft in the Group increased by 22 to 330. This increase included an additional seven Boeing 747-400s, nine Boeing 777s and four Boeing 757-200s, all financed on cost-effective hire purchase arrangements by way of Japanese leveraged leases. One further Boeing 747-400 was purchased outright. One Boeing 757-200, two Boeing 737-300s and two de Havilland Canada DHC-8s were acquired on operating leases. In addition to these new deliveries, one Boeing 777 and one Boeing 757-200 delivered last year entered service during 1997-98. Two McDonnell Douglas DC-10-30s were subleased and three Boeing 737-200s and one Boeing 737-400 were returned to the lessor.

The restructuring of the DBA fleet continued with an additional eight Boeing 737-300s replacing Fokker and Saab aircraft which have either been sold or returned to lessor, thus giving DBA a one-aircraft-type fleet. Air Liberté also continued their fleet restructuring by the disposal of three Fokker 28s, the sublease of two ATR 42s and the return to lessor of three Boeing 737-200s replaced by Fokker 100s and MD 83s.

Orders were placed for 11 Boeing 777 aircraft (six in substitution for four Boeing 747-400s previously ordered), two Boeing 757-200s and five 737-300s. This is in line with the announcement in April of refinements to the fleet allowing the accelerated retirement of older, less efficient aircraft and reflecting the latest expectations for growth in the industry.

#### Financing

In May 1997, British Airways drew down a £150 million five year fixed rate bank-guaranteed loan from the European Investment Bank which had been arranged in March 1997, and a further £79 million seven year fixed rate bank-guaranteed loan from the same source was drawn down in March 1998. The purpose of these loans was to assist in funding the airline's ongoing longhaul fleet replacement programme.

At March 31, 1998, the undrawn balance of British Airways' US\$2.5 billion secured aircraft financing facility to support the acquisition of new Boeing 747-400 and new Boeing 777-200 aircraft, which was arranged in 1996, stood at US\$833 million.

#### Management of Financial Risks

The Board of Directors sets the treasury policies and objectives of the Group, and lays down the parameters within which the various aspects of treasury risk management are operated. Responsibility for ensuring that treasury policies and objectives are consistent and compatible with the Group's overall financial strategy and the external financial environment in which British Airways operates is vested in a Finance Policy Group, which makes suitable proposals and recommendations to the Board of Directors. Group treasury implements the agreed policies on a day-to-day basis with a view to meeting the treasury objectives in a risk averse though cost effective manner. These objectives include ensuring that the Group has sufficient liquidity to meet its day-to-day needs and to fund its capital investment programme; deploying any surplus liquidity in a prudent and profitable manner; managing currency, interest rate and credit exposures within the framework and guidelines laid down by the Board of Directors; and managing the Group's relationship with a large number of diverse banks and other financial institutions world-wide.

#### Financing and Interest Rate Risk

Much of the Group's indebtedness is asset related, reflecting the capital intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers. These factors are also reflected in the medium to long-term maturity profiles of the Group's loans, finance leases and hire purchase arrangements. The incidence of repayments is shown in Note 26c.

The range of interest rates in respect of all borrowings, comprising both fixed and floating-rate obligations, is shown in Note 10. At March 31, 1998 34 per cent of



the Group's borrowings (after swaps), net of cash, short-term loans and deposits, were at fixed rates of interest, and 66 per cent were at floating rates. Although the Group's borrowings are denominated in a variety of currencies, sterling and US dollars predominate: sterling represents the Group's natural "home" currency, whilst a substantial proportion of the Group's fixed assets are priced and transacted in US dollars. Details of the currency mix of the Group's gross borrowings are shown in Note 26a.

### Liquidity and Investments

At March 31, 1998 the Group had at its disposal short-term loans and deposits and cash at bank and in hand amounting to £738 million. In addition, the Group had undrawn committed financing facilities to support the acquisition of future aircraft deliveries amounting to US\$833 million, together with unused overdraft and revolving credit facilities of £40 million. It also had undrawn uncommitted money market lines of £230 million and US\$45 million with a number of banks.

The Group's holdings of cash and short-term loans and deposits, together with committed funding facilities and net cashflow, are sufficient to cover the cost of all firm aircraft deliveries due in the next two years. The acquisition of Boeing 747-400 and Boeing 777-200 aircraft, scheduled for delivery during the next three years, is expected to be financed partially by cash holdings and internal cash flow and partially through external financing, including committed facilities arranged prior to delivery. Because of the necessity to plan aircraft orders well in advance of delivery, it is not economic for British Airways to have committed funding in place now for all outstanding orders, many of which relate to aircraft which will not be delivered for several years. British Airways' policies in this regard are in line with the funding policies of other airlines. In addition to aircraft related financing facilities, the airline has a number of unsecured borrowing facilities of both a short and long-term nature which may be used for the general purposes of the Group.

Surplus funds are invested in high quality short-term liquid instruments, notably bank deposits and asset backed floating rate notes. Credit risk is managed by limiting the aggregate exposure to any individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed, and adjusted as necessary. The possibility of material loss arising in the event of non-performance by a counterparty is accordingly considered to be unlikely.

### Foreign Currency Risk

The Group does business in approximately 140 foreign currencies which account for approximately 60 per cent of Group revenue and 40 per cent of operating expenses. The Group generates a surplus in most of these currencies. The principal exceptions are the US Dollar and sterling in which the Group has a deficit arising from capital expenditure and the payment of

some leasing costs, together with expenditure on fuel, which are payable in US Dollars, and the majority of staff costs, central overheads and other leasing costs, which are payable in sterling. However, the broad spread of currencies in the business – many of which are linked to the US Dollar and sterling – gives the Group a measure of protection against exchange rate movements and reduces the overall sensitivity of the Group's results to exchange rate fluctuations. Nonetheless, the Group can experience adverse or beneficial effects. For example, if the pound sterling weakened against the US Dollar and strengthened against other major currencies, the overall effect would be likely to be adverse, while the reverse would be likely to produce a beneficial effect.

The Group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US Dollars and sterling.

The Group's forward transactions in foreign currency are detailed in Note 36 to the accounts.

In addition to the primary effects outlined above, exchange rate movements can affect demand for services, especially from leisure travellers whose decision whether and where to travel may alter as a result of exchange rate movements. While it is not possible to quantify this effect, British Airways does monitor exchange rate movements in an attempt to anticipate likely changes in the pattern of demand.

### Derivative Financial Instruments

British Airways uses derivative financial instruments (derivatives) selectively for treasury and fuel risk management purposes.

The risk management strategy for both treasury and fuel operations is implemented by the respective departments within the guidelines and parameters laid down by the Board of Directors, and reflects a risk averse policy. The Company's policy is not to trade in derivatives but to use these instruments to hedge perceived exposures, where appropriate.

As part of its treasury risk management activities the Company has entered into a number of swap agreements in order to hedge its direct exposures to interest rates and/or currency exchange rates. Single and cross currency swap agreements outstanding at March 31, 1998 are summarised in Note 37 to the Accounts.

Forward foreign exchange contracts are actively used to cover a proportion of future capital commitments denominated in US Dollars and to cover to a limited extent near term future revenues and operating payments in a variety of currencies. Forward foreign exchange contracts outstanding at March 31, 1998 are summarised in Note 36 to the Accounts.





“My company has addressed the baggage system head on. We have made significant investments to improve baggage handling throughout the world. I can see the difference, and so can the customer.”

*Anthony Ashton,  
Baggage Handler*

Whilst the Company considers the purchase of interest rate caps and the entering into of forward rate agreements as bona fide exposure management activities, it would not generally contemplate the opening of new exposures by selling puts, calls or options. Other treasury derivative instruments would be considered on their merits as valid and appropriate risk management tools.

The Company's fuel risk management strategy has the twin objectives of providing the airline with protection against sudden, significant increases in oil prices; and ensuring that the airline is not competitively disadvantaged in a significant way in the event of a significant fall in the price of fuel.

In meeting these objectives the fuel risk management programme allows for the judicious use of a number of derivatives traded through both the Regulated Markets in London (the Institute of Petroleum Exchange) and New York (the New York Mercantile Exchange) and the Over The Counter (OTC) markets. However, the Company's policy does not allow for short positions to be taken.

As derivatives are used for the purposes of risk management they do not expose the Group to market risk because gains and losses on the derivatives offset losses and gains on the asset, liability, revenues or costs

#### Investment in baggage to improve customer service ...

Our investment in new facilities and our people's determination to get the basics right has delivered great improvements in the airline's baggage performance. Our baggage delivery times have surpassed our competitors best on many counts. At Heathrow, we are investing £50 million with BAA plc in baggage systems to speed up connections and smooth baggage transfers. The new transfer baggage system between Terminals 1 and 4 is capable of handling 2,000 bags an hour.





being hedged. Moreover, counterparty credit risk is generally restricted to any hedging gain from time to time, and not the principal amount hedged, and the possibility of material loss arising in the event of non-performance by a counterparty is accordingly considered to be less likely.

#### OUTLOOK

The overall outlook for British Airways is favourable.

The airline remains well positioned in a world industry that continues to offer substantial passenger and cargo growth.

There is good growth in European markets.

Fuel prices have fallen and sterling is dropping back from its recent peaks. These effects will help offset the impact of any slowdown in the US and UK domestic economies and the current difficulties in the Far East.



## Statement of Directors' Responsibilities in Relation to the Accounts

The following statement, which should be read in conjunction with the report of the auditors set out below, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial year.

The directors consider that in preparing the accounts on pages 30 to 58, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities and to establish an effective system of internal financial control.

The directors, having prepared the accounts have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

## Report of the Auditors to the Members of British Airways Plc

We have audited the accounts on pages 30 to 58, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 34 to 36. We have also examined the amounts disclosed relating to the emoluments, share options and long-term incentive scheme interests of the directors which form part of the report to Shareholders by the Remuneration Committee on pages 12 to 15.

### Respective Responsibilities of Directors and Auditors

As described above, the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in

the preparation of the accounts and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at March 31, 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young  
Chartered Accountants  
Registered Auditor  
London  
May 27, 1998



## Group Profit and Loss Account

For the year ended March 31, 1998

£ million	Note	Group	
		1998	1997
<b>Turnover</b>	2	<b>8,642</b>	8,359
Cost of sales	4	(7,978)	(7,663)
Gross profit		<b>664</b>	696
Administrative expenses	4	(160)	(150)
<b>Operating profit</b>		<b>504</b>	546
Income from interests in associated undertakings	7	61	114
Other income and charges	8	19	17
Write back of exceptional provision against investment in US Airways Group, Inc.			125
Profit on sale of fixed assets and investments	9	164	20
Net interest payable	10	(168)	(182)
<b>Profit before taxation</b>		<b>580</b>	640
Taxation	11	(133)	(90)
<b>Profit after taxation</b>		<b>447</b>	550
Minority share of losses after taxation		13	3
<b>Profit for the year</b>		<b>460</b>	553
Dividends paid and proposed	12	(176)	(154)
<b>Retained profit for the year</b>	33	<b>284</b>	399
<b>Earnings per share</b>	13		
Basic earnings per share		44.7p	55.7p
Fully diluted earnings per share		42.0p	50.8p
<b>Dividends per share</b>	12	<b>16.60p</b>	15.05p





## Balance Sheets

At March 31, 1998

£ million	Note	Group		Company	
		1998	1997	1998	1997
<b>Fixed assets</b>					
Tangible assets	14				
Fleet		7,227	6,337	7,104	6,156
Property		1,181	988	1,103	909
Equipment		259	263	222	232
		<b>8,667</b>	<b>7,588</b>	<b>8,429</b>	<b>7,297</b>
Investments	17				
Subsidiary undertakings				885	804
Associated undertakings		321	396	1	1
Trade investments		67	288	31	36
		<b>388</b>	<b>684</b>	<b>917</b>	<b>841</b>
		<b>9,055</b>	<b>8,272</b>	<b>9,346</b>	<b>8,138</b>
<b>Current assets</b>					
Stocks	21	75	78	55	58
Debtors	22	1,432	1,412	1,282	1,306
Short-term loans and deposits	23	688	598	610	474
Cash at bank and in hand		50	76	2	10
		<b>2,245</b>	<b>2,164</b>	<b>1,949</b>	<b>1,848</b>
Creditors: amounts falling due within one year	24	(2,821)	(3,160)	(3,284)	(3,051)
<b>Net current liabilities</b>		<b>(576)</b>	<b>(996)</b>	<b>(1,335)</b>	<b>(1,203)</b>
<b>Total assets less current liabilities</b>		<b>8,479</b>	<b>7,276</b>	<b>8,011</b>	<b>6,935</b>
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings and other creditors	25	(4,978)	(4,034)	(4,967)	(4,058)
Convertible Capital Bonds 2005	28	(150)	(226)		
		<b>(5,128)</b>	<b>(4,260)</b>	<b>(4,967)</b>	<b>(4,058)</b>
Provisions for liabilities and charges	29	(30)	(58)	(28)	(55)
Minority interests			26		
		<b>3,321</b>	<b>2,984</b>	<b>3,016</b>	<b>2,822</b>
<b>Capital and reserves</b>					
Called up share capital	31	260	251	260	251
Reserves	33				
Share premium account		650	565	650	565
Revaluation reserve		294	297	294	296
Profit and loss account		2,117	1,871	1,812	1,710
		<b>3,061</b>	<b>2,733</b>	<b>2,756</b>	<b>2,571</b>
		<b>3,321</b>	<b>2,984</b>	<b>3,016</b>	<b>2,822</b>

Sir Colin Marshall *Chairman*  
 Robert Ayling *Chief Executive*  
 Derek Stevens *Chief Financial Officer*  
 May 27, 1998



## Group Cash Flow Statement

For the year ended March 31, 1998

£ million	Note	Group	
		1998	1997
<b>Cash inflow from operating activities</b>	5a	736	1,212
<b>Returns on investments and servicing of finance</b>			
Interest received		71	81
Interest paid on bank and other loans		(119)	(136)
Interest paid on finance leases and hire purchase arrangements		(227)	(179)
Dividends received from associated undertakings and trade investments		18	57
Net cash outflow from returns on investments and servicing of finance		(257)	(177)
<b>Taxation</b>			
UK Corporation tax		(41)	(79)
Overseas taxation		(93)	(4)
Net cash outflow from taxation		(134)	(83)
<b>Capital expenditure and financial investment</b>			
Tangible fixed assets purchased for cash	14e	(1,767)	(1,449)
Refund of progress payments		1,431	459
Sale of tangible fixed assets and investments		118	46
Sale of investment in US Airways Group, Inc.		379	
Net cash inflow/(outflow) for capital expenditure and financial investment		161	(944)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		(7)	(19)
Purchase of interests in associated undertakings			(2)
Sale of interests in associated undertakings		82	5
Net cash flow for acquisitions and disposals		75	(16)
<b>Equity dividends paid</b>		(148)	(131)
Net cash inflow/(outflow) before management of liquid resources and financing		433	(139)
<b>Management of liquid resources</b>		(90)	560
<b>Financing</b>			
Received from minority for subscription in share capital		16	11
Changes in borrowings	27		
<i>Bank and other loans raised</i>		475	137
<i>Bank and other loans repaid</i>		(601)	(327)
<i>Capital elements of finance leases and hire purchase arrangements repaid</i>		(268)	(221)
		(394)	(411)
Changes in share capital			
<i>Issue of ordinary share capital and share premium received</i>		6	8
(Decrease)/increase in cash	23	(29)	29

£ million	Note	Group	
		1998	1997
<b>Group financing requirement</b>			
Net cash inflow/(outflow) before management of liquid resources and financing		433	(139)
Acquisitions under loans, finance leases and hire purchase arrangements	14e	(1,302)	(495)
Aircraft returned to lessor on early termination of finance leases			62
Total financing requirement for the year		(869)	(572)
Total tangible fixed asset expenditure, net of progress payment refunds		1,638	1,485



## Statement of Total Recognised Gains and Losses

For the year ended March 31, 1998

£ million	Note	Group	
		1998	1997
Profit for the year		460	553
Other recognised gains and losses relating to the year			
<i>Exchange movements</i>	33a	(18)	61
<b>Total gains and losses recognised since last annual report</b>		<b>442</b>	<b>614</b>

## Reconciliation of Movements in Shareholders' Funds

For the year ended March 31, 1998

£ million	Note	Group	
		1998	1997
Profit for the year		460	553
Dividends paid and proposed	12	(176)	(154)
Retained profit for the year		284	399
Other recognised gains and losses relating to the year		(18)	61
Issue of ordinary share capital, on the conversion of Convertible Capital Bonds 2005, and on the exercise of options under Employee Share Option Schemes			
<i>Share capital</i>		9	11
<i>Share premium</i>		85	94
		94	105
Movement in goodwill in the year		(23)	(75)
Net additions to shareholders' funds		337	490
Shareholders' funds at April 1		2,984	2,494
<b>Shareholders' funds at March 31</b>		<b>3,321</b>	<b>2,984</b>

The difference between reported and historical cost profits and losses is not material.





### 1 Accounting Policies

#### Accounting convention

The accounts have been prepared under the historical cost convention modified by the inclusion of certain assets at valuation, as stated below, and in accordance with all applicable United Kingdom accounting standards and the Companies Act 1985.

#### Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiary undertakings, each made up to March 31, together with the attributable share of results and reserves of associated undertakings, adjusted where appropriate to conform with British Airways accounting policies. The Group's share of the profits less losses of associated undertakings is included in the Group profit and loss account and its share of the post-acquisition results of these companies is included in interests in associated undertakings in the Group balance sheet. Certain associated undertakings make up their annual audited accounts to dates other than March 31. In the case of Qantas, unaudited published results up to the year ended December 31 are included; in other cases, results disclosed by subsequent unaudited management accounts are included. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership. On the acquisition of a business, including an equity interest in an associated undertaking, fair values are attributed to the Group's share of net tangible assets. Where the cost of acquisition exceeds the values attributable to such net assets, the resulting goodwill is set off against reserves in the year of acquisition. In accordance with section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company only is not presented.

#### Turnover

Passenger ticket and cargo waybill sales, net of discounts, are recorded as current liabilities in the 'sales in advance of carriage' account until recognised as revenue when the transportation service is provided. Commission costs are recognised at the same time as the revenue to which they relate and are charged to cost of sales. Unused tickets are recognised as revenue on a systematic basis.

Other revenue is recognised at the time the service is provided.

#### Segmental reporting

##### a Business segments

The directors regard all Group activities as relating to the airline business.

##### b Geographical segments

i) *Turnover by destination:* The analysis of turnover by destination is based on the following criteria:

*Scheduled and non-scheduled services:* Turnover from domestic services within the United Kingdom is attributed to the United Kingdom. Turnover from inbound and outbound services between the United Kingdom and overseas points is attributed to the geographical area in which the relevant overseas point lies.

*Other revenue:* Revenue from the sale of package holidays is attributed to the geographical area in which the holiday is taken, while revenue from aircraft maintenance and other miscellaneous services is attributed on the basis of where the customer resides.

ii) *Turnover by origin:* The analysis of turnover by origin is derived by allocating revenue to the area in which the sale was made. Operating profit resulting from turnover generated in each geographical area according to origin of sale is not disclosed as it is neither practical nor meaningful to allocate the Group's operating expenditure on this basis.

iii) *Geographical analysis of net assets:* The major revenue-earning assets of the Group are comprised of aircraft fleets, the majority of which are registered in the United Kingdom. Since the Group's aircraft fleets are employed flexibly across its world-wide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

#### Tangible fixed assets

Tangible fixed assets are stated at cost or valuation as stated below. Depreciation is calculated to write off the cost or valuation, less estimated residual value, on the straight line basis.

##### a Capitalisation of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other assets under construction is capitalised and added to the cost of the asset concerned. Interest capitalised in respect of progress payments on those aircraft which subsequently become subject to extendible operating lease arrangements is carried forward and written off over the initial lease period.

##### b Fleet

i) *Cost or valuation:* All aircraft are stated at cost, net of manufacturer's credits, with the exception of a small number that are stated at March 31, 1988 valuations, with subsequent expenditure stated at cost. The Concorde fleet remains at nil book value. Aircraft not in current use are included at estimated net realisable value. Aircraft which are financed in foreign currency, either by loans, finance leases or hire purchase arrangements, are regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into Sterling at rates ruling at the balance sheet date and the net differences arising from the translation of aircraft costs and related foreign currency loans are taken to reserves. The cost of all other aircraft is fixed in Sterling at rates ruling at the date of purchase.



### 1 Accounting Policies (continued)

ii) *Depreciation:* Fleet assets owned, or held on finance leases or hire purchase arrangements, are depreciated at rates calculated to write down the cost or valuation to the estimated residual value at the end of the planned operational lives. Cabin interiors, including those required for brand changes and re-launches, are depreciated over the lower of five years and the remaining life of the aircraft at the date of such modification. Residual values and operational lives are reviewed annually.

#### *c Property and equipment*

Freehold properties and certain leasehold properties professionally valued at March 31, 1995 are included in these accounts on the basis of that valuation. Subsequent additions are included at cost. Provision is made for the depreciation of all property and equipment, apart from freehold land, based upon expected useful lives and, in the case of leasehold properties, over the duration of the leases if shorter.

#### *d Leased and hire purchased assets*

Where assets are financed through finance leases or hire purchase arrangements, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of tangible fixed assets represents the aggregate of the capital elements payable during the lease or hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease or hire purchase payments made, is included in creditors. The amount included in the cost of tangible fixed assets is depreciated on the basis described in the preceding paragraphs and the interest element of lease or hire purchase payments made is included in interest payable in the profit and loss account. Payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account in equal annual amounts over the period of the lease. In respect of aircraft, operating lease arrangements allow the Group to terminate the leases after a limited initial period, normally five to seven years, without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on pre-determined terms; such leases are described as extendible operating leases.

#### **Aircraft and engine overhaul expenditure**

Aircraft and engine spares acquired on the introduction or expansion of a fleet are carried as tangible fixed assets and generally depreciated in line with the fleet to which they relate. Replacement spares and all other costs relating to the maintenance and overhaul of aircraft and engines are charged to the profit and loss account on consumption and as incurred respectively.

#### **Stocks**

Stocks are valued at the lower of cost and net realisable value.

#### **Cash and liquid resources**

Cash includes cash in hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand. Liquid resources includes current asset investments held as readily disposable stores of value.

#### **Pension and other post-retirement benefits**

Retirement benefits are payable through separately funded United Kingdom pension schemes with equivalent arrangements for overseas territories. Contributions to pension funds are made on the basis of independent actuarial advice and charged to the profit and loss account so as to spread the cost over the remaining service lives of the employees.

Provision is made based on actuarial advice for post-retirement medical benefits of employees in the United States.

#### **Frequent flyer programmes**

The Group operates two principal frequent flyer programmes. The main Airline schemes are run through the 'Executive Club' and 'Frequent Traveller' programmes where frequent travellers may accumulate mileage credits which entitle them to a choice of various awards, including free travel. The main United Kingdom scheme is run under the brand name of 'Airmiles' and principally involves the selling of miles of travel to United Kingdom companies to use for promotional incentives.

The incremental direct cost of providing free travel in exchange for redemption of miles earned by members of the Group's Executive Club, Frequent Traveller programmes and Airmiles scheme is accrued as members of these schemes accumulate mileage. Costs accrued include incremental passenger service charges and security, fuel, catering, and lost baggage insurance; these costs are charged to cost of sales.

#### **Deferred taxation**

Provisions are made for deferred taxation, using the liability method, on short-term timing differences and all other material timing differences to the extent that it is probable that the liabilities will crystallise in the foreseeable future.



1 Accounting Policies (continued)

**Foreign currency translation**

Foreign currency balances are translated into Sterling at the rates ruling at the balance sheet date, except for certain loan repayment instalments which are translated at the forward contract rates where instalments have been covered forward at the balance sheet date. Changes in the Sterling value of outstanding foreign currency loans, finance leases and hire purchase arrangements which finance fixed assets are taken to reserves together with the differences arising on the translation of the related foreign currency denominated assets. Exchange differences arising on the translation of net assets of overseas subsidiary undertakings and associated undertakings are taken to reserves. Profits and losses of such undertakings are translated into Sterling at average rates of exchange during the year. All other profits or losses arising on translation are dealt with through the profit and loss account.

**Derivatives**

The Group's accounting policy for derivatives is to defer and only recognise in the Group profit and loss account gains and losses on hedges of revenues or operating payments as they crystallise. Amounts payable or receivable in respect of interest rate swap agreements are recognised in the net interest payable charge over the period of the contracts on an accruals basis. Cross currency swap agreements and forward foreign exchange contracts taken out to hedge borrowings are brought into account in establishing the carrying values of the relevant loans, leases or hire purchase arrangements in the balance sheet. Gains or losses on forward foreign exchange contracts to hedge capital expenditure commitments are recognised as part of the total Sterling carrying cost of the relevant tangible asset as the contracts mature or are closed out.





## 2 Turnover

£ million	Group	
	1998	1997
Traffic revenue		
<i>Scheduled services – passenger</i>	7,233	6,986
<i>– freight and mail</i>	595	565
	7,828	7,551
<i>Non-scheduled services</i>	53	57
	7,881	7,608
Other revenue (including aircraft maintenance, package holidays and other airline services)	761	751
	8,642	8,359

## 3 Geographical analysis of turnover and operating profit

## a Turnover

£ million	Group			
	By area of original sale		By area of destination	
	1998	1997	1998	1997
Europe	5,632	5,458	3,214	3,168
<i>United Kingdom</i>	4,098	3,581	718	669
<i>Continental Europe</i>	1,534	1,877	2,496	2,499
The Americas	1,610	1,485	3,073	2,861
Africa, Middle East and Indian sub-continent	618	617	1,118	1,134
Far East and Australasia	782	799	1,237	1,196
	8,642	8,359	8,642	8,359

## b Operating profit

£ million	Group			
	By area of destination			
	1998			1997
		<i>Operating profit before exceptional operating charge</i>	<i>Exceptional operating charge</i>	
Europe	(127)	6	(42)	(36)
The Americas	395	364	(48)	316
Africa, Middle East and Indian sub-continent	125	157	(20)	137
Far East and Australasia	111	146	(17)	129
	504	673	(127)	546



## 4 Analysis of Operating Expenditure

£ million	Group	
	1998	1997
Employee costs	2,211	2,248
Depreciation	551	506
Aircraft operating lease costs	127	119
Fuel and oil costs	790	842
Engineering and other aircraft costs	614	469
Landing fees and en route charges	703	673
Handling charges, catering and other operating costs	1,152	1,048
Selling costs	1,217	1,187
Accommodation, ground equipment costs and currency differences	773	594
	<b>8,138</b>	<b>7,686</b>
Exceptional operating charge for restructuring costs under the Business Efficiency Programme		127
<b>Total operating expenditure</b>	<b>8,138</b>	<b>7,813</b>
Total operating expenditure comprises:		
Cost of sales	7,978	7,663
Administrative expenses	160	150
<b>Total operating expenditure</b>	<b>8,138</b>	<b>7,813</b>

## 5 Operating Profit

## a Reconciliation of operating profit to cash inflow from operating activities

£ million	Group	
	1998	1997
Group operating profit	504	546
Depreciation charges	551	506
Other items not involving the movement of cash	(27)	(46)
(Increase)/decrease in stocks and debtors	(34)	19
(Decrease)/increase in creditors	(258)	187
<b>Cash inflow from operating activities</b>	<b>736</b>	<b>1,212</b>

## b Operating profit is arrived at after charging:

## Depreciation of Group tangible fixed assets

£ million	Group	
	1998	1997
<i>Owned assets</i>	296	279
<i>Finance leased aircraft</i>	100	103
<i>Hire purchased aircraft</i>	130	97
<i>Other leasehold interests</i>	25	27
	<b>551</b>	<b>506</b>

## Operating lease costs

£ million	Group	
	1998	1997
<i>Lease rentals – aircraft</i>	127	119
<i>– property</i>	115	104
<i>Hire of equipment and charter of aircraft and crews</i>	154	135
	<b>396</b>	<b>358</b>







**8 Other Income and Charges**

£ million	Group	
	1998	1997
Income from trade investments	2	2
US Airways Group, Inc. preferred stock dividend	4	11
Other	13	4
	19	17

**9 Profit on Sale of Fixed Assets**

£ million	Group	
	1998	1997
Net profit on disposal of investment in US Airways Group, Inc. (see note 18)	129	
Net profit on part disposal of investment in Galileo International Inc. (see note 18)	45	
Net (loss)/profit on disposal of other fixed assets and investments	(10)	20
	164	20

**10 Net Interest Payable**

£ million	Group	
	1998	1997
Interest payable		
On bank loans	56	58
On finance leases	83	83
On hire purchase arrangements	141	101
On other loans, including interest of £16 million (1997: £24 million) on Convertible Capital Bonds 2005	51	71
	331	313
Interest capitalised	(61)	(43)
	270	270
Interest receivable	(71)	(76)
Currency profit on retranslation of general purpose loans at year end	(31)	(12)
	168	182

In respect of all loans, including finance lease and hire purchase arrangements repayable in whole or in part after five years, the final repayment date is July 2012. The interest rates range from 0.9 per cent to 10.9 per cent (March 1997: 0.9 per cent to 10.9 per cent).

**11 Taxation**

£ million	Group	
	1998	1997
British Airways Plc and subsidiary undertakings		
United Kingdom corporation tax at 31% (1997: 33%)	(63)	59
Overseas taxation	79	4
Irrecoverable advance corporation tax	98	
	114	63
Share of taxation of associated undertakings	19	27
	133	90

The charge for taxation has been affected by tax losses generated in the UK largely as a result of an excess of tax allowances over depreciation arising from the acquisition of aircraft. Such losses have been carried back and utilised against profits of earlier periods and carried forward to be used against future profits. The tax charge has also been affected by the write off of surplus advance corporation tax, the recoverability of which is not foreseen in the next financial year.



**11 Taxation (continued)**

If full provision for deferred taxation had been made, there would have been a release for the year of £3 million (1997: charge £102 million), after taking into consideration reductions in the corporation tax rate, losses carried forward and advance corporation tax comprising:

£ million	Group	
	1998	1997
Accelerated capital allowances less unrelieved losses	61	141
Other timing differences	34	(39)
Advance corporation tax	(98)	
	(3)	102

In the 1997 UK Finance Act there have been important changes to the UK capital allowance rules which have reduced the rate of capital allowances on many new long-life assets, defined as those with an expected economic life in excess of 25 years, from 25 per cent per annum to six per cent on a reducing balance basis. It remains uncertain which aircraft will fall to be treated as long-life assets, but there are transitional rules which will apply to expenditure incurred up to the end of year 2000 in pursuance of contracts entered into before November 26, 1996. For British Airways these transitional rules are substantially reducing the impact of the changes in the rules until after 2000. The impact of these changes then can be expected to be that the difference between capital allowances and depreciation will be much less significant than in earlier periods, which will result in a current tax charge much closer to the UK rate. In the periods up to 2000, current taxes will continue to be reduced by the high level of capital allowances arising from contracts that fall within the transitional rules. It is uncertain whether the exceptionally low current tax liabilities expected in these periods will require a provision to be made for an element of deferred taxes on new originating timing differences in these periods. Potential deferred taxes are expected to continue to increase substantially over the next two years and may reach a level from which it could be expected that there might be a partial reversal in later years.

**12 Dividends**

£ million	Group	
	1998	1997
Interim dividend of 4.70p per share paid (1997: 4.25p per share)	52	46
Final dividend of 11.90p per share proposed (1997: 10.80p per share)	124	108
	176	154

The amounts charged to the profit and loss account include £3 million in relation to 1996-97 final dividends paid to Convertible Capital Bond holders (1995-96: £4 million), who converted their bonds in June 1997, in accordance with the terms of the Bonds.

**13 Earnings Per Share**

	Group			
	Profit		Earnings per share	
	1998	1997	1998	1997
	£m	£m	Pence	Pence
Profit for the year and basic earnings per share	460	553	44.7	55.7
Fully diluted earnings per share	475	574	42.0	50.8

Basic earnings per share are calculated on a weighted average of 1,030,021,000 ordinary shares (1997: 992,538,000). Fully diluted earnings per share are calculated on a weighted average of 1,132,032,000 ordinary shares (1997: 1,129,578,000) after allowing for the conversion rights attaching to the Convertible Capital Bonds and for outstanding share options and for corresponding adjustments to income to eliminate interest payable on the Convertible Capital Bonds and to include notional interest receivable on the subscription cash for shares.



## 14 Tangible Assets

## a Group

£ million	Fleet	Property	Equipment	Group total	
				1998	1997
<b>Cost or valuation</b>					
Balance at April 1	9,155	1,118	790	11,063	9,992
Exchange adjustments	(70)	(1)	(3)	(74)	(133)
Additions – net of refund of progress payments (Note 14e)	1,440	253	88	1,781	1,468
Disposals	(150)	(40)	(169)	(359)	(264)
Balance at March 31	10,375	1,330	706	12,411	11,063
<b>Depreciation</b>					
Balance at April 1	2,818	130	527	3,475	3,166
Exchange adjustments	(21)		(2)	(23)	(28)
Charge for the period	453	30	68	551	506
Disposals	(102)	(11)	(146)	(259)	(169)
Balance at March 31	3,148	149	447	3,744	3,475
<b>Net book amounts</b>					
March 31, 1998	7,227	1,181	259	8,667	
March 31, 1997	6,337	988	263		7,588
<b>Utilisation at March 31</b>					
Assets in current use					
<i>Owned</i>					
	2,163	761	192	3,116	3,238
<i>Finance leased</i>					
	1,163			1,163	1,266
<i>Hire purchase arrangements</i>					
	3,138			3,138	1,968
Progress payments	763	420	67	1,250	1,112
Assets held for resale					
					4
	7,227	1,181	259	8,667	7,588
<b>The net book amount of property comprises:</b>					
Freehold				376	298
Long leasehold				415	414
Short leasehold				390	276
				1,181	988

	Valuation/cost	Depreciation	Net book amount	
			1998	1997
Revalued fleet and properties are included in the accounts at the following amounts:				
<i>Fleet – valuation</i>	544	478	66	78
<i>– subsequent additions at cost</i>	144	106	38	63
<i>Property – valuation</i>	559	44	515	532
<i>– subsequent additions at cost</i>	41	1	40	12
March 31, 1998	1,288	629	659	
March 31, 1997	1,314	629		685
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 1998	888	525	363	
March 31, 1997	914	531		383





## Notes to the Accounts (continued)

### 14 Tangible Assets (continued)

#### b Company

£ million	Fleet	Property	Equipment	Company total	
				1998	1997
<b>Cost or valuation</b>					
Balance at April 1	8,924	1,026	720	10,670	9,610
Exchange adjustments	(44)			(44)	(115)
Additions – net of refund of progress payments	1,467	251	71	1,789	1,359
Disposals	(138)	(40)	(168)	(346)	(177)
Net transfers to subsidiary undertakings		(1)	(3)	(4)	(7)
<b>Balance at March 31</b>	<b>10,209</b>	<b>1,236</b>	<b>620</b>	<b>12,065</b>	<b>10,670</b>
<b>Depreciation</b>					
Balance at 1 April	2,768	117	488	3,373	3,061
Exchange adjustments	(9)			(9)	(19)
Charge for the period	441	27	55	523	478
Disposals	(95)	(11)	(145)	(251)	(144)
Net transfers to subsidiary undertakings					(3)
<b>Balance at March 31</b>	<b>3,105</b>	<b>133</b>	<b>398</b>	<b>3,636</b>	<b>3,373</b>
<b>Net book amounts</b>					
<b>March 31, 1998</b>	<b>7,104</b>	<b>1,103</b>	<b>222</b>	<b>8,429</b>	
<i>March 31, 1997</i>	<i>6,156</i>	<i>909</i>	<i>232</i>		<i>7,297</i>
<b>Utilisation at March 31</b>					
Assets in current use					
<i>Owned</i>	2,119	684	155	2,958	3,070
<i>Finance leased</i>	1,106			1,106	1,196
<i>Hire purchase arrangements</i>	3,138			3,138	1,968
Progress payments	741	419	67	1,227	1,059
Assets held for resale					4
	7,104	1,103	222	8,429	7,297
<b>The net book amount of property comprises:</b>					
Freehold				375	295
Long leasehold				353	352
Short leasehold				375	262
				1,103	909

	Valuation/cost	Depreciation	Net book amount	
			1998	1997
Revalued fleet and properties are included in the accounts at the following amounts:				
<i>Fleet – valuation</i>	544	478	66	78
<i>– subsequent additions at cost</i>	144	106	38	63
<i>Property – valuation</i>	557	44	513	531
<i>– subsequent additions at cost</i>	39	1	38	11
<b>March 31, 1998</b>	<b>1,284</b>	<b>629</b>	<b>655</b>	
<i>March 31, 1997</i>	<i>1,311</i>	<i>628</i>		<i>683</i>
If these assets had not been revalued they would have been included at the following amounts:				
<b>March 31, 1998</b>	<b>884</b>	<b>525</b>	<b>359</b>	
<i>March 31, 1997</i>	<i>911</i>	<i>530</i>		<i>381</i>



**14 Tangible Assets (continued)****c Revaluation**

All freehold properties of the Group, and certain leasehold properties, where leases give long-term security of tenure and rights to development, disposal and sub-letting, were revalued at open market value for existing use at March 31, 1995.

**d Depreciation**

Fleets are generally depreciated over periods ranging from 16 to 27 years after making allowance for estimated residual values. Effective average depreciation rates resulting from this method are shown in the following table:

%	Group	
	1998	1997
Boeing 747-100, 747-200, 747-400, 777-200 and McDonnell Douglas DC-10-30	4.1	4.0
Boeing 767-300 and 757-200	4.9	4.9
Airbus A320, Boeing 737-200, 737-400, McDonnell Douglas MD83, Fokker 100 and F28	6.1	6.1
Turbo Props	6.2	6.2

Property, apart from freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from three to 20 years, according to the type of equipment.

**e Analysis of group tangible asset additions**

£ million	Fleet	Property	Equipment	Group total	
				1998	1997
Cash paid	1,426	244	97	1,767	1,449
Acquisitions under loans, finance leases and hire purchase arrangements	1,302			1,302	495
Acquisition of subsidiary undertaking					39
Capitalised interest	44	17		61	43
Accrual movements	99	(8)	(9)	82	(99)
	2,871	253	88	3,212	1,927
Refund of progress payments	(1,431)			(1,431)	(459)
	1,440	253	88	1,781	1,468

**15 Capital Expenditure Commitments**

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £2,274 million for the Group (1997: £3,030 million) and £2,203 million for the Company (1997: £2,871 million).

The outstanding commitments include £1,899 million which relates to the acquisition of Boeing 747-400, Boeing 777-200 and Boeing 757-200 aircraft scheduled for delivery during the next three years and £129 million which relates to the acquisition of Boeing 767-300 and Boeing 737-300 aircraft scheduled for delivery during the next year. It is intended that these aircraft will be financed partially by cash holdings and internal cash flow and partially through external financing, including committed facilities arranged prior to delivery.

At March 31, 1998 British Airways had an unused long-term secured aircraft financing facility of US\$833 million and unused overdraft and revolving credit facilities of £40 million, and undrawn uncommitted money market lines of £230 million and US\$45 million with a number of banks.

The Group's holdings of cash and short-term loans and deposits, together with committed funding facilities and net cash flow, are sufficient to cover the full cost of all firm aircraft deliveries due in the next two years.



## 16 Operating Lease Commitments

£ million	Group		Company	
	1998	1997	1998	1997
<b>a Fleet</b>				
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
<i>Amounts payable within one year relate to commitments expiring as follows:</i>				
<i>Within one year</i>	15	18	4	10
<i>Between one and five years</i>	102	67	29	21
<i>Over five years</i>	12	22	4	6
Within one year	129	107	37	37
Between one and five years	324	204	70	46
Over five years	34	17	5	11
	487	328	112	94
<b>b Property and equipment</b>				
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
<i>Amounts payable within one year relate to commitments expiring as follows:</i>				
<i>Within one year</i>	12	10	11	9
<i>Between one and five years</i>	31	17	25	10
<i>Over five years</i>	46	58	44	57
Within one year	89	85	80	76
Between one and five years	254	259	238	242
Over five years, ranging up to the year 2145	1,348	1,345	1,337	1,341
	1,691	1,689	1,655	1,659

The principal amount of the total property and equipment commitments above relates to property leases.





## 17 Investments

## a Group

## i) Associated undertakings

£ million			Group total	
	Equity	Loans at cost	1998	1997
Balance at April 1	385	11	396	497
Exchange movements	(45)		(45)	(29)
Additions	17		17	14
Share of attributable results	12		12	30
Share of movements on other reserves	8		8	12
Disposals	(30)		(30)	(2)
Reclassification to trade investments	(37)		(37)	(126)
Balance at March 31	310	11	321	396
Equity comprises:				
Cost of shares			298	395
Goodwill set off			(80)	(94)
Share of post acquisition profits			81	81
Share of movements on other reserves			11	3
			310	385

## ii) Trade investments

	Cost		Provisions		Group total	
	Shares	Loans	Shares	Loans	1998	1997
Balance at April 1	287	4	(2)	(1)	288	34
Exchange movements	(4)				(4)	
Additions						4
Disposals	(254)				(254)	(1)
Reclassification from associated undertakings	37				37	126
Write back of provision						125
Balance at March 31	66	4	(2)	(1)	67	288

## Net book value of total investments

	Associated undertakings	Trade investments	Group total	
			1998	1997
Listed	301	63	364	337
Unlisted	20	4	24	347

## Market value of listed investments

	Group total	
	1998	1997
Associated undertakings	281	297
Trade investments	198	30

The Group's principal investments in subsidiary undertakings, associated undertakings and trade investments are listed on page 58.



## 17 Investments (continued)

## b Company

## i) Subsidiary undertakings

£ million	Cost		Provisions		Company total	
	Shares	Loans	Shares	Loans	1998	1997
Balance at April 1	1,423		(619)		804	729
Exchange movements	(3)				(3)	(19)
Additions/(reductions)	134		(48)		86	94
Disposals	(18)		16		(2)	
Balance at March 31	1,536		(651)		885	804

## ii) Associated undertakings

Balance at April 1	1				1	
Additions						1
Balance at March 31	1				1	1

## iii) Trade investments

Balance at April 1	35	4	(2)	(1)	36	32
Additions						4
Disposals	(5)				(5)	
Balance at March 31	30	4	(2)	(1)	31	36

## Net book value of total investments

	Subsidiary undertakings	Associated undertakings	Trade investments	Company total	
				1998	1997
Listed			28	28	28
Unlisted	885	1	3	889	813

## Market value of listed investments

	Company total	
	1998	1997
Trade investments	32	23

## 18 Disposal of Investments

In May 1997, the Group disposed of its shareholdings in US Airways Group, Inc. and on July 25, 1997, 47.5 per cent of the Group's interest in Galileo International Inc. was disposed of as part of the initial public offering. The profit arising from these disposals was as follows:

£ million	US Airways	Galileo	Total
	Group Inc.	International Inc.	
Sale proceeds (net of disposal costs)	379	82	461
Net cost of investment	(250)	(30)	(280)
Goodwill written back on disposal		(7)	(7)
Profit on disposal (note 9)	129	45	174
Overseas taxation	(45)	(17)	(62)
Profit on disposal after taxation	84	28	112

## 19 Acquisition of remaining Interest in Deutsche BA Luftfahrtgesellschaft mbH ('DBA')

During the year ended March 31, 1998 Deutsche BA Holdings Limited, a wholly owned subsidiary of British Airways Plc, purchased the remaining 51 per cent share interest not held by the Group in DBA from three German banks. 16 per cent of the shares were purchased for DM 6 million on July 7, 1997 and 35 per cent of the shares were purchased for DM13 million on March 31, 1998. Goodwill of £7 million arose on the acquisition.



**20 Investment in Qantas Airways Limited**

## Summarised financial information

The published statements of operations for the Qantas group for the year ended June 30, 1997 and the six months ended December 31, 1997, and its balance sheets at these dates, as adjusted to accord with British Airways accounting policies, are summarised below:

	Year ended and at June 30				
			1997	1996	
	As published by Qantas (audited)	Policy Adjustments	A\$m	£m	Total £m
Operating revenue	7,834		7,834	3,796	3,697
Operating profit	500	66	566	274	311
Net interest	(96)		(96)	(47)	(50)
Profit before taxation	404	66	470	227	261
Profit after taxation	253	16	269	130	161
Non current assets	7,844	1,352	9,196	4,165	4,655
Net current liabilities	(1,050)	(141)	(1,191)	(539)	(441)
Long-term liabilities	(4,123)	(1,307)	(5,430)	(2,459)	(3,052)
Share capital	1,112		1,112	504	527
Reserves	1,559	(96)	1,463	663	635

	Six months ended and at December 31				
			1997	1996	
	As published by Qantas (unaudited)	Policy Adjustments	A\$m	£m	Total £m
Operating revenue	4,194		4,194	1,833	1,973
Operating profit	334	(12)	322	141	173
Net interest	(63)		(63)	(28)	(30)
Profit before taxation	271	(12)	259	113	143
Profit after taxation	166	(9)	157	69	75
Non current assets	7,965	1,230	9,195	3,630	4,270
Net current liabilities	(926)	(27)	(953)	(376)	(348)
Long-term liabilities	(4,204)	(1,307)	(5,511)	(2,176)	(2,764)
Share capital	1,141		1,141	450	506
Reserves	1,694	(104)	1,590	628	652

The Sterling equivalents for the statements of operations have been translated at the average exchange rates for the year ended June 30, 1997 and six months ended December 31, 1997; those for the balance sheets have been translated at the closing rate on those dates.

**21 Stocks**

£ million	Group		Company	
	1998	1997	1998	1997
Raw materials, consumables and work in progress	75	78	55	58

The replacement cost of stocks is considered to be not materially different from their balance sheet values.



## Notes to the Accounts (continued)

### 22 Debtors

£ million	Group		Company	
	1998	1997	1998	1997
Trade debtors	853	983	793	911
Amounts owed by subsidiary undertakings			59	95
Amounts owed by associated undertakings	10	9	10	9
Other debtors	249	146	187	96
Advance corporation tax recoverable		27		27
Prepayments and accrued income	320	247	233	168
	<b>1,432</b>	<b>1,412</b>	<b>1,282</b>	<b>1,306</b>

Amounts due after more than one year included above are not significant.

### 23 Cash

#### a Reconciliation of net cash flow to movement in net debt

£ million	Group	
	1998	1997
(Decrease)/increase in cash during the year	(29)	29
Cash inflow from decrease in debt and lease financing	394	411
Cash inflow/(outflow) from liquid resources	90	(560)
Changes in net debt resulting from cash flows	455	(120)
New loans and finance leases taken out and hire purchase arrangements made	(1,302)	(495)
Assumed from subsidiary undertaking acquired during the year		(32)
Early termination of finance leases		62
Conversion of Convertible Capital Bonds 2005	76	88
Exchange movements	126	244
Movement in net debt during the year	(645)	(253)
Net debt at April 1	(3,958)	(3,705)
Net debt at March 31	(4,603)	(3,958)

#### b Analysis of net debt

£ million	Group				Balance at March 31
	Balance at April 1	Cash flow	Other non-cash	Exchange	
Cash	76	(26)			50
Overdrafts	(14)	(3)			(17)
	62	(29)			33
Short-term loans and deposits	598	90			688
Bank and other loans	(1,215)	126		19	(1,070)
Finance leases and hire purchase arrangements	(3,177)	268	(1,302)	107	(4,104)
Convertible Capital Bonds 2005	(226)		76		(150)
Year to March 31, 1998	(3,958)	455	(1,226)	126	(4,603)
Year to March 31, 1997	(3,705)	(120)	(377)	244	(3,958)

#### c Analysis of short-term loans and deposits by currency

£ million	Group		Company	
	1998	1997	1998	1997
Sterling	310	303	258	275
US dollars	220	124	194	28
Other	158	171	158	171
	<b>688</b>	<b>598</b>	<b>610</b>	<b>474</b>

Surplus cash is deposited for the short-term for periods typically with maturity of less than six months.





## 24 Creditors: Amounts Falling Due Within One Year

£ million	Group		Company	
	1998	1997	1998	1997
Loans, finance leases and hire purchase arrangements				
<i>Bank and other loans</i>	74	329	61	321
<i>Finance leases</i>	97	104	90	95
<i>Hire purchase arrangements</i>	185	122	185	122
<i>Loans from subsidiary undertakings</i>			462	
	356	555	798	538
Overdrafts – unsecured	17	14		
Trade creditors	1,000	983	847	835
Unredeemed frequent flyer liabilities	74	57	47	39
Amounts owed to subsidiary undertakings			437	301
Amounts owed to associated undertakings	2	3	2	7
Other creditors				
<i>Other creditors</i>	394	318	290	236
<i>Corporate taxation</i>	65	105	65	93
<i>Other taxation and social security</i>	60	72	34	38
	519	495	389	367
Dividends payable	124	108	124	108
Accruals and deferred income				
<i>Sales in advance of carriage</i>	671	790	613	738
<i>Accruals and deferred income</i>	58	155	27	118
	729	945	640	856
	2,821	3,160	3,284	3,051

## 25 Borrowings and Other Creditors

£ million	Group		Company	
	1998	1997	1998	1997
Loans, finance leases and hire purchase arrangements				
<i>Bank and other loans</i>	996	886	787	658
<i>Finance leases</i>	1,049	1,173	992	1,106
<i>Hire purchase arrangements</i>	2,773	1,778	2,773	1,778
<i>Loans from subsidiary undertakings</i>			322	409
	4,818	3,837	4,874	3,951
Other creditors	56	139	6	65
Corporate taxation		7		7
Accruals and deferred income	104	51	87	35
	4,978	4,034	4,967	4,058



## 26 Loans, Finance Leases and Hire Purchase Arrangements

## a Total loans, finance leases and hire purchase arrangements

£ million	Group		Company	
	1998	1997	1998	1997
<b>Loans</b>				
<b>Bank</b>				
– Deutsche Mark		DM75m		DM75m
– French Franc	FFr77m	FFr108m		
– US Dollar	US\$613m	US\$867m	US\$577m	US\$827m
– Sterling	£400m	£118m	£361m	£79m
	772	688	705	614
<b>Euro-sterling notes</b>	100	300	100	300
<b>Other</b>				
– US Dollar	US\$250m	US\$250m		
– French Franc	FFr58m	FFr83m		
– Sterling	£43m	£65m	£43m	£65m
	198	227	43	65
<b>Loans from subsidiary undertakings</b>				
– US Dollar			US\$1,000m	US\$250m
– Sterling			£188m	£255m
			784	409
<b>Finance leases</b>				
– French Franc	FFr119m	FFr129m		
– US Dollar	US\$395m	US\$456m	US\$307m	US\$355m
– Sterling	£899m	£983m	£899m	£983m
	1,146	1,277	1,082	1,201
<b>Hire purchase arrangements</b>				
– Japanese Yen	¥163,330m	¥98,944m	¥163,330m	¥98,944m
– US Dollar	US\$1,123m	US\$1,258m	US\$1,123m	US\$1,258m
– Sterling	£1,557m	£635m	£1,557m	£635m
	2,958	1,900	2,958	1,900
	5,174	4,392	5,672	4,489
<b>Comprising:</b>				
<b>Bank loans</b>				
Repayable wholly within five years	203	104	150	78
Repayable in whole or in part after five years	569	584	555	536
	772	688	705	614
<b>Other loans, finance leases and hire purchase arrangements</b>				
Repayable wholly within five years	510	541	949	489
Repayable in whole or in part after five years	3,892	3,163	4,018	3,386
	4,402	3,704	4,967	3,875
	5,174	4,392	5,672	4,489

Bank and other loans are repayable up to the year 2012. In addition to finance leases and hire purchase arrangements, bank and other loans of the Group amounting to FFr28 million (1997: FFr52 million), US\$603 million (1997: US\$807 million) and £131 million (1997: £59 million) and bank loans of the Company amounting to US\$567 million (1997: US\$767 million) and £131 million (1997: £59 million) are secured on aircraft.



## Notes to the Accounts (continued)

### 26 Loans, Finance Leases and Hire Purchase Arrangements (continued)

#### b Analysis by type of borrowing

	Group				
	1998				
	Fixed rate borrowings		Floating rate borrowings		Total
	Latest date for which rate is fixed	Weighted average rate %	£m	£m	£m
Sterling	July 2012	9.06	608	2,391	2,999
US Dollar	Feb 2007	8.94	421	999	1,420
Japanese Yen	Mar 2010	1.65	731		731
French Franc	June 2004	8.14	10	14	24
		5.97	1,770	3,404	5,174

Floating rates of interest are based on LIBOR (London Interbank Offered Rate) or PIBOR (Paris Interbank Offered Rate).

#### c Incidence of repayments

£ million	Hire purchase				Group	
	Bank loans	Other loans	Finance leases	arrangements	1998	1997
<b>Instalments falling due :</b>						
Within one year	30	44	97	185	356	555
After more than one year						
Between one and two years	33	154	90	204	481	311
Between two and five years	266		290	781	1,337	1,047
In five years or more	443	100	669	1,788	3,000	2,479
	742	254	1,049	2,773	4,818	3,837
<b>Total 1998</b>	<b>772</b>	<b>298</b>	<b>1,146</b>	<b>2,958</b>	<b>5,174</b>	
<b>Total 1997</b>	<b>688</b>	<b>527</b>	<b>1,277</b>	<b>1,900</b>		<b>4,392</b>
<b>Analysis of total 1998</b>						
British Airways Plc	705	143	1,082	2,958	4,888	4,080
Subsidiary undertakings	67	155	64		286	312
	772	298	1,146	2,958	5,174	4,392

### 27 Analysis of Changes in Borrowings During the Period

£ million	Finance leases and hire purchase		Group	
	Bank and other loans	arrangements	1998	1997
Balance at April 1	1,215	3,177	4,392	4,582
New loans raised	475		475	137
Assumed from subsidiary undertaking acquired during the year				32
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft		1,302	1,302	495
Repayment of amounts borrowed	(601)	(268)	(869)	(548)
Early termination of finance leases				(62)
Effect of exchange rate changes	(19)	(107)	(126)	(244)
<b>Balance at March 31</b>	<b>1,070</b>	<b>4,104</b>	<b>5,174</b>	<b>4,392</b>



**28 Convertible Capital Bonds 2005**

£ million	Group	
	1998	1997
	150	226

The terms of the 9.75 per cent Convertible Capital Bonds allow the holders to convert into British Airways Plc ordinary shares during the period June 1993 to June 2005 on the basis of one ordinary share for each £2.34 (adjusted for the effect of the 1993 rights issue) of Bonds held. On June 16, 1997, 32,386,000 ordinary shares were issued in exchange for 75,788,829 Bonds. The terms also provide that on maturity in 2005, the Company may require remaining bondholders to convert their Bonds into ordinary shares of the Company which would be sold on their behalf. If the proceeds of such a sale are less than the issue price of the Bonds, the Company has to fund any deficit from its own resources. Full conversion of the remaining Bonds would require the issue of 64,111,000 ordinary shares.

The mid-market closing prices of the Bonds and the ordinary shares at March 31, 1998 as quoted in the London Stock Exchange Daily Official List were 261.5p and 607.5p respectively.

**29 Provisions for Liabilities and Charges**

£ million					Group
	Balance at April 1	Transfers from profit and loss account	Other movements	Provisions applied and released	Balance at March 31
Pensions and similar obligations	8	1		(1)	8
Post-retirement medical benefits	22	1	(1)		22
Litigation provision (Note 30)	22			(22)	
Other	6			(6)	
Year to March 31, 1998	58	2	(1)	(29)	30
Year to March 31, 1997	59	5	(2)	(4)	58
<b>Analysis of total 1998</b>					
British Airways Plc	55	3	(1)	(29)	28
Subsidiary undertakings	3	(1)			2
Year to March 31, 1998	58	2	(1)	(29)	30

**30 Litigation**

- a A number of legal claims have been made against the Company by Virgin Atlantic Airways Limited. Having regard to legal advice received, and in all the circumstances, the directors are of the opinion that these claims will not give rise to liabilities which will in the aggregate have a material effect on these accounts.
- b There are a number of further identified legal and other claims which emanate from international airline operations and other activities of the Group for which the directors have made what they believe is appropriate provision. Consequently, the directors have concluded that the general provision of £22 million made in prior years is no longer required and this has now been released.

**31 Share Capital**

	Group and Company			
	1998		1997	
	Number of shares '000	£ million	Number of shares '000	£ million
<b>Authorised</b>				
At April 1	1,308,000	327	1,308,000	327
Increase approved by shareholders at AGM on July 15, 1997	200,000	50		
At March 31	1,508,000	377	1,308,000	327
<b>Allotted, called up and fully paid</b>				
At April 1	1,002,586	251	960,576	240
Conversion of Convertible Capital Bonds	32,386	8	37,795	9
Exercise of options under Employee Share Option Schemes	2,073	1	2,401	1
Conversion of Scrip dividends	1,860		1,814	1
At March 31	1,038,905	260	1,002,586	251





## 32 Share Options

	Group and Company	
	1998	1997
Number of shares '000		
Outstanding at April 1	30,993	33,911
Granted in the year	17,503	
Exercised during the year	(2,073)	(2,401)
Expired/cancelled	(481)	(517)
At March 31	45,942	30,993
Date exercisable	1998-2005	1997-2005
Price per share	130p-579p	130p-465p
Price range of options exercised during the year	144p-419p	130p-419p

The share options granted in the year reflect the share purchase in three years time by employees in the 1998 Share Save Scheme.

## 33 Reserves

## a Group

£ million	Share premium account	Revaluation reserve	Profit and loss account	Group	
				1998	1997
Balance at April 1	565	297	1,871	2,733	2,254
Retained profit for the year			284	284	399
Transfers relating to revalued assets		(3)	3		
Exchange adjustments net of tax relief			(18)	(18)	61
Net movement on goodwill			(23)	(23)	(75)
Share premium	85			85	94
Balance at March 31	650	294	2,117	3,061	2,733

Group profit and loss account includes cumulative retained profits of £92 million (1997: £84 million) in respect of associated undertakings.

## b Goodwill

Cumulative goodwill set off against reserves:

£ million	Subsidiary undertakings	Associated undertakings	Trade investments	Total
Release on disposal		(1)	(7)	(8)
Reclassified to trade investments			(7)	7
Set off on acquisition (see note 19)	7			7
Adjustment to goodwill on acquisition of Air Liberté SA (see below)	24			24
Net movement on goodwill	30	(14)	7	23
Balance at April 1	585	94		679
Balance at March 31	615	80	7	702

In January 1998 the valuation of the net assets acquired and the relative contributions of the shareholders to losses and share capital of Participations Aeronautiques SA was finalised. Adjustments have accordingly been made to goodwill and minority interests.

## c Company

£ million	Share premium account	Revaluation reserve	Profit and loss account	Company	
				1998	1997
Balance at April 1	565	296	1,710	2,571	2,201
Retained profit for the year			81	81	227
Transfers relating to revalued assets		(2)	2		
Exchange adjustments net of tax relief			19	19	49
Share premium	85			85	94
Balance at March 31	650	294	1,812	2,756	2,571



**34 Deferred Taxation (see also Note 11)**

There is no provision for deferred taxation at March 31, 1998 (1997: £nil)

If full provision for deferred taxation at 30 per cent (1997: 33 per cent) had been made, the following amounts would have been required:

	Group		Company	
	1998	1997	1998	1997
Accelerated capital allowances less unrelieved losses	976	915	964	904
Other timing differences	(14)	(48)	(37)	(60)
Advance corporation tax	(98)		(98)	
	<b>864</b>	<b>867</b>	<b>829</b>	<b>844</b>

In arriving at the amount of the full provision for the Group at March 31, 1998 of £864 million, no account has been taken of any tax liability that might arise on the realisation of the revaluation surplus on properties as the directors have no present intention to dispose of significant property assets.

**35 Pension Costs**

British Airways operates two principal defined benefit pension schemes in the United Kingdom, the Airways Pension Scheme (APS), which is closed to new members, and the New Airways Pension Scheme (NAPS) of which all new permanent employees over the age of 18 employed by the Company and certain subsidiary undertakings in the United Kingdom may become members. The assets of these schemes are held in separate trustee-administered funds.

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in line with the Retail Price Index. Those provided under NAPS are based on final average pensionable pay reduced by an amount (the 'abatement') not exceeding one and a half times the Government's lower earnings limit. NAPS benefits are subject to Retail Price Index increases up to a maximum of five per cent in any one year.

Most employees engaged outside the United Kingdom are covered by appropriate local arrangements.

Employees' contributions range from 5.75 per cent to 8.5 per cent of full pensionable pay in APS, and from 3.75 per cent to 6.5 per cent of full pensionable pay less the abatement in NAPS.

The latest actuarial valuations of APS and NAPS were made as at March 31, 1995 by an independent firm of qualified actuaries, R. Watson & Sons, using the attained age method for APS and the projected unit method for NAPS. These valuations showed that no further employers' contributions were required in respect of APS while for NAPS an employers' contribution equal to an average of 2.20 times the employees' contribution for the year April 1, 1997 to March 31, 1998 (2.20 times employees' contribution for 1996-97) was appropriate. Contributions payable to APS and NAPS in 1998-99 will be reviewed in the light of the results of the next valuations of the two schemes due to be carried out as at March 31, 1998.

£ million	Group	
	1998	1997
All amounts recognised as costs were either funded or paid directly.		
Employers' contributions (calculated as set out above for APS and NAPS) charged in the accounts were:		
<i>Airways Pension Scheme</i>		
<i>New Airways Pension Scheme</i>	71	63
<i>Other pension schemes and provident funds – mainly outside the United Kingdom</i>	16	17
	<b>87</b>	<b>80</b>

At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £3,855 million and £1,630 million respectively. The value of the assets represented 112 per cent (APS) and 101 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. In the case of APS, the actuarial value of the assets together with future contributions from employees was sufficient to cover both past and future service liabilities. In the case of NAPS, the actuarial value of the assets together with future contributions from employees was sufficient to cover past service liabilities and some future service liabilities. The employer's contribution is intended to make up the balance of future service liabilities. The principal assumptions used in the actuarial valuation were that, over the long-term, the annual return on investments would be 2.5 per cent higher than the annual increase in earnings and 4.5 per cent higher than annual increases in dividends. Annual pension increases, over the long-term, were assumed for APS to be at the same level as dividend increases and for NAPS at a level one per cent lower.

Employer contributions in respect of overseas employees have been determined in accordance with best local practice.



**36 Forward Transactions**

The Group had outstanding forward transactions to hedge foreign currencies and fuel purchases as follows:

	In currency		Sterling equivalents	
	1998	1997	1998	1997
Maturing within one year				
– to cover future capital commitments in US Dollars	US\$485m	US\$590m	£289m	£362m
– to hedge future currency revenues against US Dollars	US\$127m	US\$39m		
– to hedge future currency revenues against sterling			£65m	£48m
– to hedge future operating payments against US Dollars	US\$130m	US\$31m	£78m	£19m
– to hedge future fuel costs in US Dollars	US\$415m	US\$165m	£247m	£101m
– to hedge future operating payments against sterling			£82m	£60m
– to hedge debt in foreign currency			£90m	
Maturing after one year				
– to cover future capital commitments in US Dollars	US\$170m	US\$140m	£101m	£86m
– to hedge future currency revenues against sterling			£1m	£1m
– to hedge future operating payments against US Dollars			£16m	

**37 Interest Rate Arrangements**

To reduce interest rate risk, British Airways has entered into single currency interest rate swap arrangements so as to change the interest payable elements of certain loans and lease obligations from variable to fixed rates and, accordingly, accounts for such swaps as hedges. Outstanding single currency interest rate swap arrangements are summarised as follows:

	Notional principal balance	Termination dates	Interest rates Fixed payable
<b>At March 31, 1998</b>			
US Dollar	US\$485m	2000 – 2003	8.4% – 9.9%
<i>At March 31, 1997</i>			
US Dollar	US\$525m	2000 – 2003	8.4% – 9.9%
Sterling	£50m	1997	9.5%

In addition, British Airways has entered into cross currency interest rate swaps in relation to specific borrowings, involving the exchange of interest payments in one currency for interest receipts in another. In certain swaps, the principal amounts are similarly exchangeable.

Outstanding cross currency interest rate swap arrangements are summarised as follows:

(interest rates payable are fixed rates (1997 comprising both fixed and variable rates)).

	Notional principal balance	Termination dates	Interest rates Payable
<b>At March 31, 1998</b>			
Sterling	£43m	1998	10.2%
<i>At March 31, 1997</i>			
Sterling	£83m	1997 – 1998	6.5% – 10.2%

**38 Fair Values of Financial Instruments****a Liabilities**

£ million	Carrying amount	Fair value
Bank and other loans	970	987
Hire purchase arrangements	2,958	2,967
Euro-sterling notes	100	129
Convertible Capital Bonds 2005	150	392

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

Bank and other loans, hire purchase arrangements carrying fixed rates of interest

– the repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at March 31, 1998

Euro-sterling notes and Convertible Capital Bonds 2005

– quoted market value

The fair value of all other assets and liabilities is deemed to be equal to their carrying value unless stated in the appropriate note to the accounts.

**b Off balance sheet instruments**

£ million	Unrealised gain/(loss)
Interest rate swaps	(31)
Forward currency transactions	10
Fuel derivatives	(17)

The following methods and assumptions were used by the Group in estimating unrealised gains/(losses) on off balance sheet instruments:

Interest rate swaps

– discounted cash flow analysis, to determine the estimated amount the Group would receive or pay to terminate the agreements

Forward currency transactions

– difference between marked-to-market value and forward rate

Fuel derivatives

– difference between market value and future commitment value





### 39 Contingencies

There were contingent liabilities at March 31, 1998 in respect of guarantees and indemnities entered into as part of, and claims arising from, the ordinary course of business, upon which no material losses are likely to arise.

The Group and the Company have guaranteed certain borrowings, liabilities and commitments which at March 31, 1998 amounted to £115 million (1997: £94 million) and £412 million (1997: £532 million) respectively. For the Company these included guarantees given in respect of the Convertible Capital Bonds issued by a subsidiary undertaking.

### 40 Related Party Transactions

The Group has had transactions, during the year under review, with related parties, as defined in Financial Reporting Standard 8, Related Party Disclosures, as follows:

#### Qantas Airways Limited

The Group has a 25 per cent equity investment in Qantas Airways Limited, and has a 'Joint Service Agreement' with the airline which started in November 1995. The agreement allows the two airlines to co-operate in developing schedules and fares and to share revenues for the core 'Kangaroo' routes between Europe and Australia. During the year under review, the agreement has resulted in British Airways having to accrue an amount payable to Qantas of £20 million (1997: £5 million).

In common throughout the airline industry, British Airways and Qantas from time to time carry each other's passengers travelling on the other airline's tickets. The settlement between the two carriers is actioned through the IATA Clearing House, of which both airlines are members. This arrangement is common practice within the airline industry and is outside the control of the two parties.

As at March 31, 1998, the balance due from Qantas amounted to £10 million (March 31, 1997: £9 million).

#### US Airways Group, Inc.

Until May 1997 the Group had an investment in US Airways Group, Inc. The two companies carry out engineering services for each other's aircraft and for the year under review, British Airways has received net income of just over £1 million (1997: £600,000). In addition, US Airways is a member of the IATA Clearing House and has similar settlement arrangements with British Airways to those described above between British Airways and Qantas.

#### Galileo International Inc.

The Group has a 7.7 per cent equity investment in Galileo International Inc., a company providing computer reservations systems for the airline industry. During the year under review, the Group has incurred net charges of £11 million (1997: £10 million). As at March 31, 1998, the balance due from Galileo International Inc. amounted to £1 million (1997: due to Galileo International Inc. £3 million).

#### Jet Trading and Leasing Company ('JTLC') and Prop Leasing and Trading Company ('PLTC')

TAT European Airlines has a 35 per cent equity investment in each of JTLC and PLTC, international aircraft leasing companies. During the year under review, TAT European Airlines paid FF132 million to JTLC for the rental of 7 aircraft (1997: FF102 million) and FF21 million to PLTC for the rental of 4 aircraft (1997: FF21 million).

As at March 31, 1998, the balances outstanding with JTLC and PLTC were nil (1997: nil).

#### Directors' and Officers' loans and transactions

No loans or credit transactions were outstanding with directors or officers of the Company at the end of the year which need to be disclosed in accordance with the requirements of Schedule 6 to the Companies Act 1985.

In addition to the above, the Group also has transactions with related parties which are conducted in the normal course of airline business. These include the provision of airline and related services.

### 41 Foreign Currency Translation Rates

	At March 31		Annual average	
	1998	1997	1997-98	1996-97
US Dollar	1.677	1.63	1.64	1.59
Japanese Yen	223	201	202	178
Deutsche Mark	3.10	2.73	2.90	2.44
Australian Dollar	2.53	2.08	2.29	2.02
French Franc	10.39	9.21	9.75	8.27





## Principal Investments

At March 31, 1998

### Subsidiary Undertakings

Principal subsidiary undertakings are wholly-owned except where indicated.

	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Ltd *	Airline marketing	England
Bedford Associates Inc.	Specialist computer reservations software	USA
Britair Acquisition Corp. Inc.	Holding company	USA
British Airways Capital Ltd * <i>(89 per cent of founders' shares owned)</i>	Airline finance	Jersey
British Airways (European Operations at Gatwick) Ltd *	Airline operations	England
British Airways Finance B.V. *	Airline finance	Netherlands
British Airways Holidays Ltd *	Package holidays	England
British Airways Maintenance Cardiff Ltd *	Aircraft maintenance	England
British Airways Regional Ltd *	Air travel services	England
British Airways Travel Shops Ltd *	Travel agency	England
British Asia Airways Ltd *	Air travel services	England
Deutsche BA Luftfahrtgesellschaft mbH	Airline operations	Germany
Go Fly Ltd *	Airline operations	England
Participations Aeronautiques SA <i>(76 per cent of equity owned)</i> <i>(Holding company of TAT European Airlines SA and Air Liberté SA)</i>	Airline holding company	France
Speedbird Insurance Company Ltd *	Captive insurance	Bermuda
The Plimsoll Line Ltd * <i>(Holding company of Brymon Airways Ltd)</i>	Airline holding company	England
Travel Automation Services Ltd * <i>(trading as Galileo United Kingdom)</i>	Computer reservations systems	England

### Associated Undertakings

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Concorde International Travel Pty Ltd	50.0	Travel services	Australia
Qantas Airways Ltd	25.0	Airline operations	Australia

### Trade Investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Hogg Robinson plc *	13.6	Travel services	England
Ruby Aircraft Leasing and Trading Ltd *	19.3	Aircraft leasing	England
Sapphire Aircraft Leasing and Trading Ltd *	19.3	Aircraft leasing	England
Galileo International Inc.	7.7	Computer reservations systems	USA

\* Owned directly by British Airways PLC

The Group's investment in Ruby Aircraft Leasing and Trading Limited was disposed of on May 21, 1998. No material sale proceeds nor profit or loss arose on this disposal.



### US GAAP Accounting Principles

The financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States. The significant differences are described below:

#### Deferred taxation

British Airways provides for deferred taxation using the liability method on all material timing differences to the extent that it is probable that the liabilities will crystallise in the foreseeable future. Under US GAAP, deferred taxation is generally provided for on a full liability basis.

#### Goodwill

British Airways sets off goodwill arising on consolidation directly against retained earnings. Under US GAAP, goodwill arising on consolidation is amortised over its useful life. For the purposes of determining the differences between UK GAAP and US GAAP, the expected useful life of goodwill has been taken to be 40 years.

#### Property and fleet valuation

Under US GAAP, tangible assets must be stated at cost less accumulated depreciation in the financial statements. The valuation of properties at March 31, 1995 and fleet at March 31, 1988 incorporated by British Airways in its financial statements would not, therefore, have been included in financial statements prepared in accordance with US GAAP and the subsequent charges for depreciation would have been correspondingly lower. When such assets are sold any revaluation surplus thus realised would be reflected in income.

#### Purchase accounting

Under US GAAP, a deferred tax liability is recognised for the tax effects of differences between the assigned fair values and tax bases of assets acquired, whereas under UK GAAP no such liability is recognised. As a result of recognising such a deferred tax liability, the amount of goodwill arising on consolidation increases correspondingly. Under US GAAP, the deferred tax liability would be amortised over the same period as the assets to which it relates.

#### Forward exchange contracts

Under US GAAP, the notional gain or loss arising on the translation of certain outstanding foreign currency forward exchange contracts at each balance sheet date, at the forward rates of exchange ruling at that date, would have been included in the determination of net income. British Airways does not take account of such notional gains and losses.

#### Dividends

Under UK GAAP, dividends are recorded in the financial statements for the period to which the dividend relates. Under US GAAP, the liability for dividends is recorded in the financial statements when declared. The proposed final dividend at March 31, 1998, and the related advance corporation tax, would not, therefore, be included in the financial statements for 1998 prepared in accordance with US GAAP.

#### Foreign currency translation

Aircraft which are financed in whole or in part in foreign currency, either by loans, finance lease obligations or hire purchase arrangements, are regarded, together with the related liabilities, as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into sterling at rates ruling at the balance sheet date and the differences arising from the translation of aircraft costs and related foreign currency loans are taken to retained earnings. Under US GAAP, the cost of these aircraft would be fixed in pounds sterling at the rate of exchange ruling at the date of the original acquisition, lease or hire purchase and the exchange gain or loss on the related foreign currency loans would be reflected in income.

#### Gains on sale and leaseback transactions

Under UK GAAP, gains arising on sale and leaseback transactions are recognised as part of income to the extent that the sale proceeds do not exceed the fair value of the assets concerned. Gains arising on the portion of the sale proceeds which exceed the fair value are deferred and amortised over the minimum lease term. Under US GAAP, the total gains, including any realised revaluation gains, would be deferred in full and amortised over the minimum lease term.

#### Pension costs

Under US GAAP, the cost of providing pensions is attributed to periods of service in accordance with the benefit formulae underlying the pension plans. The resultant projected benefit obligation is matched against the current value of the underlying plan assets and unrecognised actuarial gains and losses in determining the pension cost or credit for the year. The net periodic pension costs for these plans for the year ended March 31, 1998 amounted to £71 million (1997: £63 million) under UK GAAP compared with an estimated credit of £37 million (1997: credit £14 million) under FAS 87 'Employers' Accounting for Pensions'. The resultant decrease in operating costs of £108 million (1997: decrease of £77 million), net of related deferred tax of £33 million (1997: £25 million), would increase net income under US GAAP by £75 million (1997: increase of £52 million), and would be reflected in the consolidated balance sheet as a reduction in accrued pension costs.

#### Capitalised operating leases

Under UK GAAP, certain aircraft operating leases have been capitalised and the related liabilities included in finance lease obligations and the resulting assets are being depreciated over the remaining term of the lease. Under US GAAP, such leases would be classified as operating leases and neither the capital element nor the associated liability would be brought onto the balance sheet.

#### Associated undertakings

Adjustments made in respect of associated undertakings accounted for under UK GAAP to bring them into line with the US GAAP accounting principles are as set out above.

#### Trade investments

Under UK GAAP, trade investments are stated at cost less provision for permanent diminution in value. Under US GAAP, trade investments classified as available for sale are stated at market value and the unrealised gains/losses are accounted for in shareholders' equity.

#### Provision for diminution in value of investment

Under UK GAAP, provisions for diminution in value of investments that are no longer required are to be written back through the profit and loss account. Under US GAAP, such write back of provisions is not permitted.

#### Stock-Based Compensation

FAS 123 'Accounting for Stock-Based Compensation' which is effective for fiscal years beginning after December 15, 1995, encourages a fair value based method of accounting for employee stock options or similar equity instruments, but allows continued use of the intrinsic value based method of accounting as prescribed by Accounting Principles Board Opinion 25 ('APB 25') 'Accounting for Stock Issued to Employees'. British Airways has elected to continue under APB 25 and consequently no compensation cost has been required to be accounted for.

The estimated effect of the significant adjustments to net income and to shareholders' equity which would be required if US GAAP were to be applied instead of UK GAAP are summarised on pages 60 and 61.



## United States Generally Accepted Accounting Principles (US GAAP) Information (continued)

### Net Income under US GAAP

For the year ended March 31, 1998

	Group			
	1998 £ million	1997 £ million	1998 \$ million*	1997 \$ million*
Profit for the year as reported in the Group profit and loss account	460	553	771	901
<b>Adjustments:</b>				
<b>Depreciation and amortisation</b>				
Goodwill set off in respect of subsidiary undertakings	(15)	(12)	(25)	(20)
Goodwill set off in respect of associated undertakings	(2)	(3)	(3)	(5)
Fleet	(1)	2	(2)	3
Finance leased aircraft	56	56	94	91
Property	1	2	2	3
	39	45	66	72
<b>Aircraft operating lease costs</b>	<b>(112)</b>	<b>(109)</b>	<b>(188)</b>	<b>(178)</b>
<b>Equity accounting of associated undertakings</b>				
Share of results of associated undertakings	(23)	36	(39)	59
Share of taxation of associated undertakings	8	(13)	13	(21)
	(15)	23	(26)	38
<b>Interest payable</b>	<b>55</b>	<b>54</b>	<b>92</b>	<b>88</b>
<b>Pension costs</b>	<b>108</b>	<b>77</b>	<b>181</b>	<b>126</b>
<b>Exchange gains/(losses)</b>				
Arising on translation of aircraft related loans	54	147	91	240
Relating to revaluation of forward exchange contracts	8	(2)	13	(3)
	62	145	104	237
<b>Profit on disposal of tangible fixed assets and investments</b>				
Arising on disposal of revalued aircraft	3	1	5	2
Arising on sale and leaseback transactions	4	6	7	10
Arising on disposal of US Airways Group, Inc.	125		210	
	132	7	222	12
Write back of provision of investment in US Airways Group, Inc.		(125)		(204)
		(3)		(5)
<b>Taxation</b>				
<b>Deferred taxation</b>				
Effect of the above adjustments	(36)	(27)	(60)	(44)
Effect of differences in methodology	(39)	(92)	(65)	(150)
	(75)	(119)	(125)	(194)
	194	(5)	326	(8)
<b>Net income as adjusted to accord with US GAAP</b>	<b>654</b>	<b>548</b>	<b>1,097</b>	<b>893</b>
	Pence	Pence	Cents	Cents
<b>Net income per ordinary share as so adjusted</b>				
Basic	63.5	55.2	106.0	90.0
Fully diluted	59.1	50.4	99.0	82.2
<b>Net income per American depository share as so adjusted</b>				
Basic	£6.35	£5.52	\$10.60	\$9.00
Fully diluted	£5.91	£5.04	\$9.90	\$8.22

Translation rate £1 = \$1.677    £1 = \$1.63

Basic net income per ordinary share is calculated on net income of £654 million (1997: £548 million) divided by the weighted average of 1,030,021,000 ordinary shares (1997: 992,538,000). Fully diluted net income per ordinary share is calculated on net income of £669 million (1997: £569 million) divided by a weighted average of 1,132,032,000 ordinary shares (1997: 1,129,578,000) after allowing for the conversion rights attaching to the Convertible Capital Bonds and for outstanding share options and for corresponding adjustments to income to eliminate interest payable on the Convertible Capital Bonds and to include notional interest receivable on the subscription cash for shares.

\*US\$ amounts are disclosed for information only.





## United States Generally Accepted Accounting Principles (US GAAP) Information (continued)

### Shareholders' Equity under US GAAP

At March 31, 1998

	1997		1998	
	£ million	£ million	\$ million*	\$ million*
Shareholders' equity as reported in the Group balance sheet	3,321	2,984	5,569	4,864
<b>Adjustments:</b>				
<b>Intangible assets</b>				
Goodwill set off in respect of subsidiary undertakings				
Cost	621	591	1,041	963
Amortisation	(112)	(97)	(187)	(158)
	509	494	854	805
<b>Tangible assets</b>				
Cost				
Fleet	(1,117)	(1,168)	(1,873)	(1,903)
Property and equipment	(307)	(308)	(515)	(502)
	(1,424)	(1,476)	(2,388)	(2,405)
Amortisation				
Fleet, property and equipment	469	421	787	686
<b>Associated undertakings</b>				
Net equity				
	(20)	(5)	(34)	(8)
Goodwill set off in respect of associated undertakings				
Cost	80	94	134	153
Amortisation	(10)	(10)	(17)	(16)
	70	84	117	137
<b>Trade investments</b>				
	135	(125)	226	(204)
<b>Current assets</b>				
Debtors				
	7		12	
<b>Current liabilities</b>				
Loans, finance leases and hire purchase arrangements				
	63	60	106	98
Other creditors	55	2	92	3
Proposed dividends	124	108	208	176
Pension cost accruals	52	(56)	87	(91)
Accruals and deferred income	11	7	18	11
<b>Long-term liabilities</b>				
Loans, finance leases and hire purchase arrangements				
	671	756	1,125	1,232
Accruals and deferred income		(1)		(2)
<b>Provisions for liabilities and charges</b>				
Deferred taxation				
Effect of the above adjustments	(103)	4	(172)	7
Effect of differences in methodology	(896)	(857)	(1,502)	(1,397)
	(999)	(853)	(1,674)	(1,390)
	(277)	(584)	(464)	(952)
Shareholders' equity as adjusted to accord with US GAAP	3,044	2,400	5,105	3,912

Translation rate £1 = \$1.677 £1 = \$1.63

\*US\$ amounts are included for information only.





## Five Year Summaries

For the five years ended March 31, 1998

### Group Profit and Loss Account

£ million	1998	1997	1996	1995	1994
<b>Turnover</b>	<b>8,642</b>	8,359	7,760	7,177	6,602
Operating expenditure	(8,138)	(7,813)	(7,032)	(6,559)	(6,134)
<b>Operating profit</b>	<b>504</b>	546	728	618	468
Income from interests in associated undertakings	61	114	61	58	22
Other income and charges	19	17	(1)	1	9
Provision against investment in US Airways Group, Inc.		125		(125)	
Profit/(loss) on sale of fixed assets	164	20	20	(20)	(7)
Profit on sale of subsidiary undertaking				10	
Net interest payable	(168)	(182)	(223)	(215)	(212)
<b>Profit before taxation</b>	<b>580</b>	640	585	327	280
Taxation	(133)	(90)	(112)	(77)	(6)
<b>Profit after taxation</b>	<b>447</b>	550	473	250	274
Minority interests	13	3			
<b>Profit for the year</b>	<b>460</b>	553	473	250	274
Dividends	(176)	(154)	(131)	(119)	(106)
<b>Retained profit for the year</b>	<b>284</b>	399	342	131	168
<b>Earnings per share</b>					
Basic earnings per share	44.7p	55.7p	49.4p	26.2p	30.0p
Adjusted earnings per share	44.7p	55.9p	49.4p	39.3p	30.0p
Fully diluted earnings per share	42.0p	50.8p	44.2p	24.5p	27.6p
Fully diluted adjusted earnings per share	42.0p	51.0p	44.2p	35.6p	27.6p
<b>Dividends per share</b>	<b>16.60p</b>	15.05p	13.65p	12.40p	11.10p

Adjusted earnings per share for 1995 have been adjusted to exclude provision of £125 million against investment in US Airways Group, Inc. Adjusted earnings per share for 1997 have been adjusted to exclude the exceptional operating charge of £127 million and the write back of provision of £125 million against investment in US Airways Group, Inc.

### Geographical Analysis of Group Turnover and Operating Profit

	By area of destination				
	1998	1997	1996	1995	1994
<b>Turnover</b>					
Europe	3,214	3,168	3,109	3,015	2,734
The Americas	3,073	2,861	2,449	2,185	2,029
Africa, Middle East and Indian sub-continent	1,118	1,134	1,074	953	900
Far East and Australasia	1,237	1,196	1,128	1,024	939
	<b>8,642</b>	8,359	7,760	7,177	6,602
<b>Operating profit</b>					
Europe	(127)	6	26	2	16
The Americas	395	364	315	245	140
Africa, Middle East and Indian sub-continent	125	157	220	226	209
Far East and Australasia	111	146	167	145	103
	<b>504</b>	673	728	618	468
Exceptional operating charge for restructuring costs under the Business Efficiency Programme		(127)			
	<b>504</b>	546	728	618	468



## Five Year Summaries (continued)

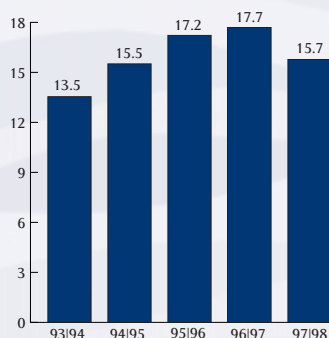
For the five years ended March 31, 1998

### Group Balance Sheet

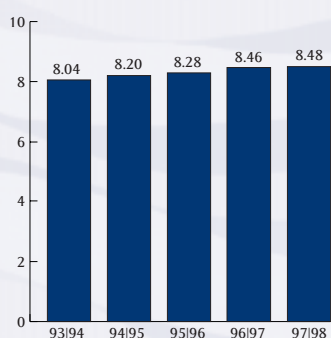
£ million	1998	1997	1996	1995	1994
<b>Fixed assets</b>					
Tangible assets	8,667	7,588	6,826	6,163	5,811
Investments	388	684	531	471	595
	9,055	8,272	7,357	6,634	6,406
<b>Current assets</b>	2,245	2,164	2,684	2,429	2,433
Creditors: amounts falling due within one year	(2,821)	(3,160)	(2,824)	(2,320)	(2,114)
<b>Net current (liabilities)/assets</b>	(576)	(996)	(140)	109	319
<b>Total assets less current liabilities</b>	8,479	7,276	7,217	6,743	6,725
Creditors: amounts falling due after more than one year	(5,128)	(4,260)	(4,664)	(4,596)	(4,926)
Provisions for liabilities and charges	(30)	(58)	(59)	(57)	(69)
Minority interests		26			
	3,321	2,984	2,494	2,090	1,730
<b>Capital and reserves</b>					
Called up share capital	260	251	240	239	239
Reserves	3,061	2,733	2,254	1,851	1,491
	3,321	2,984	2,494	2,090	1,730

### Group Cash Flow Statement

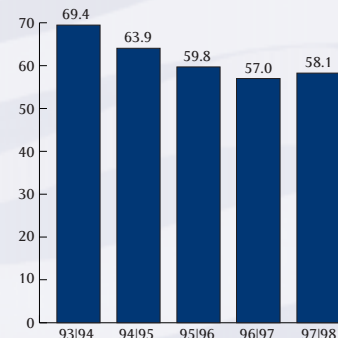
£ million	1998	1997	1996	1995	1994
Cash inflow from operating activities	736	1,212	1,424	1,108	832
Returns on investments and servicing of finance	(257)	(177)	(241)	(211)	(207)
Taxation	(134)	(83)	(51)	9	(20)
Capital expenditure and financial investment	161	(944)	(699)	(451)	(154)
Acquisitions and disposals	75	(16)		(30)	(72)
Equity dividends paid	(148)	(131)	(121)	(109)	(86)
Cash inflow/(outflow) before management of liquid resources and financing	433	(139)	312	316	293
Management of liquid resources	(90)	560	(59)	95	(699)
Financing	(372)	(392)	(259)	(395)	405
(Decrease)/increase in cash	(29)	29	(6)	16	(1)



OPERATING CASH FLOW/  
MARKET VALUE OF ASSETS (%)



AIRCRAFT UTILISATION AVERAGE  
HOURS PER AIRCRAFT PER DAY



NET DEBT/TOTAL CAPITAL  
RATIO (%)

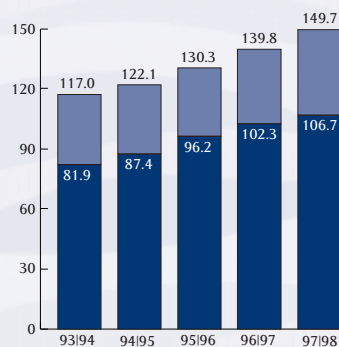


## Operating and Financial Statistics (see Note 1)

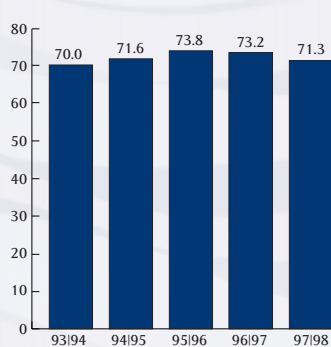
For the five years ended March 31, 1998

### Mainline Scheduled Services (see Note 2)

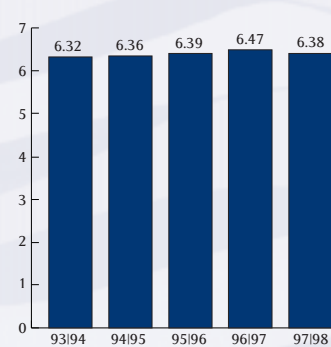
		1998	1997	1996	1995	1994
<b>Traffic and capacity</b>						
Revenue passenger km (RPK)	m	<b>106,739</b>	102,304	96,163	87,395	81,907
Available seat km (ASK)	m	<b>149,659</b>	139,789	130,286	122,063	116,974
Passenger load factor	%	<b>71.3</b>	73.2	73.8	71.6	70.0
Cargo tonne km (CTK)	m	<b>4,181</b>	3,790	3,476	3,349	2,991
Total revenue tonne km (RTK)	m	<b>14,818</b>	14,004	13,084	11,667	10,792
Total available tonne km (ATK)	m	<b>21,410</b>	19,907	18,508	17,115	16,240
Overall load factor	%	<b>69.2</b>	70.3	70.7	68.2	66.5
Passengers carried	000	<b>34,377</b>	33,440	32,272	30,552	28,656
Tonnes of cargo carried	000	<b>816</b>	721	672	666	607
Frequent flyer RPKs as a percentage of total RPKs (Note 3)	%	<b>2.2</b>	2.0	1.9	1.7	1.4
<b>Financial</b>						
Passenger revenue per RPK	p	<b>6.38</b>	6.47	6.39	6.36	6.32
Cargo revenue per CTK	p	<b>14.02</b>	14.78	16.20	15.47	15.41
Average fuel price (US cents/US gallon)		<b>64.70</b>	75.90	63.16	59.79	63.64
<b>Operations</b>						
Unduplicated route km	000	<b>769</b>	759	767	743	643
Punctuality – within 15 minutes	%	<b>80</b>	82	82	84	85
Regularity	%	<b>98.0</b>	99.2	99.1	99.5	99.3



AVAILABLE SEAT KM (ASK)  
REVENUE PASSENGER KM (RPK)  
(millions)



PASSENGER LOAD FACTOR (%)



PASSENGER REVENUE PER RPK  
(pence)



## Operating and Financial Statistics (continued)

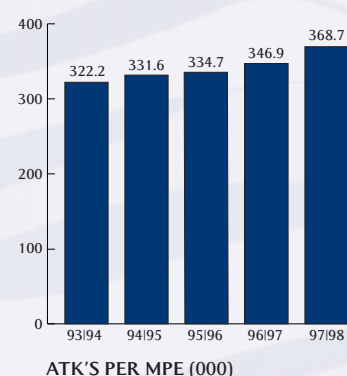
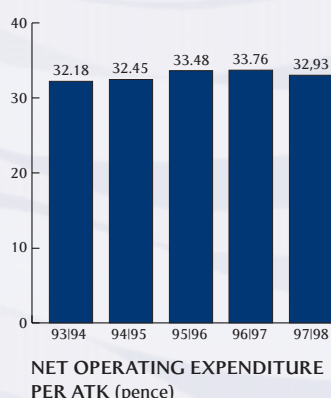
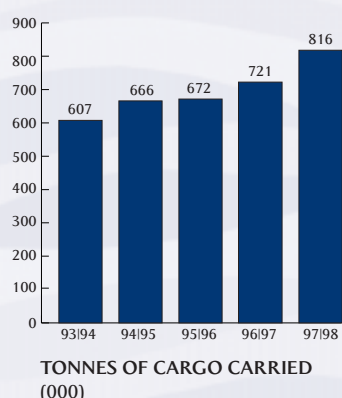
For the five years ended March 31, 1998

### Total Group Operations

(including Deutsche BA and Air Liberté) (see Note 4)		1998	1997	1996	1995	1994
<b>Traffic and capacity</b>						
Total revenue tonne km (RTK)	m	15,406	14,336	13,311	12,380	11,467
Total available tonne km (ATK)	m	22,403	20,542	18,982	18,224	17,233
Passengers carried	000	40,955	38,180	36,003	35,643	32,749
Revenue aircraft km	m	640	579	567	556	522
Revenue flights	000	420	399	381	381	358
Break-even overall load factor	%	64.4	63.6	62.9	61.5	61.4
<b>Financial</b>						
Operating cash flow/Market value of assets	%	15.7	17.7	17.2	15.5	13.5
Interest cover	times	4.5	4.5	3.6	2.5	2.3
Dividend cover	times	2.6	3.6	3.6	2.1	2.6
Operating margin	%	5.8	8.1	9.4	8.6	7.1
Net debt/total capital ratio	%	58.1	57.0	59.8	63.9	69.4
Total traffic revenue per RTK	p	51.16	53.07	53.21	52.76	52.44
Total traffic revenue per ATK	p	35.18	37.04	37.31	35.84	34.89
Net operating expenditure per RTK	p	47.88	48.37	47.74	47.77	48.36
Net operating expenditure per ATK	p	32.93	33.76	33.48	32.45	32.18
<b>Operations</b>						
Average manpower equivalent (MPE)		60,770	59,218	56,720	54,958	53,491
RTKs per MPE	000	253.5	242.1	234.7	225.3	214.4
ATKs per MPE	000	368.7	346.9	334.7	331.6	322.2
Aircraft in service at year end		330	308	293	283	294
Aircraft utilisation (average hours per aircraft per day)		8.48	8.46	8.28	8.20	8.04

#### Notes:

- Operating statistics do not include those of associated undertaking (Qantas Airways) and franchisees (British Mediterranean Airways, British Regional Airlines, CityFlyer Express, Comair (South Africa), GB Airways, MAERSK Air, Loganair, and Sun-Air (Scandinavia)).
- Mainline scheduled services include those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.
- The carriage of passengers on Frequent Flyer Programmes is evaluated on a ticket by ticket basis.
- Group operating and financial statistics for the year ended March 31, 1997 included Air Liberté since its acquisition by the Group in January 1997 and exclude the exceptional charge of £127 million. Group statistics for the two years ended March 31, 1995 included charter services operated by Caledonian Airways.





## Aircraft Fleet

Number in service with Group companies at March 31, 1998

	On balance sheet aircraft	Operating leases off balance sheet		Total (Note 2)	Future deliveries	Options	1997-98 revenue hours flown	Average hours per aircraft/day	Average age (years)
		Extendible	Other						
<b>Mainline</b> (Note 1)									
Concorde	7			7			5,914	2.31	21.3
Boeing 747-100	14		1	15			57,858	10.57	25.9
Boeing 747-200	13	3		16			62,169	10.65	17.4
Boeing 747-400	44			44	18	7	194,506	13.45	5.1
Boeing 777	18			18	11	11	56,771	11.37	1.2
McDonnell Douglas									
DC-10-30	3	2		5			28,563	11.30	19.2
Boeing 767-300	25			25	3	3	81,548	8.94	6.4
Boeing 757-200	46	3	1	50	7		124,282	7.15	10.3
Airbus A320	10			10			24,149	6.62	9.2
Boeing 737-200	15		15	30			79,209	6.79	15.7
Boeing 737-300			2	2	5		620	5.64	0.2
Boeing 737-400	27		7	34			91,650	7.39	6.0
Turbo Props (Note 3)	2	10	10	22			44,858	5.86	7.3
Hired aircraft							11,318		
Sub total	224	18	36	278	44	21	863,415	8.82	10.0

### Deutsche BA and Air Liberté

McDonnell Douglas									
DC-10-30			3	3			11,991	10.95	23.6
McDonnell Douglas									
MD83	3		6	9			19,351	6.80	7.9
Boeing 737-200							5,853	5.32	
Boeing 737-300			20	20			40,857	8.02	3.6
Fokker 100	4	7		11			27,309	6.80	6.5
Fokker F28	4			4			11,292	5.85	23.0
Turbo Props (Note 4)		3	2	5			21,331	5.12	8.5
Hired aircraft							726		
Sub total	11	10	31	52			138,710	6.83	8.5
Group total	235	28	67	330	44	21	1,002,125	8.48	9.7

#### Notes:

- 1 Includes those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.
- 2 Excludes 3 McDonnell Douglas DC-10-30s, 1 Fokker F28, 4 ATR 72s, 3 ATR 42s, 2 Embraer and 4 Saab 2000s subleased to other carriers.
- 3 Includes 10 BAe ATPs, 2 de Havilland Canada DHC-7-100s and 10 de Havilland Canada DHC-8s.
- 4 Includes 2 ATR 72s, 3 ATR 42s.



## Shareholder Information

### Shareholders

As at May 15, 1998 there were 229,329 shareholders (May 12, 1997: 230,026). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares	Classification of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	90.62	6.01	Individuals	93.98	9.52
1,001 – 5,000	7.81	3.46	Bank or Nominee	5.25	85.59
5,001 – 10,000	0.76	1.16	Insurance companies	0.01	1.02
10,001 – 50,000	0.41	1.98	Pension trusts	0.02	1.17
50,001 – 100,000	0.11	1.72	Investment trusts	0.23	0.27
100,001 – 250,000	0.12	4.41	Other corporate bodies	0.51	2.43
250,001 – 500,000	0.06	5.09			
500,001 – 750,000	0.03	3.73			
750,001 – 1,000,000	0.02	3.83			
Over 1,000,000	0.06	68.61			
	100.00	100.00		100.00	100.00

British Airways is not aware of any other interest in its shares of ten per cent or more nor of any material interest of three per cent or more.

### General Information

#### Financial calendar

Financial year end	March 31, 1998
Annual General Meeting	July 14, 1998

#### Announcement of 1998 – 99 results and dividends

First quarter results to June 30, 1998	August 1998
Second quarter results to September 30, 1998	November 1998
Interim dividend	November 1998 (payable January 1999)
Third quarter results to December 31, 1998	February 1999
Preliminary announcement	mid May 1999
Report and Accounts	June 1999
Final dividend	May 1999 (payable July 1999)

#### Registered office

Waterside, PO Box 365, Harmondsworth UB7 0GB  
Registered number – 1777777

#### Outside advisors

Company Registrars: Computershare Services Plc, PO Box 82, Caxton House, Redcliffe Way, Bristol, BS99 7NH.  
ADR Depository: Morgan Guaranty Trust Company of New York, 60 Wall Street, New York, NY 10260

#### Unsolicited mail

British Airways is obliged by law to make its share register available on request to other organisations who may then use it as a mailing list. This may result in your receiving unsolicited mail. If you wish to limit the receipt of unsolicited mail you may do so by writing to the Mailing Preference Service, an independent organisation whose services are free to you. Once your name and address have been added to its records, it will advise the companies and other bodies which support the service that you no longer wish to receive unsolicited mail.

If you would like more details please write to: The Mailing Preference Service, FREEPOST 22, London W1E 7EZ.  
British Airways asks organisations which obtain its register to support this service



## Glossary

<b>Mainline</b>	This includes British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.
<b>Available seat kilometres (ASK)</b>	The number of seats available for sale multiplied by the distance flown.
<b>Available tonne kilometres (ATK)</b>	The number of tonnes (2,240 lb) of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown.
<b>Revenue passenger kilometres (RPK)</b>	The number of revenue passengers carried multiplied by the distance flown.
<b>Cargo tonne kilometres (CTK)</b>	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.
<b>Revenue tonne kilometres (RTK)</b>	The revenue load in tonnes multiplied by the distance flown.
<b>Load factor</b>	The percentage relationship of revenue load carried to capacity available.
<b>Passenger load factor</b>	RPK expressed as a percentage of ASK.
<b>Overall load factor</b>	RTK expressed as a percentage of ATK.
<b>Break-even load factor</b>	The load factor required to equate total traffic revenue with operating costs.
<b>Frequent flyer RPKs as a percentage of total RPKs</b>	The amount of frequent flyer RPKs expressed as a percentage of total RPKs is indicative of the proportion of total passenger traffic that is represented by redemption of frequent flyer points in the year.
<b>Revenue per RPK</b>	Passenger revenue from Mainline scheduled operations divided by Mainline scheduled RPK.
<b>Total traffic revenue per RTK</b>	Revenue from total traffic (scheduled and non-scheduled) divided by RTK.
<b>Total traffic revenue per ATK</b>	Revenue from total traffic (scheduled and non-scheduled) divided by ATK.
<b>Punctuality</b>	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule.
<b>Regularity</b>	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons.
<b>Unduplicated route kilometres</b>	All scheduled flight stages counted once, regardless of frequency or direction.
<b>Operating cash flow/Market value of assets</b>	Group operating profit plus depreciation, less rentals for aircraft and property, divided by market value of assets.
<b>Interest cover</b>	The number of times profit before taxation and net interest payable covers the net interest payable.
<b>Dividend cover</b>	The number of times profit for the year covers the dividends paid and proposed.
<b>Operating margin</b>	Operating profit as a percentage of turnover.
<b>Net debt</b>	Loans, finance leases and hire purchase arrangements, plus Convertible Capital Bonds 2005, net of short-term loans and deposits and cash less overdrafts.
<b>Total capital</b>	Capital and reserves plus Net debt.
<b>Net debt/Total capital ratio</b>	Net debt as a ratio of Total capital.
<b>Manpower equivalent</b>	Number of employees adjusted for part-time workers and overtime.

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# GLOBAL NETWORK

British Airways continues to pursue its goal of being "truly global" both through growth in its own network and through the building of a global alliance.

In its own right, British Airways mainline scheduled services serve 166 destinations in 85 countries.

British Airways global alliance includes equity investments in Air Liberté, Deutsche BA, and Qantas; codeshare arrangements are in place with airlines including Canadian Airlines, American West and Finnair; and there are franchise agreements with GB Airways, CityFlyer Express, MAERSK Air, Logan Air, British Mediterranean Airways, Brymon Airways, British Regional Airways, Comair and Sun-Air.

## AFRICA

Eighteen flights a week link Heathrow with South Africa. All of the airline's African services, except for South Africa and Egypt operate out of Gatwick Airport.

Franchise partner Comair operates between 11 cities in South Africa.

## LATIN AMERICA & CARIBBEAN

British Airways now serves 18 destinations in the Latin American and Caribbean region with new services to Tobago and Cancun. All flights other than those to Mexico now operate from Gatwick.

## BRITISH ISLES

An extensive scheduled network of domestic services serving 15 UK airports. In addition, franchise partners operate services to 29 other UK airports to give British Airways the widest coverage in the British Isles.



## NORTH AMERICA

British Airways serves 24 cities in the USA and Canada with increased frequencies this summer to Newark, Orlando, Tampa as well as to Bermuda. With Canadian Airlines, there are codeshare flights to a further 12 Canadian cities.

## EUROPE

British Airways, with its European subsidiary airlines Deutsche BA and Air Liberté, serve 61 European airports from the UK. Air Liberté serves a total of 28 European airports and Deutsche BA serves a total of seven. Franchise partners serving airports from the UK to continental Europe include Sun-Air, CityFlyer Express, MAERSK Air, British Mediterranean and GB Airways.

## ASIA/PACIFIC

British Airways and Qantas connect the UK and Australia over Singapore and Bangkok. The two airlines now offer five services each day between London and Australia. British Airways also serves a further 17 non-Australian destinations in the Asia/Pacific region.

## MIDDLE EAST

British Airways flies to 11 destinations in the Middle East with the recent introduction of services to Doha. Under a franchise agreement, British Mediterranean Airways operates to a further three destinations.



