Contents

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Year at a glance

- New strategy defined for the future, geared towards increasing shareholder value by focusing on the most profitable segments of our business and thereby improving returns.
- Launch of oneworld™ with British Airways in an alliance of five quality airlines, with a further three airlines soon to join the oneworld family.
- Business Efficiency Programme continues to deliver substantial cost benefits, now running ahead of schedule at £610 million a year.
- Relaunch of our World Traveller product with significant improvements in service for our longhaul customers.
- Considerable improvements made in baggage delivery and punctuality with the airline reaching top spot among the major European airlines.
- Completion of the move to Waterside, the award-winning new British Airways corporate offices, in which our people have settled into a dynamic working environment which is geared towards the future.
- Launch of go, a new low-cost airline based at Stansted and operating in this growing air travel market.

Group results			1998-99	*1997-98*
Turnover	(£ million)	up 3.2%	**8,915**	*8,642*
Operating profit	(£ million)	down 12.3%	**442**	*504*
Profit before taxation	(£ million)	down 61.2%	**225**	*580*
Attributable profit for the year	(£ million)	down 55.2%	**206**	*460*
Capital and reserves	(£ million)	up 1.0%	**3,355**	*3,321*
Basic earnings per share	(pence)	down 56.4%	**19.5**	*44.7*

Chairman's statement

Lord Marshall, Chairman

Group profit before tax for the year was £225 million, £355 million below last year. Profit attributable to shareholders was £206 million, down from last year's £460 million. Your Board has recommended a final dividend of 12.8 pence. When added to the interim dividend, this will result in a total dividend of 17.9 pence, an increase of 7.8 per cent, for the year ended March 31, 1999.

The year in view

As uncomfortable as it undoubtedly was for shareholders, employees and management, alike, I believe this will prove to have been a defining year for the company.

The disappointment of having to report a substantially reduced profit is tempered by the fact that significant progress has been made with our plans for long-term development. Your company is now embarked on a clear strategic path which is expected to lead, over time, to improved financial performance.

> "I believe this will prove to have been a defining year for the company. We are now embarked on a clear strategic path which is expected to lead, over time, to improved financial performance."

Although the all-out global recession, which many experts predicted, did not materialise, the severe economic slowdown in many major markets took their toll on our performance, notably by reducing demand for premium services. In our home country, the effects of sterling's strength against other main currencies continued to depress the exporting and manufacturing industries which comprise an important part of British Airways' prime business travel market.
The other side of this double-edged currency sword reduced the sterling value of our overseas revenues.

The open, competitive nature of modern air transport means that downturn in demand, with no commensurate reduction in capacity, invariably brings price pressures to the market place. The year under review has been no exception.

			1998-99	*1997-98*
Key financial statistics				
Operating margin	(per cent)	down 0.8 points	**5.0**	*5.8*
Net debt/total capital ratio	(per cent)	up 4.1 points	**62.2**	*58.1*
Operating Statistics				
Passengers carried *Group*	(000)	up 10.0%	**45,049**	*40,955*
Revenue tonne kilometres *Group*	(million)	up 9.2%	**16,831**	*15,406*
Available tonne kilometres *Group*	(million)	up 12.1%	**25,114**	*22,403*
Passenger load factor *Mainline scheduled services*	(per cent)	down 0.6 points	**70.7**	*71.3*

Prompted by continued network expansion, our total passenger carryings increased by some 10 per cent to more than 45 million; and group revenue rose by more than 3 per cent. Market conditions and exchange rates, however, forced our yields to fall sharply. Operating performance, in terms of revenue passenger kilometres, increased; while the seat factor remained almost flat. Our cargo business also faced difficult conditions, with falling yields.

"The purpose of our strategy is to double operating margin over the next five years, secure a greater return on assets and equity and create an environment of commercial stability."

Nevertheless, there were a number of important and encouraging achievements. Productivity continued to rise, with an improvement of more than 6 per cent. Unit costs came down by more than 7 per cent. I am confident that the Business Efficiency Programme which has so far delivered annual savings of £610 million, will achieve its target of reducing yearly costs by £1 billion in 2000.

Substantial improvement was achieved in our mainland European subsidiary airlines, with passenger numbers up 12 per cent, on a flying programme just 0.5 of a percentage point larger. Our new low-cost carrier, **go**, launched during the year, carried more than 600,000 passengers.

The overall trading background and clear indications of a growing competitive intensity in the world air transport market, led your company to focus sharply on, and give more impetus to, the further implementation of its long-term business strategy. This is discussed in more detail by the Chief Executive, but its purpose is to improve our operating margins; to secure a greater return on both assets and equity; and to create an environment of commercial stability. The specific target is to double the operating margin over the next five years.

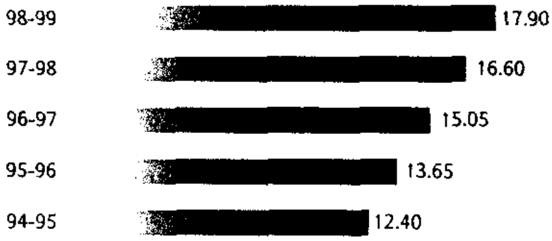
Perhaps the most widely-publicised manifestation of this strategy has been the new fleet development plan, designed to equip British Airways to meet this ambitious, but attainable objective, through flexibility and reduced capacity, on the one hand; and focuses on the high-yielding premium end of the market, on the other. Furthermore, it also recognises the importance of the high volume, non-premium customers and encompasses substantial new investment in products, services, infrastructure and in our people. Innovation and enterprise are its keynote features. Evidence of your company's commitment can be seen in the high-technology, £250 million Ascentis World Cargocentre, opened in May by The Rt. Hon. John Prescott MP, Deputy Prime Minister; and in the £7 million travel sales and customer service centre developed in Greater Manchester by our wholly-owned subsidiary, Air Miles, which I had the pleasure of inaugurating in the same month. They are both potent symbols of our serious competitive intent. So, too, is the recent development of British Airways Global Financial Services, in conjunction with the Royal Bank of Canada, to provide value-added services to premium customers and strengthen relationships with them.

"The drive to secure effective presence and reach in the global market has long been at the top of your company's agenda."

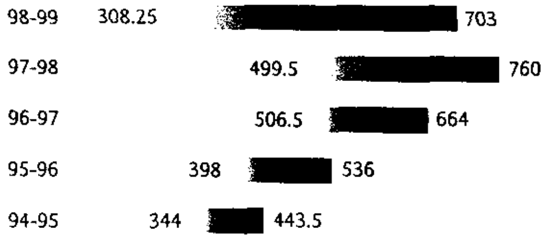
The global market

The drive to secure effective presence and reach in the global market, now such an evident prerequisite for the air transport industry, has long been at the top of your company's agenda. This year, our carefully-planned response to the global challenge emerged with the creation of the **oneworld**™ alliance.

The formation of **oneworld** was announced in September, 1998, as a partnership involving British Airways, American Airlines, Canadian International Airlines, Cathay Pacific and Qantas. Its objective is to build a cohesive world air transport system delivering consistent standards of service and quality throughout. Since then, Finnair, Iberia and, more recently, LanChile, the Latin American carrier, have announced their intention to join the consortium. More and more, airline competition will be played out not among individual carriers on specific routes, or network areas, but



Dividends (pence)



Share price highs and lows
price in pence per ordinary share

Chairman's statement
continued

between multi-national alliances on a global scale. Our stake in oneworld™ is extremely important and we can expect to see the alliance expand. As it is, **oneworld** provides each of its members with a collective critical mass of more than 200 million customers a year, in markets throughout the world.

> "More and more, airline competition will be played out between multi-national alliances on a global scale, which makes our stake in oneworld extremely important."

The programme of franchise partnership continues its valuable role of underpinning the global network with British Airways branded regional and feeder services.

Year 2000 compliance
One of the year's major items of public debate has been the so-called computer 'millennium bug' and particularly its perceived effect on airline operations. Your company's position has remained consistent: British Airways will operate at the start of January 2000 and beyond, where there is consumer demand and where it is safe to do so. As it happens, bookings for the millennium period show a large increase compared with the 1998-99 New Year holiday. Our own comprehensive 'Readiness Programme' to achieve Year 2000 compliance is detailed elsewhere in this report. However, much of the work was completed during the year and all systems and procedures under our direct control will have been checked by August 31. Over the latter part of 1999 and into the New Year, concentration will be on transition and business continuity management. The total cost of achieving Year 2000 compliance is expected to come to £70 million.

Our people
Effective change can only be wrought by committed people, at every level. For the progress made in strategic development during the year, we owe a debt of gratitude to the employees of British Airways. Their dedication to competitive progress is, more than anything, laying the foundation for the future success of your company. As our people invest in British Airways through professional commitment, so we continue to invest in them. Training, education and employee welfare remain, as always, top priorities. The vital task of renewing and enhancing your company's long-standing pledge to customer service excellence is being achieved through the new 'Putting People first again' programme of training motivation and consultation.

The highlight of the year for many employees was the official opening in July 1998 of the new Waterside complex near Heathrow, by HRH The Prince of Wales. Now fully occupied and operational, Waterside's advanced systems, facilities and working style combine to provide inspiration for users and visitors alike.

> "Effective change can only be wrought by committed people, at every level. For the progress made during the year, we owe a debt of gratitude to the employees of British Airways. Their dedication to competitive progress is laying the foundation for our future success."

As ever, I pay tribute to the British Airways executive management team and to my fellow Board members, for their support, wise counsel and deep commitment to this company and the interests of its shareholders, customers, employees and other stakeholders. Equally, I thank all of our people for their efforts, forbearance and understanding.

Community and environment
British Airways' extensive Community Relations programme continues to make its impact, in terms of care, goodwill and charitable support, around the world. The airline has now raised £7.2 million for UNICEF in the five years since the 'Change For Good' project was introduced. We have been proud to support some remarkable individual employees in their efforts to bring much-needed services and facilities to deprived or distressed communities. Their personal compassion and leadership has, for example, led to the creation of a school for 500 children in Ghana; a large orphanage in Bangladesh; and a children's AIDS hospice and

Profit before taxation ■ Profit after taxation ■
(£ million)

Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR) (£ million)

orphanage in Kenya. Our people continue their excellent work with special, home-grown charities such as Dreamflight, Happy Child and the British Airways Runners. Countless numbers of other employees help their communities in very many smaller, but equally selfless, ways. In the autumn of 1999, our new British Airways Community Learning Centre will open. This initiative will demonstrate how we use essential skills relating to information technology, languages, marketing and customer service. We hope it will educate and inspire the 10,000 students we expect to visit the Centre each year.

> "Your company will come through as one of the most efficient, most competitive and most successful travel and transport companies in the world."

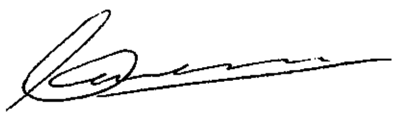
The international Kyoto Agreement on Climate Change has brought the highly-charged issue of environmental care and concern even more to the fore of government and public consciousness. Our latest annual Environment Report, to be published in July 1999, will re-establish your company's credentials for responsibility and self-improvement in this crucial area.

Outlook

The adverse economic and market conditions affecting performance are unlikely to improve significantly in the immediate future. The situation is being met with robust sales and marketing tactics in every market we serve. These, coupled with customer service advances provided both directly and through the oneworld alliance, will maintain our leading competitive position in the world marketplace.

For the longer term, the strategies which are now defining the shape, scope and potential of British Airways in the 21st Century encourage confidence. Assuming no new global economic catastrophe occurs, your company will come through the current difficulties as one of the most efficient, most competitive and most successful travel and transport companies in the world. As well as fulfilling its regulatory purpose, this Annual Report & Accounts serves as our 'manifesto' for the future.

Our confident entry into the new century and the new millennium will be symbolised by the 'British Airways London Eye' observation wheel, on the south bank of the River Thames, in central London; and by the British Airways 'Global' experience in the Millennium Dome at Greenwich, East London. These investments will help our global hub become the world's 'Millennium City' in 2000, with all the visitor-attraction benefits this implies.



Lord Marshall
Chairman

Focused on the world

We are using our worldwide network and our new alliance relationships to offer customers the best choice and flexibility and to enable us to concentrate on the most profitable markets.

oneworld™ takes off

More people today want to reach more places more easily. Yet regulation and business economics make it impossible or impractical for any one airline to fly to all of the places to which its customers want to travel. That is why airlines forge alliances.

Last September saw the launch with four other like-minded airlines – our established partners American Airlines, Canadian International Airlines, and Qantas, plus Hong Kong-based Cathay Pacific – of a new global airline alliance oneworld. Iberia, Finnair and LanChile have since agreed to join the grouping, and talks are advanced with a number of other airlines.

oneworld is "the alliance that revolves around you", with its emphasis firmly on "people, not planes".

A growing world network

British Airways itself serves 168 destinations in 87 countries, with the addition to our network in the past year of Cancun, Denver, Havana, Ljubljana, Milan-Malpensa, San Jose, Trieste, Tobago and Vilnius. Through oneworld, we are able to offer flights to more than 680 destinations in some 145 countries, with connections so closely co-ordinated and service so consistently high that it's as good as flying with one airline the whole way. With more than a quarter of a million employees around the world ready to look after you no matter which oneworld airline you are flying, you will have an easier, more hassle-free journey. For frequent flyers, oneworld opens up new opportunities for earning and redeeming rewards, the widest network of airline lounges in the world, and a promise of preferred service wherever you are flying.

Chief Executive's statement

Robert Ayling, Chief Executive

British Airways is a great company. We have a great heritage. We have a great future ahead of us.

The past year has been one of tremendous progress and change. Our people throughout the company have worked hard to ensure that British Airways is best placed to succeed in a vibrant world. I thank each and every one of them.

We have embarked on the fourth major evolution in our strategy since we emerged from the shackles of state ownership into the freedom of the private sector 12 years ago.

In the first phase, we developed the ethos of being a customer service company, inspiring our people to deliver service of such world-beating quality that we were able to achieve yield premiums and improve our margins on the strength of it for as long as we could.

In the early 1990s we had to contend with the biggest decline to hit our industry in its entire history, with the Gulf war worsening a market already weakened by difficult worldwide economic conditions. We responded in the best traditions of British Airways, with marketing campaigns that caught the imagination of the world and restructuring within the company.

The third of our strategic phases was to ensure that we were cost competitive. Our Business Efficiency Programme, introduced in 1996, required the company to take structural and sometimes painful decisions that were vital to ensure our competitiveness for the future.

We have made great strides, and have now achieved £610 million of the targeted £1 billion a year of efficiencies in this three-year programme. We are confident of achieving our eventual goal by the deadline we set ourselves. I am very conscious of the strains on our people of achieving these efficiencies. I am immensely grateful to everyone for helping us achieve our goals which now place us at the forefront of our industry and provide the platform for future investment.

Now we have to come to the fourth phase in our strategic evolution, combining customer service excellence with value for money, with a target of doubling our operating margin during the next five years.

> "People throughout the company have worked hard to ensure that British Airways is best placed to succeed in a vibrant world. I thank each and every one of them."

We will do this by focusing the business on the most profitable market segments, and by concentrating on four key issues:

- Our customers – ensuring we provide them with the highest levels of service and innovative products, particularly at the premium end of the market
- Our people – understanding that people who feel good about their work deliver the best
- Our alliances – opening up the potential of a global airline industry
- Our cost and asset efficiency, in particular through new fleet and network strategies, with profitability the basis on which any company survives and prospers.

This latest evolution in our strategy reflects some major shifts in the fast-changing marketplace in which we operate.

John Patterson
Director of Alliances

"With oneworld™ British Airways is at the centre of a world-leading alliance that more than matches any competitor."

Alliance partnerships strengthened

By any measure, oneworld's vital statistics are impressive. Together the partner airlines operate more than 1,750 aircraft, with a flight taking off somewhere around the world every six seconds on average. Last year, they carried some 210 million passengers, equivalent to 1 in 28 of the entire world's population.

We continue to strengthen our ties with Australia's Qantas and to expand code-sharing arrangements with Canadian International Airlines and AmericaWest while still working towards approval of our proposed alliance with American Airlines. In February we reached conditional agreement to take a 9 per cent stake in Iberia, the Spanish flag carrier.

Deregulation is spreading speedily, from Syracuse to Sydney, from Copenhagen to Cape Town. We welcome this. Freer markets provide greater opportunities for the best – and we intend to maintain and grow our reputation for being the best.

Deregulation allows us to adapt our overall schedule to add more flights on the routes we serve where we see a benefit, and it is this increased frequency that is so attractive to the premium traveller, whose fares provide higher margins, reflecting the higher value we, in turn, provide.

Higher frequencies can, however, worsen market conditions, by adding excess capacity and reducing yields, particularly at the economy end of the business. It will only be through improvement of the mix, by better capacity management and better distribution – in both of which British Airways is a recognised world leader – that we will be able to maintain our yields at this end of our business. We shall do so by reducing our exposure to the rock bottom end of the market, focusing more closely on premium passengers.

"We believe we are the first airline in the world to recognise the consequences of the changes our industry is currently experiencing and to take the appropriate action."

The third key shift is the phenomenon of alliances. Alliances increase competition and put further pressure on margins and returns. Alliances will undoubtedly grow, in size and importance. The economic and consumer arguments for alliances and the closer integration among airlines are simply unstoppable.

Against these three key shifts in the market, we have undertaken a fundamental review of our fleet and network strategies, as outlined on page 18 by our Director of Strategy David Spurlock.

We believe we are the first airline in the world to recognise the consequences of the changes our industry is currently experiencing and to take the appropriate action, just as we were the first airline to recognise the implications of the last downward turn in the world economic cycle.

Our new fleet strategy enables us to contain capacity growth in the year ahead to just 0.6 per cent, in terms of available seat kilometres, while many of our key competitors are exposed to double digit expansion as the world economy is still in the throes of a slowdown.

The improved operating results that will flow from our new fleet and network strategies will enable us to build on our fundamental strengths still further, in particular our focus on superior customer service.

We will continue to invest and innovate to ensure that our premium brands set the industry standard, and that our non-premium products at least match the best in the market.

As Martin George, our Director of Marketing, explains on page 10, we are currently midway through our most ambitious programme of service improvements ever, with the embodiment of our new World Traveller longhaul economy brand well advanced, and plans for breathtaking improvements to Club World in the wings, along with substantial enhancements to Club Europe, First and Concorde.

Innovation is not limited to the services we offer to our passengers when they are flying with us. It also has a key role to play in our distribution processes.

"We are currently midway through our most ambitious programme of service improvements ever. We will continue to invest and innovate to set new industry standards in customer service."

We are making great strides in our use of the Internet and other new technology to offer consumers more choice in how they book their journeys. Our home pages on the Internet have won many awards, including Best Airline Website from the American Marketing Association, and we continue to improve them. We now offer on-line selling in some 35 languages across more than 80 countries and the site receives more than 2.5 million visits per month.

We are expanding the British Airways brand into new markets, with the launch of a range of financial services, our involvement in EuroStar, and at the Millennium Dome and the British Airways

More franchises and partners

Outside oneworld, we have linked frequent flyer schemes and started code-sharing with Japan Airlines in the Far East and with Emirates in the Gulf.

We have also agreed code-share alliances with LOT Polish Airlines and Hungary's Malev. Our network of franchise airlines, flying in the colours of British Airways, has grown during the year to ten with the addition of Holland's BASE. As we move ahead, we plan more partnerships, always ensuring that these links contribute to the success of British Airways.

London Eye millennium wheel, thereby ensuring centre stage for our great British company in our country's celebrations to mark the beginning of the 21st Century.

And yes, our aircraft will be flying over the millennium, wherever there is consumer demand and wherever we judge it is safe to do so. We are setting aside £70 million to ensure that our computer systems continue to function effectively into the new century, as you will read elsewhere in this report.

The success of our new services and products, and indeed the overall success of our business, depends almost entirely on our people. British Airways is blessed with the best employees in the airline industry. I never cease to be proud and delighted at the reports I receive of our people going that extra mile to deliver outstanding service or performance.

> "We fly into the 21st Century confident of our future, confident that British Airways can achieve its overall goal of being the undisputed leader in world travel."

Achieving some of the changes required under our third strategic evolution was understandably unsettling for many of our people. But this is now behind us, and our industrial relations are now better than they have been for many a year. We have concentrated very hard on ensuring our people feel as good as possible about their work, as Mervyn Walker, our Director of Human Resources, details on page 16.

I have already mentioned the growing importance of alliances in our industry. One of the highlights of the year, for me, was when I was joined in London by my counterparts from American Airlines, Canadian International Airlines, Cathay Pacific and Qantas, to launch our oneworld™ alliance, about which John Patterson, our Director of Alliances, writes on the previous page. oneworld positions British Airways at the centre of what has already established itself as the world's leading airline alliance, in terms of destinations served and what we offer our customers.

Our alliance partnerships, our new fleet and network strategies and our focus on our premium brands add new dimensions to our established strengths – our people, our London base, the world's best international route network and our systems.

We fly into the 21st Century confident of our future with the best people, confident that British Airways can achieve its overall goal of being the undisputed leader in world travel – with a focused strategy to ensure we continue to create a company pre-eminent in customer service and profitability.

Robert Ayling

Robert Ayling
Chief Executive

Focused on our customers

Customers remain at the heart of everything we do, and exceeding our customers' expectations is of paramount importance to our future.

World Traveller relaunched

In November, 1998, we unveiled our new World Traveller, our product for the longhaul economy passenger and our biggest brand.

The ten million people who fly in this cabin every year, paying us £2 billion to do so, are now offered an exciting new service to match the best economy product in the skies.

The new seats are probably the most comfortable in any longhaul economy cabin in the world, with adjustable headrests, footrests and one inch more knee room. Each is fitted with a personal 6.3 inch liquid crystal video screen, offering 12 video channels and 12 audio channels and an in-flight information channel, all running on the most reliable system available.

We already offered the best in-flight entertainment of any airline worldwide, winning the airline industry "Oscar" at the World Airline Entertainment Association's annual awards in October.

New Club World in the wings

Our focus now is firmly on our premium cabins. In autumn 1999 we will be relaunching Club World.

This will be a complete overhaul of our longhaul business brand. The brief is simple: To redefine premium travel to astound.

We are reviewing every element of the service to ensure Club World is seen to represent the very best product and value for money in the marketplace. Club Europe will also be upgraded from this autumn. With the focus of making the most of our business passengers' time, as well as stylish new interiors, improved service and contempary catering.

Operating and financial review

SUMMARY

Group profit before tax for the year was £225 million, down from £580 million last year. Operating profit was £442 million, down from £504 million last year.

OPERATING REVIEW

Business performance

Operating profit – down £62 million on turnover 3.2 per cent higher – was adversely affected by a lower mix of premium passengers and industry-wide price discounting, the latter caused primarily by industry capacity growth exceeding growth in global demand. At 5 per cent, operating margin was down 0.8 points.

The underlying strength of the business has been reflected in a number of areas. Labour relations and punctuality improved substantially. Unit costs fell 7.3 per cent, benefiting from continued good progress on the Business Efficiency Programme (BEP). Productivity improved 6.3 per cent.

Looking forward, the groundwork for future improvements in margins was laid with the implementation of a revised fleet and network strategy which will concentrate future growth, product development, and customer service improvements on the most profitable sectors of the market. Exposure to low margin connecting traffic will be reduced, simplifying operations, reducing capital requirements and easing pressure on capacity constraints in London. Overall mainline capacity will not grow during the next five years.

In the short term actions focus on people and products. All British Airways employees will go through training to strengthen customer service. Plans to relaunch the airline's premium products – including a new "flying bed" for business passengers – have been pulled ahead. These measures should improve the mix of premium passengers, margins and sales.

Turnover

Group turnover for the 12 months was up 3.2 per cent – at £8,915 million – on a flying programme 12.1 per cent larger in available tonne kilometres (ATKs). Mainline passenger seat factor was down slightly at 70.7 per cent. Yields (pence per revenue passenger kilometre – RPK) were down 7.4 per cent. This was caused by reduced demand in the premium passenger market and the consequent dilution of our passenger mix, heavy competitor discounting in the economy passenger market and the continued strength of sterling.

In Cargo, volumes were up compared with last year but yields were down. Overall sales fell 5.5 per cent.

Expenditure

For the 12 month period, unit costs (net operating expenditure per ATK) were 7.3 per cent lower than a year ago, driven down by BEP cost efficiency actions as well as higher volumes, lower fuel prices, exchange rate benefits and negotiated supplier price reductions.

Unit cost reductions were achieved despite substantial investments in customer services and products (which have improved punctuality and baggage performance), and one-off spending in preparation for Year 2000. Costs in total rose 4.1 per cent.

The average number of employees in the group rose by 5.1 per cent to 63,779. In terms of average manpower equivalent (MPE), the increase was 5.4 per cent to 64,051. Productivity, as measured in terms of group ATKs per MPE, was up by 6.3 per cent. Employee costs increased by 6.6 per cent to £2,356 million, reflecting an increase in staff numbers, the impact of pay settlements and restructuring costs, partially offset by BEP efficiency actions, no profit share payout and exchange rate benefits.

Depreciation costs increased by 12.3 per cent to £619 million reflecting the increase in fleet size, whilst aircraft operating lease costs increased 18.1 per cent to £150 million, principally as a result of Deutsche BA switching to operating leased aircraft, Brymon Airways introducing seven new aircraft and the addition of eight Boeing 737-300s at **go**. Fuel and oil costs decreased by 10.8 per cent, or £85 million, due to average fuel price reductions of 24.8 per cent, partially offset by a higher volume of flying.

Engineering and other aircraft costs increased by 4.9 per cent to £644 million principally as a result of higher subcontract maintenance costs, increased overhaul activity and costs of the new fleet at **go**.

Landing fees and en route charges rose by £33 million or 4.7 per cent with increased landings and overflying

"We are completely committed to customer service and innovation. We will continue to invest in providing our customers with ground-breaking products and services into the future, whenever and wherever it makes good commercial sense."

Martin George,
Director of Marketing

We have been concentrating on the basics of our service delivery – baggage and punctuality. Our performance is amongst the best in the business.

Our timekeeping performance at Heathrow now beats our competitors on 80 per cent of the routes we serve. We are the most punctual of Europe's leading airlines.

Operating and financial review
continued

charges partially offset by negotiated reductions on specific routes. Handling charges, catering and other operating costs increased by 8.4 per cent, in line with volumes.

Selling and marketing costs increased marginally by 1.4 per cent or £17 million. Higher passenger numbers, costs associated with the launch of go, the launch of oneworld™ and the relaunch of Air Liberté were broadly offset by exchange rate benefits, commission savings and other cost efficiencies.

Accommodation, ground equipment and currency differences rose by only 0.7 per cent, or £5 million. Costs associated with Year 2000 were largely offset by exchange rate benefits on the retranslation of assets held in foreign currencies and gains on settlement of transactions.

Geographical analysis

Capacity grew in all regions except the Far East and India. Volumes largely kept pace, but tough economic conditions and increased competition resulted in greater passenger growth in Traveller cabins than premium cabins, with a consequential decline in average yields. Lower fuel prices and benefits from BEP helped reduce unit costs in all regions.

In the Far East, capacity was reduced by 14 per cent in response to economic problems, with profits falling by £78 million. In contrast, the Americas routes improved by £56 million – particularly to the eastern USA.

The return of flights to Nigeria helped Africa to achieve strong growth, but yield reductions across India, the Middle East and Africa meant profits were flat year-on-year.

The pattern of growth and lower yields was repeated in the UK and Europe. Domestic routes particularly suffered from the UK economic slowdown and increased competition, although these were partially offset by strong cost efficiencies. The results also reflect the set-up costs of new routes, the start up losses of go, and reduced losses at Air Liberté and Deutsche BA.

Business efficiency programme

The Business Efficiency Programme was announced three years ago with a target to identify and deliver £1 billion of annual efficiency savings by March 2000. The programme is well on track, delivering annual efficiencies of £610 million in this year's results, £110 million ahead of original plans.

Initiatives put in place prior to March 1998 have contributed significantly towards this year's result. These include:

- Changes to working practices and pay rates in the Heathrow and Gatwick operations, British Airways World Cargo and British Airways Regional.
- New agreements with cabin crew.
- Successful outsourcing of a number of activities including in-flight catering and the management and maintenance of ground vehicles at Heathrow and Gatwick.
- Business restructuring in fleet engineering operations, including the sale of specialist units and the outsourcing of IT.
- Restructured travel agents' commission and incentive reward systems in the UK, USA, Canada and Africa.
- Centralisation of accounting operations in the UK.

In addition to the launch of a new fleet strategy and the negotiation of keenly priced new aircraft orders with Boeing and Airbus, achievements during the past year include:

- Significant changes to the collective agreements negotiated with British Airlines Pilots Association (BALPA) and a redesigned training programme for flight crew.
- Renegotiations of overseas handling agreements and joint purchasing projects with Qantas.
- Replacement of our customer databases, driving cost savings and customer service improvements.
- Establishment of a financial services business to expand sales of travel insurance, credit and charge cards.
- Commissioning of our new World Cargocentre.

Every part of the company continues to play its part in maintaining the success of these initiatives, which along with good improvements in asset utilisation and the subsidiaries' performance will assure achievement of the £1 billion annual efficiency savings.

British Airways and the millennium

British Airways will continue flying throughout the millennium period, where there is consumer demand

Smoother service on the ground

For Club World passengers flying overnight from the East Coast of the USA to the UK, who, above all else, are looking to get as much sleep as possible during their flight, we are extending dining arrangements in the airport lounge before they board. Once on the aircraft, they can take advantage of our 'Goodnight' service, which is designed to help them get as much rest as they can. At Heathrow, we have expanded our Arrivals Lounge and extended the range of services it provides, increasing the number of showers available, improving the breakfast bar, and introducing a mini-gym and health spa, and in New York we have opened a new Concorde Room, designed by Terence Conran, as part of the rebuilding of our JFK Terminal.

and, as ever, where it is safe. British Airways has a strong desire to serve those customers who wish to fly.

The millennium period will pose several challenges. Apart from the 'millennium bug' itself, the behaviour of consumers will be difficult to predict. There will be additional public holidays and the world's biggest celebration will be taking place. Abnormal travel patterns are likely and a reduced service will operate on December 31, 1999, and January 1, 2000.

As far as the 'millennium bug' is concerned, the Readiness Programme is well advanced. Most work was completed in 1998 and everything under the airlines' direct control is expected to be ready by August 31, 1999. During the last quarter of 1999 and through into 2000, the focus will switch to transition and continuity management.

Year 2000 readiness status

The Year 2000 programme was established in 1995 and covers all at-risk areas, including the airline's own computer systems, embedded systems in facilities and equipment, and systems used by service partners and suppliers. The company is working to the British Standards Institute (BSI) standard, which it helped to develop.

The programme encompasses five distinct phases: Inventory – of at risk items; Assessment – of items for risk and readiness; Fix – to solve problems; Test – to validate success; and Continuity Management – to mitigate the residual risk of Year 2000 failures. The cycle is underpinned by quality assurance review and continual customer and staff awareness activities.

IT systems

As at March 31, 1999, the airline had completed the testing phase for 94 per cent of its IT systems. These systems include core functions such as passenger reservations, ticketing, check-in, flight planning and load control, crew rostering, engineering and baggage and cargo processing.

Many systems process Year 2000 dates well before January 1, 2000. Approximately a third of all IT systems (including computer reservations systems) have already handled Year 2000 dates successfully.

Using dedicated testing environments and applying rigorous test standards, the airline expects to complete testing by August 31, 1999. To ensure no new risks are introduced, a freeze on IT developments will be imposed during the period September 1, 1999, to January 31, 2000.

Facilities and equipment

Equipment testing is expected to be completed by June 30, 1999, and the services of specialist facilities and engineering consultants have been secured to support the effort. British Airways has been working closely together with key partners, including Boeing and Airbus. Work has also been undertaken on flight simulators and currently a series of complex checks are being run under various operating conditions to ensure readiness.

Service partners and suppliers

The airline is reliant upon service partners and third party service providers. Consequently, contact has been made with them to review their Year 2000 programmes and establish their state of readiness.

British Airways will continue to work with many suppliers up to, through and beyond the key rollover dates. To the extent it is practical, alternatives will be sought for third party service providers who have not satisfied the criteria of readiness by June 30, 1999.

No airline can guarantee the Year 2000 readiness of external organisations. All airlines, including British Airways, are dependent on air traffic control, aviation and airport authorities, telecommunications, vital utilities and various other suppliers. So, in addition to the company's own Year 2000 suppliers' programme, the airline is working closely with the International Air Transport Association (IATA) and other organisations, governments and their agencies to ensure readiness for the new millennium.

While satisfactory progress is being made, it is too early to assess the eventual outcome of this work and any impact it may have on the planned worldwide schedule. The schedule will be kept under review as the year progresses and customers will be informed of any changes. Safety is of paramount importance. British Airways will not operate any service if it is believed to be unsafe to do so.

Focused on our people

Our people are the key to our success. We are investing in providing the best possible working environments to inspire our people all over the world.

State-of-the-art workplaces

We have invested in motivating all of our people to support the company's new vision and to provide our customers with the highest possible levels of service and value.

The most visible example of this is in the physical environments in which many of our employees work, with the opening of our new corporate offices at Waterside and our new World Cargocentre at Heathrow.

Waterside, our state-of-the-art corporate business park, has been described as one of the most futuristic office environments in Europe this decade.

The Prince of Wales tried out the innovative ways of working, like "hot desking" and "cyber surfing", that have become part of everyday life for the 3,000 people now based there when he officially opened the building last July. Since then, Waterside has won a large number of architectural and construction awards.

Putting People first again

Reinforcing the "customer first" message and our new strategic vision throughout the company is our new corporate programme Putting People first again, launched in spring 1999. Every employee in the company will be invited to participate in this series of one-day activities during the programme's three-year run.

With more than seven in ten of our employees owning shares in British Airways, mainly through our popular employee share schemes, we continue to encourage our own people to identify with the interests of our shareholders.

Operating and financial review
continued

Business continuity management

British Airways has been working to reduce the residual risks since June 1998. Possible Year 2000 scenarios have been identified across the business and evaluation of each scenario has been completed. Business Continuity Plans will be developed for all of the risks identified, including contingency plans. Some of the plans are being developed with business partners, including a major programme with BAA plc.

Costs of the Year 2000 programme

In the Report & Accounts 1997-98 the company estimated the likely total cost of the Year 2000 programme to be £100 million. This took into account amounts already spent and included some spend incorporated into existing or planned investment in next generation systems and programmes.

The current forecast for known programme expenditure is £70 million of which costs of £40 million have been incurred up to March 31, 1999.

Economic and Monetary Union

As a global airline, with more than 40 per cent of our passengers travelling to or from Continental Europe, the introduction of the euro on January 1, 1999, was important to British Airways, even though the UK has chosen not to join the single currency at present.

British Airways was one of the first companies to be able to trade in the euro, having successfully adapted processes and systems for January 1, 1999. Customers buying tickets in the Eurozone are offered the choice of fare quotation and payment in either local currency or euro. Customer contact staff have been trained to deal with the euro for fare quotations, ticketing and in-flight sales. The airline has been able to make payments to suppliers in euro or local currency since the launch date. British Airways World Cargo is also offering customers in the Eurozone the choice of using either local currency or euro.

British Airways will continue to manage and co-ordinate euro activities across the group up to the withdrawal of local currencies in 2002. In addition, conversion planning and preparations required should the UK decide to join the single currency are underway.

Alliance benefits

1998-99 has been a significant year for alliance developments. Existing relationships have been deepened, new bilateral alliances have been formed and in February 1999 a new multi-lateral alliance, oneworld™, was launched.

The world's largest airline alliance grouping, oneworld initially includes British Airways, American Airlines, Canadian International Airlines, Cathay Pacific and Qantas. In September 1999, Finnair and Iberia will also join. LanChile is to join as the eighth member in 2000. A substantial package of customer benefits has been introduced, including reciprocal reward and recognition programmes, common lounge access, global fares etc. Co-operation across the alliance is now underway in a number of areas that will benefit both customers and airline effectiveness.

Although bilateral discussions with American Airlines over intended co-operation across the Atlantic continue and are linked to UK/US "open skies" discussions, the relationship has continued to develop with the introduction of oneworld.

The alliance with Qantas enters its sixth year. The joint service agreement between Europe and Australia continues to bring benefits; 'on the ground' co-operation has been expanded and agreement has been reached to integrate more longhaul revenue management, scheduling, network management, product development and sales.

The London/Toronto benefit share agreement with Canadian International Airlines has been in operation for 15 months and work is underway to expand co-operation in terms of both routes and functions.

New bilateral arrangements have been implemented with LOT Polish Airlines, Finnair and Emirates.

The intention to acquire 9 per cent of Iberia has been announced, subject to certain regulatory and governance issues, and substantial areas of opportunity for co-operation have been identified which will be implemented progressively during 1999.

A memorandum of understanding has been signed with JAL, and Aer Lingus has announced that British Airways is its preferred strategic alliance partner.

Qantas

The year saw further progress and co-operation for the British Airways/Qantas alliance, offering

"People who feel good about their working world deliver the best results. That is the philosophy that lies behind British Airways' approach to its employees."

Mervyn Walker,
Director of Human Resources

New ways of working have been adopted in virtually all areas, as part of the Business Efficiency Programme, with great progress made in our industrial relations. In the UK, most recently, agreement has been reached with BALPA, the pilots' union, substantially improving flexibility and productivity. In the USA, a new contract has been agreed with the International Association of Machinists.

Operating and financial review
continued

customers an even wider choice of travel opportunities and services.

In addition to the two existing "kangaroo routes" between Europe and Australia via Singapore and Bangkok, a third route was launched in October 1998, via Kuala Lumpur. Also in October 1998, Qantas commenced non-stop services between Paris and Singapore. Since November 1998 passengers travelling to and from London Gatwick, Birmingham and Manchester can connect directly to and from Australia via Paris and Frankfurt.

A joint British Airways/Qantas state-of-the-art airport lounge opened for premium passengers at Hong Kong's new Chek Lap Kok airport in July 1998, featuring the latest business facilities, including a designated First class lounge and shower rooms. The two organisations continue to co-ordinate sales and marketing activity around the world, investing in joint offices, travel shops and airport facilities in many cities, thus offering the best in customer service to all their passengers.

Qantas' pre-tax profit for the six months ended December 31, 1998 (consolidated in the March 31, 1999 quarter result) amounted to A$354 million, an increase of 30.5 per cent on the corresponding period last year. Group profit after tax amounted to A$222 million, up 33.8 per cent. Revenue for the six months was A$4,299 million, up 2.5 per cent compared to last year. Excluding the impact of adverse exchange movements, operating costs reduced by 1.4 per cent due to the continuing focus on efficiency and productivity. Net passenger revenue increased by 1.2 per cent reflecting an increase in passenger yield of 2.2 per cent which included a favourable impact from foreign currency movements. Excluding exchange movements, passenger yield declined by 1.9 per cent. Overall, cost per ASK, excluding the impact of unfavourable exchange movements, fell by 3.1 per cent mainly due to lower fuel prices and the achievement of A$230 million in benefits through a combination of new efficiency, productivity and non-passenger revenue enhancement initiatives. The operating margin (Earnings Before Interest and Tax) improved by 14.8 per cent and Earnings Per Share improved by 27.3 per cent.

Franchising
As at March 31, 1999, 119 aircraft of 21 different types have been franchised into British Airways colours, operating to 103 different destinations worldwide of which 69 are additional to the British Airways mainline network.

FINANCIAL REVIEW

Earnings per share
Profit attributable to the members of British Airways decreased by 55.2 per cent to £206 million, equivalent to earnings of 19.5p per share compared with 44.7p last year.

Dividends
The Board recommends a final dividend of 12.8 pence per share, giving a total dividend for the year of 17.9 pence per share, compared with 16.6 pence per share in the previous year, an increase of 7.8 per cent.

Share of operating profit in associates
British Airways' share of operating profits from associated undertakings decreased by £7 million to £62 million during the year, principally due to the partial disposal of Galileo International Inc. last year.

Profit on sale of fixed assets and investments
Net profit on disposal of fixed assets and investments amounted to £51 million, including £48 million profit on the partial disposal of the group's investment in Equant. Last year's net profit included the profit on disposal of the group's investment in US Airways Group Inc. of £129 million and profit on the partial disposal of the group's investment in Galileo International Inc. of £45 million.

Net interest payable
Net interest expense, including related foreign exchange differences, was £357 million for the year. This was up on last year due to additional aircraft acquisitions and book charges of £94 million relating to the revaluation of yen debt used to fund aircraft acquisitions. This charge does not represent cash lost to the business, but is required by standard accounting practice. The revaluation results from the strengthening of the yen by 14 per cent during the year. Last year the downward revaluation of yen debts reduced interest expense by £38 million.

Good people management

Under a programme called, simply, "Good People Management", we have taken a range of steps to improve the way we manage people in the company. We have refined our management training, development and performance management systems to place a greater focus on people management. Every manager is now measured on his or her leadership, communication and motivation abilities, and is required to spend a minimum of one working day a year in a frontline customer contact role, through our "In Touch" programme.

The company's relationship with its employees themselves has been measured this spring in the biggest survey of their attitudes and opinions we have undertaken. Some of the results were heartening, showing that more than 90 per cent of the workforce feel proud to work for British Airways. Others identified areas to work on to improve morale further.

Taxation

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

The tax charge for the year has benefited from tax allowances in excess of depreciation arising principally from the acquisition of aircraft. This has resulted in a loss, as adjusted for UK tax purposes, for the year. Adjustments to prior year taxation in respect of UK corporation tax and advance corporation tax (ACT) have further reduced the charge for tax. No amounts of ACT have been written off on dividends in respect of the year as such dividends fall under UK tax rules on dividends paid after April 5, 1999 on which ACT is no longer due. The main components of the tax charge relate to taxes paid overseas in respect of the group's interest in Qantas and in the taxation of funds overseas.

Share capital

On June 15, 1998, 10,095,979 ordinary shares were issued in exchange for 23,628,275 Convertible Capital Bonds on the basis of one ordinary share for every 2.34 Bonds held. During the year, more than twenty two million shares were issued on the exercise of options under Employee Share Option Schemes. This included twenty million options exercised under the 1993 Share Save Scheme which matured on December 1, 1998.

Net debt/total capital ratio

Borrowings net of cash and short-term loans and deposits amounted to £5,526 million at the year end, an increase of £923 million on last year. This is mainly the result of new finance lease and hire purchase borrowings (£1,470 million) and exchange effects (£208 million), offset to an extent by an increase in cash, short-term loans and deposits (£431 million) and repayment of borrowings (£324 million). Capital and reserves rose £34 million, giving a net debt/total capital ratio of 62.2 per cent, a 4.1 point increase over last year.

Review of cash flow

Net cash inflow from operating activities totalled £1,241 million. During the year there was significant investment in fixed assets amounting to £1,807 million. The sale of part of the group's holding in Equant generated proceeds of £48 million and other miscellaneous disposals, mainly aircraft, contributed a further £182 million. The net financing requirement for the year amounted to £804 million. Overall, cash increased by £68 million.

Working capital

At March 31, 1999, net current liabilities were £498 million, down £78 million on last year. This change reflects increased short-term loans and deposits and a switch of some borrowings between short and long term, and lower year-over-year profit share provisions. These movements have been partly offset by the increase in dividends payable of £66 million, reflecting the deferred payment of the interim dividend and an increase year-on-year in the final dividend.

Capital expenditure

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

Aircraft fleet changes

At the start of the year British Airways announced changes to the fleet, allowing the accelerated retirement of older, less efficient aircraft and reflecting the latest expectations for growth in the industry.

Whilst the number of aircraft in the group has grown by five during the year there have been significant changes in the fleet mix. This has included the entry into service of an additional nine Boeing 747-400s, five Boeing 737-300s, four Boeing 777-200s, three Boeing 767-300s and one Boeing 757-200. A significant number of older aircraft were sold, returned to lessor or stood down in the period. These included nine Boeing 737-200s, six Boeing 747-100s and ten BAe ATPs. Following the return of three DC-10s from sublease all eight of the DC-10 fleet were taken out of service prior to delivery to their new owners.

Brymon, now flying some former BA Regional routes, has increased its fleet by seven. go commenced operations and now has a fleet of eight Boeing 737-300s in operation. Air Liberté saw a net reduction of two aircraft and Deutsche BA saw no change in their fleet numbers.

During the year a new strategy was developed which allows capacity to be matched closely to demand for

Focused on profitability

Our new fleet and network refinement strategies are building on our business efficiency programmes, enabling us to concentrate on strong profitability into the future.

New fleet and network strategies

Our new fleet strategy will result in the largest fleet restructuring in the history of the company.

It focuses on four key elements:

- Retirement of our eight DC10s, replaced with a mixture of Boeing 777s and Boeing 767s
- Substitution of future orders for 400-seater Boeing 747-400s with 260-seater Boeing 777s
- Replacement of the Boeing 747-200 fleet ahead of normal retirement dates with new long-range Boeing 777s
- Replacing a large number of Boeing 757s with smaller Airbus A319s and A320s.

This restructuring, and the development of our network and alliances, will enable us to maximise the benefits of London's large point-to-point traffic demand, improving the quality of the revenue we earn, thereby improving our margins.

New World Cargocentre opens

Our new World Cargocentre was officially opened by Deputy Prime Minister John Prescott in May 1999. This facility represents our biggest single investment in airport real estate, at £250 million. It is a cornerstone of our plans to develop our cargo activities to match the success of our worldwide passenger business. Radical new ways of working have been agreed with employees, providing considerably more flexibility and ensuring we can deliver the best service to our customers – and improved returns for our shareholders.

Operating and financial review
continued

point-to-point and premium business whilst reducing capacity available for less profitable connecting and low yield traffic.

To facilitate this, orders and options were placed with Airbus for up to 188 new A319, A320 and A321 aircraft with IAE V2500 engines. Initial deliveries of A319s, beginning in September 1999, will allow progressive replacement of older 737-200 aircraft. Subsequently A319 and A320 deliveries to the Gatwick operation will allow downsizing of both Gatwick and Heathrow fleets as some Boeing 757s are replaced. As part of this plan, four new Boeing 757 aircraft were assigned to a new owner prior to delivery.

Longhaul changes to support this strategy involved converting five more existing orders and seven options for Boeing 747-400 aircraft into a new order for 16 firm and 16 option Boeing 777-200ER (extended range) aircraft with Rolls Royce Trent 895 engines.

Financing

Seventeen newly delivered aircraft, comprising ten Boeing 747-400s, three Boeing 777-200s, three Boeing 767-300s and one Boeing 757-200 were financed on cross border hire purchase arrangements, the large majority of which were Japanese leveraged lease financings. In addition, two new Boeing 747-400s and one new Boeing 777-200 were funded by way of UK tax based finance leases.

Further attractive financings undertaken comprised the sale and leaseback of three used Airbus A320s and a used Boeing 757-200, the refinancing of four Boeing 767-300s on UK finance lease arrangements, and the financing of a two year old Boeing 747-400 by way of a fifteen year sterling mortgage loan.

During financial year 1998-99 a total of approximately £70 million of non-aircraft related secured finance was drawn down against various airport infrastructure projects.

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 Committee, 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 debt 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 25c and consistently falls within a range of approximately £400 million to £600 million for each of the next eleven financial years.

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, 1999, 37 per cent of the group's borrowings (after swaps), net of cash, short-term loans and deposits, were at fixed rates of interest, and 63 per cent were at floating rates reflecting the group's strategy of continuing to take advantage of the downtrend in sterling interest rates, whilst minimising volatility by maintaining a quantum of fixed rate debt obligations. The group's borrowings are predominantly denominated in pounds sterling, US dollars and Japanese yen. Sterling represents the group's natural "home" currency, whilst a substantial proportion of the group's fixed assets is priced and transacted in US dollars. The Japanese yen liabilities arise as a result of the group's substantial Japanese cross border hire purchase arrangements entered into over the last nine years. Details of the currency mix of the group's gross borrowings are shown in Note 25a.

David Spurlock,
Director of Strategy

"Our fleet and network refinement programmes will enable us to deliver real benefits to the business – and to our customers."

Business Efficiency Programme

Our Business Efficiency Programme, launched in 1996, is approaching its target of £1 billion of efficiencies a year by the year 2000. We are well on track, with £610 million a year of efficiencies achieved by the end of March 1999. Every part of the company will have played its part in bringing this programme to a successful conclusion, by reviewing every activity we carry out to ensure it is as effective as possible in its cost and use of assets.

Liquidity and investments

At March 31, 1999 the group had at its disposal short term loans and deposits and cash at bank and in hand amounting to £1,163 million (1998: £738 million). In addition, the group had undrawn committed financing facilities relating to its new World Cargocentre amounting to £100 million, together with unused overdraft and revolving credit facilities of £40 million. It also had undrawn uncommitted money market lines of £260 million, US$45 million and DM30 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 expected to be sufficient to cover the cost of all firm aircraft deliveries due in the next two years. The acquisition of Boeing 777-200 aircraft and Airbus A320 family aircraft, scheduled for delivery during the next six 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 group 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 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 approximately 40 per cent of operating expenses. The group generates a surplus in most of these currencies. The principal exceptions are the US dollar and the pound 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 is payable in US dollars, and the majority of staff costs, central overheads and other leasing costs, which are payable in pounds sterling. However, the broad spread of currencies in the business – many of which are linked to the US dollar and the pound 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 pounds sterling. The group has substantial liabilities denominated in yen which consist mainly of purchase option payments falling due under various Japanese leveraged lease arrangements maturing between 2003 and 2011. The group expects to utilise its stream of yen traffic revenues as a natural hedge against these maturing yen liabilities as they fall due.

The group's forward transactions in foreign currency are detailed in Note 35 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) with off-balance sheet risk selectively for treasury and fuel risk management purposes.

Premium focus

As we move into the 21st Century with a fleet that is more capital efficient and with fewer lower yielding economy seats, we will be able to focus on carrying the passengers who are the most valuable to us. Our new network strategy, carried out in conjunction with our alliance partners will ensure that we have optimal capacity and frequency to each destination and highlight the most attractive of the 40,000 transfer connections our route network offers. We are getting the basics right with excellent punctuality, promptly delivered bags and good quality food and wine professionally served. We are investing in innovative new products on the ground and in the air to offer in our premium services what the First and business class passenger needs and expects in modern airline service.

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, 1999 are summarised in Note 36 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, 1999 are summarised in Note 35 to the Accounts.

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 aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in a serious way in the event of a substantial fall in the price of fuel. The strategy operates within fiscal limits set by the Board and agreed in detail by the hedging committee, which is made up of representatives from fuel, finance, treasury and strategy.

In meeting these objectives, the fuel risk management programme allows for the judicious use of a number of derivatives traded on regulated exchanges in London (the Institute of Petroleum Exchange) and New York (the New York Mercantile Exchange) as well as on the Over The Counter (OTC) markets (with approved counterparties and within approved limits). The instruments used include futures and forward contracts, options, collars, caps and swaps. The use of these instruments is reviewed on a regular basis by the hedging committee. 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 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

Economic conditions and increased competition have resulted in excess industry capacity, particularly on the North Atlantic, which has forced yields down. The situation is not likely to improve materially in the short term.

British Airways' Business Plan, including the new fleet and network strategy, will deliver important structural improvements to the business, all designed to improve customer service, raise margins and deliver higher returns from the assets employed. The aircraft fleet is being rationalised and, as a result, overall capacity will not grow over the next five years; operational and commercial flexibility will also be enhanced.

The BEP will deliver the full £1 billion of cost efficiencies by the end of the new financial year enabling continuing investment in the basics of good customer service: customer care, punctuality and baggage handling. A key employee training programme "Putting People first again" has been launched to reinforce commitment to customers. A major programme of product improvements is under preparation, including the new Club World flying bed, and we continue to implement the oneworld™ alliance.

As a result, investors can look beyond the short term with confidence, provided no new global economic shocks occur. British Airways should emerge from the current difficult market conditions with competitive cost levels, greater flexibility and with an aircraft fleet, network and alliance grouping focused on the most profitable segments of the market.

Board members and President Emeritus

Back row from left to right: Lord Renwick of Clifton, Robert Ayling, Captain Colin Barnes, The Hon. Raymond Seitz, Michael Davies. Front row from left to right: Lord Marshall of Knightsbridge, Dr Ashok Ganguly, Baroness O'Cathain, Sir Michael Angus, Derek Stevens.

CHAIRMAN (NON-EXECUTIVE)
Lord Marshall of Knightsbridge (65)
Board member since 1983. Chairman since 1993, non-executive since 1996. Lord Marshall served as an executive for 13 years with the airline, initially as Chief Executive then as Deputy Chairman and Chief Executive and latterly as Chairman. He is also Chairman of Inchcape plc, Invensys plc, and the London Development Partnership, Deputy Chairman of British Telecommunications plc and a director of HSBC Holdings plc. He currently serves the Confederation of British Industry as Deputy President.

DEPUTY CHAIRMAN (NON-EXECUTIVE)
Sir Michael Angus (69)
Non-executive director since 1988. Deputy Chairman since 1989. Chairman of Audit, Remuneration and Nomination Committees. Sir Michael is the Board's senior non-executive director. He is Chairman of Whitbread PLC, Deputy Chairman of The Boots Company PLC and a director of National Westminster Bank PLC. He also serves as Chairman of the Governors at Ashridge Management College.

CHIEF EXECUTIVE
Robert Ayling (52)
Executive Board member since 1991. Chief Executive since 1996. Before his appointment as Chief Executive, Bob Ayling had been Group Managing Director for 3 years. He was recruited to the airline in 1985 as Legal Director, later adding the role of Company Secretary and Director of Human Resources to his responsibilities. He was appointed Director of Marketing and Operations in 1991. He serves as a director of Qantas Airways Ltd (as nominee for British Airways), and of Royal Sun Alliance Group PLC. He is Chairman of The New Millennium Experience Co Ltd and a member of Business in the Community and the Association of European Airlines.

CHIEF FINANCIAL OFFICER
Derek Stevens (60)
Executive Board member since 1989. Derek Stevens joined the airline as Chief Financial Officer in 1989. He serves as Chairman of the Airways Pension Scheme and the New Airways Pension Scheme, as Director of Galileo International Inc. (as nominee for British Airways) and of CGU plc.

NON-EXECUTIVE DIRECTORS
Captain Colin Barnes (65)
Non-executive director since 1991. Chairman Safety Review Committee. Colin Barnes retired from British Airways as Chief Pilot and Director of Flight Crew in 1991. He represents British Airways on the Flight Safety Foundation and is a Member of the Council and Policy Committee of the Air League.

Michael Davies (64)
Non-executive director since 1983. Audit, Remuneration, Nominations and Safety Review Committees. Michael Davies is Chairman of Perkins Foods PLC, Simon Group plc, National Express Group PLC and Corporate Services Group PLC.

Dr Ashok Ganguly (63)
Non-executive director since 1996. Audit and Safety Review Committees. A Fellow of the Royal Society of Chemistry, Ashok Ganguly is Chairman of ICI India Ltd, and a Director of ICICI, ICICI Knowledge Park Ltd, Mahindra & Mahindra Ltd, Sedgwick Parekh Health Management Ltd and Wipro Corporation.

Baroness O'Cathain (61)
Non-executive director since 1993. Audit, Remuneration, Nominations and Safety Review Committees. Detta O'Cathain is also a director of Tesco Plc, Thistle Hotels PLC, BNP (UK) Holdings Ltd and South East Water plc.

Lord Renwick of Clifton (61)
Non-executive director since 1996. Safety Review Committee. A former career diplomat, Robin Renwick is Chairman of Robert Fleming Inc. and of Fluor Daniel Ltd. He is also a director of Compagnie Financiere Richemont AG, Liberty International plc, Billiton plc, Canal Plus and South African Breweries PLC.

The Hon. Raymond Seitz (58)
Non-executive director since 1995. Safety Review Committee. A former US Ambassador to the Court of St James, Ray Seitz 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.

PRESIDENT EMERITUS
The Rt Hon. The Lord King of Wartnaby (81)
Lord King was Chairman of British Airways for 12 years from 1981, and served as President from 1993 to 1997.

Executive team

Bob Ayling (52)
Chief Executive
See Page 22 for biographical details.

Martin George (37)
Director of Marketing
Responsible for the airline's marketing activities including advertising, the development of British Airways brands, corporate identity and Executive Club as well as market research, customer relations and in-flight entertainment. Martin joined in 1987 from Cadbury Ltd, where he worked in a number of marketing roles.

Charles Gurassa (43)
Director of Passenger and Cargo Business
Responsible for the profitability of the airline's passenger and cargo activities worldwide, its airline subsidiaries and franchises, and for overseeing all sales and marketing employees outside the UK and all customer services staff outside London. An Economics graduate, Charles was recruited in 1989 from Thomas Cook, where he worked in the UK, USA and Hong Kong.

Captain Mike Jeffery (54)
Director of Flight Operations
Responsible for all of British Airways' flight operations, including all pilots, flight engineers and the flight operations ground-based support organisations. Mike joined as a pilot in 1965, moving into management in 1976, working for 13 years in various flight management roles, and later in Engineering running its major maintenance division, until becoming a Director in 1996. He currently flies Boeing 747s.

Colin Matthews (43)
Managing Director of British Airways Engineering
Responsible for the airworthiness of the British Airways fleet, and for the company's Purchasing and Information Management functions. A Cambridge graduate in Engineering, Colin was recruited in 1997 after nine years with General Electric (USA), latterly in Canada running its hydro-electric equipment business.

Roger Maynard (56)
Director of Investments and Joint Ventures
Responsible for acquisitions and other investments, new businesses and disposals. In the past year, he has led the teams negotiating the proposed alliance with American Airlines, acquisition of CityFlyer Express and investment in Iberia. Previously an aviation specialist with the Department of Trade, Roger joined in 1987, initially representing its interests in North America before taking on a more strategic role. He is one of British Airways' appointed directors of Qantas Airways Ltd.

Dale Moss (51)
Director of Sales
Leads the worldwide sales team in generating £7 billion of revenue from passenger-carrying activities. An American, Dale originally joined in 1970, working in sales and marketing. After a brief period with Rosenbluth Travel in Philadelphia, he rejoined in 1993 in the USA as Senior Vice-President Sales and then Executive Vice-President Sales and Marketing.

John Patterson (51)
Director of Alliances
Negotiates and maintains the company's worldwide alliances with other airlines. Member of the oneworld Management Team. John was selected as a graduate trainee in 1970. Since then, he has worked in human resources, cabin services, and telephone sales. He has previously served as Director of Operations and Director of Strategy.

David Spurlock (31)
Director of Strategy
Responsible for the group's overall strategy, including fleet planning, network development, business planning and economics team. David joined in 1997 from The Boston Consulting Group. A Californian, he holds both an undergraduate degree and an MBA from Stanford University.

Derek Stevens (60)
Chief Financial Officer
See Page 22 for biographical details.

Mike Street (51)
Director of Customer Service and Operations
Responsible for designing and delivering a commercially acceptable, cost effective and punctual operation, heading teams at Heathrow and Gatwick to ensure the airline's customers receive the highest possible level of service in the air and on the ground. Also manages the airline's property portfolio, fuel and other operating charges. In his 35 years with the airline Mike has held many roles including MD of British Airways European Operations at Gatwick, Head of Business Units, Catering and Cabin Services.

Mervyn Walker (40)
Director of Human Resources
A qualified solicitor, Mervyn worked in private practice and local government before joining the airline's legal department in 1986. For three years from 1988 he served as Vice-President Administration at Galileo International, the computer reservations systems company in which British Airways is a shareholder. He returned to the airline as Legal Director in 1991, subsequently serving as Director of Purchasing.

Simon Walker (45)
Director of Communications
Responsible for media relations and employee communications. Simon joined in 1998 from the Brunswick Group PR firm from which he was seconded to the Prime Minister's Policy Unit between 1996 and 1997. He had earlier worked in Brussels as Director of European Public Affairs for the Hill & Knowlton agency, as Communications Director for the New Zealand Labour Party and as a television journalist. South African by birth, he was President of the Oxford Union while at the university.

Robert Webb QC (50)
General Counsel
Responsible for the Legal Department, Government and Industry Affairs and Safety, Security and the Environment. Robert was appointed in 1998 after ten years' practice as a Queen's Counsel and Head of Chambers at 5 Bell Yard, where he was described as "the acknowledged guru of aviation actions". He is a Bencher of the Inner Temple and a Fellow of the Royal Aeronautical Society.

Directors' report

The directors have pleasure in presenting their Report and Accounts for the year ended March 31, 1999. The accounts are set out on pages 33 to 62.

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 £206 million, against £460 million in the previous year. The Board recommends a final dividend of 12.8p per share. An interim dividend of 5.1p per share was paid in April making a total of 17.9p per share, an increase of 7.8 per cent on the previous year. After providing £191 million for dividends, the retained profit for the year amounted to £15 million.

Directors

The names and details of the directors are set out on page 22. The membership of the Board has remained unchanged during the year to March 31, 1999.

Lord Marshall of Knightsbridge, Mr Michael Davies, Dr Ashok Ganguly and Lord Renwick of Clifton retire and seek re-election in accordance with the company's Articles of Association at the annual general meeting to be held on July 13, 1999. None of these directors have service contracts with the company. Biographical notes about the directors seeking re-election are set out on page 22 and in the explanatory notes of the notice of annual general meeting.

Directors' membership of Board Committees appears on page 22. Details of the directors' remuneration and share interests are set out on pages 28 and 29.

Employee involvement

The company is committed to recognising the contribution to its success of well motivated and dedicated employees and to involving them fully in the company's fortunes.

During the year British Airways ran its largest Employee Opinion Survey yet with questionnaires sent to almost 60,000 employees world-wide. The highest ever response in a British Airways company-wide survey was received with just over 30,000 employees responding. The executive team has committed to act upon the results in a series of promises made to staff.

The company fully supports employee share ownership and would like to see the number of staff holding shares and their shareholding increased from the current levels of some 74 per cent and 4.4 per cent respectively. Although the pre-tax profit for the year under review was insufficient to trigger an operation of the British Airways Profit Sharing Share Scheme, the company has one Savings Related Share Option Scheme currently in operation and one that has recently matured.

The 1993 operation of the Savings Related Share Option Scheme matured in December 1998 enabling some 17,000 employees to buy some 20 million shares at an option price of £2.86. The current operation, known as Sharesave '98 was offered to employees in the United Kingdom as well as in 79 countries outside the UK. It enables employees to save up to £60 per month, with the option, after three years to buy shares at 418p per share. A similar scheme operates in the USA.

In December 1998 the company won the Pro Share award for "Extending Employee Share Schemes beyond the UK" recognising the sheer scale of the company's international employee share schemes. The company hopes to launch further Savings Related Share Option Schemes every two years with the next planned for February 2000.

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. This ensures that the Policy is translated into actions and that those actions take account of local departmental circumstances. A new Harassment and Bullying Policy has been launched this year to reinforce the company's values of mutual respect and valuing others.

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 donations

British Airways' charitable donations in the year under review were £1.2 million (1998: £1.2 million).

The company's investment in the community is greater still, if benefits in kind are given their market value. On this basis, the airline's contributions were audited by Business in the Community in 1997-98 and totalled £6.8 million, qualifying the company for membership of The Per Cent Club.

The British Airways Change for Good programme with UNICEF has now raised more than £7 million for needy children around the world, by collecting unwanted foreign currencies from passengers.

We continue to take pride in the achievements of our employees in their charitable endeavours:

David Mustill, a dispatcher at Heathrow, was made an MBE in acknowledgement of his achievement in building a school, where *none had previously existed, for 500 children in Ghana.*

Stephanie Moore, a Cabin Service Director, raised more than £500,000 towards The Bobby Moore Fund for Imperial Cancer Research, a remarkable memorial to her husband, captain of the 1966 England soccer World Cup winning team, who died aged 51 from bowel cancer.

British Airways employees at Manchester are working together to raise £250,000 for charities in the North West of England using a range of enterprising initiatives including a sponsored swim with sharks.

Many other employee charities continue to go from strength to strength. The Dhaka Orphanage celebrated its tenth anniversary in its new buildings. Dreamflight, Happy Child and The British Airways Runners continued to flourish. In the year under review the company gave 275 awards worth some £160,000 in its Cheques for Charity Scheme which invites bids from employees to support their charitable efforts. Employee volunteers who support local organisations such as the Scouts, the Samaritans and local schools have also been assisted during the year.

Political donations

No political donations were made during the year (1998: nil).

Health and safety

The company is committed to safeguarding the health and safety of its employees, passengers, contractors and others affected by its activities. Implementation of health and safety policies and procedures is a key management objective and performance is monitored by the Board's Safety Review Committee.

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 and there is a small central group charged with implementing the policy through provision of support and advice, as well as measuring and monitoring 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 has participated in the preparation of the report "Aviation and the global atmosphere" to be published in summer 1999 by the United Nation's Intergovernmental Panel on Climate Change.

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 providing assistance with travel to leading worldwide 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 1997 Environmental Stewardship Award from the Council on Economic Priorities. Each year the airline publishes an Environmental Report in which progress against specific targets and specific environmental indicators is recorded. Copies of the 1998-99 report can be obtained from Environmental Branch, British Airways Plc, Waterside (HBBG), PO Box 365 Harmondsworth, UB7 0GB, UK.

Year 2000

The company's programme to address issues of computer functionality through the change of millennium has continued on schedule through the year under review and reports on progress are received regularly by the Board's Audit Committee and by the Board. Further details of this programme may be found on page 12.

Shareholders

The company maintains regular contact with its larger institutional shareholders through its investor relations' team and through meetings with the Chief Executive and the Chief Financial Officer. Private shareholders receive the British Airways Investor newspaper twice annually and are encouraged either to attend the annual general meeting or to express their views by completing and returning a Freepost Issue of Concern card the main themes of which are reported to the Board, responded to in the Chairman's address at the annual general meeting and reported in the next edition of British Airways Investor.

In order to protect the operating rights of the company, the number of ordinary shares held by the non-UK nationals is monitored. At March 31, 1999, 36 per cent of the ordinary shares of the company were held by non-UK nationals (1998: 30 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 with the code of best practice set out in Section 1 of the Combined Code appended to the Listing Rules of the London Stock Exchange.

The Board of British Airways Plc 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 for these purposes the Board has drawn up a schedule of matters reserved for Board decision. In recognition of the international nature of the airline business, the Board holds at least three of its meetings each year at important destinations on British Airways' route network.

The Board is led by the Chairman and the executive management of the company is led by Bob Ayling, the Chief Executive. The Board has ten members: two are executive directors and eight are non-executive directors. Of the eight non-executive directors, the Chairman Lord Marshall and Captain Colin Barnes were formerly executives of the company. The other six are fully independent non-executive directors drawn from a diversity of business and diplomatic backgrounds, bringing a broad range of views and experiences to Board deliberations. The non-executive Deputy Chairman Sir Michael Angus is the senior non-executive director on the Board.

All directors receive a regular supply of information about the company so that they are equipped to play as full a part as possible in Board meetings. 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. All directors are required to submit themselves for re-election every three years. Independent professional advice would be available to directors in appropriate circumstances, at the company's expense. New directors are appointed to the Board on the recommendation of the Nominations Committee whose terms of reference are described below.

The Board has four standing Board Committees which meet regularly under terms of reference set by the Board:
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, the General Counsel and the Company Secretary attend all meetings of the Committee and have rights of access to the Committee. Executives attend as required. The Committee reviews the company's financial statements to ensure that its financial reporting presents a balanced and understandable assessment of the company's position and prospects. It also reviews the company's system of internal control, 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 at least five times per year 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 and security 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 candidates 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 Lord Marshall, Mr Michael Davies and Baroness O'Cathain. No member of the Committee participates in any discussion of his or her own performance.

Directors' remuneration

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, the non-executive Deputy Chairman and its other members are Mr Michael Davies and Baroness O'Cathain who are also independent non-executive directors. No director is involved in deciding his own remuneration. The company's remuneration policy is to provide 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.

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 Remuneration Committee and linked to the budget approved by the Board. For executive directors, maximum bonus is capped at 50 per cent of salary payable only if an extremely stretching pre-tax profit target is achieved. Bob Ayling and Derek Stevens participate 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 the 75th percentile or above. A lower number of options is awarded pro-rata if the company is ranked between the 41st and 74th percentiles 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.

Bob Ayling and Derek Stevens received conditional awards under the Plan during the year under review, details of which may be found on page 29.

More stringent performance criteria for future operations of the long term incentive plan are proposed if the share option plan submitted for the approval of shareholders at the annual general meeting on July 13, 1999, is approved.

Service contracts

Bob 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 predetermined 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 Bob 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 when Bob Ayling and Derek 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.

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 and are reviewed every three years. Neither the Chairman nor the non-executive directors participate in the long term incentive plan nor are their fees pensionable. Lord Marshall and Captain Barnes, being former executives of the company, are in receipt of a pension under the New Airways Pension Scheme and the Airways Pension Scheme respectively.

Details of the directors' remuneration for the year under review and their share interests as at March 31, 1999, may be found on pages 28 and 29.

The remuneration of the executive directors was:

£' 000	Robert Ayling 1999	Robert Ayling *1998*	Derek Stevens 1999	Derek Stevens *1998*
Basic salary	**485**	*450*	**273**	*260*
Taxable benefits	**9**	*8*	**9**	*9*
Total	**494**	*458*	**282**	*269*

Taxable benefits include a company car, fuel, private health insurance and mobile telephone. 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, 1999	Annual pension earned during 1998-99	Total annual Pension as at March 31, 1999	Transfer value of increase in accrued benefit
Robert Ayling	52	£22,751	£240,519	£296,100
Derek Stevens	60	£11,854	£201,207	£170,329

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

The fees paid to non-executive directors were:

£' 000	1999	*1998*
Lord Marshall	**251**	*251*
Sir Michael Angus	**73**	*71*
Captain Colin Barnes	**55**	*47*
Michael Davies	**25**	*26*
Dr Ashok Ganguly	**27**	*27*
Baroness O'Cathain	**31**	*29*
Lord Renwick	**26**	*26*
The Hon. Raymond Seitz	**25**	*24*

Lord Marshall's fee as non-executive Chairman was £250,000 per annum in addition to which he enjoyed taxable benefits of £1,165.

Sir Michael Angus' fee as non-executive Deputy Chairman was £70,000 per annum also reflecting his chairmanship of the Audit, Remuneration and Nominations Committees. Captain Colin Barnes receives £15,000 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 £22,500 per annum plus £500 for each Board Committee separately attended.

Directors' share interests at March 31, 1999

	British Airways Plc				British Airways Capital Limited	
	Ordinary shares subject to no restrictions		Ordinary shares subject to restrictions		Convertible Capital Bonds	
Number	March 31, 1999	*April 1, 1998*	March 31, 1999	*April 1, 1998*	March 31, 1999	*April 1, 1998*
Lord Marshall	**67,030**	*52,961*	**1,451**	*3,224*	**11,304**	*11,304*
Sir Michael Angus	**5,212**	*4,488*			**1,333**	*1,333*
Robert Ayling	**40,971**	*37,872*	**2,624**	*4,397*		
Derek Stevens	**166,421**	*14,682*	**3,115**	*4,397*	**109**	*109*
Captain Colin Barnes	**21,368**	*20,769*			**644**	*644*
Michael Davies	**5,224**	*5,224*			**2,221**	*2,221*
Dr Ashok Ganguly	**100**	*100*				
Baroness O'Cathain	**6,000**	*5,100*				
Lord Renwick	**3,058**	*2,000*				
The Hon. Raymond Seitz	**500**					
	315,884	*143,196*	**7,190**	*12,018*	**15,611**	*15,611*

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.

On April 7, 1999 Lord Marshall, Sir Michael Angus and The Hon. Raymond Seitz were allotted 744, 53 and 6 ordinary shares respectively, under the British Airways Scrip Dividend Scheme.

There were no other changes to the directors' interests shown above from April 1, 1999 to May 25, 1999.

Directors' share options at March 31, 1999

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	Options exercised*	Exercisable for seven years from
Lord 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		Aug11, 1997
Balance at April 1, 1998 and March 31, 1999		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, 1998 and March 31, 1999		214,477			
Derek Stevens	May 29, 1989	208,640	192p	208,640	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, 1998		424,795			
	July 10, 1998	(208,640)		208,640	
Balance at March 31, 1999		216,155			

* The share price on the date of exercise was 695p. On July 10, 1998 Derek Stevens disposed of 80,000 shares realising a gain of £402,400. Had he disposed of all the shares, his gain would have been £1,049,459.

In addition to the above, Lord Marshall, Robert Ayling and Derek Stevens each exercised 1,326 options at 286p under the 1993 operation of the British Airways Savings Related Share Option Scheme 1987 which matured on December 1, 1998. Had they disposed of the shares, their gains would have been £1,445, £1,445 and £2,125 respectively, based on the closing share prices on the dates of exercise, being December 1, 1998 at 395p, December 1, 1998 at 395p and March 11, 1999 at 446.25p respectively. Robert Ayling and Derek Stevens also each hold 559 options at 418p under the 1998 operation of the British Airways Savings Related Share Option Scheme 1996, exercisable on May 1, 2001. The options held by Lord 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 can be made.

Directors' conditional share options at March 31, 1999

The following directors held conditional awards of options over ordinary shares of British Airways Plc granted under the British Airways Long Term Incentive Plan.

	Date of Grant	Number of Options
Robert Ayling	August 2, 1996	57,034
	June 13, 1997	46,940
	June 12, 1998	54,864
Derek Stevens	August 2, 1996	33,507
	June 13, 1997	27,121
	June 12, 1998	30,882

On April 1, 1999 one third of the conditional award made on August 2, 1996 lapsed, as the performance condition was not met in the financial years ended in 1997, 1998 and 1999.

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.

Closing prices of the ordinary shares	1999	*1998*
At March 31	**429.5p**	*607.5p*
Highest in the year	**703.0p**	*760.0p*
Lowest in the year	**308.25p**	*499.5p*

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. Monthly meetings are held 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 directors have reviewed the effectiveness of the company's internal financial control system considering the processes set out above and make this statement pursuant to the guidance for directors issued in December 1994.

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 include the establishment 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, 1999 in respect of the company is calculated as 43 days (1998: 48 days). (Calculation basis as defined by the Companies Act 1985.)

Post balance sheet event

On May 12, 1999 euro 300 million (£196 million) 6.75 per cent guaranteed Non-voting-Cumulative Preferred Securities guaranteed by the company were issued by British Airways Finance (Jersey) L.P., in which the general partner is British Airways Holdings Limited, a wholly owned subsidiary of British Airways Plc.

Auditors

The auditors, Ernst & Young, have indicated their willingness to continue in office and a resolution 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 25, 1999

Statement of directors' responsibilities in relation to the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit and loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the auditors to the members of British Airways Plc

We have audited the accounts on pages 33 to 62, 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 38 to 40.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on page 31, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on page 25 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of either the company's corporate governance procedures or the group's internal controls.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an 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, 1999, 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

Ernst & Young
Registered Auditor
London
May 25, 1999

Group profit and loss account

For the year ended March 31, 1999

		Group	
£ million	Note	1999	1998
Turnover	2	8,915	8,642
Cost of sales	4	(8,296)	(7,978)
Gross profit		619	664
Administrative expenses	4	(177)	(160)
Operating profit		442	504
Share of operating profit in associates	7	62	69
Total operating profit including associates		504	573
Other income and charges	8	27	19
Profit on sale of fixed assets and investments	9	51	169
Net interest payable	10	(357)	(181)
Profit before taxation		225	580
Taxation	11	(19)	(133)
Profit after taxation		206	447
Minority share of losses after taxation			13
Profit for the year		206	460
Dividends paid and proposed	12	(191)	(176)
Retained profit for the year	32	15	284
Earnings per share	13		
Basic earnings per share		19.5p	44.7p
Diluted earnings per share		19.2p	42.2p
Dividends per share	12	17.9p	16.6p

Balance sheets

At March 31, 1999

£ million	Note	Group 1999	Group 1998	Company 1999	Company 1998
Fixed assets					
Tangible assets	14				
Fleet		8,207	*7,227*	8,108	*7,104*
Property		1,331	*1,181*	1,254	*1,103*
Equipment		301	*259*	251	*222*
		9,839	*8,667*	9,613	*8,429*
Investments	17				
Subsidiary undertakings				888	*885*
Associated undertakings		323	*321*	7	*1*
Trade investments		68	*67*	31	*31*
Investment in own shares		11		11	
		402	*388*	937	*917*
		10,241	*9,055*	10,550	*9,346*
Current assets					
Stocks	19	84	*75*	62	*55*
Debtors	21	1,336	*1,432*	1,168	*1,282*
Short-term loans and deposits	22c	1,051	*688*	987	*610*
Cash at bank and in hand		112	*50*	27	*2*
		2,583	*2,245*	2,244	*1,949*
Creditors: amounts falling due within one year	23	(3,081)	*(2,821)*	(3,657)	*(3,284)*
Net current liabilities		(498)	*(576)*	(1,413)	*(1,335)*
Total assets less current liabilities		9,743	*8,479*	9,137	*8,011*
Creditors: amounts falling due after more than one year					
Borrowings and other creditors	24	(6,230)	*(4,978)*	(6,165)	*(4,967)*
Convertible Capital Bonds 2005	27	(126)	*(150)*		
		(6,356)	*(5,128)*	(6,165)	*(4,967)*
Provisions for liabilities and charges	28	(32)	*(30)*	(29)	*(28)*
		3,355	*3,321*	2,943	*3,016*
Capital and reserves					
Called up share capital	30	268	*260*	268	*260*
Reserves	32				
Share premium account		764	*650*	764	*650*
Revaluation reserve		290	*294*	290	*294*
Profit and loss account		2,033	*2,117*	1,621	*1,812*
		3,087	*3,061*	2,675	*2,756*
		3,355	*3,321*	2,943	*3,016*

Lord Marshall of Knightsbridge *Chairman*
Robert Ayling *Chief Executive*
Derek Stevens *Chief Financial Officer*
May 25, 1999

Robert Ayling
Derek Stevens

Group cash flow statement

For the year ended March 31, 1999

£ million	Note	Group 1999	1998
Cash inflow from operating activities	5a	**1,241**	*736*
Dividends received from associates		**11**	*12*
Returns on investments and servicing of finance			
Interest received		72	*71*
Interest paid on bank and other loans		(95)	*(119)*
Interest paid on finance leases and hire purchase arrangements		(290)	*(227)*
Dividends received from trade investments		4	*6*
Net cash outflow from returns on investments and servicing of finance		**(309)**	*(269)*
Taxation			
UK Corporation tax		(36)	*(41)*
Overseas taxation		(4)	*(93)*
Net cash outflow from taxation		**(40)**	*(134)*
Capital expenditure and financial investment			
Tangible fixed assets purchased for cash	14e	(1,611)	*(1,767)*
Refund of progress payments		1,274	*1,431*
Sale of tangible fixed assets and investments		230	*118*
Investment in own shares		(11)	
Sale of investment in US Airways Group, Inc.			*379*
Net cash (outflow)/inflow for capital expenditure and financial investment		**(118)**	*161*
Acquisitions and disposals			
Purchase of subsidiary undertakings			*(7)*
Purchase of interests in associated undertakings		(6)	
Sale of interests in associated undertakings			*82*
Net cash flow for acquisitions and disposals		**(6)**	*75*
Equity dividends paid		**(113)**	*(148)*
Net cash inflow before management of liquid resources and financing		**666**	*433*
Management of liquid resources		**(363)**	*(90)*
Financing			
Received from minority for subscription in share capital			*16*
Changes in borrowings	26		
Bank and other loans raised		178	*475*
Bank and other loans repaid		(127)	*(601)*
Capital elements of finance leases and hire purchase arrangements repaid		(351)	*(268)*
		(300)	*(394)*
Changes in share capital			
Issue of ordinary share capital and share premium received		**65**	*6*
Increase/(decrease) in cash	22	**68**	*(29)*

£ million	Note	Group 1999	1998
Group financing requirement			
Net cash inflow before management of liquid resources and financing		**666**	*433*
Acquisitions under loans, finance leases and hire purchase arrangements	14e	**(1,470)**	*(1,302)*
Total financing requirement for the year		**(804)**	*(869)*
Total tangible fixed asset expenditure, net of progress payment refunds		**1,807**	*1,638*

Statement of total recognised gains and losses

For the year ended March 31, 1999

£ million	Note	Group 1999	1998
Profit for the year		**206**	*460*
Other recognised gains and losses relating to the year			
Exchange and other movements	32a	**(82)**	*(18)*
Total gains and losses recognised since last annual report		**124**	*442*

Reconciliation of movements in shareholders' funds

For the year ended March 31, 1999

£ million	Note	Group 1999	1998
Profit for the year		**206**	*460*
Dividends paid and proposed	12	**(191)**	*(176)*
Retained profit for the year		**15**	*284*
Other recognised gains and losses relating to the year		**(82)**	*(18)*
Issue of ordinary share capital, on the conversion of Convertible Capital Bonds 2005, and on the exercise of options under Employee Share Option Schemes			
Share capital		**8**	*9*
Share premium		**114**	*85*
		122	*94*
Reduction in reserves resulting from shares issued to a Qualifying Employee Share Ownership Trust in relation to the 1993 Share Save Scheme		**(21)**	
Movement in goodwill in the year			*(23)*
Net additions to shareholders' funds		**34**	*337*
Shareholders' funds at April 1		**3,321**	*2,984*
Shareholders' funds at March 31		**3,355**	*3,321*

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

Summary statements in euros

Included for information purposes only

Group profit and loss account

For the year ended March 31, 1999

EUR million	1999	*1998*
Turnover	13,380	*12,970*
Operating expenditure	(12,716)	*(12,214)*
Operating profit	664	*756*
Share of operating profit in associates	93	*104*
Other income and charges	41	*29*
Profit on sale of fixed assets and investments	77	*254*
Net interest payable	(536)	*(272)*
Profit before taxation	339	*871*
Taxation	(29)	*(200)*
Profit after taxation	310	*671*
Minority share of losses after taxation		*20*
Profit for the year	310	*691*
Dividends paid and proposed	(287)	*(264)*
Retained profit for the year	23	*427*

Group statement of total recognised gains and losses

For the year ended March 31, 1999

EUR million	1999	*1998*
Profit for the year	310	*691*
Other recognised gains and losses relating to the year		
Exchange and other movements	(124)	*(27)*
Total gains and losses recognised since last annual report	186	*664*

Group balance sheet

For the year ended March 31, 1999

EUR million	1999	*1998*
Fixed assets		
Tangible assets	14,766	*13,007*
Investments	603	*582*
	15,369	*13,589*
Current assets	3,877	*3,369*
Creditors: amounts falling due within one year	(4,624)	*(4,234)*
Net current liabilities	(747)	*(865)*
Total assets less current liabilities	14,622	*12,724*
Creditors: amounts falling due after more than one year	(9,539)	*(7,695)*
Provisions for liabilities and charges	(48)	*(45)*
	5,035	*4,984*
Capital and reserves		
Called up share capital	402	*390*
Reserves	4,633	*4,594*
	5,035	*4,984*
Translation rate £1=euros	1.5008	*1.5008*

Euro amounts have been included for information only. Results have been translated at the rate of exchange on March 31, 1999.

Notes to the accounts

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.

During the year the group implemented the following new accounting standards: FRS9 – Associates and Joint Ventures, FRS10 – Goodwill and Intangible Assets, FRS11 – Impairment of Fixed Assets and Goodwill, FRS12 – Provisions and Contingencies, FRS13 – Derivatives and other Financial Instruments: Disclosures, and FRS14 – Earnings per Share. The adoption of the standards did not have a significant effect on the results although a number of minor presentational changes have been made to the financial statements.

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. Up to March 31, 1998, where the cost of acquisition exceeded the values attributed to such net assets, the resulting goodwill was set off against reserves. Goodwill will be released to the profit and loss account on disposal of the business to which it relates. Goodwill arising on acquisitions since April 1, 1998 is capitalised and amortised over its useful economic life. 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 asset of the group is the aircraft fleet, the majority of which are registered in the United Kingdom. Since the group's aircraft fleets are employed flexibly across its worldwide 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 manufacturers' 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 assets and 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 their 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. Full property valuations are carried at least every five years. 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.

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. Aircraft that generate substantial foreign currency revenues are accounted for as foreign currency assets and are translated into sterling at rates ruling at the balance sheet date. Changes in the sterling value of outstanding foreign currency loans, finance leases and hire purchase arrangements which finance certain 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.

1 Accounting policies continued

Derivatives and financial instruments

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 payment 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.

Short term debtors and creditors are held at fair value and have therefore been excluded from the financial instrument disclosures except note 20 on currency exposures.

2 Turnover

	Group	
£ million	1999	*1998*
Traffic revenue		
Scheduled services – passenger	7,485	*7,233*
– freight and mail	562	*595*
	8,047	*7,828*
Non-scheduled services	62	*53*
	8,109	*7,881*
Other revenue (including aircraft maintenance, package holidays and other airline services)	806	*761*
	8,915	*8,642*

3 Geographical analysis of turnover and operating profit

a Turnover

	Group			
	By area of original sale		By area of destination	
£ million	1999	*1998*	1999	*1998*
Europe	5,945	*5,628*	3,412	*3,214*
United Kingdom	4,047	*3,817*	698	*718*
Continental Europe	1,898	*1,811*	2,714	*2,496*
The Americas	1,678	*1,613*	3,281	*3,073*
Africa, Middle East and Indian sub-continent	627	*618*	1,137	*1,118*
Far East and Australasia	665	*783*	1,085	*1,237*
	8,915	*8,642*	8,915	*8,642*

b Operating profit

	Group	
	By area of destination	
£ million	1999	*1998*
Europe	(166)	*(127)*
The Americas	451	*395*
Africa, Middle East and Indian sub-continent	124	*125*
Far East and Australasia	33	*111*
	442	*504*

4 Analysis of operating expenditure

£ million	Group 1999	Group 1998
Employee costs	2,356	*2,211*
Depreciation	619	*551*
Aircraft operating lease costs	150	*127*
Fuel and oil costs	705	*790*
Engineering and other aircraft costs	644	*614*
Landing fees and en route charges	736	*703*
Handling charges, catering and other operating costs	1,278	*1,179*
Selling costs	1,234	*1,217*
Accommodation, ground equipment costs and currency differences	751	*746*
Total operating expenditure	8,473	*8,138*
Total operating expenditure comprises:		
Cost of sales	8,296	*7,978*
Administrative expenses	177	*160*
Total operating expenditure	8,473	*8,138*

5 Operating profit

a Reconciliation of operating profit to cash inflow from operating activities

£ million	Group 1999	Group 1998
Group operating profit	442	*504*
Depreciation charges	619	*551*
Other items not involving the movement of cash	21	*(27)*
Decrease/(increase) in stocks and debtors	60	*(34)*
Increase/(decrease) in creditors	99	*(258)*
Cash inflow from operating activities	1,241	*736*

b Operating profit is arrived at after charging:

Depreciation of group tangible fixed assets

£ million	Group 1999	Group 1998
Owned assets	301	*296*
Finance leased aircraft	98	*100*
Hire purchased aircraft	190	*130*
Other leasehold interests	30	*25*
	619	*551*

Operating lease costs

£ million	Group 1999	Group 1998
Lease rentals – aircraft	150	*127*
– property	127	*115*
Hire of equipment and charter of aircraft and crews	203	*154*
	480	*396*

5 Operating profit continued

Auditors' remuneration

£'000	Group 1999	Group 1998
Group auditors – audit fees	1,157	*1,087*
– other professional fees – United Kingdom	1,321	*1,930*
– overseas	377	*483*
Other auditors – audit fees	7	*62*
	2,862	*3,562*

Directors' emoluments

£'000	Group 1999	Group 1998
Fees	513	*501*
Salary and benefits	776	*727*
	1,289	*1,228*

The report of the Remuneration Committee discloses full details of directors' emoluments and can be found on pages 28 to 29.

6 Employee costs and numbers

Number	Group 1999	Group 1998
The average number of persons employed in the group during the year was as follows:		
United Kingdom	51,022	*48,541*
Overseas	12,757	*12,134*
	63,779	60,675

£ million	Group 1999	Group 1998
Wages and salaries	1,671	*1,587*
Employee profit share		*16*
Social security costs	171	*165*
Contributions to pension schemes	111	*87*
	1,953	*1,855*

7 Share of operating profit in associates

£ million	Group 1999	Group 1998
Operating profits less losses	62	*69*

8 Other income and charges

£ million	Group 1999	Group 1998
Income from trade investments	4	*2*
US Airways Group, Inc. preferred stock dividend		*4*
Other	23	*13*
	27	*19*
Other income and charges represented by:		
Group	26	*19*
Associates	1	
	27	*19*

9 Profit on sale of fixed assets and investments

£ million	Group 1999	Group 1998
Net profit on part disposal of investment in Equant	48	
Net profit on disposal of investment in US Airways Group, Inc.		*129*
Net profit on part disposal of investment in Galileo International Inc.		*45*
Net profit/(loss) on disposal of other fixed assets and investments	3	*(5)*
	51	*169*
Profit on sale of fixed assets and investments represented by:		
Group	51	*164*
Associates		*5*
	51	*169*

10 Net interest payable

£ million	Group 1999	Group 1998
Interest payable		
On bank loans	59	*56*
On finance leases	73	*83*
On hire purchase arrangements	212	*141*
On other loans, including interest of £13 million (1998: £16 million) on Convertible Capital Bonds 2005	46	*64*
	390	*344*
Interest capitalised	(54)	*(61)*
	336	*283*
Interest receivable	(71)	*(71)*
Retranslation charges/(credits) on currency borrowings	92	*(31)*
	357	*181*
Net interest payable represented by:		
Group	345	*168*
Associates	12	*13*
	357	*181*

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 1998: 0.9 per cent to 10.9 per cent).

11 Taxation

£ million	Group 1999	Group 1998
British Airways Plc and subsidiary undertakings		
United Kingdom corporation tax at 31% (1998: 31%)	7	*(63)*
Overseas	25	*79*
Irrecoverable advance corporation tax	(5)	*98*
Prior year adjustments	(27)	
		114
Share of taxation of associated undertakings	19	*19*
	19	*133*

The charge for taxation has been affected principally by losses, as adjusted for UK tax purposes, arising from an excess of tax allowances over depreciation mainly on the acquisition of aircraft. No amounts of advance corporation tax (ACT) have been written off on dividends in respect of the year; these fall under UK tax rules on dividends paid after April 5, 1999 which no longer require the payment of ACT. Prior year adjustments arise mainly from increases to the tax losses for the previous year and the carry back of such losses against profits of previous years.

11 Taxation continued

If full provision had been made for deferred taxation there would have been a provision for the year of £40 million (1998: release £3 million) comprising:

	Group	
£ million	1999	*1998*
Accelerated capital allowances less unrelieved losses	17	*61*
Other timing differences	18	*34*
Advance corporation tax	5	*(98)*
	40	*(3)*

Any requirement for deferred taxes relating to accelerated capital allowances has been reduced by the value of UK tax losses carried forward of approximately £156 million (£521 million at 30 per cent). The need to provide for deferred taxation relating to accelerated capital allowances is dependent on future rates of tax relief on aircraft and on the method by which such aircraft are financed. British Airways has agreed with the Inland Revenue that most aircraft acquired under contracts placed post November 26, 1996 and to 2004 will attract allowances on half the expenditure at 25 per cent reducing balance basis and half the expenditure at 6 per cent reducing balance basis. Based on this agreement and on future capital expenditure plans it is not expected that there will be a requirement in the foreseeable future to provide for any deferred taxation on new originating timing differences.

12 Dividends

	Group	
£ million	1999	*1998*
Interim dividend of 5.10p per share paid (1998: 4.70p per share)	54	*52*
Final dividend of 12.80p per share proposed (1998: 11.90p per share)	137	*124*
	191	*176*

The amounts charged to the profit and loss account include £1 million in relation to 1997-98 final dividends paid to Convertible Capital Bond holders (1996-97: £3 million) who converted their bonds in June 1998, in accordance with the terms of the bonds.

13 Earnings per share

	Group			
	Profit		Earnings per share	
	1999 £m	*1998 £m*	1999 Pence	*1998 Pence*
Profit for the year and basic earnings per share	206	*460*	19.5	*44.7*
Interest on Convertible Capital Bonds	9	*11*		
Diluted profit for the year and earnings per share	215	*471*	19.2	*42.2*
Weighted average number of shares for basic earnings per share ('000)			1,054,543	*1,030,021*
Dilutive potential ordinary shares:				
Convertible Capital Bonds ('000)			56,116	*70,944*
Outstanding share options ('000)			10,141	*16,166*
Weighted average number of shares for diluted earnings per share ('000)			1,120,800	*1,117,131*

Basic earnings per share are calculated on a weighted average of number of ordinary shares as adjusted for shares held for the purposes of employee share ownership plans including the Long Term Incentive Plan.

14 Tangible assets

a Group

£ million	Fleet	Property	Equipment	Group total 1999	Group total *1998*
Cost or valuation					
Balance at April 1	10,375	1,330	706	**12,411**	*11,063*
Exchange adjustments	60	2	4	**66**	*(74)*
Additions – net of refund of progress payments (Note 14e)	1,588	191	135	**1,914**	*1,781*
Disposals	(413)	(6)	(161)	**(580)**	*(359)*
Balance at March 31	11,610	1,517	684	**13,811**	*12,411*
Depreciation					
Balance at April 1	3,148	149	447	**3,744**	*3,475*
Exchange adjustments	18		1	**19**	*(23)*
Charge for the year	509	39	71	**619**	*551*
Disposals	(272)	(2)	(136)	**(410)**	*(259)*
Balance at March 31	3,403	186	383	**3,972**	*3,744*
Net book amounts					
March 31, 1999	8,207	1,331	301	**9,839**	
March 31, 1998	*7,227*	*1,181*	*259*		*8,667*
Utilisation at March 31					
Assets in current use					
Owned	1,978	979	233	**3,190**	*3,116*
Finance leased	1,282			**1,282**	*1,163*
Hire purchase arrangements	4,202			**4,202**	*3,138*
Progress payments	706	352	68	**1,126**	*1,250*
Assets held for resale	39			**39**	
	8,207	1,331	301	**9,839**	*8,667*
The net book amount of property comprises:					
Freehold				**378**	*376*
Long leasehold				**412**	*415*
Short leasehold				**541**	*390*
				1,331	*1,181*

	Valuation/cost	Depreciation	Net book amount 1999	Net book amount *1998*
Revalued fleet and properties are included in the accounts at the following amounts:				
Fleet – valuation	417	367	**50**	*66*
– subsequent additions at cost	108	90	**18**	*38*
Property – valuation	556	51	**505**	*515*
– subsequent additions at cost	50	4	**46**	*40*
March 31, 1999	**1,131**	**512**	**619**	
March 31, 1998	*1,288*	*629*		*659*
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 1999	772	445	327	
March 31, 1998	*888*	*525*		*363*

14 Tangible assets continued

b Company

£ million	Fleet	Property	Equipment	Company total 1999	Company total *1998*
Cost or valuation					
Balance at April 1	10,209	1,236	620	12,065	*10,670*
Exchange adjustments	51	2		53	*(44)*
Additions – net of refund of progress payments	1,602	189	114	1,905	*1,789*
Disposals	(400)	(6)	(151)	(557)	*(346)*
Net transfers to subsidiary undertakings					*(4)*
Balance at March 31	11,462	1,421	583	13,466	*12,065*
Depreciation					
Balance at April 1	3,105	133	398	3,636	*3,373*
Exchange adjustments	14			14	*(9)*
Charge for the year	498	36	59	593	*523*
Disposals	(263)	(2)	(125)	(390)	*(251)*
Balance at March 31	3,354	167	332	3,853	*3,636*
Net book amounts					
March 31, 1999	8,108	1,254	251	9,613	
March 31, 1998	*7,104*	*1,103*	*222*		*8,429*
Utilisation at March 31					
Assets in current use					
Owned	1,926	902	183	3,011	*2,958*
Finance leased	1,235			1,235	*1,106*
Hire purchase arrangements	4,202			4,202	*3,138*
Progress payments	706	352	68	1,126	*1,227*
Assets held for resale	39			39	
	8,108	1,254	251	9,613	*8,429*
The net book amount of property comprises:					
Freehold				376	*375*
Long leasehold				350	*353*
Short leasehold				528	*375*
				1,254	*1,103*

	Valuation/cost	Depreciation	Net book amount 1999	Net book amount *1998*
Revalued fleet and properties are included in the accounts at the following amounts:				
Fleet – valuation	417	367	50	*66*
– subsequent additions at cost	108	90	18	*38*
Property – valuation	550	47	503	*513*
– subsequent additions at cost	49	4	45	*38*
March 31, 1999	1,124	508	616	
March 31, 1998	*1,284*	*629*		*655*
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 1999	764	441	323	
March 31, 1998	*884*	*525*		*359*

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 depreciation rates resulting from this method are shown in the following table:

	Group	
%	**1999**	*1998*
Boeing 747-100, 747-200, 747-400, 777-200 and McDonnell Douglas DC-10-30	**4.2**	*4.1*
Boeing 767-300 and 757-200	**4.6**	*4.9*
Airbus A320, Boeing 737-200, 737-400, McDonnell Douglas MD83, Fokker 100 and F28	**5.9**	*6.1*
Turbo Props	**6.5**	*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

				Group total	
£ million	Fleet	Property	Equipment	**1999**	*1998*
Cash paid	1,325	160	126	**1,611**	*1,767*
Acquisitions under loans, finance leases and hire purchase arrangements	1,470			**1,470**	*1,302*
Capitalised interest	37	17		**54**	*61*
Accrual movements	30	14	9	**53**	*82*
	2,862	191	135	**3,188**	*3,212*
Refund of progress payments	(1,274)			**(1,274)**	*(1,431)*
	1,588	191	135	**1,914**	*1,781*

15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £2,863 million for the group (1998: £2,274 million) and £2,859 million for the company (1998: £2,203 million).

The outstanding commitments include £78 million which relates to the acquisition of one Boeing 747-400 and two Boeing 757-200 aircraft scheduled for delivery during the next year and £2,534 million which relates to the acquisition of Boeing 777-200 aircraft scheduled for delivery during the next three years and Airbus A319 and A320 aircraft scheduled for delivery over the next six years. 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, 1999 British Airways had an unused European Investment Bank long-term facility of £100 million (expiring in more than two years) and unused overdraft and revolving credit facilities of £40 million, and undrawn uncommitted money market lines of £260 million, US$45 million and DM30 million with a number of banks (all reviewable within one year).

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

16 Operating lease commitments

£ million	Group 1999	Group *1998*	Company 1999	Company *1998*
a Fleet				
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	21	*15*	2	*4*
Between one and five years	86	*102*	31	*29*
Over five years	35	*12*	15	*4*
Within one year	142	*129*	48	*37*
Between one and five years	354	*324*	106	*70*
Over five years	74	*34*	7	*5*
	570	*487*	161	*112*
b Property and equipment				
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	19	*12*	18	*11*
Between one and five years	24	*31*	19	*25*
Over five years	38	*46*	35	*44*
Within one year	81	*89*	72	*80*
Between one and five years	223	*254*	206	*238*
Over five years, ranging up to the year 2145	1,399	*1,348*	1,371	*1,337*
	1,703	*1,691*	1,649	*1,655*

Property and equipment commitments relate largely to property leases.

17 Investments

a Group

i) Associated undertakings

£ million	Equity	Loans at cost	Group total 1999	Group total *1998*
Balance at April 1	310	11	321	*396*
Exchange movements	(18)	1	(17)	*(45)*
Additions	22		22	*17*
Share of attributable results	16		16	*12*
Share of movements on other reserves	(19)		(19)	*8*
Disposals				*(30)*
Reclassification to trade investments				*(37)*
Balance at March 31	311	12	323	*321*
Equity comprises:				
Cost of shares			320	*298*
Goodwill set off			(80)	*(80)*
Share of post acquisition profits			79	*81*
Share of movements on other reserves			(8)	*11*
			311	*310*

ii) Trade investments

	Cost		Provisions		Group total	
	Shares	Loans	Shares	Loans	1999	*1998*
Balance at April 1	66	4	(2)	(1)	67	*288*
Exchange movements	2		(1)		1	*(4)*
Disposals						*(254)*
Reclassification from associated undertakings						*37*
Balance at March 31	68	4	(3)	(1)	68	*67*

iii) Investment in own shares

	Group 1999	Group *1998*
Investment in own shares	11	

The investment in own shares consists of shares held by British Airways Employee Benefits Trustees (Jersey) Limited for the purposes of the employee share ownership plans including the Long Term Incentive Plan. At March 31, 1999 the company held 3,250,000 shares for the Long Term Incentive Plan. The purchase of shares was financed by British Airways Plc granting a loan to British Airways Employee Benefits Trustees (Jersey) Limited.

Net book value of total investments

	Associated undertakings	Trade investments	Investment in own shares	Group total 1999	Group total *1998*
Listed	299	66	11	376	*364*
Unlisted	24	2		26	*24*

Market value of listed investments

	Group total 1999	Group total *1998*
Associated undertakings	491	*281*
Trade investments	379	*198*
Investment in own shares	14	

The group's principal investments in subsidiary undertakings, associated undertakings and trade investments are listed on page 62.

17 Investments continued

b Company

i) Subsidiary undertakings

£ million	Cost Shares	Cost Loans	Provisions Shares	Provisions Loans	Company total 1999	Company total *1998*
Balance at April 1	1,536		(651)		885	*804*
Exchange movements						*(3)*
Additions/(reductions)	65		(62)		3	*86*
Disposals						*(2)*
Balance at March 31	1,601		(713)		888	*885*
ii) Associated undertakings						
Balance at April 1	1				1	*1*
Additions	6				6	
Balance at March 31	7				7	*1*
iii) Trade investments						
Balance at April 1	30	4	(2)	(1)	31	*36*
Disposals						*(5)*
Balance at March 31	30	4	(2)	(1)	31	*31*

iv) Investment in own shares

	Company 1999	Company *1998*
Investment in own shares	11	

The investment in own shares consists of shares held by British Airways Employee Benefits Trustees (Jersey) Limited for the purposes of the employee share ownership plans including the Long Term Incentive Plan. At March 31, 1999 the company held 3,250,000 shares for the Long Term Incentive Plan. The purchase of shares was financed by British Airways Plc granting a loan to British Airways Employee Benefits Trustees (Jersey) Limited.

Net book value of total investments

	Subsidiary undertakings	Associated undertakings	Trade investments	Investment in own shares	Company total 1999	Company total *1998*
Listed			29	11	40	*28*
Unlisted	888	7	2		897	*889*

Market value of listed investments

	Company total 1999	Company total *1998*
Trade investments	166	*32*
Investment in own shares	14	

18 Investments in associates

Summarised financial information

No individual associate accounts for more than 25 per cent of any of the gross assets, gross liabilities, turnover or operating results (on a three year average) of the group (excluding any amount for associates).

	Group	
£ million	1999	*1998*
Operating revenue	823	*807*
Share of fixed assets	1,026	*969*
Share of current assets	194	*256*
Share of assets	1,220	*1,225*
Liabilities due within one year	(362)	*(344)*
Liabilities due after more than one year	(551)	*(572)*
Share of liabilities	(913)	*(916)*
Share of net assets at associated companies' year end accounting dates	307	*309*
Additional equity investment in Qantas for the period January 1 to March 31	4	*1*
Total group investment in associated undertakings at March 31	311	*310*

The sterling equivalents for the statements of operations of Qantas Airways Limited have been translated at the average exchange rates for the year ended June 30, 1998 and six months ended December 31, 1998; those for the balance sheets have been translated at the closing rates ruling at March 31.

19 Stocks

	Group		Company	
£ million	1999	*1998*	1999	*1998*
Raw materials, consumables and work in progress	84	*75*	62	*55*

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

20 Currency exposures

£ million	Net foreign currency assets/(liabilities)					
Net assets/(liabilities) at March 31, 1999 Functional currency	Sterling	US dollar	Euro currency	Japanese Yen	Other	Total
Sterling		238	21	(721)	(71)	(533)
US dollar	1				(1)	
Euro currency	(1)	(68)				(69)
		170	21	(721)	(72)	(602)

Yen liabilities are as a result of the group's substantial Japanese cross border hire purchase arrangements.

The table above shows the monetary assets and liabilities of the group that are not denominated in the functional (or 'operating') currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of aircraft accounted for as foreign currency assets, and of net investments in overseas subsidiaries. Amounts also take into account the effect of derivatives entered into to manage these currency exposures.

21 Debtors

£ million	Group 1999	Group *1998*	Company 1999	Company *1998*
Trade debtors	**905**	*853*	**842**	*793*
Amounts owed by subsidiary undertakings			**17**	*59*
Amounts owed by associated undertakings	**22**	*10*	**22**	*10*
Other debtors	**152**	*249*	**106**	*187*
Prepayments and accrued income	**257**	*320*	**181**	*233*
	1,336	*1,432*	**1,168**	*1,282*

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

22 Cash

a Reconciliation of net cash flow to movement in net debt

£ million	Group 1999	Group *1998*
Increase/(decrease) in cash during the year	**68**	*(29)*
Cash outflow from decrease in debt and lease financing	**300**	*394*
Cash outflow from liquid resources	**363**	*90*
Changes in net debt resulting from cash flows	**731**	*455*
New loans and finance leases taken out and hire purchase arrangements made	**(1,470)**	*(1,302)*
Conversion of Convertible Capital Bonds 2005	**24**	*76*
Exchange movements	**(208)**	*126*
Movement in net debt during the year	**(923)**	*(645)*
Net debt at April 1	**(4,603)**	*(3,958)*
Net debt at March 31	**(5,526)**	*(4,603)*

b Analysis of net debt

£ million	Balance at April 1	Cash flow	Other non-cash	Exchange	Group Balance at March 31
Cash	50	62			**112**
Overdrafts	(17)	6			**(11)**
	33	68			**101**
Short-term loans and deposits	688	363			**1,051**
Bank and other loans	(1,070)	(51)		(21)	**(1,142)**
Finance leases and hire purchase arrangements	(4,104)	351	(1,470)	(187)	**(5,410)**
Convertible Capital Bonds 2005	(150)		24		**(126)**
Year to March 31, 1999	**(4,603)**	**731**	**(1,446)**	**(208)**	**(5,526)**
Year to March 31, 1998	*(3,958)*	*455*	*(1,226)*	*126*	*(4,603)*

c Analysis of short-term loans and deposits by currency

£ million	Group 1999	Group *1998*	Company 1999	Company *1998*
Sterling	**738**	*310*	**690**	*258*
US dollars	**124**	*220*	**108**	*194*
Other	**189**	*158*	**189**	*158*
	1,051	*688*	**987**	*610*

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

23 Creditors: Amounts falling due within one year

£ million	Group 1999	Group 1998	Company 1999	Company 1998
Loans, finance leases and hire purchase arrangements				
Bank and other loans	202	*74*	28	*61*
Finance leases	91	*97*	84	*90*
Hire purchase arrangements	264	*185*	264	*185*
Loans from subsidiary undertakings			671	*462*
	557	*356*	1,047	*798*
Overdrafts – unsecured	11	*17*		
Trade creditors	1,010	*1,000*	848	*847*
Unredeemed frequent flyer liabilities	70	*74*	47	*47*
Amounts owed to subsidiary undertakings			505	*437*
Amounts owed to associated undertakings	35	*2*	35	*2*
Other creditors				
Other creditors	394	*394*	287	*290*
Corporate taxation	25	*65*	23	*65*
Other taxation and social security	63	*60*	40	*34*
	482	*519*	350	*389*
Dividends payable	190	*124*	190	*124*
Accruals and deferred income				
Sales in advance of carriage	686	*671*	616	*613*
Accruals and deferred income	40	*58*	19	*27*
	726	*729*	635	*640*
	3,081	*2,821*	3,657	*3,284*

24 Borrowings and other creditors

£ million	Group 1999	Group 1998	Company 1999	Company 1998
Loans, finance leases and hire purchase arrangements				
Bank and other loans	940	*996*	892	*787*
Finance leases	1,244	*1,049*	1,197	*992*
Hire purchase arrangements	3,811	*2,773*	3,811	*2,773*
Loans from subsidiary undertakings			140	*322*
	5,995	*4,818*	6,040	*4,874*
Other creditors	61	*56*		*6*
Accruals and deferred income	174	*104*	125	*87*
	6,230	*4,978*	6,165	*4,967*

25 Loans, finance leases and hire purchase arrangements

a Total loans, finance leases and hire purchase arrangements

£ million		Group 1999	Group 1998	Company 1999	Company 1998
Loans					
Bank	*– French Franc*	**FFr40m**	*FFr77m*		
	– US Dollar	**US$593m**	*US$613m*	**US$552m**	*US$577m*
	– Sterling	**£509m**	*£400m*	**£478m**	*£361m*
		882	*772*	**820**	*705*
Euro-sterling notes		**100**	*100*	**100**	*100*
Other	*– French Franc*	**FFr50m**	*FFr58m*		
	– US Dollar	**US$250m**	*US$250m*		
	– Sterling		*£43m*		*£43m*
		160	*198*		*43*
Loans from subsidiary undertakings	*– US Dollar*			**US$1,065m**	*US$1,000m*
	– Sterling			**£148m**	*£188m*
				811	*784*
Finance leases	*– French Franc*	**FFr107m**	*FFr119m*		
	– US Dollar	**US$389m**	*US$395m*	**US$320m**	*US$307m*
	– Sterling	**£1,083m**	*£899m*	**£1,083m**	*£899m*
		1,335	*1,146*	**1,281**	*1,082*
Hire purchase arrangements	*– Japanese Yen*	**¥215,426m**	*¥163,330m*	**¥215,426m**	*¥163,330m*
	– US Dollar	**US$1,186m**	*US$1,123m*	**US$1,186m**	*US$1,123m*
	– Sterling	**£2,217m**	*£1,557m*	**£2,217m**	*£1,557m*
		4,075	*2,958*	**4,075**	*2,958*
		6,552	*5,174*	**7,087**	*5,672*
Comprising:					
Bank loans					
Repayable wholly within five years		**212**	*203*	**150**	*150*
Repayable in whole or in part after five years		**670**	*569*	**670**	*555*
		882	*772*	**820**	*705*
Other loans, finance leases and hire purchase arrangements					
Repayable wholly within five years		**692**	*510*	**1,189**	*949*
Repayable in whole or in part after five years		**4,978**	*3,892*	**5,078**	*4,018*
		5,670	*4,402*	**6,267**	*4,967*
		6,552	*5,174*	**7,087**	*5,672*

Bank and other loans are repayable up to the year 2014. In addition to finance leases and hire purchase arrangements, bank and other loans of the group amounting to FFr50 million (1998: FFr28 million), US$582 million (1998: US$603 million) and £199 million (1998: £131 million) and bank loans of the company amounting to US$542 million (1998: US$567 million) and £199 million (1998: £131 million) are secured on aircraft.

b Analysis by type of borrowing

Group 1999	Fixed rate borrowings: Weighted average period rate is fixed years	Fixed rate borrowings: Weighted average rate %	Fixed rate borrowings: £m	Floating rate borrowings £m	Total £m
Sterling	7.3	8.24	574	3,335	3,909
US Dollar	4.8	7.69	421	1,080	1,501
Japanese Yen	8.8	1.52	1,122		1,122
Euro currency	5.0	7.58	11	9	20
	7.6	4.59	2,128	4,424	6,552

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

25 Loans, finance leases and hire purchase arrangements continued

c Incidence of repayments

£ million	Bank loans	Other loans	Finance leases	Hire purchase arrangements	Group 1999	Group *1998*
Instalments falling due:						
Within one year	42	160	91	264	557	*356*
After more than one year						
Between one and two years	46		90	284	420	*481*
Between two and five years	296		328	1,094	1,718	*1,337*
In five years or more	498	100	826	2,433	3,857	*3,000*
	840	100	1,244	3,811	5,995	*4,818*
Total 1999	882	260	1,335	4,075	6,552	
Total 1998	*772*	*298*	*1,146*	*2,958*		*5,174*
Analysis of total 1999						
British Airways Plc	820	100	1,281	4,075	6,276	*4,888*
Subsidiary undertakings	62	160	54		276	*286*
	882	260	1,335	4,075	6,552	*5,174*

26 Analysis of changes in borrowings during the year

£ million	Bank and other loans	Finance leases and hire purchase arrangements	Group 1999	Group *1998*
Balance at April 1	1,070	4,104	5,174	*4,392*
New loans raised	178		178	*475*
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft		1,470	1,470	*1,302*
Repayment of amounts borrowed	(127)	(351)	(478)	*(869)*
Effect of exchange rate changes	21	187	208	*(126)*
Balance at March 31	1,142	5,410	6,552	*5,174*

27 Convertible Capital Bonds 2005

£ million	Group 1999	Group *1998*
	126	*150*

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 15, 1998, 10,095,979 ordinary shares were issued in exchange for 23,628,275 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 54,014,000 ordinary shares.
The mid-market closing prices of the Bonds and the ordinary shares at March 31, 1999 as quoted in the London Stock Exchange Daily Official List were 187.5p and 429.5p each respectively.

28 Provisions for liabilities and charges

Group

£ million	Balance at April 1	Transfers from profit and loss account	Other movements	Provisions applied/ (released)	Balance at March 31
Pensions and similar obligations	8	1			9
Post-retirement medical benefits	22		1		23
Year to March 31, 1999	30	1	1		32
Year to March 31, 1998	*58*	*2*	*(1)*	*(29)*	*30*
Analysis of total 1999					
British Airways Plc	28	1			29
Subsidiary undertakings	2		1		3
Year to March 31, 1999	30	1	1		32

29 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 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.

30 Share capital

Group and Company

	1999		*1998*	
Ordinary shares of 25p each	Number of shares '000	£ million	*Number of shares '000*	*£ million*
Authorised				
At April 1	1,508,000	377	*1,308,000*	*327*
Increase approved by shareholders at AGM on July 15, 1997			*200,000*	*50*
At March 31	1,508,000	377	*1,508,000*	*377*
Allotted, called up and fully paid				
At April 1	1,038,905	260	*1,002,586*	*251*
Conversion of Convertible Capital Bonds 2005	10,096	3	*32,386*	*8*
Exercise of options under Employee Share Option Schemes	22,371	5	*2,073*	*1*
Conversion of Scrip dividends	1,795		*1,860*	
At March 31	1,073,167	268	*1,038,905*	*260*

31 Share options

Group and Company

Number of shares '000	1999	*1998*
Outstanding at April 1	45,942	*30,993*
Granted in the year		*17,503*
Exercised during the year	(22,371)	*(2,073)*
Expired/cancelled	(663)	*(481)*
At March 31	22,908	*45,942*
Date exercisable	1998-2005	*1998-2005*
Price per share	144p-579p	*130p-579p*
Price range of options exercised during the year	144p-419p	*144p-419p*

Share options exercised include those exercised under the 1993 Share Save Scheme which matured on December 1, 1998.

32 Reserves

a Group

£ million	Share premium account	Revaluation reserve	Profit and loss account	Group total 1999	Group total *1998*
Balance at April 1	650	294	2,117	3,061	*2,733*
Retained profit for the year			15	15	*284*
Transfers relating to revalued assets		(4)	4		
Exchange adjustments net of tax relief and other movements			(82)	(82)	*(18)*
Net movement on goodwill					*(23)*
Reduction in reserves resulting from shares issued to a Qualifying Employee Share Ownership Trust in relation to the 1993 Share Save Scheme (see below)			(21)	(21)	
Share premium	114			114	*85*
Balance at March 31	764	290	2,033	3,087	*3,061*

Group profit and loss account includes cumulative retained profits in respect of associated undertakings and is shown in note 17.

b Goodwill

Cumulative goodwill set off against reserves at March 31 comprises:

£ million	1999	*1998*
In respect of subsidiary undertakings	615	*615*
In respect of associated undertakings	80	*80*
In respect of trade investments	7	*7*
	702	*702*

c Company

£ million	Share premium account	Revaluation reserve	Profit and loss account	Company total 1999	Company total *1998*
Balance at April 1	650	294	1,812	2,756	*2,571*
Retained (loss)/profit for the year			(138)	(138)	*81*
Transfers relating to revalued assets		(4)	4		
Exchange adjustments net of tax relief and other movements			(36)	(36)	*19*
Reduction in reserves resulting from shares issued to a Qualifying Employee Share Ownership Trust in relation to the 1993 Share Save Scheme (see below)			(21)	(21)	
Share premium	114			114	*85*
Balance at March 31	764	290	1,621	2,675	*2,756*

The group has established a Qualifying Employee Share Ownership Trust ('QUEST') for the purposes inter alia of the 1993 Share Save Scheme. During the year, contributions of £21 million have been made to the QUEST. The QUEST used the funds to subscribe for 19,749,829 new ordinary shares in British Airways Plc, issued at the market price prevailing on the date of issue. As at March 31, 1999, all shares issued to the QUEST had been transferred to the option holders exercising options under the 1993 Share Save Scheme.

33 Deferred taxation (see also Note 11)

There is no provision for deferred taxation at March 31, 1999 (1998: £nil)

If full provision for deferred taxation had been made at 30 per cent (1998: 30 per cent) the following amounts would have been required:

£ million	Group 1999	Group *1998*	Company 1999	Company *1998*
Accelerated capital allowances less unrelieved losses	993	*976*	980	*964*
Other timing differences	4	*(14)*	(27)	*(37)*
Advance corporation tax	(93)	*(98)*	(93)	*(98)*
	904	*864*	860	*829*

In arriving at the amount of the full provision of £904 million for the group at March 31, 1999, 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 any significant property assets.

34 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 in payment 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.

Standard 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, 1998 by an independent firm of qualified actuaries, Watson Wyatt Partners, 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 2.35 times the standard employees' contribution for the period December 1, 1998 to March 31, 1999 (2.20 times for April 1, 1997 to November 30, 1998) was appropriate.

£ million	Group 1999	Group *1998*
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:		
Airways Pension Scheme		
New Airways Pension Scheme	**94**	*71*
Other pension schemes and provident funds – mainly outside the United Kingdom	**17**	*16*
	111	*87*

Included within NAPS pension charge for the year ended March 31, 1999 is £15 million relating to augmentation contributions in respect of retirements in 1998-99. Augmentation contributions in respect of retirements in 1997-98 were charged against the restructuring provision made in 1996-97.

At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £5,889 million and £2,992 million respectively. The value of the assets represented 110 per cent (APS) and 100 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 valuations were that, over the long-term, the annual increase in earnings would be 0.75 per cent higher than annual increases in dividends. The annual return on investments was assumed to be 2.25 per cent (APS) or 2.5 per cent (NAPS) higher than the onward increase in earnings. Annual pension increases, over the long-term, were assumed to be 1 per cent less than dividend growth for APS and 1.5 per cent less than dividend growth for NAPS.

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

35 Forward transactions

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

	In currency 1999	In currency *1998*	Sterling equivalents 1999	Sterling equivalents *1998*
Maturing within one year				
– to cover future capital commitments in US Dollars	**US$774m**	*US$485m*	**£473m**	*£289m*
– to hedge future currency revenues against US Dollars	**US$27m**	*US$127m*		
– to hedge future currency revenues against sterling			**£62m**	*£65m*
– to hedge future operating payments against US Dollars	**US$66m**	*US$130m*		*£78m*
– to hedge future fuel costs in US Dollars	**US$319m**	*US$415m*	**£194m**	*£247m*
– to hedge future operating payments against sterling				*£82m*
– to hedge debt in foreign currency	**US$225m**	*US$150m*	**£138m**	*£90m*
Maturing after one year				
– to cover future capital commitments in US Dollars	**US$90m**	*US$170m*	**£54m**	*£101m*
– to hedge future currency revenues against sterling			**£2m**	*£1m*
– to hedge future operating payments against US Dollars				*£16m*

36 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
At March 31, 1999			
US Dollar	**US$449m**	**2000-2003**	**8.4% – 9.9%**
At March 31, 1998			
US Dollar	*US$485m*	*2000 – 2003*	*8.4% – 9.9%*

At March 31, 1999 British Airways had no outstanding cross currency interest rate swaps (1998: £43 million at fixed interest rate payable, 10.2 per cent).

37 Fair values of financial instruments

a Primary financial instruments held or issued to finance the group's operations

£ million	1999 Carrying amount	1999 Fair value	*1998 Carrying amount*	*1998 Fair value*
Cash at bank and in hand and overdrafts	**101**	**101**	*33*	*33*
Short-term loans and deposits	**1,051**	**1,051**	*688*	*688*
Bank and other borrowings	**(1,042)**	**(1,078)**	*(970)*	*(987)*
Finance leases	**(1,335)**	**(1,345)**	*(1,146)*	*(1,146)*
Hire purchase arrangements	**(4,075)**	**(4,101)**	*(2,958)*	*(2,967)*
Euro-sterling notes	**(100)**	**(136)**	*(100)*	*(129)*
Convertible Capital Bonds 2005	**(126)**	**(237)**	*(150)*	*(392)*

b Derivative financial instruments held to manage the interest rate and currency profile

£ million	1999 Carrying amount	1999 Fair value	*1998 Carrying amount*	*1998 Fair value*
Interest rate swaps		**(15)**		*(31)*
Forward currency transactions		**14**		*10*
Fuel derivatives		**10**		*(17)*

Included within forward currency transactions are derivative financial instruments held to hedge the currency exposure on expected future sales.

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

Bank and other loans, finance leases and 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, 1999

Euro sterling notes and Convertible Capital Bonds 2005

– quoted market value

Off balance sheet interest rate swaps

– discounted cash flow analysis, to determine the estimated amount the group would receive or pay to terminate the agreements. Discounted cash flow analyses are based on estimated future interest rates. These have also been used to calculate the hedging disclosures

Off balance sheet forward currency transactions

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

Off balance sheet fuel derivatives

– difference between market value and future commitment value

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

c Hedges

At March 31, 1999 there were unrecognised gains of £26 million and unrecognised losses of £17 million relating to hedges of future exposures. Of the unrecognised gains, £24 million are expected to occur within one year and £2 million after one year, and of the unrecognised losses, £9 million are expected to occur within one year and £8 million after one year.

At March 31, 1998 there were unrecognised gains of £14 million and unrecognised losses of £52 million. Of the unrecognised gains on hedges, all related to 1998/99 and of the unrecognised losses, £22 million related to 1998/99 and £30 million related to periods in excess of one year.

The instruments used to hedge future exposures are interest rate swaps, forward currency contracts and fuel derivatives.

38 Contingencies

There were contingent liabilities at March 31, 1999 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, 1999 amounted to £182 million (1998: £115 million) and £541 million (1998: £412 million) respectively. For the company these included guarantees given in respect of the Convertible Capital Bonds issued by a subsidiary undertaking.

39 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 Services 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 generated revenue benefits for the core 'Kangaroo' routes between Europe and Australia. During the year under review, this agreement has been re-negotiated and has resulted in British Airways having to accrue a net amount payable to Qantas of £5 million (1998: £20 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, 1999, the net trading balance due to Qantas amounted to £15 million (March 31, 1998: amount due from Qantas £10 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 FFr126 million to JTLC for the rental of 7 aircraft (1998: FFr132 million) and FFr22 million to PLTC for the rental of 4 aircraft (1998: FFr21 million). As at March 31, 1999, the trading balances outstanding with JTLC and PLTC were nil (1998: nil) and the financing balances were FFr34 million for JTLC (1998: FFr34 million) and FFr30 million for PLTC (1998: FFr30 million).

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.

40 Post balance sheet event

On May 12, 1999 euro 300 million (£196 million) 6.75 per cent guaranteed Non-voting Cumulative Preferred securities guaranteed by British Airways Plc were issued by British Airways Finance (Jersey) L.P., in which the general partner is British Airways Holdings Limited, a wholly owned subsidiary of British Airways Plc. The guarantee in relation to these securities places holders of the securities in an equivalent position to senior preference shareholders of British Airways Plc.

41 Foreign currency translation rates

	At March 31		Annual average	
	1999	*1998*	**1998-99**	*1997-98*
US Dollar	**1.61**	*1.68*	**1.66**	*1.64*
Japanese Yen	**192**	*223*	**215**	*202*
Deutsche Mark	**2.94**	*3.10*	**2.90**	*2.90*
Australian Dollar	**2.56**	*2.53*	**2.68**	*2.29*
French Franc	**9.85**	*10.39*	**9.72**	*9.75*
Euro	**1.50**	*n/a*	**n/a**	*n/a*

Principal investments

At March 31, 1999

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 *	Airline finance	Jersey
(89 per cent of founders' shares owned)		
British Airways (European Operations at Gatwick) Ltd *	Airline operations	England
British Airways Finance B.V. *	Airline finance	Netherlands
British Airways Holdings Ltd *	Airline finance	Jersey
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 Aéronautiques SA	Airline holding company	France
(84 per cent of equity owned)		
(Holding company of TAT European Airlines SA and Air Liberté SA)		
Speedbird Insurance Company Ltd *	Insurance	Bermuda
The Plimsoll Line Ltd *	Airline holding company	England
(Holding company of Brymon Airways Ltd)		
Travel Automation Services Ltd *	Computer reservations systems	England
(Trading as Galileo United Kingdom)		

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 *	14.1	Travel services	England
Sapphire Aircraft Leasing and Trading Ltd * (Note 1)	19.3	Aircraft leasing	England
Galileo International Inc.	6.7	Computer reservations systems	USA
Equant NV* (Note 2)	1.5	Telecommunications	Netherlands

* Owned directly by British Airways Plc

Notes:

1 The group's investment in Sapphire Aircraft Leasing and Trading Limited was disposed of on April 14, 1999. No material sale proceeds or profit or loss arose on this disposal.

2 Percentage of equity is based on latest audited information.

United States Generally Accepted Accounting Principles (US GAAP) information

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 on a full liability basis.

Goodwill

Up to March 31, 1998, under UK GAAP British Airways set off goodwill arising on acquisitions directly against retained earnings. Goodwill arising on acquisitions since April 1, 1998 is capitalised and amortised over its useful economic life. Under US GAAP, goodwill arising on acquisitions has always been amortised over its useful life. For the purposes of determining the differences between UK GAAP and US GAAP in relation to goodwill arising prior to March 31, 1998, 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, 1999 would not, therefore, be included in the financial statements for 1999 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, 1999 amounted to £78 million (1998: £71 million) under UK GAAP compared with an estimated charge of £54 million (1998: credit of £37 million) under FAS 87 'Employers' Accounting for Pensions'. The resultant decrease in operating costs of £24 million (1998: decrease of £108 million), net of related deferred tax of £7 million (1998: £33 million), would increase net income under US GAAP by £17 million (1998: increase of £75 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' 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 64 and 65.

United States Generally Accepted Accounting Principles (US GAAP) information
continued

Net Income under US GAAP
For the year ended March 31, 1999

	Group			
	1999 £ million	*1998 £ million*	1999 $ million*	*1998 $ million**
Profit for the year as reported in the group profit and loss account	206	*460*	332	*771*
Adjustments:				
Depreciation and amortisation				
Goodwill set off in respect of subsidiary undertakings	(16)	*(15)*	(24)	*(25)*
Goodwill set off in respect of associated undertakings	(1)	*(2)*	(3)	*(3)*
Fleet	1	*(1)*	2	*(2)*
Finance leased aircraft	56	*56*	90	*94*
Property	1	*1*	2	*2*
	41	*39*	67	*66*
Aircraft operating lease costs	(105)	*(112)*	(169)	*(188)*
Equity accounting of associated undertakings				
Share of results of associated undertakings	(9)	*(23)*	(15)	*(39)*
Share of taxation of associated undertakings	3	*8*	5	*13*
	(6)	*(15)*	(10)	*(26)*
Interest payable	47	*55*	76	*92*
Pension costs	24	*108*	39	*181*
Exchange gains/(losses)				
Arising on translation of aircraft related loans	(74)	*54*	(119)	*91*
Relating to revaluation of forward exchange contracts	(6)	*8*	(10)	*13*
	(80)	*62*	(129)	*104*
Profit on disposal of tangible fixed assets and investments				
Arising on disposal of revalued aircraft	1	*3*	2	*5*
Arising on disposal of revalued property	(1)		(2)	
Arising on sale and leaseback transactions	(19)	*4*	(31)	*7*
Arising on disposal of US Airways Group, Inc.		*125*		*210*
	(19)	*132*	(31)	*222*
Deferred taxation				
Effect of the above adjustments	4	*(36)*	6	*(60)*
Effect of differences in methodology	(8)	*(39)*	(13)	*(65)*
	(4)	*(75)*	(7)	*(125)*
	(102)	*194*	(164)	*326*
Net income as adjusted to accord with US GAAP	104	*654*	168	*1,097*
Net Income				
Basic net income as adjusted to accord with US GAAP	104	*654*	168	*1,097*
Diluted net income as adjusted to accord with US GAAP	113	*665*	182	*1,115*
	'000	*'000*	'000	*'000*
Number of Shares				
Basic weighted average number of shares	1,054,543	*1,030,021*	1,054,543	*1,030,021*
Diluted weighted average number of shares	1,120,800	*1,117,131*	1,120,800	*1,117,131*
	Pence	*Pence*	Cents	*Cents*
Net income per ordinary share as so adjusted				
Basic	9.9	*63.5*	15.9	*106.5*
Diluted	10.1	*59.5*	16.2	*99.8*
Net income per American depository share as so adjusted				
Basic	£0.99	*£6.35*	$1.59	*$10.65*
Diluted	£1.01	*£5.95*	$1.62	*$9.98*
* US$ amounts are included for information only.	Translation rate		£1=$1.61	*£1 = $1.68*

Shareholders' equity under US GAAP

At March 31, 1999

	Group			
	1999 £ million	*1998 £ million*	1999 $ million*	*1998 $ million**
Shareholders' equity as reported in the group balance sheet	3,355	*3,321*	5,406	*5,569*
Adjustments:				
Intangible assets				
Goodwill set off in respect of subsidiary undertakings				
Cost	621	*621*	1,001	*1,041*
Amortisation	(128)	*(112)*	(206)	*(187)*
	493	*509*	795	*854*
Tangible assets				
Cost				
Fleet	(1,112)	*(1,117)*	(1,792)	*(1,873)*
Property and equipment	(308)	*(307)*	(496)	*(515)*
	(1,420)	*(1,424)*	(2,288)	*(2,388)*
Amortisation				
Fleet, property and equipment	498	*469*	802	*787*
Associated undertakings				
Net equity	(26)	*(20)*	(42)	*(34)*
Goodwill set off in respect of associated undertakings				
Cost	80	*80*	129	*134*
Amortisation	(11)	*(10)*	(18)	*(17)*
	69	*70*	111	*117*
Trade investments	383	*135*	617	*226*
Current assets				
Debtors	1	*7*	2	*12*
Current liabilities				
Loans, finance leases and hire purchase arrangements	47	*63*	76	*106*
Other creditors	8	*55*	13	*92*
Proposed dividends	137	*124*	221	*208*
Pension cost accruals	76	*52*	122	*87*
Accruals and deferred income	6	*11*	10	*18*
Long-term liabilities				
Loans, finance leases and hire purchase arrangements	634	*671*	1,021	*1,125*
Accruals and deferred income	(16)		(26)	
Provisions for liabilities and charges				
Deferred taxation				
Effect of the above adjustments	(143)	*(103)*	(230)	*(172)*
Effect of differences in methodology	(904)	*(896)*	(1,457)	*(1,502)*
	(1,047)	*(999)*	(1,687)	*(1,674)*
	(157)	*(277)*	(253)	*(464)*
Shareholders' equity as adjusted to accord with US GAAP	3,198	*3,044*	5,153	*5,105*
* US$ amounts are included for information only.	Translation rate		£1=$1.61	*£1 = $1.68*

Five year summaries

For the five years ended March 31, 1999

Group profit and loss account

£ million	1999	1998	1997	1996	1995
Turnover	8,915	8,642	8,359	7,760	7,177
Operating expenditure	(8,473)	(8,138)	(7,813)	(7,032)	(6,559)
Operating profit	442	504	546	728	618
Share of operating profit in associates	62	69	87	103	115
Other income and charges	27	19	52	(1)	11
Provision against investment in US Airways Group, Inc.			125		(125)
Profit/(loss) on sale of fixed assets and investments	51	169	17	16	(23)
Profit on sale of subsidiary undertaking					10
Net interest payable	(357)	(181)	(187)	(261)	(279)
Profit before taxation	225	580	640	585	327
Taxation	(19)	(133)	(90)	(112)	(77)
Profit after taxation	206	447	550	473	250
Minority interests		13	3		
Profit for the year	206	460	553	473	250
Dividends	(191)	(176)	(154)	(131)	(119)
Retained profit for the year	15	284	399	342	131
Earnings per share					
Basic earnings per share	19.5p	44.7p	55.7p	49.4p	26.2p
Adjusted earnings per share	19.5p	44.7p	55.9p	49.4p	39.3p
Diluted earnings per share	19.2p	42.2p	51.1p	44.6p	24.6p
Diluted adjusted earnings per share	19.2p	42.2p	51.3p	44.6p	36.0p
Dividends per share	17.90p	16.60p	15.05p	13.65p	12.40p

Following the adoption of Financial Reporting Standard 14, diluted earnings per share for the relevant prior years have been adjusted accordingly. Adjusted earnings per share for 1995 have been adjusted to exclude the 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				
	1999	1998	1997	1996	1995
Turnover					
Europe	3,412	3,214	3,168	3,109	3,015
The Americas	3,281	3,073	2,861	2,449	2,185
Africa, Middle East and Indian sub-continent	1,137	1,118	1,134	1,074	953
Far East and Australasia	1,085	1,237	1,196	1,128	1,024
	8,915	8,642	8,359	7,760	7,177
Operating profit					
Europe	(166)	(127)	6	26	2
The Americas	451	395	364	315	245
Africa, Middle East and Indian sub-continent	124	125	157	220	226
Far East and Australasia	33	111	146	167	145
	442	504	673	728	618
Exceptional operating charge for restructuring costs under the Business Efficiency Programme			(127)		
	442	504	546	728	618

Group balance sheet

£ million	1999	1998	1997	1996	1995
Fixed assets					
Tangible assets	9,839	8,667	7,588	6,826	6,163
Investments	402	388	684	531	471
	10,241	9,055	8,272	7,357	6,634
Current assets	2,583	2,245	2,164	2,684	2,429
Creditors: amounts falling due within one year	(3,081)	(2,821)	(3,160)	(2,824)	(2,320)
Net current (liabilities)/assets	(498)	(576)	(996)	(140)	109
Total assets less current liabilities	9,743	8,479	7,276	7,217	6,743
Creditors: amounts falling due after more than one year	(6,356)	(5,128)	(4,260)	(4,664)	(4,596)
Provisions for liabilities and charges	(32)	(30)	(58)	(59)	(57)
Minority interests			26		
	3,355	3,321	2,984	2,494	2,090
Capital and reserves					
Called up share capital	268	260	251	240	239
Reserves	3,087	3,061	2,733	2,254	1,851
	3,355	3,321	2,984	2,494	2,090

Group cash flow statement

£ million	1999	1998	1997	1996	1995
Cash inflow from operating activities	1,241	736	1,212	1,424	1,108
Dividends received from associates	11	12	44	8	7
Returns on investments and servicing of finance	(309)	(269)	(221)	(249)	(218)
Taxation	(40)	(134)	(83)	(51)	9
Capital expenditure and financial investment	(118)	161	(944)	(699)	(451)
Acquisitions and disposals	(6)	75	(16)		(30)
Equity dividends paid	(113)	(148)	(131)	(121)	(109)
Cash inflow/(outflow) before management of liquid resources and financing	666	433	(139)	312	316
Management of liquid resources	(363)	(90)	560	(59)	95
Financing	(235)	(372)	(392)	(259)	(395)
Increase/(decrease) in cash	68	(29)	29	(6)	16

Operating cashflow/market value of assets (%)

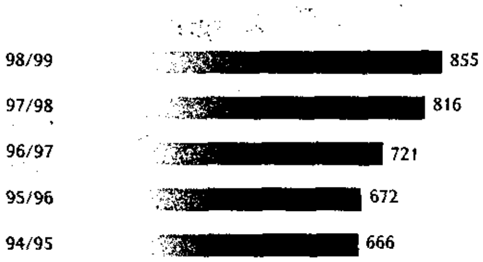
Net debt/total capital ratio (%)

Operating and financial statistics (Note 1)

For the five years ended March 31, 1999

Mainline scheduled services (Note 2)

		1999	*1998*	*1997*	*1996*	*1995*
Traffic and capacity						
Revenue passenger km (RPK)	m	**118,310**	*106,739*	*102,304*	*96,163*	*87,395*
Available seat km (ASK)	m	**167,265**	*149,659*	*139,789*	*130,286*	*122,063*
Passenger load factor	%	**70.7**	*71.3*	*73.2*	*73.8*	*71.6*
Cargo tonne km (CTK)	m	**4,277**	*4,181*	*3,790*	*3,476*	*3,349*
Total revenue tonne km (RTK)	m	**16,075**	*14,818*	*14,004*	*13,084*	*11,667*
Total available tonne km (ATK)	m	**23,982**	*21,410*	*19,907*	*18,508*	*17,115*
Overall load factor	%	**67.0**	*69.2*	*70.3*	*70.7*	*68.2*
Passengers carried	'000	**37,090**	*34,377*	*33,440*	*32,272*	*30,552*
Tonnes of cargo carried	'000	**855**	*816*	*721*	*672*	*666*
Frequent flyer RPKs as a percentage of total RPKs (Note 3)	%	**2.3**	*2.2*	*2.0*	*1.9*	*1.7*
Financial						
Passenger revenue per RPK	p	**5.91**	*6.38*	*6.47*	*6.39*	*6.36*
Cargo revenue per CTK	p	**12.86**	*14.02*	*14.78*	*16.20*	*15.47*
Average fuel price (US cents/US gallon)		**48.66**	*64.70*	*75.90*	*63.16*	*59.79*
Operations						
Unduplicated route km	'000	**686**	*769*	*759*	*767*	*743*
Punctuality – within 15 minutes	%	**79**	*80*	*82*	*82*	*84*
Regularity	%	**99.2**	*98.0*	*99.2*	*99.1*	*99.5*



Tonnes of cargo carried (000)
Mainline

Passenger load factor (%)
Mainline

Total group operations

(including Deutsche BA, Air Liberté and go) (Note 4)		1999	*1998*	*1997*	*1996*	*1995*
Traffic and capacity						
Revenue passenger km (RPK)	m	**125,951**	*113,045*	*106,059*	*98,424*	*95,690*
Available seat km (ASK)	m	**178,820**	*159,921*	*146,182*	*134,911*	*133,277*
Total revenue tonne km (RTK)	m	**16,831**	*15,406*	*14,336*	*13,311*	*12,380*
Total available tonne km (ATK)	m	**25,114**	*22,403*	*20,542*	*18,982*	*18,224*
Passengers carried	'000	**45,049**	*40,955*	*38,180*	*36,003*	*35,643*
Revenue aircraft km	m	**669**	*640*	*579*	*567*	*556*
Revenue flights	'000	**439**	*420*	*399*	*381*	*381*
Break-even overall load factor	%	**63.4**	*64.4*	*63.6*	*62.9*	*61.5*
Financial						
Operating cash flow/market value of assets	%	**14.3**	*15.7*	*17.7*	*17.2*	*15.5*
Interest cover	times	**1.7**	*4.5*	*4.5*	*3.6*	*2.5*
Dividend cover	times	**1.1**	*2.6*	*3.6*	*3.6*	*2.1*
Operating margin	%	**5.0**	*5.8*	*8.1*	*9.4*	*8.6*
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR) (Note 5)	m	**1,427**	*1,385*	*1,541*	*1,508*	*1,427*
Net debt/total capital ratio	%	**62.2**	*58.1*	*57.0*	*59.8*	*63.9*
Total traffic revenue per RTK	p	**48.18**	*51.16*	*53.07*	*53.21*	*52.76*
Total traffic revenue per ATK	p	**32.29**	*35.18*	*37.04*	*37.31*	*35.84*
Net operating expenditure per RTK	p	**45.55**	*47.88*	*48.37*	*47.74*	*47.77*
Net operating expenditure per ATK	p	**30.53**	*32.93*	*33.76*	*33.48*	*32.45*
Operations						
Average manpower equivalent (MPE)		**64,051**	*60,770*	*59,218*	*56,720*	*54,958*
RTKs per MPE	'000	**262.8**	*253.5*	*242.1*	*234.7*	*225.3*
ATKs per MPE	'000	**392.1**	*368.7*	*346.9*	*334.7*	*331.6*
Aircraft in service at year end		**335**	*330*	*308*	*293*	*283*
Aircraft utilisation (average hours per aircraft per day)		**8.71**	*8.48*	*8.46*	*8.28*	*8.20*

Notes:

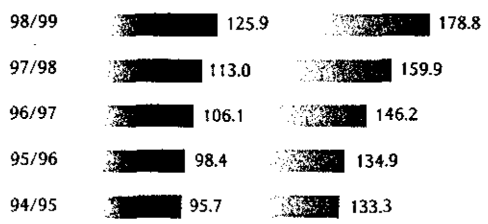
1 Operating statistics do not include those of associated undertaking (Qantas Airways) and franchisees (BASE (Holland), British Mediterranean Airways, British Regional Airlines, CityFlyer Express, Comair (South Africa), GB Airways, MAERSK Air, Loganair, and Sun-Air (Scandinavia)).

2 Mainline scheduled services include those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.

3 The carriage of passengers on Frequent Flyer Programmes is evaluated on a ticket by ticket basis.

4 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 excluded the exceptional operating charge of £127 million. Group statistics for the year ended March 31, 1995 included charter services operated by Caledonian Airways.

5 Excludes profit/(loss) on fixed assets and investments. In 1995 the provision of £125 million against the investment in US Airways Group Inc. has been excluded. In 1997 the exceptional operating charge of £127 million and the write-back of provision of £125 million against the investment in US Airways Group Inc. have been excluded.



Available seat km (ASK)
Revenue passenger km (RPK)
(billions) Group

Net operating expenditure per ATK
(pence)

Aircraft fleet

	Number in service with group companies at March 31, 1999								
	On balance sheet aircraft	Operating leases off balance sheet Extendible	Other	Total (Note 2)	Future deliveries	Options	1998-99 revenue hours flown	Average hours per aircraft/day	Average age (years)
Mainline (Note 1 and 7)									
Concorde	7			7			5,889	2.30	22.3
Boeing 747-100	8		1	9			50,047	10.96	26.0
Boeing 747-200	13	3		16			71,770	12.29	18.4
Boeing 747-400 (Note 6)	53			53	1		238,380	13.59	5.2
Boeing 777	22			22	23	16	78,522	11.38	1.5
McDonnell Douglas DC-10-30							13,986	7.56	
Boeing 767-300	28			28			86,671	8.71	6.6
Boeing 757-200	47	3	1	51	2		132,420	7.13	11.1
Airbus A319 (Note 5)					39	129			
Airbus A320	10			10	20		24,242	6.64	10.2
Boeing 737-200	9		12	21			53,680	5.96	16.6
Boeing 737-300			8	8			15,922	7.38	0.9
Boeing 737-400	22		12	34			93,252	7.51	7.0
Turbo Props (Note 3)	2		17	19			47,069	5.85	9.0
Hired aircraft							14,245		
Sub total	221	6	51	278	85	145	926,095	8.99	9.4
Deutsche BA, Air Liberté and go									
McDonnell Douglas DC-10-30			3	3			12,790	11.68	24.6
McDonnell Douglas MD83	3		7	10			23,941	7.29	7.2
Boeing 737-300			25	25	5		72,321	8.33	3.4
Fokker 100	4	7		11			30,333	7.55	7.4
Fokker F28	4			4			7,992	5.47	24.0
Turbo Props (Note 4)	2		2	4			23,260	5.31	8.0
Sub total	13	7	37	57	5		170,637	7.45	11.0
Group total	234	13	88	335	90	145	1,096,732	8.71	9.1

Notes:

1 Includes those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.

2 Excludes 4 ATR 72s, 6 ATR 42s and 2 Embraer subleased to other carriers.

3 Includes 2 de Havilland Canada DHC-7-100s and 17 de Havilland Canada DHC-8s.

4 Includes 2 ATR 72s and 2 ATR 42s.

5 Options include reserved delivery positions and, if taken, may be A319, A320 or A321.

6 Excludes 3 aircraft delivered but not yet in service.

7 Excludes 7 McDonnell Douglas DC-10-30s, 2 Boeing 737-200s and 1 BAe ATP stood down pending disposal or return to lessor.

Shareholder information

Shareholders

As at May 14, 1999 there were 256,647 shareholders (May 15, 1998: 229,329). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	85.46	6.52
1,001 – 5,000	13.08	5.59
5,001 – 10,000	0.78	1.31
10,001 – 50,000	0.38	1.99
50,001 – 100,000	0.08	1.46
100,001 – 250,000	0.09	3.78
250,001 – 500,000	0.05	4.28
500,001 –750,000	0.02	2.93
750,001 – 1,000,000	0.01	2.16
Over 1,000,000	0.05	69.98
	100.00	100.00

Classification of shareholding	Percentage of shareholders	Percentage of shares
Individuals	94.56	12.68
Bank or Nominee	4.36	80.69
Insurance companies	0.09	1.11
Pension trusts	0.02	0.90
Investment trusts	0.09	0.13
Other corporate bodies	0.88	4.49
	100.00	100.00

Mercury Asset Management, Schroder Investment Management Ltd, Franklin Resources Inc. and Delaware Investment Advisers Inc. have non-beneficial interests in 3.94 per cent, 5.28 per cent, 6.33 per cent and 4.01 per cent of the shares of the company respectively.

British Airways is not aware of any interest in its shares of 10 per cent or more nor of any other interest of 3 per cent or more.

General Information

Financial calendar

Financial year end	March 31, 1999
Annual General Meeting	July 13, 1999

Announcement of 1999 – 2000 results and dividends

First quarter results to June 30, 1999	August 1999
Second quarter results to September 30, 1999	November 1999
Interim dividend	November 1999 (payable January 2000)
Third quarter results to December 31, 1999	February 2000
Preliminary announcement	mid May 2000
Report and Accounts	June 2000
Final dividend	May 2000 (payable July 2000)

Registered office

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

Outside advisers

Company Registrars: Computershare Services PLC, PO Box 82, Caxton House, Redcliffe Way, Bristol, BS99 7NH.
ADR Depositary: 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 you 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.

ShareGift

Shareholders with small numbers of shares may like to consider donating their shares to charity under ShareGift, administered by The Orr Mackintosh Foundation. Details are available from the Company Registrars.

Small shareholdings

Alternatively, British Airways offers a small shareholding disposal facility through Barclays Stockbrokers Ltd free of charge for shareholdings valued at less than £100 at the date of sale and at a cost of £5 for shareholdings valued at £101-£400.

For details contact Barclays Stockbrokers on 0345 777400.

Glossary

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