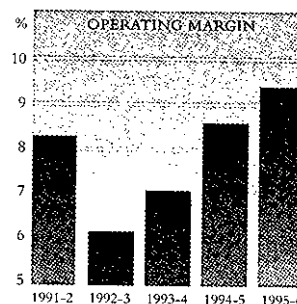
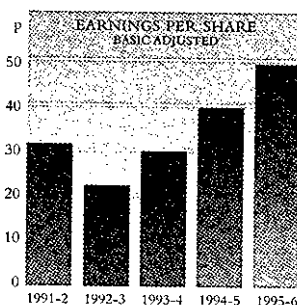
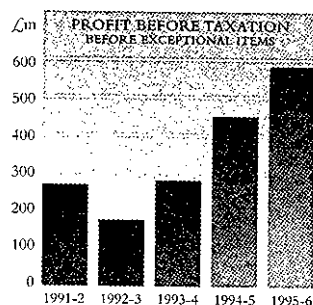


*British Airways is the world's
leading international airline and one
of the most profitable. Our financial results
continue to set the standards
for the industry.*

HIGHLIGHTS OF THE YEAR



GROUP RESULTS

			1995-6	1994-5
Turnover	£m	up 8.1%	7,760	7,177
Operating profit	£m	up 17.8%	728	618
Profit before taxation and exceptional provision	£m	up 29.4%	585	452
Provision against investment in USAir Group, Inc.	£m	n/m		(125)
Profit before taxation	£m	up 78.9%	585	327
Profit after taxation	£m	up 89.2%	473	250
Capital and reserves	£m	up 19.3%	2,494	2,090
Earnings per share				
Basic	p	up 88.5%	49.4	26.2
Basic adjusted+	p	up 25.7%	49.4	39.3
Fully diluted adjusted+	p	up 24.2%	44.2	35.6
Dividends per share	p	up 10.1%	13.65	12.40

KEY FINANCIAL STATISTICS

Operating margin	%	up 0.8 points	9.4	8.6
Interest cover	times	up 1.1 times	3.6	2.5
Dividend cover	times	up 1.5 times	3.6	2.1
Net Debt/Total Capital ratio	%	improved 4.1 points	59.8	63.9

KEY OPERATING STATISTICS

Revenue tonne kilometres	m	up 7.5%	13,307	12,380
Available tonne kilometres	m	up 4.2%	18,982	18,224
Passengers carried	000	up 1.2%	36,061	35,643
Tonnes of cargo carried (mainline scheduled services)	000	up 0.9%	672	666
Overall load factor (mainline scheduled services)	%	up 2.5 points	70.7	68.2

+ Adjusted to exclude exceptional provision against investment in USAir Group, Inc.

n/m = not meaningful



A25 *A99LVMWQ* 23
COMPANIES HOUSE 02/07/96

COMPANIES HOUSE 17/06/96

CHAIRMAN'S STATEMENT



A FURTHER YEAR of record performance has been achieved, with profit attributable to shareholders increased by 89 per cent to £473 million. Your Board has recommended a final dividend of 9.80 pence per ordinary share. Together with the interim dividend of 3.85 pence, this will give a total dividend of 13.65 pence per share, for the year ended 31 March 1996. The dividend is payable in cash on 31 July 1996. There is a scrip option, introduced for the first time for this year's interim dividend, in direct response to shareholder requests.

I appreciate greatly the support of all those whose efforts contribute to the success of your Company: my fellow Board members, our shareholders, employees, suppliers, alliance partners and, of course, our customers.

The year has been marked by progressive evolution in the management of your Company. On 1 January 1996, I relinquished the executive management duties which I had held for the past 13 years, to become your Non-Executive Chairman.

This was coupled with the promotion of Robert Ayling, formerly Group Managing Director, to Chief Executive. Bob Ayling and I have worked together in British Airways for the last ten years and we enjoy a shared vision of the future, the profitable development of the airline. He is very well qualified and able to lead your Company successfully, into the next century. Your Board approved the new senior management structure in December and it was implemented fully by January. The team is working well, with speed, enterprise and vigour.

Each of our quarterly results has set a benchmark of record performance and the year has been one of considerable achievements, in the face of increased competition in every market we serve.

Britain has few, truly global companies and I am proud to say that British Airways is clearly among them. For your Company, the much-vaunted 'global market' is not some hypothetical concept to be considered for the future. It is real and it is now. Our people take on the world as a matter of every day course.

Our strategies are based on the building of a global air transport system to serve a global market. Increasingly, it is the overall, integrated network which is the essential British Airways product – and our competitive strength – rather than individual routes. It is why the further development of an effective network hub in Britain, principally through the plan to have Heathrow and Gatwick working in tandem, is assuming such importance. The global market is characterised by progressive trade liberalisation which generates new opportunity and increased competition in almost equal measure. Our tactical response has been to develop a world alliance. Its objective, in line with our global strategy, is to secure long-term presence and extend our reach in the most important of the world's air travel markets, through close relationships with compatible, strategically well-placed airlines.

A dynamic company such as British Airways will inevitably attract speculation as to potential investments and acquisitions. It is our policy not to comment on such rumours. We do believe that the process of consolidation within the US air transport industry is not completed and it is likely that a fresh round of mergers among airlines could occur. The situation is being watched closely, to determine what implications there might be for our US investment and for our presence in that vitally important market place.

Otherwise, we remain alert to possible opportunities which could provide productive, competitive strength in areas of the world where British Airways might not be represented adequately for the long term.

Our commitment to continuing investment in products, services, infrastructure and our people remains undiminished. Providing the highest possible levels of value and quality to our customers is an overriding priority. We are ready to invest in a new generation of large, long-range aircraft needed to meet growth in demand on the main intercontinental trunk routes. Such aircraft will help to overcome runway capacity constraints at London and many of our prime destinations. They will also deliver essential improvements in seat-mile operating costs. We hope that firm production proposals, at realistic prices, will be submitted shortly by the manufacturers.

*'Each of our quarterly results
has set a benchmark of record
performance...'*

One of our continuing concerns for the future is the European Commission's approval of state aid by some governments to their financially insecure national airlines. The case against the Commission's decision in respect of Air France, brought by the British Government and by us, together with other like-minded airlines, is expected to come before the European Court Of First Instance this summer.

Other principal concerns centre on the resolution of outstanding Air Service Agreement matters with several countries, but notably with the United States and China; and on the outcome of the application by BAA plc to

Left to right.
Patrick Murtagh, Cabin Crew.
Mrs. B. Sanga and Satya
Sharma, Inflight Catering.
Geraldine Guillome,
Stewardess.



build a fifth passenger terminal at Heathrow. During the year, I went before the Public Inquiry to lead your Company's submission of evidence in support of Terminal 5. The development of an additional terminal is crucial to our future at Heathrow. I believe the case in favour of Terminal 5 is unassailable, resting ultimately, as it does, on the future successful economic development of London, the Southeast and, indeed, of the UK as a whole. I believe also that the claims of those who oppose Terminal 5 on the grounds of environmental concern are being answered satisfactorily. We do not want anything other than an airline industry which exists in workable harmony with the environment and the community.

The Company's well-established programme to ensure that the 'environmental factor' is taken fully into account in every area of airline activity, is detailed for all to see in our annual Environment Report. The British Airways Tourism For Tomorrow Awards scheme works, for example, on a world-wide basis to encourage environmental care and sustainable development within the travel and tourism industries. During the year, we sponsored and helped organise the first-ever International Children's Conference on the Environment. It was held in Eastbourne, in association with the United Nations Environment Programme, attracting 800 children from many parts of the world. More recently, I was privileged to accept the coveted and rarely-awarded James Smithson Bicentennial Gold Medal from America's Smithsonian Institution for our corporate support of its work to conserve endangered animal species.

The environment, in terms of local relationships, is one of the current themes of our Community Relations programme, along with youth development and tourism and heritage. The Change For Good scheme, in which cabin crew collect unwanted foreign currency from passengers, continues to raise much needed funds for UNICEF. Our employees organise four charitable ventures, Dreamflight, Operation Happy Child, Cargo Kidney Fund and the Dhaka Orphanage.

Good environmental practice and our wide-ranging community relations programme are dedicated to our corporate goal, 'To be a good neighbour, concerned for the community and the environment.'

There are tangible signs that our industry is currently enjoying a level of financial stability which has eluded all but a few airlines, so far. It is logical to assume (and it is our hope), that carriers and their shareholders will want to ensure they continue on the path of steady profitability. Air transport is a growth industry, with demand estimated to rise by a global annual average of between five and six per cent in passenger traffic and perhaps slightly more in cargo, for the foreseeable future. Competition will, however, become even more fierce.

I must, as ever, pay tribute to the staff of British Airways, at every level, throughout the world. Their justified pride

in the Company continues to manifest itself in a commitment to strive for excellence in whatever they do.

We recognise the contribution to success made by our employees and this is rewarded through the Profit Sharing Share Scheme which this year gives every eligible member of staff a bonus equivalent to just under four weeks' pay. The Scheme has been enhanced with the introduction of an option allowing bonus payments to be taken in shares. Along with the existing Savings Related Share Option Scheme, this is firmly in line with our policy to encourage greater share ownership among employees. Some 66 per cent of staff are now shareholders. Between them, they own four per cent of the Company.

The forthcoming Annual General Meeting marks the retirement from your Board of Sir Francis 'Frank' Kennedy. He has served British Airways in a number of roles: as a Director; as Special Adviser to the Chairman and the Board; and latterly, as Chairman of British Airways Regional. Sir Frank has made an impressive contribution to your Company since he joined the Board in 1987. The international experience and wise counsel he has brought to us from his distinguished career in the Diplomatic Service has been invaluable in many ways and on numerous occasions. We owe a considerable debt of gratitude to Sir Frank; and, as we thank him, we also wish him a happy, healthy retirement.

Similarly, I pay tribute to Charles Mackay, who also retires from the Board. As the Group Deputy Chairman of Inchcape plc, with extensive trading interests in the Far East, as well as elsewhere in the world, he brought us valuable insight into the important Asia/Pacific markets. We extend our gratitude and good wishes to him.

Your Board is reinforced with the appointment of two new Non-Executive Directors. We welcome Sir Robin Renwick, the former British Ambassador to the United States and, before that, to South Africa; and Dr. Ashok S. Ganguly, Director of Research and Engineering, with Unilever. Each of them brings the benefit of special expertise and experience.

The year ahead will see a General Election take place in Britain. Shareholders can be assured that the Government and the main opposition parties are kept aware of our priorities, together with our desire to see policies which promote the legitimate, healthy development of the British air transport industry and which maintain our position in the forefront of world airlines.

Sir Colin Marshall, Chairman

CHIEF EXECUTIVE'S STATEMENT



FEEL IMMENSELY privileged to have been invited to succeed Sir Colin Marshall as British Airways Chief Executive. It is a special company, and I am greatly honoured to take on its day-to-day leadership. We have already travelled a long way on our path towards establishing the airline as a leader in our industry. Our aim now is to be the undisputed leader in world travel. We have established a business of high quality, achieving results that stand comparison with any of our competitors, thanks to the calibre and efforts of British Airways' employees.

Soon after my appointment, I presented to the Board my objectives for building further on this success:

First, I am determined that British Airways should be the world's favourite airline. That must mean the airline of first choice in every market in which we operate.

Secondly, we must be pre-eminent in the service we offer our customers. We will continue to improve customer service, in an increasingly demanding environment.

'I am determined that British Airways should be the world's favourite airline...'

Thirdly, we must continue to develop our business, extending the airline's reach, through alliances and marketing agreements where appropriate, to enable us to look after our customers' needs on a world-wide basis. Meantime, we must unlock the full potential of our existing alliance and franchise partners.

Fourthly, I want to improve further our management; to be the best managed company in the United Kingdom by the year 2000, with all that implies for our shareholders, customers and employees.

In this review, I will chart the progress we have made in the past year towards these targets.

THE WORLD'S FAVOURITE AIRLINE

Last year, over 32 million people chose to fly on British Airways' mainline services, nearly six per cent more than the previous year. Each of them expects to be treated as an individual. Each customer has a different reason for travelling, different reasons for choosing to fly with us, and different expectations of us.

This is what lies behind our marketing policies, we offer different services to each segment of the market.

Each customer is looking for excellent value for money. We aim to provide it, whether the customer concerned is flying on Concorde or taking advantage of our attractively low priced World Offer fares, whether they are using us to carry their fresh produce in our cargo holds or maintain their aircraft.

Our performance in matching up to their expectations is reflected in their loyalty, which we never take for granted, and our ability to win new business. Our aircraft last year flew fuller than ever before, with 73.6 per cent of available seats sold and record cargo carryings of 672,000 tonnes. It is mirrored also in the number of awards we have won. In the past year, we are delighted to have been voted the world's best airline overall for the eighth year running in the annual Business Traveller survey and to have taken top honours in many other award schemes, too numerous to list here.

But to be the world's favourite airline is not enough for us.

PRE-EMINENT IN CUSTOMER SERVICE

Without customer satisfaction, we do not have a business. Service excellence must always be our goal.



The new Club World cradle seat, being introduced during 1996, completely supports your body throughout the flight.

Following last year's highly successful relaunch of Club Europe, our shorthaul business service, we launched in September a £500 million, three-year plan to improve air travel for all of our passengers. Featuring radical enhancements to every aspect of customer service based on the most innovative and extensive customer research conducted in the industry, its key themes are comfort, personal service, flexibility and choice.

Left to right:
Pete Long, Flight Captain.
Louise Mackintosh,
Stewardess.
Ken Kawder, Special
Services Executive.



The first phase centred on the relaunch of our Club World longhaul business brand. Passengers are being given 25 per cent more legroom, and completely redesigned seats have been installed. Called "cradle seats" because of their unique tilting base, which gives substantially greater levels of support and comfort, they have been medically endorsed by one of Britain's leading back specialists.

Since January, we have gradually introduced a revolutionary First class service. Passengers are provided with their own individual compartment within the overall cabin, which they can use as a private office or mini-meeting room, an entertainments centre, a dining room for two, or a bedroom, complete with a fully flat 6 ft 6 ins (198 cm) bed.

A whole new approach is being taken to in-flight customer service, with cabin crew retrained to offer a more personalised style, and meals taking on a whole new look, with what, in First, is virtually the first a la carte restaurant in the skies. In Club World, we have introduced a "raid the larder" system, enabling passengers to indulge themselves with snacks whenever they feel peckish. It has proved exceptionally tempting!

Following the success of the "fast track" services for premium passengers through passport and security checks on departure from many of our UK airports, we introduced for the first time at Heathrow and Gatwick similar "queue-jumping" channels for First and Club passengers on their arrival.

*'I want to improve further
our management; to be the best
managed company in the UK
by the year 2000...'*

We also relaunched our Executive Club frequent flyer loyalty programme, to provide better rewards for our best customers while making the scheme much simpler and fairer world-wide.

Later this year, the focus moves on to our main cabins and leisure service. World and Euro Traveller, our main cabins on intercontinental and European flights, will be relaunched with new, more comfortable seats and, on longhaul routes, the world's most advanced interactive entertainment and information system, offering 24 channels of video and audio on demand, shopping, video games and telephones.

Our UK domestic services will be the next to benefit in the three-year programme.

In response to demand from our customers, we have extended the range of flights on which smoking is not

permitted. All flights to the USA and the Caribbean, other than where there are more than two flights a day and our Concorde services, are now smoke-free.

We operate in what must be the world's most competitive service industry. We shall constantly review what we offer our customers to ensure we are meeting their changing needs – and doing so better than our rivals.

SERVING THE WORLD

British Airways has long been the world's leading international airline.

As at 31 March, we served 174 destinations in 83 countries. Under our code-sharing arrangements, flights with BA codes serve 288 destinations in 88 countries. With our alliance partners, our global network covers 477 places in 97 countries.

We extended the mainline British Airways network last year – resuming flights to Colombo, Damascus, Nassau, San Juan and Tampa and flying for the first time to Grand Cayman. We added a number of routes to Gatwick and UK regional services, increasing frequencies and capacity on many established routes. Last summer we raised capacity by six per cent.

Our biggest network change was the transfer from Heathrow to Gatwick of 11 weekly Central and East African services – to Dar Es Salaam, Entebbe, Harare, Lilongwe, Lusaka and Nairobi. This had a twofold purpose, enabling us to continue to expand our Gatwick hub and to increase capacity on other routes at the capacity constrained Heathrow. This summer, British Airways and its partners will fly some 900 services a week to 90 destinations from Gatwick, against 700 flights a week to 70 cities last year.

Another big network change took place on the "kangaroo route", linking Europe with Australia. Following regulatory approval, we have been able to co-ordinate operations with our partner Qantas. Besides enabling both airlines to reduce costs on a route on which it has traditionally been difficult for any airline to make a profit, it has also enabled us to improve services. We now offer 28 direct, better timed flights a week between us and a choice of 15 stopover destinations where our networks marry, at places like Johannesburg, Tokyo and Beijing. We have opened joint lounges at a number of airports, and co-located our offices in many countries. At Singapore and Bangkok, the hubs for our direct flights, we have combined our organisations into one single entity.

We have expanded our network of code-sharing services with USAir in the United States to 78 cities. Passengers transferring to British Airways from USAir have risen by 49 per cent to 560 people a day. Last June's "mini-deal" between the UK and US Governments enabled us to

increase the number of destinations we may serve under this agreement from the existing 65 to 122. It also confirmed our right to operate a second daily flight from London to USAir's Philadelphia hub and to bid for the first time, albeit to a limited extent, for US Government business.

We have reached a code-sharing agreement with America West. This will allow passengers on the route from Gatwick to Phoenix, to be launched later this summer, to transfer with the greatest ease on to onward America West services across the Western States. We have also recently signed an agreement with Canadian Airlines International, involving code-sharing on selective routes.

*'Without customer satisfaction,
we do not have a business.
Service excellence must always
be our goal.'*

Our franchise business has continued to expand. It has grown in just two years to a £50 million turnover operation, in passenger feed, franchise fees and services rendered. Our established franchise carriers have all expanded their routes and reported extensive passenger growth. These airlines between them – Bristol and Plymouth-based Brymon, Gatwick-based CityFlyer Express, Birmingham-based Maersk, Loganair in Scotland, Manx Airlines (Europe) centred on Manchester, and London-based GB Airways – carry 3.2 million passengers a year to 72 destinations, with a fleet of 64 aircraft. After the year end, we signed up our first franchise agreement outside the UK, with Denmark's Scandinavian regional airline Sun-Air.

TO BE THE BEST MANAGED COMPANY

The real strength in any organisation lies with its people and they must have effective leadership. British Airways' employees deserve special recognition for what has been a year when demand for our services has been higher than ever before and when many changes have been introduced.

Soon after my appointment was announced, I set in place a new management organisation. Previously 25 executives reported to Sir Colin, as Chairman and Chief Executive, or to me, as Group Managing Director. The new structure has 10 direct reports to me. The organisation, which reflects the main frameworks around which decisions are taken in the airline, has been designed primarily to increase efficiency, to enable us better to develop new businesses and to strengthen our regional management.

We are building on a firm foundation. In the latest annual poll conducted among European business leaders by the Financial Times and Price Waterhouse, published last September, British Airways emerged as the most respected UK company, Europe's top-rated business in the transport sector and Europe's third best company overall. We were also named Britain's third best managed company in an annual survey of the UK's captains of industry by MORI and consultants PA Sundridge Park.

The calibre of our management overall is improving, but, bearing in mind the ambitious targets we have set for our Company and the competition we face, we must continue to raise standards. Our Leadership 2000 programme has introduced a range of initiatives to encourage better decision making and greater accountability, rewarding by result and performance and moving away from a hierarchical structure. A poster campaign within the Company, designed to encourage people to be brave – but not reckless – in taking the initiative, became a talking point.

I am particularly committed to improving our communications within British Airways. This spring we held our first Business Fair, attended by some 5,000 of our people, at which we shared more openly with them our plans for developing our Company and for tackling the issues confronting us. During the fortnight that the fair ran, we also trialled BA-TV, a daily satellite television programme giving all the latest news about the Company and the environment in which we operate. Television is the medium by which today most of us obtain most of our information. Business should be using more. We intend to. Following the successful trials, we expect to launch our own global satellite channel for employees world-wide in the year ahead. I am convinced it will be a worthwhile investment.

We have a passion for customer service. We are equally committed to managing our business as efficiently as possible. Over the past five years, we have improved the performance of the Company to the tune of £900 million. To fund continued investments in products, services, infrastructure and people, the Group's plans for the next three years are being designed to deliver business efficiencies worth £1 billion. This will be achieved through a combination of reducing costs, improving use of assets and enhancing revenue. Every aspect of the Group's operations is under review to achieve this goal.

Where we see opportunities for good returns and which fit well with our core activities we will invest. In the past year we have opened British Airways Interior Engineering Ltd cabin interiors workshop in South Wales, and launched with USAir a new joint company, Airline Technical Services, to offer joint aviation engineering expertise in The Americas. We have also invested £600,000 of start-up capital in the British Airways Millennium Wheel. Assuming planning

Left to right:
Sreelakshmi Rajagopal,
Stewardess.
Andy Millen and Keith
Steers, Senior Technicians.
Des Newark, Licenced
Aircraft Engineer.



permission is granted, this will see the world's biggest wheel, standing 500 ft high, positioned in Central London for five years from 1998. It will be London's answer to Paris' Eiffel Tower and New York's Statue of Liberty, attracting many visitors to the UK capital.

Any effective organisation must have an effective base. In April 1995, we concluded an agreement on the restructuring of leases covering 224 acres at Heathrow with our landlord BAA plc, giving the airline security of tenure on our core maintenance base for 150 years and greater flexibility over the use of the property.

*'We will continue to extend
our own network, where there are
profitable opportunities...'*

This move forms the fourth key element of the airline's property strategy for its home base, following the opening of the Compass Centre combined operations facility in 1994, and approval for the development of our new business centre, to the northwest of the airport, scheduled for completion in 1998, and work has also

begun on our new World Cargo centre at Heathrow. The £150 million building will double existing handling capacity for freight, courier and mail traffic to 800,000 tonnes a year when it opens in 1998 and can be extended to handle one million tonnes a year.

British Airways will always have as its over-riding concern the safety of our activities and the security of our customers, colleagues and property. This was why we had no hesitation in investing £10 million on the latest Traffic Alert and Collision Avoidance system, already installed on all our longhaul aircraft, on our shorthaul fleet.

As deregulation removes traditional barriers to market entry, it is customer preference, driven by quality and value of service, which will determine the winners in a global competitive market. Our Company achieved great success in the past year. We are determined to take our airline to higher flight paths still.

Robert Ayling, Chief Executive

BOARD MEMBERS

8



Sir Colin Marshall, Chairman



Robert Ayling, Chief Executive



Derek Stevens, Chief Financial Officer



Sir Francis Kennedy



Sir Michael Angus, Deputy Chairman



Charles Mackay



The Hon. Raymond Seitz



Baroness O'Cathain



Dr Ashok S. Ganguly



Michael Davies



Sir Robin Renwick



Captain Colin Barnes

BOARD MEMBERS

SIR COLIN MARSHALL (62)

Chairman. Formerly Deputy Chairman and Chief Executive. Joined the Board as Chief Executive in 1983. Chairman, Inchcape plc. Deputy Chairman, British Telecommunications plc. Director, HSBC Holdings plc and Qantas Airways Limited. President, Confederation of British Industry.

SIR MICHAEL ANGUS (66)

Non-Executive Director, Deputy Chairman and Chairman of the Board Audit, Remuneration and Nominations Committees. Joined the Board in 1988. President, Confederation of British Industry 1992-94. Chairman, Whitbread PLC and The Boots Company PLC. Director, National Westminster Bank Plc.

ROBERT AYLING (49)

Chief Executive. Joined the Board in 1991. Previously Group Managing Director, Director of Marketing and Operations, Company Secretary and Legal Director and Director of Human Resources. Formerly Under Secretary at the Department of Trade. Director, USAir Group, Inc., Sun Alliance Group PLC and Business in the Community.

DEREK STEVENS (57)

Chief Financial Officer. Joined the Board in 1989. Formerly Finance Director, TSB Group plc. Director, USAir Group, Inc. and Commercial Union plc.

CAPTAIN COLIN BARNES (62)

Non-Executive Director, Chairman of the Board Safety Review Committee. Joined the Board in 1991 after 36 years flying with the airline as a pilot, the last ten as Chief Pilot and the final five as Director of Flight Crew. Policy Committee and Council Member of the Air League.

MICHAEL DAVIES (61)

Non-Executive Director. Joined the Board in 1983. Chairman, Calor Group PLC, Perkins Foods PLC, Simon Engineering PLC and National Express PLC. Deputy Chairman, GPA Group Plc.

DR ASHOK S GANGULY (60)

Non-Executive Director. Appointed to the Board on 12 April 1996. Director, Unilever PLC. Previously Chairman, Hindustan Lever Ltd. Fellow of the Royal Society of Chemistry.

SIR FRANCIS KENNEDY KCMG CBE (70)

Special Adviser to the Chairman and Board. Joined the Board in 1987. Chairman, British Airways Regional Ltd. Diplomatic Service, 1964-86. Director, Fluor Daniel Corp. and Smith & Nephew plc.

CHARLES MACKAY (56)

Non-Executive Director. Joined the Board in 1993. Group Deputy Chairman, Inchcape plc. Director, HSBC Holdings plc.

BARONESS O'CATHAIN (58)

Non-Executive Director. Joined the Board in 1993. Director, Tesco Plc and BNP UK (Holdings) Limited.

SIR ROBIN RENWICK KCMG (58)

Non-Executive Director. Appointed to the Board on 1 March 1996. Retired in August 1995 as British Ambassador to the United States. British Ambassador to South Africa 1987-91. Chairman, Save and Prosper Limited. Director, Robert Fleming Holdings Ltd, Richemont Compagnie Financière and Fluor Daniel Corp.

THE HON RAYMOND SEITZ (55)

Non-Executive Director. Joined the Board in 1995. United States Ambassador to the UK until May 1994. Vice Chairman, Lehman Brothers Ltd. Director, General Electric Company plc, The Chubb Corporation, Cable and Wireless plc, The Telegraph Group plc and Shandwick plc.

PRESIDENT

Lord King of Wartnaby (78) Chairman 1981-1993

EXECUTIVE TEAM

Alistair Cumming (61)	Chief Operating Officer
Charles Gurassa (40)	Director of Passenger Business
David Holmes (61)	Director of Corporate Resources
Captain Mike Jeffery (51)	Director of Flight Crew
Roger Maynard (53)	Director of Investments and Joint Ventures
John Patterson (48)	Director of Strategy
Valerie Scoular (40)	Director of Customer Service
Derek Stevens (57)	Chief Financial Officer
Mike Street (48)	Director of Operations
Peter White (49)	Director of Sales
Membership as at 24 May 1996	

THE BOARD of British Airways Plc comprises three Executive Directors and nine Non-Executive Directors. The Non-Executive members of the Board are drawn from a variety of backgrounds so that each brings a different perspective to Board deliberations.

The Board meets ten times a year, but additionally when necessary, and considers all matters relating to the overall control and strategy of the Company. The Board has a schedule of matters specifically for Board decision.

Every effort is made to furnish Board members with sufficient information about the Company to enable them to make a full contribution at Board meetings. Additional information and guidance may be obtained through the Company Secretary if required. Independent professional advice would be available to the Directors in appropriate circumstances, at the Company's expense.

The Executive Directors are Robert Ayling, Chief Executive, Derek Stevens, Chief Financial Officer and Sir Francis Kennedy, Special Adviser to the Chairman and Board and Chairman of British Airways Regional Ltd. Sir Colin Marshall was an Executive Director until 31 December 1995.

In addition to regular Board meetings, the Board has set up four standing Board Committees, each with its own terms of reference:

The Audit Committee is chaired by Sir Michael Angus and its members are Captain Colin Barnes, Mr Michael Davies, Dr Ashok S. Ganguly, Mr Charles Mackay, Baroness O'Cathain, Sir Robin Renwick and The Hon Raymond Seitz. The Committee meets quarterly with the auditors to review the Company's financial statements to ensure that these provide an accurate reflection of the Company's financial position. The Committee also reviews accounting policies, internal audit and compliance procedures and the Company's Code of Business Conduct.

The Safety Review Committee is chaired by Captain Colin Barnes and its members are Sir Colin Marshall, Dr Ashok S. Ganguly, Sir Francis Kennedy, Mr Michael Davies, Baroness O'Cathain, Sir Robin Renwick and The Hon Raymond Seitz. The Committee considers all matters relating to the operational safety of the airline and subsidiary airlines as well as health and safety matters.

The Nominations Committee is chaired by Sir Michael Angus and its members are Sir Colin Marshall, Mr Michael Davies, Mr Charles Mackay and The Hon Raymond Seitz. The Committee considers and recommends appointments and re-appointments to the Board.

The Remuneration Committee of the Board is chaired by Sir Michael Angus, the Non-Executive Deputy Chairman, and is comprised exclusively of Non-Executive Directors, namely Mr Michael Davies, Baroness O'Cathain and The Hon Raymond Seitz. It is responsible for the Company's policy on Executive Directors' remuneration, for determining that remuneration and for advising on remuneration for senior executives below Board level. Incentive schemes in which Executive Directors may participate also require the approval of the Committee.

REPORT OF THE REMUNERATION COMMITTEE

The Company's policy on remuneration is to provide a competitive compensation package which rewards successful performance and attracts, retains and motivates senior executives. The remuneration packages offered are comparable with other international businesses of similar size and nature to British Airways.

The remuneration package consists of a basic salary, an annual bonus and participation in a long term incentive plan. The Company also provides private health care, a car and fuel.

In forming its policy the Committee has given full consideration to the best practice provisions annexed to the London Stock Exchange Listing Rules. The Committee supports the Code of Best Practice recommended by the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury. British Airways' practice is in line with this Code. Questions concerning service contract length and pensionable bonuses are discussed below.

BASIC SALARY AND BENEFITS

Basic salary reflects responsibility, market value and individual performance. External professional 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 SCHEME

The Company operates an annual bonus scheme for Executive Directors and senior executives. Whereas basic salary is the reward for the job, the bonus scheme is designed to reward achievement of pre-tax targets agreed by the Committee. For Executive Directors, maximum bonus is capped at 50 per cent of salary, which is achieved only if the pre-tax profit target (which is in itself stretching) is exceeded by a significant margin. Robert Ayling and Derek Stevens participated in this scheme for the full year under review. Sir Colin Marshall ceased to participate on 31 December 1995 and Sir Francis Kennedy was not a participant in this scheme.

LONG TERM INCENTIVE PLAN

The British Airways Executive Share Option Scheme 1987 was introduced at the flotation of the Company in 1987 and has been operated each summer (except in 1991 when the Share Appreciation Rights Plan 1991 was operated instead) as the long term incentive plan for executives. At the last Annual General Meeting, the Chairman announced that the scheme would not be operated after 1995. For the future, it is proposed to introduce the British Airways Long Term Incentive Plan, details of which are being put before the shareholders for approval at the 1996 Annual General Meeting. The Long Term Incentive Plan is based upon a performance measure which requires a comparison of British Airways' performance with other companies in the FTSE-100 index.

SHARE APPRECIATION RIGHTS PLAN 1991

A share appreciation rights plan was introduced and operated once in 1991 (the year of the Gulf War) at a time when the share price fell below share option prices. The value of each right was the difference between the share price when the right was exercised, with an upper limit of 210 pence, and 163 pence per share. The last outstanding rights were exercised during the year under review and the Company does not intend to operate this plan again.

SERVICE CONTRACTS

Robert Ayling and Derek Stevens hold service contracts which are terminable on two years' notice, which was market practice at the time of their respective appointments and no change is proposed.

Under his service contract, Derek Stevens is due to retire at age 63. At his own request, the Committee has agreed to reduce Robert Ayling's normal retirement age from 63 to 60. Sir Colin Marshall held a fixed term service contract with the Company, which was ended by mutual agreement on 31 December 1995, when he ceased to be an Executive Director. Sir Francis Kennedy holds a fixed term contract which comes to an end when he ceases to be a Director of the Company on 16 July 1996. In the event of any new appointment, the length of service contract will be determined by the Committee in the light of the then prevailing market practice.

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 appointments from which they may retain any fee.

PENSION SCHEMES

Executive Directors (other than Sir Francis Kennedy) participate in the New Airways Pension Scheme, which is

the main contributory pension scheme open to employees of the Company. Under their service contracts, the pensionable remuneration of the Executive Directors currently on the Board includes the annual bonus paid. 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. 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 pension purposes. Sir Colin Marshall, following his retirement as an Executive Director on 31 December 1995, is in receipt of a maximum Inland Revenue pension under the New Airways Pension Scheme.

FEES FOR NON-EXECUTIVE DIRECTORS

The Chairman's fee is determined by the Remuneration Committee. Fees for Non-Executive Directors (other than the Chairman) are determined by the Board on the recommendation of the Chairman. Neither the Chairman nor the Non-Executive Directors participate in any long term incentive plan nor are their fees pensionable.

Details of the Directors' remuneration and share interests may be found on Pages 27 to 29.

By order of the Committee
Gail Redwood
Secretary

REPORT OF THE AUDITORS TO BRITISH AIRWAYS PLC ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements we have reviewed the Directors' Statement on Page 13 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to any non-compliance with those paragraphs of the Code which is not disclosed.

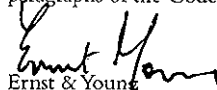
BASIS OF OPINION

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board, and assessed whether the Directors' statements on internal financial control and going concern are consistent with the information of which we are aware from our audit. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

OPINION

With respect to the Directors' statements on internal financial control and going concern on Page 13, in our opinion the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for Directors) and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain Directors and Officers of the Company and examination of relevant documents, in our opinion the Directors' statement on Page 13 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.


Ernst & Young
Chartered Accountants
London
20 May 1996

THE DIRECTORS have pleasure in presenting their Report & Accounts for the year ended 31 March 1996. The accounts are set out on pages 19 to 49.

PRINCIPAL ACTIVITIES

The main activities of British Airways Plc and its subsidiary undertakings and quasi-subidiaries 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 £473 million, against £250 million (including £125 million provision against investment in USAir Group, Inc.) in the previous year. The Board recommends a final dividend of 9.80p per share. An interim dividend of 3.85p per share was paid in January making a total of 13.65p per share, an increase of 10.1 per cent on the previous year. After providing £131 million for dividends, the retained profit for the year amounted to £342 million.

DIRECTORS

At the Annual General Meeting on 11 July 1995, the Hon Charles H Price II retired from the Board and the Hon Raymond Seitz who had been appointed to the Board on 7 April 1995, was elected a Director. In December 1995, Mr Charles Mackay announced his intention to retire from the Board at the Annual General Meeting on 16 July 1996. Sir Francis Kennedy also retires at the forthcoming Annual General Meeting having reached retirement age under the Articles of Association of the Company. On 1 March 1996, Sir Robin Renwick was appointed a Director and on 12 April 1996 Dr Ashok S Ganguly was appointed a Director. Both Sir Robin Renwick and Dr Ashok S Ganguly offer themselves for election at the Annual General Meeting.

Sir Colin Marshall and Mr Michael Davies retire by rotation in accordance with the Articles of Association at the Annual General Meeting on 16 July 1996. Sir Colin is the Non-Executive Chairman of the Company. He was an Executive Director of the Company until 31 December 1995 when his service contract with the Company was ended by mutual agreement. Mr Michael Davies is a Non-Executive Director of the Company. He does not hold a service contract with the Company.

The names and details of the Directors are set out on page 9. Their membership of Board Committees is set out on page 10, as is the Report of the Remuneration Committee. The remuneration and share interests of the Directors are set out on pages 27 to 29.

FIXED ASSETS

Details of the Group's tangible assets and investments are set out in Notes 16 and 20 to the accounts.

LIABILITY INSURANCE

British Airways holds a Directors' and Officers' liability insurance policy.

EMPLOYEE INVOLVEMENT

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

As in previous years, the Company is rewarding its eligible employees world-wide through the Profit Sharing Share Scheme which, this year, will generate a record bonus equivalent to 3.9 weeks' basic pay.

The Company is also fully committed to increasing its employees participation in it and would like to see the number of staff holding shares and their shareholding increased from the current levels of 66 per cent and four per cent respectively. To that end the Company has introduced, from this year, an additional bonus of 20 per cent, as an incentive for employees who use their profit share payment to acquire shares in the Company instead of taking this in cash. Also from this year, the offer of taking the profit share payment in shares instead of cash is being extended to employees outside the UK where local tax regulations allow this to take place.

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

EQUAL OPPORTUNITY

British Airways Equal Opportunity Policy and Code of Practice is underpinned by a Steering Group chaired by the Director of Human Resources and comprising senior line managers who champion equal opportunity and diversity throughout the Company. By this means, the Company ensures its Policy, which is to promote equal opportunity in employment regardless of gender, race, colour or disability, subject only to capability and suitability for the task and legal requirements, is translated into actions and that those actions take account of local departmental circumstances. Further efforts are being made to help disabled employees and employees who become disabled make best use of their skills and experience.

Examples of equal opportunities achievements over the past year include a strong showing in the Opportunity 2000 Annual Awards with an initiative to support women returning to work after maternity leave; active involvement in Race for Opportunity, a newly launched national campaign to help and encourage ethnic minorities to succeed in areas of employment, community affairs and business activity.

CHARITABLE AND POLITICAL DONATIONS

A complete review of our charity and community relations policy was undertaken during the fourth quarter of the year. While this review was in progress, charitable donations were limited. The Board approved the recommendations from the review on 12 April 1996, and authorised a substantial increase in charitable donations for financial year 1996-7.

During the year under review charitable donations amounting to £594,000 (1995: £582,000) were made. However our investment in the community is much greater than indicated by the donations alone and includes, for

Left to right:
Hugh Thacker, Aircraft
Engineer,
Howard Kirvy, Baggage
Loader Driver,
David Taylor, Ground
Transport Services.



instance, curriculum packs and seminars for local teachers, prizes for charitable raffles and support in kind for local communities near our main hubs.

No political donations were made during the year (1995: nil).

ENVIRONMENT

One of the Company's corporate goals is 'To be a good neighbour, concerned for the community and the environment'. To monitor progress in this regard, the Company publishes annually an Environment Report.

SHAREHOLDERS - NON-UK NATIONALS

At 31 March 1996, 27 per cent of the ordinary shares of the Company were held by non-UK nationals (1995: 35 per cent). Having regard to all relevant factors including the fact that there are no large interests of single or associated non-UK nationals and, in the absence of unforeseen developments, the Directors do not expect (but without limiting their freedom to act) to seek to exercise their powers to restrict non-UK share ownership.

CORPORATE GOVERNANCE

The Company has complied throughout the year under review with the Cadbury Committee's Code of Best Practice.

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:

- the safeguarding of assets against unauthorised use or disposition, and
- 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 statement 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 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 Board 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 to improve controls are followed up by management. The Audit Committee, comprising the Non-Executive Directors, considers significant control matters raised by management and both the internal and external auditors. The Committee reports its findings to the Board.

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

GOING CONCERN

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

PAYMENT POLICY

British Airways is a signatory to the Confederation of British Industry (C.B.I.) 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 C.B.I. at Centre Point, 103 New Oxford Street, London WC1A 1DU.

Specific actions in pursuit of this commitment include the publication in 1995 of a corporate purchasing policy document which clearly sets out the Company's approach to supplier payment and the introduction of an integrated procurement and payment management system during 1997 with effective supplier payment as one of its core objectives.

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
Secretary
20 May 1996

Gail Redwood

SUMMARY

Group profit before tax for the year was £585 million, a new record for British Airways, up 29.4 per cent on last year's profit of £452 million (before provision against investment in USAir Group, Inc. (USAir)).

Operating profit for the year increased by 17.8 per cent to £728 million, with the 9.4 per cent operating margin setting a post-privatisation record for the Group.

The result reflects the continued strong performance in customer service standards, creating demand for passenger and freight services on a capacity growth which produced record seat and overall load factors. Continued focus on managing costs also contributed.

OPERATING REVIEW TURNOVER

Group turnover increased by 8.1 per cent from £7,177 million to £7,760 million reflecting strength in scheduled service business partly offset by the reduction in non-scheduled services associated with the disposal of Caledonian Airways, which was sold on 31 March 1995. Excluding Caledonian, the increase in turnover was 10.3 per cent.

Passenger traffic (mainline scheduled revenue passenger kilometres – RPKs) increased by 9.8 per cent while capacity (available seat kilometres – ASKs) rose 6.7 per cent, resulting in a record passenger load factor for the year of 73.6 per cent, an improvement of 2.0 points. The airline achieved record seat factors in each of the six quarters ended March 1996. Cargo tonne kilometres (CTKs) were up by 3.8 per cent despite world trade growth worsening markedly in the second half of the year, growing by a third less than in the previous year, and restrictions on certain routes as a result of a change in the average weight of passengers introduced by the UK Civil Aviation Authority.

At the Group level total traffic (revenue tonne kilometres – RTKs) increased 7.5 per cent with total capacity (available tonne kilometres – ATKs) up by 4.2 per cent. Excluding Caledonian, RTKs increased 12.1 per cent on ATK growth of 7.9 per cent.

For the year ended 31 March 1996, mainline scheduled passenger yield improved by 0.8 per cent. The increase in yield was achieved in spite of 11.2 per cent growth in lower yielding (but more profitable) longhaul traffic (RPKs) compared with the shorthaul increase of 4.0 per cent.

The year saw a steady improvement in passenger yield reflecting continued strength in the external environment and British Airways continued investment in brands.

The airline's commitment to improving brands continued with investment in new First and new Club World services and products as part of the £500 million three year programme to improve air travel for all British Airways passengers. The investment included revolutionary new First cabins and cradle seats in the new Club World.

Cargo revenue per CTK increased by 4.7 per cent for the year, reflecting improved business mix achieved as a result of continued focus on network management.

A total of 36,061,000 passengers were carried on Group services (including Deutsche BA (DBA) and TAT European Airlines (TAT)) during the year, an increase of 1.2 per cent.

Excluding Caledonian, passenger numbers increased by 6.7 per cent. April 1995 saw re-introduced services from Heathrow to Damascus, Gatwick to Nassau, San Juan, and Tampa, whilst at the same time a new service was started from Gatwick to Grand Cayman. In October 1995, the Gatwick to Colombo service was re-introduced. At the end of March 1996 Adelaide and Auckland were dropped from the network under the Joint Services Agreement (JSA) with Qantas.

EXPENDITURE

Group operating expenditure increased by 7.2 per cent in the year to £7,032 million with unit costs per ATK up by 3.2 per cent. This rate of increase is above the long-term trend and reflects currency movements, costs associated with operating at record seat factors, investment in future earnings growth and severe winter weather.

The airline achieved target performance improvements of £150 million during the year.

The average number of employees in the Group during the year to 31 March 1996 rose 4.2 per cent to 55,296. Productivity, as measured in terms of Group ATKs per employee, was marginally down by 0.1 per cent. Employee costs increased by 8.4 per cent to £2,057 million reflecting the increase in staff numbers, the impact of pay settlements for UK staff and an increase in staff profit sharing for the year from 3.07 weeks to 3.90 weeks' pay.



The new First cabin, being introduced during 1996, features an unparalleled degree of comfort and privacy.

Depreciation and aircraft operating lease costs combined, fell 2.7 per cent from last year's level to £574 million, principally due to the impact of certain renegotiated leases. Fuel and oil costs rose 5.3 per cent largely due to average fuel prices increasing by 5.6 per cent per US gallon and additional flying, partly offset by the benefit of a weaker dollar during the year.

Engineering and other aircraft costs increased 8.3 per cent to £459 million over the year due to the hiring of additional cargo capacity from other carriers and the temporary drop in engine-related engineering costs in the year before. Landing fees and en route charges rose 7.3 per cent to £664 million due to world-wide price increases and increased activity. Handling charges, catering and other operating costs increased by 4.1 per cent principally due to the increase in passengers carried and product improvements.

Left to right,
Kalwant Bhargoe, Team
Leader, Baggage Services,
Dennis Henry, Chef de Parti,
Darrol Kennedy, Chef de
Parti, and Lisa Carlo,
Development Chef.



Selling costs were 9.0 per cent up on last year due to increased volume related travel agent and credit card commission and additional advertising and promotional activity associated with the launch of the new First and new Club World products. Accommodation, ground equipment costs and currency differences were up 19.2 per cent reflecting an increase in property rents and maintenance costs and the release a year ago of overseas blocked funds.

GEOGRAPHICAL ANALYSIS

The geographical analysis of Group turnover and operating profit showed gains across all areas except the Africa, Middle East and Indian sub-continent region. The European operation shows a significant improvement in profit from £2 million to £26 million, supported by an upturn in the DBA and TAT performances.

The largest gains occurred in the American routes where turnover by area of destination increased by 12.1 per cent to £2,449 million reflecting a passenger growth of 12.7 per cent. Operating profit improved to £315 million up 28.6 per cent on 1994-5. Underlying this improvement is a sustained growth in seat factors and further increases in passenger feed from USAir.

Turnover by area of destination increased by 12.7 per cent to £1,074 million in the Africa, Middle East and Indian sub-continent region reflecting improvements in capacity and seat factors. Although operating profit decreased by 2.7 per cent the 1994-5 result included an £18 million release of overseas blocked funds. Without this release operating profit would have increased by 5.8 per cent year on year. In the Far East and Australasia region turnover by area of destination increased by £104 million to £1,128 million. Operating results increased by 15.2 per cent on growth in capacity of four per cent and improved yields.

BUSINESS PLAN

The Group's business plan for the three years from 1997-8 is being designed to deliver by the third year a stretching target for business efficiencies worth £1 billion which will fund continued investments in products, services, infrastructure and employees. This will be achieved through a combination of cost reduction, asset utilisation improvement and revenue enhancement (this does not imply a £1 billion uplift in the overall running rate of profits). Every aspect of the Group's operations is under review to achieve this goal, including commercial, operational and overhead activities. Achieving competitive unit costs is an important part of this programme which is now underway, with a process in place to generate and review proposals for change.

Included in the planning assumptions before efficiency improvement is an annual reduction of one per cent (nominal) in passenger yield which, whilst not a forecast, is a prudent basis for planning expenditure in an environment where our customers want enhanced quality of service and product for the same price or less. The extent to which the Company can outperform this yield assumption will contribute towards the efficiency improvement required.

The business plan will deliver operating cash flow as a percentage of the market value of net assets above the Group's long-term average target of 17.3 per cent for the duration of the business plan period.

ALLIANCE BENEFITS

The global alliance produced further benefits during the year, reflecting improved traffic feed and reduced losses at DBA and TAT. Incremental contribution from USAir, Qantas, DBA, TAT and our franchise operators increased to £150 million.

USAIR

USAir results have shown a strong recovery. Net profits of US\$119 million for the calendar year 1995 were an improvement of US\$804 million over the previous year's loss. USAir's net loss of US\$32 million for the first quarter of 1996 showed an improvement of US\$65 million over the previous year, despite severe weather conditions.

Whilst achieving its goal on savings in annual non-labour costs of US\$500 million from otherwise expected levels, the other half of the targeted annual reduction in operating costs dependent on labour costs reductions have yet to be realised.

The 50 per cent provision against our preferred stock in USAir set up last year is retained in the light of the continued suspension of dividend payments and the uncompleted task of cost reduction.

QANTAS

Following the successful flotation of Qantas in July 1995, the results for the six months to 31 December 1995 were in line with the prospectus at pre tax profit of A\$247 million, an increase of 22 per cent over the same period last year. Group profit after tax amounted to A\$148 million compared to A\$129 million in the previous period, up 14.7 per cent. Revenue for the six month period was A\$3,962 million, an increase of 7.9 per cent.

The JSA with Qantas on services between the UK and Australia commenced in November 1995 and initial operations have produced satisfactory results.

Key highlights of the first stages of the JSA have included the opening of joint lounges in Singapore and Manila (additional joint lounges in Los Angeles and Bangkok are planned in the coming year); the integration of our commercial organisations in Thailand and Singapore to create one focused sales team; ongoing co-location of our teams throughout the world with joint premises being opened in Paris, Los Angeles, Manila, Tokyo, Singapore, Australia and New Zealand; the establishment of a JSA Management Team led by a jointly appointed manager; and the launch of a series of very successful joint fare initiatives such as Aussie and Euro Explorer from Asia and Global Explorer from the UK.

Outside of the commercial areas, the two organisations are increasingly working together in areas such as engineering, IT, catering and purchasing, and the cost saving achieved reflects this co-operation.

DBA AND TAT

The results of DBA have improved compared with last year, despite a nine per cent strengthening of the Deutsche Mark against Sterling. Passengers are up 21 per cent on last year, largely due to the introduction of the new routes to Gatwick, from Berlin, Bremen and Munich. Yields fell on the domestic routes, reflecting strong price competition. However, in this environment, DBA has been successful in expanding its market share on the domestic trunk routes it serves to approximately 35 per cent.

The full year losses incurred by TAT show a significant reduction on last year despite the eight per cent strengthening of the French Franc against Sterling. During the year, TAT started operations on two of the major French domestic trunk routes, Orly-Marseille and Orly-Toulouse. Passenger numbers on the International routes into the UK from Paris, Marseille and Lyon continued to grow during the year, showing an annual increase of 16 points in seat factor. The year also saw continued efforts to improve the cost base, with significant action being taken in respect of flight crew and engineering. The drive to improve the economics of the company will continue in 1996-7.

The losses of DBA and TAT, taken together, fell to £68 million (£90 million last year) and further improved the Group by the strong growth in the value of feed onto British Airways mainline routes during the year.

FRANCHISING

The level of franchise business continues to grow. During the year, franchising generated revenues of some £50 million with connecting traffic up 80 per cent. Group capital investment was nil. Sun-Air, the Danish regional airline became the seventh franchise operator in April this year. Further agreements are expected.

FINANCIAL REVIEW

INCOME FROM INTERESTS IN ASSOCIATED UNDERTAKINGS

British Airways share of profits from associated undertakings, principally Qantas, rose to £61 million.

PROFIT ON DISPOSAL OF FIXED ASSETS

Net profit on disposal of fixed assets amounted to £20 million mainly due to the disposal of aircraft spares.

NET INTEREST PAYABLE

Net interest payable rose £8 million to £223 million reflecting higher interest payable offset by higher average balances on short-term loans and deposits during the year.

TAXATION

The analysis of the tax charge is set out in Note 13 to the accounts.

The taxation charge was 19 per cent of profit before tax. The effective rate is lower than the standard UK tax rate of 33 per cent due largely to capital allowances on aircraft and other asset acquisitions exceeding the charge for depreciation.

EARNINGS PER SHARE

Profit after tax was £473 million, equivalent to earnings of 49.4p per share compared with 39.3p last year before provision against investment in USAir: the basic earnings per share for last year were 26.2p per share.

DIVIDENDS

The Board recommends a final dividend of 9.80p per share, giving a total dividend for the year of 13.65p per share, compared with 12.40p per share in the previous year, an increase of 10.1 per cent. The final dividend will be paid on 31 July 1996 to shareholders registered on 11 June 1996. The ex-dividend date will be 3 June 1996.

SHARE CAPITAL

On 15 June 1995, 360,000 ordinary shares were issued in exchange for 851,000 Convertible Capital Bonds on the basis of one ordinary share for every 2.34 Bonds held. During the year, more than four million shares were issued on the exercise of options under Employee Share Option Schemes.

REVIEW OF CASH FLOW

Net cash inflow from operating activities totalled £1,441 million, up £452 million on last year. After net investment of £961 million in fixed assets, including £262 million of assets acquired under finance leases and hire purchase arrangements (1995: £463 million), strong cash flow reduced net borrowings by £59 million during the year.

WORKING CAPITAL

At 31 March 1996, net current liabilities were £140 million compared with net current assets of £109 million a year ago. This change is primarily due to increases in creditors and corporate taxation payable, a higher provision for staff profit sharing and an increase in trading activities.

Sales in advance of carriage increased by £71 million to £665 million, in part due to the increased trading activity, particularly that associated with World Offers and pre Easter sales reaching a peak prior to the year end and further improvements in premium brand sales.

CAPITAL EXPENDITURE

Group capital expenditure on tangible assets is set out in Note 16e to the accounts.



The Boeing 777 "Triple Seven" is the newest addition to the British Airways fleet

AIRCRAFT FLEET CHANGES

The mainline fleet grew by six aircraft during the year to 249 with additions including the first three of 15 Boeing 777 aircraft and one Boeing 747-400.

Five Boeing 737-200s, three of which were stood down at 31 March 1995, were disposed of during the year.

Left to right:
Maisoun Fattal and Samir
Tehabssim, Middle East
Visitors Service.
Susan Kozel, Customer
Service Agent.
Colin Rogers, Production Co-
ordinator, Engineering



FINANCING

One new Boeing 747-400 and two new Boeing 777-200s were acquired on cost effective hire purchase arrangements by way of Japanese leveraged leases. A further new Boeing 777-200 was purchased for cash.

In other cost-effective measures, five Boeing 757-200s previously held on UK finance leases were refinanced by way of US cross border tax leveraged leases; and a further five Boeing 757-200s also held on UK finance leases were restructured and extended, producing substantial savings. Following two similar transactions in the previous financial year, a third leased Boeing 737-400 was refinanced for its unexpired lease term by way of operating lease.

Medium term loans from the European Investment Bank of £30 million and £9 million to assist in funding their respective undertakings were drawn down by British Airways Maintenance Cardiff Ltd and British Airways Avionic Engineering Ltd, both of which are wholly-owned subsidiaries of British Airways Plc.

At 31 March 1996, British Airways had unused overdraft and revolving credit facilities of approximately £40 million, and uncommitted money market lines of £240 million and US\$45 million with a number of banks.

The Group's £1.2 billion holding of cash and short-term loans and deposits, together with committed funding facilities and net cash flow, are sufficient to cover the cost of all firm aircraft deliveries due in the next two years. The acquisition of Boeing 747-400 and Boeing 777 aircraft, scheduled for delivery during the next seven years, is expected to be financed partially by cash holdings and internal cash flow and partially through external financing, including committed facilities arranged prior to delivery. Because of the necessity to plan aircraft orders well in advance of delivery, it is not economic for British Airways to have committed funding in place now for all outstanding orders, many of which relate to aircraft which will not be delivered for several years. British Airways policies in this regard are in line with the funding policies of other airlines. In addition to aircraft related financing facilities, the airline has a number of unsecured borrowing facilities of both a short and long-term nature which may be used for the general purposes of the Group.

NET DEBT/TOTAL CAPITAL RATIO

Borrowings net of cash, short-term loans and deposits amounted to £3,705 million at the year end. Capital and reserves rose £404 million, giving a net debt: total capital ratio of 59.8 per cent, a four point improvement on last year.

FOREIGN CURRENCY EXPOSURE

The Group does business in approximately 140 foreign currencies which account for approximately 60 per cent of Group revenue and approximately 50 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 are 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's forward transactions in foreign currency are detailed in Note 18 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.

OUTLOOK

The economic outlook is encouraging and industry results for the first three months in 1996 continue to show improvements in international airlines' seat factor performance. Industry financial performance remains on the upswing, with IATA forecasting increased profitability for 1996. British Airways expects to continue to improve profitability through volume growth, improved services and more efficient use of resources, particularly the employees and tangible assets of the Group.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

18

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

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

The Directors consider that in preparing the financial statements on Pages 19 to 49, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

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

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

REPORT OF THE AUDITORS TO THE MEMBERS OF BRITISH AIRWAYS PLC

We have audited the accounts on Pages 19 to 49, 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 Page 23 to 25.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

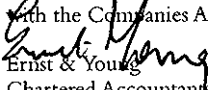
BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Chartered Accountants
Registered Auditor
London
20 May 1996

GROUP PROFIT AND LOSS ACCOUNT

for the year ended
31 March 1996

£ million	Note	1996	1995
Turnover	2	7,760	7,177
Cost of sales	5	(6,903)	(6,436)
Gross profit		857	741
Administrative expenses	5	(129)	(123)
Operating profit		728	618
Income from interests in associated undertakings	9	61	58
Other income and charges	10	(1)	1
Provision against investment in USAir Group, Inc.			(125)
Profit/(loss) on sale of fixed assets	11	20	(20)
Profit on sale of subsidiary undertaking			10
Net interest payable	12	(223)	(215)
Profit before taxation		585	327
Before provision against investment in USAir Group, Inc.		585	452
Provision against investment in USAir Group, Inc.			(125)
Taxation	13	(112)	(77)
Profit for the year		473	250
Dividends paid and proposed	14	(131)	(119)
Retained profit for the year	35	342	131
Earnings per share	15		
Basic earnings per share		49.4p	26.2p
Adjustment to exclude exceptional provision against investment in USAir Group, Inc.			13.1p
Adjusted earnings per share		49.4p	39.3p
Fully diluted earnings per share		44.2p	24.5p
Adjustment to exclude exceptional provision against investment in USAir Group, Inc.			11.1p
Fully diluted adjusted earnings per share		44.2p	35.6p
Dividends per share	14	13.65p	12.40p

BALANCE SHEETS

as at
31 March 1996

20

£ million	Note	Group		Company	
		1996	1995	1996	1995
Fixed assets					
Tangible assets	16				
<i>Fleet</i>		5,726	5,155	5,553	5,001
<i>Property</i>		866	801	786	716
<i>Equipment</i>		234	207	210	185
		6,826	6,163	6,549	5,902
Investments	20				
<i>Subsidiary undertakings and quasi-subidiaries</i>				729	678
<i>Associated undertakings</i>		497	442		
<i>Trade investments</i>		34	29	32	27
		531	471	761	705
		7,357	6,634	7,310	6,607
Current assets					
Stocks	24	104	70	82	46
Debtors	25	1,374	1,196	1,220	1,076
Short-term loans and deposits		1,158	1,099	1,082	1,033
Cash at bank and in hand		48	64	21	48
		2,684	2,429	2,405	2,203
Creditors: amounts falling due within one year	27	(2,824)	(2,320)	(2,732)	(2,261)
Net current (liabilities)/assets		(140)	109	(327)	(58)
Total assets less current liabilities		7,217	6,743	6,983	6,549
Creditors: amounts falling due after more than one year					
Borrowings and other creditors	28	(4,350)	(4,281)	(4,485)	(4,443)
Convertible Capital Bonds 2005	30	(314)	(315)		
		(4,664)	(4,596)	(4,485)	(4,443)
Provisions for liabilities and charges	31	(59)	(57)	(57)	(54)
		2,494	2,090	2,441	2,052
Capital and reserves					
Called up share capital	33	240	239	240	239
Reserves	35				
<i>Share premium account</i>		471	460	471	460
<i>Revaluation reserve</i>		302	308	301	306
<i>Profit and loss account</i>		1,481	1,083	1,429	1,047
		2,254	1,851	2,201	1,813
		2,494	2,090	2,441	2,052

Sir Colin Marshall
Robert Ayling
Derek Stevens

Chairman
Chief Executive
Chief Financial Officer

[Signatures]
Robert Ayling
Derek Stevens

20 May 1996

GROUP CASH FLOW STATEMENT

for the year ended
31 March 1996

Group

£ million	Note	1996	1995
Net cash inflow from operating activities	6a	1,441	989
Returns on investments and servicing of finance			
Interest received		96	87
Interest paid on bank and other loans		(151)	(149)
Interest paid on finance leases and hire purchase arrangements		(196)	(157)
Dividends received from associated undertakings and trade investments		10	8
Dividends paid		(121)	(109)
Net cash outflow from returns on investments and servicing of finance		(362)	(320)
Taxation			
UK corporation tax (paid)/refunded		(51)	9
Investing activities			
Tangible fixed assets purchased for cash	16e	(923)	(525)
Refund of progress payments		195	51
Purchase of interests in trade investments and loans made to associated undertakings		(8)	(8)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertaking			(12)
Sale of tangible fixed assets and investments		37	24
Net outflow of cash and cash equivalents in respect of the sale of subsidiary undertaking		(699)	(481)
Net cash inflow before (increase)/decrease in short-term deposits and financing		329	197
(Increase)/decrease in short-term deposits (maturity date at inception of more than three months)		(312)	206
Net cash outflow from investing activities		(1,011)	(275)
Net cash inflow before financing		17	403
Financing			
Changes in borrowings	29c		
Bank and other loans raised		39	169
Bank and other loans repaid		(109)	(393)
Capital elements of finance leases and hire purchase arrangements repaid		(198)	(173)
		(268)	(397)
Changes in share capital			
Issue of ordinary share capital and share premium received		9	2
Net cash outflow from financing		(259)	(395)
(Decrease)/increase in cash and cash equivalents	26b	(242)	8
Group financing surplus/(requirement)			
Net cash inflow before (increase)/decrease in short-term deposits and financing		329	197
Acquisitions under loans, finance leases and hire purchase arrangements	16e	(262)	(463)
Refinancing of finance leases	29c	(13)	
Aircraft returned to lessor on early termination of finance leases	29c	5	221
Total financing surplus/(requirement) for the year		59	(45)
Deployment/(funded by):			
Net cash outflow from financing (net repayments)		259	395
New loans and finance leases taken out and hire purchase arrangements made		(262)	(463)
Refinancing of finance leases		(13)	
Early termination of finance leases		5	221
Increase/(decrease) in short-term deposits (maturity date at inception of more than three months)		312	(206)
(Decrease)/increase in cash and cash equivalents		(242)	8
		59	(45)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended
31 March 1996

22

£ million	Note	1996	Group 1995
Profit for the year		473	250
Other recognised gains and losses relating to the year			
Exchange movements	35a	50	(51)
Unrealised surplus on revaluation of properties			289
Total gains and losses recognised since last annual report		523	488

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended
31 March 1996

£ million	Note	1996	Group 1995
Profit for the year		473	250
Dividends paid and proposed	14	(131)	(119)
Retained profit for the year		342	131
Other recognised gains and losses relating to the year		50	238
Issue of ordinary share capital, on the exercise of options under Employee Share Option Schemes, on the conversion of Convertible Capital Bonds and on the conversion of Scrip dividends			
Share capital		1	3
Share premium		11	3
		12	3
Goodwill set off in the year			(12)
Net additions to shareholders' funds		404	360
Shareholders' funds at 1 April		2,090	1,730
Shareholders' funds at 31 March		2,494	2,090

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

1 ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

The Group accounts include the accounts of the Company, its subsidiary undertakings and quasi-subsidiaries, each made up to 31 March, together with the attributable share of results and reserves of associated undertakings, adjusted where appropriate to conform with British Airways accounting policies. Certain associated undertakings make up their annual audited accounts to dates other than 31 March. In the case of Qantas, unaudited published results up to the year ended 31 December are included; in other cases, results disclosed by subsequent unaudited management accounts are included. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership. On the acquisition of a business, including an equity interest in an associated undertaking, fair values are attributed to the Group's share of net tangible assets. Where the cost of acquisition exceeds the values attributable to such net assets, the resulting goodwill is set off against reserves in the year of acquisition.

In accordance with section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company only is not presented.

Turnover

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

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

Segmental reporting

a BUSINESS SEGMENTS

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

b GEOGRAPHICAL SEGMENTS

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

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

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

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

iii) *Geographical Analysis of Net Assets* The major revenue-earning assets of the Group are comprised of the aircraft fleets, 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 31 March 1988 valuations, with subsequent expenditure stated at cost. The Concorde fleet remains at nil book value. Aircraft not in current use are included at estimated net realisable value.

Aircraft which are financed in foreign currency, either by loans, finance leases or hire purchase arrangements, are regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into Sterling at rates ruling at the balance sheet date and the net differences arising from the translation of aircraft costs and related foreign currency loans are taken to reserves. The cost of all other aircraft is fixed in Sterling at rates ruling at the date of purchase.

ii) *Depreciation* Fleet assets owned, or held on finance leases or hire purchase arrangements, are depreciated at rates calculated to write down the cost or valuation to the estimated residual value at the end of the planned operational lives. Cabin interior modifications, 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.

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

24

1 ACCOUNTING POLICIES (continued)

Tangible fixed assets (continued)

c PROPERTY AND EQUIPMENT

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

d LEASED AND HIRE PURCHASED ASSETS

Where assets are financed through finance leases or hire purchase arrangements, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of tangible fixed assets represents the aggregate of the capital elements payable during the lease or hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease or hire purchase payments made, is included in creditors. The amount included in the cost of tangible fixed assets is depreciated on the basis described in the preceding paragraphs and the interest element of lease or hire purchase payments made is included in interest payable in the profit and loss account.

Payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account in equal annual amounts over the period of the lease. In respect of aircraft, operating lease arrangements allow the Group to terminate the leases after a limited initial period, normally five to seven years, without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on pre-determined terms; such leases are described as extendible operating leases.

Aircraft and engine overhaul expenditure

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

Quasi-subsidiaries

Where an entity, though not fulfilling the legal definition of a subsidiary or subsidiary undertaking, gives rise to benefits for the Group that are, in substance, no different than those that would arise were that entity a subsidiary or subsidiary undertaking, that entity is classified as a quasi-subsidiary. In determining whether the Group has the ability to enjoy the benefits arising from such entities' net assets, regard is given as to which party is exposed to the risks inherent in the benefits and which party, in practice, carries substantially all the risks and rewards of ownership.

Associated undertakings

Where the Group participates in the results of partnerships or companies in which it has an equity interest of 20 per cent or more, but not exceeding 50 per cent, and is in a position to exercise significant influence, those interests are classified as associated undertakings, except for those companies that are accounted for as quasi-subsidiaries. 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. The Group's interest in the results of USAir Group, Inc. is currently limited to its fixed preferred dividends and only such dividends as are declared and paid are included in the accounts.

Stocks

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

Cash and cash equivalents

Cash includes cash in hand and deposits held with banks and other financial institutions which are repayable on demand. Cash equivalents are short-term investments with maturities at inception of less than three months.

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.

1 ACCOUNTING POLICIES (continued)

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. Changes in the Sterling value of outstanding foreign currency loans, finance leases and hire purchase arrangements which finance fixed assets are taken to reserves together with the differences arising on the translation of the related foreign currency denominated assets. Exchange differences arising on the translation of net assets of overseas subsidiary undertakings, quasi-subsidiaries 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.

2 TURNOVER

	Group	
£ million	1996	1995
Traffic revenue		
<i>Scheduled services – passenger</i>	6,473	5,838
– <i>freight and mail</i>	566	518
	7,039	6,356
<i>Non-scheduled services</i>	44	176
	7,083	6,532
Other revenue (including aircraft maintenance, package holidays and other airline services)	677	645
	7,760	7,177

Turnover included above relating to Caledonian Airways Limited, a subsidiary disposed of at 31 March 1995, for the year ended 31 March 1995 amounted to £143 million.

3 GEOGRAPHICAL ANALYSIS OF TURNOVER AND OPERATING PROFIT

a Turnover

	Group			
	By area of original sale		By area of destination	
	1996	1995	1996	1995
Europe	5,029	4,641	3,109	3,015
<i>United Kingdom</i>	3,240	3,199	791	795
<i>Continental Europe</i>	1,789	1,442	2,318	2,220
The Americas	1,415	1,316	2,449	2,185
Africa, Middle East and Indian sub-continent	546	515	1,074	953
Far East and Australasia	770	705	1,128	1,024
	7,760	7,177	7,760	7,177

b Operating Profit

	Group	
	1996	1995
Europe	26	2
The Americas	315	245
Africa, Middle East and Indian sub-continent	220	226
Far East and Australasia	167	145
	728	618

**NOTES
TO THE
ACCOUNTS**
(CONTINUED)

for the year ended
31 March 1996

26

4 ANALYSIS OF OPERATING NET ASSETS

	Group	
£ million	1996	1995
Net assets	2,494	2,090
Add back net non-operating liabilities	3,296	3,480
Operating net assets	5,790	5,570
Comprising:		
Tangible fixed assets	6,826	6,163
Stocks	104	70
Non-interest bearing debtors		
Trade debtors	990	844
Other debtors including amounts owed by associated undertakings	135	87
Prepayments and accrued income	230	168
	1,355	1,099
Non-interest bearing operating liabilities		
Trade creditors	(1,024)	(845)
Other creditors including amounts owed to associated undertakings	(576)	(135)
Other taxation and social security	(66)	(75)
Accruals and deferred income	(829)	(707)
	(2,495)	(1,762)
	5,790	5,570

5 ANALYSIS OF OPERATING EXPENDITURE

Employee costs	2,057	1,898
Depreciation	461	458
Aircraft operating lease costs	113	132
Fuel and oil costs	655	622
Engineering and other aircraft costs	459	424
Landing fees and en route charges	664	619
Handling charges, catering and other operating costs	974	936
Selling costs	1,103	1,012
Accommodation, ground equipment costs and currency differences	546	458
Total operating expenditure	7,032	6,559
Operating expenditure relating to Caledonian Airways Limited for the year ended 31 March 1995 amounted to £146 million.		
Total operating expenditure comprises:		
Cost of sales	6,903	6,436
Administrative expenses	129	123
Total operating expenditure	7,032	6,559

Cost of sales and administrative expenses relating to Caledonian Airways Limited for the year ended 31 March 1995 amounted to £141 million and £5 million respectively.

6 OPERATING PROFIT

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

Group operating profit	728	618
Depreciation charges	461	458
Other items not involving the movement of cash	1	(24)
Increase in stocks and debtors	(196)	(154)
Increase in creditors	447	91
Net cash inflow from operating activities	1,441	989

6 OPERATING PROFIT (continued)

£ million	Group	
	1996	1995
b Operating Profit is arrived at after charging:		
Depreciation of Group tangible fixed assets		
<i>Owned assets</i>	251	263
<i>Finance leased aircraft</i>	105	109
<i>Hire purchased aircraft</i>	84	63
<i>Other leasehold interests</i>	21	23
	461	458
Operating lease costs		
<i>Lease rentals – aircraft</i>	113	132
– <i>property</i>	104	93
<i>Hire of equipment and charter of aircraft and crews</i>	181	129
	398	354
Auditors' remuneration	£000	£000
<i>Group auditors – audit fees</i>	1,153	1,098
– <i>other professional fees – United Kingdom</i>	836	263
– <i>overseas</i>	362	407
<i>Other auditors – audit fees</i>		109
	2,351	1,877
Directors' emoluments	£000	£000
<i>Fees</i>	290	193
<i>Salary and benefits</i>	1,081	1,142
<i>Performance related bonus</i>	469	408
<i>Share appreciation rights</i>	159	266
<i>Pension contributions</i>	429	252
	2,428	2,261

7 DIRECTORS' REMUNERATION AND SHARE INTERESTS

a The remuneration of the Executive Directors was:

£ 000	Sir Colin Marshall (to 31 December 1995)		Robert Ayling		Derek Stevens	
	1996	1995	1996	1995	1996	1995
Basic salary	378	487	336	300	223	215
Taxable benefits	13	17	13	10	8	9
Performance related bonus	189	150	168	150	112	108
Share appreciation rights	111	111	48	48		107
Total	691	765	565	508	343	439

The pension contributions paid by the Company for the Chairman, Chief Executive and Chief Financial Officer were £153,250 (1995: £140,986), £193,724 (1995: £57,388) and £82,147 (1995: £54,381) respectively.

Sir Francis Kennedy was paid £109,801 (1995: £104,270) in relation to his part-time appointment as Special Adviser to the Chairman and Board and as Chairman of British Airways Regional Limited.

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

28

7 DIRECTORS' REMUNERATION AND SHARE INTERESTS (continued)

b The fees paid to the Non-Executive Directors were:

£ 000	1996	1995
Sir Colin Marshall (from 1 January 1996)	67	
Sir Michael Angus	73	67
Captain Colin Barnes	46	43
Michael Davies	25	22
Charles Mackay	23	19
Baroness O'Cathain	25	22
The Hon Charles H. Price II (to 11 July 1995)	5	20
Sir Robin Renwick (from 1 March 1996)	2	
The Hon Raymond Seitz (from 7 April 1995)	24	

No Director has waived fees for the year ended 31 March 1996 (1995: Nil).

Sir Colin Marshall's service contract was ended on 31 December 1995 by mutual agreement. From 1 January 1996 Sir Colin has received a fee as Non-Executive Chairman and a pension from the New Airways Pension Scheme.

Taxable benefits include a company car, fuel and private health insurance. Performance related bonuses are driven by corporate performance targets set at the beginning of each financial year by the Remuneration Committee. Share appreciation rights are sums paid following exercise of the rights under the British Airways Share Appreciation Rights Plan 1991. The value of the right is the difference between the market share price when the right is exercised, with an upper limit of 210 pence, and 163 pence per share. The final payments under this plan were made in the year 1995-6.

Sir Michael Angus' fee recognises his commitment to the Company as Non-Executive Deputy Chairman of an average half-day per week in addition to Board and Board Committee meetings where he is chairman of the Audit, Remuneration and Nominations Committees. Captain Colin Barnes receives £11,500 per annum for his chairmanship of the Safety Review Committee. The fee paid to the other Non-Executive Directors is reviewed every three years and comprises a basic £20,000 per annum plus £500 for each Board Committee separately attended.

c Directors' Share Interests at 31 March 1996

Number	British Airways Plc				British Airways Capital Limited	
	Ordinary shares subject to no restrictions		Ordinary shares subject to restrictions		Convertible Capital Bonds	
	31 March 1996	1 April 1995*	31 March 1996	1 April 1995*	31 March 1996	1 April 1995*
Sir Colin Marshall	48,463	38,040	3,629	1,856	11,304	11,304
Sir Michael Angus	3,780	3,750			1,333	1,333
Robert Ayling	36,503	6,503	3,142	1,369		
Derek Stevens	10,222	6,619	6,233	8,406	109	109
Captain Colin Barnes	16,388	13,563		2,634	644	644
Michael Davies	5,224	5,224			2,221	2,221
Sir Francis Kennedy	13,887	11,562	456	2,781	1,421	1,421
Charles Mackay	13,000	13,000				
Baroness O'Cathain	3,528	3,500				
Sir Robin Renwick						
The Hon Raymond Seitz						
	150,995	101,761	13,460	17,046	17,032	17,032

* Or date of appointment if later

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.

The Hon Charles Price II, who was a Director until 11 July 1995, held 12,500 shares in American Depositary Receipts at the date of his retirement from the Board. Dr Ashok S Ganguly, who was appointed a Director on 12 April 1996, did not hold any share interests in the Company or any of its subsidiary undertakings at the date of his appointment.

There were no changes to the Directors' interests shown above from 1 April 1996 to 20 May 1996.

7 DIRECTORS' REMUNERATION AND SHARE INTERESTS (continued)

d Directors' Share Options at 31 March 1996

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/exercise	Number of options	Option price	Options exercised*	Exercisable for seven years from
Sir Colin Marshall	26 May 1987	298,056	201p	298,056	
	3 July 1989	101,281	197p	101,281	
	1 June 1990	102,274	196p	102,274	
	16 June 1992	99,717	261p	99,717	
	9 June 1993	81,911	293p		9 June 1996
	1 July 1994	12,903	372p		1 July 1997
	11 Aug 1994	95,465	419p		11 Aug 1997
Balance at 1 April 1995		791,607			
6 Nov 1995		(601,328)		601,328	
Balance at 31 March 1996		190,279			
Robert Ayling	3 July 1989	81,024	197p	81,024	
	1 June 1990	71,591	196p	71,591	
	9 Dec 1991	71,944	195p	71,944	
	16 June 1992	23,010	261p	23,010	
	9 June 1993	102,389	293p		9 June 1996
	1 July 1994	16,129	372p		1 July 1997
	11 Aug 1994	81,145	419p		11 Aug 1997
Balance at 1 April 1995		447,232			
30 June 1995		14,814	405p		30 June 1998
6 Nov 1995		(247,569)		247,569	
Balance at 31 March 1996		214,477			
Derek Stevens	26 May 1989	208,640	192p		26 May 1992
	1 June 1990	143,183	196p		1 June 1993
	16 June 1992	46,022	261p		16 June 1995
	9 June 1993	13,651	293p		9 June 1996
	1 July 1994	5,645	372p		1 July 1997
Balance at 1 April 1995		417,141			
30 June 1995		7,654	405p		30 June 1998
Balance at 31 March 1996		424,795			
Captain Colin Barnes	26 May 1987	32,289	201p		26 May 1990
	3 July 1989	20,255	197p		3 July 1992
	1 June 1990	20,454	196p		1 June 1993
Balance at 1 April 1995 and 31 March 1996		72,998			

* Share price on the date of exercise was 487p.

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

Mid-market prices of the ordinary shares

	1996	1995
At 29 March (being the last trading day prior to 31 March 1996)	536.0p	409.0p
Highest in the year	536.0p	443.5p
Lowest in the year	398.0p	344.0p

**NOTES
TO THE
ACCOUNTS**
(CONTINUED)

for the year ended
31 March 1996

30

8 EMPLOYEE COSTS AND NUMBERS

	Group	
Number	1996	1995
The average number of persons employed in the Group during the year was as follows:		
United Kingdom	45,735	43,929
Overseas	9,561	9,131
	55,296	53,060
£ million		
Wages and salaries	1,425	1,322
Employee profit share	94	66
Social security costs	154	141
Contributions to pension schemes	72	69
	1,745	1,598

9 INCOME FROM INTERESTS IN ASSOCIATED UNDERTAKINGS

Attributable profits less losses	61	51
USAir preferred stock dividend received up to August 1994 (Note 22)		7
	61	58

10 OTHER INCOME AND CHARGES

Income from trade investments	2	1
Provisions against investments	(3)	
	(1)	1

11 PROFIT/(LOSS) ON SALE OF FIXED ASSETS

Net profit/(loss) on disposal of fixed assets	25	(17)
Provision against aircraft held for resale (Note 16a)	(5)	(3)
	20	(20)

12 NET INTEREST PAYABLE

Interest payable		
On bank loans	67	68
On finance leases	94	89
On hire purchase arrangements	101	75
On other loans, including interest of £31 million (1995: £31 million)		
on Convertible Capital Bonds 2005	86	81
	348	313
Interest capitalised	(28)	(19)
Interest receivable	(96)	(79)
	224	215
Currency profit on revaluation of general purpose loans at year end	(1)	
	223	215

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 November 2011. The interest rates range from 4.2 per cent to 10.9 per cent (March 1995: 3.8 per cent to 10.9 per cent).

13 TAXATION (see also Note 36)

£ million	Group	
	1996	1995
British Airways Plc and subsidiary undertakings		
United Kingdom corporation tax at 33 per cent (1995: 33 per cent), all current	103	64
Prior year adjustments		(8)
Deferred taxation	(14)	
Overseas	3	4
	92	60
Share of taxation of associated undertakings	20	17
	112	77
The charge for taxation has been reduced by the excess of tax allowances over depreciation arising from the acquisition of aircraft.		
If full provision for deferred taxation had been made, there would have been an additional charge for the year of £118 million (1995: £97 million), comprising:		
Accelerated capital allowances	116	74
Other timing differences	2	23
	118	97

14 DIVIDENDS

Interim dividend of 3.85p per share paid (1995: 3.50p per share)	37	33
Final dividend of 9.80p per share proposed (1995: 8.90p per share)	94	86
	131	119

15 EARNINGS PER SHARE

	Group			
	Profit		Earnings per share	
	1996 £ million	1995 £ million	1996 Pence	1995 Pence
Profit for the year and basic earnings per share	473	250	49.4	26.2
Adjustment to exclude exceptional provision against investment in USAir Group, Inc.		125		13.1
Adjusted profit for the year and adjusted earnings per share	473	375	49.4	39.3
Fully diluted earnings per share	499	276	44.2	24.5
Adjustment to exclude exceptional provision against investment in USAir Group, Inc.		125		11.1
Fully diluted adjusted earnings per share	499	401	44.2	35.6

Basic and adjusted earnings per share are calculated on a weighted average of 958,096,000 ordinary shares (1995: 954,605,000). Fully diluted and fully diluted adjusted earnings per share are calculated on a weighted average of 1,128,378,000 ordinary shares (1995: 1,126,378,000) after allowing for the conversion rights attaching to the Convertible Capital Bonds and for outstanding share options and for corresponding adjustments to income to eliminate interest payable on the Convertible Capital Bonds and to include notional interest receivable on the subscription cash for shares.

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

32

16 TANGIBLE ASSETS

£ million	Fleet	Property	Equipment	Group total	
				1996	1995
a Group:					
Cost or Valuation					
Balance at 1 April	7,461	877	676	9,014	8,724
Exchange adjustments	122	(1)	2	123	(168)
Additions (Note 16e)	1,073	87	94	1,254	1,009
Disposals	(172)	(5)	(27)	(204)	(636)
Adjustment arising on revaluation					136
Refund of progress payments	(195)			(195)	(51)
Reclassification		7	(7)		
Balance at 31 March	8,289	965	738	9,992	9,014
Depreciation					
Balance at 1 April	2,306	76	469	2,851	2,913
Exchange adjustments	14			14	(8)
Charge for the year	376	24	61	461	458
Adjustment arising on revaluation					(153)
Provision against aircraft held for resale	5			5	3
Disposals	(138)	(1)	(26)	(165)	(362)
Balance at 31 March	2,563	99	504	3,166	2,851
Net Book Amounts					
31 March 1996	5,726	866	234	6,826	
31 March 1995	5,155	801	207		6,163
Utilisation at 31 March					
Assets in current use					
Owned	1,894	765	187	2,846	2,763
Finance leased	1,399			1,399	1,436
Hire purchase arrangements	1,643			1,643	1,445
Progress payments	784	101	47	932	503
Assets held for resale	6			6	16
	5,726	866	234	6,826	6,163
The Net Book Amount of Property comprises:					
Freehold				232	173
Long leasehold				412	417
Short leasehold				222	211
				866	801
				Net book amount	
	Valuation/cost	Depreciation		1996	1995
Revalued fleet and properties are included in the accounts at the following amounts:					
Fleet – valuation	644	549		95	110
– subsequent additions at cost	133	60		73	82
Property – valuation	575	17		558	581
Total 31 March 1996	1,352	626		726	
Total 31 March 1995	1,403	630			773
If these assets had not been revalued they would have been included at the following amounts:					
31 March 1996	948	531		417	
31 March 1995	1,164	706			458

33

British Airways Plc Annual Report & Accounts 1995-96

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

34

16 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 31 March 1995.

d Depreciation

Fleets are generally depreciated over periods ranging from 14 to 25 years after making allowance for estimated residual values. Effective depreciation rates resulting from this method are shown in the following table:

%	
Boeing 747-100, 747-200, 747-400 and McDonnell Douglas DC-10-30	4.2
Boeing 777, 767-300 and 757-200	5.0
Airbus A320, Boeing 737-200, 737-400 and Fokker 100	5.5
Fokker 28	6.0
Turbo Props	5.4

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

e Analysis of group tangible asset additions

£ million	Fleet	Property	Equipment	Group total	
				1996	1995
Cash paid	752	85	86	923	525
Acquisitions under loans, finance leases and hire purchase arrangements	262			262	463
Capitalised interest	27	1		28	19
Accrual movements	32	1	8	41	2
	1,073	87	94	1,254	1,009

17 CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £3,788 million for the Group and the Company (1995: £3,729 million).

The outstanding commitments include £3,243 million which relates to the acquisition of Boeing 747-400 and Boeing 777 aircraft scheduled for delivery during the next seven years and £233 million which relates to the acquisition of Boeing 767-300 aircraft scheduled for delivery during the next four 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 31 March 1996, British Airways had unused overdraft and revolving credit facilities of approximately £40 million and uncommitted money market lines of £240 million and US\$45 million with a number of banks.

The Group's £1.2 billion holdings of cash and short-term loans and deposits, together with committed funding facilities and net cash flow, are sufficient to cover the cost of all firm aircraft deliveries due in the next two years.

18 FORWARD TRANSACTIONS IN FOREIGN CURRENCY

The Group and the Company had the following forward contracts outstanding:

	in currency		Sterling equivalents	
	1996	1995	1996	1995
a Group				
Maturing within one year:				
to cover future capital commitments in US Dollars	US\$300m	US\$720m	£197m	£442m
to hedge future currency revenues in US Dollars	US\$35m	US\$11m	£23m	£7m
to hedge future currency revenues in Sterling	£35m	£45m	£35m	£45m
to hedge future operating payments in US Dollars	US\$135m	US\$132m	£88m	£81m
to hedge future operating payments in other currencies			£4m	£2m
Maturing after one year:				
to cover future capital commitments in US Dollars	US\$75m	US\$274m	£49m	£168m
to hedge future operating payments in US Dollars		US\$8m		£5m
b Company				
Maturing within one year:				
to cover future capital commitments in US Dollars	US\$300m	US\$720m	£197m	£442m
to hedge future currency revenues in US Dollars	US\$35m	US\$11m	£23m	£7m
to hedge future currency revenues in Sterling	£35m	£45m	£35m	£45m
to hedge future operating payments in US Dollars	US\$42m	US\$42m	£28m	£26m
to hedge future operating payments in other currencies			£4m	£2m
Maturing after one year:				
to cover future capital commitments in US Dollars	US\$75m	US\$274m	£49m	£168m

19 OPERATING LEASE COMMITMENTS

The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:

£ million	Group		Company	
	1996	1995	1996	1995
a Fleet				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	13	1	5	1
Between one and five years	69	86	36	49
Over five years	39	30	8	
Within one year	121	117	49	50
Between one and five years	251	311	63	77
Over five years	39	105	18	
	411	533	130	127
b Property and Equipment				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	24	29	23	28
Between one and five years	31	20	30	19
Over five years	40	35	37	34
Within one year	95	84	90	81
Between one and five years	212	220	205	213
Over five years, ranging up to the year 2145	1,408	1,425	1,394	1,409
	1,715	1,729	1,689	1,703

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

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

20 INVESTMENTS

£ million	Equity	Loans at cost	Provisions		Group total	
			Shares	Loans	1996	1995
a Group						
i) Associated Undertakings						
Balance at 1 April	562	7	(127)		442	567
Exchange movements	48		(8)		40	(40)
Additions	2				2	(118)
Repayments		(2)			(2)	
Share of attributable results	25				25	33
Share of movements on other reserves	(9)				(9)	
Disposals	(1)				(1)	
Reclassification	(7)	7				
Balance at 31 March	620	12	(135)		497	442
Equity comprises:						
Cost of shares					669	627
Goodwill set off					(94)	(94)
Share of post acquisition profits/(losses)					54	29
Share of movements on other reserves					(9)	
					620	562
		Cost		Provisions		Group total
	Shares	Loans	Shares	Loans	1996	1995
ii) Trade Investments						
Balance at 1 April	27	2			29	28
Additions	6	2	(2)	(1)	5	1
Balance at 31 March	33	4	(2)	(1)	34	29
						Group total
			Associated undertakings	Trade investments	1996	1995
Net book value of total investments						
Listed			279	29	308	23
Unlisted			218	5	223	448
						Group total
			Associated undertakings	Trade investments	1996	1995
Market value of listed investments						
Listed in the UK				26	26	13
Listed abroad			298	10	308	

The Group's principal investments in subsidiary undertakings, quasi-subidiaries, associated undertakings and trade investments are listed on Page 49.

20 INVESTMENTS (continued)

£ million	Cost		Provisions		Company total	
	Shares	Loans	Shares	Loans	1996	1995
b Company						
i) Subsidiary Undertakings and Quasi-Subsidiaries						
Balance at 1 April	1,273	4	(595)	(4)	678	766
Exchange movements	12				12	(25)
Additions/(reductions)	102		(63)		39	(57)
Transfer from subsidiary undertaking						1
Repayments						(6)
Disposal						(1)
Balance at 31 March	1,387	4	(658)	(4)	729	678
ii) Trade Investments						
Balance at 1 April	25	2			27	26
Additions	6	2	(2)	(1)	5	1
Balance at 31 March	31	4	(2)	(1)	32	27
		Subsidiary undertakings and quasi-subsidiaries	Trade investments		Company total	
					1996	1995
Net book value of total investments						
Listed				28	28	23
Unlisted			729	4	733	682
				Trade investments	Company total	
					1996	1995
Market value of listed investments						
Listed in the UK				26	26	13

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

38

21 INVESTMENT IN QANTAS AIRWAYS LIMITED

Summarised Financial Information

The published statements of operations for the Qantas group for the year ended 30 June 1995 and the six months ended 31 December 1995, and its balance sheets at these dates, as adjusted to accord with British Airways accounting policies, are summarised below:

	As published by Qantas (audited) A\$m	Adjustments A\$m	Year ended and at 30 June		
			1995	1994	Total
			A\$m	£m	£m
Operating revenue	7,276		7,276	3,401	3,017
Operating profit	471	188	659	308	306
Abnormal charges					(30)
Net interest	(151)	(209)	(360)	(169)	(170)
Profit before taxation	320	(21)	299	139	106
Profit after taxation	180	(16)	164	77	92
Non current assets	7,318	2,159	9,477	4,228	4,229
Net current liabilities	(552)	(182)	(734)	(327)	(436)
Long term liabilities	(4,488)	(2,194)	(6,682)	(2,981)	(3,001)
Share capital	1,000		1,000	446	474
Reserves	1,278	(217)	1,061	474	318
	As published by Qantas A\$m	Adjustments A\$m	Six months ended and at 31 December		
			1995	1994	Total
			A\$m	£m	£m
Operating revenue	3,962		3,962	1,864	1,736
Operating profit	310	110	420	197	183
Net interest	(63)	(73)	(136)	(64)	(83)
Profit before taxation	247	37	284	133	100
Profit after taxation	148	22	170	80	83
Non current assets	7,510	1,661	9,171	4,399	4,394
Net current liabilities	(489)	(124)	(613)	(294)	(506)
Long term liabilities	(4,646)	(1,731)	(6,377)	(3,059)	(2,976)
Share capital	1,018		1,018	488	497
Reserves	1,357	(194)	1,163	558	415

The Sterling equivalents for the statements of operations have been translated at the average exchange rates for the year ended 30 June 1995 and six months ended 31 December 1995; those for the balance sheets have been translated at the closing rate on those dates.

22 INVESTMENT IN USAir GROUP, INC.

Under an agreement made between British Airways and USAir Group, Inc. (USAir) in January 1993, British Airways undertook to invest US\$750 million in USAir convertible preferred stock over a five year period. The investment was to occur in three stages and was subject to a number of conditions, including regulatory approval by the US Government. Approval of the first stage, involving the investment of US\$300 million to give British Airways a holding equivalent to 24.6 per cent of USAir's equity share capital on an undiluted basis and an initial code sharing agreement, was given by the US Secretary for Transportation in March 1993. The preferred stock so acquired by the Group is convertible at the Group's option at any time on or after 21 January 1997 into USAir common stock. Until converted, the preferred stock is entitled to cumulative quarterly cash dividends of seven per cent per annum.

In order to maintain its holding equivalent to 24.6 per cent of USAir's equity capital, the Group invested a further US\$100.7 million in convertible preferred stock in May 1993 pursuant to the exercise of pre-emptive rights relating to the issue of new common stock by USAir. This new series of convertible preferred stock is entitled to cumulative quarterly cash dividends of 0.5 per cent over LIBOR.

The present holdings of convertible preferred stock entitle the Group to 22 per cent of the current voting rights in USAir. If not converted, the preferred stock is finally redeemable in 2008. In certain extremely unlikely circumstances, the Group can be required to invest a further US\$450 million over the next two years through two additional purchases of preferred stock in USAir. The Group did not exercise its rights on 21 January 1996 to subscribe for additional preferred stock in USAir.

Under the above arrangements, the Group's current interest in the results of USAir is limited to its fixed preferred dividends, which are payable on a quarterly basis when declared. No such dividend has been paid by USAir to the Group since August 1994.

In last year's audit report on USAir's Annual Report on Form 10-K for the year ended 31 December 1994, the auditors gave a qualification on USAir's going concern. In this year's audit report on USAir's Annual Report on Form 10-K for the year ended 31 December 1995 no such qualification was given. However, USAir's management have noted that there is still much work to do in improving the performance of USAir.

In Item 7 of its Annual Report on Form 10-K for the year ended 31 December 1995, USAir states "USAir's recent cost-reduction and revenue enhancement initiatives contributed positively to the Company's [USAir Group, Inc.'s] improved 1995 results. The Company [USAir Group, Inc.] stated in 1994 and early 1995 that it sought to reduce its annual operating costs by US\$1 billion through a combination of labor-related and other cost reductions. During 1995, the Company [USAir Group, Inc.] achieved its goal of reducing annual non-labor operating expenses by approximately US\$500 million from otherwise expected levels. The Company [USAir Group, Inc.] believes that these savings will approach US\$600 million in 1996 from otherwise expected levels. The anticipated savings in labor related areas, the other half of the targeted annual reduction in operating costs have not been realized. In conjunction with its cost-reduction and revenue enhancement initiatives, the Company [USAir Group, Inc.] announced its goal to achieve a pre-tax margin of 3.0 per cent in the next one to two years and a 7.5 per cent pre-tax margin longer term. The Company's [USAir Group, Inc.'s] pre-tax margin was approximately 1.7 per cent for 1995. The Company's [USAir Group, Inc.'s] 1995 financial results represent a significant improvement over 1994 levels, but the Company [USAir Group, Inc.] believes that it will not be able to achieve either its short-term or long-term pre-tax margin goals without achieving significant reductions in USAir's personnel costs".

Whilst welcoming the significant improvement that USAir has made to its performance in 1995 and the first three months of 1996 over prior years, the Directors nevertheless believe that the provision for permanent diminution created last year should continue to be carried in British Airways Group accounts for the present. After adjusting for exchange movements, the book value of the Group's investment at 31 March 1996 was £133.6 million (1995: £125.4 million).

The Directors continue to consider the investment in USAir of strategic importance; the Company presently derives trading benefits which constitute significant contributions to profit as a result of additional traffic generated through USAir connections, as well as joint marketing arrangements and cost savings, and expects these to continue to grow.

Summarised Financial Information

The audited statement of operations of USAir for the year ended 31 December 1995 and its balance sheet at that date, prepared in accordance with United States generally accepted accounting principles, are summarised below:

	US\$m	Year ended and at 31 December	
		1995	1994
		£m	£m
Operating revenues	7,474	4,719	4,581
Operating profit/(loss)	322	203	(321)
Net interest payable and other expenses	(193)	(122)	(128)
Net profit/(loss)	119	75	(449)
Preferred dividend requirements	(85)	(54)	(51)
Net profit/(loss) applicable to common stockholders	34	21	(500)
Total assets less current liabilities	4,470	2,881	2,911
Long-term debts and redeemable preferred stock	(3,476)	(2,240)	(2,339)
Deferred credits and other liabilities	(1,830)	(1,180)	(1,146)
Total stockholders' equity (deficit)	(836)	(539)	(574)

For the three months ended 31 March 1996, USAir announced an unaudited operating profit of US\$11 million (1995: loss of US\$42 million) on operating revenues of US\$1,868 million (1995: US\$1,763 million) and a net loss of US\$32 million (1995: US\$97 million).

The Sterling equivalents for the statements of operations have been translated at the average exchange rate for the year ended 31 December 1995 and the three months ended 31 March 1996; those for the balance sheet at 31 December 1995 have been translated at the closing rate on that date.

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

23 QUASI-SUBSIDIARIES

Summarised financial information of Deutsche BA Luftfahrtgesellschaft mbH and TAT European Airlines S.A., prepared in accordance with British Airways accounting policies, is set out below. Transactions and balances between the two companies have been eliminated.

	Total	
£ million	1996	1995
Profit and Loss Account		
Turnover	400	368
Operating loss	(54)	(81)
Loss before taxation	(68)	(90)
Taxation		(3)
Loss for the year	(68)	(93)
Balance Sheet		
Fixed assets	183	159
Current assets	92	82
Creditors: Amounts falling due within one year	(466)	(380)
Net current liabilities	(374)	(298)
Total assets less current liabilities	(191)	(139)
Creditors: Amounts falling due after more than one year	(145)	(122)
Provisions for liabilities and charges	(2)	(3)
Capital and reserves (deficits)	(338)	(264)
Cash Flow Statement		
Net cash outflow from operating activities	(50)	(79)
Net cash outflow from returns on investments and servicing of finance	(14)	(11)
Net cash inflow/(outflow) from investing activities	5	(4)
Net cash outflow before financing	(59)	(94)
Net cash inflow from financing	68	82
Increase/(decrease) in cash and cash equivalents	9	(12)
Statement of Total Recognised Gains and Losses		
Loss for the year	(68)	(93)
Exchange movements	(6)	(25)
Total gains and losses recognised for the year	(74)	(118)

24 STOCKS

£ million	Group		Company	
	1996	1995	1996	1995
Raw materials, consumables and work in progress	104	70	82	46

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

25 DEBTORS

Trade debtors	990	844	947	795
Amounts owed by subsidiary undertakings			18	26
Amounts owed by associated undertakings	19	9	17	7
Other debtors	111	95	67	61
Advance corporation tax recoverable	24	21	24	21
Prepayments and accrued income	230	227	147	166
	1,374	1,196	1,220	1,076

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

26 CASH AND CASH EQUIVALENTS

					Group
	1996	Change in the year	1995	Change in the year	1994
a Analysis of Balances as shown in the Balance Sheet					
Short-term loans and deposits	1,158	59	1,099	(95)	1,194
Less: bank and other deposits with a maturity date at inception of more than three months	(692)	(295)	(397)	87	(484)
Cash equivalents	466	(236)	702	(8)	710
Cash at bank and in hand	48	(16)	64	24	40
Overdrafts – unsecured	(15)	10	(25)	(8)	(17)
	499	(242)	741	8	733
b Analysis of Changes During the Year					Group
			1996	1995	
Balance at 1 April			741	733	
Net cash (outflow)/inflow			(242)	8	
Balance at 31 March			499	741	

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

42

27 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	Group		Company	
	1996	1995	1996	1995
Loans, finance leases and hire purchase arrangements				
<i>Bank and other loans</i>	133	107	24	89
<i>Finance leases</i>	113	108	94	90
<i>Hire purchase arrangements</i>	99	78	99	78
<i>Loans from subsidiary undertakings</i>			96	
	345	293	313	257
Overdrafts – unsecured	15	25		
Trade creditors	1,024	845	916	873
Unredeemed frequent flyer liabilities	47	38	33	28
Amounts owed to subsidiary undertakings			232	162
Amounts owed to associated undertakings	1	3	1	1
Other creditors				
<i>Other creditors</i>	308	181	253	118
<i>Corporate taxation</i>	128	76	116	72
<i>Other taxation and social security</i>	66	76	37	36
	502	333	406	226
Dividends payable	94	86	94	86
Accruals and deferred income				
<i>Sales in advance of carriage</i>	665	594	624	544
<i>Accruals and deferred income</i>	131	103	113	84
	796	697	737	628
	2,824	2,320	2,732	2,261

28 BORROWINGS AND OTHER CREDITORS

Loans, finance leases and hire purchase arrangements				
<i>Bank and other loans</i>	1,319	1,358	1,092	1,081
<i>Finance leases</i>	1,320	1,360	1,187	1,256
<i>Hire purchase arrangements</i>	1,598	1,506	1,598	1,506
<i>Loans from subsidiary undertakings</i>			509	551
	4,237	4,224	4,386	4,394
Other creditors	72	22	72	22
Deferred taxation (Note 36)		14		14
Accruals and deferred income	41	21	27	13
	4,350	4,281	4,485	4,443

29 LOANS, FINANCE LEASES AND HIRE PURCHASE ARRANGEMENTS

a Total Loans, Finance Leases and Hire Purchase Arrangements

£ million		Group		Company	
		1996	1995	1996	1995
Loans					
Bank					
	-- Deutsche Mark	DM75m	DM88m	DM75m	DM75m
	-- French Franc	FFr163m	FFr208m		
	-- US Dollar	US\$893m	US\$1,032m	US\$892m	US\$1,031m
	-- Sterling	£171m	£136m	£132m	£136m
		811	837	750	804
Euro-sterling notes		300	300	300	300
Other					
	-- US Dollar	US\$400m	US\$400m		
	-- French Franc	FFr105m	FFr128m		
	-- Sterling	£66m	£66m	£66m	£66m
		341	328	66	66
Loans from subsidiary undertakings				US\$400m	US\$400m
	-- US Dollar			£343m	£305m
	-- Sterling			605	551
Finance leases					
	-- Deutsche Mark	DM131m	DM48m		
	-- French Franc	FFr148m	FFr191m		
	-- US Dollar	US\$434m	US\$350m	US\$339m	US\$248m
	-- Sterling	£1,070m	£1,207m	£1,058m	£1,194m
		1,433	1,468	1,281	1,346
Hire purchase arrangements					
	-- Japanese Yen	¥75,523m	¥67,480m	¥75,523m	¥67,480m
	-- US Dollar	US\$1,386m	US\$1,504m	US\$1,386m	US\$1,504m
	-- Sterling	£327m	£181m	£327m	£181m
		1,697	1,584	1,697	1,584
		4,582	4,517	4,699	4,651
Comprising:					
Bank loans					
Repayable wholly within five years		73	111	53	121
Repayable in whole or in part after five years		738	726	697	683
		811	837	750	804
Other loans, finance leases and hire purchase arrangements					
Repayable wholly within five years		642	713	567	589
Repayable in whole or in part after five years		3,129	2,967	3,382	3,258
		3,771	3,680	3,949	3,847
		4,582	4,517	4,699	4,651

Bank and other loans are repayable up to the year 2011. In addition to finance leases and hire purchase arrangements, bank and other loans of the Group amounting to FFr85 million (1995: FFr119 million), US\$882 million (1995: US\$911 million) and £112 million (1995: £116 million) and bank loans of the Company amounting to US\$882 million (1995: US\$911 million) and £112 million (1995: £116 million) are secured on aircraft.

**NOTES
TO THE
ACCOUNTS**
(CONTINUED)

for the year ended
31 March 1996

44

**29 LOANS, FINANCE LEASES AND HIRE
PURCHASE ARRANGEMENTS** (continued)

£ million	Bank loans	Other loans	Finance leases	Hire purchase arrangements	Group total	
					1996	1995
Instalments falling due:						
Within one year	32	101	113	99	345	293
After more than one year						
Between one and two years	84	226	102	109	521	331
Between two and five years	121	214	300	394	1,029	1,247
In five years or more	574	100	918	1,095	2,687	2,646
	779	540	1,320	1,598	4,237	4,224
Total 1996	811	641	1,433	1,697	4,582	
Total 1995	837	628	1,468	1,584		4,517
Analysis of total 1996						
British Airways Plc	750	366	1,281	1,697	4,094	4,100
Subsidiary undertakings and quasi-subsidiaries	61	275	152		488	417
	811	641	1,433	1,697	4,582	4,517

c Analysis of Changes in Borrowings During the Year

	Bank and other loans	Finance leases and hire purchase arrangements	Group total	
			1996	1995
Balance at 1 April	1,465	3,052	4,517	4,820
New loans raised	39		39	169
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft		262	262	463
Refinancing of finance leases		13	13	
Repayment of amounts borrowed	(109)	(198)	(307)	(566)
Early termination of finance leases		(5)	(5)	(221)
Effect of exchange rate changes	57	6	63	(148)
Balance at 31 March	1,452	3,130	4,582	4,517

30 CONVERTIBLE CAPITAL BONDS 2005

	Group	
	1996	1995
	314	315

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 15 June 1995, 360,000 ordinary shares were issued in exchange for 851,000 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 134,298,000 ordinary shares.

The mid market closing prices of the Bonds and the ordinary shares at 29 March 1996 (being the last trading day prior to 31 March 1996) as quoted in the London Stock Exchange Daily Official List were 230.5p and 536p each respectively.

31 PROVISIONS FOR LIABILITIES AND CHARGES

£ million	Group				
	Balance at 1 April	Transfers from profit and loss account	Other movements	Provisions applied	Balance at 31 March
Pensions and similar obligations	9	1			10
Post-retirement medical benefits	20	1			21
Litigation provision (Note 32)	22				22
Other	6				6
Total 31 March 1996	57	2			59
<i>Total 31 March 1995</i>	<i>69</i>	<i>5</i>	<i>(16)</i>	<i>(1)</i>	<i>57</i>
Analysis of total 1996					
British Airways Plc	54	2	1		57
Subsidiary undertakings and quasi-subsidiaries	3		(1)		2
Total 31 March 1996	57	2			59

32 LITIGATION PROVISION

- 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.
- There are a number of further identified legal and other claims which emanate from international airline operations and other activities of the Group for which the Directors have made what they believe is appropriate provision.
- In addition, experience with litigation and regulation has led the Directors to conclude that it is prudent to continue to carry forward £22 million of a provision made in prior years.

33 SHARE CAPITAL

Ordinary Shares of 25p each	Group and Company			
	1996		1995	
	Number of shares '000	£ million	Number of shares '000	£ million
Authorised				
At 1 April and 31 March	1,308,000	327	1,308,000	327
Allotted, Called Up and Fully Paid				
At 1 April	955,718	239	954,019	239
Conversion of Convertible Capital Bonds	360		544	
Exercise of options under Employee Share Option Schemes	4,064	1	1,155	
Conversion of Scrip dividends	434			
At 31 March	960,576	240	955,718	239

On 15 June 1995, 360,000 ordinary shares were issued in exchange for 851,000 Convertible Capital Bonds on the basis of one ordinary share for every 2.34 Bonds held. Full conversion of all remaining Bonds would require the issue of 134,298,000 ordinary shares.

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

46

34 SHARE OPTIONS

	Group and Company	
	1996	1995
Number of shares '000		
Outstanding at 1 April	36,690	35,405
Granted in the year	1,960	3,226
Exercised during the year	(4,064)	(1,155)
Expired/cancelled	(675)	(786)
At 31 March	33,911	36,690
Date exercisable	1996-2005	1995-2004
Price per share	136p-465p	135p-419p
Price range of options exercised during the year	144p-293p	129p-286p

35 RESERVES

£ million	Share premium account	Revaluation reserve	Profit and loss account	Total	
				1996	1995
a Group					
Balance at 1 April	460	308	1,083	1,851	1,491
Retained profit for the year			342	342	131
Transfers relating to revalued assets		(6)	6		
Exchange adjustments net of tax relief			50	50	(51)
Goodwill set off					(12)
Surplus arising on revaluation of properties					289
Share premium	11			11	3
Balance at 31 March	471	302	1,481	2,254	1,851
Group profit and loss account includes cumulative retained reserves of £45 million (1995: £29 million) in respect of associated undertakings.					
Cumulative goodwill set off against reserves at 31 March comprises:					
In respect of subsidiary undertakings and quasi-subsidiaries				510	510
In respect of associated undertakings				94	94
				604	604
b Company					
Balance at 1 April	460	306	1,047	1,813	1,557
Retained profit/(loss) for the year			346	346	(14)
Transfers relating to revalued assets		(5)	5		
Exchange adjustments net of tax relief			31	31	(20)
Surplus arising on revaluation of properties					287
Share premium	11			11	3
Balance at 31 March	471	301	1,429	2,201	1,813

36 DEFERRED TAXATION (see also Notes 13 and 28)

47

Deferred taxation at 31 March 1996 for the Group and the Company comprises accelerated capital allowances of £nil (1995: £14 million).

If full provision for deferred taxation at 33 per cent (1995: 33 per cent) had been made, the following amounts would have been required at 31 March:

£ million	Group		Company	
	1996	1995	1996	1995
Accelerated capital allowances	774	671	765	664
Other timing differences	(9)	(14)	(19)	(25)
	765	657	746	639

In arriving at the amount of the full provision for the Group at 31 March 1996 of £765 million, no account has been taken of any tax liability that might arise on the realisation of the revaluation surplus on properties as the Directors have no present intention of disposing of significant property assets.

37 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 equivalent to one and a half times the Government's lower earnings limit and are subject to Retail Price Index increases up to a maximum of five per cent in any one year.

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

Employees' contributions range from 5.75 per cent to 8.5 per cent of full pensionable pay in APS and from 3.75 per cent to 6.5 per cent of full pensionable pay less one and a half times the lower earnings limit in NAPS.

The latest actuarial valuations of APS and NAPS were made as at 31 March 1995 by an independent firm of qualified actuaries, R. Watson & Sons, using the attained age method for APS and the projected unit method for NAPS. These valuations showed that no further employers' contributions were required in respect of APS while for NAPS an employer's contribution equal to an average of 2.20 times the employee's contribution for the year 1 April 1995 to 31 March 1996 (two times employee's contribution for 1994-5) was appropriate. The next valuations of the two schemes are being carried out as at 31 March 1998.

	Group	
	1996	1995
All amounts recognised as costs were either funded or paid directly.		
Employers' contributions (calculated as set out above for APS and NAPS) charged in the accounts were:		
<i>Airways Pension Scheme</i>		
<i>New Airways Pension Scheme</i>	56	53
<i>Other pension schemes and provident funds – mainly outside the United Kingdom</i>	16	16
	72	69

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

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

**NOTES
TO THE
ACCOUNTS**

(CONTINUED)

for the year ended
31 March 1996

38 INTEREST RATE AGREEMENTS

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 agreements are summarised as follows:

	Notional principal balance	Termination dates	Interest rates
			Fixed payable
At 31 March 1996			
US Dollar	US\$713m	1996-2003	8.4%-9.9%
Sterling	£50m	1997	9.5%
At 31 March 1995			
US Dollar	US\$598m	2000-2003	8.4%-9.9%
Sterling	£50m	1997	9.5%

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

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

(Interest rates payable comprising both fixed and variable rates)

	Notional principal balance	Termination dates	Interest rates
			Payable
At 31 March 1996			
Sterling	£83m	1997-1998	6.1%-10.2%
At 31 March 1995			
Sterling	£83m	1997-1998	7.0%-10.2%

39 CONTINGENCIES

There were contingent liabilities at 31 March 1996 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 31 March 1996 amounted to £97 million (1995: £134 million) and £741 million (1995: £743 million) respectively. For the Company these included guarantees given in respect of the Convertible Capital Bonds issued by a subsidiary undertaking.

40 DIRECTORS' AND OFFICERS' LOANS AND TRANSACTIONS

No loans or credit transactions were outstanding with Directors and 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.

41 FOREIGN CURRENCY TRANSLATION RATES

	At 31 March		Annual average	
	1996	1995	1995-6	1994-5
US Dollar	1.53	1.63	1.57	1.55
Japanese Yen	163	141	150	156
Deutsche Mark	2.25	2.23	2.23	2.44
Australian Dollar	1.95	2.22	2.13	2.11
French Franc	7.68	7.79	7.76	8.40

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* (89 per cent of founders' shares owned)	Airline finance	Jersey
British Airways (European Operations at Gatwick) Ltd*	Airline operations	England
British Airways Finance B.V.*	Airline finance	Netherlands
British Airways Holidays Ltd*	Package holidays	England
British Airways Maintenance Cardiff Ltd*	Aircraft maintenance	England
British Airways Regional Ltd*	Air travel services	England
British Airways Travel Shops Ltd*	Travel agency	England
British Asia Airways Ltd*	Air travel services	England
The Plimsoll Line Ltd* (Holding company of Brymon Airways Ltd)	Airline holding company	England
Travel Automation Services Ltd* (trading as Galileo United Kingdom)	Computer reservations systems	England

QUASI-SUBSIDIARIES

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Deutsche BA Luftfahrtgesellschaft mbH	49.0	Airline operations	Germany
TAT European Airlines S.A.*	49.9	Airline operations	France

This basis for presentation has no effect on the legal status of the entities concerned.

ASSOCIATED UNDERTAKINGS

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Concorde International Travel Pty Ltd	50.0	Travel services	Australia
Galileo International Partnership	14.6	Computer reservations systems	USA
Qantas Airways Ltd	25.0	Airline operations	Australia
USAir Group, Inc. (see Note 22 to the accounts)		Airline operations	USA

TRADE INVESTMENTS

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Hogg Robinson plc*	13.1	Travel services	England
Ruby Aircraft Leasing and Trading Ltd*	19.3	Aircraft leasing	England
Sapphire Aircraft Leasing and Trading Ltd*	19.3	Aircraft leasing	England

* Owned directly by British Airways Plc

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, as set out in Statement of Financial Accounting Standards (FAS) No. 109 'Accounting for Income Taxes', deferred taxation is generally provided on a full liability basis.

Goodwill

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

Property and fleet valuation

Under US GAAP, tangible assets must be stated at cost less accumulated depreciation in the financial statements. The valuation of properties at 31 March 1995 and fleet at 31 March 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, however, any revaluation surplus thus realised would be reflected in income.

Purchase accounting

Under US GAAP, as set out in FAS 109, 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 31 March 1996, and the related advance corporation tax, would not, therefore, be included in the financial statements for 1996 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 net 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 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 31 March 1996 amounted to £56 million (1995: £46 million) under UK GAAP compared with an estimated cost of £78 million (1995: £83 million) under FAS 87 'Employers' Accounting for Pensions'. The resultant increase in operating costs of £22 million (1995: £37 million), net of related deferred tax of £7 million (1995: £12 million), would reduce net income under US GAAP by £15 million (1995: £25 million), and would be reflected in the consolidated balance sheet as an addition to 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.

Quasi-subsidiaries

Under UK GAAP, where an entity, though not fulfilling the legal definition of a subsidiary, gives rise to benefits for the Group that are, in substance, no different than those that would arise were that entity to be a subsidiary, that entity is classified as a quasi-subsidiary. Under US GAAP, these entities would be treated as associated undertakings and, accordingly, the results of British Airways quasi-subsidiaries would be accounted for as associated undertakings.

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.

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 52 and 53.

NET INCOME UNDER US GAAP

For the year ended 31 March 1996

	Group			
	1996 £ million	1995 £ million	1996 \$ million	1995 \$ million
Profit for the year as reported in the Group profit and loss account	473	250	724	408
Adjustments:				
Depreciation and amortisation				
Goodwill set off in respect of subsidiary undertakings	(10)	(11)	(15)	(18)
Goodwill set off in respect of associated undertakings	(3)	(3)	(5)	(5)
Fleet	23	(11)	35	(18)
Finance leased aircraft	56	54	86	88
Property	1		2	
	67	29	103	47
Aircraft operating lease costs	(109)	(107)	(167)	(174)
Equity accounting of associated undertakings				
Share of results of associated undertakings	(44)	(15)	(67)	(24)
Share of taxation of associated undertakings	16		24	
	(28)	(15)	(43)	(24)
Interest payable	57	55	87	90
Pension costs	(22)	(37)	(34)	(60)
Exchange (losses)/gains				
Arising on translation of aircraft related loans	(72)	180	(110)	293
Relating to revaluation of forward exchange contracts	5	(5)	8	(8)
	(67)	175	(102)	285
Profit on disposal of tangible fixed assets				
Arising on disposal of revalued aircraft	25	9	38	15
Arising on sale and leaseback transactions	10	23	15	37
	35	32	53	52
Taxation	5		8	
Deferred taxation				
Effect of the above adjustments	(22)	(14)	(34)	(23)
Effect of differences in methodology	(122)	(71)	(186)	(117)
	(144)	(85)	(220)	(140)
	(206)	47	(315)	76
Net income as adjusted to accord with US GAAP	267	297	409	484
	Pence	Pence	Cents	Cents
Net income per Ordinary Share as so adjusted				
Primary	27.9	31.1	42.7	50.7
Fully diluted	26.0	28.7	39.8	46.8
Net income per American Depositary Share as so adjusted				
Primary	279	311	427	507
Fully diluted	260	287	398	468

Translation rate £1=\$1.53 £1=\$1.63

SHAREHOLDERS' EQUITY UNDER US GAAP

At 31 March 1996

Group

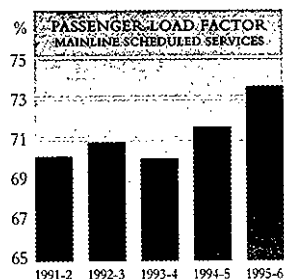
53

	1996 £ million	1995 £ million	1996 \$ million	1995 \$ million
Shareholders' equity as reported in the Group balance sheet	2,494	2,090	3,816	3,407
Adjustments:				
Intangible assets				
Goodwill set off in respect of subsidiary undertakings				
Cost	437	437	669	712
Amortisation	(81)	(71)	(124)	(116)
	356	366	545	596
Tangible assets				
Cost				
Fleet	(1,498)	(1,428)	(2,292)	(2,328)
Property and Equipment	(328)	(321)	(502)	(523)
	(1,826)	(1,749)	(2,794)	(2,851)
Amortisation				
Fleet, property and equipment	447	416	684	678
Investments – associated undertakings				
Quasi-subsidiaries	(34)	(61)	(52)	(99)
Associated undertakings	(28)	(6)	(43)	(10)
Goodwill set off in respect of associated undertakings				
Cost	134	134	205	218
Amortisation	(9)	(6)	(14)	(9)
	125	128	191	209
Current assets				
Stocks	(20)	(21)	(31)	(34)
Debtors	(69)	(61)	(106)	(99)
Cash, short-term loans and deposits	(2)	(3)	(3)	(5)
Current liabilities				
Loans, finance leases and hire purchase arrangements	87	87	133	142
Overdrafts	14	25	21	41
Trade creditors	46	20	70	33
Other creditors	68	83	104	135
Corporation tax		(2)		(3)
Proposed dividends	94	86	144	140
Pension cost accruals	(133)	(111)	(203)	(181)
Accruals and deferred income	18	27	28	44
Long-term liabilities				
Loans, finance leases and hire purchase arrangements	950	976	1,454	1,591
Other creditors	22	22	34	36
Accruals and deferred income	(5)	(11)	(8)	(18)
Provisions for liabilities and charges				
Deferred taxation				
Effect of the above adjustments	31	53	47	86
Effect of differences in methodology	(765)	(643)	(1,170)	(1,049)
	(734)	(590)	(1,123)	(963)
Other	2	3	3	5
	(622)	(376)	(952)	(613)
Shareholders' equity as adjusted to accord with US GAAP	1,872	1,714	2,864	2,794

Translation rate £1=\$1.53 £1=\$1.63

FIVE YEAR SUMMARIES

for the five years ended
31 March 1996



GROUP PROFIT AND LOSS ACCOUNT

£ million	1996	1995	1994	1993	1992
Turnover	7,760	7,177	6,602	5,655	5,224
Operating expenditure	(7,032)	(6,559)	(6,134)	(5,302)	(4,792)
Operating Profit	728	618	468	353	432
Income from interests in associated undertakings	61	58	22	3	
Other income and charges	(1)	1	9	5	(7)
Provision against investment in USAir Group, Inc.		(125)			
Profit/(loss) on sale of fixed assets	20	(20)	(7)	15	36
Profit on sale of subsidiary undertaking		10			149
Net interest payable	(223)	(215)	(212)	(197)	(191)
Profit before Taxation	585	327	280	179	419
Taxation	(112)	(77)	(6)	(7)	(39)
Profit for the Year	473	250	274	172	380
Dividends	(131)	(119)	(106)	(79)	(74)
Retained Profit for the Year	342	131	168	93	306
Earnings Per Share					
Basic earnings per share	49.4p	26.2p	30.0p	22.3p	50.4p
Adjusted earnings per share	49.4p	39.3p	30.0p	22.3p	31.8p
Fully diluted earnings per share	44.2p	24.5p	27.6p	20.7p	42.9p
Fully diluted adjusted earnings per share	44.2p	35.6p	27.6p	20.7p	28.1p
Dividends Per Share	13.65p	12.40p	11.10p	10.16p	9.76p

Adjusted earnings per share for 1995 have been adjusted to exclude provision of £125 million against investment in USAir Group, Inc.

Adjusted earnings per share for 1992 have been adjusted to exclude the profit on sale of subsidiary undertaking of £149 million.

GEOGRAPHICAL ANALYSIS OF GROUP TURNOVER AND OPERATING PROFIT

£ million	1996	1995	1994	1993	1992
Turnover					
Europe	3,109	3,015	2,734	2,327	2,064
The Americas	2,449	2,185	2,029	1,709	1,645
Africa, Middle East and Indian sub-continent	1,074	953	900	757	665
Far East and Australasia	1,128	1,024	939	862	850
	7,760	7,177	6,602	5,655	5,224
Operating Profit					
Europe	26	2	16	31	57
The Americas	315	245	140	106	144
Africa, Middle East and Indian sub-continent	220	226	209	144	131
Far East and Australasia	167	145	103	72	100
	728	618	468	353	432

GROUP BALANCE SHEET

£ million	1996	1995	1994	1993	1992
Fixed assets					
<i>Tangible assets</i>	6,826	6,163	5,811	5,439	4,589
<i>Investments</i>	531	471	595	550	93
	7,357	6,634	6,406	5,989	4,682
Current assets	2,684	2,429	2,433	1,644	1,675
Creditors: amounts falling due within one year	(2,824)	(2,320)	(2,114)	(1,993)	(1,742)
Net current (liabilities)/assets	(140)	109	319	(349)	(67)
Total assets less current liabilities	7,217	6,743	6,725	5,640	4,615
Creditors: amounts falling due after more than one year	(4,664)	(4,596)	(4,926)	(4,436)	(3,310)
Provisions for liabilities and charges	(59)	(57)	(69)	(74)	(54)
	2,494	2,090	1,730	1,130	1,251
Capital and reserves					
<i>Called up share capital</i>	240	239	239	185	182
<i>Reserves</i>	2,254	1,851	1,491	945	1,069
	2,494	2,090	1,730	1,130	1,251

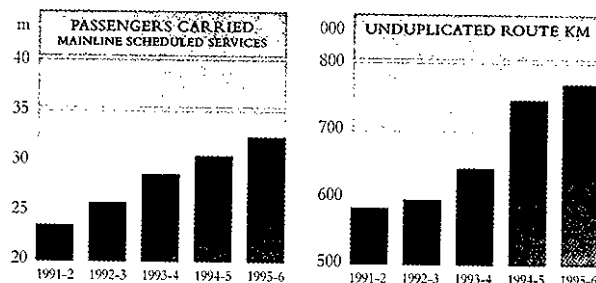
GROUP CASH FLOW STATEMENT

£ million	1996	1995	1994	1993	1992
Net cash inflow from operating activities	1,441	989	770	752	726
Net cash outflow from returns on investments and servicing of finance	(362)	(320)	(293)	(255)	(269)
Taxation (paid)/refunded	(51)	9	(20)	(38)	(11)
Net cash outflow from investing activities	(1,011)	(275)	(550)	(698)	(358)
Net cash inflow/(outflow) before financing	17	403	(93)	(239)	88
Net cash (outflow)/inflow from financing	(259)	(395)	405	341	99
(Decrease)/increase in cash and cash equivalents	(242)	8	312	102	187

OPERATING AND FINANCIAL STATISTICS

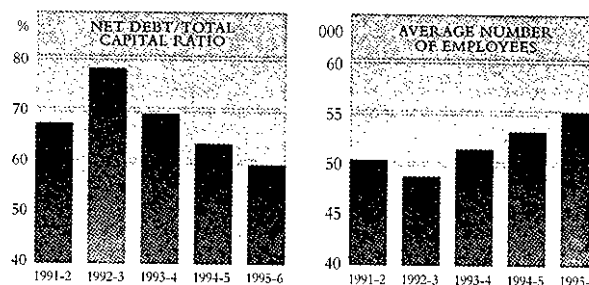
(NOTE 1)

for the five years ended
31 March 1996



MAINLINE SCHEDULED SERVICES (Note 2)

		1996	1995	1994	1993	1992
<i>Traffic and capacity</i>						
Revenue passenger km (RPK)	m	95,947	87,395	81,907	73,996	65,896
Available seat km (ASK)	m	130,286	122,063	116,974	104,507	93,877
Passenger load factor	%	73.6	71.6	70.0	70.8	70.2
Cargo tonne km (CTK)	m	3,476	3,349	2,991	2,691	2,510
Total revenue tonne km (RTK) (Note 3)	m	13,080	11,667	10,792	9,730	8,778
Total available tonne km (ATK) (Notes 3 & 4)	m	18,508	17,115	16,240	14,695	13,379
Overall load factor	%	70.7	68.2	66.5	66.2	65.6
Passengers carried	000	32,332	30,552	28,656	25,905	23,788
Tonnes of cargo carried	000	672	666	607	532	502
Frequent flyer RPKs as a percentage of total RPKs (Note 5)	%	1.9	1.7	1.4		
<i>Financial</i>						
Passenger revenue per RPK	p	6.41	6.36	6.32	6.13	6.50
Cargo revenue per CTK	p	16.20	15.47	15.41	14.72	15.78
Average fuel price (US cents/US gallon)		63.16	59.79	63.64	69.32	70.94
<i>Operations</i>						
Unduplicated route km	000	767	743	643	599	584
Punctuality – within 15 minutes	%	82	84	85	81	79
Regularity	%	99.1	99.5	99.3	99.3	99.2



TOTAL GROUP OPERATIONS (Note 6)

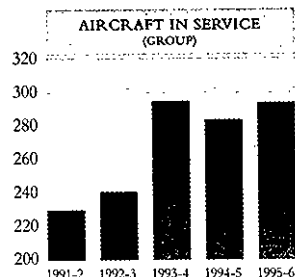
(including Deutsche BA and TAT European Airlines)

		1996	1995	1994	1993	1992
Traffic and capacity						
Total revenue tonne km (RTK) (Note 3)	m	13,307	12,380	11,467	10,313	9,111
Total available tonne km (ATK) (Notes 3 & 4)	m	18,982	18,224	17,233	15,424	13,818
Passengers carried	000	36,061	35,643	32,749	28,100	25,422
Revenue aircraft km	m	567	556	522	431	390
Revenue flights	000	381	381	358	268	261
Break-even overall load factor	%	62.9	61.5	61.4	62.8	61.2
Financial						
Interest cover	times	3.6	2.5	2.3	1.9	3.2
Dividend cover	times	3.6	2.1	2.6	2.2	5.1
Operating margin	%	9.4	8.6	7.1	6.2	8.3
Net Debt/Total Capital Ratio	%	59.8	63.9	69.4	78.1	67.6
Total traffic revenue per RTK	p	53.23	52.76	52.44	49.28	52.55
Total traffic revenue per ATK	p	37.31	35.84	34.89	32.95	34.65
Net operating expenditure per RTK	p	47.76	47.77	48.36	46.27	48.78
Net operating expenditure per ATK	p	33.48	32.45	32.18	30.94	32.16
Operations						
Average number of employees		55,296	53,060	51,530	48,960	50,409
RTKs per employee	000	240.7	233.3	222.5	210.6	180.7
ATKs per employee	000	343.3	343.5	334.4	315.0	274.1
Aircraft in service at year end		293	283	294	241	230
Aircraft utilisation (average hours per aircraft per day)		8.28	8.20	8.04	8.02	7.42

Notes:

- Operating statistics do not include those of associated undertakings (Qantas Airways and USAir) and franchisees (CityFlyer Express, GB Airways, Maersk Air, Manx Airlines (Europe) and Loganair).
- Mainline scheduled services include those operated by British Airways and all of its wholly-owned subsidiary undertakings.
- As a result of a directive from the UK Civil Aviation Authority, average passenger weight used to calculate Mainline scheduled services ATKs and RTKs was increased from 75 kg to 80 kg with effect from 1 April 1995. The change in weight accounted for approximately 2.5 percentage points of year-on-year growth in ATKs (RTKs 4 percentage points) for the year ended 31 March 1996.
- With effect from November 1995, statistical systems used by the Group have been updated to reflect more accurately available aircraft payload. As a result, Mainline scheduled service ATKs and related statistics for the year ended 31 March 1995 have been restated.
- The carriage of passengers on Frequent Flyer Programmes is evaluated on a ticket by ticket basis. Previously reported data calculated on a sector by sector basis has now been restated. Data prior to 1994 not available.
- Group operating and financial statistics for the four years ended 31 March 1995 included charter services operated by Caledonian Airways.

AIRCRAFT FLEET



58

Number in service with Group companies at 31 March 1996

MAINLINE (Note 1)	On balance sheet aircraft	Operating leases off balance sheet		Total (Note 2)	Future deliveries	Options	1995-6 revenue	Average hours per	Average age
		extendible	other				hours flown	aircraft/day	(years)
Concorde	7			7			5,850	2.28	19.3
Boeing 747-100	14		1	15			62,053	11.30	23.9
Boeing 747-200	13	3		16			67,518	11.53	15.3
Boeing 747-400	32			32	30	9	154,790	13.44	4.6
Boeing 777	3			3	12	15	3,169	10.49	0.4
McDonnell Douglas DC-10-30	5	2		7			28,128	12.19	17.4
Boeing 767-200 (Note 3)			1	1			15,413	15.83	4.9
Boeing 767-300	23			23	5		81,819	9.72	4.8
Boeing 757-200	40	4		44			112,699	7.31	9.3
Airbus A320	10			10			21,749	5.94	7.1
Boeing 737-200	15		18	33			76,961	6.51	13.3
Boeing 737-400	25		8	33			96,887	7.76	4.2
Turbo Props (Note 4)	6	14	5	25			49,280	6.21	6.7
Hired aircraft							11,255		
Sub total	193	23	33	249	47	24	787,571	8.64	9.4
DEUTSCHE BA AND TAT EUROPEAN AIRLINES									
Boeing 737-200			1	1			2,228	3.04	27.6
Boeing 737-300			9	9			20,842	8.20	4.9
Fokker 100	4	6		10			27,659	7.05	4.5
Fokker 28	7		1	8			11,786	6.49	23.6
Turbo Props (Note 5)	9	3	4	16		5	38,139	5.24	4.4
Sub total	20	9	15	44		5	100,654	6.25	8.5
Group Total	213	32	48	293	47	29	888,225	8.28	9.3

Notes:

- 1 Includes those operated by British Airways and its wholly-owned subsidiary undertakings.
- 2 Excludes 1 McDonnell Douglas DC-10-30, 2 Boeing 737-200s, 2 Boeing 737-400s, 1 Fokker 100, 5 Fokker 28s, 2 ATR 72s, 3 ATR 42s and 2 Embraer subleased to other carriers.
- 3 On wet lease from USAir.
- 4 Includes 14 BAe ATPs, 5 de Havilland Canada DHC-7-100s and 6 de Havilland Canada DHC-8s.
- 5 Includes 4 ATR 72s, 3 ATR 42s, 4 Saab 340s and 5 Saab 2000s.

SHAREHOLDERS

As at 13 May 1996 there were 235,062 shareholders (15 May 1995: 241,454). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares
1 - 1,000		
1,001 - 5,000	91.01	6.51
5,001 - 10,000	7.37	3.68
10,001 - 50,000	0.82	1.37
50,001 - 100,000	0.42	2.13
100,001 - 250,000	0.09	1.67
250,001 - 500,000	0.13	5.12
500,001 - 750,000	0.07	6.42
750,001 - 1,000,000	0.02	3.76
Over 1,000,000	0.02	4.32
	0.05	65.02
	100.00	100.00

Classification of shareholding	Percentage of shareholders	Percentage of shares
Individuals		
Bank or Nominee	95.44	10.58
Assurance and insurance companies	3.66	82.89
Pension funds	0.11	1.57
Investment trusts and funds	0.02	0.72
Other corporate holders	0.40	2.76
	0.37	1.48
	100.00	100.00

Mercury Asset Management plc has a declared interest in 13.12 per cent of the shares of the Company. British Airways is not aware of any other interest in its shares of ten per cent or more nor of any material interest of three per cent or more.

FINANCIAL CALENDAR

Financial year end	
Annual General Meeting	31 March 1996
	16 July 1996

ANNOUNCEMENT OF 1996-97 RESULTS AND DIVIDENDS

First quarter results to 30 June 1996	
Second quarter results to 30 September 1996	August 1996
Interim dividend	November 1996
Third quarter results to 31 December 1996	November 1996 (payable January 1997)
Preliminary announcement	February 1997
Report and Accounts	mid May 1997
Final dividend	June 1997
	May 1997 (payable July 1997)

REGISTERED OFFICE

Speedbird House, Heathrow Airport (London), Hounslow TW6 2JA Registered number - 1777777

OUTSIDE ADVISERS

Company Registrars: The Royal Bank of Scotland plc, Securities Services - Registrars, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH
ADR Depository: Morgan Guaranty Trust Company of New York, 60 Wall Street, New York, NY 10260

UNSOLICITED MAIL

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

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

GLOSSARY

60

Mainline	This includes British Airways and all of its wholly-owned subsidiary undertakings.
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown.
Available tonne kilometres (ATK)	The number of tonnes (2,204 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.
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 after taxation 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, 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.

British Airways, together with its franchisees and Alliance carriers Qantas, USAir, Deutsche BA and TAT European Airlines, offer a route network covering 477 destinations in 97 countries.

**BRITISH
AIRWAYS
WORLD
ALLIANCE**

British Isles

An extensive scheduled domestic network together with close links with franchisees Brynmor Airways, CityFlyer Express, Loganair, Maersk Air, and Manx Airlines (Europe), give British Airways the widest coverage in the British Isles.

Europe

British Airways, with its partner airlines TAT European Airlines and Deutsche BA, serve 61 European cities from hubs in the UK as well as Paris and Munich in mainland Europe.

Middle East

British Airways flies to 13 destinations in the Middle East with dedicated cabin crew fluent in local languages offering superior in-flight service.

North America

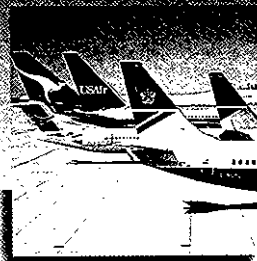
British Airways serves 25 cities in the USA and Canada and with its link into USAir's extensive domestic network, offers onward connections to 195 destinations in North America.

Asia/Pacific

British Airways and Qantas connect the UK and Australia offering over 50 flights a week. British Airways flies to 23 cities in the Asia/Pacific region enabling connections with Qantas flights to over 70 destinations in the region and the USA.

Latin America and Caribbean

British Airways serves 16 destinations and major gateways in Latin America and the Caribbean from the UK, including this year's new service to Grand Cayman, and the resumption of flights to San Juan.



Africa

Fourteen flights a week link Heathrow with South Africa, while the airline's biggest network change this year saw the transfer from Heathrow to Gatwick of 11 weekly Central and East African services, making Gatwick the airline's principal African gateway.

British Airways is the world's leading international airline – and one of the most profitable of all airlines. Its record of success has been built on quality customer service provided by a dedicated workforce, combined with world class marketing and a continual focus on cost efficiency.

An increasingly important element in profitability and service has been the formation of the airline's global alliance, a strategy based on the recognition that by the turn of the millennium almost 80 per cent of the world air travel market will be based on six major markets of the world – North America, Europe, and the Pacific region, and the markets that flow between them.

The two principal planks in British Airways' endeavour to

increased presence in North America and the Pacific. Furthermore, investments in Deutsche BA and TAT European Airlines have strengthened the airline's presence in continental Europe.

As at March 31, British Airways served 174 destinations in 83 countries. Under code-sharing arrangements, flights with BA codes serve 288 destinations in 88 countries. With alliance carriers, the global network covers 477 destinations in 97 countries.

British Airways mainline network itself last year expanded with flights resumed to Colombo, Damascus, Nassau, San Juan and Tampa, and introduced flights to Grand Cayman. A number of routes from Gatwick and UK regional services



1	2	3	4	5
6	7	8	9	10
11	12	13	14	15
16	17	18	19	
20			21	22

Front cover photographs

- 1 Mattia Capuzzo, Customer Service Agent
- 2 Sharon Flemings, Customer Service Agent
- 3 Manisha Kohli, Senior Stewardess, based in Mumbai
- 4 Clarix Yew and Vantha Samuel, Cabin Crew
- 5 Jennifer Pocock, Purser
- 6 Inder Nayar, Senior Passenger Services Agent
- 7 Natasha Centamore, Flight Despatcher
- 8 Loo See Chin and Jean Giam, Cabin Crew, based in Singapore
- 9 Concorde, celebrating 20 years of service
- 10 Pippa Wallis, Transfer Services
- 11 Sean Miles, Aircraft Technician and Stan Allaway, Coordinator, Engineering
- 12 Joy Laughlin, Cabin Service Director and Antonello Genovese, Purser
- 13 Brian Liar, Senior Technician
- 14 Joyce Crump and Elaine McCarthy, Crew Operations Officers
- 15 'Raid the Larder' is a feature of New Club World
- 16 Boeing 777, latest addition to the British Airways fleet
- 17 (left to right) Andrea Brown, Stewardess; Brandon Starkie, Steward; Laura Richards, Stewardess; Clive Dwyer, Steward; Samantha Stephenson, Stewardess
- 18 Simone Constable, Special Services Executive
- 19 Last year, some 32 million travellers flew with British Airways
- 20 Parminder Kooner, Customer Service Agent
- 21 The coat of arms of the World's Favourite Airline
- 22 Edward Chatfield, Flight Captain

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