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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should immediately seek personal financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services Act 1986.

If you no longer hold any Ordinary Shares in British Airways Plc, you should send this document, together with the accompanying Provisional Allotment Letter, to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Copies of this document, which comprises listing particulars relating to British Airways Plc in accordance with the listing rules made under Part IV of the Financial Services Act 1986, have been delivered for registration to the Registrar of Companies in England and Wales as required by Section 149 of that Act.

The Company's Ordinary Shares are listed on the New York Stock Exchange and trade in the form of American Depositary Shares. Subject to compliance with United States securities laws, a separate prospectus is being issued by British Airways Plc to enable the Rights Issue to be made on a corresponding basis to holders of American Depositary Shares, as well as to registered holders of Ordinary Shares with addresses in the United States.

The Provisional Allotment Letters and the New Ordinary Shares have not been and will not be qualified under the securities laws of Canada or any province or territory thereof and will not be delivered in Canada, nor has any prospectus in relation to the New Ordinary Shares been lodged with, or registered by, the Australian Securities Commission.

Lazard Brothers & Co., Limited is acting for British Airways Plc in relation to the Rights Issue and is not advising any other person and, accordingly, will not be responsible to anyone other than British Airways Plc for providing the protections afforded to the customers of Lazard Brothers & Co., Limited or for providing advice in relation to the Rights Issue.



BRITISH AIRWAYS

1 for 4 Rights Issue
of

185,485,636 New Ordinary Shares of 25p each
at 245p per share
and

Details of Investments in USAir and Qantas
and

Audited results for the year ended
31st March, 1993



Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List. It is expected that dealings in the New Ordinary Shares will commence, nil paid, on Monday, 24th May, 1993.

The latest time for acceptance and payment in full under the Rights Issue is expected to be 3.00 p.m. on Friday, 11th June, 1993. The procedure for acceptance and payment is set out on page 12.

HOLDERS OF CONVERTIBLE CAPITAL BONDS

This document is also being sent to holders of Convertible Capital Bonds of British Airways Capital Limited in order to notify them of the adjustment to the basis of conversion and exchange resulting from the Rights Issue. The attention of such persons is drawn to the Chairman's Letter, to paragraph 6 of Part II and to paragraph 3(k) of Part VI of this document. No action is required to be taken by a holder of Convertible Capital Bonds in relation to such Bonds.

EXPLANATORY NOTES ON THE RIGHTS ISSUE

Under the Rights Issue, you are entitled to buy one New Ordinary Share in British Airways at a price of 245p for every four Ordinary Shares held by you on 10th May. This entitlement is called your "right" to New Ordinary Shares. If you are eligible to participate in the Rights Issue, a form ("Provisional Allotment Letter") will be enclosed with this document and the number of New Ordinary Shares which you are entitled to buy will be printed in Box 2 on the front page of the form.

If you have received a Provisional Allotment Letter you have the following choices available to you:

1. To buy all of the New Ordinary Shares offered to you

Send the enclosed Provisional Allotment Letter together with a cheque or banker's draft for the full amount due (printed in Box 3) to Barclays Registrars in the enclosed pre-paid envelope so as to arrive no later than 3.00 p.m. on 11th June. Your cheque or banker's draft should be made payable to "Barclays Bank PLC-A/C British Airways Plc" and crossed "A/C Payee". DO NOT SIGN the Provisional Allotment Letter or complete any of the boxes on the back.

2. To buy some but not all of the New Ordinary Shares offered to you

Send the enclosed Provisional Allotment Letter to Barclays Registrars so as to arrive no later than 3.00 p.m. on 11th June together with:

- A covering letter written by you to Barclays Registrars stating how many New Ordinary Shares you wish to buy. This number must not exceed the number of shares printed in Box 2 on the front page of the Provisional Allotment Letter.
- A cheque or banker's draft for the amount payable for the New Ordinary Shares you want to buy. Calculate the amount due by multiplying the number of New Ordinary Shares you have specified in your covering letter by 245p.

A Provisional Allotment Letter relating to the number of New Ordinary Shares for which you have not paid will be returned to you. If you take no further action your rights to these remaining New Ordinary Shares will be sold, if possible, on your behalf after the last day for payment and any proceeds forwarded to you if £3.00 or more.

3. To sell all of your entitlement to buy New Ordinary Shares

This is called a "renunciation" of your rights "nil paid". If you wish to sell or transfer all of your rights without paying anything to the Company you should sign Form X on the back page of the Provisional Allotment Letter and hand it to the person to whom you are selling or transferring your rights (known as the "renouncee").

4. To sell some but not all of your entitlement to buy New Ordinary Shares

If you wish to sell or transfer part of your rights you must first apply to have your Provisional Allotment Letter divided into two or more letters covering the exact number(s) of rights you wish to sell or transfer. This is called "splitting" your rights "nil paid". You should sign Form X on the back page of the Provisional Allotment Letter and send it, together with a covering letter written by you to Barclays Registrars stating the number of split Provisional Allotment Letters required by you and the number of rights to be covered by each, to Barclays Registrars so as to arrive no later than 3.00 p.m. on 9th June. You should then proceed as above.

5. To do nothing

You do not have to do anything. In that case you will continue to hold your existing Ordinary Shares. Your rights will be sold, if possible, on your behalf and any proceeds forwarded to you if £3.00 or more.

This is a summary only of the action you can take in connection with this Rights Issue, which is explained more fully in Part II of this document and in the Provisional Allotment Letter. If you are in any doubt as to what action to take, you should take professional advice as soon as possible. If you have queries as to how to complete the enclosed Provisional Allotment Letter you may call 081-663 0398.

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TIMETABLE FOR THE RIGHTS ISSUE

	1993
Record Date for the Rights Issue	10th May
Despatch of Provisional Allotment Letters	21st May
Dealings in New Ordinary Shares expected to commence, nil paid	24th May
Latest time and date for splitting, nil paid	3.00 p.m. on 9th June
Latest time and date for acceptance and payment in full	3.00 p.m. on 11th June
Latest time and date for splitting, fully paid	3.00 p.m. on 30th June
Latest time and date for registration of renunciation	3.00 p.m. on 2nd July
Certificates for New Ordinary Shares despatched	30th July

If you have any queries on the procedure for acceptance and payment, you should contact New Issues Department, Barclays Registrars, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH (telephone 081-663 0398).

DEFINITIONS

In this document the following expressions shall have the following meanings, unless the context otherwise requires:

"British Airways" or the "Company"	British Airways Plc
"Directors" or "Board"	the board of directors of British Airways whose names appear on page 5
"Group"	the Company and its subsidiaries
"USAir"	USAir Group, Inc. including, where appropriate, its subsidiaries
"Qantas"	Qantas Airways Limited including, where appropriate, its subsidiaries
"TAT European Airlines"	TAT European Airlines S.A.
"New Ordinary Shares"	new ordinary shares of 25p each in the capital of British Airways to be issued pursuant to the Rights Issue
"Ordinary Shares"	ordinary shares of 25p each in the capital of British Airways
"Option Schemes"	the British Airways Executive Share Option Scheme 1987, the British Airways Savings Related Share Option Scheme 1987 and the British Airways U.S. Executive Share Option Plan
"Profit Share Scheme"	the British Airways Profit Sharing Share Scheme
"Convertible Capital Bonds"	£320,215,349 9¼ per cent. Convertible Capital Bonds 2005 of British Airways Capital Limited, guaranteed on a subordinated basis by British Airways
"Rights Issue"	the Offer to Qualifying Shareholders by way of rights to purchase an aggregate of 185,485,636 New Ordinary Shares on the basis of one New Ordinary Share for every four Ordinary Shares held on the Record Date, at 245p per New Ordinary Share on the terms set out in this document
"Qualifying Shareholders"	holders of Ordinary Shares on the register of British Airways on the Record Date who are entitled to subscribe for New Ordinary Shares
"Record Date"	the close of business on 10th May, 1993
"Provisional Allotment Letter"	the renounceable provisional allotment letter in respect of New Ordinary Shares to be sent to Qualifying Shareholders
"Lazard Brothers"	Lazard Brothers & Co., Limited
"Warburg Securities"	S.G. Warburg Securities Ltd.
"UBS"	UBS Limited
"London Stock Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
"United States" or "U.S."	the United States of America, its territories and possessions, any State of the United States and the District of Columbia

PART I

British Airways Plc (Registered in England No. 1777777)

Sir Colin Marshall (Chairman)
Sir Michael Angus (Deputy Chairman)
R.J. Ayling (Group Managing Director)
D.M. Stevens (Chief Financial Officer)
Captain C.A. Barnes
A.M. Davies
Sir Francis Kennedy, KCMG, CBE
The Hon. C.H. Price II
Lord White of Hull, KBE

Registered Office:
Speedbird House
Heathrow Airport (London)
Hounslow
Middlesex
TW6 2JA

18th May, 1993

To the holders of Ordinary Shares and to the participants in the Profit Share Scheme and, for information only, to the holders of Convertible Capital Bonds and to the holders of options under the Option Schemes.

Dear Shareholder,

INTRODUCTION

It was announced today that British Airways is raising £441.8 million, net of expenses, by way of a Rights Issue of 185,485,636 New Ordinary Shares at a price of 245p per New Ordinary Share on the basis of one New Ordinary Share for every four Ordinary Shares held on the Record Date. I am writing to you today to give you details of the Rights Issue and of the recent investments made by your Company in USAir and Qantas, together with the results for the financial year ended 31st March, 1993.

This is the first opportunity I have had to write to you since my appointment as Chairman on 5th February this year, following the decision by Lord King to bring forward his planned retirement. I must, therefore, begin by paying the fullest possible tribute to my predecessor. Lord King joined British Airways in 1981 and since then the airline, under his chairmanship, has been transformed from a loss-making state owned business into one of the most successful and profitable airlines in the world. In view of his contribution to British Airways and to world aviation, for which he has earned worldwide respect, your Board is delighted that Lord King has accepted our invitation to become the first President of British Airways.

I am pleased to say that recent months have seen a number of major developments in British Airways' long-term goal of becoming a global airline. In January this year, we announced a revised agreement with USAir whereby the Group acquired preferred stock convertible into a 24.6 per cent. undiluted economic interest in USAir and on 10th March, 1993 we acquired a 25 per cent. stake in Qantas, Australia's principal international air carrier. These two investments

give British Airways significant strategic alliances in the major markets of North America and the Pacific region and, taken together with British Airways' own extensive route network, give British Airways a stronger presence in all of the six major world airline markets.

INVESTMENT IN USAIR

On 21st January, 1993 British Airways announced that it had agreed terms for a new alliance between British Airways and USAir. The first stage of the transaction has already been completed with the investment by the Group of \$300 million (£198 million) in new convertible preferred stock of USAir and the signing of a flight code sharing agreement. The Group also agreed in early May to invest an additional \$100.7 million in convertible preferred stock of USAir pursuant to the exercise of pre-emption rights following the exercise of employee options and the public offering by USAir of \$231 million (net) of common stock in the U.S. market. In addition, the Group has options, and in certain circumstances described in paragraph 8(c) of Part VI can be required, to invest a further \$450 million (approximately £290 million) (subject to adjustment) over the next five years through two additional purchases of preferred stock in USAir.

USAir is the sixth largest U.S. airline and the fourth largest in terms of U.S. domestic traffic, measured by scheduled revenue passenger kilometres. In 1992, USAir carried 54.7 million passengers of whom over 53 million were on domestic services. Its route network includes 40 U.S. states, Canada, the Bahamas, Bermuda, Puerto Rico, the United Kingdom, Germany and France, serving a total of 213 destinations (including those of the USAir Express affiliates and franchisees). Its primary connecting hubs are located at the Pittsburgh, Charlotte/Douglas, Philadelphia and Baltimore/Washington international airports. USAir has a major presence in the New York metropolitan market through its service at La Guardia airport, from which it also operates a shuttle service to Boston and Washington under a management agreement. As at 31st December, 1992 USAir had approximately 48,900 full time equivalent employees and a fleet of 572 aircraft with an average age of 8.8 years.

In the financial year ended 31st December, 1992, USAir reported a loss before tax of \$601 million on operating revenues of \$6,686 million. As at 31st December, 1992, net assets were \$44 million. For the three months ended 31st March, 1993, USAir reported an operating profit of \$2 million and a loss before tax of \$61 million.

USAir has agreed to use its best efforts to cause British Airways to be proportionately represented on USAir's Board of Directors. Accordingly, Derek Stevens (Chief Financial Officer), Roger Maynard (Director of Corporate Strategy) and I have joined the 16 member USAir Board.

British Airways and USAir have entered into a code sharing agreement under which USAir flights from cities across the United States will link with British Airways' trans-Atlantic services at the Baltimore/Washington, Philadelphia and Pittsburgh gateways. British Airways expects to code share with USAir to 38 cities in the United States. Code sharing in respect of three of these cities commenced on 1st May, 1993. These USAir services will operate with both British Airways and USAir flight numbers. Schedules will be co-ordinated and through check-in introduced with smoother transfers for passengers and their baggage. USAir has agreed to divest its routes from the United States to the United Kingdom upon implementation of the code sharing agreement, and these routes will be operated under British Airways' route authority using USAir aircraft and crews.

On 15th March, 1993 the U.S. Department of Transportation (the "DOT") issued an order approving the code sharing agreement for the normal period of one year and instituting a formal review of the investment agreement and its effects on the citizenship of USAir under U.S. restrictions on foreign ownership of U.S. airlines. The order stated that the DOT's review indicates that the Group's initial investment does not impair USAir's citizenship, but invited further analysis and public comment, particularly with respect to the second and third stages of the transaction.

The preferred stock in USAir held by the Group is convertible at the Group's option at any time on or after 21st January, 1997 into USAir common stock. Until converted, the initial \$300 million preferred stock is entitled to cumulative quarterly cash dividends of 7 per cent. per annum. On conversion to USAir common stock, it would, prior to USAir's recent issue of further common stock, have represented 24.6 per cent. of USAir's equity share capital on an undiluted basis and approximately 17 per cent. on a fully diluted basis.

Under the terms of the investment agreement, the Group has certain pre-emptive rights to maintain the size of its potential proportionate interest in USAir's share capital in the event of certain issues by USAir of additional shares of common stock, including the conversion of certain outstanding convertible preferred stock of USAir and the exercise of any employee stock options to acquire USAir common stock. To maintain its 24.6 per cent. interest in USAir's equity share capital on an undiluted basis, the Group in early May exercised its pre-emptive rights in connection with a public offering of USAir common stock and agreed to purchase shares of a new series of convertible preferred stock for \$99.2 million. It also exercised its options in full in connection with the issue of USAir common stock on the exercise of certain employee stock options and agreed to purchase a further new series of convertible preferred stock for \$1.5 million. These additional series of convertible preferred stock are entitled to cumulative quarterly cash dividends of 0.5 per cent. over LIBOR. If all existing USAir preferred stock is converted and all existing employee options are exercised, the maintenance of the Group's potential proportionate interest would involve the Group in substantial further investments. The Board will consider whether to make each such investment at the relevant time in the light of the then circumstances.

The investment agreement between British Airways and USAir is subject to the approval of the shareholders of USAir at its annual general meeting on 26th May this year. After approval, the preferred stock in USAir held by the Group will carry an estimated 21 per cent. of the voting interest in USAir. If the investment agreement between British Airways and USAir were not to be approved by USAir shareholders, the preferred stock already purchased by the Group would be required to be redeemed at its purchase price, together with accrued dividends. The preferred stock is redeemable at the option of USAir if the Group has not elected to proceed with the second purchase of preferred stock by 21st January, 1996, or, in any event, on 21st January, 2008 if not previously converted.

The further \$450 million preferred stock in USAir which the Group may acquire in the future will have financial terms similar to those of the preferred stock initially acquired by the Group. Assuming future acquisition and full conversion at the current conversion prices, the Group would hold 40.7 per cent. of USAir's equity share capital on an undiluted basis and 31.2 per cent. on a fully diluted basis. The Group's total voting interest in USAir is limited to the maximum voting interest permitted under restrictions on aggregate foreign ownership of U.S. airlines (currently 25 per cent.).

Further information on USAir is contained in Parts IV and VII of this document and the contract between British Airways and USAir is further described in paragraph 8(c) of Part VI.

INVESTMENT IN QANTAS

On 10th March, 1993 British Airways completed the agreement for the Group to acquire 25 per cent. of Qantas from the Australian Government for A\$666 million (£304 million). Under the Australian Government's privatisation plan, the remaining 75 per cent. of the shares in Qantas is expected to be offered to the public within the next 12 months.

Qantas is Australia's principal international air carrier and is the 15th largest airline in the world in terms of revenue passenger kilometres. In September 1992 Qantas acquired Australian Airlines, one of the two dominant domestic air carriers in Australia, from the Australian Government. The acquisition has doubled the size of Qantas' fleet and provided it with an

extensive domestic route network which complements its existing international network. In the year ended 30th June, 1992, Qantas and Australian Airlines' flights carried more than 12 million passengers and together they serve more than 60 destinations. Qantas expects that synergies realised from the acquisition will lead to substantial cost savings and increased revenues for the enlarged group.

The majority of Qantas' international destinations are within Asia. Qantas is also a major carrier on the routes from Australia to the United Kingdom and Continental Europe, the West Coast of the United States and New Zealand. At 30th June, 1992 the enlarged group employed a workforce of 27,518 and operated a combined fleet of 128 aircraft of which 54 were wide-bodied jets out of a total of 88 jets. The average age of the combined jet fleet was 5.4 years.

In the financial year ended 30th June, 1992, Qantas reported a profit before tax of A\$148 million on operating revenues of A\$4,036 million while Australian Airlines made a loss before tax of A\$69 million on operating revenues of A\$1,594 million over the same period. As at 30th June, 1992 Qantas and Australian Airlines had net assets of A\$1,049 million and A\$251 million respectively. In February 1993, the Australian Government recapitalised Qantas to the extent of A\$1.35 billion which has been used principally to repay Government guaranteed loans.

The Group has the right to nominate three of the 12 directors of Qantas and, accordingly, Roger Maynard, Nick Tait (General Manager for Australia and New Zealand) and I have joined the Qantas board. In addition, a co-ordination committee has been created with an equal number of representatives of Qantas and British Airways to identify and agree opportunities for synergies. This is backed by a ten year commercial agreement between British Airways and Qantas to govern co-operative activity.

Benefits are expected to accrue to both British Airways and Qantas as a result of increasing the number of passengers and consignments of freight connecting between the two route networks and through the joint marketing of services. There are also expected to be cost savings from the rationalisation and sharing of facilities and economies of scale.

Further information on Qantas is contained in Parts V and VII of this document and the contract between British Airways and the Commonwealth of Australia is further described in paragraph 8(d) of Part VI.

RIGHTS ISSUE

Reasons for the Rights Issue

The major strategic investments in USAir and Qantas described above have required an expenditure to date of approximately £264 million and £304 million respectively. In addition British Airways has in the last seven months made an investment in TAT European Airlines of some £15 million and has acquired the assets of Davies & Newman Holdings PLC (principally Dan-Air Services Limited) for an effective cost of £45 million.

The Group has financed these investments from cash resources and bank facilities. This has had the effect of increasing the Group's ratio of net debt to total capital. Your Board believes that, while this ratio remains acceptable, it is in the best interests of the Company to raise further equity from shareholders. The proceeds of the Rights Issue will reduce net borrowings.

Terms of the Rights Issue

Your Board announced today that British Airways is raising approximately £442 million, net of expenses, by way of a Rights Issue of 185,485,636 New Ordinary Shares at a price of 245p per New Ordinary Share on the basis of one New Ordinary Share for every four held. The Rights Issue is being made to the holders of Ordinary Shares on the register at the close of business on 10th May, 1993. The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the existing Ordinary Shares of British Airways.

The Rights Issue has been underwritten severally as to one third each by Lazard Brothers, Warburg Securities and UBS. The brokers to the issue are Warburg Securities and UBS.

RESULTS, CURRENT TRADING AND PROSPECTS

Audited results for the year ended 31st March, 1993

Group results for the year ended 31st March, 1993 once again reflected the difficult trading conditions associated with economic recession, particularly declining yields brought about by a number of factors including reduced premium traffic and intense competitive pressures resulting from excess capacity in the industry. Exchange rates also adversely affected the year's results, with the summer peak for overseas sales coinciding with a strong pound which reduced the sterling value of those sales. The benefits of weaker sterling took time to show, since many passengers booked and paid for their tickets before devaluation, but had begun to appear in the fourth quarter.

The pretax profit for the year ended 31st March, 1993 was £185 million (1992: £285 million as published, £434 million after restatement to reflect Financial Reporting Standard 3). The pretax profit for the year was 35.1 per cent. lower than the previous year adjusted to exclude last year's profit on the sale of the engine overhaul business.

Profit after tax was £178 million, equivalent to earnings of 24.1p per share compared to 35.3p last year (adjusted basis). On a fully diluted basis, earnings per share were 22.3p.

Net cash flow from operating activities totalled £629 million, up £38 million on last year. Outlay on new aircraft and other fixed assets in the year amounted to £1,058 million, including £513 million of assets acquired under finance leases and hire purchase arrangements (1992: £743 million and £362 million respectively), and £574 million was invested in associated undertakings, including USAir, Qantas and TAT European Airlines, whereas last year saw a cash inflow from the sale of the engine overhaul business of £274 million. These were the chief factors in accounting for a financing requirement of £1,115 million against an inflow of £28 million last year.

Borrowings net of cash and short term deposits (net debt) at 31st March, 1993 amounted to £2,453 million, up £1,281 million on the previous year. Capital and Reserves, together with Convertible Capital Bonds, declined by £70 million to £1,534 million after a £149 million goodwill set off relating to acquisitions during the year. The resultant net debt: total capital ratio at 31st March, 1993 (defining total capital as Capital and Reserves, Convertible Capital Bonds and net debt) was 62 per cent. compared to 42 per cent. last year.

An interim dividend of 3.06p per share was paid in January and a second interim dividend of 7.54p per share in lieu of a final dividend was paid on 5th April, making a total of 10.60p per share, an increase of 4.1 per cent. on the previous year. Dividends for the year were covered 2.3 times by earnings.

British Airways' statement of results for the year ended 31st March, 1993 is set out in Part III of this document and the audited accounts for the year are set out in Part VII.

Current trading

British Airways' traffic and capacity statistics for April 1993 showed that scheduled revenue passenger kilometres in the month increased by 8.4 per cent. compared with April 1992. This reflected the end of certain promotional activities in March 1993 which had the effect of pulling forward some Easter demand with a proportion of the longhaul holiday travel taking place in March. Scheduled available seat kilometres increased by 14.0 per cent. over the same period, reflecting the introduction of new capacity through the addition of new destinations, new routes and services and additional long haul frequencies. This new capacity was anticipated to produce lower passenger seat factors than the system average during the initial operating periods. As a result, the scheduled passenger load factor for April 1993 was 67.6 per cent., 3.5 points lower than the previous year. Premium traffic in April 1993 grew for the first time since August 1992.

Three trade unions, who together represent the majority of the Group's employees, are separately balloting their members seeking approval for strike action or industrial action short of strike

action. These ballots relate generally to concerns arising from the management's continuing programme to reduce the cost base of the Group, in particular the transfer of short-haul Gatwick routes from the Company to the new subsidiary British Airways (European Operations at Gatwick) Limited, formerly Dan-Air Services Limited. Under the proposals put forward in relation to Gatwick no employee is being compelled to accept lower rates of pay. Although the Directors cannot rule out that these ballots may result in some strike or other industrial action, they believe it is important for the management to be able to continue the existing programme of cost reduction.

Prospects

The performance of the Group, during a period of widespread difficulty for the airline industry, has been impressive. Given the measures we are taking to increase revenues and reduce costs, British Airways remains well positioned to take advantage of the improved prospects for 1993 and 1994. In the shorter term, excess capacity and the relative weakness of premium traffic are expected to continue to influence yields. Further exchange rate benefits should accrue in 1993 compared with 1992 if current rates continue, particularly in the summer peak.

Steps are being taken which are designed to achieve higher market share and above average yield. Even excluding the effect of the acquisition of the Dan-Air routes, the Group achieved market share growth during the year to 31st March, 1993. New or additional services have recently been introduced to Mexico City, San Francisco, Beijing, Seattle, Vancouver, Hong Kong and, operated through British Asia Airways, Taipei. In addition, British Airways has launched new trans-Atlantic services from Birmingham and Manchester.

During the current year to 31st March, 1994, the Group expects to introduce 14 new aircraft into service and to withdraw 10. Additional capacity growth is expected to be achieved through the more efficient utilisation of aircraft and the use of larger aircraft. In total, scheduled available seat kilometres are projected to increase by approximately 13 per cent. in the year to 31st March, 1994. With few aircraft deliveries, capacity growth in the following year is presently scheduled to be some 4 per cent.

British Airways has embarked on an extensive programme of significant product development for its premium brands. This includes restyled Concorde interiors, a sleeper service in First Class, seat-back videos in Club World, a new lounge pavilion at Heathrow and the first airline arrivals lounges at Heathrow and Gatwick. The airline has also launched a global frequent flyer programme. Supported by a worldwide advertising campaign, these changes demonstrate our commitment to quality customer service and are expected to benefit our competitive position both in the United Kingdom and overseas.

British Airways remains committed to a continuous programme to reduce its cost base while maintaining and enhancing service quality. In the year to 31st March, 1993 we exceeded our target of £150 million achieved largely through annual cost savings. In the year to 31st March, 1994 we plan to add further profit improvement benefits of the same order of magnitude as last year. All major departments are contributing to this programme which features changes in working practices, better value for money from our suppliers and better utilisation of aircraft and other assets.

The investments in USAir and Qantas give the Group strategic alliances in the major markets of North America and the Pacific region, and the investments in Deutsche BA and TAT European Airlines increase the airline's presence in continental Europe. Taken together with our existing extensive route network, these investments give British Airways a stronger presence in all of the six major world airline markets. We are confident that the longer term outlook for British Airways is very promising.

CONVERTIBLE CAPITAL BONDS

As a result of the Rights Issue, the basis of conversion and exchange of the Convertible Capital Bonds has been adjusted from one Ordinary Share for every 2.43 Convertible Capital Bonds held to one Ordinary Share for every 2.34 Convertible Capital Bonds held. Further information regarding the Convertible Capital Bonds is set out in paragraph 6 of Part II of this document and paragraph 3(k) of Part VI.

ACTION TO BE TAKEN

As a shareholder in British Airways, you are being offered the right to buy one New Ordinary Share for every four Ordinary Shares you currently hold. An explanation of the choices available to Qualifying Shareholders is set out on page 2 of this document. If you are in any doubt as to the action you should take, you should consult your financial adviser as soon as possible.

If you qualify for the Rights Issue, you will find enclosed a Provisional Allotment Letter showing the number of New Ordinary Shares that you are entitled to buy and containing full details regarding the procedure for acceptance and payment, renunciation, splitting and registration in respect of the New Ordinary Shares. The latest date for the return of Provisional Allotment Letters and payment is 3.00 p.m. on 11th June, 1993. Further details regarding the terms and conditions of the Rights Issue are set out in Part II of this document.

Overseas shareholders

Information for shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, appears in paragraph 8 of Part II of this document, which sets out the restrictions applicable to such shareholders.

Subject to compliance with U.S. securities laws, a separate U.S. prospectus will be issued by British Airways to enable the Rights Issue to be made on a corresponding basis to U.S. persons who hold American Depositary Shares representing Ordinary Shares, as well as to U.S. persons who hold Ordinary Shares.

Taxation

Information regarding U.K. taxation with regard to the Rights Issue is set out in paragraph 7 of Part II of this document. **If you are in any doubt as to your tax position, you should consult your financial adviser as soon as possible.**

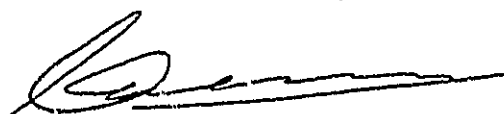
Additional information

Your attention is drawn to the additional information set out in Parts III to VI of this document and to the audited accounts for the year ended 31st March, 1993 set out in Part VII.

RECOMMENDATION

Your Directors, who have been advised by Lazard Brothers, consider that the Rights Issue is in the best interests of British Airways and its shareholders. The Directors intend to take up their full entitlements to New Ordinary Shares.

Yours sincerely,



Sir Colin Marshall
Chairman

PART II

Terms and Conditions of the Rights Issue

1. Details of the Rights Issue

British Airways is raising approximately £442 million, net of expenses, by a Rights Issue of 185,185,636 New Ordinary Shares at a price of 245p per Ordinary Share. The New Ordinary Shares are being offered for subscription by way of rights to holders of Ordinary Shares on the register at the close of business on 10th May, 1993 on the following basis and otherwise as set out herein:

1 New Ordinary Share for every 4 Ordinary Shares held

and so in proportion for any greater number of Ordinary Shares held. Fractions of New Ordinary Shares will not be allotted to shareholders but will be aggregated and sold in the market for the benefit of the Company and entitlements will be rounded down to the nearest whole number of New Ordinary Shares.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the existing Ordinary Shares.

Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List. It is expected that admission will become effective and that dealings in the New Ordinary Shares will commence, nil paid, on 24th May, 1993. The Rights Issue is conditional on the underwriting agreement described in paragraph 8(a) of Part VI of this document becoming unconditional in all respects including the admission of the New Ordinary Shares to the Official List becoming effective by the decision of the London Stock Exchange to admit such shares to Listing being announced in accordance with Rule 520 of the Rules of the London Stock Exchange no later than 9.30 a.m. on 24th May, 1993, or such later date as may be agreed between Lazard Brothers and the Company, being no later than 1st June, 1993.

The attention of overseas shareholders is drawn to paragraph 8 below.

2. Action to be taken

Your attention is drawn to the explanatory notes on page 2 of this document. The following is a more detailed explanation of the action you may take in connection with the Rights Issue.

(a) Procedure for acceptance and payment

The Provisional Allotment Letter which, in the case of Qualifying Shareholders, is enclosed with this document sets out the holding of Ordinary Shares on which your entitlement is based and the number of New Ordinary Shares which have been provisionally allotted to you and for which you are entitled to subscribe. The Provisional Allotment Letter contains full details regarding acceptance and payment, consolidation, splitting, renunciation and registration.

To take up your entitlement in whole or in part, you must lodge your Provisional Allotment Letter in accordance with the instructions therein, together with a cheque or other form of remittance for the full amount payable on acceptance, by post or by hand with New Issues Department, Barclays Registrars, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only (during normal business hours) with Barclays Registrars, Ground Floor, 170 Fenchurch Street, London EC3, as soon as possible but in any event so as to be received not later than 3.00 p.m. on 11th June, 1993.

The Company reserves the right to accept (i) Provisional Allotment Letters and accompanying remittances which are received through the post not later than 10.00 a.m. on 12th June, 1993 (the cover bearing a legible postmark not later than 3.00 p.m. on 11th June, 1993) and (ii) applications in respect of which remittance is received prior to 3.00 p.m. on 11th June, 1993 from an authorised person (as defined in the Financial Services Act 1986) specifying the New Ordinary Shares concerned and undertaking to lodge the relevant Provisional Allotment Letter duly completed in due course.

In addition, as subscription by holders of American Depositary Receipts evidencing the American Depositary Shares traded on the New York Stock Exchange closes at 5.00 p.m. (New York City time) on the same day as the Rights Issue closes in London, acceptance by Morgan Guaranty Trust Company of New York as depositary will be treated as valid provided it is received not later than 8.30 a.m. (London time) on 14th June, 1993.

Cheques and banker's drafts in respect of remittances must be in pounds sterling, made payable to "Barclays Bank PLC—A/C British Airways Plc", crossed "A/C Payee", drawn on a bank or a branch of a bank or a building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque & Credit Clearing Company Limited or the CHAPS & Town Clearing Company Limited or a member of either of the committees of the Scottish or Belfast Clearing Houses, or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sorting code in the top right hand corner. Cheques and banker's drafts in respect of remittances may be presented for payment upon receipt. It is a term of the Rights Issue that cheques shall be honoured on first presentation and the Company may elect not to treat as valid any acceptances in respect of which cheques are not so honoured. No interest will be allowed on payments made before they are due. All enquiries in connection with the Provisional Allotment Letters should be addressed to New Issues Department, Barclays Registrars, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH (telephone 081-663 0398).

(b) Dealings in nil paid rights

Dealings on the London Stock Exchange in the rights to subscribe for the New Ordinary Shares provisionally allotted are expected to commence, nil paid, on 24th May, 1993. A transfer of such rights can be made by renunciation of the Provisional Allotment Letter or, in the case of any person in whose favour the rights have been renounced, by delivery of such letter to the transferee.

(c) Dealings in fully paid rights

After acceptance of the provisional allotment in accordance with the provisions set out in this document and in the Provisional Allotment Letter, the fully paid rights to the New Ordinary Shares may, up to and including 2nd July, 1993, be transferred by renunciation of the relevant Provisional Allotment Letter and may be registered in the name of the renouncee by lodging the same as described in paragraph (f) below by post or by hand with New Issues Department, Barclays Registrars, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only (during normal business hours) with Barclays Registrars, Ground Floor, 170 Fenchurch Street, London EC3. Thereafter the New Ordinary Shares will be registered and transferable by written instrument of transfer in any usual or common form. Dealings in the New Ordinary Shares are expected to commence, fully paid, on 14th June, 1993.

(d) Registration in the name of a Qualifying Shareholder

A Qualifying Shareholder who wishes to have all his entitlement to New Ordinary Shares registered in his name must accept such allotment in accordance with the provisions summarised herein and set out in the Provisional Allotment Letter but need take no further action: a share certificate is expected to be sent to him by post on 30th July, 1993.

(e) Renunciation and splitting

The Provisional Allotment Letters are fully renounceable, subject to the terms and conditions thereof.

A Qualifying Shareholder who wishes to transfer all the New Ordinary Shares comprised in a Provisional Allotment Letter must complete and sign Form X on such letter and hand the entire letter to the transferee, or to the broker or bank who acts for such shareholder in the transaction. The latest time for registration of renunciation is 3.00 p.m. on 2nd July, 1993.

If a Qualifying Shareholder wishes to have registered in his own name some only of the New Ordinary Shares to which he is entitled and to transfer the remainder or to transfer all the shares but to different persons, he may have the letter split, for which purpose he must complete and sign Form X on such letter. The letter must be lodged by post or by hand with New Issues Department, Barclays Registrars, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only (during normal business hours) with Barclays Registrars, Ground Floor, 170 Fenchurch Street, London EC3, not later than 3.00 p.m. on 9th June, 1993, if nil paid, or by 3.00 p.m. on 30th June, 1993, if fully paid, to be cancelled and exchanged for the split letters required. The number of split letters required and the number of New Ordinary Shares to be comprised in each should be stated in an accompanying letter. Form X on split letters will be marked "original duly renounced" before issue.

(f) Registration in the name of a person other than a Qualifying Shareholder

The renouncee or his agents must complete Forms Y and Z and lodge the entire letter by post or by hand with New Issues Department, Barclays Registrars, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only with Barclays Registrars, Ground Floor, 170 Fenchurch Street, London EC3 not later than 3.00 p.m. on 2nd July, 1993. Registration cannot be effected unless the letter is fully paid.

(g) Share certificates

Share certificates are expected to be despatched by post on 30th July, 1993 to the registered holder. After 30th July, 1993 Provisional Allotment Letters will cease to be valid for any purpose whatsoever. After 2nd July, 1993 and pending the issue of share certificates, instruments of transfer will be certified by Barclays Registrars, P.O. Box 34, Northwich, Cheshire, CW9 7RD against lodgement of fully paid Provisional Allotment Letters and/or, in the case of renunciations, fully paid registration receipt forms (Form Z) duly stamped by Barclays Registrars.

(h) Posting

All documents and cheques posted to or by the persons entitled thereto will be posted at their risk.

3. Procedure in respect of rights not taken up

- (a) In certain circumstances, as outlined in paragraph 2(a) above, acceptances received after 3.00 p.m. on 11th June, 1993 may be treated as valid. Subject thereto, if payment in full (whether by the original allottee or any person in whose favour the rights have been renounced) is not received by 3.00 p.m. on 11th June, 1993, the provisional allotment will be deemed to have been declined and will be cancelled. Arrangements have been made with Lazard Brothers for the sale in the market not later than 4.30 p.m. on 15th June, 1993 of any New Ordinary Shares not taken up, if they can be sold at a price at least equal to the issue price and expenses of sale. Any net proceeds (after deduction of the subscription price and such expenses of sale) will be distributed *pro rata* by cheque, on or about 30th June, 1993, at their risk to provisional allottees originally entitled thereto except that amounts of less than £3.00 will not be distributed but will be aggregated and retained for the benefit of the Company.

- (b) The entitlements of any shareholders with registered addresses in Canada or Australia, who will not receive Provisional Allotment Letters, may be sold in the market nil paid at a price at least equal to the expenses of sale. Any net proceeds of such sale will be distributed *pro rata* by cheque to such shareholders except that amounts of less than £3.00 will not be distributed but will be retained for the benefit of the Company. Otherwise, the arrangements described under paragraph 3(a) above will apply.
- (c) Neither the Company nor any person arranging any such sales, as referred to in paragraphs 3(a) and (b), shall be responsible for any insufficiency or alleged insufficiency of any price at which the New Ordinary Shares or entitlements may be sold or the timing of any sales.

4. Restrictions on ownership of British Airways shares

Rights of British Airways to operate, in particular on international routes, could be withdrawn if British Airways ceased to be substantially owned and effectively controlled by U.K. nationals. Accordingly, the Articles of Association of British Airways contain powers which may be used to limit the number or voting rights of shares in which non-U.K. nationals own interests or, if necessary, to require their compulsory disposal, or to restrict their transferability. As at 14th May, 1993, approximately 37.2 per cent. of the Ordinary Shares were Foreign Interest Shares (as described in paragraph 4(c)(i) of Part VI as "Relevant Shares"). There is no accepted international agreement as to what level of ownership or control must be retained by U.K. nationals, but, in the absence of intervention from a foreign government or large interests of single or associated non-U.K. nationals, the Directors would not generally expect to have to apply any restriction unless the proportion of Foreign Interest Shares exceeded 40 per cent. or to have to set a limit on Foreign Interest Shares below that level. At present, but without limiting their freedom to act to protect the Company's operating rights in the future, the Directors do not believe an intervention to be necessary.

To enable the Directors to identify Foreign Interest Shares, each transferee of shares generally has to provide a declaration as to the nationality of persons having interests in those shares and each shareholder is obliged to notify British Airways if any of his shares become Foreign Interest Shares. A nationality declaration, which is printed in Form Y on the Provisional Allotment Letter enclosed with this document, must therefore be completed by all renounees (but not allottees whose names are printed on the Provisional Allotment Letter) who wish to apply for registration of New Ordinary Shares in their names. Failure by a renounee to complete the nationality declaration could prevent registration of New Ordinary Shares in his name.

5. The Option Schemes

In accordance with the rules of the Option Schemes, the Directors propose to make adjustments to the options and to the numerical limits in the Option Schemes to take account of the Rights Issue. Such adjustments will be subject to written confirmation from the auditors of the Company that such adjustments are, in their opinion, fair and reasonable and will be, where appropriate, subject to Inland Revenue approval. Subject to such confirmation and approval, the Company will communicate details of any adjustments to option holders in due course.

6. The Convertible Capital Bonds

In accordance with the terms and conditions of the Convertible Capital Bonds, the basis of conversion and exchange thereof has been adjusted to take account of the Rights Issue so that holders of Convertible Capital Bonds shall now be entitled on conversion and exchange to one Ordinary Share for every 2.34 Convertible Capital Bonds held (the "adjusted exchange rate"). The adjusted exchange rate has been calculated by multiplying the initial conversion and exchange rate of 2.43 by the following fraction:

$$\frac{SC + MP}{SC + RI}$$

where:

SC is the number of Ordinary Shares in issue immediately before announcement of the Rights Issue.

MP is the number of Ordinary Shares which the aggregate amount payable for the New Ordinary Shares to be issued by way of rights would purchase at 298p per Ordinary Share (being the average of the mid-market prices of an Ordinary Share, published in the Official List of the London Stock Exchange for the five dealing days ending on 14th May, 1993).

RI is the number of New Ordinary Shares to be issued by way of rights.

British Airways' auditors, Ernst & Young, have certified that this adjustment is in their opinion appropriate. It is not intended to issue a replacement certificate for any Convertible Capital Bonds and holders of Convertible Capital Bonds should therefore keep this Circular or details of the adjusted exchange rate with their existing certificates.

7. United Kingdom Taxation

The Directors have been advised, based upon the current law and Inland Revenue practice in the U.K. and assuming that the relevant provisions of the Finance Bill currently before the U.K. Parliament will be enacted as proposed, as follows:

(a) Stamp duty and stamp duty reserve tax

No U.K. stamp duty or stamp duty reserve tax is payable by holders of Ordinary Shares on the issue of Provisional Allotment Letters nor on the registration of the original holders or their renounees unless such holders are persons to whom the depositary receipt or clearance service charge may apply.

Where rights to shares represented by a Provisional Allotment Letter are sold on or before the last date for registration of renunciation, the purchaser will not be liable to stamp duty but will be liable to stamp duty reserve tax at the rate of 50p per £100 (or part of £100) of the consideration paid.

The transfer on sale of New Ordinary Shares represented by Provisional Allotment Letters after the last date for registration of renunciation will be liable to *ad valorem* stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within two months of the date of that unconditional agreement) stamp duty reserve tax, generally in each case at the rate of 50p for every £100 (or part of £100) of the actual consideration paid.

Liability to pay any stamp duty or stamp duty reserve tax is generally that of the transferee or purchaser.

(b) Capital gains tax

If shareholders sell some or all of the New Ordinary Shares provisionally allotted to them, or their rights to them, or if shareholders allow their rights to lapse and receive a cash payment pursuant to the arrangements referred to in paragraph 3 above, shareholders may, depending on their individual circumstances, incur a liability to U.K. taxation on capital gains. If the amount received by Qualifying Shareholders on a sale of rights to New Ordinary Shares or pursuant to the arrangements referred to in paragraph 3 above is "small" then it may not be charged to U.K. taxation on capital gains but instead may be deducted from the base cost of the original holding. "Small" for these purposes is generally taken to be an amount not more than 5 per cent. of the current value of the original holding.

For the purposes of U.K. taxation on capital gains, any New Ordinary Shares taken up pursuant to a shareholder's rights will be treated as the same asset as the shareholder's Ordinary Shares and the price paid for such New Ordinary Shares will be added to the base cost of the original holding (although for the purpose of calculating the indexation allowance on a subsequent disposal, the consideration for such New Ordinary Shares will only be treated as having been incurred at the time when it was actually given).

(c) U.K. taxation on dividends

When paying a dividend the Company has to remit to the Inland Revenue an amount of advance corporation tax ("ACT"). The ACT rate is 9/31sts of the net dividend for dividends paid after 5th April, 1993 and will be 1/4 of the net dividend for dividends paid after 5th April, 1994.

Non-corporate shareholders resident in the United Kingdom will receive a tax credit which individual shareholders who are so resident may set off against their total income tax liability or, in appropriate cases, reclaim in cash. The amount of the tax credit is equal to 1/4 of the net dividend. A U.K. resident individual will be liable to income tax upon the total of the dividend received and the tax credit. Unless the individual is subject to the higher rate of income tax, the tax credit will fully discharge his liability to income tax. If the tax credit exceeds his overall liability to income tax (taking into account his other income and any other tax credits and allowances) he will be able to claim payment of the excess from the Inland Revenue. Shareholders who are charities may be able to benefit from proposed transitional rules which will allow additional payments to be made to them on a sliding scale over the next four years. Shareholders who are liable to tax at the higher rate (currently 40 per cent.) will have a further liability to income tax of 20 per cent. in respect of the aggregate of the dividend and the tax credit received. For a U.K. resident corporate shareholder, any dividend received and the related tax credit will normally be franked investment income. Where the dividend is paid before 6th April, 1994 and is used by the shareholder for the purposes of setting off franked investment income against franked payments the value of the related tax credit will, for that purpose, be an amount equal to 9/31sts of the net dividend.

A U.K. resident corporate shareholder will not generally be liable to U.K. corporation tax on any dividend received.

Whether shareholders who are resident in countries other than the United Kingdom are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on such shares depends in general on the provisions of any double tax convention or agreement which exists between such countries and the U.K. Persons who are not resident in the U.K. should consult their tax advisers on the possible application of such provisions and what relief or credit may be claimed in the jurisdiction in which they are resident for such tax credit.

The above comments are intended as a general guide to the position under current U.K. law and practice and may not apply to certain classes of shareholders, such as dealers.

Shareholders who are in any doubt as to their tax position should consult their financial adviser immediately.

8. Overseas shareholders

(a) General

It is the responsibility of all persons resident outside the U.K. who wish to apply for New Ordinary Shares to satisfy themselves as to full observance of the laws of the relevant territory in connection therewith, including obtaining all necessary governmental and other consents and complying with all relevant formalities.

No person receiving a copy of this document and/or a Provisional Allotment Letter in any territory other than the United Kingdom may treat the same as constituting an offer or invitation to him, nor should he in any event use a Provisional Allotment Letter, unless in the relevant territory such an invitation can lawfully be made to him or the Provisional Allotment Letter can lawfully be used without compliance with any unfulfilled registration or other lawful requirements.

(b) United States

The Company's Ordinary Shares are listed on the New York Stock Exchange and trade in the form of American Depositary Shares ("ADSs"), each ADS representing ten underlying Ordinary Shares. The ADSs are evidenced by American Depositary Receipts ("ADRs") which are issued by Morgan Guaranty Trust Company of New York ("Morgan Guaranty") as depositary. Application will be made to the New York Stock Exchange for the New Ordinary Shares and the related ADSs to be listed. It is expected that the existing ADSs will be quoted ex-rights on the New York Stock Exchange from 24th May, 1993 and, accordingly, trading on the New York Stock Exchange in the rights to subscribe for the New Ordinary Shares and the related ADSs is expected to commence on that date.

Subject to compliance with U.S. securities laws, a separate prospectus is being issued by British Airways to enable the Rights Issue to be made on a corresponding basis to holders of ADSs other than holders of ADSs with registered addresses in Canada and Australia, as well as to registered holders of Ordinary Shares with addresses in the United States. All U.S. persons who are holders of Ordinary Shares and who have not otherwise received a copy of such prospectus should request one from the Company Secretary of British Airways Plc, Speedbird House, Heathrow Airport (London), Hounslow, Middlesex TW6 2JA, U.K. (Telephone: 081-759 5511) or from Morgan Guaranty Trust Company of New York, P.O. Box 8205, Boston, Massachusetts, 02266-8205, U.S.A. (Telephone: 617-774 4237).

To the extent that the entitlement to New Ordinary Shares of Morgan Guaranty as depositary is attributable to holders of ADSs with registered addresses in Canada or Australia, the provisional allotment to Morgan Guaranty will be cancelled and dealt with as described in paragraph 3(b) above. Otherwise, New Ordinary Shares not taken up by Morgan Guaranty's depositary on behalf of holders of ADSs will be dealt with in accordance with paragraph 3(a) above.

In the unlikely event that the effectiveness of the Company's registration statement on Form F-3 is terminated, no New Ordinary Shares and no ADSs will be offered to shareholders with registered addresses in the United States or to Morgan Guaranty as depositary. In that event, any provisional allotment to such a shareholder or to Morgan Guaranty will be cancelled and the rights attributable to them dealt with as described in paragraph 3(b) above.

(c) Canada

No exemptions in connection with the distribution of the rights represented by a Provisional Allotment Letter or the New Ordinary Shares have been or will be obtained from any securities commission or similar regulatory authority in Canada. Therefore, neither such rights nor the New Ordinary Shares are being offered, or may be offered or sold directly or indirectly in Canada and Provisional Allotment Letters may not be renounced in Canada or in favour of a resident of Canada. Accordingly, Provisional Allotment Letters will not be sent to shareholders with registered addresses in Canada and the rights of such shareholders will be dealt with as described in paragraph 3(b) above.

Persons (including, without limitation, nominees and trustees) receiving a Provisional Allotment Letter should not distribute or send it into Canada in connection with the offer by way of rights. Any person (including, without limitation, a nominee or trustee), whether or not pursuant to a contractual or legal obligation, who forwards a Provisional Allotment Letter in, into or from Canada should (i) inform the recipient of the restrictions described in the immediately preceding paragraph, (ii) explain to the recipient that the exercise of rights under, or the renunciation of the Provisional Allotment Letter in, into or from Canada may result in the rejection of the recipient's Provisional Allotment Letter or the renunciation thereof, and (iii) draw the attention of the recipient to this paragraph. Provisional Allotment Letters and renunciations thereof will be rejected if the Provisional Allotment Letter or the renunciation thereof is submitted in an envelope postmarked in Canada or is otherwise despatched from Canada, includes an address in Canada for receipt of share certificates or split letters and does not include in the case of a Provisional Allotment Letter, the representation and warranty set out therein to the effect that the recipient is not in Canada, is not a resident of Canada and is not acquiring the New Ordinary Shares for resale into Canada or in the case of a renunciation, the representation and warranty set out therein to the effect that no person in whose favour the renunciation is made is a resident of Canada. The Company reserves the right to reject Provisional Allotment Letters and renunciations thereof from persons who it believes cannot make the applicable representation and warranty.

(d) South Africa

In order to comply with South African law, Provisional Allotment Letters sent to shareholders with registered addresses in South Africa will not be renounceable. Such shareholders will require the approval of the South African Exchange Control authorities if they wish to take up their rights.

(e) Australia

In order to comply with Australian law, no Provisional Allotment Letters will be sent to shareholders with registered addresses in Australia. The rights attributable to such shareholders will be dealt with as described in paragraph 3(b) above.

(f) Other overseas territories

Persons resident in, or who are citizens of, other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up the New Ordinary Shares provisionally allotted to them.

Note: All payments must be received by Barclays Registrars on behalf of British Airways in pounds sterling. Cheques must be drawn on a bank or building society in the United Kingdom.

PART III

Audited results for the year ended 31 March 1993

Set out below is the text of the Chairman of British Airways' statement of results for the year ended 31 March 1993:

"Group Results

Group results for the year ended 31 March 1993 once again reflected the difficult trading conditions associated with economic recession, particularly declining yields brought about by a number of factors including reduced premium traffic and intense competitive pressures resulting from excess capacity in the industry. Exchange rates also adversely affected the year's results, with the summer peak for overseas sales coinciding with a strong pound which reduced the sterling value of those sales. The benefits of weaker sterling took time to show, since many passengers booked and paid for their tickets before devaluation, but had begun to appear in the fourth quarter.

The pre-tax profit for the year ended 31 March 1993 was £185 million (1992: £285 million as published, £434 million after restatement to reflect Financial Reporting Standard 3). The pre-tax profit for the year was 35.1 per cent lower than the previous year adjusted to exclude last year's profit on the sale of the engine overhaul business.

Profit after tax was £178 million, equivalent to earnings of 24.1p per share compared to 35.3p last year (adjusted basis). On a fully diluted basis, earnings per share were 22.3p.

Net cash flow from operating activities totalled £629 million, up £38 million on last year. Outlay on new aircraft and other fixed assets in the year amounted to £1,058 million, including £513 million of assets acquired under finance leases and hire purchase arrangements (1992: £743 million and £362 million respectively), and £574 million was invested in associated undertakings, including USAir, Qantas and TAT European Airlines, whereas last year saw a cash inflow from the sale of the engine overhaul business of £274 million. These were the chief factors in accounting for a financing requirement of £1,115 million against an inflow of £28 million last year.

Borrowings net of cash and short term deposits (net debt) at 31 March 1993 amounted to £2,453 million, up £1,281 million on the previous year. Capital and Reserves, together with Convertible Capital Bonds, declined by £70 million to £1,534 million after a £149 million goodwill set off relating to acquisitions during the year. The resultant net debt: total capital ratio at 31 March 1993 (defining total capital as Capital and Reserves, Convertible Capital Bonds and net debt) was 62 per cent compared to 42 per cent last year.

An interim dividend of 3.06p per share was paid in January and a second interim dividend of 7.54p per share in lieu of a final dividend was paid on 5 April, making a total of 10.60p per share, an increase of 4.1 per cent on the previous year. Dividends for the year were covered 2.3 times by earnings.

For the 12 months ended 31 March 1993 Group turnover increased by 6.5 per cent from £5,224 million to £5,566 million. Group expenditure rose by 7.7 per cent from £4,880 million to £5,256 million.

Group operating profit for the year declined 9.9 per cent to £310 million. British Airways' share of losses of associated undertakings amounted to £17 million, principally representing initial start up losses of Deutsche BA and TAT European Airlines. Other income and charges worsened by £9 million in part due to provision against advances to Deutsche BA. Profit on sale of fixed assets was £17 million below last year. Net interest payable rose £23 million to £111 million, reflecting currency losses on revaluation of general purpose loans and the cost of funding asset purchases and investments made during the year.

The average number of employees in the Group during the year to 31 March 1993 was 48,960, a reduction of 2.9 per cent on the previous year. Productivity, as measured in terms of Group available tonne kilometres (ATKs) per employee, was up by 14.9 per cent. Employee costs increased by 3.0 per cent to £1,551 million mainly as a result of charging the £41 million cost associated with staff severance and similar arrangements, compared to £22 million last year, and the impact of pay settlements for UK employees of 3.6 per cent, offset by the reduction in the average number of employees and the absence of a staff bonus for the year.

Fuel and oil costs increased by 7.5 per cent to £560 million, largely as a consequence of an increase in flying activity of 10.5 per cent measured in terms of revenue aircraft kilometres and exchange rate changes, offset by a 2.3 per cent reduction in the average market price of fuel to 69.3 US cents per US gallon for 1992/93.

Aircraft operating lease costs and depreciation combined showed a small increase, with the effects of the larger fleet being offset by lower operating lease costs reflecting lower interest rates. Engineering and other aircraft costs remained the same as last year. Landing fees and en route charges were up by 16.9 per cent due to increases in volume, and in overflying and airport passenger charges. Handling charges, catering and other operating costs increased by 17.4 per cent reflecting the increase in passengers carried and many product improvements both on the ground and in the air.

The launch of the new worldwide advertising campaign, the global frequent flyer programme, together with increases in travel agents' commission and CRS charges in line with turnover, largely accounted for the 12.3 per cent increase in selling costs.

Accommodation, ground equipment and currency differences rose by 7.7 per cent to £404 million in part due to rentals on new lounges and other facilities at Heathrow, and the inclusion of the cost of property maintenance which is now subcontracted.

The geographical analysis of Group turnover and operating profit demonstrates the strength of British Airways' network. European route operating profit increased from £20 million to £30 million, as increases in passenger volumes remained ahead of

capacity increases, this improvement has been assisted by discontinuing the airline's loss-making German domestic services at the end of October 1992.

Turnover originating in the Americas declined by 1.5 per cent to £927 million, although total turnover on the Americas routes increased by 3.9 per cent to £1,709 million. Operating profit on the Americas routes fell by 26.9 per cent to £87 million, mainly due to traffic decline in the premium cabins and downward pressure on yields following increased competition on key routes to the USA.

Turnover on Africa, Middle East and Indian sub-continent routes increased by 13.8 per cent to £757 million. Operating profit on those routes rose by 12.6 per cent to £134 million, reflecting improvement in both yields and volumes on the West Africa, Gulf and India routes.

Increased revenue from Far East and Australasia routes has been marginal, reflecting the difficult economic conditions in Japan and Australia. Operating profit for the region was £59 million for the year, a decline of 31.4 per cent.

British Airways achieved its best operational performance for five years in terms of punctuality and regularity at 81 per cent and 99.3 per cent respectively.

In the fourth quarter, Group turnover increased by 6.4 per cent to £1,306 million. Total traffic measured in terms of revenue tonne kilometres (RTKs) grew by 10.0 per cent in response to a 10.2 per cent increase in ATKs. Expenditure in the fourth quarter was up by 10.6 per cent to £1,331 million giving rise to an operating loss for the period of £25 million compared with an operating profit of £25 million last year. This change, despite some benefits from exchange, was due in part to one-off items, including staff severance, £23 million higher, and the operating loss of the former Dan-Air operations of £5 million.

Traffic and Capacity

A total of 28,100,600 passengers were carried on scheduled and charter services, an increase of 10.5 per cent. Cargo tonne kilometres were up by 7.2 per cent, representing the carriage of 532,000 tonnes of cargo. Full year RTKs increased by 13.2 per cent with ATKs up by 11.6 per cent.

Revenue passenger kilometres on scheduled services increased by 12.3 per cent with available seat kilometres (ASKs) up by 11.3 per cent giving a passenger load factor of 70.8 per cent, up by 0.6 points on the previous year.

Rights Issue

It was announced today that the Group is raising £441.8 million, net of expenses, by way of a Rights Issue of 185,485,636 New Ordinary Shares at a price of 245p per New Ordinary Share on the basis of one New Ordinary Share for every four Ordinary Shares held on the record date.

The Group has financed the investments described under "Strategic Developments" below from cash resources and bank facilities. This has had the effect of increasing the Group's ratio of net debt to total capital. The Board believes that, while this ratio remains acceptable, it is in the best interests of the Company to raise further equity from shareholders. The proceeds of the Rights Issue will reduce net borrowings.

State of the Business

The performance of the Group, during a period of widespread difficulty for the airline industry, has been impressive. Given the measures we are taking to increase revenues and reduce costs, British Airways remains well positioned to take advantage of the improved prospects for 1993 and 1994. In the shorter term, excess capacity and the relative weakness of premium traffic are expected to continue to influence yields. Further exchange rate benefits should accrue in 1993 compared with 1992 if current rates continue, particularly in the summer peak.

Steps are being taken which are designed to achieve higher market share and above average yield. Even excluding the effect of the acquisition of the Dan-Air routes, the Group achieved market share growth during the year to 31 March 1993. New or additional services have recently been introduced to Mexico City, San Francisco, Beijing, Seattle, Vancouver, Hong Kong and, operated through British Asia Airways, Taipei. In addition, British Airways has launched new trans-Atlantic services from Birmingham and Manchester.

During the current year to March 1994, the Group expects to introduce 14 new aircraft into service and to withdraw 10. Additional capacity growth is expected to be achieved through the more efficient utilisation of aircraft and the use of larger aircraft. In total, scheduled ASKs are projected to increase by approximately 13 per cent in the year to 31 March 1994. With few aircraft deliveries, capacity growth in the following year is presently scheduled to be some 4 per cent.

British Airways has embarked on an extensive programme of significant product development for its premium brands. This includes restyled Concorde interiors, a sleeper service in First Class, seat-back videos in Club World, a new lounge pavilion at Heathrow and the first airline arrivals lounges at Heathrow and Gatwick. The airline has also launched a global frequent flyer programme. Supported by a worldwide advertising campaign, these changes demonstrate our commitment to quality customer service and are expected to benefit our competitive position both in the UK and overseas.

British Airways remains committed to a continuous programme to reduce its cost base while maintaining and enhancing service quality. In the year to 31 March 1993 we exceeded our target of £150 million achieved largely through annual cost savings. In the

year to 31 March 1994 we plan to add further profit improvement benefits of the same order of magnitude as last year. All major departments are contributing to this programme which features changes in working practices, better value for money from our suppliers and better utilisation of aircraft and other assets.

The investments in USAir and Qantas give the Group strategic alliances in the major markets of North America and the Pacific region, and the investments in Deutsche BA and TAT European Airlines increase the airline's presence in continental Europe. Taken together with our existing extensive route network, these investments give British Airways a stronger presence in all of the six major world airline markets. We are confident that the longer term outlook for British Airways is very promising.

Strategic Developments

USAir

On 21 January 1993 British Airways announced that it had agreed terms for a new alliance between British Airways and USAir Group, Inc. The first stage of the transaction has already been completed with the investment by the Group of \$300 million (£198 million) in new convertible preferred stock of USAir and the signing of a flight code sharing agreement. The Group also agreed in early May to invest an additional \$100.7 million in convertible preferred stock of USAir pursuant to the exercise of pre-emption rights following the exercise of employee options and the public offering by USAir of \$231 million (net) of common stock in the US market. The preferred stock in USAir held by the Group will be convertible at the Group's option at any time on or after 21 January 1997 into USAir common stock.

On conversion to USAir common stock, the preferred stock would represent 24.6 per cent of USAir's equity share capital on an undiluted basis and approximately 17 per cent on a fully diluted basis. The investment agreement between British Airways and USAir is subject to the approval of the shareholders of USAir at its annual general meeting on 26 May this year. If the investment agreement between British Airways and USAir is not approved by USAir shareholders, the preferred stock held by the Group is required to be redeemed at its purchase price, together with accrued dividends. If approval is given, the preferred stock in USAir held by the Group will carry an estimated 21 per cent of the voting interest in USAir. The Group's total voting interest in USAir is limited to the maximum voting interest permitted under restrictions on aggregate foreign ownership of US airlines (currently 25 per cent).

The initial investment in preferred stock carries the right to cumulative quarterly cash dividends of 7 per cent per annum while the additional series of convertible preferred stock purchased through the exercise of pre-emption rights will carry the right to cumulative quarterly cash dividends of 0.5 per cent over LIBOR.

USAir has agreed to use its best efforts to cause British Airways to be proportionately represented on USAir's Board of Directors. Accordingly, Sir Colin Marshall (Chairman), Derek Stevens (Chief Financial Officer) and Roger Maynard (Director of Corporate Strategy) have joined the sixteen member USAir Board.

Qantas

On 10 March 1993 British Airways completed the agreement for the Group to acquire 25 per cent of Qantas Airways Limited for A\$666 million (£304 million). Under the Australian Government's privatisation plan, the remaining 75 per cent of the shares in Qantas is expected to be offered to the public within the next 12 months.

The Group has the right to nominate three of the twelve directors of Qantas and, accordingly, Sir Colin Marshall, Roger Maynard and Nick Tait (General Manager for Australia and New Zealand) have joined the Qantas Board. In addition, a co-ordination committee has been created with an equal number of representatives of Qantas and British Airways to identify and agree opportunities for synergies. This is backed by a ten-year commercial agreement between British Airways and Qantas to govern co-operative activity.

Dan-Air

In November 1992 British Airways acquired, for a nominal £1 and the assumption of all its liabilities, the assets of Davies & Newman Holdings PLC, being principally the scheduled services operated by Dan-Air Services Limited from Gatwick. Subsequently that company changed its name to British Airways (European Operations at Gatwick) Limited and in February 1993 moved its operations to the North Terminal.

TAT European Airlines

In January 1993 British Airways completed the agreement to acquire 49.9 per cent of TAT European Airlines S.A., the largest independent French airline, for £14.9 million. In March 1993, TAT European Airlines started new international services using its own aircraft repainted in British Airways' livery operating to Gatwick from Marseille and Lyon, and from Paris (Charles de Gaulle) to Copenhagen, Munich and Stockholm.

Deutsche BA

Deutsche BA Luftfahrtgesellschaft mbH, in which the Group holds a 49.0 per cent investment, received approval to operate jet aircraft in June 1992. During the year the company introduced new jet services from Berlin to Munich, Stuttgart, Cologne and Dusseldorf and, since the year end, to Moscow.

Financing

Ten Boeing 737-400s (one of which did not enter service until April 1993) and two Boeing 767-300s were purchased outright, financed out of existing facilities by 18-year US dollar loans secured on the aircraft. A further Boeing 767-300, which was delivered in March 1992, was similarly financed by way of a sterling mortgage loan.

Two Boeing 747-400s (one of which did not enter service until April 1993) were acquired by way of 15-year sterling finance leases and a further two Boeing 747-400s were acquired under Japanese leveraged leases. One Boeing 767-300, which was delivered in March 1992, was also acquired under a Japanese leveraged lease arrangement and one Boeing 767-300 which was delivered in March 1993 is expected to be similarly financed in financial year 1993/94.

Two Boeing 757-200s were sold and leased back on operating leases with a minimum lease term of five years and a Boeing 747-200 was similarly the subject of a sale and lease-back for a minimum term of seven years. A further BAe ATP aircraft was acquired on an extendible operating lease.

During the year, three Boeing 747-200s and one Boeing 757-200 have changed from operating lease to finance lease arrangements following an extension of the original lease periods.

In March 1993, a three-year unsecured loan of \$110 million was arranged to assist with the funding of the Group's investment in USAir.

Other Fleet Changes

As a result of the acquisition of the assets of Davies & Newman Holdings PLC, 12 Boeing 737 aircraft on operating leases joined the fleet in November 1992. Three Boeing 757-200s and one BAe ATP aircraft entered service on operating leases. A TriStar-J was sold in March 1993. A further Boeing 737-400 was delivered on an operating lease in March 1993. Options for six Boeing 737-400s, four Boeing 747-400s and one Boeing 757-200 were not taken up during the year.

Leases expired on a TriStar-50, two HS748s and a BAe ATP. Two Boeing 737-200s were sub-leased to GB Airways. Two sub-leased Boeing 757-200s were returned to British Airways' operations.

As at 31 March 1993, the average age of the aircraft in service with Group companies was 8.0 years.

Virgin Atlantic Airways

There has been wide media coverage about various allegations and claims by Virgin Atlantic Airways Limited ("Virgin") and its Chairman, Mr. Branson. In the course of libel proceedings last year an investigation by the Company's external lawyers found that there had been some regrettable conduct in relation to Virgin but that this conduct was confined to a relatively small number of unconnected incidents involving a small number of employees. Following settlement of the libel proceedings, the Company sought to settle Virgin's outstanding claims, including a long standing engineering and maintenance dispute which is currently subject to arbitration, in an effort to put the past behind it. To that end, and without admitting liability, the Company made an offer which was generous having regard to the advice that it had received from its English and American lawyers on Virgin's claims. As an alternative the Company offered independent arbitration. Unfortunately, Virgin was not prepared to settle on terms that would have laid the past to rest. The Board considered that settlement on Virgin's basis was not in the best interests of shareholders and, therefore, the Company's settlement offer was withdrawn.

Virgin has since commenced proceedings alleging that the Company had used information belonging to Virgin in breach of copyright and confidence. Further proceedings may well be brought. Although these actions may excite further controversy in the media, the Company does not propose to engage in media debate with Virgin. It will deal with such claims as they are brought before the appropriate courts and authorities.

Board

On 5 February 1993 Lord King brought forward from July 1993 his planned retirement as Chairman. Sir Colin Marshall succeeded him as Chairman and Robert Ayling was appointed Group Managing Director.

In recognition of his outstanding achievements as Chairman of British Airways for the last twelve years, the Board invited Lord King to become the first President of British Airways.

AGM

The Annual General Meeting will be held at the Barbican Centre in London at 11.00 a.m. on 13 July 1993. The full Report and Accounts or Summary Financial Statement will be distributed as appropriate to shareholders in early June and from that date copies will be available for members of the public at the Company's registered office."

GROUP PROFIT AND LOSS ACCOUNT

	Note	Three months ended 31st March,		Year ended 31st March,	
		1993	1992*	1993	1992*
		£ million	£ million	£ million	£ million
TURNOVER					
Continuing operations	3 & 4	1,306	1,228	5,566	5,224
Acquisitions		1,278	1,228	5,519	5,224
Cost of sales	5	28	47	47	
		(1,297)	(1,178)	(5,138)	(4,777)
Gross profit		9	50	428	447
Administrative expenses	5	(34)	(25)	(118)	(103)
		(25)	25	310	344
OPERATING PROFIT/(LOSS)					
Continuing operations		(20)	25	318	344
Acquisitions		(5)		(8)	
Share of results of associated undertakings	7	(5)		(17)	
Other income and charges	8	(15)	(11)	(16)	(7)
Profit on sale of fixed assets		16	11	19	36
Profit on sale of engine overhaul business					149
Net interest payable	9	(33)	(25)	(111)	(88)
		(62)		185	434
PROFIT/(LOSS) BEFORE TAXATION					
Taxation	10	18	21	(7)	(39)
		(44)	21	178	395
PROFIT/(LOSS) FOR THE PERIOD					
Dividends		(56)	(53)	(79)	(74)
		(100)	(32)	99	321
RETAINED PROFIT/(LOSS) FOR THE PERIOD					
EARNINGS PER SHARE	11				
Basic earnings per share		(6.0)p	2.9p	24.1p	54.6p
Adjustment to exclude profit on sale of engine overhaul business					(19.3)p
Adjusted earnings per share		(6.0)p	2.9p	24.1p	35.3p
Fully diluted earnings per share		(4.2)p	3.0p	22.3p	46.4p
Adjustment to exclude profit on sale of engine overhaul business					(15.4)p
Fully diluted adjusted earnings per share		(4.2)p	3.0p	22.3p	31.0p
DIVIDENDS PER SHARE					
		7.54p	7.24p	10.60p	10.18p

* Restated in accordance with Financial Reporting Standard 3.

GROUP BALANCE SHEET
At 31st March, 1993

	Note	1993	1992
		£ million	£ million
FIXED ASSETS			
Tangible assets	12	4,230	3,472
Investments	13	546	93
		<u>4,776</u>	<u>3,565</u>
CURRENT ASSETS			
Stocks		40	34
Debtors		1,009	920
Cash, short-term loans and deposits		528	733
		<u>1,577</u>	<u>1,687</u>
CREDITORS: amounts falling due within one year	14	(1,851)	(1,706)
		<u>(274)</u>	<u>(19)</u>
NET CURRENT LIABILITIES			
TOTAL ASSETS LESS CURRENT LIABILITIES		4,502	3,546
CREDITORS: amounts falling due after more than one year	15	(2,899)	(1,888)
PROVISIONS FOR LIABILITIES AND CHARGES		(69)	(54)
		<u>1,534</u>	<u>1,604</u>
CAPITAL AND RESERVES			
Called up share capital		185	182
Reserves	16	1,029	1,102
		<u>1,214</u>	<u>1,284</u>
CONVERTIBLE CAPITAL BONDS 2005		320	320
		<u>1,534</u>	<u>1,604</u>

GROUP CASH FLOW STATEMENT
For the year ended 31st March, 1993

Note	1993	1992
	£ million	£ million
6	629	591
NET CASH INFLOW FROM OPERATING ACTIVITIES		
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	96	49
Interest paid on bank and other loans	(116)	(98)
Interest paid on finance leases and hire purchase arrangements	(80)	(53)
USAir preferred stock dividend received	3	
Dividends received from trade investments	4	1
Dividends paid	(76)	(65)
	(169)	(166)
Net cash outflow from returns on investments and servicing of finance		
Taxation	(38)	(11)
UK Corporation tax paid		
INVESTING ACTIVITIES		
Tangible fixed assets purchased for cash	(577)	(539)
Refund of progress payments	32	158
Purchase of interests in associated undertakings	(532)	(6)
Loans made to associated undertakings	(42)	
Purchase of interests in trade investments		(1)
Net cash and cash equivalents of Davies & Newman Holdings PLC assumed on acquisition	(10)	
Sale of tangible fixed assets	103	90
Sale of investments	2	
Sale of engine overhaul business		274
	(1,024)	(24)
Net cash (outflow)/inflow before decrease/(increase) in short-term deposits and financing	(602)	390
Decrease/(increase) in short-term deposits (maturity date at inception of more than three months)	334	(334)
Net cash outflow from investing activities	(690)	(358)
Net cash (outflow)/inflow before financing	(268)	56
FINANCING		
Changes in borrowings	735	390
Bank and other loans raised	(301)	(215)
Bank and other loans repaid	(79)	(55)
Capital elements of finance leases and hire purchase arrangements paid	355	120
Changes in share capital	3	2
Issue of ordinary share capital under Employee Share Option Schemes	20	9
Share premium received	23	11
Net cash inflow from financing	378	131
Increase in cash and cash equivalents	110	187
GROUP FINANCING REQUIREMENT		
Net cash outflow/(inflow) before (decrease)/increase in short-term deposits and financing	602	(390)
Acquisitions under finance leases and hire purchase arrangements	513	362
Total financing requirement for the year	1,115	(28)
FUNDED BY:		
Decrease/(increase) in short-term deposits (maturity date at inception of more than three months)	334	(334)
New finance leases taken out and hire purchase arrangements made	513	362
Net cash inflow from financing	378	131
Increase in cash and cash equivalents	(110)	(187)
	1,115	(28)

NOTES

1 Presentation of financial information

The Group has adopted Financial Reporting Standard 3 "Reporting Financial Performance" in 1993 and corresponding amounts have been restated accordingly. As a consequence, the profit on sale of the engine overhaul business in 1992 of £149 million (before tax) has been reclassified as an exceptional item and is now included in profit before taxation. Profits and losses on sales of fixed assets are also now classified as exceptional items.

The Group has also adopted Urgent Issues Task Force Abstract 6 "Accounting for Post-retirement Benefits other than Pensions", with effect from 1st April, 1992. The cumulative effect of this change in accounting policy on prior years has been dealt with as an adjustment to reserves brought forward on that date. The effect of the change on results for both 1992 and 1993 is insignificant.

2 Accounting convention

The accounts have been prepared on the basis of the accounting policies set out in the Report and Accounts for the year ended 31st March, 1993 in accordance with all applicable United Kingdom accounting standards and the Companies Act 1985. The Convertible Capital Bonds 2005 are shown with Capital and Reserves in order to show a true and fair view.

3 Turnover

	Three months ended 31st March,		Year ended 31st March,	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
Traffic revenue	1,080	1,027	4,533	4,281
Scheduled services — passenger	102	97	396	396
— freight and mail				
	1,182	1,124	4,929	4,677
Non-scheduled services	13	10	153	111
	1,195	1,134	5,082	4,788
Other revenue	111	94	484	436
	1,306	1,228	5,566	5,224

4 Geographical analysis of Group turnover and operating profit

	By area of original sale Year ended 31st March,		By area of destination Year ended 31st March,	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
a. TURNOVER				
United Kingdom	2,585	2,419	623	536
Continental Europe	1,008	911	1,615	1,528
	3,593	3,330	2,238	2,064
Europe	927	941	1,709	1,645
The Americas	466	434	757	665
Africa, Middle East and Indian sub-continent	580	519	862	850
Far East and Australasia				
	5,566	5,224	5,566	5,224
b. OPERATING PROFIT			30	20
Europe			87	119
The Americas			134	119
Africa, Middle East and Indian sub-continent			59	86
Far East and Australasia				
			310	344

It is impractical to separate United Kingdom and Continental Europe operating profits on a meaningful basis, since the day to day operations are fully integrated. The operating profits for these services are therefore combined under the heading "Europe".

5 Operating expenditure

	Three months ended 31st March,		Year ended 31st March,	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
Employee costs	420	386	1,551	1,506
Depreciation				
<i>fleet</i>	67	53	235	217
<i>other assets</i>	21	22	77	78
Aircraft operating lease costs	57	53	224	236
Fuel and oil costs	151	117	560	521
Engineering and other aircraft costs	56	56	262	262
Landing fees and en route charges	116	97	497	425
Handling charges, catering and other operating costs	174	141	714	608
Selling costs	190	171	732	652
Accommodation, ground equipment and currency differences	79	107	404	375
Total	1,331	1,203	5,256	4,880
Comprising:				
Cost of sales	1,297	1,178	5,138	4,777
Administrative expenses	34	25	118	103
	1,331	1,203	5,256	4,880

The total figures include the following amounts relating to acquisitions:

Cost of sales	31	52
Administrative expenses	2	3
	33	55

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

	Year ended 31st March,	
	1993	1992
	£ million	£ million
Group operating profit	310	344
Depreciation charges	312	295
Other items not involving the movement of cash	(4)	9
Increase in stocks and debtors	(24)	(149)
Increase in creditors	35	92
Net cash inflow from operating activities	629	591

7 Share of results of associated undertakings

	Three months ended 31st March,		Year ended 31st March,	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
Attributable losses less profits	(8)		(20)	
USAir preferred stock dividend	3		3	
	(5)		(17)	

Attributable losses less profits for both the three months and the year include losses of £4 million relating to acquisitions.

NOTES continued

8 Other income and charges

	Three months ended 31st March,		Year ended 31st March,	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
Income from trade investments	1		4	2
Provision against aircraft not in current use	(4)	(8)	(4)	(8)
Amounts written off investments	(12)	(8)	(12)	(8)
Other		5	(4)	7
	(15)	(11)	(16)	(7)

9 Net interest payable

	Three months ended 31st March,		Year ended 31st March,	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
Interest payable less amount capitalised	49	37	186	144
Interest receivable	(15)	(18)	(89)	(57)
Currency losses/(profits) on general purpose loans	(1)	6	14	1
	33	25	111	88

10 Taxation

	Three months ended 31st March,		Year ended 31st March,	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
United Kingdom	(18)	(21)	7	37
Overseas				2
	(18)	(21)	7	39

11 Earnings per share

Fully diluted and fully diluted adjusted earnings per share take account of: (i) the exercise of outstanding share options in issue and conversion of the Convertible Capital Bonds and (ii) notional interest after tax on funds arising from such share options and reduced interest payable on the Convertible Capital Bonds.

12 Tangible assets

	Year ended 31st March,	
	1993	1992
	£ million	£ million
Fleet	3,537	2,829
Property	464	420
Equipment	229	223
	4,230	3,472

13 Investments

	Year ended 31st March,	
	1993	1992
	£ million	£ million
Associated undertakings	448	7
Trade investments	98	86
	546	93

14 Creditors: amounts falling due within one year

	Year ended 31st March,	
	1993	1992
	£ million	£ million
Loans	21	6
Finance leases	63	35
Hire purchase arrangements	41	25
	125	66
Corporate taxation	18	56
Other creditors and accruals	1,708	1,584
	1,851	1,706

15 Creditors: amounts falling due after more than one year

	Year ended 31st March,	
	1993	1992
	£ million	£ million
Loans	1,447	948
Finance leases	541	312
Hire purchase arrangements	867	577
	2,855	1,837
Other creditors and accruals	44	51
	2,899	1,888

16 Reserves

	Year ended 31st March,	
	1993	1992
	£ million	£ million
Balance at 1st April	1,102	778
Adjustment to opening balance in respect of post-retirement medical benefits	(15)	
Balance at 1st April as restated	1,087	778
Retained profit for the year	99	321
Exchange movements	(28)	(1)
Goodwill set off (see below)	(149)	(5)
Share premium	20	9
	1,029	1,102
Goodwill	(45)	
Acquisition of assets and liabilities of Davies & Newman Holdings PLC	(69)	
Investment in Qantas Airways Limited	(35)	
Investment in TAT European Airlines S.A.		(5)
Investment in 49 per cent. of Deutsche BA Luftfahrtgesellschaft mbH		
Goodwill set off	(149)	(5)

The foregoing financial information does not comprise full accounts; figures for the full years have been extracted from the audited accounts of British Airways Plc for the year ended 31st March, 1993. The auditors issued an unqualified report on those accounts, a copy of which will be filed with the Registrar of Companies.

United States Generally Accepted Accounting Principles (US GAAP) information

The accounts have been 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 the same as those set out in the Report and Accounts for the year ended 31st March, 1993.

The estimated adjusted net income and shareholders' equity applying US GAAP are set out below:

	Three months ended 31st March,		Year ended 31st March,	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
Income/(loss) attributable to shareholders as reported in the consolidated statement of income	(44)	21	178	395
Estimated US GAAP adjustments	(70)	(69)	(238)*	(111)
Estimated net (loss)/income before cumulative effect of change in accounting principle as adjusted to accord with US GAAP	(114)	(48)	(60)	284
Estimated cumulative effect on prior years of adopting FAS 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions"	(15)		(15)	
ESTIMATED NET (LOSS)/INCOME AS ADJUSTED TO ACCORD WITH US GAAP	(129)	(48)	(75)	284
Arising from:				
Continuing operations				
(Loss)/income before cumulative effect of change in accounting principle	(114)	(48)	(60)	144
Cumulative effect on prior years of adopting FAS 106	(15)		(15)	
	(129)	(48)	(75)	144
Gain on sale of engine overhaul business				140
	(129)	(48)	(75)	284
Net (loss)/income per American Depositary Share				
—Primary				
Continuing operations				
(Loss)/income before cumulative effect of change in accounting principle	(155)p	(67)p	(82)p	200p
Cumulative effect on prior years of adopting FAS 106	(20)p		(20)p	
	(175)p	(67)p	(102)p	200p
Gain on sale of engine overhaul business				193p
	(175)p	(67)p	(102)p	393p
Net (loss)/income per American Depositary Share				
—Fully diluted				
Continuing operations				
(Loss)/income before cumulative effect of change in accounting principle	(119)p	(46)p	(39)p	188p
Cumulative effect on prior years of adopting FAS 106	(17)p		(17)p	
	(136)p	(46)p	(56)p	188p
Gain on sale of engine overhaul business				154p
	(136)p	(46)p	(56)p	342p

*The increase of £127 million in the estimated US GAAP adjustments over 1992 is due principally to increased exchange losses on the translation of aircraft related foreign currency loans arising from the change in the sterling/US dollar translation rate. In the UK GAAP accounts these exchange losses are taken to reserves and offset by the exchange profits arising on the translation of the foreign currency assets that are financed with foreign currency loans.

	At 31st March,	
	1993	1992
	£ million	£ million
SHAREHOLDERS' EQUITY	984	1,189

The sterling/US dollar translation rate at 31st March, 1993 was £1=US\$1.51 (31st March, 1992: £1=US\$1.74)

OPERATING STATISTICS

	Three months ended 31st March,			Year ended 31st March,		
	1993	1992	Better/(worse)	1993	1992	Better/(worse)
<i>Scheduled services</i>						
Revenue passenger km (RPK) (m)	16,979	15,505	9.5%	73,996	65,896	12.3%
Available seat km (ASK) (m)	25,633	23,194	10.5%	104,507	93,877	11.3%
Passenger load factor (%)	66.2	66.9	(0.7)pts	70.8	70.2	0.6pts
Cargo tonne km (CTK) (m)	666	624	6.7%	2,691	2,510	7.2%
Total revenue tonne km (RTK) (m)	2,281	2,099	8.7%	9,730	8,778	10.8%
Total available tonne km (ATK) (m)	3,571	3,274	9.1%	14,695	13,379	9.8%
Overall load factor (%)	63.9	64.1	(0.2)pts	66.2	65.6	0.6pts
Passengers carried (000)	6,029	5,545	8.7%	25,905	23,788	8.9%
Tonnes of cargo carried (000)	132	126	4.8%	532	502	6.0%
Passenger revenue per RPK (p)	6.36	6.62	(3.9)%	6.13	6.50	(5.7)%
Cargo revenue per CTK (p)	15.32	15.54	(1.4)%	14.72	15.78	(6.7)%
Average fuel price (US cents/US gallon)	68.74	66.76	(3.0)%	69.32	70.94	2.3%
<i>Total Group operations</i>						
Total revenue tonne km (RTK) (m)	2,337	2,124	10.0%	10,313	9,111	13.2%
Total available tonne km (ATK) (m)	3,646	3,310	10.2%	15,424	13,818	11.6%
Passengers carried (000)	6,250	5,708	9.5%	28,100	25,422	10.5%
Average number of employees	48,910	48,496	(0.9)%	48,960	50,409	2.9%
ATKs per employee (000)	74.5	68.3	9.1%	315.0	274.1	14.9%
Aircraft in service at period end	241	230	11	241	230	11
Total traffic revenue per RTK (p)	51.13	53.39	(4.2)%	49.28	52.55	(6.2)%
Total traffic revenue per ATK (p)	32.78	34.26	(4.3)%	32.95	34.65	(4.9)%
Net operating expenditure per ATK (p)	33.46	33.50	0.1%	30.94	32.16	3.8%

AIRCRAFT FLEET

Number in service with Group Companies at 31st March,
1993

	Owned, finance leased and on hire purchase arrangements	On extendible operating leases	On other operating leases	Total	Future deliveries	Options
Concorde	7			7		
Boeing 747-100	15			15		
Boeing 747-200	13	3		16		
Boeing 747-400	12	13		25	36	22
Boeing 777					15	15
Lockheed TriStar 1 and 100	5			5		
McDonnell Douglas DC-10-30	5	2		7		
Boeing 767-300	9	11		20	8	9
Boeing 757-200	37	3	2	42	3	1
Airbus A320	10			10		
Boeing 737-200	23	16		39		
Boeing 737-300			3	3		
Boeing 737-400	18	4	10	32	6	10
BAC 1-11-500	6			6		
BAe ATP		13	1	14		6
Total	160	65	16	241	68	63

PART IV

Financial information relating to USAir

The summary financial information set out below is extracted from the audited consolidated financial statements of USAir prepared in accordance with U.S. GAAP and presented in its 1992 annual report.

1. Consolidated statement of income

The summarised consolidated statements of income of USAir for the three years ended 31st December, 1992 are as follows:

	Year ended 31st December,		
	1992	1991	1990
	U.S.\$m	U.S.\$m	U.S.\$m
Operating revenues	6,686	6,514	6,559
Operating expenses	7,023	6,688	7,060
Operating loss	(337)	(174)	(501)
Interest expense	(249)	(259)	(226)
Other (expense)/income (net)	(15)	18	72
Loss before taxation	(601)	(415)	(635)
Taxation		110	201
Cumulative effect of change in method of accounting for post-retirement benefits other than pensions	(628)		
Net loss	(1,229)	(305)	(454)

2. Consolidated balance sheet

The summarised consolidated balance sheet of USAir at 31st December, 1992 is as follows:

	31st December, 1992
	U.S.\$m
Current assets	988
Property and equipment	4,264
Goodwill and other intangibles	922
Other assets	421
Current liabilities	(2,433)
Long-term debt	(2,265)
Deferred gains	(469)
Non-current pensions liability and other post-retirement benefits	(1,026)
Redeemable Cumulative Preferred Stock	(358)
Stockholders' equity	44

3. Summary of USAir equity offering

On 4th May, 1993, USAir announced the completion of a public underwritten offering of 11.5 million shares of common stock at a price of \$20.75 per share with aggregate net proceeds of approximately \$231 million. The net proceeds will be added to the working capital of USAir and will be available for general corporate purposes.

PART V

Financial information relating to Qantas

The summary financial information set out below is extracted from the 1992 annual reports of Qantas and Australian Airlines.

1. Consolidated profit and loss accounts

The summarised consolidated profit and loss accounts of Qantas and Australian Airlines for the three years ended 30th June, 1992 prepared in accordance with accounting principles generally accepted in Australia are as follows:

	Year ended 30th June,		
	1992	1991	1990
	A\$m	A\$m	A\$m
Qantas			
Revenue	4,035.7	3,886.8	3,606.1
Expenditure	3,932.7	4,045.4	3,725.8
Profit/(loss) on operations	103.0	(158.6)	(119.7)
Abnormal items	44.6	239.6	101.8
Taxation (charge)/credit	(10.0)	(36.7)	30.0
Profit for the year	137.6	44.3	12.1
Australian Airlines			
Revenue	1,594.2	1,603.8	1,507.6
Expenditure	1,662.8	1,490.8	1,569.6
Operating (loss)/profit	(68.6)	113.0	(62.0)
Taxation credit/(charge)	20.3	(47.0)	48.3
(Loss)/profit for the year	(48.3)	66.0	(13.7)

2. Consolidated balance sheets

The summarised consolidated balance sheets of Qantas and Australian Airlines at 30th June, 1992 prepared in accordance with accounting principles generally accepted in Australia are as follows:

	30th June, 1992
	A\$m
Qantas	
Current assets	1,234
Investments	209
Property, plant and equipment	3,428
Other non-current assets	1,617
Total assets	6,488
Current liabilities	(1,437)
Non-current debt	(2,982)
Other non-current liabilities	(1,020)
Shareholders' equity	1,049
Australian Airlines	
Current assets	228
Property, plant and equipment	1,807
Non-current assets	114
Total assets	2,149
Current liabilities	(535)
Non-current debt	(1,245)
Other non-current liabilities	(118)
Shareholders' equity	251

PART VI

Additional information

1. Responsibility

The Directors of the Company, whose names appear in paragraph 5(a) below and whose addresses are all Speedbird House, Heathrow Airport (London), Hounslow, Middlesex TW6 2JA, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company and its activities

The Company is the holding company of the Group. Its main activity is the operation of international and domestic scheduled passenger airline services. The Company also operates a worldwide air cargo business in conjunction with its scheduled passenger services and provides computer communications systems for the travel industry.

3. Share capital

- (a) The following table shows the authorised and issued and fully paid share capital of the Company as at 14th May, 1993 (being the latest practicable date before the issue of this document) and as it will be following the Rights Issue:

	Present £(m)	Following the Rights Issue £(m)
Authorised		
Ordinary Shares	267	267
Allotted and fully paid		
Ordinary Shares	185	232

- (b) The provisions of Section 89(1) of the Companies Act 1985 (the "Act") (to the extent not disapplied pursuant to Section 95 of that Act) confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in Section 80(2) of the Act).
- (c) By Special Resolution passed on 14th July, 1992, the authority and power conferred on the Directors by Article 11(B) of the Company's Articles of Association was renewed for the period ending on the date of the annual general meeting in 1993 or on 14th October, 1993 whichever is the earlier. The Directors were for such period thereby:
- (i) generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Act to allot relevant securities (as defined therein) up to an aggregate amount of £60,000,000; and
 - (ii) empowered to allot equity securities (as defined in Section 94(2) of the Act) wholly for cash in connection with a rights issue or otherwise up to an aggregate nominal amount equal to £6,000,000, as if Section 89(1) of the Act did not apply to the allotment.
- (d) The New Ordinary Shares have been provisionally allotted pursuant to a resolution of the Board passed on 17th May, 1993.
- (e) Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List. It is expected that listing will become effective and dealings in the New Ordinary Shares are expected to commence, nil paid, on 24th May, 1993. Application has also been made for the New Ordinary Shares to be listed on the New York Stock Exchange.
- (f) The Ordinary Shares are in registered form and are listed on the London Stock Exchange and are listed and traded in on the New York Stock Exchange and the Toronto Stock Exchange.
- (g) Save under the Rights Issue, none of the New Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the New Ordinary Shares to be admitted to the Official List of the London Stock Exchange.
- (h) The issue premium per New Ordinary Share at the subscription price of 245p is 220p.

- (i) The following options to acquire 32,244,321 Ordinary Shares granted under the Option Schemes were outstanding at 14th May, 1993 being the latest practicable date prior to printing this document:

(i) *British Airways Executive Share Option Scheme*

Year of Grant	Number of Ordinary Shares Under Option	Exercise price (per share)	Exercise period	
			From	To
1987	629,765	178p	16th March, 1990	16th March, 1997
1987	1,263,198	210p	26th May, 1990	26th May 1997
1988	613,518	150p	4th July, 1991	4th July, 1998
1989	200,000	200p	26th May, 1992	26th May, 1999
1989	1,635,124	206p	3rd July, 1992	3rd July, 1999
1989	28,985	207p	1st December, 1992	1st December, 1999
1990	2,929,507	204p	1st June, 1993	1st June, 2000
1990	165,441	136p	19th November, 1993	19th November, 2000
1990	36,424	151p	7th December, 1993	7th December, 2000
1991	58,824	170p	11th June, 1994	11th June, 2001
1991	1,139,885	203p	9th December, 1994	9th December, 2001
1992	1,462,045	272p	16th June, 1995	16th June, 2002
1992	19,202	276p	4th December, 1995	4th December, 2002

(ii) *British Airways U.S. Executive Share Option Plan*

Year of Grant	Number of Ordinary Shares Under Option	Exercise price (per share)	Exercise period	
			From	To
1987	23,809	224.5p	15th July, 1990	15th July, 1997
1988	49,500	150p	4th July, 1991	4th July, 1998
1989	77,296	206p	3rd July, 1992	3rd July, 1999
1990	71,770	204p	1st June, 1993	1st June, 2000
1991	8,178	203p	9th December, 1994	9th December, 2001
1992	12,030	290p	2nd June, 1995	2nd June, 2002
1992	31,000	272p	16th June, 1995	16th June, 2002
1992	75,057	276p	4th December, 1995	4th December, 2002

(iii) *British Airways Savings Related Share Option Scheme 1987*

Year of Grant	Number of Ordinary Shares Under Option	Exercise price (per share)	Exercise period	
			From	To
1987	2,068	161p	1st December, 1992	31st May, 1993
1988	21,711,695	135p	1st September, 1993	1st March, 1994

The Company has available sufficient authorised and unissued share capital to satisfy all options expected to be exercised prior to 13th July, 1993, the date on which the Company proposes to hold its next Annual General Meeting, by the issue of Ordinary Shares. A resolution will be proposed at such Annual General Meeting to increase the authorised share capital of the Company. If such resolution is not passed, the Company will be unable to satisfy all options exercisable after 13th July, 1993 by the issue of Ordinary Shares. In that event, the Company will procure that existing Ordinary Shares be purchased to satisfy the exercise of options.

- (j) Save as disclosed above, no share or loan capital of the Company or any of its subsidiaries is under option or has been agreed, conditionally or unconditionally, to be put under option.
- (k) On 28th September, 1989, British Airways Capital Limited ("BACL") issued £320,215,349 9½ per cent. Convertible Capital Bonds 2005 which entitle the holder, on conversion into preference shares of BACL which are automatically exchanged for Ordinary Shares, to be issued with one Ordinary Share for every 2.34 Convertible Capital Bonds held (such conversion and exchange rate has been adjusted from the original rate of 2.43 to take account of the Rights Issue as provided in paragraph 6 of Part II of this document). The Convertible Capital Bonds may be so converted and exchanged at the holder's option on 15th June in each of the years 1993 to 2005. Any Convertible Capital Bonds outstanding as at 15th June, 2005 will be automatically so converted and exchanged into Ordinary Shares without the need for any further action to be taken by the holders. Full conversion and exchange of the Convertible Capital Bonds will result in the issue of 136,844,166 Ordinary Shares.

4. Articles of Association

The Articles of Association of the Company contain provisions to the following effect:

(a) *Transfer of shares and registration declaration*

Ordinary Shares are transferable by an instrument of transfer in the usual form or in any other form which the Directors may approve. The Directors may, in their absolute discretion and without assigning any reason therefor, decline to register any transfer of any Ordinary Share which is not fully paid.

The Directors shall not register any person (other than an allottee under a capitalisation issue or a Stock Exchange Nominee or a Depositary) as a holder of Ordinary Shares unless he has furnished a signed declaration in such form as the Directors may from time to time prescribe stating the name and nationality of any person who has an Interest (as defined in (c) below) in any such Ordinary Shares and (if so required) the nature and extent of such Interest together with any such other information as the Directors may from time to time determine. The Directors may require any such person to provide such evidence or information as to the matters referred to in the declaration as they think fit including evidence of the authority of any signatory. Save as described above and in (c)(ix) below, there is no restriction on the registration of a duly stamped transfer of fully paid shares provided the transfer (a) is lodged at the transfer office or such other place as the Directors may appoint, accompanied by the relevant share certificate and such other evidence of ownership as the Directors may require; (b) is only in respect of one class of share; and (c) is in favour of not more than four transferees.

(b) *Disclosure of interests*

The Directors may by a notice pursuant to the Articles require any member or other person appearing to be or to have been interested in Ordinary Shares to disclose such information as the Directors shall require relating to the ownership of or interests in the Ordinary Shares in question. If any member or person appearing to have an Interest in any shares fails to give to the Company, within 28 days (or 14 days if the interest is at least 0.25 per cent. of the shares of one class) of the service on him of such a notice, the information required, the registered holder of the Ordinary Shares in question shall not be entitled to attend or vote at any general meeting of the Company. Where the Ordinary Shares in question represent at least 0.25 per cent. of the same class of shares, the Directors may further direct that no dividend or other money shall be payable in respect of these shares and that no transfer of these shares shall be registered. Any such restriction shall be effective until the required information is given.

(c) *Restrictions on ownership of shares*

For the purpose of ensuring that, so long as any operating rights or status as an airline of the Company or any subsidiary are conditional on the Company being to any degree owned or controlled by United Kingdom nationals, it is so owned and controlled, the provisions described below apply:

(i) The following terms are defined, in summary, as follows:

"Interest" means any interest which would (subject as provided below) be taken into account, or which any person would be taken as having, in determining for the purposes of Part VI of the Act, whether a person has a notifiable interest or an interest as described in section 209 (1) (a), (b), (c) or (j) of the Act, but not an interest which a person would be deemed to have in shares in which his spouse or any infant child or stepchild (or, in Scotland, pupil or minor) of his is interested by virtue of that relationship or which he holds as a bare or custodian trustee under the laws of England or a simple trustee under the laws of Scotland;

"Intervening Act" means the refusal, withholding, suspension or revocation of any right enabling an air service to be operated which is granted to, or applied for or enjoyed by, the Company or any subsidiary or the imposition of any conditions or limitations upon any such operating right which materially inhibit the exercise thereof, in either case by any state, authority or person in reliance upon any provision or by reason of any matter or circumstance relating to the nationality of persons owning or controlling the Company;

"Relevant Person" means (a) any individual who is not a British citizen as defined by the British Nationality Act 1981; (b) any body corporate other than a body corporate which is incorporated under the laws of any part of, and which has its principal place of business and central management and control in, the United Kingdom; (c) a government or governmental department, agency or body, other than of the United Kingdom or any part thereof; (d) any municipal, local or statutory or other authority or any undertaking or body formed or established in any country other than the United Kingdom; and (e) any person who both falls within any of the foregoing paragraphs of this definition and would be taken to be interested in any shares pursuant to the provisions of Section 203 of the Act if a body corporate were interested in those shares;

"Relevant Share" means any share in which a Relevant Person has an Interest or which is declared by the Directors to be a Relevant Share pursuant to (ii) below, other than one particulars of which are removed from the separate register pursuant to (ii) below and other than one held by (1) a trustee of an employees' share scheme of the Company or any subsidiary; (2) a trustee of a pension scheme approved by the Inland Revenue for the Company or any other business or undertaking carried on wholly or mainly in the United Kingdom; or (3) a charity which is registered or exempt under the Charities Act 1960;

(ii) The Directors shall maintain a separate register in which shall be entered particulars of any share in which a Relevant Person has been acknowledged to hold an Interest or which the Directors have declared to be a Relevant Share, after considering that there may be an Interest of a Relevant Person and having not been satisfied to the contrary within 21

days of service of notice to the registered holder and any other person appearing to be interested in the share. Registered holders of shares which have not been acknowledged to be Relevant Shares will be obliged to notify the Directors if they become aware of interests of Relevant Persons in shares held by them. The Directors are entitled to assume that all or any shares held by a Depository are Relevant Shares unless the contrary is established to their satisfaction. The Directors may give notice in writing to any registered holder of an Ordinary Share or to any other person who appears to be interested in that share requiring him to show to their satisfaction within 21 days that such a share is not a Relevant Share.

- (iii) The provisions of (iv) to (xi) below shall apply if the Directors determine that it is necessary to take steps in order to protect any operating right of the Company or any subsidiary or the status of the Company or such subsidiary as a United Kingdom airline because (1) an Intervening Act has taken place or is contemplated, threatened or intended; or (2) the aggregate number of Ordinary Shares in the separate register or the ownership or control of the Company is otherwise such that an Intervening Act may occur;
- (iv) After such a determination the Chairman or the Directors shall take such of the following steps as seem to him or them necessary or desirable to overcome, prevent or avoid an Intervening Act:
 - (1) the Chairman (or any other Director duly acting in place of the Chairman) may remove any Director from office;
 - (2) the Directors may seek to identify those Relevant Shares which gave rise to the determination or those Ordinary Shares which would have given rise to a determination had they been Relevant Shares ("Affected Shares"); or
 - (3) the Directors may specify a permitted maximum aggregate number of Relevant Shares (being no less than 25 per cent.) so that Relevant Shares determined by the Directors to be in excess of that maximum may be treated as Affected Shares;
- (v) The Directors shall give written notice (an "Affected Share Notice") to the registered holder of any Ordinary Share which they determine to deal with as an Affected Share and to any other person who appears to be interested in that Ordinary Share stating which of the provisions described in paragraphs (vi) and (vii) shall apply to the Affected Share. The registered holder and any other interested person may make representations to the Directors as to why any Ordinary Share should not be treated as an Affected Share;
- (vi) The registered holder of an Affected Share shall not (should the Affected Share Notice so provide and have not been withdrawn) be entitled to attend or vote in respect of such Affected Share at any general or class meeting of the Company. In that event, the votes attaching to such Affected Share shall vest in the chairman of any such meeting;
- (vii) The persons on whom an Affected Share Notice has been served shall, if the Notice so requires and has not been withdrawn, within 21 days of its receipt dispose of their Affected Shares or their interests therein such that the shares in question cease to be Affected Shares. If, after such 21 day period the Directors are not satisfied that a suitable disposal has been made, the Directors may arrange for the sale of the Affected Shares on behalf of the registered holder at the best price reasonably obtainable at the relevant time, based upon advice obtained by them for the purpose. The net proceeds of sale shall be held on trust by the Company for and paid to the former registered holder (together with interest at such rate as the Directors deem appropriate) on surrender of the certificate for the Affected Shares;
- (viii) In deciding which shares are to be dealt with as Affected Shares the Directors shall be entitled to have regard to the interests which in their sole opinion have caused their determination as described in paragraph (iii) above but, subject thereto, shall have regard to the chronological order in which particulars of Relevant Shares have been entered in the separate register, except where in their opinion to do so would be inequitable, in which case the Directors shall apply such other criteria as they may consider appropriate;
- (ix) The transfer of any Ordinary Share shall be subject to the approval of the Directors if, in the opinion of the Directors, such Ordinary Share would upon transfer become or be capable of becoming or being treated as an Affected Share and the Directors may refuse to register the transfer of any such Ordinary Share;
- (x) At any time when the Directors have specified a maximum for the number of Relevant Shares or determined to deal with shares as Affected Shares they will publish in the United Kingdom, the United States and Canada notice of their determination of any such maximum specified and of the provisions which can apply to Affected Shares and the name of any person who will answer enquiries relating to Affected Shares. At other times the Directors shall from time to time publish information as to the number of Relevant Shares particulars of which have been entered in the separate register. The Directors will not be required to make the separate register available for inspection but will provide information to *bona fide* enquirers as to the number of Relevant Shares from time to time on such register;
- (xi) If at any time when a determination has been made and not withdrawn, anyone enquires of the Directors whether the number of Relevant Shares exceeds any maximum specified or whether any Ordinary Shares which he proposes to buy or in which he proposes to acquire an interest would, in the opinion of the Directors, be capable on acquisition of becoming Affected Shares, the Directors shall, on sufficient information being given to them, notify the enquirer whether in their opinion the shares would in such circumstances be capable of becoming Affected Shares. Such notification shall not, however, be binding on the Directors or the Company;

(xii) If the Secretary of State for Transport, after consultation with the Directors, resolves that grounds for the making of a determination have ceased to exist, the Directors shall withdraw the determination and, on withdrawal, the above provisions shall cease to apply and the Directors shall give notice to any holder of an Affected Share on whom an Affected Share Notice has been served and shall remove any maximum specified and shall publicise a notice of such withdrawal in a newspaper in the United Kingdom, the United States and Canada.

Any resolution or determination of, or decision or exercise of any discretion or power by, the Chairman or the Directors in relation to the provisions of this paragraph (c) shall be conclusive and binding on all persons concerned and shall not be open to challenge and they shall not be obliged to give reasons therefor. The Directors shall not be obliged to serve any notice required under the provisions of this paragraph (c) on any person if they do not know his identity or address. The absence of service in such circumstances or any accidental error in or failure to give any notice required shall not prevent the implementation of or invalidate any procedure referred to hereunder.

(d) *Income*

The Company may by ordinary resolution declare final dividends and the Directors may declare interim dividends but no final dividend shall be declared in excess of the amount recommended by the Directors and no dividend shall be payable otherwise than out of profits available for the purpose under applicable legislation. Except in so far as the rights attaching to, or the terms of issue of, any shares otherwise provide (no such shares currently being in issue), all dividends shall be apportioned and paid *pro rata* according to the amounts paid up thereon. On any distribution by way of capitalisation, the amount to be distributed will be appropriated *pro rata* amongst the holders of Ordinary Shares according to the amounts paid up on their shares respectively.

Any dividend unclaimed after a period of twelve years from the date of declaration is forfeited and reverts to the Company.

(e) *Capital*

Subject to any special rights which may be attached to any other class of shares (of which there are none at present) on a return of assets, whether on a winding-up or otherwise, the assets of the Company available for distribution shall belong to and shall be distributed among the holders of Ordinary Shares rateably according to the amount paid up on those shares.

(f) *Voting*

Subject to disenfranchisement in the event of non-payment of calls or non-compliance with a notice described in paragraph (b) above or pursuant to the provisions summarised in paragraph (c) above and subject to any special terms as to voting attached to any shares (of which there are none at present), every member present in person (including any corporation present by a duly authorised representative) at a general meeting of the Company shall upon a show of hands have one vote and on a poll have one vote for every Ordinary Share held.

5. *Directors' and other interests*

- (a) The interests, all of which are beneficial, of the Directors and their connected persons (as defined in Section 346 of the Act) in the share capital of the Company as shown on the register of Directors' interests required to be kept under the Act as at 14th May, 1993 being the latest practicable date prior to the printing of this document, are as follows:

	Ordinary Shares subject to no restrictions	Ordinary Shares subject to restrictions*	Executive Share Option Scheme	Convertible Capital Bonds
Sir Colin Marshall	30,432	—	576,428	11,304
Sir Michael Angus	3,000	—	—	1,333
R.J. Ayling	5,203	—	237,319	—
D.M. Stevens	5,050	6,164	381,371	109
Captain C.A. Barnes	7,983	4,723	69,976	644
A.M. Davies	5,060	—	—	2,221
Sir Francis Kennedy KCMG, CBE	5,250	1,860	166,666	1,421
The Hon. C.H. Price II	10,000	—	—	—
Lord White of Hull KBE	1,000	—	—	—

all of Speedbird House, Heathrow Airport (London), Hounslow TW6 2JA.

* The Ordinary Shares subject to restrictions are held in trust and may not be dealt in for a minimum period of two years following subscription.

The Ordinary Shares in which the Hon. Charles Price II is interested are represented by American Depositary Receipts.

Save as disclosed above, none of the Directors has any interest in the share capital of the Company or any of its subsidiaries.

As at 5th February, 1993, the date of his resignation as a Director of the Company, Lord King of Wartnaby was shown in the register referred to above as being interested in 119,596 Ordinary Shares and 13,332 Convertible Capital Bonds. As at 14th May, 1993 he had options over 292,213 Ordinary Shares granted under the Executive Share Option Scheme prior to 5th February 1993.

- (b) During the financial year to 31st March, 1993, the Company entered into a contract, after tender, for a value of £2,916,569 with Wiltshier Reading Limited, a subsidiary of Wiltshier PLC, of which Mr A.M. Davies is Chairman. Save as disclosed herein, no Director has any interest in any transaction which is or was unusual in its nature or conditions or is or was

significant to the business of the Group and which was effected by any member of the Group during the current or immediately preceding financial year or which was effected by any member of the Group during any earlier financial year and remains in any respect outstanding or unperformed.

- (c) The aggregate remuneration (including pension contributions) of the Directors of the Company in the financial year ended 31st March, 1993 amounted to £2.4 million.
- (d) On 5th February, 1993, Sir Colin Marshall was appointed Chairman of the Company and his salary was increased to £475,000 per annum, plus discretionary bonus. His contract is terminable by either party on three years' notice and expires on 16th November, 1998. On the same date, Mr Robert Ayling was appointed Group Managing Director of the Company and his salary was increased to £285,000 per annum, plus discretionary bonus. His contract is terminable by the Company on two years' notice and by Mr Ayling on six months' notice and expires on the date of his 63rd birthday. It is intended that both Sir Colin Marshall and Mr Ayling will enter into new service agreements which reflect their new appointments and it is expected that these will be available for inspection at the Annual General Meeting of the Company on 13th July, 1993. Save as described above, there are no existing or proposed service agreements between any of the Directors and any member of the Group which have not previously been on display and there have been no changes in any of the service contracts between the Company and the Directors since they were made available for inspection at the last Annual General Meeting of the Company on 14th July, 1992.
- (e) There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of any Director.
- (f) Sir Colin Marshall is also a Director of Grand Metropolitan PLC, IBM United Kingdom Holdings Limited, Midland Bank plc, HSBC Holdings plc, USAir and Qantas. Sir Michael Angus is Chairman of Whitbread PLC and Deputy Chairman of National Westminster Bank Plc and a Director of Thorn EMI plc. Mr Robert Ayling is a Director of Sun Alliance Group PLC. Mr Derek Stevens is a Director of USAir. Mr Michael Davies is Chairman of Calor Group PLC, Wiltshire PLC and Perkins Foods PLC and Deputy Chairman of T1 Group Plc. Sir Francis Kennedy is a Director of Fluor Daniel Corp. and Smith & Nephew plc. The Hon. Charles Price II is a Director of Hanson Plc, Texaco Inc., Sprint Corporation and New York Times Company Inc. Lord White of Hull is Chairman of Hanson Industries.
- (g) As at 10th May, 1993 Morgan Guaranty Trust Company of New York, the Depositary of the Company's ADR facility, had a non-beneficial interest in approximately 13.32 per cent. of the Company's existing issued share capital. In addition, as at that date, the Company had received notification of the following shareholders who were interested in 3 per cent. or more of the issued ordinary share capital of the Company:

Shareholder	Shareholding
The Chase Manhattan Bank N.A. (non beneficial)	7.10%
Templeton Investment Management Ltd	5.70%
Schroder Investment Management	4.97%
The Capital Group Inc.	4.26%
Robert Fleming Holdings Ltd	4.00%
Baring Investment Management	3.37%
The Directors are not aware of any other person who may be interested directly or indirectly in 3 per cent. or more of the issued share capital of the Company.	

6. Indebtedness

At the close of business on 30th April, 1993 the Group had outstanding the following borrowings and capital obligations under finance leases and hire purchase arrangements:

	£m
Bank and other loans repayable:	
Within one year	20
After more than one year	1,407
	<hr/>
	1,427
	<hr/>
Capital obligations under finance leases and hire purchase arrangements:	
Within one year	95
After more than one year	1,374
	<hr/>
	1,469
	<hr/>
9.75 per cent. Convertible Capital Bonds	320
	<hr/>

Cash balances and short term deposits amounted to £398 million at 30th April, 1993.

All borrowings and capital obligations under finance leases and hire purchase arrangements which are denominated in foreign currency have been translated into pounds sterling at the rates of exchange prevailing at the close of business on 30th April, 1993, or where the loan repayments have been covered forward, at the applicable forward contract rate.

Of the bank and other loans £673 million are secured on aircraft. All of the capital obligations under finance leases and hire purchase arrangements are secured on aircraft or other equipment.

At 30th April, 1993 the Group had contingent liabilities in the ordinary course of business amounting to £134 million.

The terms of the Convertible Capital Bonds allow the holders to convert into British Airways Ordinary Shares during the period 1993 to 2005 on the basis of one Ordinary Share for each £2.43 of Convertible Capital Bonds held (subject to adjustment as provided in paragraph 6 of Part II of this document). The terms also provide that on maturity in 2005 the Company may require remaining bondholders to convert their Convertible Capital Bonds into Ordinary Shares of the Company which would be sold on their behalf. If the proceeds of such sales are less than the issue price of the Convertible Capital Bonds the Company has to fund any deficit from its own resources. In these circumstances the Directors consider that it is highly probable that the proceeds of the issue of the Convertible Capital Bonds will become part of the Company's called up share capital in due course and therefore will be available to the Group on a permanent basis.

Save as aforesaid, the Group did not, at 30th April, 1993, have any loan capital outstanding or created but unissued, term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire-purchase commitments, mortgages or charges, commitments under finance leases, guarantees or other material contingent liabilities.

7. Working capital

The Directors are of the opinion that, taking into account the bank and other facilities available to the Group and the net proceeds of the Rights Issue, the Group has sufficient working capital for its present requirements.

8. Material contracts

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group within the two years prior to the date of this document:

- (a) An agreement dated 18th May, 1993, between (1) the Company and (2) Lazard Brothers, Warburg Securities and UBS ("the Underwriters") whereby the Underwriters (severally as to one-third each) have conditionally agreed to procure subscribers for or subscribe at 245p per share for any New Ordinary Shares not taken up under the Rights Issue or placed or sold in the market in consideration of the payment to the Underwriters of a commission of 2 per cent. of the aggregate subscription price of the New Ordinary Shares out of which the Underwriters will pay all sub-underwriting commissions in respect of the underwriting, a fee to the brokers and their own legal expenses. All other expenses of the Rights Issue are to be paid by the Company. The agreement includes warranties and indemnities given by the Company in favour of the Underwriters and is conditional, *inter alia*, on the Company's registration statement on Form F-3 becoming effective and the admission of the New Ordinary Shares to the Official List of the London Stock Exchange no later than 9.30 a.m. on 24th May, 1993, or such later date as may be agreed between Lazard Brothers and the Company being no later than 1st June, 1993.
- (b) A Sale and Purchase Agreement (the "Overhaul Business Sale Agreement") dated 5th November, 1991 between (1) British Airways (2) General Electric Company ("GE") and (3) Engine Maintenance & Management Services Wales Limited (formerly Engine Maintenance Centre South Wales Limited) ("EMMS"), a wholly-owned subsidiary of GE, pursuant to which British Airways sold to EMMS the engine overhaul business formerly carried on by British Airways Engine Overhaul Limited ("BEOL") (the "Business") for an aggregate cash consideration of £257 million. Details of the disposal of the Business were set out in a Circular dated 18th November, 1991 to the holders of Ordinary Shares and to participants in the Option Schemes. Completion of the Overhaul Business Sale Agreement took place on 2nd December, 1991. The consideration represented an agreed sum of £275.3 million, adjusted by reference to the value of the assets of the Business being acquired as at completion together with an amount payable in respect of debtors. The Overhaul Business Sale Agreement includes:

- (i) certain warranties and indemnities from British Airways as to the Business, including as to environmental matters, and
- (ii) a covenant on the part of British Airways, subject to certain exceptions, not to compete with the Business for five years.

As required by the Overhaul Business Sale Agreement, British Airways and EMMS entered into 13 engine overhaul agreements on 2nd December, 1991 whereby EMMS agreed to supply engine overhaul, maintenance and repair services to British Airways and which gave EMMS exclusivity in the provision of engine overhaul services for certain defined periods, generally of either three or five years, in respect of the majority of the engine types operated by British Airways.

- (c) An Investment Agreement, dated as of 21st January, 1993, between the Group and USAir Group, Inc. ("USAir"), which provides for, among other things, (i) the sale of 30,000 shares of USAir Series F Cumulative Convertible Senior Preferred Stock, without par value ("Series F Preferred Stock"), for an aggregate purchase price of \$300 million, (ii) a right for the Group to maintain its potential proportionate interest in USAir (calculated on the assumption that all of the options referred to below are exercised) through the purchase of additional securities, (iii) an undertaking by USAir to use its best efforts to cause the Group to be proportionately represented on USAir's Board of Directors on the basis of the Group's voting interest up to a maximum representation of 25 per cent., (iv) an undertaking by USAir to divest or relinquish all licences, authorities and certificates for routes between the United States and the United Kingdom, (v) an undertaking by the Group to operate and market certain routes then operated by USAir under a "wet lease" using USAir's pilots and cabin crews (subject to receipt by the Group of necessary licences), (vi) an option that the Group may purchase, or in certain circumstances be

required by USAir to purchase, prior to 21st January, 1996, 50,000 shares of USAir's Series C Cumulative Convertible Senior Preferred Stock, without par value ("Series C Preferred Stock"), in exchange for the Group's Series F Preferred Stock and for an additional \$200 million and (vi) in option that the Group may purchase, or in certain circumstances be required by USAir to purchase, prior to 21st January, 1998, 25,000 shares of USAir's Series E Cumulative Convertible Exchangeable Senior Preferred Stock, without par value ("Series E Preferred Stock"), for a purchase price of \$250 million (subject to adjustment in certain circumstances).

The Series F Preferred Stock is convertible at the option of the holder at any time on or after 21st January, 1997, into shares of Common Stock of USAir ("Common Stock") at an initial conversion price of \$19.50. The Series F Preferred Stock may be converted into Common Stock at the option of USAir at any time after 21st January, 1998, if the average composite closing market price of the Common Stock during any 30-day calendar period is at least 133 per cent. of the conversion price. Notwithstanding the foregoing, Series F Preferred Stock may be converted into voting Common Stock only to the extent such conversion would not violate any applicable U.S. statutory or Department of Transportation ("DOT") regulatory or interpretative restrictions on foreign ownership or control of USAir or its securities, the breach of which would result in the loss of USAir's or any subsidiary's operating certificates or authorities ("Foreign Ownership Restrictions").

The Series F Preferred Stock is required to be redeemed by USAir at its purchase price, plus accrued dividends, if the Investment Agreement is not approved by the shareholders of USAir at its Annual General Meeting on 26th May, 1993. The Series F Preferred Stock is redeemable at the option of USAir if British Airways has not elected to proceed with the purchase of the Series C Preferred Stock by 21st January, 1996, or, in any event, on 21st January, 2008 if not previously converted.

The further \$450 million preferred stock which British Airways may acquire in the future will have financial terms similar to those applicable to the Series F Preferred Stock. The initial conversion price of the shares held by British Airways will be adjusted upon the first optional investment of \$200 million so that the weighted average conversion price on British Airways' then \$500 million investment will be \$19.88 (subject to adjustment). The initial conversion price for the \$250 million balance of British Airways' optional investment will be \$21.82 (subject to adjustment). Upon exercising the first option, British Airways would be entitled to such of the corporate governance measures provided in the Investment Agreement as may be permissible at the time under Foreign Ownership Restrictions. The only circumstance in which British Airways can be required to make any additional investment in USAir is if, prior to 22nd January, 1998 at a time when British Airways still holds USAir securities covered by the Investment Agreement and USAir has not repurchased or redeemed any such securities pursuant to the Investment Agreement, the DOT has given final approval to all transactions and acts contemplated by the Investment Agreement.

The Group has certain pre-emptive rights to maintain the size of its potential proportionate interest in USAir's share capital in the event of certain issuances by USAir of additional shares of common stock. In addition, the Group has options to maintain the size of its potential proportionate interest in USAir's share capital upon the conversion of certain outstanding convertible preferred stock of USAir and the exercise of any employee stock options to acquire USAir common stock. If all existing USAir preferred stock is converted and all existing employee options are exercised, to maintain the size of its potential proportionate interest in USAir's share capital, the Group would need to invest approximately a further \$550 million, which is likely to be spread over several years.

To maintain the Group's 24.6 per cent. interest in USAir's common share capital on an undiluted basis, the Group in early May exercised its pre-emptive rights in connection with a public offering of USAir common stock and agreed to purchase shares of a Series T-2 Preferred Stock for \$99.2 million, and the Group exercised its options in connection with the issuance of USAir common stock upon the exercise (up to 31st March, 1993) of certain employee stock options and agreed to purchase shares of a Series T-1 Preferred Stock for \$1.5 million. Both the Series T-1 Preferred Stock and Series T-2 Preferred Stock are entitled to cumulative quarterly cash dividends 0.5 per cent. over LIBOR and are convertible at the option of the holder at any time on or after 21st January, 1997, subject to Foreign Ownership Restrictions, into shares of Common Stock at an initial conversion price of \$20.50 with respect to Series T-1 and \$26.40 with respect to Series T-2. Both Series T-1 and Series T-2 Preferred Stock are exchangeable at the option of USAir into Floating Rate Convertible Subordinated Notes and Series G Preferred Stock of USAir.

A Code Share Agreement was also entered into on 21st January, 1993 between the Group and USAir pursuant to which certain of USAir's flights will carry the airline designator codes of both the Group and USAir and may (for marketing purposes) be held out by the Group as service to a point in the United States as though those services were the Group's own. These flights are intended by the Group and USAir to include all routes provided for under the bilateral air services agreement between the United States and the United Kingdom to the extent possible, consistent with commercial viability and technical feasibility. On 15th March, 1993 the DOT issued an order approving the Code Share Agreement for a period of one year and instituting a formal review of the Investment Agreement and its effects on the citizenship of USAir under Foreign Ownership Restrictions. The order stated that the DOT's review indicates that British Airways' initial investment does not impair USAir's citizenship, but invited further analysis and public comment, particularly with respect to the second and third stages of the transaction.

- (d) A Sale and Purchase Agreement (the "Qantas Agreement") dated 12th January, 1993 between (1) The Commonwealth of Australia (the "Commonwealth") and (2) British Airways Investments (Australia) Pty Limited ("BAIA") (formerly Acesun Pty Limited) whereby BAIA agreed, conditional upon regulatory approvals, to purchase 25 per cent. of the issued ordinary shares of Qantas Airways Limited ("Qantas") for a cash consideration of A\$666 million. Completion of the Qantas Agreement took place, following receipt of all necessary approvals, on 10th March, 1993. Prior to Completion, as required by the terms of the Qantas Agreement, the Commonwealth recapitalised Qantas so as to increase shareholders' equity by

A\$1,350 million net. The Company and the Commonwealth have also agreed in certain circumstances to contribute, without dilution of BAlA's interest, additional capital to Qantas up to a limit in the case of the Company to the lesser of A\$62.5 million and one quarter of such additional capital. The Qantas Agreement also contains certain warranties on the part of the Commonwealth as to the business of Qantas. In particular, the Commonwealth must agree with BAlA on any amendments to the Articles of Association of Qantas (the "Qantas Articles") prior to the offer of the Commonwealth's remaining shares in Qantas to the public (the "Public Offer"). Following the Public Offer, any alteration of the Qantas Articles will require the approval of a special resolution passed by a 75 per cent. majority of shareholders (voting). The Qantas Articles contain the following material provisions:

- (i) for so long as BAlA holds at least 22.5 per cent. of Qantas's voting shares, BAlA has the right to nominate three directors to the board of Qantas, which will consist of up to 12 members;
- (ii) a two-thirds majority of the board or the approval of all the BAlA appointed directors is required for certain key decisions;
- (iii) a nominations committee of the board and the BAlA representative on that committee must approve any nominee for chairperson;
- (iv) no single foreign person may own more than 25 per cent. of the issued share capital of Qantas and the aggregate holding of foreign persons must not exceed 35 per cent. of the issued share capital; and
- (v) BAlA has the right to maintain its proportionate equity in Qantas on a new share issue.

On completion of the Qantas Agreement, a ten-year Commercial Agreement (the "Commercial Agreement") between (1) British Airways and (2) Qantas became operative. The Commercial Agreement provides a framework for the co-ordination of the commercial activities of Qantas and British Airways and provides for the creation of a Co-ordination Committee, comprising three persons from each company, to agree and undertake joint strategies to develop the relationship between the parties. The Co-ordination Committee has no power to bind either Qantas or British Airways without their respective prior approval.

- (c) An Agreement (the "D&N Agreement") dated 23rd October, 1992 between the Company, Davies & Newman Holdings PLC ("D&N") and the Directors of D&N pursuant to which the Company acquired from D&N the shares of Dan-Air Services Limited ("DAS") and all of the other assets of D&N in consideration of the sum of £1 and the assumption by the Company of all present and future liabilities of D&N. The D&N Agreement was conditional, *inter alia*, on the completion of the discontinuation or disposal of the charter operations of DAS and its subsidiaries. Completion of the D&N Agreement took place on 8th November, 1992.

9. Regulation and competition

The airline industry is subject to extensive regulation, especially in the United States and the European Community, covering fundamental matters such as the Company's routes, fares and marketing practices, the basis upon which airport slots are allocated and the operation of computer reservation systems. Such regulation is frequently a matter of controversy in which the Company's competitors petition regulators to take positions materially adverse to the Company's interests. Recent examples include the petitions presented by American carriers against the Company's investment in USAir, the complaints made both in the United States and in Europe about the operation of the airport slot allocation system at Heathrow and complaints which Virgin has threatened to make to various authorities, including the European Commission about certain of the Company's marketing practices. Given the environment in which the Company operates, no assurances can be given that regulators may not require changes to be made at some time in the future.

10. Litigation

- (a) An action was brought on 20th March, 1992 in the High Court of Justice against the Company by Mr Richard Branson and Virgin Atlantic Airways Limited ("Virgin") alleging that the Company had defamed Mr Branson and Virgin. In a statement made in open court on 11th January, 1993 the Company apologised to Mr Branson and Virgin and agreed to pay £610,000 in damages plus legal costs to Mr Branson and Virgin. Since the settlement, Mr Branson and Virgin have stated that Virgin may commence further proceedings against the Company in England and proceedings in the United States of America alleging that Virgin's business interests had been damaged by the conduct of Company employees and on 6th May, 1993 Virgin issued a writ against the Company alleging breach of copyright and confidence obligations. Having regard to legal advice received and in all the circumstances, the Directors are of the opinion that the outcome of the current and any other such proceedings in respect of damage to Virgin will not in the aggregate have a significant effect on the financial position of the Group.
- (b) There are a number of further identified legal and other claims which emanate from international airline operations and other activities of the Group for which the Directors have made what they believe is appropriate provision.
- (c) Experience with litigation and regulation in the United States and elsewhere has led the Directors to conclude that it is prudent to continue to carry forward £22 million of a provision made in prior years.

Neither British Airways nor any of its subsidiaries is engaged in or is aware of any litigation, claims or arbitration proceedings pending or threatened against them which, having regard to provisions already made, are likely to have, or which have had during the previous 12 months, a significant effect on the Group's financial position.

11. Miscellaneous

- (a) There has been no significant change in the financial or trading position of the Group since 31st March, 1993, the end of the financial year to which the audited results of the Group relate.
- (b) It is estimated that the total expenses payable by the Company in connection with the Rights Issue will amount to approximately £12.6 million (excluding VAT), including underwriting commissions of £9.1 million.
- (c) The Rights Issue has been underwritten severally as to one third each by Lazard Brothers of 21 Moorfields, London EC2M 2HT, Warburg Securities of 1 Finsbury Avenue, London EC2M 2PA and UBS of 100 Liverpool Street, London EC2M 2RH.
- (d) Warburg Securities and UBS are registered with the London Stock Exchange as market-makers in the Ordinary Shares and expect to be registered with the London Stock Exchange as market-makers in the New Ordinary Shares. Warburg Securities and UBS will carry out their market-making activities in the Ordinary Shares, and the New Ordinary Shares as from the commencement of dealings in the New Ordinary Shares, on the London Stock Exchange but, as a consequence of the application of the provisions of Rule 10b-6 of the US Securities Exchange Act of 1934 and exemptive relief therefrom, during the period ending on completion of the US distribution (expected to be the last date for acceptances under the Rights Issue), they will be subject to certain restrictions and obligations, including not engaging in transactions for the purpose of creating actual or apparent active trading of those securities and, under certain circumstances during the five dealing days ending on the last date for acceptances, moving to passive market-making in those securities, i.e. following the independent price and size quotations for those securities on the London Stock Exchange.
- (e) The Registrars of the Company are Barclays Registrars, PO Box 34, Northwich, Cheshire CW9 7RD. The receiving bankers for the Rights Issue are New Issues Department, Barclays Registrars, PO Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH.
- (f) The financial information set out in Part III of this document does not constitute statutory accounts of the Company and its subsidiaries within the meaning of Section 240 of the Act. Statutory accounts of the Company in respect of the financial years ended 31st March, 1992 and 1993 (which both received an unqualified audit opinion and do not contain a statement under Section 236(2) or (3) of the Act) have been or will be respectively delivered to the Registrar of Companies in England and Wales, Ernst & Young, Chartered Accountants, of Becket House, 1 Lambeth Palace Road, London SE1 7EU were auditors of the Company for such periods and are currently auditors of the Company.
- (g) Lazard Brothers, Warburg Securities and UBS have given and have not withdrawn their written consents to the issue of this document with the inclusion herein of their names in the form and context in which they appear.
- (h) Ernst & Young have given and not withdrawn their written consent to the inclusion in this document of their name and auditors' report in the form and context in which they appear.

12. Documents available for inspection

Copies of the following documents may be inspected at the offices of Linklaters & Paines, Barrington House, 59/67 Gresham Street, London EC2V 7JA during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 1st June, 1993:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited consolidated accounts of the Company for the two financial years ended 31st March, 1991 and 1992;
- (c) the U.S. annual report of the Company on Form 20-F for the financial year ended 31st March, 1993 filed with the Securities and Exchange Commission;
- (d) the trust deed constituting the Convertible Capital Bonds and the Articles of Association of BACL;
- (e) the material contracts referred to in paragraph 8 above;
- (f) the written consents referred to in paragraphs 11(g) and (h) above;
- (g) the service agreements referred to in paragraph 5(d) above;
- (h) the U.S. prospectus included in the registration statement on Form F-3 relating to the Rights Issue filed with the Securities and Exchange Commission;
- (i) the report and accounts of USAir for the years ended 31st December, 1991 and 31st December, 1992 and the interim report on Form 10-Q for the quarter ended 31st March, 1993 filed with the Securities and Exchange Commission;
- (j) the report and accounts of Qantas for the years ended 30th June, 1991 and 30th June, 1992;
- (k) the report and accounts of Australian Airlines for the years ended 30th June, 1991 and 30th June, 1992;
- (l) the circular to the shareholders of British Airways dated 18th November, 1991 relating to the disposal of the engine overhaul business formerly carried on by British Airways Engine Overhaul Limited; and
- (m) the U.S. prospectus included in the registration statement on Form S-3 dated 28th April, 1993 relating to the public offering of common stock by USAir filed with the Securities and Exchange Commission.

PART VII

Audited accounts for the year ended 31st March, 1993

Set out below are the audited accounts of the Company for the year ended 31st March, 1993 together with the related report of the auditors.

REPORT OF THE AUDITORS TO THE MEMBERS OF BRITISH AIRWAYS Plc

We have audited the accounts on pages 44 to 73 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31st March, 1993 and of the profit and cash flows 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

17th May, 1993

GROUP PROFIT AND LOSS ACCOUNT
For the year ended 31st March, 1993

	Note	Group	
		1993	1992*
		£ million	£ million
TURNOVER			
Continuing operations	2a	5,566	5,224
Acquisitions		5,519	5,224
		47	
Cost of sales	3a	(5,138)	(4,777)
Gross profit		428	447
Administrative expenses	3a	(118)	(103)
OPERATING PROFIT	2c & 3c	310	344
Continuing operations		318	344
Acquisitions		(8)	
Share of results of associated undertakings	4	(17)	
Other income and charges	5	(16)	(7)
Profit on sale of fixed assets		19	36
Profit on sale of engine overhaul business			149
Net interest payable	6	(111)	(88)
PROFIT BEFORE TAXATION		185	434
Taxation	7	(7)	(39)
PROFIT FOR THE YEAR		178	395
Dividends	8	(79)	(74)
RETAINED PROFIT FOR THE YEAR	24	99	321
EARNINGS PER SHARE	9		
Basic earnings per share		24.1p	54.6p
Adjustment to exclude profit on sale of engine overhaul business			(19.3)p
Adjusted earnings per share		24.1p	35.3p
Fully diluted earnings per share		22.3p	46.4p
Adjustment to exclude profit on sale of engine overhaul business			(15.4)p
Fully diluted adjusted earnings per share		22.3p	31.0p
DIVIDENDS PER SHARE	8	10.60p	10.18p

* Restated in accordance with Financial Reporting Standard 3, see Note 1.

BALANCE SHEETS
at 31st March, 1993

	Note	Group		Company	
		1993	1992	1993	1992
		£ million	£ million	£ million	£ million
FIXED ASSETS					
Tangible assets					
Fleet	10	3,537	2,829	3,511	2,904
Property		464	420	456	415
Equipment		229	223	214	206
		4,230	3,472	4,181	3,425
Investments	11				
Subsidiary undertakings		448	7	668	136
Associated undertakings		98	86	11	5
Trade investments		546	93	22	20
				701	161
CURRENT ASSETS					
Stocks	16	40	34		
Debtors	17	1,009	920	38	31
Short-term loans and deposits	18a	495	706	1,015	889
Cash at bank and in hand	18a	33	27	439	650
		1,577	1,687	23	23
				1,515	1,593
CREDITORS: amounts falling due within one year	19	(1,851)	(1,706)	(1,846)	(1,717)
NET CURRENT LIABILITIES		(274)	(19)	(331)	(124)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,502	3,546	4,551	3,462
CREDITORS: amounts falling due after more than one year	20	(2,899)	(1,888)	(3,203)	(2,183)
PROVISIONS FOR LIABILITIES AND CHARGES	22	(69)	(54)	(69)	(54)
		1,534	1,604	1,279	1,225
CAPITAL AND RESERVES					
Called up share capital	23	185	182	185	182
Reserves	24				
Share premium account		30	10	30	10
Revaluation reserve		45	60	40	54
Profit and loss account		954	1,032	1,024	979
		1,214	1,284	1,279	1,225
CONVERTIBLE CAPITAL BONDS 2005	25	320	320		
		1,534	1,604	1,279	1,225

Sir Colin Marshall
Robert Ayling
Derek Stevens

Chairman
Group Managing Director
Chief Financial Officer

17th May, 1993

GROUP CASH FLOW STATEMENT
For the year ended 31st March, 1993

		Group	
	Note	1993	1992
		£ million	£ million
NET CASH INFLOW FROM OPERATING ACTIVITIES	3b	629	591
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		96	49
Interest paid on bank and other loans		(116)	(98)
Interest paid on finance leases and hire purchase arrangements		(80)	(53)
US Air preferred stock dividend received		3	
Dividends received from trade investments		4	1
Dividends paid		(76)	(65)
Net cash outflow from returns on investments and servicing of finance		(169)	(166)
Taxation			
UK corporation tax paid		(38)	(11)
INVESTING ACTIVITIES			
Tangible fixed assets purchased for cash	10g	(577)	(539)
Refund of progress payments		32	158
Purchase of interests in associated undertakings		(532)	(6)
Loans made to associated undertakings		(42)	
Purchase of interests in trade investments			(1)
Net cash and cash equivalents of Davies & Newman Holdings PLC assumed on acquisition	12e	(10)	
Sale of tangible fixed assets		103	90
Sale of investments		2	
Sale of engine overhaul business			274
		(1,024)	(24)
Net cash (outflow)/inflow before decrease/(increase) in short-term deposits and financing		(602)	390
Decrease/(increase) in short-term deposits (maturity date at inception of more than three months)		334	(334)
Net cash outflow from investing activities		(690)	(358)
Net cash (outflow)/inflow before financing		(268)	56
FINANCING			
Changes in borrowings	21c		
Bank and other loans raised		735	390
Bank and other loans repaid		(301)	(215)
Capital elements of finance leases and hire purchase arrangements paid		(79)	(55)
		355	120
Changes in share capital	23		
Issue of ordinary share capital under Employee Share Option Schemes		3	2
Share premium received		20	9
		23	11
Net cash inflow from financing		378	131
Increase in cash and cash equivalents	18b	110	187
GROUP FINANCING REQUIREMENT			
Net cash outflow/(inflow) before (decrease)/increase in short-term deposits and financing		602	(390)
Acquisitions under finance leases and hire purchase arrangements		513	362
Total financing requirement for the year		1,115	(28)
FUNDED BY:			
Decrease/(increase) in short-term deposits (maturity date at inception of more than three months)		334	(334)
New finance leases taken out and hire purchase arrangements made		513	362
Net cash inflow from financing		378	131
Increase in cash and cash equivalents		(110)	(187)
		1,115	(28)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31st March, 1993

	Group	
	1993	1992
	£ million	£ million
Profit for the year	178	395
Exchange movements	(28)	(1)
Total recognised gains and losses in the year	150	394
Adjustment to opening balance relating to post-retirement medical benefits	(15)	
Total gains and losses recognised since 31st March, 1992	135	394

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31st March, 1993

	Group	
Note	1993	1992
	£ million	£ million
Retained profit for the year	99	321
Exchange movements	(28)	(1)
Issue of ordinary share capital under Employee Share Option Schemes	23	
Share capital	3	2
Share premium	20	9
	23	11
Goodwill set off in the year	24a	(5)
	(149)	(5)
Net (reductions)/additions to shareholders' funds	(55)	326
Shareholders' funds at 1st April (as restated to account for post-retirement medical benefits)	1,269	958
Shareholders' funds at 31st March	1,214	1,284

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

NOTES TO THE ACCOUNTS

For the year ended 31st March, 1993

1 Accounting Policies

PRESENTATION OF FINANCIAL INFORMATION

The Group has adopted Financial Reporting Standard 3 'Reporting Financial Performance' in 1993 and corresponding amounts have been restated accordingly. As a consequence, the profit on sale of the engine overhaul business in 1992 of £149 million (before tax) has been reclassified as an exceptional item and is now included in profit before taxation. Profits and losses on sales of fixed assets are also now classified as exceptional items. The new standard requires a statement of recognised gains and losses, a reconciliation of movements in shareholders' funds and, if material, a note of historical cost profits and losses.

The Group has also adopted Urgent Issues Task Force Abstract 6 'Accounting for Post-retirement Benefits other than Pensions', with effect from 1st April, 1992. The cumulative effect of this change in accounting policy on prior years has been dealt with as an adjustment to reserves brought forward on that date. The effect of the change on results for both 1992 and 1993 is insignificant.

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. As explained in Note 25, the Convertible Capital Bonds 2005 are shown with Capital and Reserves in order to show a true and fair view.

BASIS OF CONSOLIDATION

The Group accounts include the accounts of the Company and its subsidiary undertakings, each made up to 31st March, together with the attributable share of results and reserves of associated undertakings. 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 has not been presented.

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 surplus 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 fleet, all of which are registered in the United Kingdom.

Since the Group's aircraft fleet is 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

(a) Tangible fixed assets are stated at cost except for certain aircraft fleets and properties which are included at valuation. Depreciation is calculated to write off the cost or valuation, less residual value, on the straight line basis.

(b) FLEET

(i) Cost or Valuation

Owned fleets are stated at cost except for the majority of the fleets owned at 31st March, 1988 which were professionally valued on a market value basis as at that date and are included in the accounts on the basis of that valuation 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 whole or in part 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) Capitalisation of Interest on Progress Payments

Interest attributed to progress payments made on account of aircraft under construction is capitalised and added to the cost of the aircraft 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.

(iii) Depreciation

Fleet assets owned, or held on finance leases and 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. Residual values and operational lives are reviewed annually.

(c) PROPERTY AND EQUIPMENT

All properties, other than those of a specialised use nature such as hangars and aircraft maintenance buildings, were professionally valued at open market value for existing use or open market value at 31st March, 1984 and are included in these accounts on the basis of that valuation, with subsequent expenditure stated at cost. Specialised use properties 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 and 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 tangible fixed assets represents the aggregate of the capital elements payable during the lease and hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease and hire purchase payments made, is included in creditors. The amount included in tangible fixed assets is depreciated on the basis described in the preceding paragraphs and the interest element of lease and 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 period, normally every five to seven years, without further material financial obligations.

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 fleets 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.

ASSOCIATED UNDERTAKINGS

Where the Group participates in the results of 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 companies are classified as associated undertakings. 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.

STOCKS AND WORK IN PROGRESS

Stocks and work in progress 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 estimated additional direct cost of providing free travel in exchange for redemption of miles earned by members of the Group's Executive Club and Frequent Traveller programmes is accrued as members of these schemes accumulate mileage.

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 and of the related aircraft are taken to reserves. Exchange differences arising on the translation of net assets of overseas subsidiary 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.

NOTES TO THE ACCOUNTS *continued*

2 Analysis of Group turnover, operating profit and operating net assets

	Group	
	1993	1992
	£ million	£ million
a. TURNOVER		
Traffic revenue		
Scheduled services — passenger	4,533	4,281
— freight and mail	396	396
	4,929	4,677
Non-scheduled services	153	111
	5,082	4,788
Other revenue	484	436
	5,566	5,224
	<i>By area of original sale</i>	<i>By area of destination</i>
	1993	1992
	£ million	£ million
b. GEOGRAPHICAL ANALYSIS OF TURNOVER		
United Kingdom	2,585	2,419
Continental Europe	1,008	911
	3,593	3,330
Europe	3,593	3,330
The Americas	927	941
Africa, Middle East and Indian sub-continent	466	434
Far East and Australasia	580	519
	5,566	5,224
	1993	1992
	£ million	£ million
c. GEOGRAPHICAL ANALYSIS OF OPERATING PROFIT		
Europe	30	20
The Americas	87	119
Africa, Middle East and Indian sub-continent	134	119
Far East and Australasia	59	86
	310	344

It is impractical to separate United Kingdom and Continental Europe operating profits on a meaningful basis, since the day to day operations are fully integrated. The operating profits for these services are therefore combined under the heading 'Europe'.

d. OPERATING NET ASSETS

Net assets

Add: net non-operating liabilities

Operating net assets

Comprising:

Tangible fixed assets

Stocks

Non-interest bearing debtors

Trade debtors

Other debtors including amounts owed by associated undertakings

Prepayments and accrued income

Non-interest bearing operating liabilities

Trade creditors

Other creditors including amounts owed to associated undertakings

Other taxation and social security

Accruals and deferred income

Group	
1993	1992
£ million	£ million
1,534	1,604
2,042	1,245
3,576	2,849
4,230	3,472
40	34
726	674
00	87
10	96
36	857
(727)	(660)
(11)	(65)
(30)	(28)
(836)	(761)
(1,630)	(1,514)
3,576	2,849

3 Operating profit

a. ANALYSIS OF OPERATING EXPENDITURE

Employee costs

Depreciation

Aircraft operating lease costs

Fuel and oil costs

Engineering and other aircraft costs

Landing fees and en route charges

Handling charges, catering and other operating costs

Selling costs

Accommodation, ground equipment and currency differences

Total operating expenditure

Cost of sales

Administrative expenses

Total operating expenditure

Group	
1993	1992
£ million	£ million
1,551	1,506
312	295
224	236
560	521
262	262
497	425
714	608
732	652
404	375
5,256	4,880
5,138	4,777
118	103
5,256	4,880

Cost of sales and administrative expenses for the year ended 31st March, 1993 include £52 million and £3 million respectively relating to the acquisition of the assets and liabilities of Davies & Newman Holdings PLC.

b. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

Group operating profit

Depreciation charges

Other items not involving the movement of cash

Increase in stocks and debtors

Increase in creditors

Net cash inflow from operating activities

310	344
312	295
(4)	9
(24)	(149)
35	92
629	591

NOTES TO THE ACCOUNTS *continued*

	Group	
	1993	1992
	£ million	£ million
c. OPERATING PROFIT IS ARRIVED AT AFTER CHARGING:		
Depreciation of Group tangible fixed assets		
Owned assets	215	221
Finance leased aircraft	41	34
Hire purchased aircraft	36	20
Other leasehold interests	20	20
	<u>312</u>	<u>295</u>
Operating lease costs		
Lease rentals — aircraft	224	236
— property and equipment	78	69
Hire of equipment and charter of aircraft and crews	23	23
	<u>325</u>	<u>328</u>
	£000	£000
Auditors' remuneration		
Group auditors — audit fees	939	848
— other professional fees — United Kingdom	657	440
— overseas	735	20
Other auditors — audit fees	7	7
— other professional fees		100
	<u>2,338</u>	<u>1,415</u>
Directors' emoluments — fees	£	£
— salary and benefits, including Company's pension contribution	126,416	85,000
— share appreciation rights	1,909,879	1,790,088
— performance related bonus	346,224	—
	<u>—</u>	<u>569,783</u>
	<u>2,382,519</u>	<u>2,444,871</u>
d. DIRECTORS' EMOLUMENTS (excluding Company's pension contributions)		
Chairmen and highest paid Director		
Lord King — to 5th February, 1993		
Salary and benefits	380,795	449,350
Share appreciation rights	97,995	—
Performance related bonus	—	220,000
	<u>478,790</u>	<u>669,350</u>
Sir Colin Marshall — from 5th February, 1993 (full year: £540,916)		
Salary and benefits	70,274	
Share appreciation rights	16,417	
Performance related bonus	—	
	<u>86,691</u>	
	<u>565,481</u>	<u>669,350</u>

The Directors' remuneration was within these ranges:

£10,001 — £15,000
£20,001 — £25,000
£25,001 — £30,000
£30,001 — £35,000
£35,001 — £40,000
£40,001 — £45,000
£45,001 — £50,000
£85,001 — £90,000
£135,001 — £140,000
£250,001 — £255,000
£275,001 — £280,000
£280,001 — £285,000
£475,001 — £480,000
£540,001 — £545,000
£585,001 — £590,000
£665,001 — £670,000

Group	
1993	1992
Number	Number
	2
1	
	1
1	1
1	
1	
1	1
	1
1	1
1	
1	
	1
1	
	1
	1

Executive Directors' emoluments (excluding pension contributions) consist of a basic salary and a performance related bonus. Salaries are reviewed annually by the Remuneration Committee which consists of non-executive Directors and is chaired by the non-executive Deputy Chairman. Performance related bonuses are driven by corporate performance targets which are set annually by the Remuneration Committee.

Share appreciation rights are sums paid following exercise of rights under the British Airways Share Appreciation Rights Plan 1991, under the rules of which up to 25 per cent. of rights granted may be exercised after one year, up to 50 per cent. of the grant after two years and the balance after three years, terminating in May 1994. The value of the right, which is payable in cash, is the difference between the market share price when the right is exercised, with an upper limit of 210p per share, and 163p per share.

Lord King held 625,855 share appreciation rights at the time of his retirement as Chairman and Director, which are exercisable under the plan's rules in May 1993 and 1994.

A Director has waived fees of £17,500 for the year (1992: £15,000).

c. EMPLOYEE NUMBERS AND COSTS

The average number of persons employed in the Group during the year was as follows:

United Kingdom
Overseas

Group	
1993	1992
Number	Number
42,233	43,744
6,727	6,665
48,960	50,409
£ million	£ million
1,157	1,087
	35
106	104
52	62
1,315	1,288

The aggregate payroll costs of these persons were as follows:

Wages and salaries

Employee bonus

Social security costs

Contributions to pension schemes (Note 28)

Group	
1993	1992
£ million	£ million
(20)	
3	
(17)	

4 Share of results of associated undertakings

Attributable losses less profits (acquisitions: loss £4 million)

USAir preferred stock dividend (Note 15)

NOTES TO THE ACCOUNTS *continued*

5 Other income and charges

	Group	
	1993	1992
	£ million	£ million
Income from trade investments	4	2
Provision against aircraft not in current use (Note 10a)	(4)	(8)
Amounts written off investments	(12)	(8)
Other	(4)	7
	<u>(16)</u>	<u>(7)</u>

6 Net interest payable

	Group	
	1993	1992
	£ million	£ million
Interest payable		
On bank loans		
Repayable wholly within five years	5	1
Repayable in whole or in part after five years	36	15
On finance leases		
Repayable wholly within five years	3	26
Repayable in whole or in part after five years	30	5
On hire purchase arrangements		
Repayable in whole or in part after five years	40	30
On other loans		
Repayable wholly within five years	27	6
Repayable in whole or in part after five years — including interest of £31 million (1992: £31 million) on Convertible Capital Bonds 2005	53	78
	<u>194</u>	<u>161</u>
Interest capitalised	(8)	(17)
Interest receivable	(89)	(57)
	<u>97</u>	<u>87</u>
Currency losses on revaluation of general purpose loans at year end	14	1
	<u>111</u>	<u>88</u>

The average rate of interest on loans, excluding finance leases and hire purchase arrangements, was 6.9 per cent. (1992: 7.7 per cent.). In respect of all loans, including finance leases and hire purchase arrangements repayable in whole or in part after five years, the final repayment date is April 2011. The interest rates range from 3.6 per cent. to 11.3 per cent. (1992: 4.7 per cent. to 14.5 per cent.).

7 Taxation (see also Note 26)

	Group	
	1993	1992
	£ million	£ million
British Airways Plc and subsidiary undertakings		
United Kingdom corporation tax at 33 per cent. (1992: 33 per cent.)	8	47
Prior year adjustments	(1)	(10)
Overseas	1	2
	8	39
Share of taxation in associated undertakings	(1)	
	7	39

The 1992 corporation tax charge of £47 million included £9 million in respect of the sale of the engine overhaul business and £9 million in respect of the sale of other fixed assets.

If full provision for deferred taxation had been made, there would have been an additional charge for the year of £74 million (1992: £74 million), comprising:

Accelerated capital allowances	79	45
Other timing differences	(5)	29
	74	74

8 Dividends

	Group and Company	
	1993	1992
	£ million	£ million
Interim dividend of 3.06p per share (1992: 2.94p per share)	23	21
Second interim dividend of 7.54p per share, in lieu of final dividend (1992: nil)	56	
Final dividend of 7.24p per share for the year ended 31st March, 1992		53
	79	74

Following changes to advance corporation tax announced in the Budget on 16th March, 1993, the Board declared a second interim dividend on 31st March, 1993 which was paid on 5th April, 1993. The Board does not intend to propose a final dividend.

9 Earnings per share

	Group			
	Profit		Earnings per share	
	1993	1992	1993	1992
	£ million	£ million		
Profit and basic earnings per share for the year	178	395	24.1p	54.6p
Adjustment to exclude profit on sale of engine overhaul business		(140)		(19.3)p
Adjusted profit and earnings per share for the year	178	255	24.1p	35.3p
Fully diluted earnings per share			22.3p	46.4p
Adjustment to exclude profit on sale of engine overhaul business				(15.4)p
Fully diluted adjusted earnings per share			22.3p	31.0p

Basic and adjusted earnings per share are calculated on a weighted average of 738,431,000 ordinary shares (1992: 722,801,000). Fully diluted and fully diluted adjusted earnings per share are calculated on a weighted average of 907,681,000 ordinary shares (1992: 908,040,000) 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*

10 Tangible assets

	<i>Fleet</i>	<i>Property</i>	<i>Equipment</i>	<i>Total</i>	
				<i>1993</i>	<i>1992</i>
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>
a. GROUP					
COST OR VALUATION (Note 10c)					
Balance 1st April	4,496	592	554	5,642	5,183
Exchange adjustments	129			129	13
Additions	942	63	70	1,075	947
Disposals	(151)		(11)	(162)	(334)
Reclassification of capitalised interest					(9)
Refund of progress payments	(32)			(32)	(158)
BALANCE AT 31st MARCH	5,384	655	613	6,652	5,642
DEPRECIATION					
Balance 1st April	1,667	172	331	2,170	2,049
Exchange adjustments	7			7	4
Charge for the year	231	19	62	312	295
Provision against aircraft not in current use (Note 5)	4			4	8
Disposals	(62)		(9)	(71)	(185)
Reclassification of capitalised interest					(1)
BALANCE AT 31st MARCH	1,847	191	384	2,422	2,170
NET BOOK AMOUNTS					
31st March, 1993	3,537	464	229	4,230	
31st March, 1992	2,829	420	223		3,472
UTILISATION AT 31st MARCH					
Assets in current use					
Owned	1,787	347	176	2,310	2,057
Finance leased	590		6	596	347
Hire purchase arrangements	875			875	695
Progress payments	224	117	47	388	313
Assets not in current use	61			61	60
	3,537	464	229	4,230	3,472
THE NET BOOK AMOUNT OF PROPERTY COMPRISES:					
Freehold				118	109
Long leasehold				22	22
Short leasehold				324	289
				464	420

	<i>Valuation/cost</i>	<i>Depreciation</i>	<i>Net book amount</i>	
			<i>1993</i>	<i>1992</i>
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>
Revalued fleet and properties are included in the accounts at the following amounts:				
<i>Fleet</i> — 1988 valuation	987	775	212	234
— subsequent additions at cost	55	18	37	19
<i>Property</i> — 1984 valuation	33	22	11	14
— subsequent additions at cost	81	12	69	68
Total — 31st March, 1993	1,156	827	329	
Total — 31st March, 1992	1,101	766		335
If these assets had not been revalued they would have been included at the following amounts:				
31st March, 1993	972	726	246	
31st March, 1992	911	673		238

	Fleet £ million	Property £ million	Equipment £ million	Total	
				1993 £ million	1992 £ million
b. COMPANY					
COST OR VALUATION (Note 10c)					
Balance at 1st April	4,403	582	521	5,508	4,864
Exchange adjustments	126			126	7
Additions	934	60	64	1,058	929
Disposals	(149)		(8)	(157)	(333)
Transfers (to)/from subsidiary undertakings			(1)	(1)	208
Reclassification of capitalised interest					(9)
Refund of progress payments	(32)			(32)	(158)
BALANCE AT 31st MARCH	5,284	642	576	6,502	5,508
DEPRECIATION					
Balance at 1st April	1,601	167	315	2,083	1,874
Exchange adjustments	5			5	
Charge for the year	225	19	55	299	279
Provision against aircraft not in current use	4			4	8
Disposals	(62)		(7)	(69)	(183)
Transfers (to)/from subsidiary undertakings			(1)	(1)	106
Reclassification of capitalised interest					(1)
BALANCE AT 31st MARCH	1,773	186	362	2,321	2,083
NET BOOK AMOUNTS					
31st March, 1993	3,511	456	214	4,181	
31st March, 1992	2,804	415	206		3,425
UTILISATION AT 31st MARCH					
Assets in current use					
Owned	1,761	339	165	2,265	2,018
Finance leased	590		2	592	339
Hire purchase arrangements	875			875	695
Progress payments	224	117	47	388	313
Assets not in current use	61			61	60
	3,511	456	214	4,181	3,425

THE NET BOOK AMOUNT OF PROPERTY COMPRISES:

Freehold	114	107
Long leasehold	22	22
Short leasehold	320	286
	456	415

	Valuation/cost £ million	Depreciation £ million	Net book amount	
			1993 £ million	1992 £ million
Revalued fleet and properties are included in the accounts at the following amounts:				
Fleet — 1988 valuation	897	707	190	212
— subsequent additions at cost	50	16	34	17
Property — 1984 valuation	32	21	11	13
— subsequent additions at cost	77	11	66	67
Total — 31st March, 1993	1,056	755	301	
Total — 31st March, 1992	1,003	694		309

If these assets had not been revalued they would have been included at the following amounts:

31st March, 1993	895	668	227	
31st March, 1992	836	619		217

NOTES TO THE ACCOUNTS *(continued)*

c. COST OR VALUATION

Owned fleets of Boeing 737-200s, Boeing 747-100s and certain Boeing 747-200s are stated at 31st March, 1988 valuations, having regard to a market valuation by Avmark International Ltd, with subsequent additions at cost. Aircraft surplus to requirements are stated at estimated realisable value.

All properties, other than specialised use properties, were valued at open market value for existing use or open market value at 31st March, 1984 by Richard Ellis, Chartered Surveyors, and are included at this value, with subsequent additions at cost.

All other aircraft fleets, specialised use properties and equipment are stated at cost less depreciation.

d. DEPRECIATION

Fleets are generally depreciated over periods ranging from 14 to 20 years after making allowance for residual values. Property, apart from freehold land, is depreciated over 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.

	Group		Company	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
e. CAPITAL EXPENDITURE COMMITMENTS				
Capital expenditure authorised but not provided for in the accounts amounts to:				
Authorised and contracted	5,376	5,095	5,375	5,095
Authorised but not contracted	593	565	592	561
	<u>5,969</u>	<u>5,660</u>	<u>5,967</u>	<u>5,656</u>

Of the outstanding commitments, £649 million relates to the acquisition of the fleets of Boeing 767-300 and Boeing 737-400 aircraft. British Airways has arrangements through a facility provided by a syndicate of banks for it to acquire a proportion of these aircraft on a number of alternative bases. The balance of commitments includes £4,988 million which relates to the acquisition of Boeing 747-400 and Boeing 777 aircraft scheduled for delivery during the next ten years. It is intended that these aircraft will be financed partially by internal cash flow and partially through external financing, including committed facilities arranged prior to delivery (see also Note 20).

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

f. FORWARD TRANSACTIONS IN FOREIGN CURRENCY

The Group had the following forward purchase contracts outstanding:

Maturing within one year

— to cover payments in US Dollars

— to cover payments in other currencies (Sterling equivalents)

Maturing after one year

— to cover payments in US Dollars

Group	
1993	1992
US\$576m	US\$576m
£20m	£5m
US\$190m	US\$71m

These forward purchase contracts have been entered into substantially for future capital commitments.

g. ANALYSIS OF GROUP TANGIBLE ASSET ADDITIONS

	Total		
	Fleet	Property	Equipment
	1993	1992	
	£ million	£ million	£ million
Cash paid	424	72	81
Acquisitions under finance leases and hire purchase arrangements	513		
Related to assets acquired from Davies & Newman Holdings PLC	4	2	1
Capitalised interest	8		
Accrual movements	(7)	(11)	(12)
	<u>942</u>	<u>63</u>	<u>70</u>
	1,075	947	

h. OPERATING LEASE COMMITMENTS

	Group		Company	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
i) FLEET				
Within one year	248	232	225	232
Between one and five years	413	497	347	497
Over five years	17		9	
	<u>678</u>	<u>729</u>	<u>581</u>	<u>729</u>

Amounts payable within one year relate to commitments expiring as follows:

Within one year	2	27	1	27
Between one and five years	235	205	217	205
Over five years	11		7	
	<u>248</u>	<u>232</u>	<u>225</u>	<u>232</u>

ii) PROPERTY AND EQUIPMENT

Within one year	67	57	64	55
Between one and five years	145	133	139	128
Over five years, ranging up to the year 2075	513	373	501	369
	<u>725</u>	<u>563</u>	<u>704</u>	<u>552</u>

Amounts payable within one year relate to commitments expiring as follows:

Within one year	18	15	18	15
Between one and five years	17	12	14	10
Over five years	32	30	32	30
	<u>67</u>	<u>57</u>	<u>64</u>	<u>55</u>

The fleet leasing commitments of the Company include the balance of rental obligations under operating leases in respect of 13 Boeing 747-400s, three Boeing 747-200s, 11 Boeing 767-300s, four Boeing 757s, 20 Boeing 737-200s, four Boeing 737-400s, two DC-10-30s and 13 BAe ATP aircraft. In the case of most of these obligations, the Company may be required to meet a small share of any loss on resale if options to extend the lease are not exercised. The fleet leasing commitments of the Group also include two Boeing 757s, three Boeing 737-300s and ten Boeing 737-400s.

Following an extension of the original lease period, one Boeing 757 and three Boeing 747-200s were converted from operating leases to finance leases during the year ended 31st March, 1993 and the commitments for these leases are now included under finance leases and hire purchase arrangements in note 21.

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

11 Investments

a. GROUP

i) ASSOCIATED UNDERTAKINGS

	Equity		Loans at cost		Provisions		Total	
	Shares	Loans	Shares	Loans	1993	1992	1993	1992
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Balance 1st April	7				7	15		
Exchange movements	(15)				(15)			
Additions	535	42	(1)	(11)	565	5		
Repayments						(2)		
Share of attributable results	(19)				(19)			
Goodwill (Note 24a)	(104)				(104)	(5)		
Disposals	(2)				(2)	(6)		
Reclassification	18			(2)	16			
Balance 31st March	<u>420</u>	<u>42</u>	<u>(1)</u>	<u>(13)</u>	<u>448</u>	<u>7</u>		

Equity of £420 million (1992: £7 million) comprises cost of shares, less goodwill set off on acquisition, of £451 million (1992: £18 million) less the Group's share of post-acquisition losses of £31 million (1992: £11 million).

NOTES TO THE ACCOUNTS *continued*

(i) TRADE INVESTMENTS

			Provisions		Total	
	Shares	Loans at cost	Shares	Loans	1993	1992
	£ million	£ million	£ million	£ million	£ million	£ million
Balance 1st April	101	3	(16)	(2)	86	93
Exchange movements	10				10	
Additions		2	(1)	1	2	(7)
Balance 31st March	111	5	(17)	(1)	98	86
TOTAL INVESTMENTS					Associated undertakings	Trade Investments
Listed						17
Unlisted					448	81

The listed investment is listed on the London Stock Exchange and its market value at 31st March, 1993 was £16 million (1992: £17 million).

b. COMPANY

i) SUBSIDIARY UNDERTAKINGS

			Provisions		Total	
	Shares	Loans at cost	Shares	Loans	1993	1992
	£ million	£ million	£ million	£ million	£ million	£ million
Balance 1st April	291	56	(203)	(8)	136	231
Exchange movements	12				12	
Additions	396	266	(32)	(62)	568	14
Repayments		(48)			(48)	(109)
Balance 31st March	699	274	(235)	(70)	668	136

ii) ASSOCIATED UNDERTAKINGS

Balance 1st April	18		(13)		5	11
Additions	18	13	(15)	(5)	11	5
Repayments						(2)
Disposals	(5)				(5)	(9)
Balance 31st March	31	13	(28)	(5)	11	5

iii) TRADE INVESTMENTS

Balance 1st April	35	3	(16)	(2)	20	27
Additions		2	(1)	1	2	(7)
Balance 31st March	35	5	(17)	(1)	22	20

TOTAL INVESTMENTS

					Subsidiary undertakings	Associated undertakings	Trade Investments
Listed							17
Unlisted					668	11	5

The listed investment is listed on the London Stock Exchange and its market value at 31st March, 1993 was £16 million (1992: £17 million).

The Group's principal investments are listed on page 73.

12 Acquisition of the assets and liabilities of Davies & Newman Holdings PLC

British Airways acquired, for a nominal consideration of £1, the assets and liabilities of Davies & Newman Holdings PLC (Dan-Air), principally its subsidiary undertaking British Airways (European Operations at Gatwick) Limited (formerly Dan-Air Services Limited), with effect from 1st November, 1992. The transaction was completed on 8th November, 1992 and the net liabilities have been consolidated from the effective date of acquisition.

The following tables set out the cost of acquisition, the fair value of the assets and liabilities acquired, including adjustments to align them with British Airways' accounting policies, and the resultant goodwill arising which has been set off against Group reserves.

a. COST OF ACQUISITION

	£ million
Cash consideration (£1)	
Legal and professional costs	3
	<u>3</u>

b. ASSETS AND LIABILITIES ACQUIRED

	Book value on acquisition	Accounting policy changes and fair value adjustments	Reorganisation expenses	Total
	£ million	£ million	£ million	£ million
Fixed assets				
Intangible and tangible assets	10	(3)		7
Investments	2			2
	<u>12</u>	<u>(3)</u>		<u>9</u>
Current assets	78	(4)		74
Creditors: amounts falling due within one year	(124)	5	(2)	(121)
Net current liabilities	<u>(46)</u>	<u>1</u>	<u>(2)</u>	<u>(47)</u>
Total assets less current liabilities	(34)	(2)	(2)	(38)
Creditors: amounts falling due after more than one year	(3)			(3)
Provisions for liabilities and charges	(2)	1		(1)
Net liabilities acquired	<u>(39)</u>	<u>(1)</u>	<u>(2)</u>	<u>(42)</u>

Included in the net liabilities of £39 million acquired are creditors of £35 million, principally in respect of the previous management's decision to close down Dan-Air's charter operations.

Reorganisation expenses, after allowing for tax, include costs and provisions associated with reorganising Dan-Air's airline operations following the acquisition. These expenses include costs associated with surplus resources, contract cancellations and bringing aircraft, equipment and operations to British Airways' standards.

c. GOODWILL

	£ million
Cost of acquisition	3
Net liabilities acquired	42
	<u>45</u>

d. PRE-ACQUISITION RESULTS

The business of Dan-Air Services Limited acquired by British Airways in November 1992 comprised 12 of the Dan-Air group's scheduled routes. It is not practical to determine the results of this reduced operation prior to 1st November, 1992.

e. ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS

	£ million
Cash at bank and in hand acquired	9
Overdrafts and short-term loans assumed	(19)
	<u>(10)</u>

13 Acquisition of interest in Qantas Airways Limited

British Airways acquired, through a wholly-owned Australian subsidiary undertaking, 25 per cent. of the equity share capital of Qantas Airways Limited (Qantas), an international airline with a network of intercontinental and Asia-Pacific routes, from the Australian Government on 10th March, 1993. The consideration was A\$666 million.

The last published audited accounts of Qantas were for the year ended 30th June, 1992. In September 1992, Qantas acquired the domestic carrier Australian Airlines Limited for a cash consideration of A\$400 million. In February 1993, the Australian Government recapitalised Qantas to the extent of A\$1.35 billion which has been used principally to repay Government guaranteed loans. Under the Australian Government's privatisation plans, the remaining 75 per cent. of the shares in Qantas is expected to be offered to the public during the next 12 months.

In view of the short period from the date of investment to the year end, the Group's share of profit in this period is not considered to be material and no share of income has been accounted for.

The following tables set out the cost of acquisition, the fair value of the assets and liabilities acquired, including adjustments to align them with British Airways' accounting policies, and the resultant goodwill arising which has been set off against Group reserves.

a. COST OF INVESTMENT

	<i>£ million</i>
Cash consideration	304
Legal and professional costs	4
	<u>308</u>

b. ASSETS AND LIABILITIES AT FAIR VALUE

	<i>Pro forma book value on acquisition</i>	<i>Accounting policy changes and fair value adjustments</i>	<i>Total</i>
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>
Fixed assets	3,616	928	4,544
Current assets	596	(4)	592
Creditors: amounts falling due within one year	(988)	(216)	(1,204)
Net current liabilities	(392)	(220)	(612)
Total assets less current liabilities	3,224	708	3,932
Creditors: amounts falling due after more than one year	(2,056)	(920)	(2,976)
Net assets at date of investment	<u>1,168</u>	<u>(212)</u>	<u>956</u>

The pro forma book value on acquisition comprises the reported net assets of Qantas at 30th June, 1992 adjusted principally to reflect the acquisition of Australian Airlines and the recapitalisation.

The accounting policy changes and fair value adjustments mainly relate to the capitalisation of aircraft leases and the elimination of intangible assets. The resultant fair values of the net assets may be subject to further adjustment when the next audited financial information is available.

c. GOODWILL

	<i>£ million</i>
Cost of investment	308
Group share of net assets at date of investment	(239)
Goodwill set off against reserves (<i>Note 24a</i>)	<u>69</u>

d. SUMMARISED STATEMENTS OF OPERATIONS

The last published audited statements of operations, for Qantas and Australian Airlines, prepared in accordance with Australian generally accepted accounting principles, for the year ended 30th June, 1992, are summarised below:

	<i>Qantas</i>		<i>Australian Airlines</i>	
	<i>A\$ million</i>	<i>£ million</i>	<i>A\$ million</i>	<i>£ million</i>
Operating revenues	4,036	1,732	1,594	684
Interest payable	(219)	(94)	(87)	(37)
Abnormal items	45	19	30	13
Profit/(loss) before taxation	148	64	(69)	(30)
Income tax	(10)	(4)	20	9
Profit for the year	<u>138</u>	<u>60</u>	<u>(49)</u>	<u>(21)</u>

The Sterling equivalents for the statements of operations have been translated at the average rate of exchange for the year to 30th June, 1992.

14 Acquisition of interest in TAT European Airlines S.A.

British Airways acquired, for £15 million, 49.9 per cent. of the ordinary equity capital of TAT European Airlines S.A. (TAT) from TAT S.A. and CIPRA S.A. with effect from 1st January, 1993. The transaction was completed on 4th January, 1993 and the Group's share of results have been included from the effective date of acquisition. TAT is the largest independent French airline and operates an extensive network of domestic and international routes. British Airways has an option to purchase the remaining 50.1 per cent. of the share capital on or before 1st April, 1997.

The following tables set out the cost of acquisition, the fair value of the assets and liabilities acquired, including adjustments to align them with British Airways' accounting policies, and the resultant goodwill arising which has been set off against Group reserves.

a. COST OF INVESTMENT

	£ million
Cash consideration	15
Legal and professional costs	3
	<u>18</u>

b. ASSETS AND LIABILITIES AT FAIR VALUE

	Book value on acquisition	Accounting policy changes and fair value adjustments	Total
	£ million	£ million	£ million
Fixed assets	122	(18)	104
Current assets	100	(26)	74
Creditors: amounts falling due within one year	(110)	(2)	(112)
Net current liabilities	(10)	(28)	(38)
Total assets less current liabilities	112	(46)	66
Creditors: amounts falling due after more than one year	(100)		(100)
Net assets/(liabilities) at date of investment	12	(46)	(34)

The accounting policy changes and fair value adjustments mainly relate to the write-off of deferred expenditure and the elimination of intangible assets, and to the attribution of fair values to aircraft and related spares.

c. GOODWILL

	£ million
Cost of investment	18
Group share of net liabilities at date of investment	17
Goodwill set off against reserves (Note 24a)	<u>35</u>

d. SUMMARISED STATEMENT OF OPERATIONS

The audited statement of operations of TAT for the year ended 31st December, 1992, prepared in accordance with French generally accepted accounting principles, is summarised below:

	FF million	£ million
Operating revenue	2,090	220
Net interest payable	(109)	(11)
Loss before taxation	(132)	(14)
Taxation	(21)	(2)
Loss for the year	<u>(153)</u>	<u>(16)</u>

The Sterling equivalents for the statement of operations have been translated at the average rate of exchange for the year to 31st December, 1992.

15 Acquisition of interest in USAir Group, Inc.

On 21st January, 1993, British Airways announced that it had agreed terms for a new alliance between itself and USAir Group, Inc. (USAir). The first stage of the transaction was completed on that date with the investment by British Airways, through its wholly-owned US subsidiary undertaking Britair Acquisition Corp Inc., of US\$300 million in new convertible preferred stock of USAir and the signing of a flight code sharing agreement. The Group also agreed in early May 1993 to invest an additional US\$100.7 million in convertible preferred stock of USAir pursuant to the exercise of pre-emptive rights following the exercise of employee options and the public offering by USAir of US\$231 million (net) of common stock. In addition, the Group has options, and in certain circumstances can be required, to invest a further US\$450 million over the next five years through two additional purchases of preferred stock in USAir.

On 15th March, 1993 the US Department of Transportation (DOT) issued an order approving the code sharing agreement for the normal period of one year and instituting a formal review of the investment agreement and its effects on the citizenship of USAir under US restrictions on foreign ownership of US airlines. The order stated that the DOT's review indicates that the Group's initial investment does not impair USAir's citizenship, but invited further analysis and public comment, particularly with respect to the second and third stages of the transaction.

The preferred stock in USAir held by the Group is convertible at the Group's option at any time on or after 21st January, 1997 into USAir common stock. Until converted, the initial US\$300 million preferred stock is entitled to cumulative quarterly cash dividends of seven per cent. per annum. On conversion to USAir common stock, it would, prior to USAir's recent issue of further common stock, have represented 24.6 per cent. of USAir's equity share capital on an undiluted basis and approximately 17 per cent. on a fully diluted basis.

Under the terms of the investment agreement, the Group has certain pre-emptive rights to maintain the size of its potential proportionate interest in USAir's share capital in the event of certain issues by USAir of additional shares of common stock, including the conversion of certain outstanding convertible preferred stock of USAir and the exercise of any employee stock options to acquire USAir common stock. To maintain its 24.6 per cent. interest in USAir's equity share capital on an undiluted basis, the Group in early May exercised its pre-emptive rights in connection with a public offering of USAir common stock and agreed to purchase shares of a new series of convertible preferred stock for US\$99.2 million. It also exercised its options in full in connection with the issue of USAir common stock on the exercise of certain employee stock options and agreed to purchase a further new series of convertible preferred stock for US\$1.5 million. These additional series of convertible preferred stock are entitled to cumulative quarterly cash dividends of 0.5 per cent. over LIBOR. If all existing USAir preferred stock is converted and all existing employee options are exercised, the maintenance of the Group's potential proportionate interest would involve the Group in substantial further investments. The Board will consider whether to make each such investment at the relevant time in the light of the then circumstances.

The investment agreement between British Airways and USAir is subject to the approval of the shareholders of USAir at its annual general meeting on 26th May, 1993. After approval, the preferred stock in USAir held by the Group will carry an estimated 21 per cent. of the voting interest in USAir. If the investment agreement between British Airways and USAir were not to be approved by USAir shareholders, the preferred stock already purchased by the Group would be required to be redeemed at its purchase price, together with accrued dividends. The preferred stock is redeemable at the option of USAir if the Group has not elected to proceed with the second purchase of preferred stock by 21st January, 1996, or, in any event, on 21st January, 2008 if not previously converted.

The further US\$450 million preferred stock in USAir which the Group may acquire in the future will have financial terms similar to those of the preferred stock initially acquired by the Group. Assuming future acquisition and full conversion at the current conversion prices, the Group would hold 40.7 per cent. of USAir's equity share capital on an undiluted basis and 31.2 per cent. on a fully diluted basis. The Group's total voting interest in USAir is limited to the maximum voting interest permitted under restrictions on aggregate foreign ownership of US airlines (currently 25 per cent.).

Under the above arrangements, the Group's current interest in the results of USAir is limited to its fixed preferred dividend of seven per cent. and only such dividend has been included in these accounts (see Note 4).

SUMMARISED FINANCIAL INFORMATION

The audited statement of operations and balance sheet of USAir for the year ended 31st December, 1992, prepared in accordance with US generally accepted accounting principles, are summarised below:

	US\$ million	£ million
i) Summarised statement of operations		
Operating revenues	6,686	3,801
Operating expenses	(7,023)	(3,993)
Operating loss	(337)	(192)
Net interest payable and other expenses	(264)	(150)
Loss before taxes and accounting change	(601)	(342)
Cumulative effect of change in method of accounting for post-retirement benefits other than pensions (net of tax benefit of US\$118 million)	(628)	(357)
Net loss	(1,229)	(699)
Preferred dividend requirements	(52)	(29)
Net loss applicable to common stockholders	(1,281)	(728)
ii) Summarised consolidated balance sheet		
Total assets, less current liabilities	4,162	2,749
Long-term debt and redeemable preferred stock	(2,623)	(1,733)
Deferred credits and other liabilities	(1,495)	(987)
Total stockholders' equity	44	29

The Sterling equivalents for the statement of operations have been translated at the average exchange rate for the year ended 31st December, 1992; those for the balance sheet have been translated at the closing rate on that date.

16 Stocks

	Group		Company	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
Raw materials, consumables and work in progress	40	34	38	31

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

17 Debtors

	Group		Company	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
Trade debtors	726	674	706	656
Amounts owed by subsidiary undertakings			79	2
Amounts owed by associated undertakings	14	5	13	4
Other debtors	86	82	50	84
Deferred taxation (Note 26)	4	3	4	3
Prepayments and accrued income	179	156	163	140
	1,009	920	1,015	889

Amounts due after more than one year included above are insignificant.

18 Cash and cash equivalents

a. ANALYSIS OF BALANCES AS SHOWN IN THE BALANCE SHEET

	Group				
	1993	Change in the year	1992	Change in the year	1991
	£ million	£ million	£ million	£ million	£ million
Short-term loans and deposits	495	(211)	706	503	203
Less: bank and other deposits with a maturity date at inception of more than three months	(78)	314	(412)	(357)	(55)
Cash equivalents	397	103	294	146	148
Cash at bank and in hand	33	6	27	5	22
Overdrafts — unsecured (Note 19)	(1)	1	(2)	39	(41)
	429	110	319	190	129

b. ANALYSIS OF CHANGES DURING THE YEAR

	Group	
	1993	1992
	£ million	£ million
Balance at 1st April	319	129
Net cash inflow before adjustments for the effect of exchange rate changes	110	187
Effect of exchange rate changes		3
Balance at 31st March	429	319

NOTES TO THE ACCOUNTS *continued*

19 Creditors: amounts falling due within one year

	Note	Group		Company	
		1993	1992	1993	1992
		£ million	£ million	£ million	£ million
Loans, finance leases and hire purchase arrangements	21				
Bank and other loans		21	6	20	5
Finance leases		63	35	59	30
Hire purchase arrangements		41	25	41	25
		125	66	120	60
Overdrafts — unsecured	18	1	2		1
Trade creditors		723	654	657	618
Amounts owed to subsidiary undertakings				145	101
Amounts owed to associated undertakings		1		1	
Other creditors including taxation and social security					
Other creditors		91	114	85	106
Corporate taxation		18	56	11	50
Other taxation and social security		30	28	30	27
		139	198	126	183
Dividends payable		56	53	56	53
Accruals and deferred income					
Sales in advance of carriage		685	633	658	603
Accruals and deferred income		121	100	83	98
		806	733	741	701
		1,851	1,706	1,846	1,717

20 Creditors: amounts falling due after more than one year

	Note	Group		Company	
		1993	1992	1993	1992
		£ million	£ million	£ million	£ million
Loans, finance leases and hire purchase arrangements	21				
Bank and other loans		1,447	948	1,116	654
Finance leases		541	312	540	310
Hire purchase arrangements		867	577	867	577
Loans from subsidiary undertakings				640	607
		2,855	1,837	3,163	2,148
Trade creditors			6		
Accruals and deferred income		44	45	40	35
		2,899	1,888	3,203	2,183

At 31st March, 1993 British Airways had unused overdraft and revolving credit facilities of approximately £50 million and an unused multiple option facility of £400 million. The multiple option facility comprises a committed portion of £300 million and an uncommitted portion of £100 million, covering a five year period from October 1988, and allows for short-term revolving drawings in a number of ways, including by way of Sterling acceptance credits, issuance of Euro and Sterling commercial paper, uncommitted advances and (up to the £300 million committed portion) standby loans. In addition, British Airways had uncommitted money market lines of £95 million and US\$45 million with a number of banks.

British Airways has also arranged a separate 18 year secured aircraft financing facility for US\$2 billion which allows for British Airways to acquire certain new aircraft on a number of alternative bases, including under extendible operating leases. At 31st March, 1993 the unused facility was US\$367 million. Under the terms of this facility, the financing banks will have the right to call for security from British Airways in the event that there is a material adverse change in the financial condition of British Airways or in other limited circumstances if the financing banks are not adequately protected by the value of the equipment financed.

21. Loans, finance leases and hire purchase arrangements

a. TOTAL LOANS, FINANCE LEASES AND HIRE PURCHASE ARRANGEMENTS

			Group		Company	
			1993	1992	1993	1992
			£ million	£ million	£ million	£ million
Loans						
Bank	— Deutsche Mark		DM75m	DM75m	DM75m	DM75m
	— French Franc		FF40m		FF40m	
	— US Dollar		US\$989m	US\$393m	US\$989m	US\$393m
	— Sterling		£141m	£103m	£76m	£38m
			834	356	769	291
Euro-sterling notes			300	300	300	300
Other	— Deutsche Mark		DM4m			
	— US Dollar		US\$400m	US\$400m		
	— Sterling		£67m	£68m	£67m	£68m
			334	298	67	68
Loans from subsidiary undertakings	— US Dollar				US\$400m	US\$400m
	— Sterling				£375m	£375m
					640	607
Finance leases	— Sterling		604	347	599	340
Hire purchase arrangements	— Japanese Yen		¥38,067m	¥29,993m	¥38,067m	¥29,993m
	— US Dollar		US\$1,035m	US\$820m	US\$1,035m	US\$820m
			908	602	908	602
			2,980	1,903	3,283	2,208
Comprising:						
Bank loans						
Repayable wholly within five years			129	1	129	
Repayable in whole or in part after five years			705	355	640	291
			834	356	769	291
Other loans, finance leases and hire purchase arrangements						
Repayable wholly within five years			462	134	357	127
Repayable in whole or in part after five years			1,684	1,413	2,157	1,790
			2,146	1,547	2,514	1,917
			2,980	1,903	3,283	2,208

Bank and other loans are repayable up to the year 2011.

The bank loans of US\$989 million include US\$879 million secured on two Boeing 747-400s, two Boeing 767-300s and 15 Boeing 737-400s (1992: US\$393 million secured on two Boeing 747-400s and five Boeing 737-400s).

The bank loans of £141 million include £120 million secured on one Boeing 737-400, one Boeing 767-300 and one Boeing 747-400 (1992: £82 million secured on one Boeing 737-400 and one Boeing 747-400). Of this amount, £56 million relates to the Company secured on one Boeing 737-400 and one Boeing 767-300 (1992: £18 million secured on one Boeing 737-400).

NOTES TO THE ACCOUNTS *continued*

b. INCIDENCE OF REPAYMENTS

	Bank loans	Other loans	Finance leases	Hire purchase arrangements	Group total	
					1993	1992
	£ million	£ million	£ million	£ million	£ million	£ million
INSTALMENTS FALLING DUE:						
Within one year (Note 19)	21		63	41	125	66
After more than one year (Note 20)						
Between one and two years	18		58	45	121	78
Between two and five years	193	324	187	163	867	337
In five years or more	602	310	296	659	1,867	1,422
	813	634	541	867	2,855	1,837
Total 1993	834	634	604	908	2,980	
Total 1992	356	598	347	602		1,903
Analysis of total 1993						
British Airways Plc	769	367	599	908	2,643	1,601
Subsidiary undertakings	65	267	5		337	302
	834	634	604	908	2,980	1,903

c. ANALYSIS OF CHANGES IN BORROWINGS DURING THE YEAR

	Bank and other loans	Finance leases and hire purchase arrangements	Group total	
			1993	1992
	£ million	£ million	£ million	£ million
Balance at 1st April	954	949	1,903	1,409
Assumed from Davies & Newman Holdings PLC	4	11	15	
New loans raised	735		735	390
New finance leases and hire purchase arrangements raised		513	513	362
Repayment of amounts borrowed	(301)	(79)	(380)	(270)
Effect of exchange rate changes	76	118	194	12
Balance at 31st March	1,468	1,512	2,980	1,903

22 Provisions for liabilities and charges
GROUP AND COMPANY

	Balance 1st April	Prior year adjustment	Transfers from profit and loss account	Other movements	Provisions applied	Balance 31st March
	£ million	£ million	£ million	£ million	£ million	£ million
Pensions and similar obligations (Note 28)	19		5	5	(5)	24
Post-retirement medical benefits (Note 28)		15				15
Litigation provision (Note 29)	25				(3)	22
Other	10				(2)	8
Total 1993	54	15	5	5	(10)	69
Total 1992	55		11	(9)	(3)	54

24 Share capital

	Company	
	1993	1992
<i>Authorised</i>		
1,068,000,000 ordinary shares of 25p each	£267m	£267m
<i>Allotted, called up and fully paid</i>		
Issued share capital	£185m	£182m
Ordinary shares of 25p each	741,886,161	727,537,224
<i>Share options</i>		
Number of ordinary shares of 25p each under option	32,308,107	47,452,722
Dates exercisable	1993-2002	1992-2001
Price per share	135p-276p	135p-225p
Number of Employee Share Scheme options exercised:		
at 135p per share	691,897	778,155
at 150p per share	363,134	2,078,027
at 161p per share	11,670,086	561,908
at 178p per share	382,810	2,150,311
at 202p per share	441,270	982
at 204p per share	36,763	
at 206p per share	552,996	
at 207p per share		289,855
at 210p per share	115,948	306,282
at 224.5p per share	94,033	
	14,348,937	6,165,520

Full conversion of the 9.75 per cent. Convertible Capital Bonds 2005 will require the issue of 131,775,864 ordinary shares.

ANALYSIS OF CHANGES IN SHARE CAPITAL DURING THE YEAR

	Share capital		Share premium		Company	
	£ million	£ million	£ million	£ million	1993	1992
At 1st April	182	10	192	181		
Shares issued under Employee Share Option Schemes	3	20	23	11		
At 31st March	185	30	215	192		

24 Reserves

	Share premium account	Revaluation reserve	Profit and loss account	Total	
	£ million	£ million	£ million	£ million	£ million
a. GROUP					
Balance 1st April	10	60	1,032	1,102	778
Adjustment to opening balance relating to post-retirement medical benefits			(15)	(15)	
Balance 1st April restated	10	60	1,017	1,087	778
Retained profit for the year			99	99	321
Transfers relating to revalued assets		(15)	15		
Exchange adjustments			(28)	(28)	(1)
Goodwill set off			(149)	(149)	(5)
Share premium arising from issue of ordinary share capital under Employee Share Option Schemes	20			20	9
Balance 31st March	30	45	954	1,029	1,102

Group profit and loss account includes cumulative retained losses of £31 million (1992: £11 million) in respect of associated undertakings.

NOTES TO THE ACCOUNTS *continued*

	Share premium account	Revaluation reserve	Profit and loss account	Total	
				1993	1992
	£ million	£ million	£ million	£ million	£ million
GOODWILL					
Acquisition of assets and liabilities of Davies & Newman Holdings PLC (Note 12)			(45)	(45)	
Investment in Qantas (Note 13)			(69)	(69)	
Investment in TAT (Note 14)			(35)	(35)	
Investment in 49 per cent. of Deutsche BA Luftfahrtgesellschaft mbH					(5)
Goodwill set off			(149)	(149)	(5)

Cumulative goodwill set off against reserves
at 31st March, 1993 was £517 million
(1992 : £368 million).

b. COMPANY

Balance 1st April	10	54	979	1,043	714
Adjustment to opening balance relating to post-retirement medical benefits			(15)	(15)	
Balance 1st April restated	10	54	964	1,028	714
Retained profit for the year			59	59	320
Transfers relating to revalued assets		(14)	14		
Exchange adjustments			(13)	(13)	
Share premium arising from issue of ordinary share capital under Employee Share Option Schemes	20			20	9
Balance at 31st March	30	40	1,024	1,094	1,043

25 Convertible Capital Bonds 2005

Group	
1993	1992
£ million	£ million
320	320

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 2005 on the basis of one ordinary share for each £2.43 of Bonds held. 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 sale are less than the issue price of the Bonds the Company has to fund any deficit from its own resources.

In these circumstances the Directors consider that it is highly probable that the proceeds of the issue of the Convertible Capital Bonds will become part of the Company's called up share capital in due course and therefore will be available to the Group on a permanent basis. Accordingly, in order to give a true and fair view, the normal balance sheet format specified by the Companies Act has been modified to include the Convertible Capital Bonds with Capital and Reserves rather than as Creditors: amounts falling due after more than one year.

26 Deferred taxation (see also Notes 7 and 17)

	Group		Company	
	1993	1992	1993	1992
	£ million	£ million	£ million	£ million
Deferred taxation comprises:				
Accelerated capital allowances and other timing differences	12	12	12	12
Advance corporation tax	(18)	(17)	(18)	(17)
Timing differences in respect of property valuations	2	2	2	2
	(4)	(3)	(4)	(3)

If full provision for deferred taxation at 33 per cent. (1992: 33 per cent.) had been made, the following amounts would have been required at 31st March:

Accelerated capital allowances, less unrelieved losses	521	443	517	441
Advance corporation tax	(18)	(17)	(18)	(17)
Other timing differences	(41)	(30)	(39)	(30)
Timing differences in respect of property valuations	2	2	2	2
	464	398	462	396

27 Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with Directors or Officers of the Company at the end of the year which need to be disclosed in accordance with the requirements of Schedule 6 to the Companies Act 1985. During the year the Company entered into a contract, after tender, for a value of £2,916,569 with Wiltshier Reading Limited, a subsidiary undertaking of Wiltshier PLC of which A. M. Davies is the Chairman.

28 Pension and other post-retirement benefits

a. PENSION COSTS

British Airways operates two defined benefit pension schemes in the UK: 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 UK 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 UK 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 31st March, 1992 by an independent firm of qualified actuaries, R. Watson & Sons, using the attained age method for APS and the projected unit method for NAPS. These valuations showed that no further employers' contributions were required in respect of APS, while for NAPS, an employers' contribution equal to an average of 2.00 times the employee's contribution for the period 1st April, 1992 to 31st March, 1993 (2.49 times employee's contribution for 1991/92) was appropriate. The next valuations of the two schemes will be carried out as at 31st March, 1995.

All amounts recognised as costs were: either funded or paid directly.

	Group	
	1993	1992
	£ million	£ million
Employers' contributions (calculated as set out above for APS and NAPS) charged in the accounts were:		
Airways Pension Scheme		
New Airways Pension Scheme	42	52
Other pension schemes and provident funds - mainly outside the United Kingdom	10	10
	52	62

NOTES TO THE ACCOUNTS *continued*

At the date of the actuarial valuation the market values of the assets of APS and NAPS amounted to £2,825 million and £927 million respectively. The value of the assets represented 112 per cent. (APS) and 105 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 is 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 and 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.

b. POST-RETIREMENT MEDICAL BENEFITS

Provision has been made in the accounts for post-retirement medical benefits payable in respect of certain current and former employees in the United States. The obligation recognised at the beginning of the financial year, which had not been accounted for in previous years, amounted to £15 million and has been treated as a prior year adjustment.

The ongoing cost of providing post-retirement medical benefits, which in previous years was accounted for on a cash basis, has been assessed with the advice of qualified actuaries and is now spread on a basis similar to that used for defined benefit pension schemes.

29 Litigation

a. An action was brought on 20th March, 1992 in the High Court of Justice against the Company by Mr Richard Branson and Virgin Atlantic Airways Limited (Virgin) alleging that the Company had defamed Mr Branson and Virgin. In a statement made in open court on 11th January, 1993 the Company apologised to Mr Branson and Virgin and agreed to pay £610,000 in damages plus legal costs to Mr Branson and Virgin. Since the settlement, Mr Branson and Virgin have stated that Virgin may commence further proceedings against the Company in England and proceedings in the USA alleging that Virgin's business interests had been damaged by the conduct of Company employees and on 6th May, 1993 Virgin issued a writ against the Company alleging breach of copyright and confidence obligations. Having regard to legal advice received and in all the circumstances, the Directors are of the opinion that the outcome of the current and any other such proceedings in respect of damage to Virgin will not in the aggregate have a significant effect on the financial position of the Group.

b. There are a number of further identified legal and other claims which emanate from international airline operations and other activities of the Group for which the Directors have made what they believe is appropriate provision.

c. Experience with litigation and regulation in the USA and elsewhere has led the Directors to conclude that it is prudent to continue to carry forward £22 million of a provision made in prior years. The charge against the opening provision represents the costs associated with the libel litigation with Mr Branson and Virgin, the settlement of which was announced on 11th January, 1993.

30 Contingencies

Contingent liabilities exist, for which no provision has been made in the accounts, covering obligations of the Group including guarantees given to banks. For the Group these liabilities amount to £135 million (1992: £90 million) and for the Company £862 million (1992: £732 million). The figure for the Company includes £747 million (1992: £615 million) in respect of Convertible Capital Bonds issued by a subsidiary undertaking and borrowings by subsidiary and associated undertakings.

31 Foreign currency translation rates

	<i>At 31st March,</i>		<i>Annual average</i>	
	<i>1993</i>	<i>1992</i>	<i>1992/93</i>	<i>1991/92</i>
US Dollar	1.51	1.74	1.69	1.74
Japanese Yen	173	231	213	232
Deutsche Mark	2.43	2.86	2.64	2.92
Australian Dollar	2.14	2.26	2.37	2.27

PRINCIPAL INVESTMENTS

At 31st March 1993

SUBSIDIARY UNDERTAKINGS

Principal subsidiary undertakings are wholly-owned subsidiaries except where indicated.

	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Ltd *	Airline marketing	England
(51 per cent. of ordinary shares owned)		
Bedford Associates Inc	Specialist computer reservation software	USA
Britair Acquisition Corp Inc *	Holding company	USA
British Airways Associated Companies Ltd *	Airline management services	England
British Airways Australia (Holdings) Pty Ltd *	Holding company	Australia
British Airways Capital Ltd *	Airline finance	Jersey
(89 per cent. of founders' shares owned)		
British Airways (European Operations at Gatwick) Ltd *	Airline operations	England
British Airways Finance BV *	Airline finance	Netherlands
British Airways Holidays Ltd *	Package holidays	England
British Airways Investments (Australia) Pty Ltd *	Holding company	Australia
British Airways Maintenance Cardiff Ltd *	Aircraft maintenance	England
British Airways Regional Ltd *	Air travel services	England
British Asia Airways Ltd *	Air travel services	England
Caledonian Airways Ltd	Airline operations	England
Chartridge Centre Ltd *	Airline travel training services	England
Deutsche BA Holding GmbH *	Holding company	Germany
Speedbird Insurance Co Ltd *	Airline insurance	Bermuda
Travel Automation Services Ltd * (trading as Galileo UK)	Computer reservations systems	England

ASSOCIATED UNDERTAKINGS

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Air Russia *	31.0	Airline operations	Russia
Concorde International Travel Pty Ltd	50.0	Travel services	Australia
Deutsche BA Luftfahrtgesellschaft mbH	49.0	Airline operations	Germany
Euro-Hub (Birmingham) Ltd *	21.4	Airport terminal services	England
G B Airways (Holdings) Ltd	49.0	Airline operations	Jersey
Qantas Airways Ltd	25.0	Airline operations	Australia
TAT European Airlines S.A. *	49.9	Airline operations	France
The Galileo Company Ltd *	23.6	Computer reservations systems	England
World Aviation Systems (Australia) Pty Ltd	50.0	Airline marketing	Australia
USAir Group, Inc.	(see Note 15)	Airline operations	USA

TRADE INVESTMENTS

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Covia Partnership	11.0	Computer reservations systems	USA
Hogg Robinson plc *	12.4	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
The Plimsoll Line Ltd * †	49.9	Airline holding company	England
(Holding company of Brymon Aviation Ltd and Birmingham European Airways Ltd)	(equivalent to 14 per cent. of voting rights)		

* Owned directly by British Airways Plc

† On 11th May, 1993, British Airways and Maersk Air Limited entered into a conditional contract to de-merge the Brymon and BEA business from The Plimsoll Line (TPL). Maersk Air Limited will purchase all the shares of BEA from TPL and British Airways will purchase the shares in TPL that it does not already own and thereby acquire 100 per cent control of Brymon.