

PLEASE NOTE THAT
DUE TO THE POOR
QUALITY OF THE
FICHE SOME OF THE
FOLLOWING IMAGES
ARE ALSO OF POOR
QUALITY.

LEADING

An aerial photograph of an airport terminal. The terminal is a long, rectangular building with a series of jet bridges extending from it to several aircraft parked at gates. The aircraft are visible as dark shapes on the tarmac. The overall scene is captured from a high angle, showing the layout of the terminal and the surrounding airfield.

the transformation
of the world's
airline industry

OUR MISSION

To be the best and most successful company in the airline industry.

OUR GOALS

Safe and Secure:

To be a safe and secure airline.

Financially Strong:

To deliver a strong and consistent financial performance.

Global Leader:

To secure a leading share of air travel business worldwide with a significant presence in all major geographical markets.

Service and Value:

To provide overall superior service and good value for money in every market segment in which we compete.

Customer Driven:

To excel in anticipating and quickly responding to customer needs and competitor activity.

Good Employer:

To sustain a working environment that attracts, retains and develops committed employees who share in the success of the company.

Good Neighbour:

To be a good neighbour, concerned for the community and the environment.

BRITISH AIRWAYS

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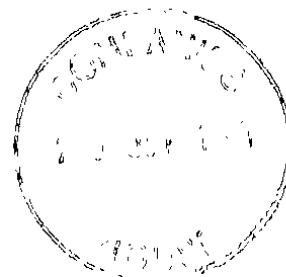
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Accounts and statistics



Front cover

Boeing 747 400 G-BNLI
pictured at British Air
ways Heathrow base after
its delivery flight from
Boeing's manufacturing
base near Seattle.



Another year of improved results

British Airways has enhanced its leading position in the world airline industry with another year of sound performance.

At £144.5 million pre-tax, an increase of 28.7 per cent, British Airways' 1989-90 profits are among the highest in the industry.

After making a tax provision of £100 million, the profit after tax was £24.5 million, up 40.0 per cent. Earnings per share was 34.1p compared with 24.3p for the prior year. With the recommended final

dividend of 8.85p per share, the full year's dividend of 8.85p per share shows an increase of 14.2 per cent.

For the first time, the airline flew more than 25 million passengers in a year, with cargo carryings just short of half a million tonnes. This represents a 7.8 per cent increase in total traffic earned, or revenue tonne kilometres.

GROUP RESULTS

		Group		Growth
		1989-90	1988-89	%
Turnover	£m	4,838	4,257	13.6
Operating surplus	£m	384	336	14.3
Profit before taxation	£m	345	268	28.7
Profit after taxation	£m	245	175	40.0
Capital and reserves	£m	1,232	749	64.5
Earnings per share - basic	p	34.1	24.3	40.3
- fully diluted	p	31.2	23.3	33.9
Dividends per share	p	8.85	7.75	14.2

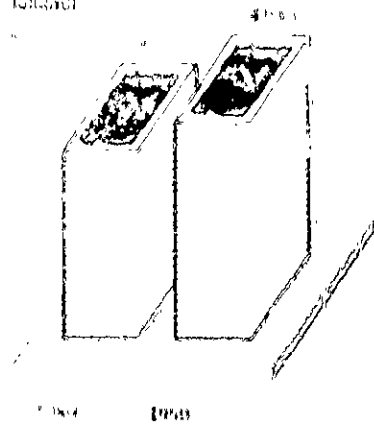
TRAFFIC

		Group		Growth
		1989-90	1988-89	%
Available tonne kilometres	m	12,445	11,868	4.9
Revenue tonne kilometres	m	8,627	8,002	7.8
Passengers carried	000	25,238	24,603	2.6
Cargo carried (tonnes)	000	498	459	8.5
Overall load factor (scheduled services)	%	68.9	67.0	1.9pts

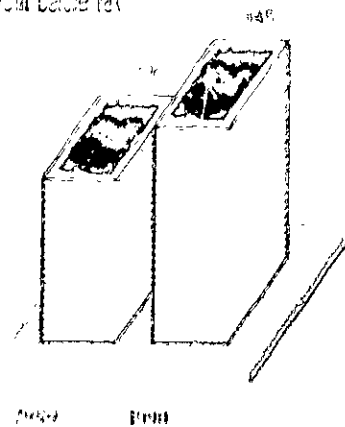
STAFF AND PRODUCTIVITY

		Airline		Growth
		1989-90	1988-89	%
Average number of staff		50,320	48,760	3.2
Available tonne kilometres per employee	000	247.3	243.4	1.6
Revenue tonne kilometres per employee	000	171.4	164.1	4.4

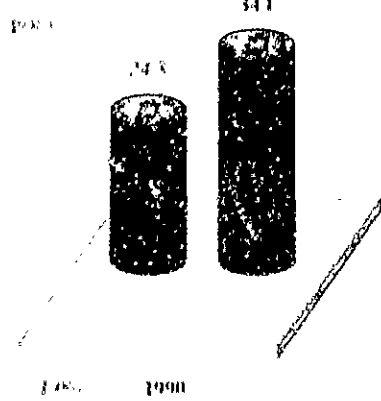
Turnover



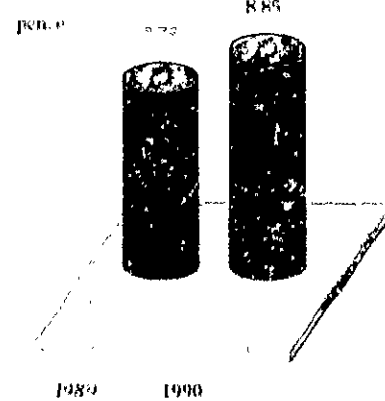
Profit before tax



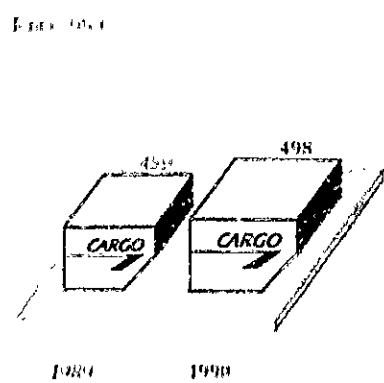
Earnings per share



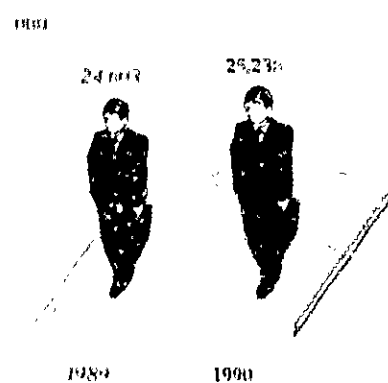
Dividends per share



Cargo carried



Passengers carried





Leading the world airline industry

British Airways is not only the world's largest international airline – it is also one of the most profitable. And, says Lord King, the Chairman, it continues to set the trends that the rest of the industry follows.

British Airways has always maintained a leading position in the world airline industry. We have enhanced this position in the past year.

We remain by far the largest international airline in the world. Nearly three-quarters of the 25 million passengers we carried last year travelled on our scheduled international flights. We are also one of the world's biggest carriers of air cargo.

The leading airlines of tomorrow will need to be able to serve effectively a global market with an integrated world airline system offering consistency in service. Our strategy is to expand our core business

globally, by creating marketing alliances where beneficial or, if there is a sufficient return on capital, by investing in other airlines.

We remain one of the most profitable airlines in the world, with pre-tax profits for 1989/90 at £345 million, a 28.7 per cent improvement on a year ago.

Group turnover for the year rose to £4,838 million, an increase of 13.6 per cent. Earnings per share increased from 24.3p to 34.1p. Against this excellent performance, your Board is recommending a final dividend of 6.05p a share, making a total for the year of 8.85p a share.

With the £320 million raised through the issue

of Convertible Capital Bonds last autumn, our total capital and reserves stood at £1,232 million at 31 March 1990. We have never before been in such a strong financial position. This will enable us to take full advantage of opportunities to expand our business as they arise.

In our endeavours to increase profits, we are aware that our costs require constant scrutiny, particularly in view of the increasingly competitive nature of the market we serve. We have embarked on a number of initiatives to control our costs, ranging from a review of our overheads to a study of our planning processes.

We have a long pedigree as a pioneer in civil aviation. We operated the world's first daily scheduled international air service, the world's first jet passenger flight and the world's first commercial supersonic aircraft. Today we are still setting the trends that the rest of the industry follows.

Our approach towards customer service has established the standards against which our competitors are judged. Our policy of "branding" specific categories of service has further enhanced our position as market leader.

Our fleet enters the 1990s as one of the most modern and efficient in the world. At 31 March 1990, we had 58 new aircraft on order, worth more than £2,000 million, with 61 options in reserve.

Whether in the increasingly important field of information technology or in recognising the role of big business in caring for the environment, British Airways is ahead of the rest.

We take a great deal of pride in ensuring our shareholders are properly informed about the progress of their Company, too. A year ago, we introduced

our newspaper for shareholders, British Airways Investor, an innovation being emulated by a number of other companies. Now we are taking a fresh approach towards our Annual Report and Accounts. I hope you like it.

As an international company operating in an international market, we welcome international shareholders. At 31 March 1990, 39 per cent of our shares were owned by non-UK nationals. As you will see in the Directors' Report, on page 30, we do not, in present circumstances, intend to seek to exercise our powers to restrict non-UK share ownership.

Our achievements would not have been possible without the effort and dedication of your Company's employees around the world.

On behalf of the Board, I thank every member of staff for their contribution towards making British Airways the world leader it is.

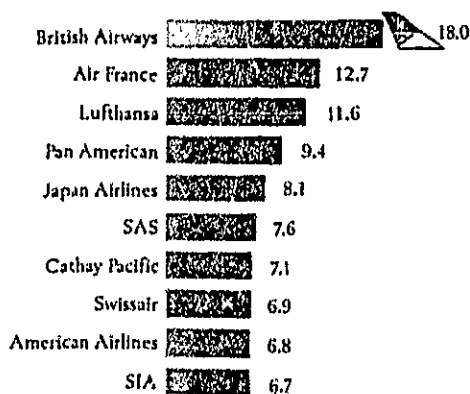
During the past year, we have carried out a complete review of our corporate strategy, refocussing on our core business.

British Airways aims to be the best and most successful company in the airline industry.

With our fine track record, we see no reason why we cannot achieve this ambition ■

Lord King of Wartnaby
Chairman

"British Airways remains by far the world's leading international airline."



Source: IATA and others

TOP TEN WORLD AIRLINES RANKED BY
INTERNATIONAL SCHEDULED PASSENGERS
CARRIED IN 1989 (millions)



The challenge of the 1990s

The 1990s will be a decade of unparalleled growth and change for the world airline business, says Sir Colin Marshall, Deputy Chairman and Chief Executive.

Independent industry traffic forecasts predict annual growth in world air transport at around 6 per cent through to the end of the century. This gives cumulative

growth of 60 per cent by the year 2000. Here is the challenge: to meet the needs of transport markets which have increased in size. Manufacturing and aviation are, by a long way, the world's fastest growing industries.

Since our privatisation in 1987, British Airways has exceeded the overall industry growth rate, with cumulative gains of 50 per cent, measured in scheduled revenue passenger kilometres, against the world figure of 24 per cent.

We continued to grow in 1989/90. Scheduled revenue passenger kilometres increased by 7.1 per cent on the previous year, to 61,915 million, with scheduled passengers rising by 4.8 per cent, to 23.7 million. Both are record figures.

Our scheduled passenger load factor rose by almost two points to a record 71.5 per cent – three points above the industry average. This achievement was partially the result of capacity constraints, caused by the late delivery of new aircraft, but it is also testimony to our capacity management system, which is widely regarded as the industry leader.

Our objective is to maintain the growth of British Airways' business and to take advantage of the expected overall global expansion of the industry, though competition will increase in many of our markets and success will depend on our ability to keep costs firmly under control.

To achieve this objective we seek to expand from our traditional markets, by increasing our activities at UK regional cities and outside Britain, in partnership with other airlines where appropriate.

We believe the airline business, as it matures and becomes less regulated, will follow the lead of other industries, with the players bunching at opposite ends of the spectrum.

At one end will be a relatively small number of large, multinational concerns. At the other end will be much smaller operators, serving specific niche markets.

In air transport, as in so many areas, the USA is a

reliable guide to the future. There, deregulation during the Carter administration resulted in a reduction in the large number of highly regulated airlines of the 1970s, through a series of mergers, take-overs and bankruptcies. What is left is a handful of mega-carriers, supported by smaller niche operators and commuter feeders.

These mega-carriers have grown into airlines which, in terms of passengers and fleet numbers, are more than double the size of British Airways. Competition has been fierce, bringing about significant benefits to the consumer in terms of increased travel options and reduced fares in real terms.

At the same time, this process has led to airlines whose size, domination of hub airports and totally protected home markets represent a formidable challenge to carriers such as British Airways.

Moreover, with the US domestic market showing some signs of maturity and slower growth, the big American carriers are now expanding into the international arena. We are positioning ourselves to meet the challenge.

Against this background, our mission is to be the best and most successful company in the airline industry, a global airline capable of effectively serving a market which has become global in nature.

Instead of offering passengers a series of insular, regional areas of airline service, loosely connected like an ill-fitting jigsaw puzzle, we are providing them with an integrated world airline system, with consistent service throughout.

This is being achieved by British Airways and other like-minded airlines, which have synergy of network, product and competitive philosophy, forming alliances by merger, acquisition, or through non-

financial cooperation. We laid the pattern for the future when we agreed a marketing partnership with United Airlines in 1987. By effectively combining our two networks over gateways in London, the United States, the Far East and Australasia, together we offer services to almost 400 destinations worldwide - a more extensive network than that of any other of today's airline combines. This gives us the ability to serve almost half the world's air travel market.

During the past year, we had hoped to cement our highly successful relationship still further by taking an equity stake in United. Although we were unable to proceed with this proposal, our partnership agreement remains as strong as ever.

We have further developed this concept of seamless airline systems at Dallas-Fort Worth, where we have forged a link with Delta Air Lines that provides easy connections to a range of hinterland cities.

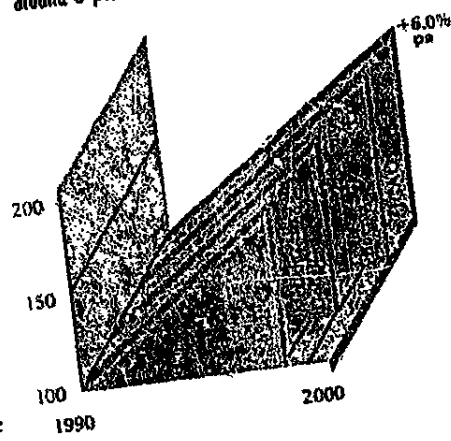
The latest development in our global services strategy occurred in February when we reached agreement for a partnership with Air New Zealand. Under this agreement, our two airlines' services connect at Singapore, Hong Kong, Kuala Lumpur and Los Angeles.

As well as giving British Airways improved access to the flourishing markets of the Pacific basin, this provides daily round-the-world services and links with New Zealand, in addition to the three direct flights weekly which we already operate.

Our agreement with United started a new strategic process, one which has come to be known as "globalism". Other airlines have followed our lead and signed similar links with various carriers - or set up cross equity stakes.

With the advent of the single European market

"Independent forecasts predict industry growth of around 6 per cent through the 1990s."



FORECAST GROWTH IN RPKs (Index: 1989=100)

in 1992, Europe is now moving steadily towards deregulation. The industry is into the second stage of liberalisation, following agreements last December by the Council of Transport Ministers, most notably in the areas of pricing and market access.

The new pricing legislation brings into effect on 1 January 1993 a control mechanism known as double disapproval, for which we have long been pressing.

It means that airlines will be able to set fares which they consider most suitable for their services and their markets, without having to gain approval from governments. A fare or pricing policy will only be prohibited if governments at both ends of a route disapprove.

This is a breakthrough in Europe. It will enable us to be creative in tailoring fares for respective market segments, and for peak and off-peak periods. It affords us more scope to enhance our value-added policies – giving more value for money – as well as to pass on reductions to the customer on a tactical basis when capacity is available.

The new access agreement will allow Common Market airlines to operate wherever they want in the Community. In airline terms, it makes Europe federated. British Airways could, for instance, contemplate operating services on routes hitherto prohibited to us, such as Paris-Frankfurt or Rome-Madrid.

Against this background of change, interesting strategic manoeuvres and alliances are already emerging. For our part, we are investing £35 million to acquire a 20 per cent stake in a restructured Sabena World Airlines, with KLM also taking a 20 per cent share, and the remaining 60 per cent held by Sabena SA, the parent company.

The Sabena plan, subject to the agreement of

the UK and EEC competition authorities, is to develop a 75-city European network with Brussels, one of Europe's most central and least congested airports, as its hub. In the UK, it will serve a dozen regional cities and four London airports by 1995.

Operations will be geared to provide same day, round trip travel between any two points of the network. This is a scale of service which is not currently available to the business traveller, particularly in regional areas.

Elsewhere on the continent, we are planning significant expansion of services from our Berlin hub to take advantage of the changing East European political climate. We have already increased passenger capacity on routes between the UK and the East European cities we serve, and we are looking to broaden our network in this part of the world.

Now that the continent of Europe is following the USA and the UK in liberalisation, the political momentum for free air markets is spreading right around the world.

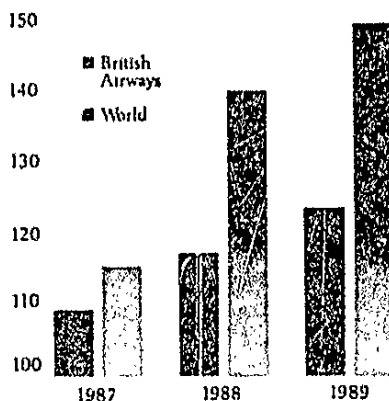
In the longer term, liberalisation of the world's significant markets will fuel the growth

and development of true global airlines – carriers with multi-national ownership and international strategic service hubs.

With competition for their custom more vigorous than ever before, the biggest winners will be the consumers. They will be better served than ever before, with more choice in terms of airline, pricing, service, route and frequency, than imaginable in the not too distant past.

That is something we support. Any airline unhappy with such a situation should not, I submit, be in the business in the first place. Comfort and protection are for the consumer, not the supplier ■

"Since our privatisation, British Airways has exceeded industry growth rates."



Source: ICAO

SCHEDULED RPKs (Index 1986=100)
For the years ending 31 December



Providing superior service and good value for money

Liam Strong, Director of Marketing and Operations, outlines British Airways' strategy for retaining its competitive edge.

As customers' experience of a product or service grows, so too do their expectations. There can be only one end result of this trend = better quality goods and services in all areas of life, representing

better value for money than ever before, as rivals in the marketplace seek to achieve a competitive edge.

In the airline industry, the experience in the United States following deregulation in the late 1970s provides

the classic case study of these fundamentals of marketing in action. The winning competitors were those who achieved a good balance between low fares and quality service.

With deregulation now rippling around the world, British Airways' marketing policy is driven by the objective of providing overall superior service and value for money in every market segment in which we compete.

Hand in hand with this, we seek to excel in anticipating and responding quickly to customer needs and competitor activity, securing a leading share of the air travel market worldwide with a significant presence in all major geographical markets.

This means maintaining a pace of quality, innovation and service delivery which keeps us ahead of the competition, and the only way to achieve that is by seeking out the requirements, preferences and aspirations of our customers and responding to them on a comprehensive basis.

Hence, we carry out a structured programme of consumer research and dialogue – ranging from interviews on customer service with 150,000 passengers a year, to discussion conferences with representatives of our most regular customers.

CARGO

British Airways is one of the largest cargo airlines in the world, carrying 498,000 tonnes of freight and mail last year.

As an autonomous business centre, British Airways Cargo's strategy is to provide a full range of high quality services to meet the worldwide distribution needs of its freight forwarding, importing and exporting customers. It employs 2,000 people at 176 destinations in 80 countries, supported by the latest business technology equipment and freight handling systems.

Our Cargo Agents Reservation and Airwaybill Issuance and Tracking system (CARAT) is now an essential part of the working lives of some 100 freight forwarders in the UK, while British Airways' Speedbird Courier has been developed into the world's largest wholesale courier company with an international network of over 60 cities. Growth within the USA has been achieved via a link with United Airlines' Small Package International.

We invested £5.5 million on improving two key facilities at Heathrow – our third-party handling unit, Freight Centre International, which works for 22 other airlines, and our Airmail Terminal which, with its counterpart at Gatwick, distributes 1,000 tonnes of mail per week.

CALEDONIAN

Caledonian Airways, the Group's charter airline, operates as a separate entity, dedicated to meeting the needs of the inclusive tour market. Last year,

it – which included three Boeing 757s, four Lockheed TriStars and, in the summer, one Boeing 747 and two Boeing 737s – carried 1.5 million passengers.

HOLIDAYS

In March, we sold our 50 per cent stake in Redwing Holidays, which features the Sovereign, Enterprise, Flairfares, Martin Rocks and Sunmed brands, to the Owners Abroad Group. It had become evident that, in the charter-based inclusive tour industry, economies of scale are of paramount importance. As a middle-sized operator, Redwing on its own was at a disadvantage.

Our remaining leisure products, Speedbird Holidays, Poundstretchor and British Airways Holidays, focus on our core scheduled services.

GALILEO

The Galileo computer reservations system, of which we own 24 per cent, is now up and running, distributing the services of more than 360 airlines to travel agents.

Our wholly-owned Travicom subsidiary is now trading as Galileo UK, reflecting its new role as

People are telling us firmly that they want real innovation, solid and consistent service and, above all, value for money.

We are responding to these requirements, leading the industry with our policy of "branding" individual classes of customer service, ensuring a distinctive place in the market for each.

Our business classes, Club World and Club Europe, were the first to benefit from this policy, in 1988. Both have proved sustained successes in highly competitive markets. Passenger numbers in Club World have increased by 27 per cent in the two years since the service was introduced. On a number of routes, notably on the North Atlantic where Club World passenger load factors have regularly exceeded 80 per cent, capacity has been increased in response to demand.

It has been just over a year since our second major "rebranding", the launch of our new First Class service. Since then, we have witnessed sound growth in this premium market, with passenger numbers increasing by 5 per cent and revenue up by 20 per cent, a handsome return on the original £24 million investment in improving the product.

the UK distributor of Galileo products and services. When it is fully operational, Galileo will enable us to take quantum leaps in airline marketing, extensively expanding and customising the range of services we are able to offer.

AIR MILES

We hold a 51 per cent interest in Air Miles Promotions Ltd, which manages the Air Miles consumer incentive scheme, now well into its second year in business. There are now one billion Air Miles in circulation, with more than half a million redeemed each week, generating 100 passengers a day and more than 1,000 bookings a week. Air Miles is typical of the innovation we aim to create – in this case to fill otherwise empty seats.

RETAILING

British Airways Enterprises has established 34 Four Corners stores at key high street locations. In October 1989, it opened First of Regent Street as the airline's main retail outlet in London. This offers airline tickets, hotel reservations, car hire, holiday bookings, bureau de change and a passport and visa service.

It also houses a British Airways Travel Clinic, 20 of which are now in operation under franchise throughout the UK, offering full immunisation facilities and a range of travel health products.

The major service improvement of the past year was the relaunch of Super Shuttle in September. These services, linking London Heathrow with Belfast, Edinburgh, Glasgow and Manchester, were redesigned to meet the needs of two specific types of passengers.

Super Shuttle Executive is aimed at business travellers, offering flexibility, preferential service, last minute check-in and the unique "turn-up-and-take-off" guarantee. Super Shuttle Savers offers value for money fares for leisure travellers, with bookable, guaranteed seats on specified flights.

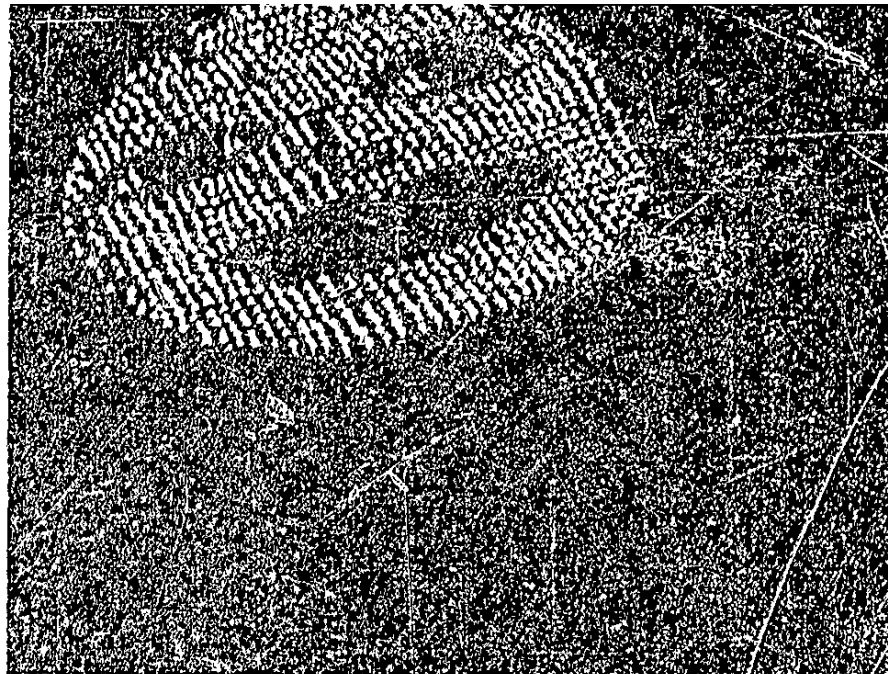
In the air, catering is now offered throughout the day, with hot lunches and dinners joining the well established breakfasts at the appropriate times on most flights.

The response to the improvements from the three million people a year who travel on our Super Shuttle services has been excellent, with gains in market share, passenger numbers and yield.

On long distance flights, we have been trialling on our routes between London Gatwick and Houston and Dallas-Fort Worth a new service for passengers who pay full Economy fares, typically business travellers. Called Economy Select, it features dedicated check-in, advance seat reservations and a separate cabin. Other innovations in our intercontinental Economy services are planned.

The over 55s are a growing market for air travel. To encourage these passengers to fly with British Airways, we have introduced a special package of fares and services. At the other end of the age spectrum, we have also expanded the services offered by Skyflyers, our brand for children.

With much of the attention focussed in the past on the in-flight experience, we believe there is more scope for improvement in the future in those parts of an air journey before or after the flight itself. We have introduced a range of new services to smooth the path for travellers through airports – such as express valet car parking, speedier and more flexible check-in



We aim to achieve a significant presence in all major geographical markets, so we are adopting a global approach to our advertising and promotions, reflecting the international stature of our business while retaining a genuine relevance to each marketplace.

Our new advertising campaign, called Global, was launched worldwide in the spring of 1990. The commercial, a scene from which is pictured above, communicates the friendly and caring characteristics of our staff and emphasises the size of our network. We estimate it will be seen by around 700 million people worldwide during the year. It is achieving a great deal of impact – and winning a number of awards.

Our global approach applies equally to sponsorship activities. British Airways is the most successful fund-raising corporate member of the Save the Children Fund, raising more than £500,000 in the first 18 months of our three-year membership period.

procedures and more, and improved lounges. Underlining our commitment to service excellence, we are launching a new customer service leadership course for our people around the world, stressing the importance of quality of service.

In January, we merged the Marketing and Operations Departments of the airline into one integrated unit, bringing together as a single team all staff involved in planning, creating, distributing, promoting and delivering the product in the air and on the ground.

As we enter the 1990s, we are dedicated to the objectives of competing across the world on an ever-widening scale and of meeting increasing demands from the customer for style, quality of product, efficiency and value for money in airline service ■

A team dedicated to being the best

It is our 50,000 employees worldwide that make British Airways a global leader, says Robert Ayling, Director of Human Resources.

Businesses based in the UK are facing a shortage of their most vital resource in the 1990s as changes in the demographic profile result in deficiencies of skills in the employment market.

In any company, but particularly a company in the service industry, people are the foundation for success. It is their contribution which gives British Airways its competitive edge. We must therefore create a working environment and culture which attracts, retains and develops committed employees.

To ensure we continue to attract the best people, we established a new Recruitment Marketing function during the year, charged with promoting British Airways in schools, colleges, universities and the local community as a first choice employer.

In South East England, where almost 40,000 of our 50,000 employees worldwide are based, competition for staff with specialist skills is increasingly tough. Nonetheless, last year we recruited nearly 950 people into our Engineering Department, and a further 168 to work on computer activities, 141 of them graduate trainees.

Expansion of our operational programme has required more flying staff. During 1989-90, we recruited 245 direct entry pilots and 286 cadet pilots. The first group of 16 cadets to graduate from our 70-week training programme - 14 men and two women - received their wings in April 1989 and are now flying alongside our 3,500 other pilots. We also recruited 748 stewards and stewardesses, taking the number of cabin crew to almost 10,000.

Shortages in the South East England labour market are one of the reasons behind the steps we are taking

to develop our UK regional workforce, which currently stands at some 4,500 staff.

We are expanding our Telephone Sales unit at Glasgow, adding 450 new jobs, and opening a new centre at Newcastle, together with a computer systems development facility, creating a further 700 career opportunities.

In South Wales, all 1,000 staff of British Airways Engine Overhaul Ltd are now centralised at Nantgarw, where facilities are being expanded at a cost of £40 million, enabling us to close our old factory at Treforest and transfer a substantial portion of engine overhaul work from Heathrow.

Soon we expect to announce a new major aircraft maintenance base to be developed at a regional location.

An employer must be flexible if it is to attract and retain the best people. Besides part-time contracts in many areas, we have introduced a number of job sharing opportunities, enabling two people, both working part-time, to fill one full-time post.

At Heathrow, we have supported a workplace nursery for young children of our staff, enabling parents to return to work content in the knowledge that their young ones are in safe hands.

We place great emphasis on training and development. During the year, we introduced a new series of management development programmes, under the umbrella title "Fit for Business". This features courses designed specifically for our 200 most senior executives and for the entire management population. It also includes a new programme for people appointed to a management position for the first time - designed to

ensure they are fully aware of the skills and knowledge expected of them in such a post - and a series of open learning modules to help develop specific abilities, from foreign languages to accounting.

These new initiatives join our existing programmes, which include opportunities to work in-house towards internationally recognised qualifications, such as a Master of Business Administration degree or a Diploma in Supervisory Management.

The latest phase of the Customer First series ended during the year. All employees worldwide had been asked to take part in To Be The Best, which sought their ideas on how to improve the effectiveness of their area in an increasingly competitive environment.

Our staff suggestion scheme, Brainwaves, is one of the best in the UK. Ideas on how to increase efficiency can win prizes of between £10 and £10,000. During the year, more than 450 employees received awards worth a combined £130,000. For the first time, savings resulting from this scheme totalled more than £1 million in a year. A further 350 employees received Awards for Excellence, presented to recognise outstanding contributions "beyond the call of duty".

It is not just our customers who benefit from the care of our employees. All around the world, countless charities are supported by their voluntary efforts,

including causes run by staff themselves, such as Operation Happy Child and Dreamflight for underprivileged and sick children.

We carry out a comprehensive internal communications programme to ensure that British Airways employees are well informed about the progress and challenges of the Company and the overall business. This includes the publication of one of industry's few weekly staff newspapers, the award-winning British Airways News. In addition, a daily "headlines" version of the newspaper is provided on the airline's computer networks, giving employees around the world instant access to information.

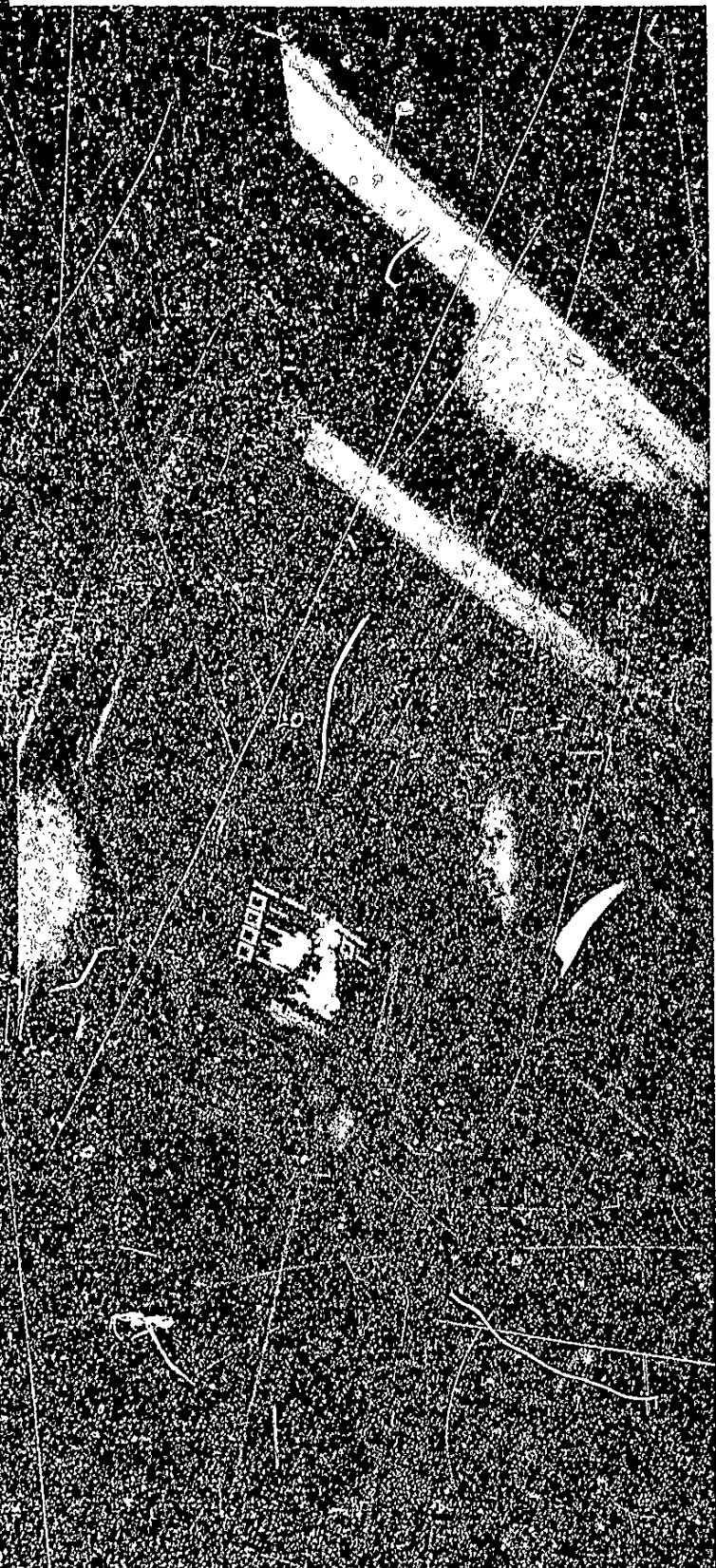
Consultation continues to take place through management and trade union committees, where a wide range of business and employment issues are discussed at varying levels within the Company.

Share ownership encourages a greater commitment and motivation among employees. We operate a profit sharing scheme, which allows eligible staff to acquire shares in the Company, and a savings-related share scheme.

Around 70 per cent of the workforce are British Airways shareholders, representing about 4 per cent of the issued share capital and reflecting our staff's commitment to the Company. ■

Japanese Stewardess Kayoko Yamamoto receives her "wings" at the end of her six-week training course, watched by fellow recruits from our Tokyo and Caracas bases





At the leading edge of technology

John Watson, Director of Information Management, explains how British Airways is at the forefront of exploiting information technology in the airline industry.

Airline seats booked automatically by your travel Agent or even from your office or home. The cost charged to your bank account at check-in, simply by placing your thumb on a fingerprint reader – no ticket, cheque book or plastic credit card needed.

In-flight service and entertainment systems in every aircraft seat, providing not just films, television programmes and news bulletins but also travel maps, mail order shopping, a telephone and a facility to rent a car or make a hotel reservation – or even order flowers. Staff who give the sort of personal service only a local corner shop normally provides. They know your preferred seat, your favourite meal, how frequently you travel, if your last flight was delayed by weather or whatever...

Information technology enhances customer service. Self service TimeSaver machines enable Super Shuttle passengers to buy a ticket and check in all in just 40 seconds

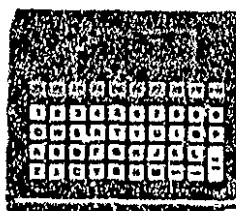
A flight of fancy? Not at all. Many of these facilities, and many more, will be commonplace for British Airways' passengers by the year 2000. The foundations are already being laid.

As the information technology (IT) revolution gathers pace, the way we live our lives is changing fundamentally. British Airways is leading the industry in making the most of the opportunities all this offers.

Five years ago, we spent 1.3 per cent of our turnover, or £35 million, on IT. Last year we allocated £130 million on computers, systems and associated staff, representing 2.7 per cent of our turnover. By 1995, we expect that figure to have increased to nearly 5 per cent. This trend is reflected across the industry's other leading airlines.

We are increasing our expenditure to harness the advantages that information technology can bring to the service we offer, to the quality of our day-to-day operational performance and to the way we manage our overall business.

There are four key differentiators that make our airline distinctive – customer service, management skills, the staff employed and the computer systems used. During the new decade, the role of IT will become increasingly important. It will give us a competitive advantage in terms of customer service and profitability. We are determined that British Airways will be at the leading edge.



We have a head start. We are already one of the most significant users of IT in the world. Our 16 mainframes, with more than a thousand gigabytes of disk storage, can handle 450 million instructions a second.

With a further 200 mid-range computers, they are linked directly to 25,000 terminals – including 5,300 new terminals installed within the Company

during the past year – and indirectly to 200,000 terminals worldwide

Together, they run more than 300 software applications, with systems supporting activities in all areas of the Company's business

During the year, we carried out more than 150 major IT projects. In the customer service area, these included introducing self-service TimeSaver machines enabling Super Shuttle passengers to buy a ticket and receive a boarding card in just 40 seconds, and touch-screen multi-language information facilities. A new stand and gate management system will optimise the stands served by jetties at Heathrow, reducing the occasions when our passengers have to travel by coach between aircraft and terminal.

Better business management services include a new executive information system, called Merlin, and improvements to our capacity management system, already widely regarded as the best of its kind.

A project which will use the latest technology to control operational resources is underway to improve the airline's punctuality, customer service and overall day-to-day performance, helping to reduce our costs through better communications and co-ordination.

A materials requirement planning system has been installed for our Engineering Department, ensuring that serviceable components are available on time for aircraft maintenance, with overall inventories kept at the lowest possible level.

Although much of our work is geared towards giving our own Company a competitive advantage, where appropriate we also sell our expertise and services to others.

Indeed, this year we won our third major order from the Far East, with Korean Air joining Japan Airlines and All Nippon among our 84-strong worldwide client list ■

A fleet for the future

British Airways enters the 1990s with one of the largest and most modern aircraft fleets in the world, says Alistair Cumming, Director of Engineering.

The world airline industry overall is estimated to require around 7,000 new aircraft by the year 2000, according to the manufacturers – more than half to provide additional capacity, the rest to replace old aircraft.

Our own re-equipment programme, the biggest in our history, is already well advanced. In the last year, we have taken delivery of 21 new aircraft, worth £800 million, increasing the size of our fleet at 31 March 1990 to 224, which is larger than any Western airline outside the United States.

The newcomers in the past year included a trio of new types – the Boeing 747-400, eight of which were in service by the year end; the Boeing 767-300, four of which came on board, and an extended range version of the Boeing 757, for our charter airline, Caledonian Airways.

We became the first airline in the world to introduce both Boeing 747-400s and 767-300s powered by the leading Rolls-Royce RB211 engine. This British-built powerplant is already used on our Boeing 747-200s, 757s and Lockheed TriStars.

Other recruits to the fleet during the year were four more British Aerospace ATPs and another four Airbus A320s. Both of these aircraft types were introduced in the previous year.

The average age of our fleet at 31 March was 9.9 years. This is some two years younger than the average for the world's leading airlines.

At the year-end, we still had another 58 aircraft on firm order, worth more than £2,000 million and representing a fleet larger than those currently in service with many of our well known competitors.

With most of these aircraft coming into service during the next few years, the size of our fleet will increase to 250 by March 1994, with the average age

decreasing to 8.6 years. In addition, we hold options on a further 61 aircraft.

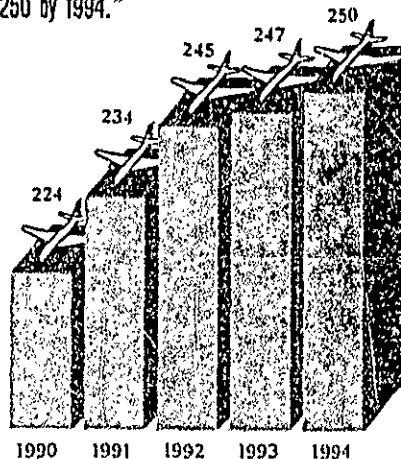
In 1990-91, we will take delivery of 19 aircraft, including 11 more Boeing 747-400s, taking our 747 fleet – already the second largest in the world – to more than 50.

Later this year, we will be finalising our last major fleet re-equipment decision of the century – a successor to the McDonnell Douglas DC10 and Lockheed TriStar, capable of carrying around 300 passengers

on both short and long routes from the mid-1990s. The choice is between the Airbus A330/A340, the Boeing 767X, and the McDonnell Douglas MD11/12X.

Taking delivery of so many new aircraft has presented an unparalleled challenge to our technical teams. Thousands of staff in many different departments have had to learn to operate and maintain the new aircraft. Last year, this included 3,000 engineers, almost a third of our technical workforce, and a thousand pilots, representing around one in four of our flight crew.

"With 58 aircraft on order, the fleet will grow to 250 by 1994."



BRITISH AIRWAYS' AIRCRAFT IN SERVICE
as at 31 March

Quite apart from introducing new aircraft, we have made great strides in gearing up for the demands of the new decade

We have begun to install ACARS, a two-way data communication system, on our fleets. It will be used to transmit information on the aircraft's performance and status to our ground engineers so that teams and spare parts can be prepared if any equipment needs particular attention.

This will save many hours of diagnostic and preparation work after touchdown, improving safety, reducing costs and safeguarding punctuality. Data can also be transmitted to the aircraft from the ground to provide the flight crew with information.

Our longhaul aircraft are to have installed a new collision avoidance system, which we have been helping the Civil Aviation Authority to test. It will reduce still further any chance of aircraft approaching too close to each other. The longhaul fleet will be fitted with the system by the end of 1993.

Our objective is to ensure that British Airways' aircraft are the safest and most reliable in the world.

During the year, we introduced the practice of "Total Quality Management" in our Engineering Department. This encourages a culture whereby every single member of staff takes it upon himself to ensure maximum quality in every aspect of work, both the end product and the method by which it is achieved. Along with a number of other initiatives, this has contributed to improved punctuality and reliability.

An independent audit described our performance in correcting defects in equipment as probably the best in the world.

Last year, we earned £118 million from engineering work carried out for 150 other airlines and operators, 60 per cent of this money coming from overseas customers ■

Checking every rivet: British Airways engineers stationed at Boeing's manufacturing base near Seattle inspect the airline's new aircraft as they are built



Coping with rapid growth

David Jones, Director of Corporate Strategy, assesses the implications of record expansion in air travel on the industry's infrastructure.

The growth of the world air transport market is placing intense pressure on the industry's infrastructure. Many major airports are crowded and old fashioned with inadequate road and rail access. The capacity of many air traffic control systems has lagged behind the demand.

British Airways has played a leading role in the initiatives taken by the industry to deal with these problems, quantified in a report by consultants SRI, commissioned by the International Air Transport Association (IATA). Largely at our instigation, an action group has been established, under the auspices of IATA, charged with finding global solutions urgently. A senior British Airways executive has been seconded to lead its efforts.

The main problem area is Europe. Runway capacity at many of the leading airports is reaching its limit, and flow control has been introduced to restrict the number of aircraft in the skies to levels that are safely manageable with today's technology and organisation.

As a result, punctuality of all airlines is suffering. Figures from the Association of European Airlines indicate that one flight in four is departing late because of air traffic control (ATC) delays. This echoes our own experience, even after setting aside £11 million last summer to safeguard our operations against ATC delays.

In the UK, work is in hand which will bring some relief to the problem. In the long-term, a reorganis-

ation of airspace serving London should be implemented by 1995. Also a redesign of en route airspace, including a new Air Traffic Control Centre, is due for completion in 1996. These two projects will increase UK airspace capacity by some 50 per cent.

In Europe as a whole, the Transport Ministers of 23 states recently agreed comprehensive plans to harmonise and integrate their various ATC systems. This

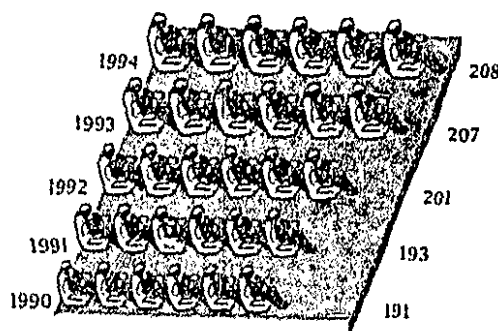
is a welcome step, although Europe will still not have a unified ATC system. Nonetheless, it will ultimately increase capacity throughout the continent, mainly by improving utilisation.

On the ground, creating new terminal capacity – where the passengers want it – is an even more pressing need than creating further runway capacity, as the trend towards larger aircraft means more people can be carried on the same number of aircraft movements.

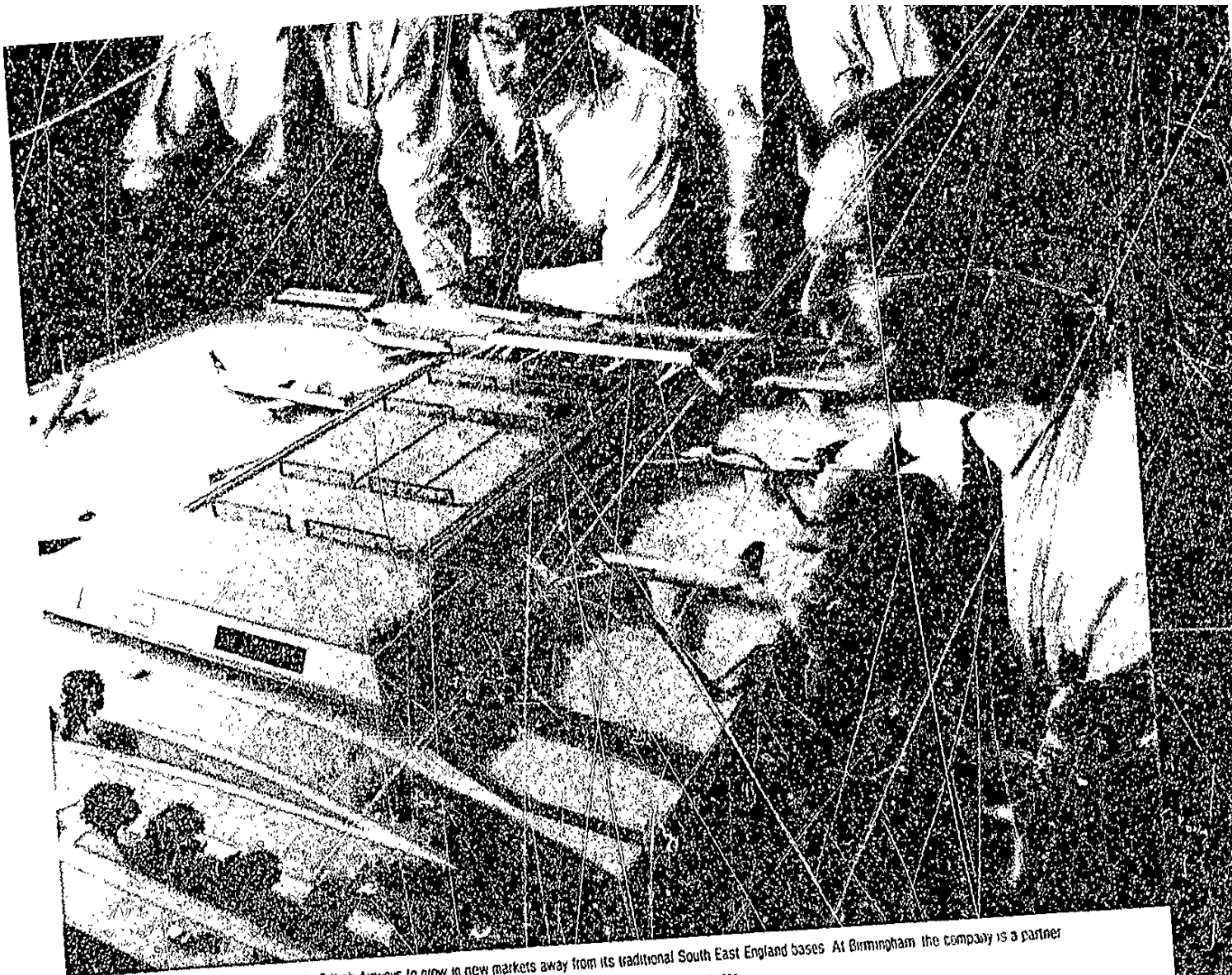
Heathrow handles some 40 million passengers a year, not far short of its current capacity. Enhancements to Terminals 1 and 4 will facilitate some growth and provide for customer service improvements. We would like to see a fifth passenger terminal built, enabling Heathrow to retain its pre-eminent position as the world's leading international airport. With the Heathrow Rail Bill now passing through Parliament, mainline trains should be linking the airport with London's Paddington from 1994.

Although Gatwick's runway is operating almost to capacity, the second phase of the North Terminal

"Average aircraft size is increasing, so more people can be carried on the same number of aircraft movements."



BRITISH AIRWAYS' AVERAGE AIRCRAFT SIZE (SEATS)
as at 31 March



Expansion of regional operations will enable British Airways to grow in new markets away from its traditional South East England bases. At Birmingham, the company is a partner in a consortium building a new passenger terminal which will be the airline's new Midlands base when it opens next year.

development and refurbishment of the South Terminal could add room for nine million more passengers, enabling the airport to handle 30 million passengers a year.

We have to look for growth away from our South East England bases if we are to expand at the rate we seek. This is one reason why we place so much emphasis on developing our operations in the regions of the United Kingdom.

Here the most significant development of the year

was the start of work on a new passenger terminal at Birmingham International Airport. British Airways has a 21 per cent stake in this venture. We plan to develop a hub and spoke operation when the terminal is completed next June, increasing services out of Birmingham during the next five years by 75 per cent.

We are also looking at opportunities to build hubs overseas, in partnership if appropriate. Our Sabena proposal at Brussels is the first such initiative.

Caring for the world

We serve David Hyde, Director of Safety, Security and Environment, outlines our environment and safety policies.

No sooner had 1990 been ushered in than the media commentators had dubbed the new decade "The Caring Nineties".

British Airways had been concerned for the environment well before then. Now we believe, we are the first major airline in the world to adopt such a comprehensive, integrated approach towards the environment.

For the first time, we have recognised our environmental responsibilities at executive management level, and we have recruited Dr Hugh Somerville, a manager with wide experience of environmental issues in the oil industry, to head up our efforts in this respect.

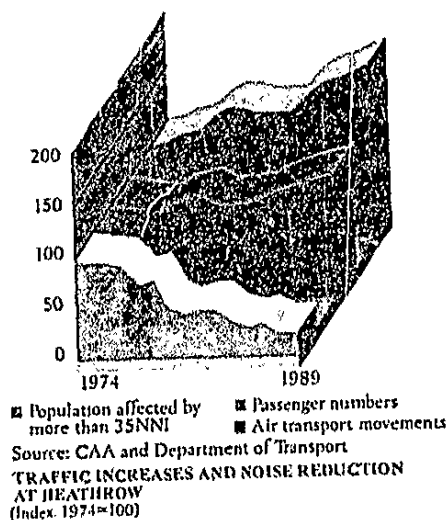
Even before we formalised this, a number of activities were in place. Wherever possible, all ground vehicles were converted to run on lead-free petrol by April 1989 – and our ground fleet is one of the largest in Europe.

An energy conservation programme was in place. Indeed, our new Boeing 747 repainting facility received a British Gas award this year for its efficient use of energy. A working party in the Engineering Department had been established to identify and tackle issues particular to its work, such as use of halon sprays in cleaning, and the disposal of chemical waste. Our catering teams had been making a conscious move towards reusable items, like crockery and cutlery. Our Assisting Nature Conservation initiative had been

applying our resources to help in the preservation of threatened animal and bird species, providing transport between their natural habitats and suitable places for breeding, such as wildlife parks.

Also, in addition to our Purchasing Department's efforts to re-use waste materials, staff were giving their time and effort towards collecting paper, foil and cans for recycling for charity.

"Although traffic is increasing, quieter aircraft mean that fewer people are affected by aircraft noise."



Now, with the adoption of a more planned, centrally coordinated approach, we have an agreed policy for environmental matters. Indeed, recognition of these responsibilities features as one of our seven corporate goals.

We are carrying out a complete, systematic review of our activities, supported by indepen-

dent specialists. It is concentrated on our main Heathrow base and our airborne operations, but we believe many of the lessons we learn at Heathrow will be applicable in other parts of the world.

Many of the issues are obvious – aircraft noise (although modern technology is reducing this), congestion on roads around airports caused by our customers, suppliers and staff, use of halons and other chemicals, waste, and the scope for recycling. We will also review some of the less obvious aspects, such as emissions from aircraft at high altitude.

Of course, besides identifying issues, our major aim will be to propose solutions. When evaluating



Toddlers have been able to travel on British Airways in their own car style seats, since June 1991. Our Engineering team had already carried out tests at the airport by the time the Civil Aviation Authority ruled them the safest acceptable.

initiatives we will be applying normal business criteria with safety, economics and quality the key factors.

While we provide direction, support and coordination centrally, we are encouraging the enthusiasm of all staff for environmental issues. To foster this we have introduced a special 'Greenways' category in our Britannia staff suggestion scheme.

Environmental issues are not simply to win a better public image. It is part of British Airways' approach towards total quality in all activities.

We believe that public concern for the environment will not diminish and is here to stay. As we are active on a global scale, on our markets and in our global environment, attention to the environment can give a company a lead over the competition in the eyes of the consumer.

Aiming to be a good neighbour is one of our main objectives and we firmly intend to establish and maintain a competitive edge in this area.

SAFETY FIRST

At the end of the year, we have taken steps to ensure that the UK public will have all the right information about the safety and security of the airlines.

Research indicates that a passenger's perception of an airline's safety and security performance is now a factor in the purchasing decision.

The security environment in the UK industry has changed, too, with a new Aviation and Maritime Security Bill passing through Parliament. It introduces new penalties for breaches. More rigorous arrangements adopted by airport authorities have produced some inconvenience for passengers, but most travellers understand the reasons behind them.

British Airways' prime goal is to be a safe and secure airline. We adopt a professional and dedicated approach in both areas.

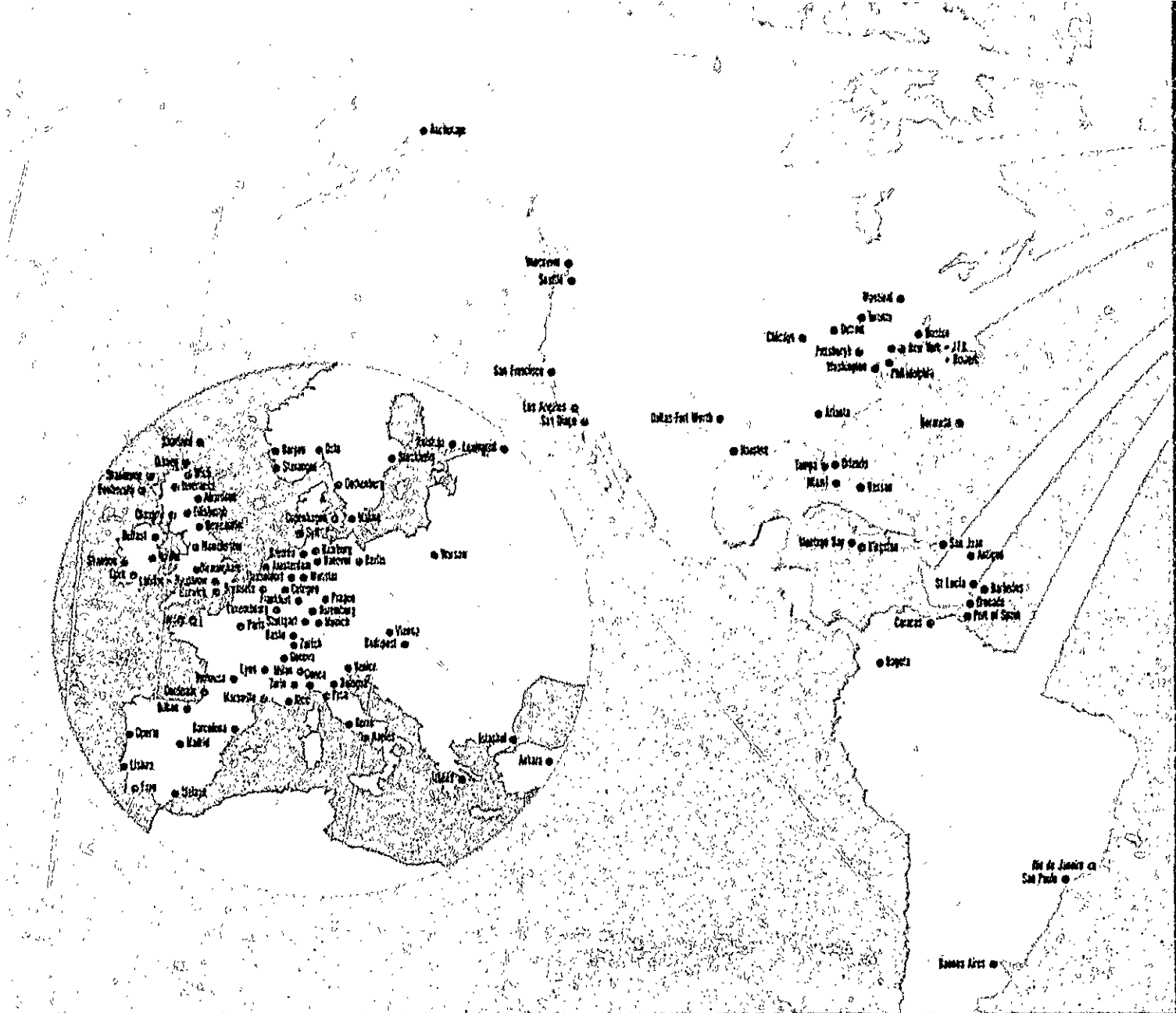
In the early part of the year, we carried out a complete review of our own security arrangements, with the help of independent consultants, focussing on our main Heathrow base.

While this showed that all statutory obligations were met, a number of steps to improve our performance still further have since been taken, with particular emphasis on ensuring that every member of staff regards security as a personal responsibility – not just the brief of a specialist department.

During the year we appointed one of our leading management pilots, Captain Colin Seaman, to the new post of Head of Safety, responsible for ensuring our safety record is second to none.

Commitment to safety is reflected at the highest level with a specific Board committee which reviews our performance in this area. This Air Safety Review Committee is chaired by Captain Jack Jessop, a former Chief Pilot and Director of Flight Crew with the airline.

Government statistics show that flying is still the safest mode of transport. We support any moves to improve this record still further. ■



A truly global network

British Airways is the largest international airline in the world, offering flights to 164 destinations in 75 countries. We serve more of the world's leading markets than any other airline.

Of the 23 million people who flew on our scheduled flights in the 1989 calendar year, 18 million travelled on scheduled international services. That is 41 per cent more than were carried by

the second largest international airline, Air France.

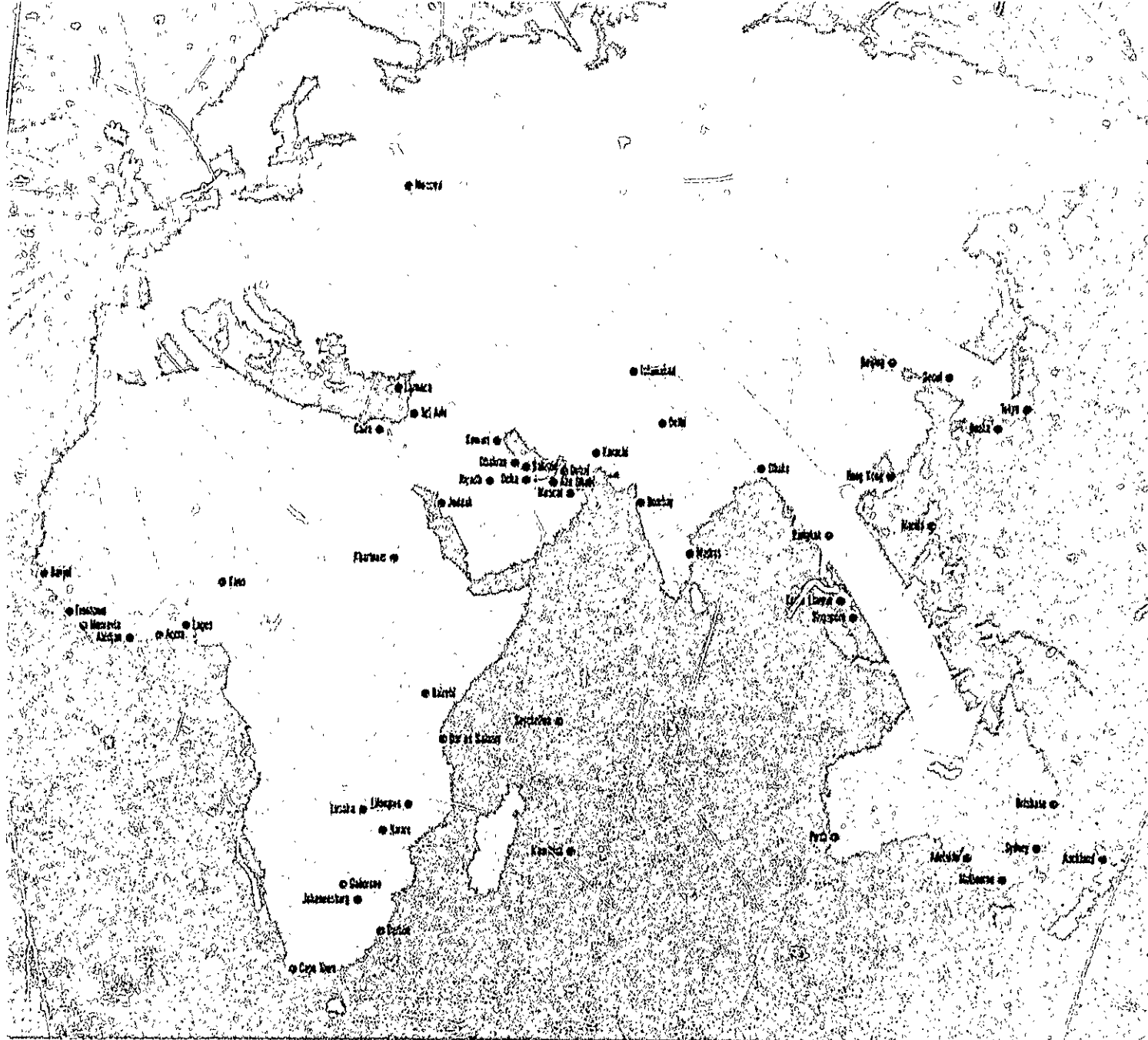
We have added services to 21 new destinations in the past five years. Newark, Buenos Aires and Toulouse have come on-line in 1990, and frequency and capacity on many established routes have been increased.

We suspended links with Christchurch, Baghdad and Amman during 1989-90 for economic reasons. How-

ever, we continue to offer flights to Amman under a new arrangement with Royal Jordanian Airlines, and our over-all service to New Zealand has been strengthened through our new partnership agreement with Air New Zealand.

Although Heathrow is our main base, we have been expanding operations at London Gatwick. We now serve 46 cities around the world with scheduled services from Gatwick.

During the year, Islamabad joined the 31 destinations now served from Manchester. Routes from Birmingham now stand at 18, with Barcelona, Zurich and

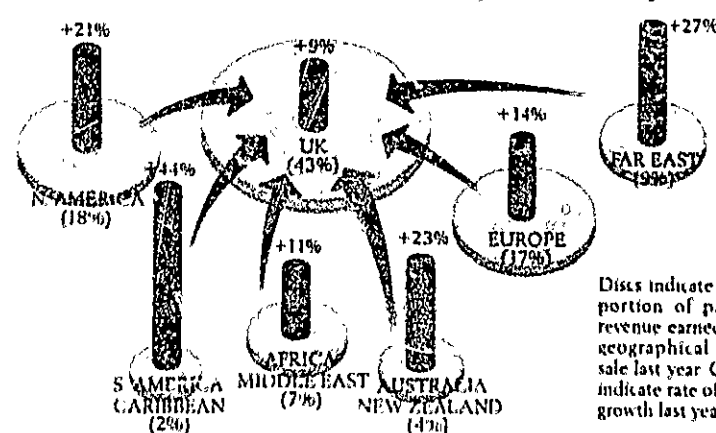


Brussels the latest cities directly linked with the Midlands. A service between Newcastle and Frankfurt was also launched during the year.

In summer 1990, we are introducing flights between Glasgow and New York, Manchester and Madrid, and Birmingham and Nice.

We aim to expand our hub at Berlin significantly in the light of developments in Eastern Europe. Nuremberg has become the ninth city in West Germany served from Berlin. We also inaugurated flights to Brussels from Berlin and plan services linking Berlin with Copenhagen, Milan, Moscow, Vienna and Zurich.

The global spread of our business produced strong growth despite economic softening in some markets.



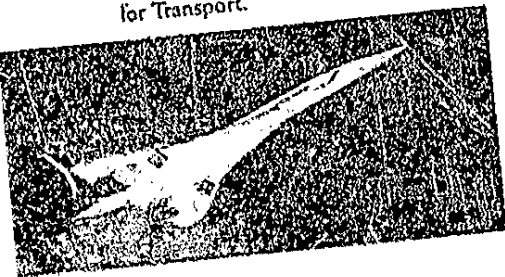
A year of achievement and innovation

April All petrol powered vehicles in our motor transport fleet are converted to run on lead free petrol.

Sixteen flying cadets - 14 men and two women - are the first to graduate from a 70-week British Airways training programme, part of our biggest ever pilot recruitment drive.

Caledonian Airways, the Group's charter airline, takes delivery of its first extended range version of the Boeing 757.

Concorde claims 12 new world speed records as it completes the first of two epic 38,000-mile charter flights, carrying passengers on a round-the-world cruise at \$39,000 a person, on charter to Miami-based Lorraine Travel Bureau. On another special flight, the supersonic flagship flies to Moscow, carrying a British trade delegation led by Cecil Parkinson, Secretary of State for Transport.



May UK domestic operations at Manchester move to the airport's new terminal.

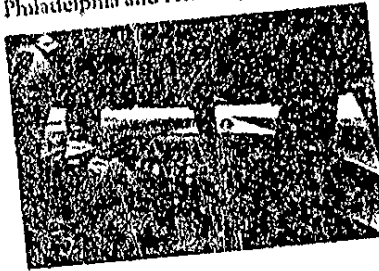
Cabin Crew '89, a new union formed to represent airline cabin crews, is officially recognised by British Airways.

June Two special British Airways Boeing 747 flights airlift hundreds of stranded Britons and other nationals out of Beijing during the civil unrest in China.

To Be The Best, the third training programme in the Putting People First series, ends after a two-year run in which virtually the entire workforce of British Airways has taken part.

July Three hundred staff from 10 countries receive internationally recognised Diplomas in Supervisory Management after completing a year long British Airways development programme, "Fundamentals of Supervision".

The Boeing 747-400 makes its debut at British Airways' home base in dramatic style as the first two in the fleet make simultaneous landings on Heathrow's parallel runways. The new longhaul aircraft makes its first commercial flight, from Heathrow to Philadelphia and Pittsburgh, on 28 July.



August New portable computers are introduced for cabin crew on British Airways' aircraft to simplify duty-free sales and stock management and improve customer service.

Site preparation begins for a new £60 million Euro hub terminal at Birmingham. British Airways will be its primary user and is a member of the Investing consortium.

September A new-style Super Shuttle service takes to the skies.

British Airways proposes to invest \$750 million for a 15 per cent stake in United Airlines. The bid is withdrawn in October when our partners



in the planned buy-out fail to raise their financing.

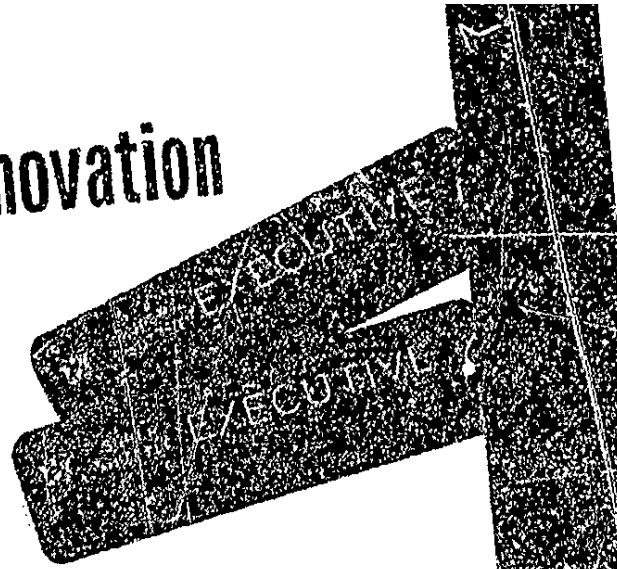
A £20 million redevelopment programme for Heathrow's Terminal 1 is unveiled, partly funded by British Airways. It will bring about substantial improvements for the airline's UK domestic, Republic of Ireland and Channel Islands passengers.

British Airways is the first non-Caribbean airline to resume services to Antigua after Hurricane Hugo. A special Boeing 747 flight rescues hundreds of stranded British holidaymakers.

October Three flight simulators, together worth £20 million, are ordered to train pilots to fly the new fleet of Boeing 737s entering service from next year.

A British Airways Boeing 747 is the first flight to operate out of San Francisco International Airport just hours after the city is hit by a devastating earthquake.

A specially-converted Lockheed TriStar flies Her Majesty the Queen and the Duke of Edinburgh to Singapore and Malaysia for the Commonwealth Conference. Four months later, The Queen and Prince Philip board the



aircraft again, this time bound for the Commonwealth Games in New Zealand. Our rights issue of Convertible Capital Bonds raises £320 million.

November Capital Radio's Flying Eye, broadcasting live traffic reports to 2.5 million Londoners, is sponsored by British Airways in the UK's biggest ever advertising package of its kind.

Cabin crew on a flight to Jeddah take on the role of midwives when a passenger goes into labour shortly after take-off from Doha. A baby boy is safely delivered by the time the aircraft touches down.

Some 200 sick and disabled children fly to Florida for a holiday of a lifetime at Disneyworld. Cabin crew raise almost £250,000 to pay for the trip, their third annual "Dreamflight".

December A two-year pay deal, comprising a basic pay increase of 9.5 per cent in the first year and inflation-plus-1.5 per cent in the second year, is accepted by more than 40,000 staff in the UK.

A 20 per cent stake is acquired in Sabena World Airlines.

A spectacular new British Airways television commercial is shown for the first time in the UK.

A British Airways Boeing 757 makes a special flight to Bucharest carrying emergency supplies for the people of Romania.

January Direct air services between the UK and Argentina are resumed when British Airways flight BA245 touches down at Buenos Aires.

Economy Select, a new service for passengers who pay full Economy fares, is trialled on routes between London Gatwick and Houston and Dallas-Fort Worth.

February A new series of development training programmes for British Airways managers is launched, under the title "Fit for Business".

A partnership agreement is signed with Air New Zealand.

An £18 million development of a new regional headquarters and expanded telephone sales centre in Glasgow is approved.

The Boeing 767 makes its commercial service debut, flying from London Heathrow to Paris.

Shareholders who acquired shares in our flotation in 1987, and satisfied Government eligibility rules, become entitled to a one-for-ten loyalty bonus from the Government.

March Millions of television viewers are given a look behind the scenes of British Airways as BBC2 screens a four-part series on the Company, called "Airline".

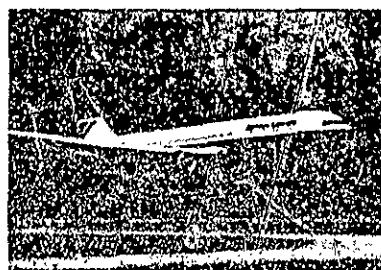
Daily flights start between Heathrow and Newark.

Agreement is reached for the sale of our 50 per cent stake in Redwing Holidays to the Owners Abroad Group.

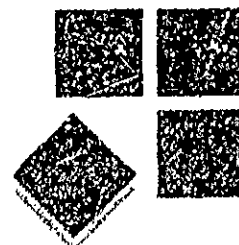
The Prince and Princess of Wales fly on a scheduled British Airways TriStar service from Gatwick to Lagos on an official visit to Nigeria.

A new policy on smoking at work by British Airways staff comes into effect, largely voluntary but geared towards encouraging no smoking.

British Airways becomes the first airline to install equipment enabling it to "talk to the deaf". The Minicom



system enables passengers with hearing problems to contact the airline's



FIT FOR BUSINESS

London Telephone Sales centre direct.

A workplace nursery for young children of British Airways staff opens near Heathrow - part of the Company's policy to beat the skills shortage predicted for the 1990s.

AWARDS

Gordon Thow, Manager at Aberdeen Airport, was awarded the British Empire Medal in the Queen's Birthday Honours. Three British Airways people featured in the New Year's Honours List - Deputy Chairman Michael Angus received a knighthood, Bob Macdonald, who retired as Manager Operational Contingencies, was made a Lieutenant of the Royal Victorian Order, and Jean Cowan, Manager Health Administration and Technical Services, received the Royal Red Cross Military Award.

British Airways maintained its record of winning awards for its airline service - and in a number of other areas. Among the honours were

Travel Trade Gazette's Best Airline in Europe and across the Atlantic
Business Traveller's favourite airline trophy (pictured).



The Observer's top airline.
Ireland's Airline of the Year.

Caledonian Airways, the Group's charter airline, received an Airline Award from the Thomson Tour Operation for "outstanding in-flight service".

The Invest in Britain Campaign presented its Quality award to British Airways for the airline's "supreme example" in providing quality services.

Caterer and Hotelkeeper magazine recognised British Airways for its "enormous improvements in food service standards on worldwide flights". The International Food, Wine and Travel Writers Association also presented British Airways with an Award of Excellence "in recognition of its supreme levels of culinary and service standards".

The International Aviation Federation presented our Engineering Department with a Group Diploma for its work on Concorde.



BOARD MEMBERS

1. *Environ. Biol. Fish.* 1991, 30: 1-10.
 2. *Environ. Biol. Fish.* 1991, 30: 11-20.
 3. *Environ. Biol. Fish.* 1991, 30: 21-30.
 4. *Environ. Biol. Fish.* 1991, 30: 31-40.
 5. *Environ. Biol. Fish.* 1991, 30: 41-50.
 6. *Environ. Biol. Fish.* 1991, 30: 51-60.
 7. *Environ. Biol. Fish.* 1991, 30: 61-70.
 8. *Environ. Biol. Fish.* 1991, 30: 71-80.
 9. *Environ. Biol. Fish.* 1991, 30: 81-90.
 10. *Environ. Biol. Fish.* 1991, 30: 91-100.

Sir Colin Marshall is a former director of the International Chamber of Commerce, a former director of British Airways, a former executive of the ILO, a former President and Chief Executive of the Anglo-American Chamber of Commerce in London, and a former Chairman of the ILO. He is also a former Chairman of the ILO and a former Chairman of the ILO.

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 Fellow, Charman
 Charman Fitch and Fitch & Webb
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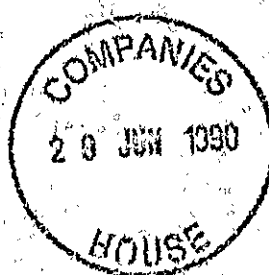
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DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 1990. The accounts are set out on pages 32 to 52.

PRINCIPAL ACTIVITIES

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

RESULTS FOR THE YEAR

Profit after taxation, attributable to members of British Airways Plc, amounted to £246 million, against £175 million in the previous year. The Board recommends a final dividend of 6.05p per share, giving a total dividend for the year of 8.85p per share (against 7.75p per share in 1989). The final dividend will be paid on 27 July 1990 to shareholders registered on 15 June 1990. After providing £64 million for dividends, the retained profit for the year amounted to £182 million.

AIRCRAFT ORDERS

During the year orders were placed for three Boeing 737 aircraft with options for a further five aircraft, and two options for Boeing 747-400 aircraft were converted to firm orders. Details of aircraft fleet, at 31 March 1990, showing those in service, those on order and options held, are set out on page 60.

Delivery positions have been reserved with Canadair Aerospace Group for 20 Canadair Regional Jet short-range aircraft worth US\$280 million. These aircraft would enable the Company to respond to the growth of regional air services in the UK and in Europe.

AIRCRAFT FLEET CHANGES

During the year eight Boeing 747-400s, four Boeing 767-300s, one Boeing 757-200, four Airbus A320s and four BAe ATPs were delivered to the airline. The Boeing 747-400 aircraft, the Boeing 767-300 aircraft and the BAe ATPs, together worth £700 million, were acquired on extendible operating lease arrangements while the Boeing 757-200 and the Airbus A320 aircraft were purchased for nearly £100 million.

One Boeing 747-200 was sold during the year and a further four will be sold during 1990-91. These aircraft were part of the British Caledonian fleet acquired in 1988.

The fleet of five BAC 1-11-400 aircraft, which were withdrawn from service at the end of summer 1988, has been sold.

INVESTMENTS

In December 1989 the Company agreed to subscribe 20 per cent of the equity share capital of Sabena World Airlines (SWA), a newly-formed Belgian company based in Brussels. KLM also agreed to subscribe 20 per cent of the equity shares, with the majority shareholding of 60 per cent held by Sabena S.A.

The Company has agreed to pay two billion Belgian Francs - approximately £35 million - for its 20 per cent share, of which £9 million had been paid at 31 March 1990. On 27 March 1990 the Secretary of State for Trade and Industry referred British Airways' acquisition of its interest in SWA to the Monopolies and Mergers Commission (MMC) for investigation and report. The MMC's report is to be submitted to the Secretary of State by no later than the 28 June 1990.

In March 1990, agreement was reached for the sale, to the Owners Abroad Group, of Redwing Holidays Ltd, in which British Airways had a 50 per cent shareholding. The sale, which was completed in April 1990, is reflected in the accounts to 31 March 1990.

During the year British Airways shareholding in Ogden Allied (Gatwick) Ltd was sold and the percentage of equity owned by British Airways in The Galileo Company Ltd was reduced from 26 per cent to 24 per cent, consequent upon four additional airlines taking an investment in the company.

FINANCING

In October 1989, British Airways Plc raised £320 million through the issue of 9¾ per cent Convertible Capital Bonds 2005 by a subsidiary - British Airways Capital Limited. The Bonds were offered by way of rights to existing ordinary shareholders of the Company on the basis of four Bonds of £1 each for every nine British Airways Plc shares then held. The terms of the Bonds allow the holders to convert them into British Airways Plc ordinary shares during the period 1993 to 2005 on the basis of one ordinary share for each £2.43 of Bonds held. Information regarding the conversion of the Bonds on maturity and the accounting treatment adopted is set out in Note 19 to the accounts.

In July 1989 the Company entered into extendible operating lease arrangements with two consortium companies (in each of which British Airways has a 19.3 per cent equity shareholding) covering eight Boeing 747-400s, of which six had been delivered at 31 March 1990, and seven Boeing 767-300s, of which four had been delivered. Funding of the consortium companies' acquisition of these aircraft is being provided out of the aircraft financing facilities arranged in December 1986 and October 1988. Following

the transfer of the purchase contracts for these aircraft to the consortium companies, British Airways recovered pre-delivery payments totalling £268 million, which have been principally used to repay in full short-term borrowings of £249 million previously drawn under the Company's £400 million multiple option facility.

Ten Boeing 737-200 aircraft were sold in March 1990 and were immediately leased back on operating lease arrangements for a minimum period of five years. A further ten aircraft of the same type were similarly converted to operating lease arrangements during April and May 1990.

DIRECTORS

Mr Robert Henderson, Deputy Chairman, retired from the Board in July 1989. At the same time Sir Colin Marshall and Mr Michael Angus (as he then was) were appointed joint Deputy Chairmen.

Sir Gordon White KBE, Chairman of Hanson Industries, joined the Board as a non-executive Director in December 1989 following the retirement of Mr Henry Lambert.

The names and details of the Directors are set out on page 26. The Director retiring by rotation is Mr Michael Davies. He, being eligible, offers himself for re-election at the annual general meeting.

Details of the Directors' interests, including options granted to Executive Directors, are given on page 61.

EMPLOYEE INVOLVEMENT

During the year the Company continued to encourage teamwork and communication between all of its employees in the running of the business. Details are given on page 12.

The Profit Sharing Share Scheme, which was first operated at the Company's flotation in February 1987 in relation to accumulated profit share for the years 1983-86, has been operated every summer and will be continued in respect of 1990. Every eligible employee will be entitled to participate in the Scheme in respect of profit share of just under two and a half weeks' basic pay, which can be used by the Trustees of the Scheme to acquire shares to be appropriated to the participants and held in trust in accordance with the Scheme. The Board intends to make an equivalent cash payment to those eligible employees not wishing or able to participate in the Scheme.

The Savings Related Share Option Scheme has now been operated twice. Staff are able to save amounts of between £10 and £100 a month and after five years will have the option of purchasing shares, with the money saved, at the prescribed price of 161p for the first operation and 135p for the second operation, or have the money refunded with interest.

PENSIONS

Following the triennial actuarial valuations of the Airways Pension Schemes at 31 March 1989, the Trustees agreed to improved benefits for members still in employment, including bringing the normal retirement age for men and women into line, and a reduction of contributions made by the Company. These changes took effect during 1989-90.

DISABLED PERSONS

British Airways policy is to promote equal opportunity in employment, regardless of physical or mental disability, subject only to capability and suitability for the task in question and the requirements of law. Wherever possible, staff who become disabled during employment are provided with an alternative job that makes full use of their capabilities.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable donations made by the Group during the year amounted to £443,000 (1989: £328,500), of which the largest donations were to Cancer Relief, the Skin Treatment and Research Trust, and the London Hospital for Tropical Diseases.

A contribution of £40,000 was made to the Conservative Party (1989: £40,000).

ALLOTMENT OF SHARES

A special resolution to renew the existing authority of the Directors to allot shares under Article 11(B) of the Company's Articles of Association is contained in the Notice of annual general meeting.

The International Stock Exchange no longer requires the consent of shareholders of the Company to each specific issue of shares for cash made other than to existing shareholders in proportion to their existing shareholding, provided such shareholders have given the necessary general authority.

DIRECTORS' REPORT (continued)

SHAREHOLDERS - NON-UK NATIONALS

At the time of the rights issue (see Financing on page 28) 31 per cent of British Airways ordinary shares were held by non-UK nationals, including 18 per cent held by US nationals. The rights issue of Convertible Capital Bonds was not made to US nationals, who received instead the proceeds of the sale of their rights.

At 31 March 1990 the proportion of ordinary shares held by non-UK nationals was 39 per cent. Having regard to all relevant factors, including the fact that there are no large interests of single or associated non-UK nationals, and in the absence of unforeseen developments, the Directors do not at present expect (but without limiting their freedom to act) to seek to exercise their powers to restrict non-UK share ownership.

CLOSE COMPANY STATUS

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1970 and this position has not changed since the end of the financial year.

AUDITORS

The auditors, Ernst & Whinney, merged their practice with Arthur Young on 1 September 1989 and now practise in the name of Ernst & Young. Accordingly they have signed their report in their new name.

The auditors have indicated their willingness to continue in office and a resolution proposing their reappointment and authorising the Directors to determine their remuneration will be proposed at the annual general meeting.

GROUP

Profit before tax was £345 million compared with £268 million last year, an improvement of 28.7 per cent. After making a tax provision of £102 million (last year £93 million) the profit after tax was £245 million, compared with £175 million last year. Earnings per share was 34.1p compared with 24.3p the year before, an improvement of 40.3 per cent.

After providing £64 million for the interim dividend and the recommended final dividend disclosed in the Directors' Report (see page 28) the retained profit for the year amounted to £182 million.

Funds generated increased from £590 million to £771 million, an increase of 30.7 per cent. As a consequence of the Convertible Capital Bond issue in October 1989, the repayment of progress payments associated with the Boeing 747-400s (which are now subject to operating leases) and the repayment of certain finance leases, the net debt to total capital ratio was 25.1 per cent.

The total Capital and Reserves of the Group, including the Capital Bonds, was £1,232 million at 31 March 1990 compared with £749 million last year.

The Group profit includes the profit on disposal of one Boeing 747-200, five BAC 1-11-400s and 10 Boeing 737-200s. The Boeing 737-200s were immediately leased back. Against this, losses have arisen in Redwing Holidays Ltd, now sold, in British Airways Enterprises Ltd, which has undertaken an energetic programme to minimise costs and improve revenue, and on the investment in Hogg Robinson plc where the carrying value has been reduced.

AIRLINE

Revenue tonne kilometres increased by 7.8 per cent. Just over 25 million passengers were carried on scheduled and charter services, an increase of 4.8 per cent on scheduled services and 2.6 per cent overall. Capacity offered, in terms of available tonne kilometres, increased by 4.9 per cent, a smaller increase than planned due to the late delivery of Boeing 747-400 and Boeing 767-300 aircraft. The average passenger load factor on scheduled services increased from 69.6 per cent last year to 71.5 per cent. Overall load factor on scheduled services was 68.9 per cent, 1.9 points higher than last year.

Revenue for the carriage of passengers and cargo on scheduled services and charter operations increased by 13.6 per cent from £3,899 million last year to £4,431 million. Yield, expressed in pence per revenue tonne kilometre, increased by 5.2 per cent from 49.6p to 52.2p. This is the first increase in yield since 1987.

Traffic growth overall was satisfactory, with longhaul traffic increasing by 7.7 per cent and shorthaul, despite the effect of withdrawing from several routes, by 4.7 per cent. Routes to Japan, South America, USA, Spain and Italy showed strong growth as did routes from Birmingham and the German Internal Services from Berlin.

Airline expenditure increased by 13.7 per cent. The cost of fuel rose by 30.5 per cent, with the average sterling price per gallon up almost 27 per cent. Aircraft lease costs rose by 44.4 per cent reflecting the increased number of aircraft on operating lease arrangements.

Partially offsetting these high increases were benefits from a reduction in pension contributions arising from the actuarial valuation of the Company's principal pension schemes at 31 March 1989 and reduced rates of depreciation following a reassessment of aircraft in-service lives, both of which will be on-going.

Staff costs, excluding the benefit of reduced pension contribution rates, grew by 16.8 per cent, with average staff numbers up 3.2 per cent. Other expenditure grew more slowly than airline revenue.

Airline operating surplus amounted to £402 million compared with £340 million in 1988-89, an increase of 18.2 per cent.

REPORT OF THE AUDITORS TO THE MEMBERS OF BRITISH AIRWAYS plc

We have audited the accounts on pages 32 to 52 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 31 March 1990 and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
London

21 May 1990

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1990

| £ million | Note | 1990 | Group
1989 |
|---|--------|---------|---------------|
| Turnover | 2 | 4,838 | 4,257 |
| Cost of sales | 3a | (4,339) | (3,816) |
| Gross profit | | 499 | 441 |
| Administrative expenses | 3a | (115) | (105) |
| OPERATING SURPLUS | 2 & 3b | 384 | 336 |
| Other income and charges | 4 | 49 | 18 |
| PROFIT BEFORE INTEREST PAYABLE AND TAXATION | | 433 | 354 |
| Interest payable and similar charges | 5 | (88) | (86) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 2 | 345 | 268 |
| Taxation | 6 | (100) | (93) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 245 | 175 |
| Minority interests | | 1 | |
| PROFIT ATTRIBUTABLE TO SHAREHOLDERS | | 246 | 175 |
| Dividends paid and proposed | 7 | (64) | (56) |
| RETAINED PROFIT FOR THE YEAR | 18 | 182 | 119 |
| Earnings per share | 8 | | |
| - Basic | | 34.1p | 24.3p |
| - Fully diluted | | 31.2p | 23.3p |
| Dividends per share | 7 | 8.85p | 7.75p |

Movements in Reserves are shown in note 18 on page 49.

BALANCE SHEETS

At 31 March 1990

| £ million | Note | Group
1990 | Group
1989 | Company
1990 | Company
1989 |
|---|------|---------------|---------------|-----------------|-----------------|
| FIXED ASSETS | | | | | |
| Tangible assets | | | | | |
| Fleet | | 1,917 | 2,012 | 1,871 | 1,986 |
| Property | | 339 | 71 | 294 | 236 |
| Equipment | | 208 | 184 | 192 | 174 |
| | 9 | 2,464 | 2,467 | 2,357 | 2,396 |
| Investments | 10 | 108 | 111 | 206 | 200 |
| CURRENT ASSETS | | | | | |
| Stocks | 11 | 40 | 32 | 26 | 25 |
| Debtors | 12 | 923 | 796 | 888 | 752 |
| Short-term loans and deposits | | 300 | 64 | 260 | 47 |
| Cash at bank | | 32 | 24 | 28 | 21 |
| | | 1,295 | 916 | 1,202 | 845 |
| CREDITORS: amounts falling due within one year | 13 | (1,816) | (1,748) | (1,796) | (1,741) |
| NET CURRENT LIABILITIES | | (521) | (832) | (594) | (896) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,051 | 1,746 | 1,969 | 1,700 |
| CREDITORS: amounts falling due after more than one year | 14 | (755) | (896) | (1,047) | (886) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 16 | (64) | (100) | (59) | (98) |
| | | 1,232 | 750 | 863 | 716 |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 17 | 180 | 180 | 180 | 180 |
| Reserves | 18 | | | | |
| Revaluation | | 121 | 167 | 113 | 167 |
| Other | | (18) | (9) | | |
| Profit and loss account | | 629 | 411 | 570 | 369 |
| | | 912 | 749 | 863 | 716 |
| Convertible Capital Bonds 2005 | 19 | 320 | | | |
| Minority interests | | | 1 | | |
| | | 1,232 | 750 | 863 | 716 |

Lord King of Wartnaby Chairman

Sir Colin Marshall Deputy Chairman and Chief Executive

Derek Stevens Chief Financial Officer

21 May 1990

King
Colin Marshall
Derek Stevens

GROUP SOURCE AND APPLICATION OF FUNDS
For the year ended 31 March 1990

| £ million | | 1990 | Group
1989 |
|---|---------|-------|---------------|
| Group profit on ordinary activities before taxation | Notes | | |
| Items not involving the movement of funds | | 345 | 268 |
| Depreciation | | | |
| Other | | | |
| Disposals of fixed assets | 3b & 9a | 292 | 307 |
| | | 22 | (7) |
| FUNDS GENERATED | 9a & 10 | 112 | 22 |
| | | 771 | 590 |
| Tax paid | | | |
| Dividends paid | | 94 | 78 |
| Capital expenditure | | 58 | 52 |
| Tangible fixed assets | | | |
| Refund of progress payments | | | |
| Investments | 9a | 688 | 662 |
| Purchase of shares in subsidiaries | 9a | (268) | (43) |
| Movement in working capital | 10 | 18 | 79 |
| Debtors and stocks | | 1 | 1 |
| Creditors and provisions | | | |
| FUNDS UTILISED | | 135 | 94 |
| | | (222) | 6 |
| | | 504 | 929 |
| Loans and finance leases – net amount repaid/(raised) | | | |
| Increase/(decrease) in cash and short-term deposits | 15 | 343 | (260) |
| Convertible Capital Bonds issued | | 244 | (79) |
| NET FUNDS REPAYD/(PROVIDED) | 19 | (320) | |
| | | 267 | (339) |

NOTES TO THE ACCOUNTS

For the year ended 31 March 1990

I ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention modified by the inclusion of certain assets at valuation as stated below.

BASIS OF CONSOLIDATION

The Group accounts include the accounts of the Company and its trading subsidiaries, each made up to 31 March, together with the attributable share of results and reserves of related companies. The results of those companies acquired or disposed of during the year are included for the periods of ownership.

Goodwill arising on consolidation of subsidiaries and in respect of related companies is written off to reserves on acquisition.

In accordance with Section 228(7) Companies Act 1985 a separate profit and loss account dealing with the results of the Company only has not been presented.

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/Valuation* Apart from the Concorde fleet, which remains at nil book value, the majority of the owned aircraft fleets were professionally valued on a market value basis at 31 March 1988 and are included in the accounts on the basis of that valuation, with subsequent expenditure at cost, less depreciation.

The cost of aircraft which have been financed in part by loans and finance leases in foreign currency is adjusted at each year end to take account of the sterling cost of related repayments during the year and the translation of outstanding liabilities on such foreign currency borrowings at the year end rate of exchange, or the appropriate forward rate where liabilities have been covered forward.

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 those aircraft which become subject to extended operating lease arrangements is carried forward and written off over the initial lease period.

iii) *Depreciation* Fleet assets owned, or held on finance leases, 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 31 March 1984 and are included in these accounts on the basis of that valuation, with subsequent expenditure at cost, less depreciation.

Specialised use properties are included at cost, less depreciation.

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 ASSETS

Where assets are financed through finance leases under which substantially all the risks and rewards of ownership are transferred to the lessee, 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 of payments made during the lease term and the corresponding obligation, reduced by the appropriate proportion of lease 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 payments made is included in interest and similar charges in the profit and loss account. Annual payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account as they arise.

RELATED COMPANIES

Companies in which the Group has an equity interest of 20 per cent or more, but not exceeding 50 per cent, are classified as related companies. The Group's share of the profits less losses of related companies is included in the consolidated profit and loss account and its share of the post-acquisition results of these companies is included in interests in related companies 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.

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 March 1990

1 ACCOUNTING POLICIES (continued)

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.

RETIREMENT BENEFITS

Retirement benefits are payable through separately funded UK 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.

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.

FOREIGN CURRENCY BALANCES

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 and finance leases used for the acquisition of aircraft and investments are reflected in the cost of those assets. Exchange differences arising from the re-translation of other investments in overseas companies are recorded as movements on reserves. All other profits or losses arising on translation are dealt with through the profit and loss account. The sterling/US dollar exchange rate at 31 March 1990 was £1=\$1.65 (31 March 1989: £1=\$1.69).

2 ANALYSIS OF GROUP TURNOVER, OPERATING SURPLUS AND PROFIT BEFORE TAXATION

a Turnover, operating surplus and profit before taxation attributable to the different classes of the Group's business is

| £ million | Turnover | | Operating surplus/deficit | | Profit (loss) before taxation | |
|---|----------|-------|---------------------------|------|-------------------------------|------|
| | 1990 | 1989 | 1990 | 1989 | 1990 | 1989 |
| Airline operations | 4,715 | 4,132 | 402 | 340 | 377 | 282 |
| Package holidays | 98 | 102 | (8) | (3) | (12) | (10) |
| Other | 25 | 23 | (10) | (1) | (20) | (4) |
| | 4,838 | 4,257 | 384 | 336 | 345 | 268 |
| Turnover for airline operations comprises: | | | | | | |
| Traffic revenue | | | | | | |
| Scheduled services | | | | | | |
| Passenger | 3,925 | 3,429 | | | | |
| Excess baggage | 16 | 16 | | | | |
| Freight and mail | 389 | 343 | | | | |
| Non-scheduled services | 4,330 | 3,788 | | | | |
| | 101 | 111 | | | | |
| Aircraft maintenance and other airline services | 4,431 | 3,899 | | | | |
| | 284 | 233 | | | | |
| | 4,715 | 4,132 | | | | |

Airline operations comprise British Airways Plc and those subsidiary and related companies listed on page 52 as being involved in airline activities.

The analysis of turnover, operating surplus/(deficit) and profit/(loss) before taxation is stated after adjusting for intra-group trading transactions. The intra-group flight element of package holidays in traffic revenue was £65 million (1989: £70 million).

| £ million | Group | | Airline | |
|---|-------|-------|---------|-------|
| | 1990 | 1989 | 1990 | 1989 |
| b Turnover attributable to the Group's and Airline's geographical markets is: | | | | |
| UK | | | | |
| Continental Europe | 539 | 453 | 476 | 431 |
| Europe | 1,286 | 1,169 | 1,275 | 1,147 |
| The Americas | 1,825 | 1,622 | 1,751 | 1,578 |
| Africa | 1,619 | 1,374 | 1,594 | 1,320 |
| Middle East, Far East and Australasia | 356 | 323 | 351 | 315 |
| | 1,038 | 938 | 1,019 | 919 |
| | 4,838 | 4,257 | 4,715 | 4,132 |

Turnover of the United Kingdom market comprises airline traffic revenue from domestic flights within the United Kingdom and revenue from other airline services provided to United Kingdom customers. Turnover of overseas markets comprises (i) airline traffic revenue from inbound and outbound flights between the United Kingdom and overseas points, attributed to the area in which the relevant overseas point lies; (ii) revenue from sales of package holidays, attributed to the area in which the holiday is taken; and (iii) revenue from other airline services, attributed to the area in which the customer resides.

| £ million | Group | | Airline | |
|--|-------|------|---------|------|
| | 1990 | 1989 | 1990 | 1989 |
| c Operating surplus attributable to the Group's and Airline's geographical markets is: | | | | |
| Europe | | | | |
| The Americas | 3 | 16 | 17 | 22 |
| Africa | 249 | 181 | 252 | 182 |
| Middle East, Far East and Australasia | 52 | 49 | 52 | 49 |
| | 80 | 90 | 81 | 87 |
| | 384 | 336 | 402 | 340 |

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

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 March 1990

3 OPERATING SURPLUS

| | Group | |
|---|--------------|--------------|
| £ million | 1990 | 1989 |
| a ANALYSIS OF OPERATING EXPENDITURE | | |
| Cost of sales | 4,339 | 3,816 |
| Administrative expenses | 115 | 105 |
| Total operating expenditure | 4,454 | 3,921 |
| Airline | | |
| Staff costs | 1,097 | 976 |
| Depreciation | 288 | 305 |
| Aircraft operating lease costs | 379 | 124 |
| Fuel and oil costs | 544 | 417 |
| Engineering and other aircraft costs | 266 | 244 |
| Landing fees and en route charges | 330 | 294 |
| Handling charges, catering and other operating cost | 476 | 427 |
| Selling costs | 577 | 498 |
| Accommodation, ground equipment and other costs | 556 | 507 |
| Total airline | 4,313 | 3,792 |
| Non-airline | 141 | 129 |
| Total operating expenditure | 4,454 | 3,921 |

b THE RESULTS ARE ARRIVED AT AFTER CHARGING:

| | | |
|---|------------|------------|
| Depreciation of Group tangible fixed assets | | |
| Owned assets | 245 | 246 |
| Finance leased aircraft | 30 | 46 |
| Other leasehold interests | 17 | 15 |
| | 292 | 307 |

Consequent upon the annual review of aircraft depreciation lives, the depreciation charge for the year has been reduced by £30 million for both the Company and the Group.

| | | |
|---|------------|------------|
| Operating lease costs | | |
| Lease rentals - aircraft | 179 | 124 |
| - property and equipment | 54 | 44 |
| Hire of equipment and charter of aircraft and crews | 17 | 18 |
| | 250 | 186 |

| | | |
|-------------------------------|------------------|------------------|
| Auditors' remuneration | £ 950,000 | £ 855,000 |
| Directors' emoluments | | |
| - fees | 104,476 | 120,000 |
| - other | 1,884,613 | 1,653,810 |
| | 1,989,089 | 1,773,810 |

c DIRECTORS' EMOLUMENTS (excluding Company's pension contributions)

| | Group and Company | |
|--|-------------------|---------|
| | £ | £ |
| Chairman and highest paid Director | 515,818 | 431,609 |
| The other Directors' remuneration was within these ranges: | Number | Number |
| £5,001 - £10,000 | 1 | 1 |
| £10,001 - £15,000 | 1 | 5 |
| £15,001 - £20,000 | 1 | |
| £25,001 - £30,000 | 1 | |
| £35,001 - £40,000 | | 2 |
| £45,001 - £50,000 | 1 | |
| £55,001 - £60,000 | | |
| £65,001 - £70,000 | 1 | 1 |
| £75,001 - £80,000 | | |
| £85,001 - £90,000 | 1 | 1 |
| £95,001 - £100,000 | | |
| £105,001 - £110,000 | 1 | 1 |
| £115,001 - £120,000 | | |
| £125,001 - £130,000 | 1 | 1 |
| £135,001 - £140,000 | | |
| £145,001 - £150,000 | 1 | 1 |

The emoluments shown above include performance related bonuses of £336,720 (1989: £294,377). These bonuses and related pension contributions are now included on an accrual basis and therefore relate to the profit levels in the current and previous year. In the 1989 accounts these bonuses were included on a paid basis and totalled £268,750; to aid comparison the Directors' emoluments for 1989 and those of higher paid employees (see note 3d on page 39) have been restated on the current basis.

A Director has waived fees of £5,000 for the year.

3 OPERATING SURPLUS (continued)
d EMPLOYEES

| | Group number | |
|--|--------------|-------|
| | 1990 | 1989 |
| Employees of the Group in the United Kingdom, other than Directors, who earned over £30,000 in the year: | | |
| £30,001 - £35,000 | 803 | 371 |
| £35,001 - £40,000 | 365 | 583 |
| £40,001 - £45,000 | 364 | 450 |
| £45,001 - £50,000 | 421 | 350 |
| £50,001 - £55,000 | 319 | 313 |
| £55,001 - £60,000 | 262 | 289 |
| £60,001 - £65,000 | 348 | 589 |
| £65,001 - £70,000 | 240 | 147 |
| £70,001 - £75,000 | 171 | 107 |
| £75,001 - £80,000 | 140 | 45 |
| £80,001 - £85,000 | 137 | 11 |
| £85,001 - £90,000 | 81 | 12 |
| £90,001 - £95,000 | 39 | 3 |
| £95,001 - £100,000 | 21 | |
| £100,001 - £105,000 | 10 | 1 |
| £105,001 - £110,000 | 1 | 1 |
| £110,001 - £115,000 | 1 | 1 |
| £115,001 - £120,000 | 2 | 1 |
| £120,001 - £125,000 | 1 | |
| £125,001 - £130,000 | | 2 |
| £135,001 - £140,000 | 1 | |
| £140,001 - £145,000 | | 1 |
| £145,001 - £150,000 | 1 | |
| £155,001 - £160,000 | | 1 |
| £160,001 - £165,000 | 1 | |
| £175,001 - £180,000 | | 1 |
| £190,001 - £195,000 | 1 | |
| £195,001 - £200,000 | 1 | |
| £220,001 - £225,000 | 1 | |
| | 3,735 | 2,879 |

e STAFF NUMBERS AND COSTS

| | Group number | | | |
|---|--------------|----------|---------------|---------------|
| | UK | Overseas | 1990
Total | 1989
Total |
| The average number of persons employed in the Group worldwide during the year was as follows: | | | | |
| Airline operations | 43,552 | 6,768 | 50,320 | 48,760 |
| Package holidays | 461 | 21 | 485 | 475 |
| Other | 1,211 | 38 | 1,249 | 969 |
| | 45,224 | 6,830 | 52,054 | 50,204 |

£ million

The aggregate payroll costs of these persons were as follows:

| | | |
|---|-------|-------|
| Wages and salaries, including staff bonus | 997 | 876 |
| Social security costs | 88 | 76 |
| Contributions to pension schemes | 41 | 83 |
| | 1,126 | 1,035 |

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 March 1990

4 OTHER INCOME AND CHARGES

| £ million | £ million | |
|---|-----------|------|
| | 1990 | 1989 |
| Interest receivable | 31 | 16 |
| Surplus less provisions for losses relating to disposal of fixed assets | 49 | 12 |
| Share of results of related companies | (17) | (13) |
| Income from trade investments | 4 | 2 |
| Amount written off investments | (8) | 1 |
| Costs associated with the Convertible Capital Bonds rights issue | (10) | |
| | 49 | 18 |

5 INTEREST PAYABLE AND SIMILAR CHARGES

| | | |
|---|------|------|
| Interest payable: | | |
| On bank loans | | |
| Repayable wholly within five years | 8 | 12 |
| Repayable in whole or in part after five years | 1 | 3 |
| On finance leases | | |
| Repayable wholly within five years | 8 | 2 |
| Repayable in whole or in part after five years | 16 | 18 |
| On other loans | | |
| Repayable wholly within five years | 8 | 1 |
| Repayable in whole or in part after five years | 70 | 61 |
| Interest capitalised | (25) | (26) |
| | 86 | 71 |
| Currency losses on revaluation of general purpose loans at year end | 2 | 15 |
| | 88 | 86 |

The average rate of interest on loans, excluding finance leases, was 10.4 per cent (1989: 10.3 per cent). In respect of all loans, including lease finance, repayable in whole or in part after five years, the final repayment date is June 2008 and the interest rates range from 9.2 per cent to 15.4 per cent (1989: 9.5 per cent to 14.4 per cent).

Changes in the sterling value of foreign currency loans and finance leases used specifically for the acquisition of aircraft and fixed asset investments have been included in the cost of those assets. This gives rise to no increase or decrease (1989: an increase of £2 million) in the cost of aircraft (see notes 9(a) and 9(b)) and an increase of £2 million (1989: £1 million) in the cost of such investments (see note 10).

6 TAXATION: See also note 20)

| £ million | Group | |
|--------------------------------|-------|------|
| | 1990 | 1989 |
| United Kingdom | | |
| Corporation tax at 35 per cent | 101 | 89 |
| Deferred taxation | (5) | 6 |
| Prior year adjustment | (1) | (3) |
| | 95 | 92 |
| Overseas | 5 | 1 |
| | 100 | 93 |

If full provision for deferred taxation had been made at 35 per cent there would have been an additional charge in the year of £53 million (1989: £26 million) mainly due to the excess of capital allowances over depreciation.

7 DIVIDENDS

| | Group and Company | |
|---|-------------------|------------|
| | 1990
£ | 1989
£ |
| Interim dividend of 2.85p per share (1989: 2.50p per share) | 20,174,254 | 18,011,348 |
| Final dividend of 6.05p per share (1989: 5.25p per share) | 43,599,137 | 37,824,225 |
| | 63,773,391 | 55,835,573 |

8 EARNINGS PER SHARE

| | Group | |
|---|-------------|-------------|
| | 1990 | 1989 |
| Earnings per share is calculated as follows: | | |
| Profit after taxation, attributable to shareholders | £246m | £175m |
| Weighted average number of ordinary shares in issue | 720,526,000 | 720,454,000 |
| Basic earnings per share | 34.1p | 24.3p |
| Fully diluted earnings per share | 31.2p | 23.3p |

Diluted earnings per share is calculated on a weighted average of 837,148,000 ordinary shares (1989: 771,097,000) after allowing for the conversion rights attaching to the Convertible Capital Bonds and outstanding share options, and a corresponding adjustment to income for reduced interest payable on the Convertible Capital Bonds and interest receivable on the subscription cash for shares.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 March 1990

9 TANGIBLE ASSETS

| £ million | Note | Fleet | Property | Equipment | 1990 | Total
1989 |
|---|------|--------------|------------|------------|--------------|---------------|
| GROUP | | | | | | |
| COST OR VALUATION | | | | | | |
| Balance 1 April | 9e | 3,413 | 401 | 399 | 4,213 | 3,679 |
| Adjustments to opening balance | | | | | | |
| - exchange | 5 | | | | | 2 |
| - other | | | (1) | (1) | (2) | 7 |
| Additions | | 514 | 87 | 87 | 688 | 662 |
| Disposals | | (198) | (5) | (24) | (227) | (94) |
| Reclassification of capitalised interest | | (23) | | | (23) | |
| Refund of progress payments | | (268) | | | (268) | (43) |
| BALANCE 31 MARCH | | 3,438 | 482 | 461 | 4,381 | 4,213 |
| DEPRECIATION | | | | | | |
| Balance 1 April | | 1,401 | 130 | 215 | 1,746 | 1,514 |
| Adjustments to opening balance | | | | | | |
| - exchange | 18 | | | | | 1 |
| - other | | | (1) | 1 | | 5 |
| Charge for the year | | 218 | 17 | 57 | 292 | 307 |
| Disposals | | (96) | (3) | (20) | (119) | (81) |
| Reclassification of capitalised interest | | (2) | | | (2) | |
| BALANCE 31 MARCH | | 1,521 | 143 | 253 | 1,917 | 1,746 |
| NET BOOK AMOUNTS | | | | | | |
| 31 March 1990 | | 1,917 | 339 | 208 | 2,464 | |
| 31 March 1989 | | 2,012 | 271 | 184 | | 2,467 |
| UTILISATION AT 31 MARCH | | | | | | |
| Assets in current use | | | | | | |
| Owned | | 1,474 | 280 | 167 | 1,921 | 1,758 |
| Finance leased | | 131 | | 8 | 139 | 202 |
| Progress payments | | 312 | 59 | 33 | 404 | 507 |
| | | 1,917 | 339 | 208 | 2,464 | 2,467 |
| THE NET BOOK AMOUNT OF PROPERTY COMPRISES: | | | | | | |
| Freehold | | | | | 98 | 64 |
| Long leasehold | | | | | 20 | 14 |
| Short leasehold | | | | | 221 | 193 |
| | | | | | 339 | 271 |

| £ million | Valuation/cost | Depreciation | Net book amount | |
|---|----------------|--------------|-----------------|------------|
| | | | 1990 | 1989 |
| Revalued fleet and properties are included in the accounts at the following amounts: | | | | |
| Valued in 1984 - property | 67 | 24 | 63 | 27 |
| Valued in 1988 - fleet | 1,129 | 715 | 414 | 528 |
| Total - 31 March 1990 | 1,216 | 739 | 477 | |
| Total - 31 March 1989 | 1,276 | 721 | | 555 |
| If these assets had not been revalued they would have been included at the following amounts: | | | | |
| 31 March 1990 | 1,006 | 706 | 300 | |
| 31 March 1989 | 1,052 | 734 | | 318 |

9 TANGIBLE ASSETS (continued)

| £ million | Note | Fleet | Property | Equipment | 1990 | 1989 |
|---|------|--------------|------------|------------|--------------|--------------|
| b COMPANY | | | | | | |
| COST OR VALUATION | | | | | | |
| Balance 1 April | 9c | 3,348 | 358 | 377 | 4,083 | 3,203 |
| Adjustments to opening balance | | | | | | |
| - exchange | 5 | | | | | 2 |
| - other | | (16) | (1) | (1) | (18) | 7 |
| Additions | | 509 | 71 | 75 | 655 | 629 |
| Disposals | | (191) | (5) | (22) | (218) | (80) |
| Transfers (to)/from Group companies | 9d | (54) | 3 | | (51) | 174 |
| Reclassification of capitalised interest | | (23) | | | (23) | |
| Refund of progress payments | | (268) | | | (268) | (43) |
| BALANCE 31 MARCH | | 3,305 | 426 | 429 | 4,160 | 4,083 |
| DEPRECIATION | | | | | | |
| Balance 1 April | | 1,362 | 122 | 203 | 1,687 | 1,430 |
| Adjustments to opening balance | | | | | | |
| - exchange | 18 | | | | | 1 |
| - other | | (14) | (1) | | (15) | 6 |
| Charge for the year | | 214 | 14 | 53 | 281 | 297 |
| Disposals | | (90) | (3) | (19) | (112) | (75) |
| Transfers (to)/from Group companies | 9d | (36) | | | (36) | 28 |
| Reclassification of capitalised interest | | (2) | | | (2) | |
| BALANCE 31 MARCH | | 1,434 | 132 | 237 | 1,803 | 1,687 |
| NET BOOK AMOUNTS | | | | | | |
| 31 March 1990 | | 1,871 | 294 | 192 | 2,357 | |
| 31 March 1989 | | 1,986 | 236 | 174 | | 2,396 |
| UTILISATION AT 31 MARCH | | | | | | |
| Assets in current use | | | | | | |
| Owned | | 1,428 | 241 | 155 | 1,824 | 1,695 |
| Finance leased | | 131 | | 5 | 136 | 202 |
| Progress payments | | 312 | 53 | 32 | 397 | 499 |
| | | 1,871 | 294 | 192 | 2,357 | 2,396 |
| THE NET BOOK AMOUNT OF PROPERTY COMPRISES: | | | | | | |
| Freehold | | | | | 71 | 43 |
| Long leasehold | | | | | 20 | 14 |
| Short leasehold | | | | | 203 | 179 |
| | | | | | 294 | 236 |

| £ million | Valuation/cost | Depreciation | Net book amount | |
|---|----------------|--------------|-----------------|------|
| | | | 1990 | 1989 |
| Revalued fleet and properties are included in the accounts at the following amounts: | | | | |
| Valued in 1984 - property | 82 | 22 | 60 | 24 |
| Valued in 1988 - fleet | 1,078 | 680 | 398 | 528 |
| Total - 31 March 1990 | 1,160 | 702 | 458 | |
| Total - 31 March 1989 | 1,271 | 719 | | 552 |
| If these assets had not been revalued they would have been included at the following amounts: | | | | |
| 31 March 1990 | 964 | 676 | 288 | |
| 31 March 1989 | 1,047 | 732 | | 315 |

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 March 1990

9. TANGIBLE ASSETS (continued)

c. COST/VALUATION

Owned fleets of British Airways Boeing 737s, Boeing 747-136s, Boeing 747-236s (other than the newest aircraft), TriStars and BAC 1-11s were restated at 31 March 1988 having regard to a market valuation by Avmark International Ltd. The resultant increase in value was credited to reserves.

All British Airways properties, other than specialised use properties, were valued at open market value for existing use or open market value at 31 March 1984 by Richard Ellis, Chartered Surveyors, and this value was included in the accounts for the year then ended. All other British Airways aircraft fleets, specialised use properties, and equipment are stated at cost less depreciation.

d. TRANSFERS TO/FROM GROUP COMPANIES

Transfers of cost and accumulated depreciation from British Airways to Group companies relate mainly to fleet assets transferred to Caledonian Airways Ltd.

e. DEPRECIATION

Fleets are generally depreciated over periods ranging from 12 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 3 to 20 years, according to the type of equipment.

f. CAPITAL EXPENDITURE COMMITMENTS

| £ million | Group | | Company | |
|---|-------|-------|---------|-------|
| | 1990 | 1989 | 1990 | 1989 |
| Capital expenditure authorised but not provided for in the accounts amounts to: | | | | |
| Authorised and contracted | 1,889 | 2,392 | 1,884 | 2,373 |
| Authorised but not contracted | 408 | 416 | 406 | 409 |
| | 2,297 | 2,808 | 2,290 | 2,782 |

£1,240 million of the outstanding commitments relates to the acquisition of the fleets of Boeing 747-400 and Boeing 767-300 aircraft. British Airways has arrangements through facilities provided by two syndicates of banks for it to acquire these aircraft on a number of alternative bases. The balance of commitments relates mainly to the acquisition of Boeing 737, Boeing 757 and Airbus A320 aircraft which are scheduled for delivery during the three year period to 31 March 1993.

9 TANGIBLE ASSETS (continued)
8 LEASING COMMITMENTS

| £ million | Group | | Company | |
|--|-------|------|---------|------|
| | 1990 | 1989 | 1990 | 1989 |
| 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 | 239 | 153 | 239 | 153 |
| Between one and five years | 551 | 156 | 551 | 156 |
| Over five years, ranging up to the year 1996 | 9 | 37 | 9 | 37 |
| | 799 | 346 | 799 | 346 |
| Amounts payable within one year relate to commitments expiring as follows: | | | | |
| Within one year | 56 | 71 | 56 | 71 |
| Between one and five years | 173 | 54 | 173 | 54 |
| Over five years | 10 | 28 | 10 | 28 |
| | 239 | 153 | 239 | 153 |
| (ii) PROPERTY AND EQUIPMENT | | | | |
| Within one year | 46 | 23 | 40 | 19 |
| Between one and five years | 86 | 67 | 71 | 56 |
| Over five years, ranging up to the year 2075 | 215 | 164 | 182 | 148 |
| | 347 | 254 | 293 | 223 |
| Amounts payable within one year relate to commitments expiring as follows: | | | | |
| Within one year | 12 | 5 | 11 | 4 |
| Between one and five years | 25 | 13 | 23 | 11 |
| Over five years | 9 | 5 | 6 | 4 |
| | 46 | 23 | 40 | 19 |

The fleet leasing commitments include the balance of rental obligations under operating leases in respect of 11 Boeing 747-400, seven Boeing 767-300, five Boeing 747-200, 11 Boeing 757, 26 Boeing 737 and eight 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 renew the leases or convert them into finance leases are not exercised.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 March 1990

10 INVESTMENTS

| | Note | 1990 | 1989 | 1990 | 1989 |
|--|------|------|------|------|------|
| GROUP COMPANIES | | | | | |
| Investments at cost, less amounts written off | | | | | |
| Balance 1 April - net of provision of £19.4 million (1 April 1988: £25.3 million) | | | | | |
| Additions | | | | 163 | 55 |
| Exchange differences | | | | 6 | 87 |
| Transfers from Group companies | | | | 1 | 3 |
| Disposals | | | | | 5 |
| Provision movements | | | | | (1) |
| Balance at 31 March - net of provision of £19.3 million (1989: £19.4 million) | | | | 171 | 163 |
| RELATED COMPANIES AND TRADE INVESTMENTS | | | | | |
| Balance 1 April - net of provision of £3 million (1 April 1988: £3 million) | | | | | |
| Additions | | 111 | 40 | 37 | 27 |
| Exchange differences | | 18 | 79 | 17 | 13 |
| Share of attributable results | 5 | 2 | 1 | 2 | |
| Transfers from Group companies | | (9) | | | |
| Disposals | | | | | 4 |
| Provisions | | (4) | (9) | (1) | |
| Balance at 31 March - net of provision of £1.3 million (1989: £3 million) | | (10) | | (20) | (7) |
| Analysis of balance at 31 March | | | | | |
| Equity at cost less amounts written off | | 120 | 119 | 33 | 36 |
| Advances at cost less amounts written off | | 7 | 2 | 2 | 1 |
| Attributable reserves | | (19) | (10) | | |
| | | 108 | 111 | 35 | 37 |
| TOTAL INVESTMENTS | | | | | |
| Unlisted | | | | | |
| Group companies | | | | | |
| Related companies | | | | 171 | 163 |
| Trade investments | | 13 | 16 | 9 | 11 |
| Listed - UK | | 80 | 74 | 11 | 5 |
| Trade investments | | 15 | 21 | 15 | 21 |
| | | 108 | 111 | 206 | 200 |
| VALUATION | | | | | |
| Aggregate value attributed by the Directors to unlisted related companies and trade investments | | 94 | 96 | | |
| Market value of listed investments | | 10 | 9 | | |
| 11 STOCKS | | | | | |
| Raw materials, consumables and work in progress | | 40 | 32 | 26 | 25 |
| The replacement cost of stocks is not considered to be materially different from their balance sheet values. | | | | | |
| 12 DEBTORS | | | | | |
| Trade debtors | | | | | |
| Amounts owed by Group companies | | 754 | 660 | 730 | 633 |
| Amounts owed by related companies | | | | 14 | 14 |
| Other debtors | | 8 | 12 | 7 | 10 |
| Prepayments and accrued income | | 30 | 30 | 27 | 25 |
| | | 131 | 94 | 110 | 70 |
| | | 923 | 796 | 888 | 752 |

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| £ million | Note | Group | | Company | |
|--|------|-------|-------|---------|-------|
| | | 1990 | 1989 | 1990 | 1989 |
| Loans and finance leases | 15 | | | | |
| Bank and other loans | | 36 | 210 | 34 | 210 |
| Finance leases | | 22 | 28 | 20 | 28 |
| | | 58 | 238 | 54 | 238 |
| Overdrafts - unsecured | | 1 | 2 | | |
| Trade creditors | | 686 | 601 | 626 | 555 |
| Amounts owed to Group companies | | | | 77 | 89 |
| Amounts owed to Related companies | | 1 | 3 | 1 | 2 |
| Other creditors including taxation and social security | | | | | |
| Other creditors | | 117 | 56 | 120 | 48 |
| Corporate taxation | | 114 | 88 | 108 | 80 |
| Other taxation and social security | | 25 | 22 | 24 | 21 |
| | | 256 | 166 | 252 | 149 |
| Proposed dividend | | 44 | 38 | 44 | 38 |
| Accruals and deferred income | | | | | |
| Sales in advance of carriage | | 626 | 557 | 600 | 529 |
| Accruals and deferred income | | 144 | 143 | 142 | 141 |
| | | 770 | 700 | 742 | 670 |
| | | 1,816 | 1,748 | 1,796 | 1,741 |

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | | | | | |
|-----------------------------------|----|-----|-----|-------|-----|
| Loans and finance leases | 15 | | | | |
| Bank and other loans | | 575 | 649 | 416 | 492 |
| Finance leases | | 132 | 221 | 131 | 221 |
| Loans from Group companies | | | | 462 | 148 |
| | | 707 | 870 | 1,009 | 861 |
| Trade creditors | | 10 | | | |
| Amounts owed to Related companies | | | 1 | | |
| Accruals and deferred income | | 38 | 25 | 38 | 25 |
| | | 755 | 896 | 1,047 | 886 |

15 LOANS AND FINANCE LEASES

a TOTAL LOANS AND FINANCE LEASES

| | | | | | |
|--|--|----------------|-----------------|-----------------|----------------|
| Loans | | | | | |
| Bank | | 29 | 235 | 20 | 226 |
| Euro-sterling notes | | 300 | 300 | 300 | 300 |
| Other - US dollar | | | | | |
| - Sterling | | \$25m
£130m | \$265m
£167m | \$130m
£130m | \$15m
£167m |
| | | 282 | 324 | 130 | 176 |
| Loans from Group companies - US dollar | | | | \$250m | \$250m |
| - Sterling | | | | £310m | |
| | | | | 462 | 148 |
| Finance leases - US dollar | | \$9m | \$15m | \$9m | \$15m |
| - Sterling | | £149m | £240m | £146m | £240m |
| | | 154 | 249 | 151 | 249 |
| | | 765 | 1,108 | 1,063 | 1,099 |

Included in the other sterling loans are loan notes amounting to £19 million (1989: £36 million) issued in connection with the acquisition of BCal. These loan notes will be repaid at par on 29 March 1998, unless previously repaid or redeemed under the terms of the issue.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 March 1990

15 LOANS AND FINANCE LEASES (continued)

| £ million | Group | | Company | |
|--|-------|-------|---------|-------|
| | 1990 | 1989 | 1990 | 1989 |
| Comprising: | | | | |
| Bank loans | | | | |
| Repayable wholly within five years | 2 | 208 | | 208 |
| Repayable in whole or in part after five years | 27 | 27 | 20 | 20 |
| | 29 | 235 | 20 | 226 |
| Other loans and finance leases | | | | |
| Repayable wholly within five years | 48 | 28 | 45 | 28 |
| Repayable in whole or in part after five years | 688 | 845 | 998 | 845 |
| | 736 | 873 | 1,043 | 873 |
| | 765 | 1,108 | 1,063 | 1,099 |

Bank and other loans are repayable up to the year 2008.

b INCIDENCE OF REPAYMENTS

| £ million | Bank loans | Other loans | Finance leases | Group total | |
|------------------------------------|------------|-------------|----------------|-------------|-------|
| | | | | 1990 | 1989 |
| INSTALMENTS FALLING DUE: | | | | | |
| Within one year (note 13) | 2 | 34 | 22 | 58 | 238 |
| After more than one year (note 14) | | | | | |
| Between one and two years | 1 | 2 | 18 | 21 | 36 |
| Between two and five years | 2 | 8 | 60 | 70 | 105 |
| In five years or more | 24 | 538 | 54 | 616 | 729 |
| | 27 | 548 | 132 | 707 | 870 |
| Total 1990 | 29 | 582 | 154 | 765 | |
| Total 1989 | 235 | 624 | 249 | | 1,108 |
| Analysis of total 1990: | | | | | |
| British Airways Plc | 20 | 430 | 151 | 601 | 951 |
| Subsidiary companies | 9 | 152 | 3 | 164 | 157 |
| | 29 | 582 | 154 | 765 | 1,108 |

16 PROVISIONS FOR LIABILITIES AND CHARGES

| £ million | Balance 1 April | Transfers from profit and loss account | Other movements | Provisions applied | Balance 31 March |
|---|-----------------|--|-----------------|--------------------|------------------|
| GROUP | | | | | |
| Pensions and similar obligations | 22 | 5 | (1) | (2) | 24 |
| Deferred taxation (note 20) | 7 | (5) | (2) | | |
| Other provisions | | | | | |
| Litigation provision (see note 24) | 25 | | | | 25 |
| Re-organisation expenses (BCal acquisition - see below) | 30 | 3 | (1) | (32) | 15 |
| Sundry | 16 | (5) | 4 | | |
| | 71 | (2) | 3 | (32) | 40 |
| Total 1990 | 100 | (2) | | (34) | 64 |
| Total 1989 | 150 | 6 | 12 | (68) | 100 |
| Analysis of total 1990: | | | | | |
| British Airways Plc | 98 | (2) | (3) | (34) | 59 |
| Subsidiary companies | 2 | | 3 | | 5 |
| | 100 | (2) | | (34) | 64 |

The provision applied relating to re-organisation expenses includes costs associated with re-organising BCal's airline operations up to and following the transfer of the business on 14 April 1988 and the merging of the operation on 29 May 1988. The costs include expenditure associated with surplus resources, staff severances, staff training, contract cancellations and the cost of bringing aircraft, property and equipment to British Airways standards.

17 SHARE CAPITAL

| | Company | |
|--|-------------|-------------|
| | 1990 | 1989 |
| Authorized | | |
| 1,068,000,000 ordinary shares of 25p each | £267m | £267m |
| Allotted, called up and fully paid | | |
| Issued share capital | £180m | £180m |
| Ordinary shares of 25p each | 720,646,891 | 720,461,442 |
| Share options | | |
| Number of ordinary shares of 25p each under option | 56,369,020 | 56,161,574 |
| Dates exercisable | 1990-1999 | 1990-1998 |
| Price per share | 135p-225p | 135p-225p |

Options over 24,583 shares at 135p per share, 46,666 shares at 150p per share, 90,227 shares at 161p per share, 164 shares at 202p per share and 23,809 shares at 210p per share were exercised during the year, under the special case provisions of the Employee Share schemes.

Full conversion of the 24 per cent Convertible Capital Bonds 2005 will require the issue of 131,775,863 ordinary shares.

18 RESERVES

| £ million | Distributable
Profit and
loss account | Non-distributable
Revaluation
reserve | Other
reserves | 1990 | 1989 |
|---|---|---|-------------------|------|------|
| GROUP | | | | | |
| Balance 1 April | 411 | 167 | (9) | 569 | 453 |
| Retained profit for the year | 191 | | (9) | 182 | 119 |
| Transfers relating to valued assets | 46 | (46) | | | |
| Exchange adjustments - Fleet assets (note 9a) | | | | | (1) |
| Purchased goodwill written off (see below) | (19) | | | (19) | |
| Other movements | | | | | (2) |
| Balance 31 March | 629 | 121 | (18) | 732 | 569 |

Purchased goodwill written off arises from:

British Airways' share of the intangible assets of Sabena World Airlines,
a related company, at date of acquisition

18

Purchase of further shares in Bedford Associates,
a subsidiary company

1

Goodwill written off to reserves

19

British Airways has agreed to subscribe for a further £26 million of share capital in Sabena World Airlines.

| £ million | Distributable
Profit and
loss account | Non-distributable
Revaluation
reserve | Other
reserves | 1990 | 1989 |
|---|---|---|-------------------|------|------|
| COMPANY | | | | | |
| Balance 1 April | 369 | 167 | | 536 | 470 |
| Retained profit for the year: | | | | | |
| Trading results | 147 | | | 147 | 101 |
| Absorption of BCal liabilities on transfer of the business to British Airways | | | | | (36) |
| Transfers relating to valued assets | 54 | (54) | | | |
| Exchange adjustments - Fleet assets (note 9b) | | | | | (1) |
| Other movements | | | | | 2 |
| Balance 31 March | 570 | 113 | | 683 | 536 |

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 March 1990

19 CONVERTIBLE CAPITAL BONDS 2005

| £ million | Group | |
|-----------|-------|------|
| | 1990 | 1989 |

320

In October 1989 British Airways Plc raised £320 million through the issue of 9 1/4 per cent Convertible Bonds 2005 by a subsidiary, British Airways Capital Limited. The Bonds were offered by way of rights to existing ordinary shareholders of the Company on the basis of four Bonds of £1 each for every nine British Airways Plc shares then held. The terms of the Bonds allow the holders to convert into British Airways Plc ordinary shares during the period 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 the Convertible Capital Bonds have been included in the Group balance sheet under Capital and Reserves.

20 DEFERRED TAXATION (see also notes 6 and 16)

| £ million | Group | | Company | |
|---|-------|------|---------|------|
| | 1990 | 1989 | 1990 | 1989 |
| Deferred taxation comprises: | | | | |
| Timing differences in respect of property valuation | 2 | 2 | 2 | 2 |
| Accelerated capital allowances and other timing differences | 12 | 17 | 12 | 17 |
| Advance Corporation Tax on proposed dividend available for offset | (14) | (12) | (14) | (12) |
| | | 7 | | 7 |
| If full provision for deferred taxation at 35 per cent had been made, the following amounts would have been required at 31 March: | | | | |
| Accelerated capital allowances, less unrelieved losses | 386 | 355 | 383 | 356 |
| Advance Corporation Tax recoverable | (14) | (12) | (14) | (12) |
| Other timing differences | (50) | (67) | (50) | (69) |
| Timing differences in respect of property valuation | 2 | 2 | 2 | 2 |
| | 324 | 278 | 321 | 277 |

21 FORWARD TRANSACTIONS IN FOREIGN CURRENCY

| | Group | |
|---|--------|--------|
| | 1990 | 1989 |
| The Group had the following forward purchase contracts outstanding: | | |
| Maturing within one year | | |
| - to cover payments in US dollars | \$590m | \$724m |
| - to cover payments in other currencies | £1m | £3m |
| Maturing after one year | | |
| - to cover payments in US dollars | | \$165m |

These forward purchase contracts have been entered into to cover future capital commitments.

22 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. Further, no contract of significance subsisted during or at the end of the financial year in which any Director or a person connected with any Director was materially interested, other than a consultancy agreement with Sir Gordon White under which \$20,250 has been paid.

23 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 staff over the age of 18 employed by the Company and certain subsidiaries 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 5 per cent in any one year.

Most staff engaged outside the UK are covered by appropriate local arrangements. Employees' contributions, as a percentage of pensionable pay, range between 5.75 per cent and 8.5 per cent based on full pensionable pay to APS, and between 3.75 per cent and 6.5 per cent based on full pensionable pay less one and a half times the lower earnings limit to NAPS.

The latest actuarial valuations of APS and NAPS were made at 31 March 1989 by an independent firm of qualified actuaries, R. Watson & Sons, using the attained age method and showed that no further employers' contributions were required in respect of APS (1989: 2.1 times the employees' contribution) and an employers' contribution equal to an average of 1.72 times the employees' contribution in respect of NAPS for the period 1 April to 30 November 1989 and an average of 2.49 times the employees' contribution for the period 1 December 1989 to 31 March 1990 (1989: 2.9 times). Enhanced benefits for members of both APS and NAPS were introduced from 1 December 1989.

| £ million | Group | |
|---|-------|------|
| | 1990 | 1989 |
| Employers' contributions charged in the accounts were: | | |
| Airways Pension Scheme | 32 | 37 |
| New Airways Pension Scheme | 9 | 41 |
| Other pension schemes and provident funds - mainly outside the United Kingdom | 41 | 5 |
| UK staff | 41 | 83 |
| Overseas staff | 32 | 78 |
| | 9 | 5 |
| | 41 | 83 |

At the date of the actuarial valuation the market values of the assets of APS and NAPS amounted to £2,618 million and £660 million respectively, representing 122 per cent (APS) and 115 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 is sufficient to cover past service liabilities and some future service liabilities and the employers' 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 to be 5.5 per cent for APS and 4.5 per cent for NAPS.

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

24 CONTINGENCIES

Contingent liabilities exist for which no provision has been made in the accounts covering obligations of the Company and guarantees given by or on behalf of Group companies and related companies. For the Group they amount to £77 million (1989: £110 million) and for the Company £593 million (1989: £281 million); the figure for the Company includes £472 million in respect of capital bonds and borrowings by subsidiary companies at 31 March 1990.

There are a number of identified legal and other claims which emanate from international airline operations, and other activities of the Company and Group companies, for which the Board has made what it believes is appropriate provision. In addition, experience with litigation and regulation in the USA and elsewhere has led the Board to conclude that it is prudent to carry forward the provision of £25 million made in prior years (see note 16).

PRINCIPAL INVESTMENTS

at 31 March 1990

GROUP COMPANIES

Principal subsidiary companies are all wholly-owned subsidiaries whose principal country of operations is the United Kingdom except where indicated.

| | Principal activities | Country of incorporation |
|--|----------------------------------|--------------------------|
| Airline operations | | |
| Caledonian Airways Ltd | Airline operations | England |
| British Airways Engine Overhaul Ltd | Aircraft engine overhaul | England |
| British Airways Australia (Holdings) Pty Ltd | Holding company | Australia |
| Air Miles Travel Promotions Ltd | Airline marketing | England |
| (51 per cent of ordinary shares owned) | | |
| British Airways Capital Ltd | Airline finance | Jersey |
| (89 per cent of founders' shares owned) | | |
| British Airways Finance BV | Airline finance | Netherlands |
| Speedbird Insurance Co Ltd | Airline insurance | Bermuda |
| BritAir Acquisition Corp Inc | Holding company | USA |
| Package holidays | | |
| Alta Holidays Ltd | Package holidays | England |
| (51 per cent of ordinary and preference shares owned) | | |
| British Airways Tour Operations Ltd | Holding company | England |
| British Airways Holidays Ltd | Package holidays | England |
| Overseas Air Travel Ltd | Package holidays | England |
| Other activities | | |
| Travel Automation Services Ltd | Computer reservations systems | England |
| Bedford Associates Inc | Specialist computer software | USA |
| (100 per cent of "A" Shares and 44 per cent of "B" shares owned, equivalent to 94.4 per cent of voting rights; a subsidiary of BritAir Acquisition Corp Inc) | | |
| British Airways Associated Companies Ltd | Management services | England |
| British Airways Enterprises Ltd | Retailing | England |
| Chartridge Centre Ltd | Conference and training services | England |

RELATED COMPANIES

| | Percentage of equity owned | Principal activities | Country of incorporation and principal operations |
|--|----------------------------|-------------------------------|---|
| Sabena World Airlines | 20 | Airline operations | Belgium |
| Concorde International Travel Pty Ltd | 50 | Airline marketing | Australia |
| World Aviation Systems (Australia) Pty Ltd | 50 | Airline marketing | Australia |
| British Caledonian Flight Training Ltd | 50 | Airline training | England |
| Euro-Hub (Birmingham) Ltd | 21 | Airport terminal services | England |
| The AirPlus Company Ltd | 25 | Charge card services | England |
| The Galileo Company Ltd | 24 | Computer reservations systems | England |
| Redwing Holidays Ltd | 50 | Package holidays | England |
| (business disposed of on 9 April 1990) | | | |

TRADE INVESTMENTS

| | Percentage of equity owned | Principal activities | Country of incorporation and principal operations |
|--|----------------------------|-------------------------------|---|
| Covia Partnership | 11 | Computer reservations systems | USA |
| Hogg Robinson plc | 12.4 | Retailing | England |
| The Plimsoll Line Ltd | 40 | Airline holding company | England |
| (equivalent to 14 per cent of voting rights) | | | |
| Ruby Aircraft Leasing and Trading Ltd | 19.3 | Leasing | England |
| Sapphire Aircraft Leasing and Trading Ltd | 19.3 | Leasing | England |

UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) INFORMATION

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

- (i) **Deferred taxation** British Airways provides for deferred taxation on the liability method on all material timing differences to the extent that it is probable that the liabilities will crystallise. Under US GAAP, as set out in Statement of Financial Accounting Standards No. 96 (FAS 96), deferred taxation is generally provided on a full liability basis.
- (ii) **Goodwill** British Airways writes off goodwill arising on consolidation directly against retained earnings. Under US GAAP, goodwill arising on consolidation is amortised over its useful life. For the purposes of determining the differences between UK GAAP and US GAAP, the expected useful life of goodwill has been taken to be forty years.
- (iii) **Property and fleet valuation** Under US GAAP tangible assets must be stated at cost less accumulated depreciation in the financial statements. The valuation of properties and fleet incorporated by British Airways in its financial statements at 31 March 1984 and 31 March 1988 respectively, would not therefore have been included. In financial statements prepared in accordance with US GAAP and subsequent charges for depreciation would have been correspondingly lower. When such assets are sold, however, any revaluation surplus thus realised would be reflected in income.
- (iv) **Purchase accounting** Under US GAAP, as set out in FAS 96, a deferred tax liability is recognised for the tax effects of differences between the assigned fair values and tax bases of assets acquired, whereas under UK GAAP no such liability is recognised. As a result of recognising such a deferred tax liability the amount of goodwill arising on consolidation increases correspondingly. Under US GAAP the deferred tax liability would be amortised over the same period as the assets to which it relates.
- (v) **Forward exchange contracts** Under US GAAP the notional gain or loss arising on the translation of certain outstanding foreign currency forward exchange contracts, at each balance sheet date, at the rates of exchange ruling at that date, would have been included in the determination of net income. When such contracts mature, however, the exchange gain or loss would be reversed in subsequent periods. British Airways and its related companies do not take account of such notional gains and losses.
- (vi) **Foreign currency translation** British Airways adjusts the cost of certain aircraft and fixed asset investments which have been financed wholly or in part by loans and finance leases in foreign currency, to take account of the sterling cost of related repayments during the year and the translation of outstanding liabilities on such foreign currency borrowings at the year end rate of exchange, or the appropriate forward rate where liabilities have been covered forward. In the case of aircraft, the depreciation charge is computed on such translated amounts and the adjustments to accumulated depreciation at the beginning of the year are taken to retained earnings. This accounting treatment is adopted in order to reflect the sterling cost to British Airways of its investment in such assets and as a result to match the aircraft depreciation charge more accurately with revenue.
Under US GAAP, the exchange adjustments made to the cost of aircraft and fixed asset investments are required to be treated as exchange gains or losses and included in the determination of net income. The cost of these assets would be fixed in pounds sterling at the rate of exchange ruling at the date of the original acquisition or lease.
- (vii) **Pension costs** For the purposes of the reconciliation below, British Airways has adopted the provisions of FAS 87 "Employers' Accounting for Pensions" as from 1 April 1989 in respect of the Group's principal pension plans, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS). FAS 87 requires that the projected benefit obligation (or pension liability) be matched against the current value of the underlying plan assets and other unrecognised actuarial gains and losses in determining the pension cost or credit for the year. The pension costs for these plans for the year ended 31 March 1990 amounted to £32 million under UK GAAP compared with an estimated credit to net income of £38 million under FAS 87. The resulting reduction in operating costs of £70 million, net of related deferred tax of £25 million, would increase net income under US GAAP by £45 million, and the reduction would be reflected in the consolidated balance sheet as a prepayment of pension costs.
- (viii) **Gains on sale and leaseback transactions** Gains arising on sale and leaseback transactions are recognised as part of income to the extent that the sale proceeds do not exceed the fair value of the aircraft concerned. Gains arising on the portion of the sale proceeds which exceed the fair value are deferred and amortised over the minimum lease term.
Under US GAAP, such gains, including any realised revaluation gains, would be deferred in full and amortised over the minimum lease term.

The estimated effect of the significant adjustments to net income and to shareholders' equity which would be required if US GAAP were to be applied instead of accounting principles generally accepted in the UK are summarised on pages 54 and 55.

The pounds sterling amounts on pages 54 and 55 have been converted into US dollars at the 31 March 1990 exchange rate of £1 = \$1.65 (1989: £1 = \$1.69), merely for the convenience of the reader.

NET INCOME UNDER US GAAP
For the year ended 31 March 1990

| | 1990
£m | 1989
£m | 1990
\$m | 1989
\$m |
|--|------------|------------|-------------|-------------|
| Income attributable to shareholders as reported in the consolidated statements of income | 246 | 175 | 406 | 296 |
| Estimated adjustments: | | | | |
| Depreciation | | | | |
| Goodwill | (9) | (9) | (15) | (15) |
| Fleet | 50 | 59 | 83 | 99 |
| Pension costs | 70 | | 115 | |
| Other income/(charges) | | | | |
| Exchange gains/(losses) | | | | |
| Arising on translation of cost of aircraft | | (2) | | (3) |
| Relating to revaluation of forward exchange contracts | (2) | 32 | (3) | 54 |
| Arising on translation of investments | (1) | (1) | (2) | (2) |
| Surplus on disposal of tangible fixed assets and investments | | | | |
| Arising on disposal of revalued aircraft | 17 | | 28 | |
| Arising on sale and leaseback transactions | (50) | | (82) | |
| Deferred taxation | (70) | (58) | (116) | (98) |
| | 5 | 21 | 8 | 35 |
| Estimated net income as adjusted to accord with US GAAP | 251 | 196 | 414 | 331 |
| | Pence | Pence | Cents | Cents |
| Per Ordinary Share as so adjusted | | | | |
| Net income - primary | 34.8 | 27.2 | 57.5 | 45.9 |
| - fully diluted | 31.8 | 26.1 | 52.4 | 44.1 |
| Per American Depositary Share as so adjusted | | | | |
| Net income - primary | 348 | 272 | 575 | 459 |
| - fully diluted | 318 | 261 | 524 | 441 |

Conversion rate £1 = \$1.65 £1 = \$1.69

SHAREHOLDERS' EQUITY UNDER US GAAP At 31 March 1990

| | 1990 | 1989 | 1990 | Group
1989 |
|---|-------|-------|-------|---------------|
| | £m | £m | \$m | \$m |
| Shareholders' equity as reported in the consolidated balance sheets | 912 | 749 | 1,505 | 1,266 |
| Estimated adjustments: | | | | |
| Intangible assets | | | | |
| Goodwill | 362 | 352 | 597 | 595 |
| Tangible assets | | | | |
| Fleet | (181) | (248) | (299) | (419) |
| Property | (15) | (15) | (25) | (25) |
| Investments | (2) | (1) | (3) | (2) |
| Current assets | | | | |
| Pension cost prepayments | 70 | | 115 | |
| Current liabilities | | | | |
| Proposed dividend | 44 | 38 | 72 | 64 |
| Deferred losses on forward exchange contracts | (2) | | (3) | |
| Deferred income - sale and leaseback | (22) | | (36) | |
| Long-term liabilities | | | | |
| Deferred income - sale and leaseback | (28) | | (40) | |
| Provisions for liabilities and charges | | | | |
| Deferred taxation | (252) | (182) | (415) | (308) |
| | (26) | (56) | (43) | (95) |
| Estimated shareholders' equity as adjusted to accord with US GAAP | 886 | 693 | 1,462 | 1,171 |

Conversion rate £1=\$1.65 £1=\$1.69

SUMMARY FINANCIAL STATEMENTS

For the five years ended 31 March 1990

GROUP PROFIT AND LOSS ACCOUNT

| | 1986
£m | 1987
£m | 1988
£m | 1989
£m | 1990
£m | 1989
\$m | 1990
\$m |
|--|------------|------------|------------|------------|------------|-------------|-------------|
| Turnover | 3,149 | 3,263 | 3,756 | 4,297 | 4,838 | 7,194 | 7,983 |
| Operating expenditure | (2,951) | (3,090) | (3,520) | (3,921) | (4,454) | (6,626) | (7,349) |
| Operating surplus | 198 | 173 | 236 | 336 | 384 | 568 | 634 |
| Other income and charges | 36 | 19 | 12 | 18 | 49 | 30 | 81 |
| Interest payable and similar charges | (39) | (30) | (20) | (86) | (88) | (145) | (146) |
| Profit on ordinary activities before taxation | 195 | 162 | 228 | 268 | 345 | 453 | 569 |
| Taxation and minority interests | (2) | (14) | (77) | (93) | (99) | (157) | (163) |
| Profit for the year before extraordinary items | 193 | 148 | 151 | 175 | 246 | 296 | 406 |
| Extraordinary items | (12) | 4 | | | | | |
| Profit for the year after extraordinary items | 181 | 152 | 151 | 175 | 246 | 296 | 406 |
| Dividends | | (30) | (50) | (56) | (64) | (95) | (106) |
| Retained profit for the year | 181 | 122 | 101 | 119 | 182 | 201 | 300 |

Conversion rate £1 = \$1.69 £1 = \$1.65

GROUP BALANCE SHEET

| £ million | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|-------|---------|---------|---------|---------|
| Fixed assets | | | | | |
| Tangible assets | 1,315 | 1,300 | 2,165 | 2,467 | 2,464 |
| Investments | 5 | 5 | 40 | 111 | 108 |
| Current assets | 593 | 777 | 901 | 916 | 1,295 |
| Creditors: amounts falling due within one year | (988) | (1,140) | (1,471) | (1,748) | (1,814) |
| Net current liabilities | (395) | (363) | (570) | (832) | (521) |
| Total assets less current liabilities | 925 | 942 | 1,635 | 1,746 | 2,051 |
| Creditors: amounts falling due after more than one year | (340) | (270) | (851) | (896) | (755) |
| Provisions for liabilities and charges | (103) | (66) | (150) | (100) | (64) |
| | 482 | 606 | 634 | 750 | 1,232 |
| Capital and reserves | | | | | |
| Called up share capital | 180 | 180 | 180 | 180 | 180 |
| Reserves | 300 | 425 | 453 | 569 | 732 |
| Shareholders' equity | 480 | 605 | 633 | 749 | 912 |
| Convertible Capital Bonds 2005 | | | | | 320 |
| Minority interests | 2 | 1 | 1 | 1 | |
| | 482 | 606 | 634 | 750 | 1,232 |

GROUP SOURCE AND APPLICATION OF FUNDS

| £ million | 1986 | 1987 | 1988 | 1989 | 1990 |
|--|------|------|-------|-------|-------|
| Group profit before tax | 195 | 162 | 228 | 268 | 345 |
| Items not involving the movement of funds | | | | | |
| Depreciation | 162 | 188 | 216 | 307 | 292 |
| Other | 55 | (14) | 22 | (7) | 22 |
| Disposals of fixed assets | 14 | 23 | 8 | 22 | 112 |
| FUNDS GENERATED | 426 | 359 | 474 | 590 | 771 |
| Tax paid | | | 16 | 78 | 94 |
| Dividends paid | | | 46 | 52 | 58 |
| Net capital expenditure | 282 | 245 | 499 | 698 | 438 |
| Purchase of shares in subsidiaries | | | 259 | 1 | 1 |
| Increase/(decrease) in working capital | (96) | (86) | (99) | 100 | (87) |
| FUNDS UTILISED | 186 | 159 | 721 | 929 | 504 |
| Loans and lease finance - net amount repaid/(raised) | 268 | 82 | (179) | (260) | 343 |
| Increase/(decrease) in bank and cash balances | (28) | 118 | (68) | (79) | 244 |
| Convertible Capital Bonds issued | | | | | (320) |
| NET FUNDS REPAID/(PROVIDED) | 240 | 200 | (247) | (339) | 267 |

SUMMARY FINANCIAL STATEMENTS (continued)
For the five years ended 31 March 1990

ANALYSIS OF GROUP TURNOVER, OPERATING SURPLUS AND PROFIT BEFORE TAXATION BY BUSINESS SEGMENT

| £ million | 1986 | 1987 | 1988 | 1989 | 1990 |
|--------------------------------------|-------|-------|-------|-------|-------|
| TURNOVER | | | | | |
| Airline operations | 2,981 | 3,054 | 3,523 | 4,132 | 4,715 |
| Package holidays | 120 | 178 | 217 | 102 | 98 |
| Other | 10 | 13 | 16 | 23 | 25 |
| Discontinued activities | 38 | 18 | | | |
| | 3,149 | 3,263 | 3,756 | 4,257 | 4,838 |
| OPERATING SURPLUS/(DEFICIT) | | | | | |
| Airline operations | 205 | 183 | 241 | 340 | 402 |
| Package holidays | (6) | (9) | (6) | (3) | (8) |
| Other | 2 | | | (1) | (10) |
| Discontinued activities | (3) | (1) | | | |
| | 198 | 173 | 236 | 336 | 384 |
| PROFIT/(LOSS) BEFORE TAXATION | | | | | |
| Airline operations | 199 | 170 | 235 | 282 | 377 |
| Package holidays | (4) | (5) | (9) | (10) | (12) |
| Other | 2 | (1) | 2 | (4) | (20) |
| Discontinued activities | (2) | (2) | | | |
| | 195 | 162 | 228 | 268 | 345 |

ANALYSIS OF GROUP TURNOVER AND OPERATING SURPLUS BY GEOGRAPHICAL AREA

| £ million | 1986 | 1987 | 1988 | 1989 | 1990 |
|---------------------------------------|-------|-------|-------|-------|-------|
| TURNOVER | | | | | |
| Europe | 1,264 | 1,416 | 1,609 | 1,622 | 1,825 |
| The Americas | 1,008 | 982 | 1,175 | 1,374 | 1,619 |
| Africa | 179 | 185 | 237 | 323 | 356 |
| Middle East, Far East and Australasia | 660 | 662 | 735 | 938 | 1,038 |
| | 3,111 | 3,245 | 3,756 | 4,257 | 4,838 |
| Discontinued activities | 38 | 18 | | | |
| | 3,149 | 3,263 | 3,756 | 4,257 | 4,838 |
| OPERATING SURPLUS/(DEFICIT) | | | | | |
| Europe | 56 | 56 | 36 | 16 | 3 |
| The Americas | 85 | 65 | 131 | 181 | 249 |
| Africa | 14 | 20 | 37 | 49 | 52 |
| Middle East, Far East and Australasia | 46 | 33 | 32 | 90 | 80 |
| | 201 | 174 | 236 | 336 | 384 |
| Discontinued activities | (3) | (1) | | | |
| | 198 | 173 | 236 | 336 | 384 |

OPERATING STATISTICS

for the five years ended 31 March 1990

SCHEDULED SERVICES

| | 1986 | 1987 | 1988 | 1989 | 1990 |
|--------------------------------------|--------|--------|--------|--------|--------|
| Volume of traffic carried | | | | | |
| Revenue passenger km (m) | 41,334 | 41,356 | 49,123 | 57,795 | 61,915 |
| Cargo tonne km (m) | 1,356 | 1,444 | 1,293 | 2,249 | 2,400 |
| Revenue tonne km (m) | 5,155 | 5,267 | 6,345 | 7,636 | 8,290 |
| Passengers carried (000) | 17,016 | 17,276 | 20,169 | 22,578 | 23,671 |
| Tonnes of cargo carried (000) | 274 | 291 | 361 | 459 | 498 |
| Capacity | | | | | |
| Available seat km (m) | 60,759 | 61,722 | 69,970 | 82,984 | 86,601 |
| Available tonne km (m) | 7,956 | 8,141 | 9,427 | 11,404 | 12,035 |
| Load factors | | | | | |
| Passenger load factor (%) | 68.0 | 67.0 | 70.2 | 69.6 | 71.5 |
| Break-even passenger load factor (%) | 62.2 | 62.1 | 64.4 | 62.9 | 64.5 |
| Overall load factor (%) | 64.8 | 64.7 | 67.3 | 67.0 | 68.9 |
| Break-even overall load factor (%) | 59.8 | 60.4 | 62.2 | 61.1 | 62.8 |
| Operations | | | | | |
| Punctuality (% within 15 minutes) | 82 | 81 | 80 | 72 | 72 |
| Regularity (%) | 98.8 | 99.2 | 99.2 | 99.0 | 98.9 |
| Unduplicated route km (000) | 555 | 555 | 692 | 677 | 685 |
| Revenue aircraft km flown (m) | 248 | 257 | 284 | 343 | 357 |
| Yield | | | | | |
| Revenue per passenger km (p) | 5.80 | 6.00 | 5.82 | 5.96 | 6.37 |
| Revenue per revenue tonne km (p) | 51.7 | 52.1 | 49.6 | 49.6 | 52.2 |

TOTAL AIRLINE OPERATIONS

Including Caledonian Airways Ltd

| | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|--------|--------|--------|--------|--------|
| Available tonne km (m) | 8,601 | 8,751 | 10,083 | 11,868 | 12,445 |
| Revenue tonne km (m) | 5,673 | 5,784 | 6,895 | 8,002 | 8,627 |
| Average fleet size | 159 | 161 | 171 | 203 | 213 |
| Aircraft utilisation (average hours per aircraft per annum) | 2,720 | 2,801 | 2,891 | 2,886 | 2,787 |
| Passengers carried (000) | 19,681 | 20,041 | 23,230 | 24,603 | 25,238 |
| Revenue flights (000) | 210 | 217 | 234 | 269 | 274 |
| Net operating expenditure per ATK (p) | 30.4 | 30.9 | 30.4 | 30.0 | 32.4 |
| Average airline staff employed | 38,939 | 39,498 | 42,709 | 48,760 | 50,320 |
| ATKs per employee (000) | 220.9 | 221.6 | 236.1 | 243.4 | 247.3 |

AIRCRAFT FLEET

Including Calédonian Airways Ltd

| | Number in service at 31 March 1990 | | | | Future deliveries | Options (Note) | 1989-90 revenue hours flown | Average hours per aircraft p.a. | Average age (years) |
|--------------------------------|------------------------------------|-----------------------------|------------------------|-------|-------------------|----------------|-----------------------------|---------------------------------|---------------------|
| | Owned and finance leases | Extendible operating leases | Other operating leases | Total | | | | | |
| Concorde | 7 | | | 7 | | | 7,911 | 1,130 | 13.3 |
| Boeing 747-100 | 16 | | | 16 | | | 69,598 | 4,350 | 17.9 |
| Boeing 747-200 | 15 | 5 | 3 | 23 | | | 111,035 | 4,658 | 10.6 |
| Boeing 747-400 | | 8 | | 8 | 13 | 10 | 13,766 | 4,469 | 0.7 |
| Lockheed TriStar 1, 50 and 100 | 9 | | | 9 | | | 23,565 | 2,849 | 14.7 |
| Lockheed TriStar 200 | 8 | | | 8 | | | 31,164 | 3,896 | 9.3 |
| McDonnell Douglas DC10-30 | 8 | | | 8 | | | 35,625 | 4,453 | 11.3 |
| Boeing 767-300 | | 4 | | 4 | 13 | 19 | 681 | 2,271 | 0.5 |
| Boeing 757-200 | 26 | 10 | | 36 | 3 | 8 | 89,331 | 2,502 | 4.4 |
| Airbus A320 | 8 | | | 8 | 2 | | 14,347 | 2,224 | 1.6 |
| Boeing 737-200 | 17 | 26 | | 43 | | | 110,016 | 2,583 | 8.2 |
| Boeing 737-300, -400 and -500 | | | 4 | 4 | 27 | 16 | 7,785 | 1,946 | 1.9 |
| BAC 1-11-500 | 34 | | | 34 | | | 50,463 | 1,484 | 19.8 |
| BAC ATP | | 8 | | 8 | | 8 | 14,840 | 2,053 | 0.8 |
| HS 748 | 4 | | 4 | 8 | | | 12,859 | 1,553 | 9.7 |
| Hired aircraft | | | | | | | 13,198 | | |
| Total | 152 | 61 | 11 | 224 | 58 | 61 | 606,184 | 2,787 | 9.9 |

Note: Options exclude 20 reserved delivery positions for Canadian Regional Jet aircraft.

SHAREHOLDER INFORMATION

SHAREHOLDERS

As at 15 May 1990 there were 314,039 shareholders. An analysis is given below.

| Size of shareholding | % of shareholders | % of shares |
|----------------------|-------------------|-------------|
| 1 - 1,000 | 97.37 | 10.17 |
| 1,001 - 5,000 | 2.14 | 1.85 |
| 5,001 - 10,000 | 0.17 | 0.51 |
| 10,001 - 50,000 | 0.15 | 1.63 |
| 50,001 - 100,000 | 0.04 | 1.38 |
| 100,001 - 250,000 | 0.05 | 3.75 |
| 250,001 - 500,000 | 0.03 | 4.55 |
| 500,001 - 750,000 | 0.01 | 2.89 |
| 750,001 - 1,000,000 | 0.01 | 3.33 |
| Over 1,000,000 | 0.03 | 69.94 |
| | 100.00 | 100.00 |

| Classification of shareholding | % of shareholders | % of shares |
|--------------------------------|-------------------|-------------|
| Individuals | 98.70 | 12.28 |
| Nominee Companies | 0.62 | 72.86 |
| Insurance Companies | 0.03 | 7.14 |
| Banks | 0.13 | 0.66 |
| Pension Funds | 0.03 | 1.38 |
| Other corporate holders | 0.49 | 5.68 |
| | 100.00 | 100.00 |

Morgan Guaranty Trust Company of New York, the Company's ADR Depositary, has a non-beneficial interest in 198,459,891 shares (approximately 27.5 per cent) in the name of Guaranty Nominees Limited. Within that figure Delaware Management holds 58,307,000 shares in ADR form. British Airways is not aware of any other interest in its shares of 5 per cent or more.

DIRECTORS' INTERESTS

At 31 March 1990

| | British Airways Plc | | British Airways Capital Ltd | |
|----------------------|--|---|--|---------------------------------|
| | Ordinary Shares
subject to
no restrictions | Ordinary Shares
subject to
restrictions | Options
Executive and SAYE
Share Schemes | Convertible
Capital
Bonds |
| | March 31
1990 | April 1
1989 | March 31
1990 | April 1
1989 |
| Lord King | 35,084 | 29,684 | 316 | 316 |
| Sir Colin Marshall | 25,520 | 25,120 | 316 | 316 |
| Sir Michael Angus | 3,000 | 3,000 | — | — |
| D M Stevens | 5,050 | 500 | 246 | — |
| A M Davies | 5,060 | 5,000 | — | — |
| J W Jessop | 350 | — | 3,500 | 3,500 |
| Sir Francis Kennedy | 3,250 | 3,200 | — | — |
| Hon Charles Price II | 10,000 | — | — | — |
| Sir Gordon White | — | — | — | — |
| | 89,314 | 66,504 | 4,378 | 4,132 |
| | | | 1,567,407 | 1,076,146 |
| | | | 29,632 | — |

*Held in American Depositary Receipts.

Sir Gordon White, who was appointed to the Board on 1 December 1989, held no shares or bonds at that date.

The Directors' interests set out above are in each case beneficial. The options under the Executive Share Option and Savings Related Share Schemes are at prices varying between 150p and 210p per share. No Director has any beneficial interest in shares in any subsidiary of the Company other than those shown above in the 9% per cent Convertible Capital Bonds 2005 in British Airways Capital Limited. There have been no changes in the interests set out above between the end of the financial year and 15 May 1990.

GENERAL INFORMATION

FINANCIAL CALENDAR

Financial year end
Annual general meeting
1989-90 final dividend payable

31 March 1990
17 July 1990
27 July 1990

ANNOUNCEMENT OF 1990-91 RESULTS AND DIVIDENDS

First quarter results to 30 June 1990
Second quarter results to 30 September 1990
Interim dividend
Third quarter results to 31 December 1990
Preliminary announcement
Report and Accounts
Final dividend

August 1990
November 1990
November 1990 (payable January 1991)
February 1991
mid May 1991
June 1991
June 1991 (payable July 1991)

OUTSIDE ADVISERS

Company Registrars: Barclays Registrars,
ADR Depositary: Morgan Guaranty Trust Company of New York

UNSOLICITED MAIL

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

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

GLOSSARY

Available Seat Kilometres (ASK) The product of seats offered for sale and the distance over which they are carried.

Available Tonne Kilometres (ATK) The measure of transport production. The available tonne kilometres produced by a flight are the capacity for payload of the aircraft measured in tonnes (2,204lb), multiplied by the distance flown.

Break-even Load Factor The load factor required to equate scheduled traffic revenue with operating costs, assuming that the operating surplus of companies licensed to operate scheduled services is attributed entirely to those services.

IATA International Air Transport Association.

ICAO International Civil Aviation Organisation.

Load Factor The percentage relationship of revenue load carried to capacity provided. The overall load factor relates RTK to ATK. The passenger load factor relates RPK to ASK.

Punctuality The percentage of flights departing within 15 minutes of schedule.

Regularity The percentage of flights completed to flights scheduled - excluding flights cancelled for commercial reasons.

Revenue Passenger Kilometres (RPK) The product of passengers carried and the distance over which they are carried.

Revenue Tonne Kilometres (RTK) The product of revenue load in tonnes and the distance over which it is carried.