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BRITISH AIRWAYS PLC REPORT & ACCOUNTS 1988/89



FIRST
class

BRITISH AIRWAYS


COMPAGNIE S HOUSE
- 6 JUN 1989
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**BRITISH AIRWAYS
ACHIEVEMENTS
OF THE YEAR**

Earned pre-tax profits of £268 million.

Completed the integration of British Caledonian Airways.

Carried almost 25 million passengers and 460,000 tonnes of cargo.

Introduced a new First Class service, and a new Skyflyers brand for children.

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Ordered 43 new aircraft, worth £1,400 million.

Launched Air Miles, the consumer incentive scheme.

Established the Four Corners chain of leisure travel stores.

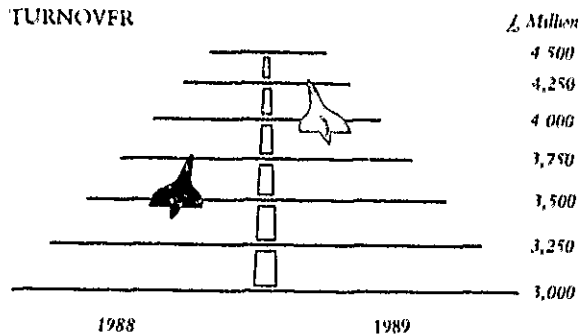
Front cover: British Airways launched a new-style First Class service on 1 March 1989, the design elements of which are reflected on the front cover

Acquired an interest in the Covia Partnership.

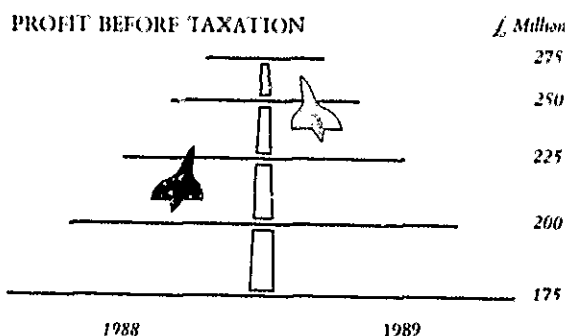
**BRITISH AIRWAYS
HIGHLIGHTS
OF THE YEAR**

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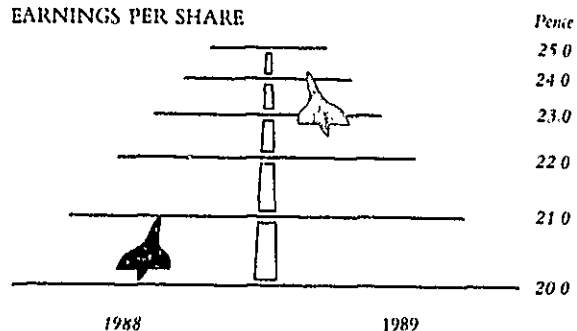
TURNOVER



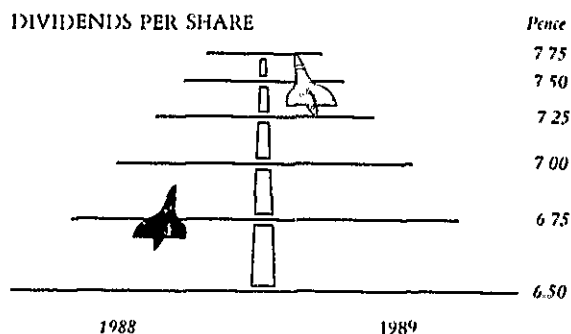
PROFIT BEFORE TAXATION



EARNINGS PER SHARE



DIVIDENDS PER SHARE



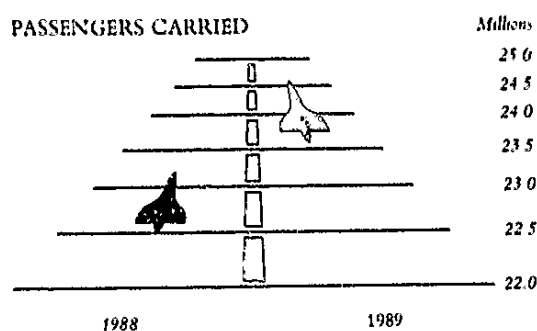
GROUP RESULTS

		Group Total		Growth
		1988-89	1987-88	%
Turnover	£m	4,257	3,756	13.3
Operating surplus	£m	336	236	42.4
Profit before taxation	£m	268	228	17.5
Profit after taxation	£m	175	151	15.9
Shareholders' equity	£m	749	633	18.3
Earnings per share	p	24.3	21.0	15.7
Dividends per share	p	7.75	6.90	12.3

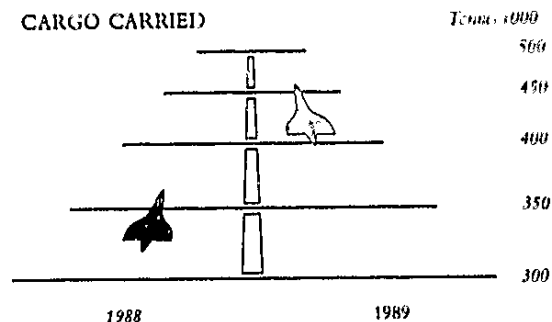
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PASSENGERS CARRIED



CARGO CARRIED



TRAFFIC

		Group Total		Growth
		1988-89	1987-88	%
Available tonne kilometres	m	11,868	10,083	17.7
Revenue tonne kilometres	m	8,002	6,895	16.1
Passengers carried	000	24,603	23,230	5.9
Cargo carried	tonnes 000	459	361	27.1
Overall load factor (scheduled services)	%	67.0	67.3	-0.3pts

STAFF AND PRODUCTIVITY (AIRLINE ONLY)

Average number of staff		48,760	42,709	14.2
Available tonne kilometres per employee	000	243.4	236.1	3.1
Revenue tonne kilometres per employee	000	164.1	161.4	1.7

CHAIRMAN'S STATEMENT

For British Airways, 1988-1989 was a first class year. Once again we achieved record profits. At £268 million pre-tax, these are 17.5 per cent better than one year ago.

Revenues for the year rose to £4,257 million, an increase of 13.3 per cent. Both passenger and cargo loads were at record levels. We flew almost 25 million people on our scheduled and charter services during the year, an increase of nearly 1.5 million on the year before. The growth of our cargo business was even faster. We flew 459,000 tonnes of air freight and mail, an increase of 27 per cent.

Our earnings per share rose from 21.0p to 24.3p and your Board is recommending a final dividend of 5.25p a share, making a total for the year of 7.75p a share.

These results speak for themselves. They confirm our position in the forefront of the world's airlines in terms of profitability and numbers of international passengers carried. Our success as a Company has been reflected also in a number of awards which we have received during the year for the high levels of customer service provided for our passengers.

Twelve months ago your Company had recently acquired British Caledonian. We were still absorbing the financial losses of that ailing airline. I am pleased to say that that process has been completed, BCal has now been fully integrated into British Airways and we have already begun to benefit from the expansion.

The merger has been no easy task. Unifying the two companies, with all the human and operational consequences, and consolidating the com-



Photo: Snowden

bined airline services in Gatwick's new North Terminal, required an outstanding effort by management and staff in many areas. To them, and to all of our staff throughout the Company, I extend my thanks and that of the Board for what have been major contributions to this year's results. In recognition of their performance the Board has decided to pay an additional week's basic pay to all staff on top of the profit share of two and a half weeks' basic pay.

In March of this year we launched a new style of service for our premier passengers. We had one clear objective in mind: that alongside our Concorde service our First Class should be the best in the world.

We expect our new First Class to do for us in this most demanding segment of the market what Club World and Club Europe have done for us in the business class market. In the year since they were launched, traffic in these classes increased by 31 per cent and 12 per cent respectively. We believe that the reaction of the market to our new First Class will be equally favourable.

We shall not rest on our laurels. The search for excellence in quality of product and improved levels of service will be pursued with continuing vigour. We plan to announce further enhancements to a number of our services within the United Kingdom later this year.

We aim to provide not only quality of service but value for money, and we never forget the interests of our shareholders. We are aware of the need for constant attention to costs, and we shall keep these under close control.

The year saw a number of changes at Board and Senior Executive level within the Company. Gordon Dunlop took early retirement after six years as Chief Financial Officer, Basil Collins stepped down as a non-executive Director, also after six years, and Jim Harris, Director of Marketing, retired after an outstanding career spanning 43 years. I pay tribute here to all three for the major role they played in helping to turn around a loss-making and ailing business into the profitable, well-managed, proud company it is today.

It is a pleasure to welcome to the Board Derek Stevens, as Chief Financial Officer, and Michael Angus and the Hon. Charles Price II as non-executive Directors. I also welcome Liam Strong, who joined our Executive Management as Director of Marketing.

Our first class results have been achieved in a difficult period for our industry as a whole, with airline safety and security rarely out of the headlines. Although there is no evidence that our passenger traffic has suffered as a result, it is natural that there should be public concern over these issues.

If there are organisations that ever take safety and security for granted, I can assure you that British Airways is not one of them. Safety and profitability are not alternatives. We spare neither money nor effort to ensure that the trust our passengers place in us is well founded and that will continue to be our policy.

With this good record behind us, we now approach the future - with confidence and with enthusiasm.

King

King of Warrnaby

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REVIEW OF THE YEAR

British Airways is the largest carrier of international scheduled passenger air traffic in the world. Despite the increasing constraints imposed by air and ground congestion at Heathrow and Gatwick, we again expanded our activities to match the growing demand for our services.



Sir Colin Marshall, Chief Executive

SAFETY AND SECURITY

British Airways places paramount importance on safety and security and supports all initiatives to improve the industry's performance in these areas.

Accidents and terrorist sabotage affecting other airlines, together with reports of air traffic congestion in Europe, heightened public concern during the year.

Reviews of procedures throughout the industry have followed. The result is a safer and more secure civil aviation environment.

British Airways accepts no compromise where safety and security are concerned. Its technical procedures match and in many cases are more stringent than those stipulated by the authorities. Frequently the airline acts well in advance of official advice where improvements to procedures are identified. British Airways' engineering team and flight crew are widely regarded in safety circles as world leaders.

The airline was able to provide assistance to Pan Am after the Lockerbie tragedy and to British Midland Airways following its accident on the M1 motorway. In both cases, British Airways' Emergency Procedures Information Centre at Heathrow was fully activated within minutes,

manned by volunteer staff, to handle telephone calls concerning the passengers and crew.

In March, the Government's Air Accident Investigation Branch published its official report into the accident involving a Boeing 737 of British Airtours, then the Group's charter airline, at Manchester in August 1985.

Every single recommendation relating to airline operators had already been addressed by British Airways. Many had already been implemented by the airline. Most of those remaining required further research or development, notably in the area of smokehoods and water spray systems. British Airways has been leading or supporting this research, and will continue to do so.

British Airways welcomes steps taken by European Governments to improve procedures and facilities for air traffic control, action the airline had long been advocating.

In April 1989 Mr David Hyde, one of the Company's most experienced executives, who has held senior posts in the Marketing, Operations and Engineering Departments, was appointed to the new position of Director of Safety, Security and the Environment. One of his first tasks was to carry out a complete review of the airline's security operations and

procedures, using independent security consultants.

The appointment of a director with specific responsibility for "green issues" reflects the importance the Company places on protecting the environment. Ground vehicles, wherever possible, have been converted to run on lead-free petrol. In the air, the new aircraft we are introducing are quieter and more fuel efficient.

RESULTS FOR THE YEAR

Group: Profit before tax was £268 million compared with £228 million the year before. After making a tax provision of £93 million (last year £77 million) the profit after tax was £175 million compared with £151 million last year. Earnings per share was 24.3p compared with 21.0p for the prior year.

After providing £56 million for the interim dividend and the recommended final dividend outlined in the Directors' Report (see Page 12) the retained profit for the year amounted to £119 million.

Funds generated from trading increased from £474 million to £590 million, an increase of 24.5 per cent. Share capital and reserves amounted to £749 million at 31 March 1989 compared with £633 million a year earlier. Borrowings increased from £848 million at 31 March 1988 to £1,108 million. The net debt:equity ratio is 57:43.

Airline: Revenue tonne kilometres increased by 16.1 per cent. Almost 25 million passengers were carried, an increase of 5.9 per cent. Capacity offered in terms of available tonne kilometres, increased by 17.7 per cent. The average passenger load factor on scheduled services fell marginally from 70.2 per cent last year to 69.6 per cent. Overall load factor on



BCal flight and operations have been retained by Caledonian Airways

scheduled services was 67.0 per cent, 0.3 points down on the prior year.

Revenue from the carriage of passengers and cargo on scheduled services and charter operations increased from £3,310 million in the previous year to £3,899 million. Passenger yields improved, largely as a result of our new Club World and Club Europe business classes.

Traffic growth overall has been satisfactory. However the airline results for Europe have been disappointing. Better results at Heathrow have been more than offset by increased competition on the routes we fly within Germany and by the Gatwick services we inherited from BCal. The results for Europe also reflect the increased investment in our regional hubs, principally at Manchester and Birmingham.

Airline expenditure increased by 15.5 per cent. The main increases were in staff costs, due to more employees, handling and catering costs, because of improved standards, and commission and other selling costs. The depreciation charge shows a significant increase which is mainly due to the acquisition of the BCal fleet, but also includes an additional £24 million which arises from the fleet revaluation that took place at 31 March 1988. Fuel and oil costs, expressed in sterling, show a small increase of 5.8 per cent despite an increase of 17.7 per cent in the capacity offered.

Air traffic control problems experienced during the year, and particularly last summer, had an adverse impact on our results. Punctuality, measured in terms of percentage of flights departing within 15 minutes of the scheduled time, deteriorated from 80 per cent last year to 72 per cent this year. These delays have cost the airline at least £15 million.

The airline operating profit amounted to £340 million compared with £241 million in 1987-88.

EUROPEAN SERVICES

Nineteen cities joined the network as routes previously flown by BCal transferred to British Airways.

New intercontinental destinations served during the year were Madras, San Diego and Seoul, while services were reintroduced to Baghdad. Within Europe and the Mediterranean basin, we opened or reopened services from London to Ankara, Bergen and Malmo.

This expansion, together with an increase in frequencies on other routes, placed constraints on airport capacity and on aircraft availability. For economic reasons we have withdrawn services to Malta, Gibraltar, Tunis, Casablanca, Kinshasa and Douala.

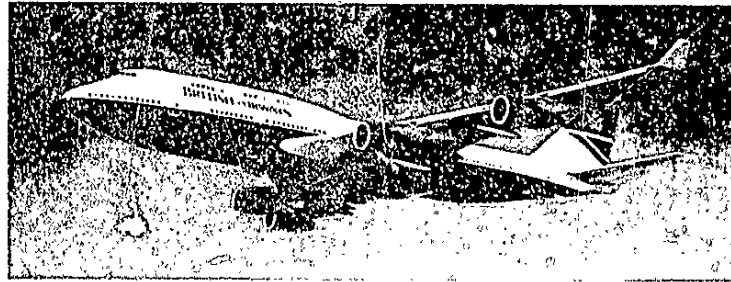
We hold licences for services to Newark, in New Jersey, and Seville,

position further, we created Strategic Business Units at these three cities, with a fourth in Berlin, the hub of our Internal German Services network. Each is headed by a general manager, and has its own aircraft and resources.

From Manchester, we now operate scheduled services to Barbados, Bombay, Hong Kong, Islamabad, New York and Orlando, to 18 destinations in Continental Europe and ten UK points.

From Birmingham, we now operate services to Barcelona, Cologne and Zurich, bringing the number of scheduled service destinations in Europe to 13.

In Scotland, the airline's Highlands Division introduced the new British Aerospace Advanced Turboprop (ATP) aircraft, increasing capacity on the routes it serves. Wick rejoined the network, and rights have recently been won to operate between Edinburgh and Belfast.



The first of 19 Boeing 747-400s on order is due to enter service in July 1989

in Spain, and have plans for introducing services to both cities.

Frankfurt rejoined the network of cities served from Berlin by British Airways' Internal German Services.

THE REGIONS

There is a rising demand for scheduled air services from regional cities in the UK.

We have continued to expand our hubs at Manchester, Birmingham and Glasgow. To strengthen our

position further, we created Strategic Business Units at these three cities, with a fourth in Berlin, the hub of our Internal German Services network. Each is headed by a general manager, and has its own aircraft and resources.

BCAL INTEGRATION

The early months of 1988-89 were largely devoted to the integration of the operations of BCal, which we acquired at the beginning of 1988, into those of British Airways.

This was a major undertaking since we had to complete not only the obvious tasks such as changing the livery and uniforms of aircraft and staff, but the harmonisation of operational procedures, training methods and technical standards involving

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thousands of people. There were inevitably difficulties at a time when our resources were already fully committed, but thanks to the unstinting efforts of staff at all levels from both airlines, the task was largely completed by the late summer of 1988.

a reallocation of aircraft. All Gatwick-based BAC One-Elevens were transferred to our Manchester and Birmingham fleets, and their place was taken by a fleet of 14 Boeing 737s, while our Airbus A320s were transferred from Gatwick to Heathrow.

introduction of our Club World and Club Europe classes of business travel.

These proved an immediate and sustained success in a highly competitive market. Volume of traffic during the year increased by 31 per cent in Club World and 12 per cent in Club Europe.

Early in 1989, we extended our range of branded services with the launch of a new First Class service which we believe to be the best in the world. Early indications suggest that we are winning a substantial additional share of this valuable market from our competitors.

Young passengers, particularly those travelling alone, are not only an important market in their own right, but they also represent an important potential source of future business. We therefore launched a new range of facilities for under-18s, called Skyflyers.

In February, British Airways introduced the world's first international passenger in-flight satellite telephone service. A number of trials have also taken place using various personalised video equipment, offering passengers a choice of individual viewing.

The year saw the launch of two other significant new marketing ventures.

The first was the inauguration of a chain of retail leisure stores, under the name of Four Corners. These centres, which will replace most of the traditional British Airways travel shops in the UK, are designed to appeal to the discriminating individual purchaser seeking a quality holiday. They also sell a range of high-value travel items. By the end of the financial year we had opened eight Four Corners shops, and we expect to have 60 within two years.

A second new venture, aimed at a quite different segment of the leisure market, is Air Miles. This scheme



The new style First Class cabin features the world's first in-flight personalised video players and Royal Doulton china and glassware among its wide-ranging improvements

Some 90 per cent of the permanent UK-based staff of BCal applied to join British Airways. Voluntary severance and early retirement enabled us to achieve our target of shedding 2,500 staff from the combined workforce with no disruption to our operations.

The Civil Aviation Authority has reported to the Secretary of State for Transport that we have honoured all the commitments we made to the Monopolies and Mergers Commission in connection with the acquisition of BCal.

In July 1988, we announced a major expansion of our activities at Gatwick, including a significant increase in the passenger and cargo capacity to be offered in the summer of 1989. That in turn led to a redistribution of operations between our bases at Gatwick and Heathrow. All Gatwick operations were moved into the new North Terminal, which opened in March 1988.

These transfers were accompanied by

British Airtours, the former British Airways charter airline subsidiary, was renamed Caledonian Airways.

The company carried some one and a half million passengers in 1988-89, and now operates fleets of Lockheed TriStar, Boeing 757 and 737 aircraft.

Our concentration on the North Terminal meant that it was no longer viable to provide Gatwick handling services to other airlines in the South Terminal. Instead we acquired a minority shareholding in a new handling company established there, Allied Ogden (Gatwick) Ltd.

MARKETING

Early in 1988, we announced a policy of branding our individual classes of customer service to ensure a distinctive place in the market for each. The first application of this policy, which had been widely used in consumer goods but which was new to service industries in Britain, was the

Millions of people in the UK are collecting Air Miles





*If the top
has
a young Skyliner
get the
treasure.*

enables purchasers of a wide range of goods and services to collect vouchers, each of which entitles the purchaser to a mile of travel on our scheduled air services. To date, some 15,000 retail outlets in over two dozen product areas have joined the scheme, and several million people are collecting the vouchers. British Airways holds a 51 per cent interest in Air Miles Promotions Ltd, which manages the venture.

Elsewhere in the High Street, the first of a nationwide chain of British Airways Travel Clinics was opened in January 1989. These franchised clinics, offering a comprehensive immunisation service and information on some 230 countries and travel-related products, are the first all-inclusive facility of their type in the UK. More than 40 are planned during the next two years.

Our passengers expect the highest standards on the ground as well as in the air. Our Gatwick London Terminal at Victoria Station, which opened in the spring of 1988, provides check-in, baggage reception and lounge facilities for our passengers travelling to Gatwick. The terminal is situated directly above the platform used by the Gatwick Express rail service.

We also upgraded many of our airport facilities worldwide. At John F Kennedy International Airport, New York, where British Airways has its own terminal, major reconstruction is under way to prepare for the arrival next year of United Airlines, with whom we are developing a highly successful partnership. British Airways has already moved into United's terminals at Chicago and Seattle.

These switches permit our transatlantic passengers to transfer directly to a wide range of United domestic flights. Later this year, new "through check-in" facilities will enable passengers on either airline to be checked-in automatically for onward

connections by the other airline when they report for the first flight segment. This arrangement will cover more than 350 destinations worldwide across the combined networks.

A number of agreements were forged with other airlines. An "air bridge" has been established at Dallas-Fort Worth, whereby British Airways' flights from Gatwick connect daily with 23 Delta services.

Closer links were established with Birmingham European Airways (formerly Birmingham Executive Airways), which was acquired during the year by The Plimsoll Line Ltd, in which British Airways has a 40 per cent shareholding. The Plimsoll Line Ltd also owns Brymon Airways, the Plymouth-based regional carrier which now serves the new London City Airport.

Smoking: In-flight trials and consumer research established that on flights of up to one hour, a substantial majority of our passengers, including smokers, preferred non-smoking flights. In October 1988, in response to customer demand, we banned smoking on domestic services. There has been no adverse effect on our business.

Since our policy is based entirely on the wishes of our customers, and since there is no evidence of strong support for a ban on longer flights, we have no present plans for extending the policy.

Customer relations: In March, British Airways staged a Customer Forum, the first of its kind, at which 150 of the airline's leading customers in the UK were invited to a conference near Heathrow at which they heard about the airline's plans and policies from its top managers and had an opportunity to put their own questions and comments.

Sponsorship: A complete review of British Airways' policy on sponsorship was carried out during the year. As a result, the airline is concentrat-

ing its efforts in this field on two projects. We have become a corporate sponsor of the Save the Children Fund and are committed to raising at least £1 million for the charity. This is on top of any donations the airline may make to other charities. (See Directors' Report, Page 13).

The airline has also entered a three-



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*British
Airways'
Speedbird
courier services
guarantee
speedy delivery*

year agreement to sponsor a series of International Contemporary Art Fairs in London, Los Angeles and Tokyo.

Regulation: British Airways believes that the consumer will be better served by the airline industry if liberalisation is extended right around the world. The Company is pressing for fewer regulations which restrict our ability to offer our customers the service they desire. Liberalisation must, however, be on an equal basis for all parties.

CARGO

During the year, we carried 459,000 tonnes of cargo on our scheduled services, earning revenue of more than £340 million.

In conjunction with Singapore Airlines, we introduced a weekly Boeing 747 freighter service to the Far East, though the bulk of our cargo continues to move in the holds of

our passenger aircraft and in the cargo compartments of our fleet of Boeing 747 "Combi" passenger/freighter aircraft.

We again expanded our network of European road haulage "hubs" by opening a new cargo base at Lyon, France. We now have three such hubs, feeding cargo from all over Europe on to our Heathrow.



New seat-back video screens offering a choice of viewing have been successfully trialled in longhaul Economy Class cabins

and Gatwick-based intercontinental services.

We inaugurated a new £3 million cargo handling system at our Gatwick cargo centre and the former BCal cargo terminal was also substantially modernised in the course of integrating the two systems.

AIRCRAFT FLEET

We took important steps to ensure that our future aircraft fleet will remain one of the most modern and efficient in the world.

The first of ten Airbus A320s, originally ordered by BCal, was delivered in April 1988. It entered service on the Gatwick-Geneva route in May. It and three others are now flying on shorthaul services from Heathrow. Three more are scheduled for delivery shortly.

The first of 19 new Boeing 747-400s was originally due for delivery in

March 1989. However, the manufacturer rescheduled its production programme for this aircraft type at the beginning of 1989, and this has delayed the introduction of our Boeing 747-400 services until July 1989. This has meant extensive reworking of our programme for summer 1989.

The 400 is a significantly improved, new version of the 747 which for many years has formed the backbone of our intercontinental fleet. Among many other new features, it incorporates advanced avionics and flight management systems.

The version of the 400 ordered by British Airways is powered by four Rolls-Royce RB211-524H engines, and can carry up to 386 passengers on journeys of over 7,000 miles.

In September, we leased four new Boeing 737-300s from the Danish Maersk group for two years to provide additional capacity on our domestic and European services.

We also took delivery of six more Boeing 757s in fulfilment of earlier orders.

The first of eight British Aerospace ATP turboprop aircraft entered service in January 1989. The ATP, a twin-engine 64-seater, is based in Scotland and is used principally on regional and domestic services and on our Internal German Services.

In October, we announced plans to acquire at least 31 new Boeing aircraft, with a capital value of over £1 billion. (See Directors' Report, Page 12).

These aircraft will give us not only a very efficient fleet but a very flexible one. This flexibility, which will enable us to match our future fleet to the demands of the market in both aircraft numbers and seating capacity, was one of the principal advantages that led us to choose Boeing aircraft in preference to those from other manufacturers.

TRAINING

The steady expansion of our fleet calls for flight crews of the highest calibre and for the most up-to-date training procedures.

The introduction of the Boeing 747-400 has called for an exceptionally large pilot training programme and for an expansion of our training facilities, already among the most modern in the world. A Boeing 747-400 flight simulator installed at our Cranbank training centre, near Heathrow, is engaged in training more than 300 pilots for the new fleet.

We are also sponsoring the flying training of young men and women who will form the British Airways pilot force of the future.

Some 160 a year will be trained at Prestwick, Scotland. The first group of these British Airways cadets received their wings in March 1989. They will join the airline as fully trained co-pilots later in the year.

A further 255 cadets will be trained at Kidlington, Oxfordshire, over a three-year period. These training programmes, together with a limited number of direct-entry pilots, will meet our flight crew needs for the foreseeable future.

ENGINEERING

We continued to expand our engineering facilities to match the demands of our growing fleet.

In June 1988, we announced plans for a new test bed at our engine overhaul plant at Nantgarw, South Wales. This will bring to more than £40 million the sum that we shall have spent over a two-year period to expand the facility. The plant, which is one of the world's leading jet engine overhaul centres, maintains a

Skyphone, the world's first international passenger in-flight satellite telephone





Photo of the
new aircraft
painting plant
at Heathrow

wide range of engines, not only for British Airways but for many of the world's other airlines and air forces.

In November, a new aircraft painting plant was commissioned at Heathrow. This will substantially reduce both the time and cost involved in painting our fleet.

A new engineering hangar was acquired at Aberdeen to provide maintenance facilities for locally-based HS 748 aircraft of our Highlands Division. In Birmingham, we completed a £300,000 modernisation of our engineering base to accommodate an enlarged fleet of locally-based BAC One-Elevens.

PROPERTY

A site at Ruislip – once the headquarters of British European Airways – is being redeveloped by the Group as a business park, at a cost of £20 million. The premises will be occupied by our own staff.

The former BCal headquarters at Gatwick has been vacated and is now for sale.

Since the end of the financial year, British Airways filed for outline planning permission to build a new corporate headquarters near Heathrow. This development would benefit the Company substantially, by bringing together head office management and staff currently scattered in several buildings in a number of locations.

MANAGEMENT DEVELOPMENT

Management development and all staff training remains an important objective. The Development for Excellence programme enables senior managers to attend the world's leading business schools, besides featuring opportunities for staff to study

in-house towards Master of Business Administration degrees and Diplomas in Supervisory Management.

Two of the airline's training programmes received national awards. The Catalyst programme, aimed at increasing management awareness of information technology, received a Silver Award in the Computer Weekly Training Awards, and a series of video films, People of the World, designed to promote cultural awareness among cabin crew, won a National Training Award.

GALILEO

British Airways is one of the principal partners in The Galileo Company Ltd, an international consortium which is developing one of the world's most advanced airline computer reservations and business systems.

During the year, Galileo established its headquarters at Swindon, Wiltshire. The company's main product is now on trial with some 30 travel agents in the UK alone, with further trials also well advanced in a number of other countries. Further development of the system is continuing rapidly.

SPECIAL FLIGHTS, HONOURS AND AWARDS

Special flights: A British Airways Concorde was chartered to carry Her Majesty The Queen, accompanied by HRH The Duke of Edinburgh, from Heathrow to Barbados and back for celebrations marking the anniversary of the founding of the Bajan Parliament.

In December 1988, a British Airways Boeing 757 made a special flight to Armenia, carrying 15 tonnes of medical supplies for the victims of the Armenian earthquake disaster.

Honours: In the Queen's Birthday Honours in June 1988, Captain Brian Walpole, at that time General Manager of the British Airways Concorde fleet, received the OBE. Miss Betty Cameron, Principal Nursing Officer of British Airways Health Services, received the MBE.

In the 1989 New Year Honours, Mr Gordon Dunlop, formerly Chief Financial Officer and a Member of the British Airways Board, received the CBE. Mr Victor Bawab, formerly Manager Lebanon, received the MBE.

Awards: Once again, British Airways received a number of awards for excellence from leading travel trade organisations and publications.

In September 1988, readers of Business Traveller magazine voted British Airways the World's Best Airline, while readers of Executive Travel magazine voted us Airline of the Year and named our Club World best airline business class worldwide.

For the fourth year running, the leading trade publication Travel News awarded British Airways its Silver Globe for the best airline. For the fifth year in succession, the Scottish Passenger Agents' Association named us Airline Principal of the Year.

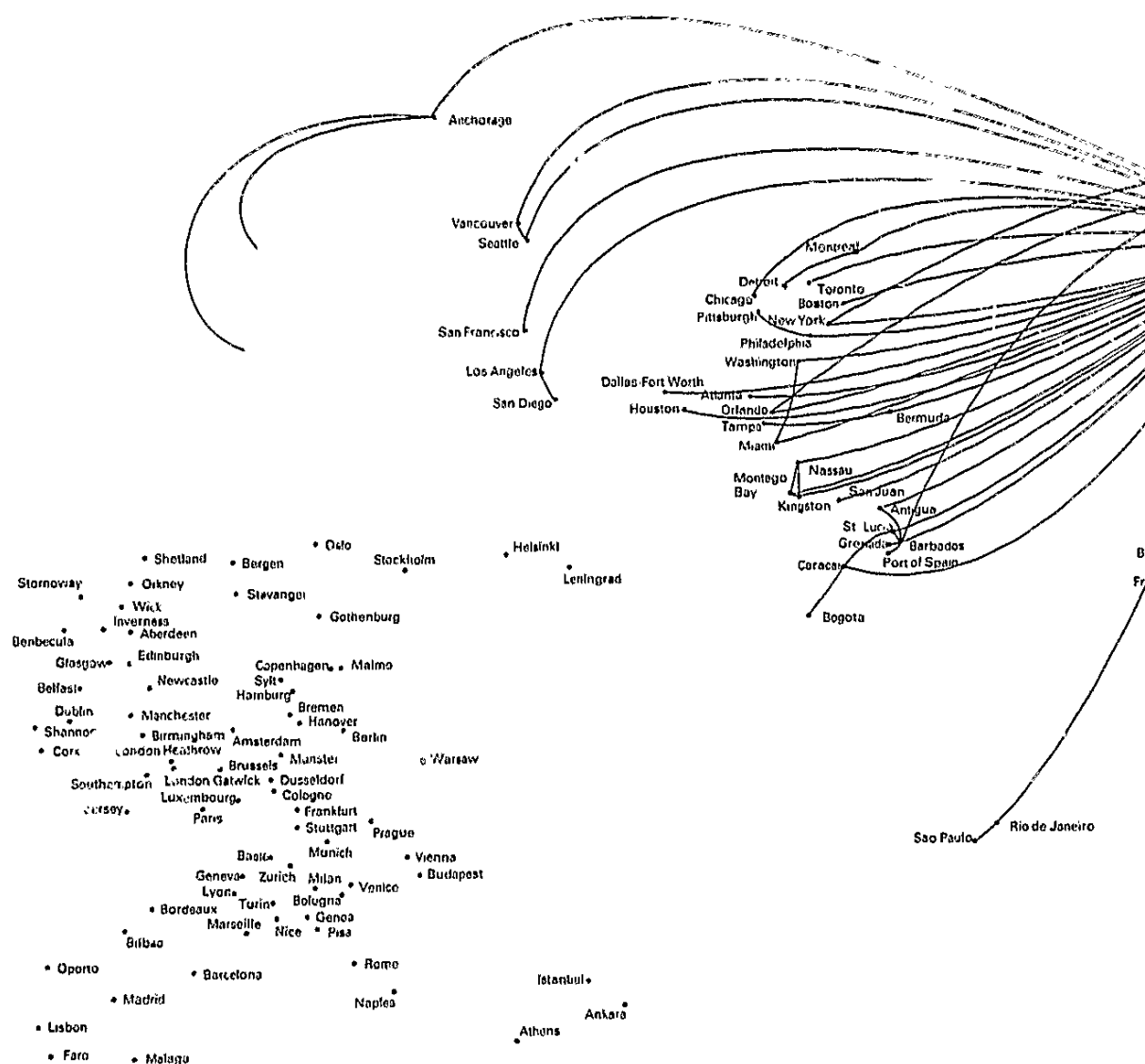
The leading aviation magazine in the USA, Air Transport World, selected British Airways for its 1988 Passenger Service Award.

It has been a year of consolidation and great progress. Our aim remains to be the best and most successful airline in the world.

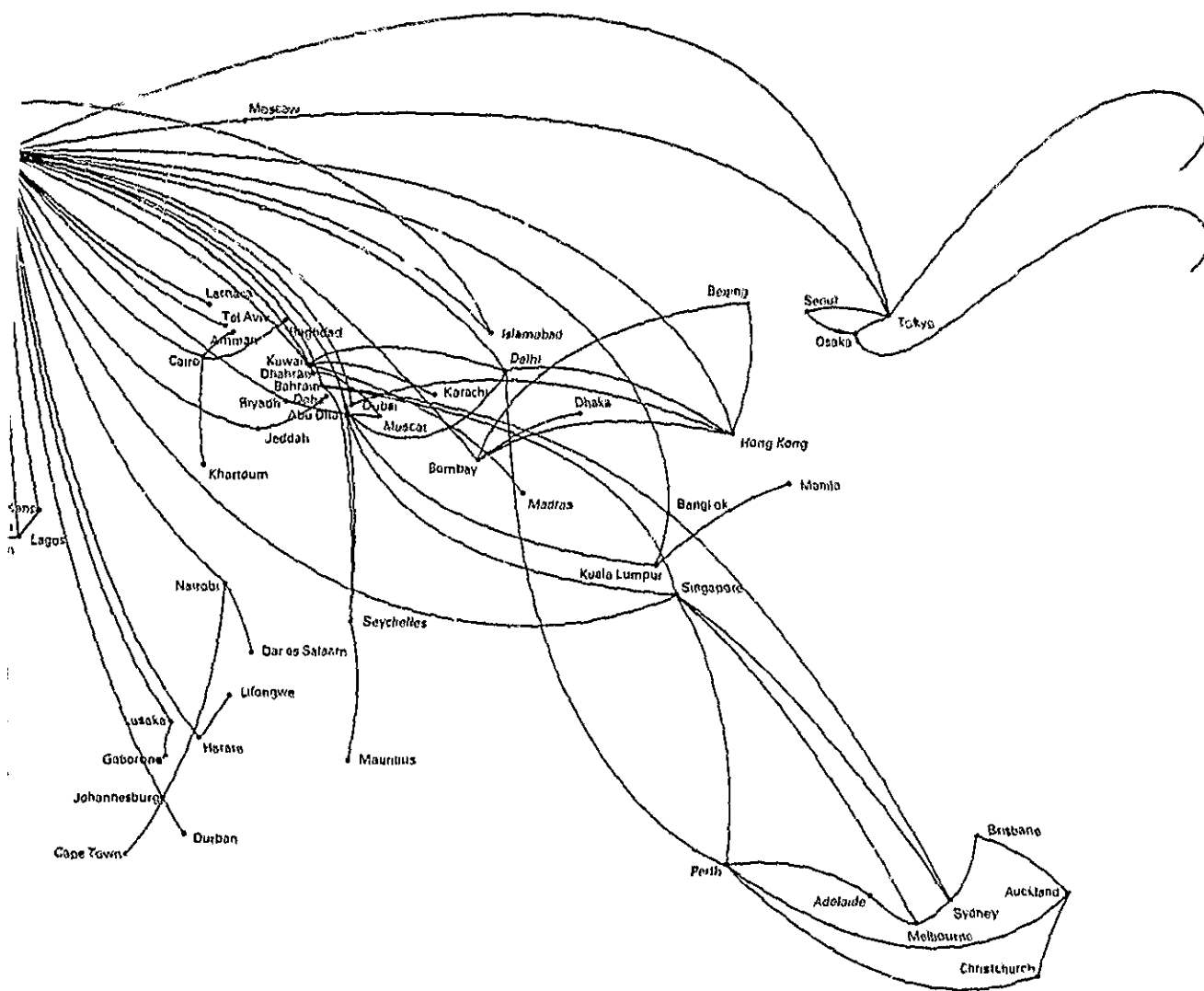
Sir Colin Marshall
Chief Executive

British
Airways Plc
Report &
Accounts
1988-89

ROUTE MAP



- British Airways destinations
 - ⊙ British Airways connections with United Airlines network
- Note. British Airways associated airlines serve nine additional destinations*



DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 1989. The accounts are set out on Pages 18 to 37.

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, the provision of ancillary airline services, and the operation of package holiday businesses.

The management of British Airways' retail travel business in the United Kingdom has been transferred to British Airways Enterprises Ltd, a wholly owned subsidiary. This company is establishing an independent chain of leisure travel stores trading under the name Four Corners.

RESULTS FOR THE YEAR

Profit after taxation, attributable to members of British Airways Plc, amounted to £175 million, against £151 million in 1988. The Board recommends a final dividend of 5.25p per share, payable on 28 July 1989, giving a total dividend for the year of 7.75p per share (1988: 6.90p per share). After providing £56 million for dividends, the retained profit for the year amounted to £119 million.

AIRCRAFT ORDERS

Eight twin-engined British Aerospace Advanced Turboprop aircraft were ordered during the year, with

options for a further eight aircraft. Three more Boeing 747-400s were also ordered, making the total commitment for this type of aircraft 19. A further order was placed for one Boeing 757 during the year.

In addition, a Memorandum of Understanding was signed with Boeing for the supply of 24 Boeing 737s, six Boeing 767s and one Boeing 757. Options have also been placed on a further 11 Boeing 737s, six Boeing 767s and one Boeing 757. A minimum of nine of these options will be taken up.

The combined value of aircraft ordered in the year amounted to some £1,400 million. It is intended to acquire a number of these aircraft on extended operating lease arrangements.

British Airways has been released from a commitment to purchase the McDonnell Douglas MD-11 aircraft inherited from BCal and a settlement has been made.

AIRCRAFT FLEET CHANGES

During the year, four Airbus A320, six Boeing 757 and four BAe ATP aircraft were delivered to the airline. All of the Airbus A320s and Boeing 757s were purchased. The BAe ATPs were acquired on extendible operating lease arrangements. A number of aircraft have been acquired on short term lease arrangements.

The fleet of five BAC One-Eleven 400 aircraft were withdrawn from service at the end of the summer and are currently awaiting disposal.

Details of the aircraft fleets at 31 March 1989, showing those in service and those on order together with options, are set out on page 45.

INVESTMENTS

The US Department of Transportation approved British Airways'

investment of \$113 million (representing an effective holding of 11 per cent) in the Covia Partnership, which operates the Apollo advanced computerised reservations system in the USA.

British Airways also subscribed to 51 per cent of the shares in Air Miles Travel Promotions Ltd. (See Page 6).

Early in the year the 50 per cent holding in Cal-Air International Ltd was sold to the Rank Organisation for £10 million.

FINANCING

During the year £100 million was raised by way of a 20-year Euro-sterling bond issue, with a coupon of 10⁷/₈ per cent repayable in 2008 and £43 million by way of a 10-year Yen loan swapped into fixed rate sterling at 10.18 per cent repayable in 1998. The proceeds of these issues were used for general corporate purposes.

A five-year £400 million Multiple Option Facility (including a committed portion of £300 million) was arranged during the year to meet working capital needs from time to time. At 31 March 1989 drawings totalling £181 million were outstanding under the facility.

DIRECTORS

Two Members of the Board retired during the year. Mr Basil Collins CBE retired in 1988. Mr Gordon Dunlop CBE, Chief Financial Officer, retired from his executive post in December 1988 and from the Board in March 1989.

Mr Michael Angus, Chairman of Unilever Plc, joined the Board as a non-executive Member in September 1988. Mr Derek Stevens, formerly Finance Director of TSB Group Plc, joined the Board in February 1989 on his appointment as Chief Financial Officer in succession to Mr

Dunlop. The Hon. Charles Price II, former US Ambassador to the United Kingdom, joined the Board in April 1989.

The names and details of the Directors are set out on Page 14. The Directors retiring by rotation are Sir Francis Kennedy and Captain Jack Jessop. Both being eligible offer themselves for re-election at the Annual General Meeting.

Details of the Directors' interests, including options granted to Executive Directors, are given on Page 47.

EMPLOYEE ENCOURAGEMENT

During the year the Company continued to encourage teamwork and communication between all of its employees in the running of the business. The *To Be The Best* programme, in which all staff were invited to participate, has been virtually completed. This programme, the latest in the Customer First series, concentrated on seeking from staff ways of improving the effectiveness of their functions and also determining how to tackle competitive pressures in a positive manner.

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

The Company operates a staff suggestion scheme, *Brainwaves*, which acknowledges original workable suggestions with rewards ranging from £10 to £10,000 per suggestion. Awards totalling more than £92,000 were shared by 476 staff during the year. The benefit of their suggestions to the Company was around £850,000, of which two-thirds will be on-going.

British Airways News, which provides up to date information to staff on what is happening in the Group, is issued free each week.

The Profit Sharing Share Scheme which was first introduced in respect of the 1983-84 year continued in respect of 1988-89 although the Board decided to amend certain of its basic parameters. Every eligible employee will be entitled to participate in the Scheme in respect of profit share of just over 2½ 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. We are seeking to amend the Scheme to allow savings of up to £150 a month, in line with the Finance Bill 1989.

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. We seek to encourage disabled people to join the Company, remain in its employment and retire on the same terms as other employees. 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 £328,500 (1988: £201,000), of which the largest donations were to Cancer Relief and to the Skin Treatment and Research Trust.

A contribution of £40,000 was made to the Conservative Party (1988: £50,000).

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 on Page 48 and explained in detail on Page 49.

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

CLOSE COMPANY STATUS

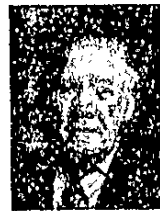
The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1970 and this position has not changed since the end of the financial year.

AUDITORS

The auditors, Ernst & Whinney, 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.

BOARD MEMBERS

as at the time of publication



Lord King of Warrnaby
Chairman

Aged 73. Joint Head of British Airways 1989. Chairman since 1981. Chairman, IEL Babcock Plc since 1972.



Sir Colin Marshall
Chief Executive

Aged 55. Joined Board of British Airways as Chief Executive 1983. Formerly President and Chief Executive Officer, Avis Inc., Director, Grand Metropolitan Plc, Midland Group Plc, and British Tourist Authority. (1,2)



Robert Henderson
Deputy Chairman

Aged 71. Chairman, Kleinwort Benson Group plc until 31 December 1988. Deputy Chairman, Cadbury Schweppes Plc. (1,2,3)



Michael Angus

Aged 59. Chairman Unilever Plc. Director, Whitbread and Co Plc and Thom FM Plc. (1,3)



Michael Davies

Aged 54. Director, Blue Arrow Plc, Calor Group PLC and T1 Group Plc. (1,2,3)



Captain Jack Jessop, CBE

Aged 68. Former Flight Operations Director and Director of Safety Services, British Airways. (2)



Sir Francis Kennedy, KCMG, CBE

Aged 63. Special Adviser to chairman and Board, Diplomatic Service, 1964-86. Director, Fluor Daniel, and Smith and Nephew. (2)



Henry Lambert

Aged 63. Chairman, Sun Alliance and London Insurance Group plc. Director, Agricultural Mortgage Corporation. Former Deputy Chairman, Barclays Bank Plc. (1,2,3)



Hon. Charles Price II
Aged 58. Former United States Ambassador to Great Britain. Director, Hanson Trust Plc, Texaco Inc and New York Times Company Inc.



Derek Stevens

Aged 50. Chief Financial Officer since 1 February 1989. Formerly Finance Director, TSB Group Plc. (1)

The numerals in brackets indicate membership of the following committees of the Board:

- (1) Audit Committee
- (2) Air Safety Review Committee
- (3) Remuneration Committee

Registered Office:
Speedbird House
Heathrow Airport (London)
Hounslow TW6 2JA
Telephone 01-759 5511
Registered number 1777777

EXECUTIVE DIRECTORS AND MANAGEMENT

*British
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Robert Ayling
*Secretary to Legal Director
and Director of Human
Resources*
Aged 42. Solicitor.
Joined British Airways
in 1985 from the Civil
Service where he was an
Under Secretary (Legal)
in the Department of
Trade and Industry

Captain Colin Barnes
Director of Flight Crew
Aged 55. Joined BOAC
as a pilot from the RAF
in 1955. Previously
Chief Pilot. Has flown
five aircraft types with
the airline and currently
operates on Boeing
757s.

David Burnside
Director of Public Affairs
Aged 37. Following a
career in commercial
press relations and
political lobbying,
joined British Airways
in 1984. Previously
Public Relations
Director for the
Institute of Directors.

Alistair Cumming
Director of Engineering
Aged 54. Joined British
Airways in 1984 from
Rolls-Royce plc, where
he had been
Manufacturing Director
at Bristol.

Dr Michael Davies
Director of Health Services
Aged 51. Joined British
Airways in 1987 from
BP where he was Head
of Group
Environmental Services,
BP International.

David Hyde
*Director of Safety, Security
and the Environment*
Aged 52. Chartered
engineer. Joined BOAC
in 1967 and has held
senior posts in the
Marketing, Operations
and Engineering
Departments of British
Airways.

Peter Owen
Director of Operations
Aged 41. Joined BOAC
in 1969. Formerly
Managing Director,
British Airports.

Liam Strong
Director of Marketing
Aged 44. Joined British
Airways in 1988.
Formerly President of a
US subsidiary of the
British consumer
products group, Reckitt
and Colman.

John Watson
*Director of Information
Management*
Aged 45. Joined BEA in
1971. Previously Head
of Computing and
Telecommunications for
the airline.

Graham Watts
*Director of Investor
Relations and Marketplace
Performance*
Aged 43. Chartered
engineer. Joined British
Airways in 1980 from
management consultants
Booz-Allen and
Hamilton Inc.

Keith Wilkins
Director of Planning
Aged 63. Joined BOAC
in 1951 as an operations
planning assistant, and
subsequently held
various senior planning
posts.

James Eyles 58 *Director of Fuel*
Robert Falkner 41 *Deputy Marketing Director*
Tony Galbraith 51 *Treasurer*
Clive Mason 45 *Director of Purchasing and Supply*
Dick May 52 *Deputy Director of Human Resources*

6. 8. 4. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100. 101. 102. 103. 104. 105. 106. 107. 108. 109. 110. 111. 112. 113. 114. 115. 116. 117. 118. 119. 120. 121. 122. 123. 124. 125. 126. 127. 128. 129. 130. 131. 132. 133. 134. 135. 136. 137. 138. 139. 140. 141. 142. 143. 144. 145. 146. 147. 148. 149. 150. 151. 152. 153. 154. 155. 156. 157. 158. 159. 160. 161. 162. 163. 164. 165. 166. 167. 168. 169. 170. 171. 172. 173. 174. 175. 176. 177. 178. 179. 180. 181. 182. 183. 184. 185. 186. 187. 188. 189. 190. 191. 192. 193. 194. 195. 196. 197. 198. 199. 200. 201. 202. 203. 204. 205. 206. 207. 208. 209. 210. 211. 212. 213. 214. 215. 216. 217. 218. 219. 220. 221. 222. 223. 224. 225. 226. 227. 228. 229. 230. 231. 232. 233. 234. 235. 236. 237. 238. 239. 240. 241. 242. 243. 244. 245. 246. 247. 248. 249. 250. 251. 252. 253. 254. 255. 256. 257. 258. 259. 260. 261. 262. 263. 264. 265. 266. 267. 268. 269. 270. 271. 272. 273. 274. 275. 276. 277. 278. 279. 280. 281. 282. 283. 284. 285. 286. 287. 288. 289. 290. 291. 292. 293. 294. 295. 296. 297. 298. 299. 300. 301. 302. 303. 304. 305. 306. 307. 308. 309. 310. 311. 312. 313. 314. 315. 316. 317. 318. 319. 320. 321. 322. 323. 324. 325. 326. 327. 328. 329. 330. 331. 332. 333. 334. 335. 336. 337. 338. 339. 340. 341. 342. 343. 344. 345. 346. 347. 348. 349. 350. 351. 352. 353. 354. 355. 356. 357. 358. 359. 360. 361. 362. 363. 364. 365. 366. 367. 368. 369. 370. 371. 372. 373. 374. 375. 376. 377. 378. 379. 380. 381. 382. 383. 384. 385. 386. 387. 388. 389. 390. 391. 392. 393. 394. 395. 396. 397. 398. 399. 400. 401. 402. 403. 404. 405. 406. 407. 408. 409. 410. 411. 412. 413. 414. 415. 416. 417. 418. 419. 420. 421. 422. 423. 424. 425. 426. 427. 428. 429. 430. 431. 432. 433. 434. 435. 436. 437. 438. 439. 440. 441. 442. 443. 444. 445. 446. 447. 448. 449. 450. 451. 452. 453. 454. 455. 456. 457. 458. 459. 460. 461. 462. 463. 464. 465. 466. 467. 468. 469. 470. 471. 472. 473. 474. 475. 476. 477. 478. 479. 480. 481. 482. 483. 484. 485. 486. 487. 488. 489. 490. 491. 492. 493. 494. 495. 496. 497. 498. 499. 500. 501. 502. 503. 504. 505. 506. 507. 508. 509. 510. 511. 512. 513. 514. 515. 516. 517. 518. 519. 520. 521. 522. 523. 524. 525. 526. 527. 528. 529. 530. 531. 532. 533. 534. 535. 536. 537. 538. 539. 540. 541. 542. 543. 544. 545. 546. 547. 548. 549. 550. 551. 552. 553. 554. 555. 556. 557. 558. 559. 560. 561. 562. 563. 564. 565. 566. 567. 568. 569. 570. 571. 572. 573. 574. 575. 576. 577. 578. 579. 580. 581. 582. 583. 584. 585. 586. 587. 588. 589. 590. 591. 592. 593. 594. 595. 596. 597. 598. 599. 600. 601. 602. 603. 604. 605. 606. 607. 608. 609. 610. 611. 612. 613. 614. 615. 616. 617. 618. 619. 620. 621. 622. 623. 624. 625. 626. 627. 628. 629. 630. 631. 632. 633. 634. 635. 636. 637. 638. 639. 640. 641. 642. 643. 644. 645. 646. 647. 648. 649. 650. 651. 652. 653. 654. 655. 656. 657. 658. 659. 660. 661. 662. 663. 664. 665. 666. 667. 668. 669. 670. 671. 672. 673. 674. 675. 676. 677. 678. 679. 680. 681. 682. 683. 684. 685. 686. 687. 688. 689. 690. 691. 692. 693. 694. 695. 696. 697. 698. 699. 700. 701. 702. 703. 704. 705. 706. 707. 708. 709. 710. 711. 712. 713. 714. 715. 716. 717. 718. 719. 720. 721. 722. 723. 724. 725. 726. 727. 728. 729. 730. 731. 732. 733. 734. 735. 736. 737. 738. 739. 740. 741. 742. 743. 744. 745. 746. 747. 748. 749. 750. 751. 752. 753. 754. 755. 756. 757. 758. 759. 760. 761. 762. 763. 764. 765. 766. 767. 768. 769. 770. 771. 772. 773. 774. 775. 776. 777. 778. 779. 780. 781. 782. 783. 784. 785. 786. 787. 788. 789. 790. 791. 792. 793. 794. 795. 796. 797. 798. 799. 800. 801. 802. 803. 804. 805. 806. 807. 808. 809. 810. 811. 812. 813. 814. 815. 816. 817. 818. 819. 820. 821. 822. 823. 824. 825. 826. 827. 828. 829. 830. 831. 832. 833. 834. 835. 836. 837. 838. 839. 8

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

FINANCIAL AFFIDAVIT

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 (2,204 lb), multiplied by the distance flown.

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.

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RESULTS AND DIVIDENDS

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.

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.

100

ACCOUNTS

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REPORT OF THE AUDITORS TO THE MEMBERS OF BRITISH AIRWAYS Plc

We have audited the accounts set out on Pages 18 to 37 in accordance with approved auditing standards. The accounts have been prepared under the historical cost convention as explained in the accounting policies.

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 1989 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.

Ernst & Whinney
Chartered Accountants
London

22 May 1989

British
Airways Plc
Report &
Accounts
1988-89

| | | Group | |
|---|--------|-------------------|-------------------|
| | Note | 1989
£ million | 1988
£ million |
| Turnover | 3 | 4,257 | 3,756 |
| Cost of sales | 4a | (3,816) | (3,413) |
| Gross profit | | 441 | 343 |
| Administrative expenses | 4a | (105) | (107) |
| OPERATING SURPLUS | 3 & 4b | 336 | 236 |
| Other income and charges | 5 | 18 | 12 |
| PROFIT BEFORE INTEREST PAYABLE AND TAXATION | | 354 | 248 |
| Interest payable and similar charges | 6 | (86) | (20) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 3 | 268 | 228 |
| Taxation | 7 | (93) | (77) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 175 | 151 |
| Dividends paid and proposed | 8 | (56) | (50) |
| RETAINED PROFIT FOR THE YEAR | 19 | 119 | 101 |
| Earnings per share | 9 | 24.3p | 21.0p |
| Dividends per share | 8 | 7.75p | 6.90p |

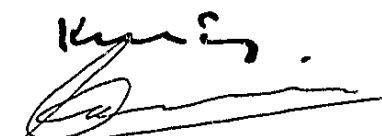
Movements in Reserves are shown in note 19 on Page 34.

As a consequence of the acquisition of British Caledonian Group plc (BCal) on 31 December 1987, the 1988 comparatives include the results of BCal for the three months ended 31 March 1988.

| | | Group | | Company | |
|---|------|-------------------|-------------------|-------------------|-------------------|
| | Note | 1989
£ million | 1988
£ million | 1989
£ million | 1988
£ million |
| FIXED ASSETS | | | | | |
| Tangible assets | | | | | |
| Flot | | 2,012 | 1,763 | 1,986 | 1,429 |
| Property | | 271 | 236 | 236 | 196 |
| Equipment | | 184 | 166 | 174 | 148 |
| | 10 | 2,467 | 2,165 | 2,396 | 1,773 |
| Investments | 11 | 111 | 40 | 200 | 82 |
| CURRENT ASSETS | | | | | |
| Stocks | 12 | 32 | 28 | 25 | 18 |
| Debtors | 13 | 796 | 706 | 752 | 623 |
| Short term loans and deposits | | 64 | 117 | 47 | 111 |
| Cash at bank | | 24 | 50 | 21 | 21 |
| | | 916 | 901 | 845 | 773 |
| CREDITORS: amounts falling due within one year | 14 | (1,748) | (1,471) | (1,741) | (1,260) |
| NET CURRENT LIABILITIES | | (832) | (570) | (896) | (487) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,746 | 1,635 | 1,700 | 1,368 |
| CREDITORS: amounts falling due after more than one year | 15 | (896) | (851) | (886) | (570) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 17 | (100) | (150) | (98) | (148) |
| | | 750 | 634 | 716 | 650 |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 18 | 180 | 180 | 180 | 180 |
| Reserves | 19 | | | | |
| Profit and loss account | | 411 | 248 | 369 | 258 |
| Revaluation | | 167 | 212 | 167 | 212 |
| Other | | (9) | (7) | | |
| SHAREHOLDERS' EQUITY | | 749 | 633 | 716 | 650 |
| MINORITY INTERESTS | | 1 | 1 | | |
| | | 750 | 634 | 716 | 650 |

Lord King of Wartnaby Chairman
Sir Colin Marshall Chief Executive
Derek Stevens Chief Financial Officer

22 May 1989





| | Note | Group | |
|---|----------|-------------------|-------------------|
| | | 1989
£ million | 1988
£ million |
| Group profit on ordinary activities before taxation | | 268 | 228 |
| Items not involving the movement of funds | | | |
| Depreciation | 2b & 10a | 307 | 216 |
| Other | | (7) | 22 |
| Disposals of fixed assets | 10a & 11 | 22 | 8 |
| FUNDS GENERATED | | 590 | 474 |
| Tax paid | | 78 | 16 |
| Dividends paid | | 52 | 46 |
| Net capital expenditure | | | |
| Tangible fixed assets | 10a | 619 | 469 |
| Investments | 11 | 79 | 30 |
| Purchase of shares in subsidiaries | | | |
| BCal | | | 253 |
| Other | | 1 | 6 |
| Increase/(decrease) in working capital | | | |
| Movement in debtors and stocks | | 94 | (1) |
| Movement in creditors and provisions | | 6 | (98) |
| FUNDS APPLIED | | 929 | 721 |
| Loans and finance leases - net amount raised | 16 | 260 | 179 |
| Decrease in bank and cash balances | | 79 | 68 |
| FUNDS PROVIDED | | 339 | 247 |

NOTES ON THE ACCOUNTS

For the year ended 31 March 1989

1 COMPARATIVE FIGURES

As a consequence of the acquisition of British Caledonian Group plc (BCal) on 31 December 1987, the 1988 comparatives include the results of BCal for the three months ended 31 March 1988. The airline business formerly operated by British Caledonian Airways Ltd was transferred to British Airways Plc on 14 April 1988.

2 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 subsidiaries, each made up to 31 March, together with the attributable share of results and reserves of related companies on the basis of their latest accounts. 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 book amounts of the remaining aircraft fleets were not adjusted at 31 March 1988, as market values were not significantly different from book amounts at that date.

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 in tangible fixed assets and written off over the initial lease period.

- iii) *Depreciation* Fleet assets owned, or held on finance leases where the option exercise price is nominal, 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. Fleet assets held on finance leases where the option exercise price is other than nominal are depreciated over the primary lease period if this is shorter.

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Note 2 (continued)

Operational lives and residual values 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 by lease arrangements (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 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 in excess of 20 per cent and not more than 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.

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 for substantially all employees from the following arrangements:

- a) funded pension schemes for UK employees which have been approved by the Inland Revenue;
- b) funded retirement and pension benefit schemes for employees engaged in many overseas territories; or
- c) terminal payments to employees in certain countries for which provision is made in the Group accounts. Annual contributions to funded schemes are made on the basis of rates recommended by actuaries and charged as incurred.

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 1989 was £1=US\$1.69 (31 March 1988: £1=US\$1.88).

3 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:

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| | Turnover | | Operating surplus/(deficit) | | Profit/(loss) before taxation | |
|---|--------------|--------------|-----------------------------|------------|-------------------------------|------------|
| | 1989
£m | 1988
£m | 1989
£m | 1988
£m | 1989
£m | 1988
£m |
| Airline operations | 4,132 | 3,523 | 340 | 241 | 282 | 235 |
| Package holidays | 102 | 217 | (3) | (6) | (10) | (9) |
| Other | 23 | 16 | (1) | 1 | (4) | 2 |
| | <u>4,257</u> | <u>3,756</u> | <u>336</u> | <u>236</u> | <u>268</u> | <u>228</u> |
| Turnover for Airline operations comprises: | | | | | | |
| Traffic revenue | | | | | | |
| Scheduled services | | | | | | |
| Passenger and excess baggage | 3,445 | 2,858 | | | | |
| Freight and mail | 343 | 287 | | | | |
| | <u>3,788</u> | <u>3,145</u> | | | | |
| Non-scheduled services | 111 | 165 | | | | |
| | <u>3,899</u> | <u>3,310</u> | | | | |
| Aircraft maintenance and other airline services | 233 | 213 | | | | |
| | <u>4,132</u> | <u>3,523</u> | | | | |

Airline operations comprise British Airways Plc and those subsidiary and related companies listed on Page 37 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 £70 million (1988: £97 million).

b Turnover attributable to the Group's and Airline's geographical market is:

| | Group | | Airline | |
|---------------------------------------|--------------|--------------|--------------|--------------|
| | 1989
£m | 1988
£m | 1989
£m | 1988
£m |
| UK | 453 | 378 | 431 | 358 |
| Continental Europe | 1,169 | 1,231 | 1,147 | 1,102 |
| Europe | 1,622 | 1,609 | 1,578 | 1,460 |
| The Americas | 1,374 | 1,175 | 1,320 | 1,116 |
| Africa | 323 | 237 | 315 | 225 |
| Middle East, Far East and Australasia | 938 | 735 | 919 | 722 |
| | <u>4,257</u> | <u>3,756</u> | <u>4,132</u> | <u>3,523</u> |

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.

Note 3 Analysis of Group turnover, operating surplus or loss before taxation (continued)

| | Group | | Airline | |
|--|------------|------------|------------|------------|
| | 1989
£m | 1988
£m | 1989
£m | 1988
£m |
| c Operating surplus attributable to the Group's and Airline's geographical markets is: | | | | |
| Europe | 16 | 36 | 22 | 42 |
| The Americas | 181 | 131 | 182 | 131 |
| Africa | 49 | 37 | 49 | 37 |
| Middle East, Far East and Australasia | 90 | 32 | 87 | 31 |
| | <u>336</u> | <u>236</u> | <u>340</u> | <u>241</u> |

The United Kingdom and Continental European services are operated by a specialised shorthaul fleet, the day to day operations of which are fully integrated. It remains impracticable to allocate certain overhead costs on a meaningful basis between the United Kingdom and Europe for the purpose of computing separate operating results. The operating results of these services are therefore combined under the heading "Europe". Operating surplus attributable to geographical markets is determined after allocation of fixed costs to routes, generally on a time basis, and of variable costs on the basis of resources and facilities used. Central overheads are allocated in line with fixed costs.

| | | Group | |
|--|--|--------------|--------------|
| | | 1989
£m | 1988
£m |
| 4 OPERATING SURPLUS | | | |
| a ANALYSIS OF OPERATING EXPENDITURE | | | |
| Cost of sales | | 3,816 | 3,413 |
| Administrative expenses | | 105 | 107 |
| Total operating expenditure | | <u>3,921</u> | <u>3,520</u> |
| Airline | | | |
| Staff costs | | 976 | 851 |
| Depreciation | | 305 | 214 |
| Aircraft operating lease costs | | 124 | 113 |
| Fuel and oil costs | | 417 | 394 |
| Engineering and other aircraft costs | | 244 | 217 |
| Landing fees and en route charges | | 294 | 264 |
| Handling charges, catering and other operating costs | | 427 | 338 |
| Selling costs | | 498 | 412 |
| Accommodation, ground equipment and other costs | | 507 | 479 |
| Total airline | | <u>3,792</u> | <u>3,282</u> |
| Non-airline | | 129 | 238 |
| Total operating expenditure | | <u>3,921</u> | <u>3,520</u> |

Note 4 Operating surplus (continued)

b THE RESULTS ARE ARRIVED AT AFTER CHARGING:

Depreciation of Group tangible fixed assets

Owned assets

Finance leased aircraft

Other leasehold interests

Operating lease costs

Lease rentals - aircraft

- property and equipment

Hire of equipment and charter of aircraft and crews

Auditors' remuneration

Directors' emoluments - fees

- other

| Group | |
|-----------|-----------|
| 1989 | 1988 |
| £m | £m |
| 246 | 182 |
| 46 | 23 |
| 15 | 11 |
| 307 | 216 |
| 124 | 113 |
| 44 | 38 |
| 18 | 20 |
| 186 | 171 |
| 1989 £ | 1988 £ |
| 855,000 | 892,000 |
| 120,000 | 268,987 |
| 1,716,470 | 802,925 |
| 1,836,470 | 1,071,912 |

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Other Directors' emoluments include performance related bonuses payable for the first time and additional pension contributions.

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

Chairman and 1989 highest paid Director

Highest paid Director - 1988 only

The other Directors' remuneration was within these ranges:

£5,001 - £10,000

£10,001 - £15,000

£20,001 - £25,000

£35,001 - £40,000

£140,001 - £145,000

£155,001 - £160,000

£370,001 - £375,000

Mr N G E Dunlop, a Director of the Company until 31 March 1989, was paid by way of compensation for loss of office £511,000 in respect of employment rights and £384,000 in respect of pension rights.

| Group and Company | |
|-------------------|---------|
| 1989 £ | 1988 £ |
| 385,791 | 178,050 |
| | 252,568 |
| Number | Number |
| 1 | |
| 5 | 5 |
| 1 | 1 |
| 1 | |
| | 1 |
| 1 | |

d EMPLOYEES

Employees of the Group in the United Kingdom, other than

Directors, who earned over £30,000 in the year:

£30,001 - £35,000

£35,001 - £40,000

£40,001 - £45,000

£45,001 - £50,000

£50,001 - £55,000

£55,001 - £60,000

£60,001 - £65,000

£65,001 - £70,000

£70,001 - £75,000

£75,001 - £80,000

£80,001 - £85,000

£85,001 - £90,000

£90,001 - £95,000

£95,001 - £100,000

£100,001 - £105,000

£105,001 - £110,000

£110,001 - £115,000

£115,001 - £120,000

£120,001 - £125,000

£155,001 - £160,000

| Group number | |
|--------------|-------|
| 1989 | 1988 |
| 371 | 873 |
| 583 | 398 |
| 450 | 282 |
| 350 | 379 |
| 313 | 223 |
| 289 | 145 |
| 190 | 62 |
| 147 | 12 |
| 109 | 7 |
| 45 | 3 |
| 11 | 4 |
| 11 | 2 |
| 1 | |
| | 2 |
| 2 | |
| | 1 |
| 2 | |
| 1 | |
| 2 | |
| 1 | |
| 2,878 | 2,393 |

Note 4 Operating surplus (continued)

| | | | Group | |
|---|---------------|--------------|---------------|---------------|
| | UK | Overseas | 1989
Total | 1988
Total |
| c STAFF NUMBERS AND COSTS | | | | |
| The average number of persons employed in the Group worldwide during the year was as follows: | | | | |
| Airline operations | 42,242 | 6,518 | 48,760 | 42,709 |
| Package holidays | 447 | 28 | 475 | 697 |
| Other | 928 | 41 | 969 | 563 |
| | <u>43,617</u> | <u>6,587</u> | <u>50,204</u> | <u>43,969</u> |
| | | | £ million | £ million |
| The aggregate payroll costs of these persons were as follows: | | | | |
| Wages and salaries, including staff bonus | | | 876 | 727 |
| Social security costs | | | 76 | 62 |
| Contributions to pension schemes | | | 83 | 79 |
| | | | <u>1,035</u> | <u>868</u> |
| 5 OTHER INCOME AND CHARGES | | | | |
| Interest receivable | | | 16 | 23 |
| Surplus/(deficit) on disposal of fixed assets | | | 11 | (4) |
| Share of results of and provision for losses in related companies | | | (13) | (4) |
| Income from trade investments | | | 2 | |
| Amounts written off investments | | | 1 | (2) |
| Other | | | 1 | (1) |
| | | | <u>18</u> | <u>12</u> |
| 6 INTEREST PAYABLE AND SIMILAR CHARGES | | | | |
| Interest payable: | | | | |
| On bank loans | | | | |
| Repayable wholly within five years | | | 12 | 9 |
| Repayable in whole or in part after five years | | | 3 | 2 |
| On finance leases | | | | |
| Repayable wholly within five years | | | 2 | 6 |
| Repayable in whole or in part after five years | | | 18 | 3 |
| On other loans | | | | |
| Repayable wholly within five years | | | 1 | 5 |
| Repayable in whole or in part after five years | | | 61 | 16 |
| Interest capitalised | | | (26) | (10) |
| | | | <u>71</u> | <u>31</u> |
| Currency losses/(profits) on revaluation of general purpose loans at year end | | | 15 | (11) |
| | | | <u>86</u> | <u>20</u> |

The average rate of interest on loans, excluding finance leases, was 10.3% (1988: 10.2%). 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 9.5% to 14.4% (1988: 8.6% to 10.6%).

Changes in the sterling value of foreign currency loans and finance leases used specifically for the acquisition of aircraft and investments have been included in the cost of those assets. This gives rise to an increase of £2 million (1988: a reduction of £13 million) in the cost of aircraft (see notes 10(a) and 10(b)) and an increase of £1 million (1988: Nil) in the cost of investments (see note 11).

7 TAXATION (see also note 20)

United Kingdom
Corporation tax at 35%
Deferred taxation
Prior year adjustment

Overseas

| Group | |
|---------|---------|
| 1989 £m | 1988 £m |
| 89 | 82 |
| 6 | |
| (3) | (6) |
| 92 | 76 |
| 1 | 1 |
| 93 | 77 |

If full provision for deferred taxation had been made at 35% there would have been an additional charge in the year of £26 million (1988: £17 million).

8 DIVIDENDS

Interim dividend of 2.5p per share (1988: 2.25p per share)
Final dividend of 5.25p per share (1988: 4.65p per share)

| Group and Company | |
|-------------------|------------|
| 1989 £ | 1988 £ |
| 18,011,348 | 16,204,500 |
| 37,824,225 | 33,501,041 |
| 55,835,573 | 49,705,541 |

9 EARNINGS PER SHARE

Earnings per share is calculated as follows:
Profit after taxation, attributable to shareholders
Weighted average number of ordinary shares in issue
Basic earnings per share

| Group | |
|-------------|-------------|
| 1989 | 1988 |
| £175m | £151m |
| 720,454,006 | 720,452,499 |
| 24.3p | 21.0p |

The dilution in earnings per share arising from the exercise of share options in issue is not significant.

| | | | | Total | |
|--|------------|--------------|-----------------|------------------|-------|
| | | | | 1989 | 1988 |
| | | | | £ m | £ m |
| 10 TANGIBLE ASSETS | | Fleet
£ m | Property
£ m | Equipment
£ m | |
| a GROUP | | | | | |
| COST OR VALUATION | (note 10c) | | | | |
| Balance 1 April | | 2,992 | 352 | 335 | 3,679 |
| Adjustments to opening balance | | | | | |
| – exchange | (note 6) | 2 | | | 2 |
| – other | | 6 | 1 | | 7 |
| Additions | | 543 | 49 | 70 | 662 |
| Assets of subsidiaries acquired | | | | | 351 |
| Increase in valuation | (note 10c) | | | | 199 |
| Disposals | | (88) | (1) | (5) | (94) |
| Reclassifications | | 1 | | (1) | |
| Refund of progress payments | | (43) | | | (43) |
| BALANCE 31 MARCH | | 3,413 | 401 | 399 | 4,213 |
| DEPRECIATION | | | | | |
| Balance 1 April | | 1,229 | 116 | 169 | 1,514 |
| Adjustments to opening balance | | | | | |
| – exchange | (note 19) | 1 | | | 1 |
| – other | | 4 | 2 | (1) | 5 |
| Charge for the year | | 242 | 13 | 52 | 307 |
| Release on valuation | (note 10c) | | | | (78) |
| Disposals | | (76) | (1) | (4) | (81) |
| Reclassifications | | 1 | | (1) | |
| BALANCE 31 MARCH | | 1,401 | 130 | 215 | 1,746 |
| NET BOOK AMOUNTS | | | | | |
| 31 March 1989 | | 2,012 | 271 | 184 | 2,467 |
| 31 March 1988 | | 1,763 | 236 | 166 | 2,165 |
| UTILISATION AT 31 MARCH | | | | | |
| Assets in current use | | | | | |
| Owned | | 1,374 | 255 | 129 | 1,758 |
| Finance leased | | 195 | | 7 | 202 |
| Progress payments | | 443 | 16 | 48 | 507 |
| | | 2,012 | 271 | 184 | 2,467 |
| THE NET BOOK AMOUNT OF PROPERTY COMPRISES: | | | | | |
| Freehold | | | | | 64 |
| Long leasehold | | | | | 14 |
| Short leasehold | | | | | 193 |
| | | | | | 271 |
| | | | | | 236 |
| Revalued fleet and properties are included in the accounts at the following amounts | | | | | |
| Valued in 1984 – property | | | | | |
| Valued in 1988 – fleet | | | | | |
| | | £ m | £ m | £ m | £ m |
| | | 57 | 30 | 27 | 32 |
| | | 1,219 | 691 | 528 | 618 |
| Total – 31 March 1989 | | 1,276 | 721 | 555 | |
| Total – 31 March 1988 | | 1,268 | 618 | | 650 |
| If these assets had not been revalued they would have been included at the following amounts | | | | | |
| 31 March 1989 | | 1,052 | 734 | 318 | |
| 31 March 1988 | | 1,045 | 687 | | 358 |

Note 10 Tangible assets (continued)

| | | | | Total | | British Airways Plc
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|---|--|------------|-----------------------|---------------------|------------------|--|
| | | | | 1989
£ m | 1988
£ m | |
| b | COMPANY | | Fleet
£ m | Property
£ m | Equipment
£ m | |
| | COST OR VALUATION | (note 10c) | | | | |
| | Balance 1 April | | 2,592 | 307 | 304 | 3,203 |
| | Adjustments to opening balance | | | | | 2,649 |
| | - exchange | (note 6) | 2 | | | 2 |
| | - other | | 6 | 1 | | 7 |
| | Additions | | 538 | 27 | 64 | 629 |
| | Increase in valuation | (note 10c) | | | | 452 |
| | Disposals | | (84) | (1) | (4) | 199 |
| | Transfers (to)/from Group companies | (note 10d) | 336 | 24 | 14 | (72) |
| | Reclassifications | | 1 | | (1) | (1) |
| | Refund of progress payments | | (43) | | | (43) |
| | BALANCE 31 MARCH | | 3,348 | 358 | 377 | 4,083 |
| | DEPRECIATION | | | | | 3,203 |
| | Balance 1 April | | 1,163 | 111 | 156 | 1,430 |
| | Adjustments to opening balance | | | | | 1,386 |
| | - exchange | (note 19) | 1 | | | 1 |
| | - other | | 5 | 2 | (1) | 6 |
| | Charge for the year | | 236 | 12 | 49 | 297 |
| | Release on valuation | (note 10c) | | | | 194 |
| | Disposals | | (72) | | (3) | (75) |
| | Transfers (to)/from Group companies | (note 10d) | 28 | (3) | 3 | 28 |
| | Reclassifications | | 1 | | (1) | |
| | BALANCE 31 MARCH | | 1,362 | 122 | 203 | 1,687 |
| | NET BOOK AMOUNTS | | | | | 1,430 |
| | 31 March 1989 | | 1,986 | 236 | 174 | 2,396 |
| | 31 March 1988 | | 1,429 | 196 | 148 | 1,773 |
| | UTILISATION AT 31 MARCH | | | | | |
| | Assets in current use | | | | | |
| | Owned | | 1,348 | 223 | 124 | 1,695 |
| | Finance leased | | 195 | | 7 | 202 |
| | Progress payments | | 443 | 13 | 43 | 499 |
| | | | 1,986 | 236 | 174 | 2,396 |
| | THE NET BOOK AMOUNT OF PROPERTY COMPRISES: | | | | | |
| | Freehold | | | | | 43 |
| | Long leasehold | | | | | 14 |
| | Short leasehold | | | | | 179 |
| | | | | | | 236 |
| | | | | | | 196 |
| | | | | | | Net book amount |
| | | | Valuation/cost
£ m | Depreciation
£ m | 1989
£ m | 1988
£ m |
| | Revalued fleet and properties are included in the accounts at the following amounts | | | | | |
| | Valued in 1984 - property | | 52 | 28 | 24 | 29 |
| | Valued in 1988 - fleet | | 1,219 | 691 | 528 | 618 |
| | Total - 31 March 1989 | | 1,271 | 719 | 552 | |
| | Total - 31 March 1988 | | 1,263 | 616 | | 647 |
| | If these assets had not been revalued they would have been included at the following amounts | | | | | |
| | 31 March 1989 | | 1,047 | 732 | 315 | |
| | 31 March 1988 | | 1,040 | 685 | | 355 |

Note 10 Tangible assets (continued)

c COST/VALUATION

Owned fleets of British Airways Boeing 737s, Boeing 747-136s, Boeing 747-236s (other than the newest aircraft), TriStar 1/50s, TriStar 200s 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 to British Airways Plc from Group companies relate mainly to fixed assets transferred from BCal following the transfer of business to British Airways Plc on 14 April 1988 and reflect the fair values of such assets.

e DEPRECIATION

Fleets are 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 16 years, according to the type of equipment.

f CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised but not provided for in the accounts amounts to:

| | Group | | Company | |
|--------------------------------------|--------------|--------------|--------------|--------------|
| | 1989 £ m | 1988 £ m | 1989 £ m | 1988 £ m |
| <i>Authorised and contracted</i> | 2,392 | 1,813 | 2,373 | 1,508 |
| <i>Authorised but not contracted</i> | 416 | 137 | 409 | 118 |
| | <u>2,808</u> | <u>1,950</u> | <u>2,782</u> | <u>1,626</u> |

£1,977 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, including under operating leases. 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 four year period to 31 March 1993.

g LEASING COMMITMENTS

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

i) FLEET

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 1989 £ m | 1988 £ m | 1989 £ m | 1988 £ m |
| <i>Within one year</i> | 153 | 107 | 153 | 101 |
| <i>Between one and five years</i> | 156 | 53 | 156 | 52 |
| <i>Over five years, ranging up to the year 1996</i> | 37 | | 37 | |
| | <u>346</u> | <u>160</u> | <u>346</u> | <u>153</u> |

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

| | Group | | Company | |
|-----------------------------------|------------|------------|------------|------------|
| | 1989 £ m | 1988 £ m | 1989 £ m | 1988 £ m |
| <i>Within one year</i> | 71 | 34 | 71 | 31 |
| <i>Between one and five years</i> | 54 | 73 | 54 | 70 |
| <i>Over five years</i> | 28 | | 28 | |
| | <u>153</u> | <u>107</u> | <u>153</u> | <u>101</u> |

ii) PROPERTY AND EQUIPMENT

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 1989 £ m | 1988 £ m | 1989 £ m | 1988 £ m |
| <i>Within one year</i> | 23 | 42 | 19 | 34 |
| <i>Between one and five years</i> | 67 | 79 | 56 | 58 |
| <i>Over five years, ranging up to the year 2075</i> | 164 | 237 | 148 | 168 |
| | <u>254</u> | <u>358</u> | <u>223</u> | <u>260</u> |

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

| | Group | | Company | |
|-----------------------------------|-----------|-----------|-----------|-----------|
| | 1989 £ m | 1988 £ m | 1989 £ m | 1988 £ m |
| <i>Within one year</i> | 5 | 4 | 4 | 2 |
| <i>Between one and five years</i> | 13 | 27 | 11 | 26 |
| <i>Over five years</i> | 5 | 11 | 4 | 6 |
| | <u>23</u> | <u>42</u> | <u>19</u> | <u>34</u> |

The fleet leasing commitments include: (i) the balance of the minimum three year rental obligations assumed under the operating leases for three Boeing 747 and one Boeing 757 aircraft, and (ii) an annual rental obligation for 16 Boeing 737s and nine Boeing 757s, these aircraft having completed the initial three year rental period. On completion of the three years the Company has a yearly option to renew the operating leases up to the sixth year or it has the option, at any time after three years, to convert the operating leases into finance leases for the period to 15 years from delivery of the aircraft. If these options are not exercised, the Company may be required to meet a small share of any loss on re-sale.

| 11 INVESTMENTS | Group | | Company | |
|--|----------|----------|----------|----------|
| | 1989 £ m | 1988 £ m | 1989 £ m | 1988 £ m |
| a GROUP COMPANIES | | | | |
| Investments at cost, less amounts written off | | | | |
| Balance 1 April – net of provision of £253m
(1 April 1987: Nil) | | | 55 | 40 |
| Additions | | | 87 | 270 |
| Exchange differences | | | 3 | |
| Transfers from Group companies | | | 5 | |
| Disposals | | | (1) | (1) |
| Provision movements | | | 14 | (253) |
| Other movements on advances | | | | (1) |
| Balance at 31 March – net of provision of £194m
(1988: £253m) | | | 163 | 55 |
| b RELATED COMPANIES AND TRADE INVESTMENTS | | | | |
| Balance 1 April – net of provision of £3m
(1 April 1987: £1m) | 40 | 5 | 27 | 2 |
| Acquisitions (investments of BCal) | | 12 | | |
| Additions | 79 | 30 | 13 | 27 |
| Exchange differences (note 6) | 1 | | | |
| Share of attributable profits/(losses) | | (5) | | |
| Transfers from Group companies | | | 4 | |
| Disposals | (9) | | | |
| Provisions | | (2) | (7) | (2) |
| Balance at 31 March – net of provision of £3m
(1988: £3m) | 111 | 40 | 37 | 27 |
| Analysis of balance at 31 March | | | | |
| Equity at cost less amounts written off | 119 | 46 | 36 | 26 |
| Advances at cost less amounts written off | 2 | 2 | 1 | 1 |
| Attributable reserves | (10) | (8) | | |
| | 111 | 40 | 37 | 27 |
| c TOTAL INVESTMENTS | | | | |
| Unlisted | | | | |
| Group companies | | | 163 | 55 |
| Related companies | 16 | 16 | 11 | 5 |
| Trade investments | 74 | 3 | 5 | 1 |
| Listed – UK | | | | |
| Trade investments | 21 | 21 | 21 | 21 |
| | 111 | 40 | 200 | 82 |
| d VALUATION | | | | |
| Aggregate value attributed by the Directors to
unlisted related companies and trade investments | 96 | 27 | | |
| Market value of listed investments | 9 | 15 | | |

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 1989 £m | 1988 £m | 1989 £m | 1988 £m |
| 12 STOCKS | | | | |
| Raw materials, consumables and work in progress | 32 | 28 | 25 | 18 |
| The replacement cost of stocks is not considered to be materially different from their balance sheet values. | | | | |
| 13 DEBTORS | | | | |
| Trade debtors | 660 | 576 | 633 | 474 |
| Amounts owed by Group companies | | | 14 | 68 |
| Amounts owed by Related companies | 12 | 9 | 10 | 2 |
| Other debtors | 30 | 44 | 25 | 29 |
| Prepayments and accrued income | 94 | 77 | 70 | 50 |
| | <u>796</u> | <u>706</u> | <u>752</u> | <u>623</u> |
| 14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | | | | |
| Loans and finance leases (note 16) | | | | |
| Bank and other loans | 210 | 3 | 210 | |
| Finance leases | 28 | 26 | 28 | 7 |
| | <u>238</u> | <u>29</u> | <u>238</u> | <u>7</u> |
| Overdrafts – secured | | 7 | | |
| – unsecured | 2 | 1 | | |
| Trade creditors | 601 | 566 | 555 | 447 |
| Amounts owed to Group companies | | | 89 | 56 |
| Amounts owed to Related companies | 3 | 2 | 2 | |
| Other creditors including taxation and social security | | | | |
| Other creditors | 56 | 86 | 48 | 70 |
| Corporate taxation | 88 | 93 | 80 | 92 |
| Other taxation and social security | 22 | 21 | 21 | 15 |
| | <u>166</u> | <u>200</u> | <u>149</u> | <u>177</u> |
| Proposed dividend | 38 | 34 | 38 | 34 |
| Accruals and deferred income | | | | |
| Sales in advance of carriage | 557 | 478 | 529 | 392 |
| Accruals and deferred income | 143 | 154 | 141 | 147 |
| | <u>700</u> | <u>632</u> | <u>670</u> | <u>539</u> |
| | <u>1,748</u> | <u>1,471</u> | <u>1,741</u> | <u>1,260</u> |
| 15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | | | | |
| Loans and finance leases (note 16) | | | | |
| Bank and other loans | 649 | 593 | 492 | 389 |
| Finance leases | 221 | 226 | 221 | 19 |
| Loan from Group company | | | 148 | 133 |
| | <u>870</u> | <u>819</u> | <u>861</u> | <u>541</u> |
| Amounts owed to Related companies | 1 | 1 | | |
| Accruals and deferred income | 25 | 31 | 25 | 29 |
| | <u>896</u> | <u>851</u> | <u>886</u> | <u>570</u> |

16 LOANS AND FINANCE LEASES

a TOTAL LOANS AND FINANCE LEASES

Loans

Bank

Euro-sterling notes

Other

– US dollar

– Sterling

Loan from Group company

Finance leases – US dollar

– Sterling

| Group | | Company | |
|------------------------------------|------------------------------------|-----------------------------------|----------------------------------|
| 1989 £ m | 1988 £ m | 1989 £ m | 1988 £ m |
| 235 | 127 | 226 | 124 |
| 300 | 200 | 300 | 200 |
| <div>\$265m</div> <div>£167m</div> | <div>\$265m</div> <div>£128m</div> | <div>\$15m</div> <div>£167m</div> | <div>\$15m</div> <div>£57m</div> |
| 324 | 269 | 176 | 65 |
| | | <div>\$250</div> | <div>\$250</div> |
| | | 148 | 133 |
| <div>\$15m</div> <div>£240m</div> | <div>\$50m</div> <div>£226m</div> | <div>\$15m</div> <div>£240m</div> | <div>\$50m</div> |
| 249 | 252 | 249 | 26 |
| 1,108 | 848 | 1,099 | 548 |

Other loans and finance leases to the amount of £25 million (1988: £25 million) are guaranteed as to principal and interest by HM Treasury. These guarantees will remain in force for the life of these loans or leases. In the event that any such guarantee is called, the undertaking and all property and revenues of British Airways would be charged with the repayment of any monies paid thereunder with priority from the date on which British Airways committed to or incurred the liability.

Included in the other sterling loans are loan notes amounting to £36 million (1988: £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.

Comprising:

Bank loans

Repayable wholly within five years

Repayable in whole or in part after five years

| | | | |
|-----|-----|-----|-----|
| 208 | 3 | 206 | |
| 27 | 124 | 20 | 124 |
| 235 | 127 | 226 | 124 |

Other loans and finance leases

Repayable wholly within five years

Repayable in whole or in part after five years

| | | | |
|-------|-----|-------|-----|
| 28 | 43 | 28 | 35 |
| 845 | 678 | 845 | 389 |
| 873 | 721 | 873 | 424 |
| 1,108 | 848 | 1,099 | 548 |

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

b INCIDENCE OF REPAYMENTS – INSTALMENTS FALLING DUE:

Within one year

(note 14)

After more than one year

(note 15)

Between one and two years

Between two and five years

In five years or more

| Bank
loans
£ m | Other
loans
£ m | Finance
leases
£ m | Group total | |
|----------------------|-----------------------|--------------------------|-------------|----------|
| | | | 1989 £ m | 1988 £ m |
| 206 | 4 | 28 | 238 | 29 |
| 2 | 4 | 30 | 36 | 42 |
| 1 | 25 | 79 | 105 | 175 |
| 26 | 591 | 112 | 729 | 602 |
| 29 | 620 | 221 | 870 | 819 |
| 235 | 624 | 249 | 1,108 | |
| 127 | 469 | 252 | | 848 |
| 226 | 476 | 249 | 951 | 415 |
| 9 | 148 | | 157 | 433 |
| 235 | 624 | 249 | 1,108 | 848 |

Total 1989

Total 1988

Analysis of total 1989

British Airways Plc

Subsidiary companies

17 PROVISIONS FOR LIABILITIES AND CHARGES GROUP

| | Balance
1 April
£ m | Transfers
from profit
and loss
account
£ m | Other
movements
£ m | Provisions
applied
£ m | Balance
31 March
£ m |
|---|---------------------------|--|---------------------------|------------------------------|----------------------------|
| Pensions and similar obligations | 23 | 3 | | (4) | 22 |
| Deferred taxation (note 20) | (9) | 6 | 10 | | 7 |
| Other provisions | | | | | |
| Litigation provision (note 24) | 25 | | | (60) | 25 |
| Re-organisation expenses (BCal acquisition - see below) | 90 | | | (4) | 30 |
| Sundry | 21 | (3) | 2 | | 16 |
| | 136 | (3) | 2 | (64) | 71 |
| Total 1989 | 150 | 6 | 12 | (68) | 100 |
| Total 1988 | 66 | 3 | 84 | (3) | 150 |
| Analysis of total 1989 | | | | | |
| British Airways Plc | 148 | 6 | 12 | (68) | 98 |
| Subsidiary companies | 2 | | | | 2 |
| | 150 | 6 | 12 | (68) | 100 |

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. The balance carried forward mainly relates to costs still to be incurred in respect of contract termination payments and bringing aircraft and property to British Airways' standards.

18 SHARE CAPITAL

| | Company | |
|--|-------------|-------------|
| | 1989 | 1988 |
| Authorised | | |
| 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 | 720,461,442 | 720,452,499 |
| Share options | | |
| Number of ordinary shares of 25p each under option | 56,161,574 | 36,592,090 |
| Dates exercisable | 1990 - 1998 | 1990 - 1997 |
| Price per share | 135p - 225p | 161p - 225p |

Options over 8,779 shares at 161p per share and 164 shares at 202p per share were exercised during the period, under the special case provisions of the Employee Share schemes.

19 RESERVES

| | Distributable | Non-distributable | | Total | |
|--|-----------------------------------|-------------------------------|-------------------------|-------------|-------------|
| | Profit and
loss account
£ m | Revaluation
reserve
£ m | Other
reserve
£ m | 1989
£ m | 1988
£ m |
| a GROUP | | | | | |
| Balance 1 April | 248 | 212 | (7) | 453 | 425 |
| Retained profit for the year | 119 | | | 119 | 101 |
| Valuation of aircraft fleets | | | | | 277 |
| Transfers relating to valued assets | 45 | (45) | | | |
| Exchange adjustments - Fleet assets (note 10a) | (1) | | | (1) | 6 |
| Purchased Goodwill written off | | | | | (357) |
| Other movements | | | (2) | (2) | 1 |
| Balance 31 March | 411 | 167 | (9) | 569 | 453 |

Note 19 Reserves (continued)

| | Distributable | Non-distributable | | Total | | British Airways Plc
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|---|-----------------------------------|-------------------------------|-------------------------|-------------|-------------|--|
| | Profit and
loss account
£ m | Revaluation
reserve
£ m | Other
reserve
£ m | 1989
£ m | 1988
£ m | |
| b COMPANY | | | | | | |
| Balance 1 April | 258 | 212 | | 470 | 415 | |
| Retained profit for the year: | | | | | | |
| Trading results | 101 | | | 101 | 26 | |
| Absorption of BCal liabilities on transfer of the business to British Airways Plc | (36) | | | (36) | (253) | |
| Valuation of aircraft fleets | | | | | 277 | |
| Transfers relating to valued assets | 45 | (45) | | | | |
| Exchange adjustments - Fleet assets (note 10a) | (1) | | | (1) | 6 | |
| Other movements | 2 | | | 2 | (1) | |
| Balance 31 March | 369 | 167 | | 536 | 470 | |
| | | Group | | Company | | |
| 20 DEFERRED TAXATION (see also notes 7 and 17) | | 1989 £ m | 1988 £ m | 1989 £ m | 1988 £ m | |
| Deferred taxation comprises: | | | | | | |
| Timing differences in respect of property valuations | | 2 | 2 | 2 | 2 | |
| Accelerated capital allowances and other timing differences | | 17 | | 17 | | |
| Advance Corporation Tax on proposed dividend available for offset | | (12) | (11) | (12) | (11) | |
| | | 7 | (9) | 7 | (9) | |
| If full provision for deferred taxation at 35% had been made, the following amounts would have been required at 31 March: | | | | | | |
| Accelerated capital allowances, less unrelieved losses | | 355 | 316 | 356 | 325 | |
| Advance Corporation Tax payable | | (12) | (11) | (12) | (11) | |
| Other timing differences | | (67) | (84) | (69) | (86) | |
| Timing differences in respect of property valuation | | 2 | 2 | 2 | 2 | |
| | | 278 | 223 | 277 | 230 | |
| | | Group | | Company | | |
| 21 FORWARD TRANSACTIONS IN FOREIGN CURRENCY | | | | 1989 | 1988 | |
| The Group had the following forward purchase contracts outstanding: | | | | | | |
| Maturing within one year | | | | | | |
| - to cover payments in US dollars | | | | \$724m | \$170m | |
| - to cover payments in other currencies | | | | £3m | £32m | |
| Maturing after one year | | | | | | |
| - to cover payments in US dollars | | | | \$165m | \$408m | |

These forward purchase contracts have been entered into for future instalments on fleet additions and loan repayments.

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 of 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 Brinscall Associates under which £42,500 has been paid for the services of Sir Francis Kennedy as Special Adviser to the Chairman and Board.

23 PENSION COSTS

British Airways operates two defined pension schemes in the UK, the Airways Pension Scheme (APS) which is closed to new members and the New Airways Pension Scheme (NAPS) to which all new full time permanent staff over the age of 18 employed by the Company and certain subsidiaries in the UK may become members.

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in line with inflation. 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 inflation increases up to a maximum of 5% in any one year.

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

Employees' contributions, as a percentage of pensionable pay, range between 5.75% and 8.5% based on full pensionable pay to APS, and between 3.75% and 6.5% based on full pensionable pay less one and a half times the lower earnings limit to NAPS.

Contributions by the employer during the year were an average of 2.1 times (1987: 2.5 times) the employees' contribution to APS and an average of 2.9 times (1988: 3.3 times) the employees' contribution to NAPS.

| | Group | |
|---|----------|----------|
| | 1989 £ m | 1988 £ m |
| Employers' contributions charged in the accounts were: | | |
| Airways Pension Scheme | 37 | 41 |
| New Airways Pension Scheme | 41 | 31 |
| Other pension schemes and provident funds - mainly outside the United Kingdom | 5 | 7 |
| | <hr/> 83 | <hr/> 79 |
| UK staff | 78 | 73 |
| Overseas staff | 5 | 6 |
| | <hr/> 83 | <hr/> 79 |

An actuarial valuation of the funds of the Schemes is made at intervals not exceeding three years. The latest valuation at 30 June 1986 disclosed current, deferred and prospective liabilities which are fully covered by a combination of existing assets and the present value of future employer/employee contributions. On 1 April 1988, the vast majority of BCal employees transferred to British Airways Plc.

The reduction in the employer's contributions this year, expressed as an average multiple of the employees' contributions, was made on a recommendation of the actuaries. A full actuarial valuation of the schemes at March 1989 will be available later in 1989.

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 £110 million (1988: £81 million) and for the Company £281 million (1988: £243 million); the figure for the Company includes £148 million in respect of borrowing by a subsidiary at 31 March 1989.

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 17).

GROUP COMPANIES

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

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Airline operations

British Caledonian Group plc

Caledonian Airways Ltd

(a subsidiary of British Caledonian Group plc)

British Airways Engine Overhaul Ltd

British Airways Australia (Holdings) Pty Ltd

Air Miles Travel Promotions Ltd

(51% of ordinary shares owned)

British Airways Finance BV

Speedbird Insurance Co Ltd

BritAir Acquisition Corp Inc

Principal activities

Holding company

Airline operations

Country of incorporation

Scotland

England

Aircraft engine overhaul

Holding company

Airline marketing

England

Australia

England

Airline finance

Airline insurance

Holding company

Netherlands

Bermuda

USA

Package holidays

Alta Holidays Ltd

(51% of ordinary and preference shares owned)

British Airways Tour Operations Ltd

British Airways Holidays Ltd

(a subsidiary of British Airways Tour Operations Ltd)

Overseas Air Travel Ltd

Package holidays

Holding company

Package holidays

Package holidays

England

England

England

England

Other activities

Travel Automation Services Ltd

Bedford Associates Inc

(100% of "A" Shares and 16% of "B" Shares owned,

equivalent to 91.6% of voting rights; a subsidiary of

BritAir Acquisition Corp Inc)

British Airways Associated Companies Ltd

British Airways Enterprises Ltd

British Airways Pension Administration Ltd

Chartridge Centre Ltd

Computer reservations systems

Specialist computer software

England

USA

Management services

Retailing

Pensions scheme management

Conference and training services

England

England

England

England

RELATED COMPANIES

% of equity
owned

Concorde International Travel Pty Ltd

World Aviation Systems (Australia) Pty Ltd

British Caledonian Flight Training Ltd

Ogden Allied (Gatwick) Ltd

The AirPlus Company Ltd

Redwing Holidays Ltd

The Galileo Company Ltd

50

50

50

40

25

50

20

Principal activities

Airline marketing

Airline marketing

Airline training

Airline handling services

Charge card services

Package holidays

Computer reservations systems

Country of incorporation and principal operations

Australia

Australia

England

England

England

England

England

TRADE INVESTMENTS

Covia Partnership

Hogg Robinson plc

(subsequently increased to 12.4%)

The Plimsoll Line Ltd

(equivalent to 14% of voting rights)

11

9.7

40

Computer reservations systems

Retailing

Airline holding company

USA

England

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 at 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 year end rates of exchange, are included in the determination of net income. When such contracts mature, the original exchange gain or loss is reversed for US GAAP reconciliation purposes.

vi) *Dividends* Under US GAAP dividends are only incorporated in financial statements when declared. The proposed final dividend, and related Advance Corporation Tax, would not therefore have been included in the 31 March 1989 financial statements prepared in accordance with US GAAP.

vii) *Foreign currency translation* British Airways adjusts the cost of certain aircraft and 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 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.

ACCOUNTING FOR PENSIONS

British Airways has not applied the provisions of FAS 87 "Employers' Accounting for Pensions", which is effective for pension plans outside the US for fiscal years beginning after 15 December 1988. The effect that the

implementation of this statement would have on British Airways' US GAAP information has not yet been quantified.

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 40 and 41.

The pounds sterling amounts on Pages 40 and 41 have been translated into US dollars at the 31 March 1989 exchange rate of £1 = \$1.69 (1988: £1 = \$1.88), merely for the convenience of the reader.

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| | Group | | | |
|--|---------------------------|-------|-------|-----------|
| | 1989 | 1988 | 1989 | 1988 |
| | £ m | £ m | \$ m | \$ m |
| Income after taxation as reported in the consolidated statements of income | 175 | 151 | 296 | 284 |
| Estimated adjustments: | | | | |
| Depreciation | | | | |
| Goodwill | (9) | (2) | (15) | (4) |
| Fleet | 59 | 5 | 99 | 9 |
| Property | | 2 | | 4 |
| Other income/(charges) | | | | |
| Exchange gains/(losses) | | | | |
| Arising on translation of cost of aircraft | (2) | 13 | (3) | 24 |
| Relating to forward exchange contracts | 32 | (21) | 54 | (39) |
| Arising on translation of investments | (1) | | (2) | |
| Surplus on disposal of tangible fixed assets and investments | | 1 | | 2 |
| Deferred taxation | (58) | 37 | (98) | 70 |
| | 21 | 35 | 35 | 66 |
| Estimated net income as adjusted to accord with US GAAP | 196 | 186 | 331 | 350 |
| Per Ordinary Share as so adjusted | Pence | Pence | Cents | Cents |
| Net income | 27.2 | 25.8 | 45.9 | 48.6 |
| Per American Depositary Share as so adjusted | | | | |
| Net income | 272 | 258 | 459 | 486 |
| | Conversion rate £1=\$1.69 | | | £1=\$1.88 |

SHAREHOLDERS' EQUITY UNDER US GAAP
As 31 March 1989

| | Group | | | |
|---|-------|-------|---------------------------|-----------|
| | 1989 | 1988 | 1989 | 1988 |
| | £ m | £ m | \$ m | \$ m |
| Shareholders' equity as reported in the consolidated balance sheets | 749 | 633 | 1,266 | 1,190 |
| Estimated adjustments: | | | | |
| Intangible assets | | | | |
| Goodwill | 352 | 361 | 595 | 679 |
| Tangible assets | | | | |
| Fleet | (248) | (306) | (419) | (575) |
| Property | (15) | (15) | (25) | (28) |
| Investments | (1) | | (2) | |
| Current liabilities | | | | |
| Proposed dividend | 38 | 34 | 64 | 64 |
| Deferred losses on forward exchange contracts | | (13) | | (25) |
| Long-term liabilities | | | | |
| Deferred losses on forward exchange contracts | | (19) | | (36) |
| Provisions for liabilities and charges | | | | |
| Deferred taxation | (182) | (124) | (308) | (233) |
| | (56) | (82) | (95) | (154) |
| Estimated shareholders' equity as adjusted to accord with US GAAP | 693 | 551 | 1,171 | 1,036 |
| | | | Conversion rate £1=\$1.69 | £1=\$1.88 |

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GROUP PROFIT AND
 LOSS ACCOUNT

| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1987-88 | 1988-89 |
|---|---------|---------|---------|---------|---------|---------|---------|
| | £ m | £ m | £ m | £ m | £ m | \$ m | \$ m |
| Turnover | 3,943 | 3,149 | 3,263 | 3,756 | 4,257 | 7,061 | 7,194 |
| Operating expenditure | (2,651) | (2,951) | (3,090) | (3,520) | (3,921) | (6,617) | (6,626) |
| Operating surplus | 292 | 198 | 173 | 236 | 336 | 444 | 568 |
| Other income and charges | 12 | 36 | 19 | 12 | 18 | 23 | 30 |
| Interest payable and
similar charges | (113) | (39) | (30) | (20) | (86) | (38) | (145) |
| Profit on ordinary activities
before taxation | 191 | 195 | 162 | 228 | 268 | 429 | 453 |
| Taxation and
minority interests | (5) | (2) | (14) | (77) | (93) | (145) | (157) |
| Profit for the year before
extraordinary items | 186 | 193 | 148 | 151 | 175 | 284 | 296 |
| Extraordinary items | (12) | (12) | 4 | — | — | — | — |
| Profit for the year after
extraordinary items | 174 | 181 | 152 | 151 | 175 | 284 | 296 |
| Dividends | — | — | (30) | (50) | (56) | (94) | (95) |
| Retained profit for the year | 174 | 181 | 122 | 101 | 119 | 190 | 201 |

Notes:
 US \$ figures quoted in the last two columns are a conversion of the £ sterling figures using conversion rates 1987-88 £1=\$1.88 and 1988-89 £1=\$1.69.

GROUP BALANCE SHEET

| | 1985
£m | 1986
£m | 1987
£m | 1988
£m | 1989
£m |
|---|------------|------------|------------|------------|------------|
| Fixed assets | | | | | |
| Tangible assets | 1,247 | 1,315 | 1,300 | 2,165 | 2,467 |
| Investments | 4 | 5 | 5 | 40 | 111 |
| Current assets | 710 | 593 | 777 | 901 | 916 |
| Creditors: amounts falling due within one year | (998) | (988) | (1,140) | (1,431) | (1,748) |
| Net current liabilities | (288) | (395) | (363) | (570) | (832) |
| Total assets less current liabilities | 963 | 925 | 912 | 1,635 | 1,746 |
| Creditors: amounts falling due after more than one year | (591) | (340) | (270) | (851) | (896) |
| Provisions for liabilities and charges | (85) | (103) | (66) | (150) | (100) |
| | 287 | 482 | 606 | 634 | 750 |
| Capital and reserves | | | | | |
| Called up share capital | 180 | 180 | 180 | 180 | 180 |
| Reserves | 106 | 300 | 425 | 453 | 569 |
| Shareholders' equity | 286 | 480 | 605 | 633 | 749 |
| Minority interests | 1 | 2 | 1 | 1 | 1 |
| | 287 | 482 | 606 | 634 | 750 |

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GROUP SOURCE AND APPLICATION OF FUNDS

| | 1984-85
£m | 1985-86
£m | 1986-87
£m | 1987-88
£m | 1988-89
£m |
|--|---------------|---------------|---------------|---------------|---------------|
| Group profit before tax | 191 | 195 | 162 | 228 | 268 |
| Items not involving the movement of funds | | | | | |
| Depreciation | 146 | 162 | 188 | 216 | 307 |
| Other | (18) | 55 | (14) | 22 | (7) |
| Disposals of fixed assets | 30 | 14 | 23 | 8 | 22 |
| FUNDS GENERATED | 349 | 426 | 359 | 474 | 590 |
| Tax paid | | | | 16 | 78 |
| Dividends paid | | | | 46 | 52 |
| Net capital expenditure | 120 | 282 | 245 | 499 | 698 |
| Purchase of shares in subsidiaries | | | | 259 | 1 |
| Increase/(decrease) in working capital | (76) | (96) | (86) | (99) | 100 |
| FUNDS APPLIED | 44 | 186 | 159 | 721 | 929 |
| Loans and lease finance – net amount raised/(repaid) | (254) | (268) | (82) | 179 | 260 |
| Decrease/(increase) in bank and cash balances | (51) | 28 | (118) | 68 | 79 |
| NET EXTERNAL FUNDING | (305) | (240) | (200) | 247 | 339 |

ANALYSIS OF GROUP TURNOVER, OPERATING
SURPLUS AND PROFIT BEFORE TAXATION
BY CLASS OF BUSINESS
For the five years ended 31 March 1989

| | 1984-85
£ m | 1985-86
£ m | 1986-87
£ m | 1987-88
£ m | 1988-89
£ m |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| TURNOVER | | | | | |
| Airline operations | 2,797 | 2,981 | 3,054 | 3,523 | 4,132 |
| Package holidays | 99 | 120 | 178 | 217 | 102 |
| Other | 9 | 10 | 13 | 16 | 23 |
| Discontinued activities | 38 | 38 | 18 | | |
| | <u>2,943</u> | <u>3,149</u> | <u>3,263</u> | <u>3,756</u> | <u>4,257</u> |
| OPERATING SURPLUS/(DEFICIT) | | | | | |
| Airline operations | 303 | 205 | 183 | 241 | 340 |
| Package holidays | (10) | (6) | (9) | (6) | (3) |
| Other | 1 | 2 | | 1 | (1) |
| Discontinued activities | (2) | (3) | (1) | | |
| | <u>292</u> | <u>198</u> | <u>173</u> | <u>236</u> | <u>336</u> |
| PROFIT/(LOSS) BEFORE TAXATION | | | | | |
| Airline operations | 180 | 199 | 170 | 235 | 282 |
| Package holidays | (7) | (4) | (5) | (9) | (10) |
| Other | 2 | 2 | (1) | 2 | (4) |
| Discontinued activities | 16 | (2) | (2) | | |
| | <u>191</u> | <u>195</u> | <u>162</u> | <u>228</u> | <u>268</u> |

ANALYSIS OF GROUP TURNOVER AND OPERATING
SURPLUS BY GEOGRAPHICAL AREA
For the five years ended 31 March 1989

| | 1984-85
£ m | 1985-86
£ m | 1986-87
£ m | 1987-88
£ m | 1988-89
£ m |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| TURNOVER | | | | | |
| Europe | 1,152 | 1,264 | 1,416 | 1,609 | 1,622 |
| The Americas | 876 | 1,008 | 982 | 1,175 | 1,374 |
| Africa | 190 | 179 | 185 | 237 | 323 |
| Middle East, Far East and Australasia | 687 | 660 | 662 | 735 | 938 |
| | <u>2,905</u> | <u>3,111</u> | <u>3,245</u> | <u>3,756</u> | <u>4,257</u> |
| Discontinued activities | 38 | 38 | 18 | | |
| | <u>2,943</u> | <u>3,149</u> | <u>3,263</u> | <u>3,756</u> | <u>4,257</u> |
| OPERATING SURPLUS/(DEFICIT) | | | | | |
| Europe | 81 | 56 | 56 | 36 | 16 |
| The Americas | 131 | 85 | 65 | 131 | 181 |
| Africa | 27 | 14 | 20 | 37 | 49 |
| Middle East, Far East and Australasia | 55 | 46 | 33 | 32 | 90 |
| | <u>294</u> | <u>201</u> | <u>174</u> | <u>236</u> | <u>336</u> |
| Discontinued activities | (2) | (3) | (1) | | |
| | <u>292</u> | <u>198</u> | <u>173</u> | <u>236</u> | <u>336</u> |

| | Number in
service (i)
31 March 1989 | Number on
order (options)
31 March 1989 | 1988-89
revenue
hours flown | Average
hours per
aircraft p.a. | Average
age (years) |
|---|---|---|-----------------------------------|---------------------------------------|------------------------|
| Concorde | 7 | | 7,994 | 1,142 | 12.3 |
| Boeing 747-100 | 16 | | 74,080 | 4,630 | 16.9 |
| Boeing 747-200 | 24 | | 110,708 | 4,613 | 9.9 |
| Boeing 747-400 | | 19 (12) | | | |
| Lockheed TriStar 1/50 | 9 | | 25,627 | 2,847 | 13.7 |
| Lockheed TriStar 200 | 8 | | 32,812 | 4,102 | 8.3 |
| McDonnell Douglas DC10-30 | 8 | | 36,329 | 4,541 | 10.3 |
| Boeing 767-300 | | 17 (21) | | | |
| Boeing 757-200 (ii) | 35 | 3 (6) | 81,354 | 2,553 | 3.6 |
| Airbus A320 | 4 | 6 | 6,371 | 2,300 | 1.1 |
| Boeing 737-200 | 45 | | 118,691 | 2,628 | 7.2 |
| Boeing 737-300, -400 and -500 | 4 | 24 (11) | 2,990 | 1,670 | 0.9 |
| BAC 1-11-500 | 34 | | 57,860 | 1,702 | 18.8 |
| BAC 1-11-400 | | | 7,063 | 2,402 | |
| BAe ATP | 4 | 4 (8) | 849 | 1,267 | 0.3 |
| HS 748 | 11 | | 22,614 | 1,941 | 9.6 |
| Retired aircraft | 2 | | 3,271 | | |
| TOTAL
including Caledonian Airways Ltd | 211 | 73 (58) | 588,613 | 2,886 | 9.8 |

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- (i) Aircraft in service includes those owned, and those subject to finance, extended operating and other operating leases of at least one month duration.
(ii) Excluding one aircraft delivered in March 1989 but not in service until April 1989.

| SCHEDULED SERVICES | 1985 | 1986 | 1987 | 1988 | 1989 |
|--|--------|--------|--------|--------|--------|
| <i>Volume of traffic carried</i> | | | | | |
| Revenue passenger km (m) | 38,386 | 41,334 | 41,356 | 49,123 | 57,795 |
| Cargo tonne km (m) | 1,292 | 1,356 | 1,444 | 1,793 | 2,249 |
| Total revenue tonne km (m) | 4,810 | 5,155 | 5,267 | 6,345 | 7,636 |
| Number of passengers carried (000) | 15,951 | 17,016 | 17,276 | 20,169 | 22,578 |
| Tonnes of cargo carried (000) | 259 | 274 | 291 | 361 | 459 |
| <i>Capacity</i> | | | | | |
| Available seat km (m) | 56,031 | 60,759 | 61,722 | 69,970 | 82,984 |
| Available tonne km (m) | 7,275 | 7,956 | 8,141 | 9,427 | 11,404 |
| <i>Load factors</i> | | | | | |
| Passenger load factor (%) | 68.5 | 68.0 | 67.0 | 70.2 | 69.6 |
| Break-even passenger load factor (%) | 59.3 | 62.2 | 62.1 | 64.4 | 62.9 |
| Overall load factor (%) | 66.1 | 64.8 | 64.7 | 67.3 | 67.0 |
| Break-even overall load factor (%) | 58.2 | 59.8 | 60.4 | 62.2 | 61.1 |
| <i>Operations</i> | | | | | |
| Punctuality (% within 15 minutes) | 85 | 82 | 81 | 80 | 72 |
| Regularity (%) | 99.5 | 98.8 | 99.2 | 99.2 | 99.0 |
| Unduplicated route km (000) | 521 | 555 | 555 | 692 | 677 |
| Revenue aircraft km flown (m) | 229 | 248 | 257 | 284 | 343 |
| <i>Yield</i> | | | | | |
| Revenue per passenger km (p) | 5.87 | 5.80 | 6.00 | 5.82 | 5.96 |
| Revenue per revenue tonne km (p) | 52.1 | 51.7 | 52.1 | 49.6 | 49.6 |
| TOTAL AIRLINE OPERATIONS
<i>including Caledonian Airways Ltd</i> | | | | | |
| Available tonne km (m) | 7,837 | 8,601 | 8,751 | 10,083 | 11,868 |
| Revenue tonne km (m) | 5,267 | 5,673 | 5,784 | 6,895 | 8,002 |
| Average fleet size | 153 | 159 | 161 | 171 | 203 |
| Aircraft utilisation (average hours per aircraft p.a.) | 2,653 | 2,720 | 2,801 | 2,891 | 2,886 |
| Number of passengers carried (000) | 18,397 | 19,681 | 20,041 | 23,230 | 24,603 |
| Revenue flights (000) | 197 | 210 | 217 | 234 | 269 |
| Net operating expenditure per ATK (p) | 29.8 | 30.4 | 30.9 | 30.4 | 30.0 |
| Average airline staff employed | 36,861 | 38,939 | 39,498 | 42,709 | 48,760 |
| ATKs per employee (000) | 212.6 | 220.9 | 221.6 | 236.1 | 243.4 |

SHAREHOLDERS

As at 15 May 1989 there were 338,350 shareholders. An analysis by size of holding is given below.

| Size of shareholding | % of shareholders | % of shares |
|----------------------|-------------------|-------------|
| 1 - 1,000 | 97.82 | 10.26 |
| 1,001 - 5,000 | 1.68 | 1.61 |
| 5,001 - 10,000 | 0.15 | 0.50 |
| 10,001 - 50,000 | 0.15 | 1.72 |
| 50,001 - 100,000 | 0.05 | 1.87 |
| 100,001 - 250,000 | 0.06 | 4.98 |
| 250,001 - 500,000 | 0.03 | 5.75 |
| 500,001 - 750,000 | 0.02 | 4.95 |
| 750,001 - 1,000,000 | 0.01 | 4.46 |
| Over 1,000,000 | 0.03 | 63.90 |
| | 100.00 | 100.00 |

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Morgan Guaranty Trust Company of New York, the Company's ADR Depositary, has a non-beneficial interest in 60,602,980 shares (approximately 8.4%) in the name of Guaranty Nominees Limited. British Airways is not aware of any other interest in its shares of 5% or more.

DIRECTORS' SHARE INTERESTS

At 31 March 1989

| | Ordinary Shares
subject to
no restrictions | | Ordinary Shares
subject to
restrictions | | Options
Executive and SAYE
Share Schemes | |
|---------------------|--|--------|---|--------|--|---------|
| | 31.3.89 | 1.4.88 | 31.3.89 | 1.4.88 | 31.3.89 | 1.4.88 |
| Lord King | 29,684 | 29,564 | 316 | 436 | 561,117 | 294,451 |
| R A Henderson | 700 | 700 | | | | |
| Sir Colin Marshall | 25,120 | 25,000 | 316 | 436 | 515,029 | 515,029 |
| *D M Stevens | 500 | | | | | |
| *M R Angus | 3,000 | | | | | |
| A M Davies | 5,000 | 5,000 | | | | |
| J W Jessop | | | 3,500 | 3,500 | | |
| Sir Francis Kennedy | 3,200 | 2,200 | | | | |
| H U A Lambert | 1,000 | 1,000 | | | | |
| | 68,204 | 63,464 | 4,132 | 4,372 | 1,076,146 | 809,420 |

* D M Stevens and M R Angus held 500 and 3,000 shares respectively on the dates of their appointment to the Board.
The Hon. C H Price II, who was appointed to the Board on 7 April 1989, holds no shares in the Company.

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 any shares in any subsidiary of the Company. There have been no changes in the interests set out above between the end of the financial year and 17 May 1989.

OUTSIDE ADVISERS

Company Registrars: Lloyds Bank plc.
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.

**NOTICE OF
ANNUAL
GENERAL
MEETING**

Notice is hereby given that the sixth Annual General Meeting of British Airways Plc will be held at the Barbican Centre, Silk Street, London EC2, on Monday, 17 July 1989, at 12 noon for the following purposes:

ORDINARY BUSINESS

- 1 To receive and adopt the accounts for the year ended 31 March 1989 together with the report of the Directors.
- 2 To declare a final dividend.

The following Directors retire by rotation in accordance with Article 89 of the Company's Articles of Association who, being eligible, offer themselves for re-election:

- 3 To re-elect Sir Francis Kennedy.
- 4 To re-elect Captain J. W. Jessop.

The following Directors retire in accordance with Article 94 of the Company's Articles of Association, who being eligible, offer themselves for election:

- 5 To elect Mr M. R. Angus.
- 6 To elect Mr D. M. Stevens.
- 7 To elect the Hon. C. H. Price II.
- 8 To re-appoint the auditors, Ernst & Whinney, and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

- 9 To consider and if thought fit to pass the resolution set out below as a Special Resolution:

"That the authority and power conferred on the Directors by Article 11 (B) of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 1990 or on 17 October 1990, whichever is the earlier, and for such period:—

- a the prescribed amount shall be £60,000,000; and
- b the section 89 amount shall be £9,000,000."

- 10 To consider and, if thought fit, pass as an Ordinary Resolution:

"that subject to the approval of the Board of Inland Revenue, the amendments to the Rules of the British Air-

ways Executive Share Option Scheme, Savings Related Share Option Scheme, Profit Sharing Share Scheme, the US Executive Share Option Plan and the US Employee Share Purchase Plan (the "Schemes") contained in the respective revised Rules of the Schemes produced to this Meeting and for the purpose of identification initialled by the Chairman be approved, subject to such modifications of those amendments or the Rules of the Schemes as the Directors may consider necessary (or as may be consequential) to obtain the approval of the Board of Inland Revenue."

By Order of the Board,
R J Ayling *Secretary*

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

London, 30 May 1989

a Every person entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of that person. A proxy need not be a member of the Company.

b No Directors other than Lord King, Sir Colin Marshall and Mr Derek Stevens have service contracts with the Company or any of its subsidiaries. Copies of their service contracts and the register of interests of Directors in the share capital of the Company are available for inspection during normal business hours at the Registered Office of the Company from the date of this notice until the time of the forthcoming Annual General Meeting and copies will also be available for 15 minutes prior to and at the meeting.

c Copies of the Rules of the Schemes incorporating the amendments proposed in Resolution 10 are available for inspection at the Registered Office of the Company and at Linklaters & Paines, 59 Gresham Street, London EC2, during usual business hours on any weekday (Saturdays and Public Bank Holidays excluded) from the date of this Notice until the date of the Annual General Meeting and also at the place of the Meeting for at least 15 minutes prior to and during the Meeting.

EXPLANATORY NOTES TO THE NOTICE OF AGM

The Annual General Meeting is the means by which the Company meets the legal requirement to hold a meeting of shareholders every year. There are ten resolutions before the Annual General Meeting. The first eight resolutions constitute what is known as "ordinary business", being those matters which have to be dealt with every year, and the other two resolutions are "special business" which also require shareholders' approval.

ORDINARY BUSINESS

Resolution 1: Report and Accounts The Directors of the Company are required to present to the meeting the Report of the Directors and accounts of the Company for the preceding financial year. Copies of the report and accounts for the financial year ended 31 March 1989 together with the report of the Company's auditors on the accounts, are contained in this document.

Resolution 2: Declaration of a dividend It is recommended that a final dividend of 5.25p per ordinary share be declared in respect of the year to 31 March 1989. Approval of the meeting will permit this to be paid on 28 July 1989.

Resolutions 3 and 4: Re-election of Directors Under the Company's Articles of Association, a proportion of the non-executive Directors of the Company retire by rotation each year and require to be re-elected. In accordance with those provisions, Sir Francis Kennedy and Captain J. W. Jessop are the Directors who retire by rotation this year.

Sir Francis Kennedy, aged 63, joined the Board in 1987. Previously he served in the colonial and diplomatic service from 1953 to 1986, retiring as Consul-General in New York where he was also Director-General of British Trade and Investment for the United States. Sir Francis is also a Special Adviser to the Chairman and Board.

Captain Jessop, aged 68, has been a Director of the Company since its incorporation in 1983. Before that he was a member of the British Airways Board from 1977. He held a number of

appointments in the airline including Flight Operations Director from 1977 to 1983 and Director of Safety Services from 1983 until his retirement from the Company's service in 1985. Captain Jessop is Chairman of the Air Safety Review Committee.

Resolutions 5, 6 and 7: Election of Directors The Company's Articles of Association also require any Director appointed to the Board to seek election at the first annual general meeting next following his appointment.

Mr Michael Angus, aged 59, joined the Board in September 1988. He is the Chairman of Unilever PLC and his other directorships include Whitbread and Company PLC and Thorn EMI plc. Mr Derek Stevens, aged 50, joined the Board in February 1989 and is the Company's Chief Financial Officer following the retirement of Mr Gordon Dunlop. Mr Stevens was previously the Finance Director to TSB Group plc.

The Hon. Charles Price II, aged 58, joined the Board in April 1989. He was formerly U.S. Ambassador to the United Kingdom. Mr Price's other directorships include Hanson Trust Plc, The New York Times Company and Texaco Inc.

Resolution 8: Re-appointment of Auditors The Auditors may not continue in that office unless re-appointed at the meeting at which the accounts are presented. This resolution proposes the re-appointment of Ernst & Whinney and authorises the Directors to determine the remuneration to be paid them.

SPECIAL BUSINESS

Resolution 9: Allotment of shares By law, shareholders' approval is required for the allotment of shares. Approval may either be given for particular allotments or by a general authority. The Directors were given a general authority at the Annual General Meeting in 1988 but, unless this is renewed, it will expire at the conclusion of this Annual General Meeting. Resolution 9 renews the Directors' general authority for a period expiring at the 1990 Annual General Meeting or 17 October 1990 if earlier, in respect of £60 million of share capital (being just less than a third of the present issued share capital).

Shareholders' approval is also required for the issue of shares wholly for cash otherwise than in accordance with certain statutory pre-emption pro-

visions contained in the Companies Act 1985. Approval is being sought in respect of the allotment pursuant to a rights issue of all the £60 million of share capital whose allotment is authorised and of up to £9 million of share capital (being just less than 5 per cent of the issued share capital of the Company as shown by the Company's accounts) otherwise than on a rights issue. This is the same as last year in accordance with the latest recommendations of the joint working party of The Stock Exchange and the investment committees of the National Association of Pension Funds and the Association of British Insurers, with which the Directors intend to comply, but requires certain minor amendments to the Articles of Association as set out in the Resolution.

In proposing this Resolution, the Directors consider that it is in the interests of the Company and its shareholders that Directors should retain the ability to take advantage of business opportunities as they arise, without the need to incur the cost and delay of an Extraordinary General Meeting of the Company seeking specific authority for the allotment. The Directors propose that these authorities should be renewed annually.

Resolution 10: The Directors propose to make the following amendments to employee share schemes to bring the schemes in line with current law and practice:—

(i) The Savings Related Share Option Scheme is to be amended to take advantage of an amendment proposed in the Finance Bill 1989 so as to allow the option price of an option granted under the Savings Related Share Option Scheme to be fixed at a discount of up to 20 per cent of the market value at the date of grant, whereas at present the option price can be fixed at a discount of up to 10 per cent of the market value.

(ii) The British Airways Executive Share Option Scheme, Savings Related Share Option Scheme, Profit Sharing Share Scheme, US Executive Share Option Plan and US Employee Share Purchase Plan are to be amended to provide that the limitations on the shares available under all the British Airways employee share schemes relate to the issue of new shares subscribed pursuant to those schemes, rather than existing shares purchased in the market.

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