

FIRST QUARTER RESULTS 1998-99 (unaudited)

	Three months ended		Change	Year ended	
	June 30			March 31	
	<u>1998</u>	<u>1997</u>		<u>1998</u>	
	£m	£m		£m	
Turnover	£m	2,288	2,216	3.2%	8,642
Operating profit	£m	173	140	23.6%	504
Profit before tax	£m	145	220	(34.1)%	580
Profit for the period	£m	131	164	(20.1)%	460
Capital and reserves at period end	£m	3,468	3,202	8.3%	3,321
Earnings per share					
<i>Basic</i>	p	12.6	16.3	(22.7)%	44.7
<i>Fully diluted</i>	p	11.8	14.9	(20.8)%	42.0

GROUP PROFIT AND LOSS ACCOUNT (unaudited)

	Three months ended		Change	Year ended
	1998 £m	June 30 1997 £m		March 31 1998 £m
Traffic Revenue				
<i>Scheduled passenger</i>	1,920	1,862	3.1%	7,233
<i>Scheduled cargo</i>	142	150	(5.3)%	595
<i>Non-scheduled services</i>	17	16	6.3%	53
	2,079	2,028	2.5%	7,881
<i>Other revenue</i>	209	188	11.2%	761
TOTAL TURNOVER	2,288	2,216	3.2%	8,642
<i>Employee costs</i>	593	572	3.7%	2,211
<i>Depreciation</i>	149	133	12.0%	551
<i>Aircraft operating lease costs</i>	34	33	3.0%	127
<i>Fuel and oil costs</i>	180	204	(11.8)%	790
<i>Engineering and other aircraft costs</i>	157	140	12.1%	614
<i>Landing fees and en route charges</i>	179	184	(2.7)%	703
<i>Handling charges, catering and other operating costs</i>	328	306	7.2%	1,186
<i>Selling costs</i>	309	321	(3.7)%	1,217
<i>Accommodation, ground equipment costs and currency differences</i>	186	183	1.6%	739
TOTAL OPERATING EXPENDITURE	2,115	2,076	1.9%	8,138
OPERATING PROFIT	173	140	23.6%	504
Income from interests in associated undertakings	1	5	nm	61
Other income	1	10	nm	19
Profit on sale of fixed assets and investments	6	130	nm	164
Net interest payable	(36)	(65)	(44.6)%	(168)
PROFIT BEFORE TAX	145	220	(34.1)%	580
Taxation	(14)	(61)	(77.0)%	(133)
PROFIT AFTER TAX	131	159	(17.6)%	447
Minority share of losses after tax		5	nm	13
PROFIT FOR THE PERIOD	131	164	(20.1)%	460
Dividends paid and proposed				(176)
RETAINED PROFIT FOR THE PERIOD	131	164	(20.1)%	284

nm: not meaningful

OPERATING AND FINANCIAL STATISTICS (unaudited)

MAINLINE SCHEDULED SERVICES	Three months ended June 30		Change	Year ended
	1998	1997		March 31 1998
<i>TRAFFIC AND CAPACITY</i>				
RPK (m)	29,317	27,242	7.6%	106,739
ASK (m)	41,357	37,298	10.9%	149,659
Passenger load factor (%)	70.9	73.0	(2.1)pts	71.3
CTK (m)	1,064	1,032	3.1%	4,181
RTK (m)	3,981	3,742	6.4%	14,818
ATK (m)	5,920	5,358	10.5%	21,410
Overall load factor (%)	67.2	69.8	(2.6)pts	69.2
Passengers carried (000)	9,457	8,948	5.7%	34,377
Tonnes of cargo carried (000)	210	197	6.6%	816
<i>FINANCIAL</i>				
Passenger revenue per RPK (p)	6.16	6.44	(4.3)%	6.38
Cargo revenue per CTK (p)	13.06	14.34	(8.9)%	14.02
Average fuel price (US cents/US gallon)	52.56	66.92	(21.5)%	64.70
TOTAL GROUP OPERATIONS <i>(including Deutsche BA, Air Liberte and 'go')</i>				
<i>TRAFFIC AND CAPACITY</i>				
RPK (m)	31,135	28,756	8.3%	113,045
ASK (m)	44,030	39,697	10.9%	159,921
RTK (m)	4,157	3,875	7.3%	15,406
ATK (m)	6,174	5,589	10.5%	22,403
Passengers carried (000)	11,409	10,613	7.5%	40,955
<i>FINANCIAL</i>				
Total traffic revenue per RTK (p)	50.01	52.34	(4.5)%	51.16
Total traffic revenue per ATK (p)	33.67	36.29	(7.2)%	35.18
Net operating expenditure per RTK (p)	45.85	48.72	(5.9)%	47.88
Net operating expenditure per ATK (p)	30.87	33.78	(8.6)%	32.93
<i>OPERATIONS</i>				
Average Manpower Equivalent (MPE)	62,938	60,083	4.8%	60,770
ATKs per MPE (000)	98.1	93.0	5.5%	368.7
Aircraft in service at period end	340	319	21	330

CHAIRMAN'S STATEMENT

Group Results

Group profits before tax for the three months ended June 30, 1998 were in line with market expectations at £145 million - up £54 million on the same period last year, after excluding last year's one-off profit of £129 million from the disposal of US Airways shares. Operating profits were up £33 million or 24% on a year ago on turnover 3% higher.

Business Performance

The year-over-year improvement in operating profits derived largely from cost efficiencies delivered by the Business Efficiency Programme (BEP), the benefits of lower fuel prices and materially reduced losses in our European subsidiaries. These benefits were partially offset by the impact of a reduced mix of premium-cabin passengers and the costs of ground service initiatives to improve baggage handling and punctuality.

Economic Background

First quarter results were achieved against a less strong economic situation in the UK and the Far East. The strong pound is also helping European competitors to compete for transfer traffic in the UK market. Against this background the airline has cutback some services and experienced some reduced passenger loads. Reasonably strong growth continues in the USA and the major continental European markets.

Turnover

The 3% increase in turnover was generated on a flying programme 10.5% bigger in available tonne kilometres (ATK). Mainline passenger load factors averaged 70.9% -- down 2.1 points on a year ago. Cargo tonnes carried were up 6.6% on a year ago though yields fell.

Passenger yields (revenue per passenger kilometre - RPK) fell by 4.3% year-over-year primarily because of the increased strength of sterling and a weaker mix of premium-cabin passengers. Tariff increases provided a partial offset.

Unit Costs

Unit costs (per ATK) fell 8.6% year-over-year as a result of cost efficiencies and improved productivity, lower fuel prices, higher volumes and exchange rate changes. This limited the increase in total operating costs to 1.9% despite capacity growth of 10.5%.

Group Operating Margin

At 7.6%, group operating margin improved 1.3 points over the same period last year. Cost efficiencies, lower fuel prices and lower restructuring costs were the main contributors to the improvement; these benefits more than offset the yield decline. Because of the downturn in seat factors, growth contributed little to the improved margin.

Non Operating Items

Interest expense was down substantially year-over-year mainly because of exchange rate gains on yen debt. The effective tax rate for the quarter was down at 10% reflecting capital expenditure on aircraft.

CHAIRMAN'S STATEMENT (continued)

Earnings Per Share

Profits attributable to shareholders fell by 20% to £131 million, equivalent to earnings of 12.6p per share compared with 16.3p last year (7.9p excluding the gain on the sale of US Airways shares).

Net Debt /Total Capital Ratio

Borrowings, net of cash and short term loans and deposits, amounted to £4,579 million at June 30, 1998, a decrease of £24 million since March 31, 1998. Capital and reserves have risen by £147 million, giving a net debt / total capital ratio of 56.9%, a 1.2 point decrease over March 31, 1998.

Aircraft Fleet

The number of aircraft in the Group increased by 10 to 340. This increase included three Boeing 747-400s, two Boeing 767s, one Boeing 757, six 737-300s and three de Havilland Canada DHC-8s. An ATR42 was brought back into service. Four 737-200s and two BAe ATPs were stood down.

Business Efficiency Programme

British Airways' bottom line continues to gain increasing benefits from the BEP. Working practice changes in many areas of the business, new arrangements with travel agents, the benefits of new technology and the outsourcing of non-core activities have all been implemented.

Alliance Development

On July 8, 1998 the European Commission provisionally indicated the conditions on which the alliance with American Airlines should be approved. Overall the announcement is seen as a positive step but concerns exist over some of the terms proposed by Brussels. The Commission's proposals are being studied in detail. The Office of Fair Trading has now given advice to the Secretary of State for Trade and Industry endorsing much of what the European Commission proposes, but with some modifications. The alliance remains at the forefront of the Company's future plans and work with the regulatory authorities continues towards a successful outcome.

Work continues to implement the co-operative commercial agreements with LOT, Malev, Iberia and Finnair. 'go', BA's no-frills low cost subsidiary was launched in May 1998 and now serves Milan, Rome, Copenhagen and Lisbon.

Waterside

On July 20, HRH Prince Charles opened the new combined business centre, Waterside - completed ahead of time and under budget. The event was the culmination of three years' hard work to create this new facility designed to increase efficiency and reduce costs whilst providing a modern environment for 2,800 people to work in.

Outlook

This is a good set of results. Our three year Business Efficiency Programme (BEP) is on track ensuring that we remain in a strong position to meet the challenge of external pressures. As the airline market becomes more competitive we will continue to improve efficiency to safeguard continuing investment in our products, our ground services, and our people. The approval of services to Denver and the resumption of flights to Nigeria are welcome recent developments.

GROUP BALANCE SHEET (unaudited)

	June 30	March 31
	1998 £m	1997 £m
FIXED ASSETS		
Tangible assets	8,944	7,855
Investments	383	429
	9,327	8,284
CURRENT ASSETS		
Stocks	82	74
Debtors	1,530	1,575
Cash, short-term loans and deposits	1,015	1,290
	2,627	2,939
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(3,055)	(3,347)
NET CURRENT LIABILITIES	(428)	(408)
TOTAL ASSETS LESS CURRENT LIABILITIES	8,899	7,876
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		
Borrowings and other creditors	(5,273)	(4,488)
Convertible Capital Bonds 2005	(126)	(150)
	(5,399)	(4,638)
PROVISIONS FOR LIABILITIES AND CHARGES	(32)	(58)
MINORITY INTERESTS		22
	3,468	3,202
CAPITAL AND RESERVES		
Called up share capital	263	259
Reserves	3,205	2,943
	3,468	3,202

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (unaudited)

	Three months ended		Year ended
	June 30	March 31	March 31
	1998 £m	1997 £m	1998 £m
Profit for the period	131	164	460
Other recognised gains and losses relating to the period			
<i>Exchange Movements</i>	(11)	(23)	(18)
Total recognised gains and losses	120	141	442

These summary financial statements were approved by the Directors on August 10, 1998.

GROUP CASH FLOW STATEMENT (unaudited)

	Three months ended		Year ended
	June 30		March 31
	1998 £m	1997 £m	1998 £m
CASH INFLOW FROM OPERATING ACTIVITIES	400	310	736
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(41)	(49)	(257)
TAXATION	(12)	(13)	(134)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	26	404	161
ACQUISITIONS AND DISPOSALS	(1)		75
EQUITY DIVIDENDS PAID			(148)
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Cash inflow before management of liquid resources and financing	372	652	433
MANAGEMENT OF LIQUID RESOURCES	(247)	(603)	(90)
FINANCING	(98)	(40)	(372)
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Increase/(decrease) in cash in the period	27	9	(29)
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GROUP FINANCING (REQUIREMENT)/SURPLUS			
Cash inflow before management of liquid resources and financing	372	652	433
Acquisitions under loans, finance leases and hire purchase arrangements	(396)	(380)	(1,302)
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Total financing (requirement)/surplus for the period	(24)	272	(869)
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Total tangible fixed asset expenditure, net of progress payment refunds	392	369	1,638

NOTES TO THE ACCOUNTS

For the period ended June 30, 1998

1 ACCOUNTING CONVENTION

The accounts have been prepared on the basis of the accounting policies set out in the Report and Accounts for the year ended March 31, 1998 in accordance with all applicable United Kingdom accounting standards and the Companies Act 1985 and are consistent with those applied in the previous year.

	Three months ended		Year ended
	June 30		March 31
	1998 £m	1997 £m	1998 £m
2 RECONCILIATION OF OPERATING PROFIT TO CASH INFLOW FROM OPERATING ACTIVITIES			
Group operating profit	173	140	504
Depreciation charges	149	133	551
Other items not involving the movement of cash	(12)	9	(27)
Increase in stocks and debtors	(131)	(156)	(34)
Increase/(decrease) in creditors	221	184	(258)
Cash inflow from operating activities	400	310	736
3 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase/(decrease) in cash during the period	27	9	(29)
Cash outflow from decrease in debt and lease financing	101	48	394
Cash outflow from liquid resources	247	603	90
Change in net debt resulting from cash flows	375	660	455
New loans and finance leases taken out and hire purchase arrangements made	(396)	(380)	(1,302)
Conversion of Convertible Capital Bonds	24	76	76
Exchange movements	21	11	126
Movement in net debt during the period	24	367	(645)
Net debt at April 1	(4,603)	(3,958)	(3,958)
Net debt at period end	(4,579)	(3,591)	(4,603)
4 OTHER INCOME AND CHARGES			
Income from trade investments			2
US Airways preferred stock dividend received		4	4
Other	1	6	13
	1	10	19

NOTES TO THE ACCOUNTS (Continued)
For the period ended June 30, 1998

	Three months ended		Year ended
	June 30		March 31
5 NET INTEREST PAYABLE	1998 £m	1997 £m	1998 £m
Interest payable less amount capitalised	75	66	270
Interest receivable	(20)	(15)	(71)
Currency (profits)/losses on retranslation of general purpose loans	(19)	14	(31)
	36	65	168

6 TAXATION

Tax on the profit on ordinary activities has been provided for on the basis of the estimated rate of charge for the period ending June 30, 1998.

7 EARNINGS PER SHARE

Basic earnings per share are calculated on a weighted average of 1,041,131,000 ordinary shares (June 1997: 1,008,108,000; March 1998: 1,030,021,000). Fully diluted earnings per share are calculated on a weighted average of 1,149,065,000 ordinary shares (June 1997: 1,130,430,000; March 1998: 1,132,032,000) after allowing for the conversion rights attaching to the adjustments to income to eliminate interest payable on the Convertible Capital Bonds and to include notional interest receivable on the subscription cash for shares.

The number of shares in issue at June 30, 1998 was 1,049,980,000 (June 1997: 1,035,320,000; March 1998: 1,038,905,000) ordinary shares of 25 pence each.

	June 30		March 31
	1998 £m	1997 £m	1998 £m
8 TANGIBLE ASSETS			
Fleet	7,455	6,583	7,227
Property	1,222	1,030	1,181
Equipment	267	242	259
	8,944	7,855	8,667

9 INVESTMENTS

Associated undertakings	316	392	321
Trade investments	67	37	67
	383	429	388

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Loans	31	238	74
Finance leases	94	98	97
Hire purchase arrangements	207	136	185
	332	472	356
Overdrafts - unsecured	20	18	17
Corporate taxation	67	97	65
Other creditors and accruals	2,636	2,760	2,383
	3,055	3,347	2,821

NOTES TO THE ACCOUNTS (Continued)
For the period ended June 30, 1998

11 BORROWINGS AND OTHER CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR	June 30		March 31
	1998 £m	1997 £m	1998 £m
Loans	992	954	996
Finance leases	1,036	1,148	1,049
Hire purchase arrangements	3,088	2,139	2,773
	5,116	4,241	4,818
Corporate taxation		64	
Other creditors and accruals	157	183	160
	5,273	4,488	4,978
12 RESERVES			
Balance at 1 April	3,061	2,733	2,733
Retained profit for the period	131	164	284
Exchange adjustments	(11)	(23)	(18)
Net movement on goodwill			(23)
Share premium arising from issue of ordinary share capital	24	69	85
	3,205	2,943	3,061

13 The figures for the three months ended June 30, 1998 and 1997 are unaudited and do not constitute full accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the year ended March 31, 1998 have been extracted from the full accounts for that year which have been delivered to the Registrar of Companies and on which the auditors have issued an unqualified audit report.

REPORT OF THE AUDITORS TO BRITISH AIRWAYS Plc

We have examined the interim financial information set out on page 2 and pages 6 to 10 in respect of the three months ended June 30, 1998, which is the responsibility of, and has been approved by, the Directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin, 'Review of interim financial information', issued by the Auditing Practices Board. This review consisted principally of obtaining an understanding of the process for the preparation of the interim financial information, applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of the Group's management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review:

- we are not aware of any material modifications that should be made to the interim financial information as presented; and
- in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by British Airways Plc in its accounts for the year ended March 31, 1998.

Ernst & Young
London

August 10, 1998

**UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(US GAAP) INFORMATION**

The accounts have been prepared in accordance with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States. The significant differences are the same as those set out in the Report and Accounts for the year ended March 31, 1998.

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

	Three months ended		Year ended
	June 30		March 31
	<u>1998 £m</u>	<u>1997 £m</u>	<u>1998 £m</u>
Profit for the period as reported in the Group profit and loss account	131	164	460
US GAAP adjustments	(14)	78	194
Net income as so adjusted to accord with US GAAP	117	242	654
Net income per Ordinary Share as so adjusted			
Basic	11.2p	24.0p	63.5p
Diluted	10.6p	22.0p	59.5p
Net income per American Depositary Share as so adjusted			
Basic	112p	240p	635p
Diluted	106p	220p	595p
		June 30	March 31
	<u>1998 £m</u>	<u>1997 £m</u>	<u>1998 £m</u>
Shareholders' equity as reported in the Group balance sheet	3,468	3,202	3,321
US GAAP adjustments	(440)	(612)	(277)
Shareholders' equity as so adjusted to accord with US GAAP	3,028	2,590	3,044

AIRCRAFT FLEET

Number in service with Group companies at June 30, 1998

MAINLINE (see Note 1 below)	On balance	Operating leases		Total (Note 2)	Future deli- veries	Options
	sheet Aircraft	off balance sheet Exten- dible	Other			
Concorde	7			7		
Boeing 747-100	14		1	15		
Boeing 747-200	13	3		16		
Boeing 747-400	47			47	15	7
Boeing 777	18			18	11	11
McDonnell Douglas DC-10-30	3	2		5		
Boeing 767-300	27			27		3
Boeing 757-200	47	3	1	51	6	
Airbus A320	10			10		
Boeing 737-200	14		12	26		
Boeing 737-300			7	7		
Boeing 737-400	27		7	34		
Turbo Props (see Note 3 below)	2	8	13	23		
Sub total	229	16	41	286	32	21
DEUTSCHE BA, AIR LIBERTE and 'go'						
McDonnell Douglas DC-10-30			3	3		
McDonnell Douglas MD83	3		6	9		
Boeing 737-300			21	21	1	3
Fokker 100	4	7		11		
Fokker F28	4			4		
Turbo Props (see Note 4 below)	1	3	2	6		
Sub total	12	10	32	54	1	3
GROUP TOTAL	241	26	73	340	33	24

Notes:

- 1 Includes those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.
- 2 Excludes 1 Boeing 767-300 and 2 Boeing 737-300 that have been delivered but not entered service, and 3 McDonnell Douglas DC-10-30s, 1 Boeing 737-300, 1 Fokker F28, 4 ATR 72s, 3 ATR 42s, 2 Embraer and 4 Saab 2000s subleased to other carriers.
- 3 Includes 2 de Havilland Canada DHC-7-100s, 8 Bae ATPs and 13 de Havilland Canada DHC-8s.
- 4 Includes 2 ATR 72s and 4 ATR 42s.