

**THIRD QUARTER RESULTS 1997-98**

		Three months ended December 31			Nine months ended December 31		
		<b>1997</b>	<i>1996</i>	Change	<b>1997</b>	<i>1996</i>	Change
Turnover	£m	<b>2,156</b>	<i>2,016</i>	6.9%	<b>6,616</b>	<i>6,410</i>	3.2%
Operating profit	£m	<b>87</b>	<i>131</i>	(33.6)%	<b>428</b>	<i>643</i>	(33.4)%
Profit before tax	£m	<b>80</b>	<i>113</i>	(29.2)%	<b>510</b>	<i>583</i>	(12.5)%
Attributable profit (after Minority Interest) for the period	£m	<b>71</b>	<i>94</i>	(24.5)%	<b>388</b>	<i>484</i>	(19.8)%
Capital and reserves at period end	£m	<b>3,383</b>	<i>3,074</i>	10.1%	<b>3,383</b>	<i>3,074</i>	10.1%
Earnings per share							
<i>Basic</i>	p	<b>6.8</b>	<i>9.2</i>	(26.1)%	<b>37.8</b>	<i>48.9</i>	(22.7)%
<i>Fully diluted</i>	p	<b>6.5</b>	<i>8.8</i>	(26.1)%	<b>35.3</b>	<i>44.3</i>	(20.3)%

**GROUP PROFIT AND LOSS ACCOUNT (unaudited)**

	Three months ended December 31			Nine months ended December 31		
	1997 £m	1996 £m	Change	1997 £m	1996 £m	Change
Traffic Revenue						
<i>Scheduled passenger</i>	<b>1,791</b>	1,679	6.7%	<b>5,548</b>	5,363	3.4%
<i>Scheduled cargo</i>	<b>159</b>	146	8.9%	<b>456</b>	432	5.6%
<i>Non-scheduled services</i>	<b>10</b>	8	25.0%	<b>43</b>	48	(10.4)%
	<b>1,960</b>	1,833	6.9%	<b>6,047</b>	5,843	3.5%
Other Revenue	<b>196</b>	183	7.1%	<b>569</b>	567	0.4%
<b>TOTAL TURNOVER</b>	<b>2,156</b>	2,016	6.9%	<b>6,616</b>	6,410	3.2%
<i>Employee costs</i>	<b>559</b>	544	2.8%	<b>1,687</b>	1,682	0.3%
<i>Depreciation</i>	<b>138</b>	121	14.0%	<b>409</b>	371	10.2%
<i>Aircraft operating lease costs</i>	<b>29</b>	27	7.4%	<b>90</b>	85	5.9%
<i>Fuel and oil costs</i>	<b>202</b>	222	(9.0)%	<b>607</b>	627	(3.2)%
<i>Engineering and other aircraft costs</i>	<b>181</b>	111	63.1%	<b>474</b>	360	31.7%
<i>Landing fees and en route charges</i>	<b>170</b>	156	9.0%	<b>552</b>	523	5.5%
<i>Handling charges, catering and other operating costs</i>	<b>281</b>	262	7.3%	<b>863</b>	793	8.8%
<i>Selling costs</i>	<b>300</b>	296	1.4%	<b>930</b>	887	4.8%
<i>Accommodation, ground equipment costs and currency differences</i>	<b>209</b>	146	43.2%	<b>576</b>	439	31.2%
<b>TOTAL OPERATING EXPENDITURE</b>	<b>2,069</b>	1,885	9.8%	<b>6,188</b>	5,767	7.3%
OPERATING PROFIT	<b>87</b>	131	(33.6)%	<b>428</b>	643	(33.4)%
Income from interests in associated undertakings	<b>2</b>	14	(85.7)%	<b>31</b>	59	(47.5)%
Other income		3	nm	<b>11</b>	3	nm
Profit on sale of fixed assets & investments	<b>14</b>	1	nm	<b>171</b>	12	nm
Net interest payable	<b>(23)</b>	(36)	(36.1)%	<b>(131)</b>	(134)	(2.2)%
PROFIT BEFORE TAX	<b>80</b>	113	(29.2)%	<b>510</b>	583	(12.5)%
Taxation	<b>(14)</b>	(19)	(26.3)%	<b>(135)</b>	(99)	36.4%
PROFIT AFTER TAX	<b>66</b>	94	(29.8)%	<b>375</b>	484	(22.5)%
Minority share of losses after tax	<b>5</b>		nm	<b>13</b>		nm
PROFIT FOR THE PERIOD	<b>71</b>	94	(24.5)%	<b>388</b>	484	(19.8)%
Dividends paid and proposed				<b>(52)</b>	(46)	13.0%
RETAINED PROFIT FOR THE PERIOD	<b>71</b>	94	(24.5)%	<b>336</b>	438	(23.3)%

nm: Not meaningful

**OPERATING AND FINANCIAL STATISTICS (unaudited)**

MAINLINE SCHEDULED SERVICES	Three months ended December 31			Nine months ended December 31		
	1997	1996	Change	1997	1996	Change
<i>TRAFFIC AND CAPACITY</i>						
RPK (m)	<b>25,471</b>	24,761	2.9%	<b>81,753</b>	78,344	4.4%
ASK (m)	<b>37,598</b>	34,795	8.1%	<b>112,903</b>	106,006	6.5%
Passenger load factor (%)	<b>67.7</b>	71.2	(3.5)pts	<b>72.4</b>	73.9	(1.5)pts
CTK (m)	<b>1,111</b>	963	15.4%	<b>3,175</b>	2,842	11.7%
RTK (m)	<b>3,649</b>	3,435	6.2%	<b>11,325</b>	10,671	6.1%
ATK (m)	<b>5,377</b>	4,931	9.0%	<b>16,165</b>	15,070	7.3%
Overall load factor (%)	<b>67.9</b>	69.7	(1.8)pts	<b>70.1</b>	70.8	(0.7)pts
Passengers carried (000)	<b>8,229</b>	8,034	2.4%	<b>26,546</b>	25,792	2.9%
Tonnes of cargo carried (000)	<b>220</b>	183	20.2%	<b>616</b>	540	14.1%
<i>FINANCIAL</i>						
Passenger revenue per RPK (p)	<b>6.62</b>	6.44	2.8%	<b>6.39</b>	6.51	(1.8)%
Cargo revenue per CTK (p)	<b>14.13</b>	15.06	(6.2)%	<b>14.14</b>	15.10	(6.4)%
Average fuel price (US cents/US gallon)	<b>67.57</b>	83.92	(19.5)%	<b>66.61</b>	74.59	(10.7)%
TOTAL GROUP OPERATIONS ( <i>including Deutsche BA and Air Liberte</i> )						
<i>TRAFFIC AND CAPACITY</i>						
RPK (m)	<b>26,929</b>	25,417	5.9%	<b>86,569</b>	80,643	7.3%
ASK (m)	<b>40,059</b>	35,976	11.3%	<b>120,665</b>	109,971	9.7%
RTK (m)	<b>3,791</b>	3,494	8.5%	<b>11,764</b>	10,880	8.1%
ATK (m)	<b>5,618</b>	5,056	11.1%	<b>16,918</b>	15,485	9.3%
Passengers carried (000)	<b>9,837</b>	9,075	8.4%	<b>31,644</b>	29,110	8.7%
<i>FINANCIAL</i>						
Total traffic revenue per RTK (p)	<b>51.70</b>	52.46	(1.4)%	<b>51.40</b>	53.70	(4.3)%
Total traffic revenue per ATK (p)	<b>34.89</b>	36.25	(3.8)%	<b>35.74</b>	37.73	(5.3)%
Net operating expenditure per RTK (p)	<b>49.41</b>	48.71	1.4%	<b>47.76</b>	47.80	(0.1)%
Net operating expenditure per ATK (p)	<b>33.34</b>	33.66	(1.0)%	<b>33.21</b>	33.58	(1.1)%
<i>OPERATIONS</i>						
Average Manpower Equivalent (MPE)	<b>61,144</b>	58,911	3.8%	<b>61,269</b>	58,853	4.1%
ATKs per MPE (000)	<b>91.9</b>	85.8	7.1%	<b>276.1</b>	263.1	4.9%
Aircraft in service at period end	<b>327</b>	295	32	<b>327</b>	295	32

## CHAIRMAN'S STATEMENT

### GROUP RESULTS

#### *Profit Before Tax*

Group profit before tax for the quarter to December 31, 1997 was £80 million, down £33 million (29%) compared with the same period last year. The reduction was caused principally by late engine maintenance charges (£32 million) and the continuing strength of sterling (£42 million). The benefits of lower fuel prices (£39 million) and profits on the sale of the Heathrow In-flight catering operation provided partial offsets.

Profit before tax for the nine month period was £510 million, £73 million (12.5%) down on last year. The impact of the July industrial dispute (£125 million) and the strong pound (£170 million) were partly offset by lower fuel prices (£57 million) and profits on disposal arising from the sale of the Group's investment in US Airways and part of the investment in Galileo International.

#### *Operating Profit*

Operating profit for the third quarter was £44 million below last year at £87 million. Operating margin, at 4%, was 2.5 points down from a year ago, primarily because of exchange rate changes.

For the nine months, operating profit was £428 million, down £215 million (33.4%). Operating margin was 6.5% or 3.5 points lower than last year.

#### *Earnings Per Share*

Profit after tax and minority interest in the third quarter was £71 million, equivalent to earnings of 6.8 pence per share, down 2.4 pence or 26.1% from last year.

For the nine months, earnings per share were 37.8 pence, down 11.1 pence or 22.7% from last year.

### BUSINESS PERFORMANCE

The strength of sterling continued to reduce the value of the Group's overseas earnings and to affect passenger travel flows.

Engineering and other aircraft costs increased significantly from £111 million to £181 million, an increase of £70 million or 63.1%. Of this increase, £32 million was due to engine maintenance charges relating to prior periods, and a further £9 million was spent on additional preventative maintenance to improve future performance and extend service intervals.

Flights to Lagos have been suspended since May 1997; negotiations for their resumption continue with the Nigerian authorities.

The fire in Heathrow Terminal 1 on December 12 severely disrupted the travelling plans of our passengers and the airline had to cancel a large number of flights. The cost to the airline in lost revenue and compensation to passengers was £5 million; British Airways is currently preparing a claim to our insurers.

Mainline yields per passenger (passenger revenue per revenue passenger kilometre) increased on average by 2.8% year-over-year, despite the exchange rate effect, with higher gains in the premium cabins.

At the Group level, yields per unit of capacity (total traffic revenue per available tonne kilometre) fell by 3.8% year-over-year -- explained by the strength of sterling and lower load factors.

Unit costs reduced by 1% year-over-year with benefits from exchange rate changes, higher volumes and cost efficiencies exceeding the impact of wage awards and price increases charged by our suppliers.

#### GROUP TURNOVER

Group turnover in the third quarter increased by £140 million or 6.9% to £2,156 million, reflecting traffic growth of 8.5% (including the addition of Air Liberte since last year), partly offset by the impact of the strong pound. Scheduled passenger revenue increased by 6.7% to £1,791 million with an increase in mainline traffic of 2.9% on capacity growth of 8.1%. Passenger load factor for the quarter was 67.7%, a 3.5 points reduction on last year. Cargo revenue increased by 8.9% to £159 million with growth in cargo tonne kilometres of 15.4% partially offset by yield declines (6.2%) caused mainly by the strength of sterling.

In the nine months, Group turnover was £6,616 million, up £206 million or 3.2% on the same period last year. Traffic grew by 8.1%, but the Group's turnover was adversely affected by the strong pound and a reduction in load factors. Mainline passenger load factor was 72.4%, a reduction of 1.5 points.

#### GROUP OPERATING EXPENDITURE

Group operating expenditure for the three months to December 31 was £2,069 million, up £184 million or 9.8% on the same period last year on a flying schedule (available tonne kilometres) 11.1% above last year. Increases in engine maintenance costs, price increases and the impact of higher volumes were partially offset by exchange rate benefits, savings in selling costs and productivity improvements. Productivity (ATKs per manpower equivalent) increased by 7.1% with average manpower equivalents at 61,144, an increase of 3.8% (mainly customer contact staff) over last year.

In the nine months, Group operating expenditure increased by £421 million or 7.3% to £6,188 million.

BUSINESS EFFICIENCY PROGRAMME

Delivery of the £1 billion improvement programme continues. Planned cost efficiency actions involving working practice changes and re-negotiated staff contracts have been largely put in place; these will deliver profit improvements in excess of £200 million in the current year. Current levels of engineering costs and losses in the European subsidiaries are being tackled vigorously. Asset utilisation improvements are planned.

During the quarter, a new reward scheme for travel agents in the UK and US was implemented; this will lead to lower levels of selling costs per passenger.

In December, the sale of the airline's Heathrow In-flight catering production operations to Gate Gourmet, part of the SAir Group, was completed. The sale generated a profit in the third quarter in addition to ongoing unit cost reductions in the future.

The sales of the Engineering Wheels and Brakes business to Allied Signal of the United States and the Landing Gear overhaul units to Hawker Pacific also of the United States were completed in January.

The announced launch of Go, as a new low-cost shorthaul airline, recognises the emergence of a new sector of the market.

NET INTEREST PAYABLE

Net interest payable in the quarter decreased by £13 million to £23 million. This is explained by the devaluation of Yen loans, reflecting the fall in the value of Yen against the pound, rather than major changes in interest rates or net borrowings. In the nine month period, net interest payable decreased slightly by £3 million to £131 million.

RATIO OF NET DEBT TO TOTAL CAPITAL

At December 31, borrowings net of cash, short-term loans and deposits amounted to £3,964 million, an increase of £6 million since March 31. The increase was caused by investment in new aircraft, almost offset by cash receipts from disposals. For the nine month period, the net cash outflow, which required financing, was £165 million. With capital and reserves at £3,383 million, the net debt:total capital ratio at December 31 was 54% -- a reduction of 3 points since March 31.

YEAR 2000

British Airways' overriding aim in tackling the 'millennium bug' is to ensure the safety and security of our passengers and employees over the New Year period of the Year 2000 and beyond. In line with our top corporate goal of being a safe and secure airline, we have in place a structured and systematic programme to identify any potential risks to our systems, equipment and supply chains and to take action where necessary.

## CHAIRMAN'S STATEMENT - cont

Many of the critical infrastructure functions and services on which we rely world-wide are the responsibility of other organisations and agencies. We are therefore working closely, through IATA and other international organisations, with partner airlines, governments and their agencies on what is a shared industry problem, to ensure that all critical areas are identified, assessed and where necessary remedied.

### EUROPEAN MONETARY UNION (EMU)

As an international company with important markets and activities in Europe, the introduction of the single currency on January 1, 1999 is of particular importance to British Airways even though the UK has chosen not to join EMU at present.

British Airways has been preparing for EMU since early 1997 with involvement from the airline's Treasury, Strategy, Sales, Revenue Management and other departments in analysing the potential impact and opportunities. An EMU Project Director with a broad business background is responsible for managing and co-ordinating activities across the Group.

### GLOBAL ALLIANCES

#### *American Airlines*

Progress continues to be made with all the regulatory authorities and we continue to believe it possible that full approval can be obtained on conditions which are in the long term interests of British Airways.

#### *LOT Polish Airlines*

In January 1998, a Memorandum of Understanding was signed by British Airways with LOT Polish Airlines. Both airlines will work together to develop a Central European network to improve and expand services.

### AIRCRAFT FLEET CHANGES

The number of aircraft in service in the Group increased by 3 to 327 during the quarter. Four new Boeing aircraft were added to the mainline fleet: a 737-300 on operating lease, one 757-200, one 777-200 and one 747-400. One aircraft was returned to the lessor and another was stood down. Deutsche BA acquired 5 Boeing 737-300s on operating leases and sold 2 Saab 340s. Air Liberte have taken 2 Fokker F28s out of service, one of which has been sold.

### FINANCING

In the third quarter, three Boeing aircraft comprising one 747-400, one 777-200 and one 757-200 were financed by Japanese leveraged leases, the debt portions of the 747-400 and 777-200 financings being funded from the US\$2.5 billion secured facility arranged by the Company in 1996. At December 31, 1997 the undrawn balance of the facility stood at US\$1.5 billion.

OUTLOOK

Overall, trading conditions are expected to remain favourable despite difficult conditions in the Far East and the political situation in the Gulf. The major American and European economies continue strong. Lower fuel prices are a welcome recent trend.

Internally, efforts are concentrated on inspiring our people to deliver yet higher standards of customer service, bringing onstream the next generation of ground and air products, and delivering the £1 billion Business Efficiency Programme. This programme will deliver long term benefits in the form of lower costs, enhanced sales performance and improved asset efficiency.



**GROUP BALANCE SHEET**

	December 31 (unaudited)		March 31 (audited)
	1997 £m	1996 £m	1997 £m
<b>FIXED ASSETS</b>			
Tangible assets	8,229	6,999	7,588
Investments	376	524	684
	<b>8,605</b>	<b>7,523</b>	<b>8,272</b>
<b>CURRENT ASSETS</b>			
Stocks	72	78	78
Debtors	1,424	1,254	1,412
Cash, short-term loans and deposits	1,018	1,142	674
	<b>2,514</b>	<b>2,474</b>	<b>2,164</b>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	<b>(2,925)</b>	<b>(2,695)</b>	<b>(3,160)</b>
<b>NET CURRENT LIABILITIES</b>	<b>(411)</b>	<b>(221)</b>	<b>(996)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>8,194</b>	<b>7,302</b>	<b>7,276</b>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
Borrowings and other creditors	(4,625)	(3,946)	(4,034)
Convertible Capital Bonds 2005	(150)	(226)	(226)
	<b>(4,775)</b>	<b>(4,172)</b>	<b>(4,260)</b>
PROVISIONS FOR LIABILITIES AND CHARGES	(59)	(56)	(58)
MINORITY INTERESTS	23		26
	<b>3,383</b>	<b>3,074</b>	<b>2,984</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	259	250	251
Reserves	3,124	2,824	2,733
	<b>3,383</b>	<b>3,074</b>	<b>2,984</b>

**STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES**

	December 31 (unaudited)		March 31 (audited)
	1997 £m	1996 £m	1997 £m
Profit for the period	388	484	553
Other recognised gains and losses relating to the period			
<i>Exchange movements</i>	(31)	42	61
<b>Total gains and losses recognised since the last year end</b>	<b>357</b>	<b>526</b>	<b>614</b>

These summary financial statements were approved by the Directors on February 9, 1998

**GROUP CASH FLOW STATEMENT**

	Nine months ended December 31 (unaudited)		Year ended March 31 (audited)
	1997 £m	1996 £m	1997 £m
CASH INFLOW FROM OPERATING ACTIVITIES	619	922	1,212
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(139)	(109)	(177)
TAXATION	(95)	(33)	(83)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	214	(497)	(944)
ACQUISITIONS AND DISPOSALS	80	(23)	(16)
EQUITY DIVIDENDS PAID	(104)	(91)	(131)
Cash inflow/(outflow) before management of liquid resources and financing	575	169	(139)
MANAGEMENT OF LIQUID RESOURCES	(354)	48	560
FINANCING	(231)	(234)	(392)
(Decrease)/increase in cash in the period	(10)	(17)	29
<b>GROUP FINANCING REQUIREMENT</b>			
Cash inflow/(outflow) before management of liquid resources and financing	575	169	(139)
Acquisitions under loans, finance leases and hire purchase arrangements	(740)	(257)	(495)
Aircraft returned to lessor on early termination of finance lease		12	62
Total financing requirement for the period	(165)	(76)	(572)
Total tangible fixed asset expenditure, net of progress payment refunds	1,014	776	1,485

**NOTES TO THE ACCOUNTS**

For the period ended December 31, 1997

## 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, 1997 in accordance with all applicable United Kingdom accounting standards and the Companies Act 1985 and are consistent with those applied in the previous year.

	Nine months ended December 31		Year ended March 31
	1997 £m	1996 £m	1997 £m
2 RECONCILIATION OF OPERATING PROFIT TO CASH INFLOW FROM OPERATING ACTIVITIES			
Group operating profit	428	643	546
Depreciation charges	409	371	506
Other items not involving the movement of cash	(8)	(50)	(46)
(Increase)/decrease in stocks and debtors	(36)	115	19
(Decrease)/increase in creditors	(174)	(157)	187
Cash inflow from operating activities	619	922	1,212
3 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
(Decrease)/increase in cash during the period	(10)	(17)	29
Cash outflow from decrease in debt and lease financing	251	239	411
Cash outflow/(inflow) from liquid resources	354	(48)	(560)
Change in net debt resulting from cash flows	595	174	(120)
New loans and finance leases taken out and hire purchase arrangements made	(740)	(257)	(495)
Assumed from subsidiary undertaking acquired during the year			(32)
Early termination of finance leases		12	62
Conversion of Convertible Capital Bonds	76	88	88
Exchange movements	63	313	244
Movement in net debt during the period	(6)	330	(253)
Net debt at April 1	(3,958)	(3,705)	(3,705)
Net debt at period end	(3,964)	(3,375)	(3,958)

**NOTES TO THE ACCOUNTS (continued)**

For the period ended December 31, 1997

	Three months ended		Nine Months ended	
	December 31		December 31	
	1997 £m	1996 £m	1997 £m	1996 £m
4 INCOME FROM INTERESTS IN ASSOCIATED UNDERTAKINGS				
Attributable profits less losses	2	14	31	59
5 OTHER INCOME AND CHARGES				
Income from trade investments			1	1
US Airways preferred stock dividend received			4	
Other		3	6	2
		3	11	3
6 NET INTEREST PAYABLE				
Interest payable less amount capitalised	64	61	197	206
Interest receivable	(18)	(19)	(54)	(62)
Currency profits on retranslation of general purpose loans	(23)	(6)	(12)	(10)
	23	36	131	134

7 TAXATION

Due to the tax charged on the profit on disposal of investments held in the United States, the effective tax rate for the nine months was 26%. Excluding this, the effective rate was 17%.

8 DIVIDENDS PAID AND PROPOSED

The amount charged to the profit and loss account includes £3 million in relation to 1996-97 final dividends paid to Convertible Capital Bond holders (1995-96: £4 million), who converted their bonds in June 1997, in accordance with the terms of the bonds.

9 EARNINGS PER SHARE

Basic earnings per share are calculated on a weighted average of 1,027,304,000 ordinary shares (December 1996: 989,403,000; March 1997: 992,538,000). Fully diluted earnings per share are calculated on a weighted average of 1,130,605,000 ordinary shares (December 1996: 1,129,428,000; March 1997: 1,129,578,000) 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 December 31, 1997 was 1,037,472,000 (December 1996: 1,001,563,000; March 1997: 1,002,586,000) ordinary shares of 25 pence each.

**NOTES TO THE ACCOUNTS (continued)**  
For the period ended December 31, 1997

	December 31 1997 £m	1996 £m	March 31 1997 £m
10 TANGIBLE ASSETS			
Fleet	6,830	5,816	6,337
Property	1,134	928	988
Equipment	265	255	263
	<b>8,229</b>	<b>6,999</b>	<b>7,588</b>
11 INVESTMENTS			
Associated undertakings	308	492	396
Trade investments	68	32	288
	<b>376</b>	<b>524</b>	<b>684</b>
12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Loans	171	244	329
Finance leases	98	102	104
Hire purchase arrangements	158	107	122
	<b>427</b>	<b>453</b>	<b>555</b>
Overdrafts - unsecured	14	16	14
Corporate taxation	77	104	105
Other creditors and accruals	2,407	2,122	2,486
	<b>2,925</b>	<b>2,695</b>	<b>3,160</b>
13 BORROWINGS AND OTHER CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR			
Loans	950	1,021	886
Finance leases	1,107	1,227	1,173
Hire purchase arrangements	2,334	1,574	1,778
	<b>4,391</b>	<b>3,822</b>	<b>3,837</b>
Corporate taxation	41	56	7
Other creditors and accruals	193	68	190
	<b>4,625</b>	<b>3,946</b>	<b>4,034</b>
14 RESERVES			
Balance at April 1	2,733	2,254	2,254
Retained profit for the period	336	438	399
Exchange adjustments	(31)	42	61
Movement in goodwill	7		(75)
Share premium arising from issue of ordinary share capital	79	90	94
	<b>3,124</b>	<b>2,824</b>	<b>2,733</b>

15 The figures for the nine months ended December 31, 1996 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, 1997 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 9 to 13 in respect of the nine months ended December 31, 1997, 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, 1997.

*Ernst & Young*  
*Chartered Accountants*  
London

February 9, 1998

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

The accounts have been prepared in accordance with accounting principles 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, 1997.

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

	Three months ended December 31		Nine months ended December 31	
	1997 £m	1996 £m	1997 £m	1996 £m
Profit for the period as reported in the Group profit and loss account	71	94	388	484
US GAAP adjustments	9	82	81	46
Net income as so adjusted to accord with US GAAP	80	176	469	530
Net income per Ordinary Share as so adjusted				
Primary	7.6p	17.6p	45.7p	53.6p
Fully diluted	7.4p	16.0p	42.5p	48.3p
Net income per American Depositary Share as so adjusted				
Primary	76p	176p	457p	536p
Fully diluted	74p	160p	425p	483p

	December 31		March 31
	1997 £m	1996 £m	1997 £m
Shareholders' equity as reported in the Group balance sheet	3,383	3,074	2,984
US GAAP adjustments	(633)	(698)	(584)
Shareholders' equity as so adjusted to accord with US GAAP	2,750	2,376	2,400

**AIRCRAFT FLEET**

Number in service with Group  
companies at December 31, 1997

MAINLINE (Note 1)	On balance sheet Aircraft	Operating leases off balance sheet		Total (Note 2)	Future deli- veries	Options
		Exten- dible	Other			
Concorde	7			7		
Boeing 747-100	14		1	15		
Boeing 747-200	13	3		16		
Boeing 747-400	40			40	26	7
Boeing 777	15			15	9	11
McDonnell Douglas DC-10-30	5	2		7		
Boeing 767-300	25			25	3	3
Boeing 757-200	45	3	1	49	2	3
Airbus A320	10			10		
Boeing 737-200	15		16	31		
Boeing 737-300			1	1		
Boeing 737-400	27		7	34		
Turbo Props (Note 3)	2	10	9	21		
Sub Total	218	18	35	271	40	24
DEUTSCHE BA and AIR LIBERTE						
McDonnell Douglas DC-10-30			3	3		
McDonnell Douglas MD83	3		5	8		
Boeing 737-200			3	3		
Boeing 737-300		7	13	20		6
Fokker 100	4	7		11		
Fokker F28	4			4		
Turbo Props (Note 4)		5	2	7		
Sub total	11	19	26	56		6
<b>GROUP TOTAL</b>	<b>229</b>	<b>37</b>	<b>61</b>	<b>327</b>	<b>40</b>	<b>30</b>

**Notes:**

- 1 Includes those operated by British Airways and all of its wholly-owned subsidiary undertakings.
- 2 Excludes 1 McDonnell Douglas DC-10-30, 2 Boeing 737-200s, 1 Fokker F28, 4 ATR 72s, 2 ATR 42s, 2 Embraer and 5 Saab 2000s subleased to other carriers.
- 3 Includes 10 BAe ATPs, 2 de Havilland Canada DHC-7-100s and 9 de Havilland Canada DHC-8s.
- 4 Includes 2 ATR 72s, 5 ATR 42s.