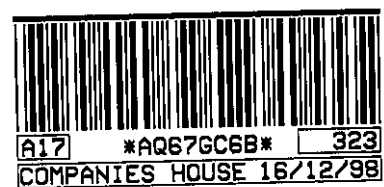


DIRECTORS' REPORT AND ACCOUNTS

BRITISH AIRWAYS (ESPANA) LIMITED

31 MARCH 1998

Company Number 437440



BRITISH AIRWAYS (ESPANA) LIMITED

DIRECTORS' REPORT

Directors: Mrs G F Redwood (Chairman)
S J Walsh

Secretary: P H Jarvis

Registered office: Waterside, P O Box 365
Harmondsworth, UB7 0GB

The Directors present their report and the audited accounts for the year ended 31 March 1998.

PRINCIPAL ACTIVITIES

During the year the activities of the Company were confined to holding property in Spain. The Company disposed of its sole property in July 1997.

RESULTS AND DIVIDENDS

The trading loss for the year after taxation was £85,801 (1997: - £16,026). The Directors do not recommend the payment of a dividend.

DIRECTORS

The Directors of the Company during the year ended 31 March 1998 were Mrs G F Redwood and S J Walsh.

DIRECTORS' INTERESTS

According to the register maintained as required under the Companies Act 1985, the Directors' interests in the share capital of British Airways Plc and in the 9.75% Convertible Capital Bonds 2005 of British Airways Capital Limited which require disclosure in these accounts were as follows:

	<u>Mrs G F Redwood</u>		<u>S J Walsh</u>	
	31 Mar 1998	1 Apr 1997	31 Mar 1998	1 Apr 1997
<u>Interests in British Airways Plc</u>				
Ordinary shares subject to no restrictions	12,459	15,586	3,524	6,246
Ordinary shares subject to restrictions	3,638	2,873	2,040	1,341
Options Executive and SAYE Share Schemes	40,257	39,698	5,716	5,157
<u>Interests in British Airways Capital Limited</u>				
9.75% Convertible Capital Bonds 2005	~	~	~	~

The Directors' interests set out above are in each case beneficial.

The options under the Executive Share Scheme and the SAYE Share Schemes are at prices ranging from £2.86 to £4.19. None of the Directors exercised share options during the year.

DIRECTORS' LIABILITY INSURANCE

The ultimate parent undertaking, British Airways Plc, maintains a Directors' and Officers' liability insurance policy for the Directors and Officers of its subsidiary undertakings.

YEAR 2000

In line with the Ultimate Parent Undertaking, the Company has in place a structured and systematic programme to identify potential Year 2000 risks to its systems and to take action where necessary.

AUDITORS

The Company has passed elective resolutions in accordance with the provisions of sections 386(1) and 379(A) of the Companies Act 1985 and Ernst & Young will automatically continue in office as the Company's auditors.

BY ORDER OF THE BOARD

SECRETARY

BRITISH AIRWAYS (ESPANA) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the report of the auditors set out on page 3, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the results of the Company for the financial year.

The Directors consider that in preparing the financial statements on pages 4 to 8, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enables them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors, having prepared the financial statements, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

Report of the auditors

To the members of British Airways (Espana) Limited

We have audited the accounts on pages 4 to 8 which have been prepared under the historical cost convention, as modified by the revaluation of freehold land and property, and on the basis of the accounting policies set out on page 6.

Respective responsibilities of Directors and auditors

As described on page 2, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

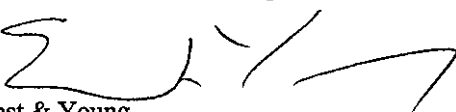
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 March 1998 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young

Registered Auditor

London

Date: 8/12/98

BRITISH AIRWAYS (ESPANA) LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1998

	Note	1998 £	1997 £
TURNOVER		~	~
Depreciation		(4,007)	(16,026)
Loss on disposal of fixed assets		(32,161)	~
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	<u>(36,168)</u>	<u>(16,026)</u>
Taxation	4	(49,633)	~
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	7	<u>£ (85,801)</u>	<u>£ (16,026)</u>

There are no other recognised gains and losses other than the loss on ordinary activities after taxation of £85,801 in the year ended 31 March 1998 (31 March 1997: loss £16,026).

NOTE OF HISTORICAL COST PROFITS AND LOSSES
for the year ended 31 March 1998

	1998 £	1997 £
Loss on ordinary activities before taxation	(36,168)	(16,026)
Realisation of property valuation gains of previous years	369,219	~
Difference between an historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	<u>3,943</u>	<u>15,771</u>
Historical cost profit/(loss) on ordinary activities before taxation	<u>336,994</u>	<u>(255)</u>
Historical cost profit/(loss) for the year retained after taxation	<u>287,361</u>	<u>(255)</u>

BRITISH AIRWAYS (ESPANA) LIMITED

BALANCE SHEET

AS AT 31 MARCH 1998

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	5	~	375,715
CURRENT ASSETS			
Amount owed by British Airways Plc		429,835	139,921
		£ <u>429,835</u>	£ <u>515,636</u>
CAPITAL AND RESERVES			
Called up share capital	6	20,000	20,000
Profit and loss account	7	409,835	122,474
Revaluation reserve	7	~	373,162
	7	£ <u>429,835</u>	£ <u>515,636</u>

..... *J. Medford* Director

Dated: 24/11/98

BRITISH AIRWAYS (ESPANA) LIMITED

NOTES TO THE ACCOUNTS

31 MARCH 1998

1 ACCOUNTING POLICIES

a) Basis of Accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of freehold land and property.

b) Fixed assets

Fixed assets are initially recorded at cost. Freehold land and the property in Spain have subsequently been revalued as at 31 March 1995.

c) Depreciation

Freehold land is not depreciated.

Depreciation is provided on the freehold building in Spain at the rate calculated to write off the cost or valuation, less the estimated residual value based on the price prevailing at the date of acquisition or revaluation, evenly over its expected useful life.

Freehold property ~ over remaining life = 20 years from date of revaluation.

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss reserve.

2 DIRECTORS' REMUNERATION

The Directors received no remuneration or other emoluments from the Company during the year ended 31 March 1998 (1997 ~ Nil).

All of the Directors qualify for a defined benefit pension scheme funded by the Company's parent undertaking.

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	1998 £	1997 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation and amounts written off tangible fixed assets:		
Charge for the year on owned assets	4,007	16,026
Loss on disposals	<u>32,161</u>	<u>~</u>

The auditors' remuneration is borne by British Airways Plc.

4 TAXATION

	1998 £	1997 £
Overseas taxation on capital gain	<u>49,633</u>	<u>~</u>

There was no UK corporation tax charge for the years ended 31 March 1998 and 31 March 1997.

BRITISH AIRWAYS (ESPANA) LIMITED

NOTES TO THE ACCOUNTS

31 MARCH 1998

(continued)

5 TANGIBLE FIXED ASSETS

Freehold land and property:	1998
	£
<u>Cost or valuation</u>	
Balance at 1 April 1997	407,767
Disposals	(407,767)
Balance at 31 March 1998	~
<u>Depreciation</u>	
Balance at 1 April 1997	32,052
Charge for the year	4,007
Disposals	(36,059)
Balance at 31 March 1998	~
<u>Net book amounts</u>	
At 31 March 1998	~
At 31 March 1997	375,715

Included in tangible fixed assets is land valued at £Nil (1997: £117,400) which is not depreciated.

On a historical cost basis land and property would have been included at:

	1998	1997
	£	£
Cost	~	12,766
Aggregate depreciation	~	10,213

The freehold land and property were professionally valued at their open market value for existing use on 31 March 1995 by Richard Ellis, Chartered Surveyors.

Revalued land and property were disposed of in the year, with net proceeds of £339,547 before tax realising a deficit of £32,161.

6 SHARE CAPITAL

The share capital of the Company is as follows:

	1998	1997
	£	£
Authorised, allotted, issued and fully paid:		
20,000 ordinary shares of £1 each	20,000	20,000

BRITISH AIRWAYS (ESPANA) LIMITED

NOTES TO THE ACCOUNTS

31 MARCH 1998

(continued)

7 RECONCILIATION OF SHAREHOLDERS FUNDS AND MOVEMENTS IN RESERVES

	Share capital £	Revalu- ation reserve £	Profit and loss account £	Total £
Balance at 1 April 1996	20,000	388,933	122,729	531,662
Loss for the year	~	~	(16,026)	(16,026)
Transfer from revaluation reserve relating to the element of depreciation charge on revalued property	~	(15,771)	15,771	~
Balance at 31 March 1997	20,000	373,162	122,474	515,636
Loss for the year	~	~	(85,801)	(85,801)
Transfer from revaluation reserve relating to the element of depreciation charge on revalued property	~	(3,943)	3,943	~
Transfer of realised profits relating to sale of revalued property	~	(369,219)	369,219	~
Balance at 31 March 1998	20,000	~	409,835	429,835

8 RELATED PARTIES

The Company has taken advantage of the exemption in FRS8 not to disclose related party transactions as 90 per cent or more of the voting rights are controlled within the group.

9 THE ULTIMATE PARENT UNDERTAKING

The Company is a wholly owned subsidiary undertaking of British Airways Plc, a Company incorporated in the United Kingdom.

The smallest and largest group of undertakings for which group accounts are drawn up, and of which the Company is a member, is British Airways Plc.

10 ANNUAL REPORT AND ACCOUNTS

Copies of British Airways Plc's annual report and accounts for the year ended 31 March 1998 can be obtained from:

The Investor Relations Department
British Airways Plc
Waterside
Asia House
HDB3
PO Box 365
Harmondsworth UB7 0GB