BRITISH AIRWAYS

1777777

00

2000/2001 Annual Report & Accounts

01

2000/2001 Year at a Glance • Rod Eddington joins the company as Chief Executive • £145m improvement in pre-tax profits • Excellent customer reaction to new Club World, Club Europe and World Traveller Plus products • Concorde grounded • Talks regarding a potential merger with KLM called off • Restructuring and repositioning of Gatwick • Reorganisation of shorthaul operations underway • Decision to sell **go** and agreement to purchase British Regional Air Lines • More than 3 million people enjoy the view from the British Airways London Eye in its first year of operation

Key Results

			2000-01	*1999-00*
Group results				
Turnover	m	up 3.8%	9,278	*8,940*
Operating profit	m	n/m	380	*84*
Profit before taxation	m	n/m	150	*5*
Attributable profit for the year	m	n/m	114	*(21)*
Equity shareholders' funds	m	up 2.2%	3,215	*3,147*
Basic earnings per share	p	n/m	10.6	*(2.0)*
Key financial statistics				
Mainline yield	p/RPK	up 7.7%	6.29	*5.84*
Operating margin	%	up 3.2 points	4.1	*0.9*
Net debt/total capital ratio	%	up 0.6 points	64.5	*63.9*
Operating statistics				
Passengers carried group	'000	down 4.5%	44,462	*46,578*
Passengers carried mainline	'000	down 0.3%	36,221	*36,346*
Revenue tonne kilometres group	'000	down 1.3%	16,987	*17,215*
Available tonne kilometres group	'000	down 2.5%	25,196	*25,840*
Passenger load factor mainline scheduled services	%	up 1.9 points	71.7	*69.8*

Statement from the Chairman

Group pre-tax profit for the year was £150 million, an improvement of £145 million over the 1999/00 result. The profit attributable to shareholders amounted to £114 million. The Board has recommended a final dividend of 12.8 pence per share which, when added to the interim dividend, produces a total of 17.9 pence, the same as last year.

Lord Marshall of Knightsbridge, Chairman

Year in review

The result represents a significant and very welcome turnaround in your company's fortunes. Clearly, this did not occur by chance but came as a consequence of our well-defined business strategy and the commitment of our people to deliver it.

Our objective remains to cut back on activity which has little or no chance of contributing to profit, in order to concentrate on business which does. It is being achieved through careful adjustment to fleet, network and group structure, together with continuous investment in customer service innovation.

This was Rod Eddington's first year as Chief Executive, resulting in a robust approach to problem areas and a marked improvement in morale throughout your company. The morale factor is crucial in a service business and its importance became evident as we faced a range of adversities which disrupted operations at various times during the year: severe bad weather in the United Kingdom; the grounding of Concorde; and a serious computer systems failure. Furthermore, we had to contend with economic slowdown in some important markets, most notably the USA; the effects on travel and tourism to Britain of foot and mouth disease; and the alarming rise in the price of oil which increased our fuel costs, net of hedging, by £264 million.

Operational statistics reflect the way the company is being restructured in the market place. On 'mainline' services the total number of passengers carried reduced slightly, with capacity decreasing by more than 3 per cent. Cargo revenue rose, year on year, as did volume and yield. The overall load factor was 67 per cent, a small increase. Seat factor showed a slight improvement. Total revenue increased by 3.8 per cent to £9.3 billion.

There were two highly significant trends, however. The first was the increase of 4.2 per cent in premium traffic and of 7.7 per cent in average passenger yield. This was achieved in the face of intense competitive pressure in every network sector and indicates the comparative strength of the British Airways brand. The second important trend is the continuing way that costs are being held down. Excluding fuel, costs continue to reduce and productivity to improve.

Customer service

Last year saw the new range of products and services presented under the label of 'Air Travel For The 21st Century' becoming available on many more routes across the network. It includes the refurbished First Class, the Club World 'flat bed,' the improved Club Europe and World Traveller services and the completely new class, World Traveller Plus. These air travel innovations, especially the new Club World, have received an enthusiastic response from both customers and industry observers.

On the ground, the programme to introduce the 'Terraces Lounge' concept at key airports continues apace. Shortly after the end of the financial year, I opened the 'Terraces' facility in our substantially modernised terminal at JFK International Airport, New York. British Airways' Terraces Lounges create a unique airport environment for premium customers and are proving to be a distinct competitive advantage.

Increasingly, advanced information and communications technology is being applied to bring enhancement and innovation to customer service at all levels. Recently, for example, we joined forces with BT to provide a flight information and passenger check in service via mobile Internet. The airline also announced that discounts would be provided for customers making bookings on the British Airways website. We intend to be at the forefront of the technological revolution in airline service.

Disposals and investments

A number of disposal and investment decisions were made during the year. They resulted in the sale of the French subsidiary, Air Liberté; of our interest in Hogg Robinson; and of the low-fare carrier, **go** which is expected to be completed shortly. Principally because of the Air Liberté sale, losses on disposals amounted to £69 million, compared with profits of £249 million in the previous year.

Following the acquisition of CityFlyer Express, the airline is being fully integrated into mainline operations at Gatwick. We also invested in Online Travel Portal and decided that, from May, 2001, our UK outbound holiday businesses would be merged with those of Thomas Cook.

Shortly after the end of the year under review, the Secretary of State for Trade and Industry allowed our offer to acquire British Regional Air Lines Group (BRAL) to go ahead without reference. BRAL, our major UK regional franchise partner, is being merged with our wholly-owned subsidiary, Brymon Airways.

Following completion of the privatisation of Iberia Lineas Aéreas de España S A of Spain in April, 2001, an investment rebate of more than £90 million was received. This represented the difference in value of the £154 million paid for our 9 per cent shareholding in March 2000 and Iberia's share price at flotation.

Alliance development

The **oneworld**™ alliance, of which British Airways is a founding partner, was boosted during the year with the inclusion of Aer Lingus and LanChile. The consortium now has eight full members and 23 affiliate airlines. Collectively, they serve 566 destinations in 133 countries, with a combined fleet of almost 2,000 aircraft and 274,000 employees. **oneworld** accounts for an annual 200 million passengers. Now in its third year of operation, **oneworld** has developed a wide range of initiatives to the mutual benefit of its partners and their customers. The world-wide reach and critical customer mass provided by **oneworld** remains important to the global development of British Airways. The alliance's full membership comprises: Aer Lingus, American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, LanChile and Qantas.

High-level discussions continue with American Airlines on ways to build the relationship between the two carriers, on both a bi-lateral basis and within **oneworld**. Code-share agreements have been extended with Aer Lingus, Iberia and Qantas.

Zambian Air Services became our 12th franchise partner when it commenced operations at the beginning of 2001 and carries the British Airways brand on services within East and Central Africa.

Our people

I have mentioned some of the difficulties of the year elsewhere in this report, but I do wish to emphasise how much the efforts of our people are appreciated not just at times of stress, but also in the normal, day-to-day operation of your company. The recovery in our financial performance is testimony to their professional commitment and appetite for success. The process of change and restructure still has some way to go (and, indeed, never really finishes), but our employees can pride themselves on a morale-boosting performance in the year under review.

As ever, I extend thanks to members of the executive management team for their dedicated leadership of the company. I also wish to record my usual appreciation of the support, guidance and sound judgement provided by my fellow Board members, for whom the interests of shareholders remains paramount.

Board changes

In December, we announced the appointment of Mike Street, the airline's Director of Customer Service and Operations, to the Board. Shareholders will be asked to elect him formally at the forthcoming annual meeting. Mike Street has made an immense contribution over his 37-year career with the company. I was personally delighted that he agreed to serve British Airways at the highest level.

Derek Stevens, Chief Financial Officer since February 1989, retires from the company and the Board at the end of August, 2001. Derek has served us extremely well, with considerable skill and commitment through some of our most difficult and also our most successful periods. He leaves with our thanks and good wishes for a well-deserved and fulfilling retirement. John Rishton, 43, will succeed Derek as Chief Financial Officer on September 1, 2001, when it is intended that he will also join your Board. Currently Financial Controller, Commercial, he has been with the airline since 1994, prior to which he held senior financial positions with the Ford Motor Company.

Captain Colin Barnes, who has served as non-executive Director and Chairman of the Board's Safety Review Committee since 1991, steps down in September. He had a long and distinguished career with British Airways, culminating as Chief Pilot and Director of Flight Crew. Since his retirement from flying duties, Captain Barnes' experience has been highly valued at Board level and it is intended that Captain Mike Jeffery, who retires as Director of Flight Operations in June, 2001 will succeed him as a Board member and Chairman of the Safety Review Committee from October 1, 2001.

Sustainable business

The Community Relations and Environment departments have been combined to create the new Sustainable Business Unit. This move further emphasises our long-held recognition of the need to take into account the environmental and social implications of business activity alongside the economic impact. We remain committed to the programme for increased environmental care and consideration and our 2000/01 Environment Report will be available to shareholders at the Annual General Meeting. The annual Tourism for Tomorrow Awards, designed to promote sustainable tourism development, are now in their tenth year and have attracted more than 1,000 entries over that period.

Corporate social responsibility is being taken very seriously, as demonstrated by our recent signing of the internationally-recognised Sullivan Principles. The company Code of Conduct which lays down a framework of business ethics will be subject to ongoing review and revision.

Responsibility as a good neighbour to the communities in which we work, manifests itself in many ways. The Change For Good appeal operated in association with UNICEF has now raised £12.5 million to help deprived and distressed children around the world. A fund of £120,000 and programme of travel awards help support employees involved in charitable activities. In addition to established staff charities such as Dreamflight, Operation Happy Child, Cargo Kidney Fund and Sreepur Village orphanage in Bangladesh, a number of others are receiving support and encouragement. They include: Nyumba, caring for HIV-positive children in Africa; Children of Makuru, helping street children in Kenya; Nyanyano School, in Ghana; an educational and sports training programme in South Africa; and the BA Runners which act as couriers for the delivery of emergency medical aid to the world's trouble spots.

The airline and its people are always ready to come to the assistance of communities facing disaster of one kind or another. The major fund-raising and airlift of supplies for the earthquake victims in India was a recent case in point.

Closer to home, the Community Learning Centre at Waterside has been a resounding success, much appreciated by the communities around our Heathrow headquarters.

National Air Traffic Services

In March the Government selected The Airline Group, a consortium of seven British airlines which includes British Airways, to be the private sector partner for National Air Traffic Services (NATS). The Airline Group will hold 46 per cent of the shareholding in NATS and has pledged to manage the organisation on the basis of no commercial return. It has committed to invest £1 billion in the UK's air traffic control infrastructure over the next ten years. We regard this development as the best-possible outcome to the Government's Public-Private Partnership proposal for NATS. As the prime users of NATS, the airlines who form the Airline Group have the greatest incentive and commitment to safety. Our bid focused on investment and the group will provide NATS with the commercial and project management skills to deliver safely a higher operating capacity – and hence fewer delays – more quickly and with lower risk than had been previously planned by NATS.

Significant improvement in the scope and efficiency of air traffic systems will be crucial to the vital work of further developing the UK's overall civil aviation infrastructure, especially in the Southeast of England. This subject which has an obvious bearing on your company's future development, is discussed elsewhere in this Report by the Chief Executive.

Concorde

Following the tragic accident in Paris, we have been working very closely with the authorities in Britain and France, as well as the airframe and engine manufacturers to understand the cause and ensure that there are no ongoing safety implications for Concorde. A number of 'super safety' modifications were subsequently recommended and are being implemented. At the time of writing, final assessment and approval for Concorde to return to service was awaited from government safety regulators. We remain confident that supersonic travel will again be available from British Airways before too long. In the meanwhile, we are using the time to undertake a £14 million package of refurbishment to Concorde passenger cabins.

Outlook

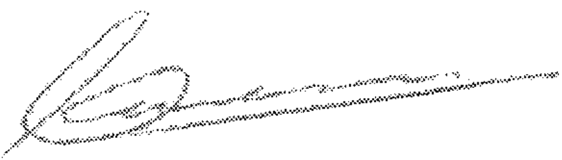
Further implementation of the fleet, network and alliance strategy is proceeding apace; and the continuing embodiment of our new and improved products is maintaining competitive strength. Review of the Gatwick network to stem losses is underway. Our UK subsidiaries are being consolidated into a cohesive, complementary organisation. Your company is evolving as a leaner, more agile and more profitable business. We are committed to working closely with our staff and trade unions as this evolution continues.

Our strategic positioning is designed to serve us well in the long term, but it should also help lessen the full impact of immediate adversities such as the US economic downturn; the residual effects on UK travel and tourism of the foot and mouth outbreak; and historically high fuel prices.

Concentration on improving the UK infrastructure (terminal, runway and surface access capacity), in ways compatible with legitimate environmental and community concerns will be a priority. In particular, we expect a positive Government decision on Terminal 5 at Heathrow soon into the new Parliament.

We will also be pressing for legislative change to allow industry consolidation in Europe. This is an absolute necessity if European airlines are to hold their own in the global market of the future.

Our principal objectives in the current year, however, will be to achieve increased levels of value and quality for our customers around the world; the continued support of our employees; and increased profitability – all of which are expected to improve the level of return for shareholders.



Lord Marshall of Knightsbridge, Chairman

Statement from the Chief Executive

I have enjoyed an exciting first year as British Airways' Chief Executive and believe that with the help of our staff the airline has begun its return to sustainable long-term profitability.

Rod Eddington, Chief Executive

We have had to make tough choices over this period to maintain the momentum of our business strategy, but these and the tireless efforts of people throughout the airline will help us meet the challenges that lie ahead.

Over the past year we have:

- reduced our exposure to unprofitable market segments, while strengthening our position in profitable markets which depend heavily on business travel to and from the UK
- reduced our aircraft size on key routes and cut excess capacity, while crucially maintaining the frequency of service to key destinations
- delivered a programme of investment in state of the art customer services

These measures have produced improved financial results and underlined our leading role in the global aviation industry.

Much has taken place in support of this strategy over the past year and it's worth recounting some of the many highlights, to illustrate the pace of change in the airline.

Much of my time when I first arrived was taken up with the talks with KLM. Of course, these came to nothing in the end, but I do not feel it was time or effort wasted. You will have heard me talk on several occasions about the need for consolidation in the European airline industry. I make no apologies for that. This is a lengthy process (it took 30 years to achieve in the United States), but it is both inevitable and necessary if we're to develop our position in the long-term. And I intend that British Airways will be in the vanguard of that process.

Consolidating the industry or not, providing excellent customer service to our passengers is a priority for British Airways. And one product above all, has become synonymous with our return to form. The innovative Club World 'flat beds' have been a great success and I hope you get the chance to try them for yourself. They are a symbol of our continued commitment to be number one in terms of service and comfort.

Equally, I have been at pains to stress that British Airways is not just about business class passengers. Some 85 per cent of our passengers travel economy. They are vital to us and that is why we have made improvements to our World Traveller product and have introduced our new cabin – World Traveller Plus, for those economy passengers wishing to pay a small premium for extra legroom, extra comfort and a dedicated cabin.

Let me be absolutely clear on this. We will always offer value to all customers through delivery of quality products and services at the best possible price.

Our goal is simple, to be the customer's choice – the airline of first choice in our key markets. That is why we have been investing more than £600 million in new customer services and products.

However, this business is not just about 'new this and new that'. It is about quality service, quality service, quality service. That is why we are in regular contact with over 50,000 customers to keep close tabs on how we are doing.

One of the strategic actions taken to fundamentally improve profitability is that of changing what we do at Gatwick. The review of operations at Gatwick, announced in December, has led to a shift from previous attempts to build Gatwick as a second airline hub and a refocusing of the operation over the next two years.

We will significantly reduce longhaul operations at Gatwick, building Heathrow as the main intercontinental hub. This will mean cutting longhaul Gatwick destinations from 43 to 25 by suspending around half a dozen unprofitable routes, moving 10 key longhaul routes to Heathrow – including Miami, Rio and Sao Paulo.

Yet, British Airways will still be the largest operator at Gatwick. We remain committed to serving many shorthaul destinations and Gatwick has a key role to play in offering customers quality services to those destinations.

Heathrow – our major international aviation hub – is a strategic national asset. It must be developed for the good of everyone. British Airways continues to argue the case for improvements in infrastructure that will support the growth of the UK economy and a successful aviation industry. The proposed Air Transport White Paper will provide a policy framework for the future of aviation and airports in the UK for the next 30 years. We must make sure we get it right.

We must get it right, not least because your company is a great company. As the UK's sole global network carrier, British Airways is at the heart of the UK aviation industry. Employing an average 55,000 people in British Airways mainline, we carry 36 million passengers each year – that's more international passengers than any other airline, with a global network spanning some 268 destinations and 97 countries.

In short, British Airways is the UK's major airline and a world renowned business. As an Australian, I can see clearly that it is in Britain's interest for it to stay that way.

Concorde, the flagship of our fleet, is very important to British Airways. Last year's Air France accident was a terrible tragedy. We continue to work on the issues raised by the incident, and are confident that the aircraft will be back in service once these have been addressed.

Finally, let me address a few other matters of importance
During the year we confirmed our intention to sell the no frills airline go – it does not fit with our full service brand – and we announced plans to buy the British Regional Air Lines Group.

We have also marked the first anniversary of the London Eye – the 'smile high club' – which has allowed your company to make such a huge contribution to London's skyline.

We are making real progress on our journey to sustainable profitability. We recognise that we will always be affected by outside events. Fuel prices were a big problem last year. And everyone is keeping a very close eye on the US for signs of the economic slowdown there. Closer to home, the 'foot and mouth crisis' in the UK has clearly affected passenger numbers. As I write this, they are still down, although we expect them to come back strongly as the countryside is given the 'all clear'.

In the meantime, Lord Marshall and I have taken every opportunity to argue the case for 'business as usual'. In the United States and elsewhere, we are always delighted when British Airways can play an ambassadorial role for Britain.

In ending, I would just like to say some 'thank yous': to our customers; our employees and our shareholders. I said a year ago that we had to work hard to put a smile back on peoples' faces. I think we have done that. Now, we will work doubly hard to keep it there.

Rod Eddington

Rod Eddington, Chief Executive

Operating and financial review

Background to Financial Performance

The following table sets out the year-over-year percentage changes in group operating revenue and selected operating statistics for the two years ended March 31, 2001:

	% Increase/(Decrease) Year ended March 31	
	2001	*2000*
Group operating revenue	**3.8**	*0.5*
Group operations		
Volume (RTK)	(1.3)	*2.3*
Capacity (ATK)	(2.5)	*2.9*
Yield (Revenue/RTK)	5.6	*(2.1)*

Revenue

British Airways scheduled services provide the principal contribution to group operating revenue. In each of the two years ended March 31, 2001 and March 31, 2000, traffic revenue accounted for approximately 91 per cent of group operating revenue. The level of revenue generated by these services is determined by the volume sold (measured in Revenue Tonne Kilometres, RTK) and the yield achieved (revenue per RTK). The year ending March 31, 2001 saw the first fall in volume offered (measured in Available Tonne Kilometres, ATK) since privatisation. As a result of an increase in yields more than offsetting the volume reduction, traffic revenues have increased by 4.2 per cent to £8,432 million.

Volume of traffic carried

In the year to March 31, 2001, group RTK flown declined by 1.3 per cent, with growth in the mainline operation offset by reductions in subsidiaries, principally as a result of the disposal of Air Liberté at the start of the year.

Capacity

During the period under review, capacity in the mainline operations declined as a result of the business strategy of operating smaller aircraft, albeit on increased frequencies. The capacity reduction fell further at the group level due to the disposal of Air Liberté, despite growth in CityFlyer Express and **go**. Excluding the disposal of Air Liberté, the fleet grew by only four aircraft during the year. The group's business strategy means that mainline capacity over the next two years will continue to decline.

Yield

In addition to changes in the level of demand, movements in yield are determined principally by changes in four factors: capacity, fare levels, the mix of traffic between and within the various classes of service offered and exchange rates. Each of these factors has influenced yield in the last year.

Seasonal variations

Traditionally, the group makes most of its operating income between April and October each year as demand is higher during this period; most costs are incurred evenly throughout the year.

Operating expenses

Year ended March 31	2001	2000	2001	2000
	(£ million)		% Increase/ (Decrease)	
Employee costs	2,376	*2,481*	(4)	*5*
Depreciation and amortisation	715	*648*	10	*5*
Aircraft operating lease costs	221	*190*	16	*27*
Fuel and oil costs	1,102	*804*	37	*14*
Engineering and other aircraft costs	662	*661*	–	–
Landing fees and en route charges	645	*682*	(5)	*(7)*
Handling charges, catering and other operating costs	1,303	*1,328*	(2)	*4*
Selling costs	1,135	*1,188*	(5)	*(1)*
Accommodation, ground equipment costs and currency differences	739	*874*	(15)	*16*
	8,898	*8,856*	1	*4*

Employee costs are the largest single component of group operating expenses. Fuel and oil costs fluctuate greatly and are a cost component over which British Airways has only limited control. Changes in fuel costs in sterling principally reflect changes in the volume consumed, the price of aviation kerosene and the dollar/sterling exchange rate (most aviation fuel is priced in US dollars). In the year to March 31, 2001, fuel and oil costs increased by 37 per cent or £298 million due to average dollar fuel price increases of 46 per cent, partially offset by hedging.

British Airways operates a hedging strategy to reduce the exposure to short-term variation in fuel costs.

Results of operations

Group profits before tax for the year were £150 million; at an operating level profits were £380 million.

Business performance

The year-over-year improvement in operating profit reflected the benefits from our strategy of operating smaller aircraft, on higher frequencies and creating a higher mix of premium passengers. The benefits from these actions and continued cost efficiencies more than offset adverse impacts from fuel price rises and adverse exchange rate changes. Passenger yields (passenger revenue per RPK) increased by 7.7 per cent in the mainline operations, the biggest year-over-year improvement since privatisation.

In line with expectations unit costs rose by 3.1 per cent. Excluding the impact of higher fuel prices, group unit costs fell 0.3 per cent. Productivity improved by 1.8 per cent, despite capacity reductions. Operating margin rose by 3.2 points to 4.1 per cent.

For the year ended March 31, 2001, group operating revenue increased by 3.8 per cent to £9,278 million on a flying programme 2.5 per cent smaller in ATK.

Mainline scheduled passenger traffic (RPK) declined by 0.7 per cent while capacity (ASK) was reduced by 3.3 per cent. Passenger load factor for the year was 71.7 per cent, up 1.9 points on the previous year. Yields (passenger revenue per RPK) increased by 7.7 per cent. This reflected an improvement in the mix of premium passengers, a richer mix of fare types within cabins and benefits from a weakening of sterling against dollar based currencies.

In Cargo, volumes were up 4.3 per cent compared with last year whilst yields increased by 1.2 per cent; overall sales increased 4.1 per cent from £556 million to £579 million.

Unit costs (net operating expenditure per ATK) were 3.1 per cent higher than a year ago. Excluding higher fuel prices and adverse exchange rate impacts, unit costs would have fallen 2.4 per cent. This reflects cost efficiency actions, including lower cost of sales, e-procurement initiatives and productivity and process improvements.

The average number of employees in the group fell by 4.6 per cent to 62,175. In terms of average manpower equivalent (MPE), the decrease was 4.3 per cent to 62,844. Productivity, as measured in terms of group ATKs per MPE, was up by 1.8 per cent.

Employee costs reduced by 4.2 per cent to £2,376 million, reflecting reduced staff numbers from efficiency actions and the disposal of Air Liberté, together with lower restructuring charges. These benefits were partially offset by wage awards.

Depreciation and amortisation costs increased by 10.3 per cent to £715 million reflecting the increased value of the aircraft fleet, principally from the addition of further Boeing 777 aircraft, together with new property such as the New World Cargo Centre and equipment. Aircraft operating lease costs increased 16.3 per cent to £221 million, principally as a result of the introduction of additional Airbus A319 and Boeing 737-500 in the mainline fleet together with the full year impact of CityFlyer Express. These were partially offset by savings from the disposal of Air Liberté.

Fuel and oil costs increased by 37.1 per cent to £1,102 million, due to average fuel price increases of 46 per cent, partially offset by hedging, and the adverse impact of the stronger dollar. Partially offsetting these increases were efficiencies from smaller, newer aircraft and savings from the disposal of Air Liberté.

Engineering and other aircraft costs increased by 0.2 per cent to £662 million reflecting additional wet lease hiring and the full year impact of CityFlyer Express together with adverse exchange rate impacts; these were partially offset by further benefits of the new more fuel-efficient aircraft joining the fleet, together with savings from the disposal of Air Liberté.

Landing fees and en route charges fell by 5.4 per cent to £645 million. This principally reflects benefits from the further recoveries of passenger service charges and the sale of Air Liberté. Handling charges, catering and other operating costs decreased by 1.9 per cent to £1,303 million, as a result of increased catering cost efficiencies and the disposal of Air Liberté. These savings were partially offset by the inclusion of CityFlyer Express for the full year.

Selling and marketing costs decreased 4.5 per cent to £1,135 million. Structural reductions in commission cost charges and lower marketing spend were partially offset by the higher level of sales. The sale of Air Liberté provided further cost saving benefits.

Accommodation, ground equipment and currency differences fell 15.4 per cent, to £739 million. This reflected the non-repetition of costs associated with the Year 2000 programme, benefits from exchange differences on working capital items and savings from the disposal of Air Liberté.

The drive for efficiency improvements continued throughout the year and focused on the following areas:

- Improving the productivity of our people
- Cost of sales reduction
- Reducing product spend by identifying elements of low customer value
- Optimising aircraft utilisation
- e-business exploitation
- Procurement efficiency
- Improving the Gatwick and Domestic operating structures
- Improving the profitability of our subsidiaries

Geographical analysis

The strongest revenue growth was seen in the Africa, Middle East and Indian sub-continent regions, where revenue by area of destination increased by 6.9 per cent to £1,304 million, driven by increases in capacity and improved seat factors. The Far East and Australasia routes saw revenue increase by 6.5 per cent whilst the Americas region revenue grew by 6.1 per cent as a result of increased seat factor and yield more than offsetting reductions in capacity. In Americas yield particularly benefited by an improved mix of premium passengers. In Europe, excluding the impact of the disposal of Air Liberté, revenues increased by 9.2 per cent reflecting seat factor and yield improvement on a reduced capacity.

At the operating profit level all regions improved except for the Far East and Australasia where the competitive market made it difficult to increase fares to offset capacity reductions and increased fuel costs, although seat factor improved 2.3 points to 74.4 per cent. The Americas region was again the most profitable with an operating profit of £470 million, up 53 per cent on a year ago. The Africa, Middle East and Indian sub-continent returned profits of £92 million and the Far East and Australasia lost £10 million. The structural changes within Europe helped reduce losses by £138 million to £172 million.

Alliance benefits

The world's most global airline alliance grouping, oneworld, initially including British Airways, American Airlines, Canadian International Airlines, Cathay Pacific and Qantas was launched in February 1999. Iberia and Finnair joined the group in September 1999 although in June 2000 Canadian Airlines left the alliance following its purchase by Air Canada. At the same time LanChile and Aer Lingus joined as the eighth and ninth members. Co-operation across the alliance is underway in a number of areas that benefit both customers and airline effectiveness. oneworld offers a substantial package of customer benefits, including reciprocal reward and recognition programmes, common lounge access, smoother transfers, increased customer support and greater value.

This year, oneworld has been at the forefront of introducing new services and benefits for our customers including the oneworld visit passes and improved customer service through co-located airport and sales facilities in a number of cities.

Additionally, in the last year oneworld established a central management office, based in Vancouver, Canada, to drive future growth and customer service improvements.

Bilateral discussions with American Airlines regarding intended co-operation across the Atlantic and linked to the UK/US "open skies" negotiations continue. The relationship continues to develop concurrent to these discussions, primarily through initiatives under the oneworld framework.

The alliance with Cathay Pacific continues to add value. During the year the two airlines entered the first phase of bilateral co-operation with codesharing on selected British Airways domestic services and we continue to explore further development opportunities.

Bilateral arrangements with LOT Polish Airlines and Finnair continue.

Co-operation with JAL continues with revenue proration and Frequent Flyer Programme agreements.

Qantas

Commercial co-operation between British Airways and Qantas (in which British Airways holds a 25 per cent stake) continue to strengthen, providing customers on the "kangaroo routes" with improved flight departure times and routings.

The alliance is now entering its seventh year and continues to generate additional value, with cost saving and revenue generating co-operation taking place across almost all functions. Flights operated under the Joint Services Agreement (the JSA), which serve markets between the United Kingdom and Continental Europe, Southeast Asia and Australia, have undergone considerable change over the past year. In particular, the number of services operated to the key Australian cities of Sydney and Melbourne have been increased and the British Airways brand is available in Melbourne again after an absence of several years. At the same time, Qantas have taken over flying between Brisbane and Perth to the hub at Singapore. The use of smaller Boeing 767 aircraft, on increased frequencies, on these routes means that customers now have a greater choice of fights at various times of the day than was possible when Boeing 747 aircraft were in use.

During the year, alterations have been made to the mechanism used to share benefits generated on JSA routes between British Airways and Qantas. These changes now mean that costs as well as revenues are shared. It is hoped that this will lead to further areas where value can be added through co-operation to reduce costs.

During the course of the year, British Airways leased one Boeing 747-400 to Qantas to help meet a temporary capacity shortfall while product upgrades are embodied into Qantas longhaul aircraft.

The two organisations continue to co-ordinate sales and marketing activities worldwide, investing in joint travel shops and airport facilities, offering the very best of customer service to all passengers.

Qantas's pre-tax profit for the six months ended December 31, 2000 (included together with the six months ended June 30, 2000 in the March 31, 2001 result) amounted to A$416 million, an increase of A$2 million on the corresponding period last year, after excluding prior year abnormal items. Group profit after tax amounted to A$264 million, down 22 per cent. The prior year result included the benefit of A$82 million from a further sale of part of the investment in Equant NV and an abnormal tax credit of A$45 million. Revenue for the six months was A$5.1 billion, up 13.1 per cent compared to last year. Passenger revenue increased by 14.6 per cent; excluding the favourable impact of exchange rate movements, the increase was 10 per cent and was due to growth in RPKs of 10.4 per cent offset by a deterioration in yield of 0.5 per cent.

The increase in total expenditure, including interest, amounted to 16 per cent. Excluding the unfavourable impact of movements in foreign exchange rates, this increase amounted to 10.5 per cent and was mainly due to costs associated with an 8.7 per cent increase in capacity, and higher fuel costs. Costs per ASK, after excluding exchange movements, increased by 1.6 per cent.

Significant capacity increases in both the international and domestic markets were the driving factor in revenue growth. The increase in passenger volumes exceeded capacity growth in both networks, causing an increase in the overall passenger load factor of 1.2 percentage points.

Iberia

Following the acquisition of a 9 per cent stake in Iberia, work continues to identify potential areas for co-operation. The two airlines are currently reviewing opportunities within the Latin/Central America countries, where codesharing on selected flights and joint operations have the potential to realise significant joint benefits.

Iberia's profit before tax for the 12 months to December 31, 2000 (included in the March 31, 2001 result) was Ptas 36.6 billion, up 18.5 per cent on the previous year. As a consequence of Iberia's Initial Public Offering, British Airways received a refund of £101 million, for the 10 per cent shareholding held by BA & AA Holdings Limited.

Franchising

As at March 31, 2001, 161 aircraft of 21 different types have been franchised in British Airways livery. These operate to 167 different destinations worldwide, of which 79 are additional to the British Airways mainline network. During the year National Jet Italia, based in Rome, and Zambian Air Services, based in Lusaka, became new franchise partners.

Share of operating profit in associates

British Airways' share of operating profits from associated undertakings decreased by £11 million to £64 million during the year, principally due to initial losses on Online Travel Portal Limited and Iberia, and decreased profits from Qantas.

Loss on sale of fixed assets and investments

Losses on disposals of fixed assets and investments for the year were £69 million, reflecting primarily the disposal of Air Liberté in May 2000 and losses on aircraft sales. Our share of Iberia's profits from the sale of its investment in Amadeus, was a partial offset. Last year profits of £249 million arose, primarily from the disposals of our investment in Galileo International and part of our investment in Equant.

Net interest payable

Net interest expense for the year was £226 million. This included a book credit for the revaluation of yen debts (used to fund aircraft acquisitions) of £73 million, compared to a charge the previous year of £126 million. The revaluation — a non cash item required by standard accounting practice — results from the weakening of the yen against sterling.

Taxation

The analysis of the tax charge is set out in Note 11 to the accounts.

There is no tax payable on operating results in the UK, as adjusted for taxation. During the year the group has remitted profits to the UK from subsidiaries and associates including those in Australia and Spain. The UK tax charge arising on such profits has been partially offset by credits for taxes paid overseas and by other losses surrendered with the result that no UK taxation arises. Profits on disposals have no taxation as such profits are covered by tax losses from the current year. The tax charge for the year arises principally from overseas particularly in respect of the group's interest in Qantas.

During the year the Accounting Standards Board issued Financial Reporting Statement 19 'Deferred Tax'. This requires companies to recognise deferred tax on the full liability method (albeit a discounted option is included within the standard) for accounting periods ending on or after January 23, 2002. British Airways is currently reviewing the most appropriate method of recognition and will implement this change effective from April 1, 2001. British Airways currently accounts for deferred tax under the partial liability method. The deferred tax liability at March 31, 2001 if full provision was required was £959 million (see note 38).

Earnings per share

For the twelve month period, profits attributable to shareholders were £114 million, equivalent to earnings of 10.6 pence per share, compared with losses of 2.0 pence per share last year.

Dividends

The Board recommends a final dividend of 12.8 pence per share, giving a total dividend for the year of 17.9 pence per share, the same as last year.

Aircraft fleet changes

The group fleet decreased by 28 during the year from 366 to 338 aircraft.

The mainline fleet increased by 4 aircraft during the year reflecting the continuation of the revised fleet strategy. Additions included 7 Boeing 777, 15 Airbus A319, 10 Boeing 737-500 and 5 Embraer RJ145 operated by Brymon. Mainline disposals during the year consisted of 2 Boeing 747-200, 6 Boeing 767-300, 8 Boeing 757-200, and 13 Boeing 737-200, as well as 2 de Havilland Canada DHC-7s and 2 de Haviland Canada DHC-8s operated by Brymon.

The subsidiary fleet reduced by 32 aircraft. Additions were 7 Avro RJ 100 for CityFlyer Express; Disposals were 1 Boeing 737-300 by DBA, 1 ATR 72s and 5 ATR 42s operated by CityFlyer Express, together with the 32 aircraft from the Air Liberté sale.

Concorde services remain suspended following the Air France accident in July. Modifications to the fuel tank have begun and we remain confident that the Civil Aviation Authority in the UK will re-issue the certificate of airworthiness. While the safety modifications are made, a £14 million package of product improvements, including a new cabin interior and new seats, is being installed. Services are expected to resume later this year.

The year saw the continuation of the new strategy of matching capacity more closely to demand for point-to-point and premium business traffic whilst reducing capacity available for less profitable low yield connecting traffic. Shorthaul changes to support the new fleet strategy included an additional 15 Airbus A319s and 10 Boeing 737-500s.

Capital expenditure

Group capital expenditure on tangible assets is set out in Note 15e to the accounts.

The following table summarises group capital expenditure in the two years ended March 31, 2001:

£million	Year end March 31 2001	2000
Aircraft, spares, modifications and refurbishments (net of refund of progress payments)	1,192	*955*
Property and equipment	220	*363*
	1,412	*1,318*
Investments	49	*186*
	1,461	*1,504*

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £1,160 million (2000: £1,830 million). The outstanding commitments include £189 million which relates to the acquisition of 5 Boeing 777 on order and £915 million which relates to the acquisition of Airbus A318, A319 and A320 aircraft scheduled for delivery over the next four years. It is intended that these aircraft will be financed partially by internal cash and partially through external financing, including committed facilities arranged prior to delivery.

Working capital

At March 31, 2001, net current liabilities were £862 million, up £88 million on last year. This change principally reflects lower short-term loans and deposits and cash (£210 million), increased sales in advance of carriage principally as a result of higher average yields (£45 million) and an increase in trade creditors (£52 million), reflecting increased spend on new products and higher fuel prices. These were partially offset by the repayment due from Iberia for part of the initial investment and the impact of Air Liberté leaving the group (£71 million).

Cash flow

Net cash inflow from operating activities totalled £1,251 million. During the year, there was significant investment in tangible fixed assets amounting to £1,115 million. The sale of the group's interest in Air Liberté, Travel Automation Services and Hogg Robinson generated proceeds of £74 million. Other miscellaneous disposals, mainly aircraft, contributed a further £265 million. The net financing requirement for the year amounted to £331 million, a decrease of £21 million over last year. Overall, cash decreased by £30 million.

Leases and other financing arrangements

The following table sets out the movements in loans and capital obligations under finance leases and hire purchase arrangements for the two years ended March 31, 2001:

Finance leases, bank and hire purchase arrangements

£million	Bank and other loans and hire purchase arrangements	Finance leases	Total 2001	2000
Balance at April 1	1,043	5,901	6,944	*6,552*
New loans raised	214	-	214	60
Assumed from subsidiary acquired during the year				43
Divested from subsidiary undertakings sold during the year	(23)	(46)	(69)	-
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft	–	663	663	*659*
Repayment of amounts borrowed	(228)	(510)	(738)	*(576)*
Effect of exchange rate changes	35	(6)	29	*206*
Balance at March 31	1,041	6,002	7,043	6,944

In the above table, loans, finance lease obligations and hire purchase arrangements denominated in foreign currency have been translated into sterling at year-end exchange rates. Changes in the sterling value of outstanding foreign currency loans, finance lease obligations and hire purchase arrangements which finance fixed assets amounted to £135 million (2000: £44 million) and are taken to retained earnings, together with the differences arising on the translation of the related foreign currency denominated assets. British Airways reduces its exposure to movements in the US dollar/sterling exchange rate by entering into forward purchase contracts to cover most of its future capital expenditure commitments.

Six newly delivered mainline aircraft, comprising 2 Boeing 777-200 and 4 Airbus A319 were acquired on various US dollar denominated cross border finance lease arrangements, and a further 5 new Boeing

777-200 were funded by UK finance lease arrangements. In addition, 7 Airbus A319 were financed by way of sterling denominated mortgage loans; and a further 4 Airbus A319 were financed on sterling denominated extendible operating leases, bringing the cumulative total to 10 such aircraft funded in this manner.

Net debt/total capital ratio

Borrowings, net of cash and short-term loans and deposits, amounted to £6,223 million at the year end, an increase of £307 million on last year. This is the result of new finance lease and hire purchase arrangements (£663 million), exchange effects (£48 million), and a fall in cash, short-term loans and deposits (£120 million, excluding net cash outflow with sale of subsidiary undertakings) offset by a reduction in borrowings (£524 million). Capital and reserves grew £79 million, principally because of the write back of goodwill on the Air Liberté disposal. The net debt/total capital ratio now stands at 64.5 per cent, a 0.6 point increase over last year mainly due to the increased borrowing.

Share capital

On June 15, 2000, 145,000 ordinary shares were issued in exchange for 341,000 Convertible Capital Bonds 2005 on the basis of one ordinary share for every £2.34 of bonds held. During the year, 892,000 shares were issued on the exercise of options under Employee Share Option Schemes.

Other matters

Management of financial risks

The Board of Directors sets the treasury policies and objectives of the group, and lays down the parameters within which the various aspects of treasury risk management are operated. The Board has approved a treasury governance statement, which outlines British Airways' policies governing corporate and asset financing, interest rate risk, foreign exchange risk, and cash and liquidity management. The governance statement also lists the financial instruments that the group's treasury function is authorised to use in managing financial risk.

Responsibility for ensuring that treasury policies are consistent and compatible with the agreed governance statement is vested in a Finance Committee. Group Treasury implements the agreed policies on a day-to-day basis with a view to meeting the treasury objectives in a risk averse though cost effective manner. These objectives include ensuring that the group has sufficient liquidity to meet its day-to-day needs and to fund its capital investment programme and other investments; deploying any surplus liquidity in a prudent and profitable manner; managing currency, interest rate and credit exposures; and managing the group's relationship with a large number of banks and other financial institutions world-wide.

Financing and interest rate risk

Most of the group's debt is asset related, reflecting the capital-intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers. These factors are also reflected in the medium to long-term maturity profiles of the group's loans, finance leases and hire purchase arrangements. The incidence of repayments is shown in Note 29c.

At March 31, 2001 approximately 40 per cent of the group's borrowings (after swaps), net of cash, short term loans and deposits, were at fixed rates of interest, and 60 per cent were at floating rates. The group's borrowings are predominantly denominated in sterling, US dollars and Japanese yen. Sterling represents the group's natural "home" currency, whilst a substantial proportion of the group's fixed assets are priced and transacted in US dollars, see Note 24. The Japanese yen liabilities arise as a result of the group's substantial Japanese cross-border hire purchase arrangements entered into during the period 1990 to 1999. Details of the currency mix of the group's gross borrowings are shown in Note 29a.

Liquidity and investments

At March 31, 2001 the group had at its disposal short-term loans and deposits and cash at bank and in hand amounting to £936 million (2000: £1,146 million). In addition, the group had undrawn committed aircraft financing facilities totalling approximately US$225 million (expiry date March 31, 2003), and a further £40 million (expiry date March 31, 2002) relating to its New World Cargo Centre, together with unused overdraft and revolving credit facilities of £40 million. It also had undrawn uncommitted money market lines of £65 million with a number of banks.

The group's holdings of cash and short-term loans and deposits, together with committed funding facilities and net cash flow, are expected to be sufficient to cover the cost of all firm aircraft deliveries due in the next two years. The acquisition of Boeing 777-200 aircraft scheduled for delivery in the next year and Airbus A320 family aircraft scheduled for delivery during the next four years, is expected to be financed partially by cash holdings and internal cash flow and partially through external financing, including committed facilities arranged prior to delivery.

Because of the necessity to plan aircraft orders well in advance of delivery, it is not economic for British Airways to have committed funding in place now for all outstanding orders, many of which relate to aircraft which will not be delivered for several years. British Airways' policies in this regard are in line with the funding policies of other airlines. In addition to aircraft related financing facilities, the group has a number of outstanding unsecured borrowings of both a short and long term nature, which may be used for the general purposes of the group.

Surplus funds are invested in high quality short-term liquid instruments, notably bank deposits and asset-backed floating rate notes. Credit risk is managed by limiting the aggregate exposure to any individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed, and adjusted as necessary. Accordingly, the possibility of material loss arising in the event of non-performance by counterparties is considered to be unlikely.

Foreign currency risk

The group does business in approximately 140 foreign currencies, which account for approximately 50 per cent of group revenue and 40 per cent of operating expenses. The group generates a surplus in most of these currencies. The principal exceptions are the US dollar and sterling in which the group has deficits. These arise respectively from capital expenditure, some leasing costs and fuel payable in US dollars; the majority of staff costs, central overheads and leasing costs are paid in sterling. However, the broad spread of currencies in the business – many of which are linked to the US dollar – gives the group a measure of protection against exchange rate movements and reduces the overall sensitivity of the group's results to exchange rate fluctuations. Nonetheless, the group can experience adverse or beneficial effects. For example, if sterling weakened against the US dollar and strengthened against other major currencies, the overall effect would be likely to be adverse, while the reverse would be likely to produce a beneficial effect.

The group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US dollars and sterling. The group has substantial liabilities denominated in yen, which consist mainly of purchase option payments falling due under various Japanese leveraged lease arrangements maturing between 2003 and 2011. The group expects to utilise its stream of yen traffic revenues as a natural hedge against these maturing yen liabilities as they fall due.

The group's forward transactions in foreign currency are detailed in Note 40.

In addition to the primary effects outlined above, exchange rate movements can affect demand for services from passengers whose decision to travel may alter as a result. While it is not possible to quantify this effect, British Airways does monitor exchange rate movements in an attempt to anticipate likely changes in the pattern of demand.

Derivative financial instruments

British Airways uses derivative financial instruments (derivatives) with off-balance sheet risk selectively for treasury and fuel risk management purposes. The risk management strategy for both treasury and fuel operations is implemented by the respective departments within the guidelines and parameters laid down by the Board of Directors, and reflects a risk averse policy. The company's policy is not to trade in derivatives but to use these instruments to hedge anticipated exposures.

As part of its treasury risk management activities the company has entered into a number of swap agreements in order to hedge its direct exposure to interest rates. Single and cross currency swap agreements outstanding at March 31, 2001 are summarised in Note 41.

Forward foreign exchange contracts are used to cover a proportion of future capital commitments denominated in US dollars and near term future revenues and operating payments in a variety of currencies. Forward foreign exchange contracts outstanding at March 31, 2001 are summarised in Note 40.

Whilst the company considers the purchase of interest rate caps and the entering into of forward rate agreements as bona fide exposure management activities, it would not generally contemplate the opening of new exposures by selling puts, calls or options. Other treasury derivative instruments would be considered on their merits as valid and appropriate risk management tools and, under the treasury governance framework, require Board approval before adoption.

The company's fuel risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in a serious way in the event of a substantial fall in the price of fuel.

The strategy operates within limits set by the Board and agreed in detail by the Fuel Hedging Committee, which is made up of representatives from relevant internal departments.

In meeting these objectives, the fuel risk management programme allows for the judicious use of a number of derivatives traded on regulated exchanges in London (the International Petroleum Exchange) and New York (the New York Mercantile Exchange) as well as on the Over The Counter (OTC) markets, with approved counterparties and within approved limits. The instruments used include futures and forward contracts, options, collars, caps and swaps. The hedging committee reviews the use of these instruments on a regular basis.

As derivatives are used for the purposes of risk management, they do not expose the group to market risk because gains and losses on the derivatives offset losses and gains on the matching asset, liability, revenues or costs being hedged. Moreover, counterparty credit risk is generally restricted to any hedging gain from time to time, and not the principal amount hedged. Accordingly the possibility of material loss arising in the event of non-performance by a counterparty is considered to be unlikely.

Economic and monetary union

British Airways was one of the first companies to be able to trade in the euro. Customers buying tickets in the Eurozone have been offered the choice of fare quotation and payment in either local currency or euro. The airline has been able to make payments to suppliers in euro or local currency since January 1, 1999. British Airways World Cargo has also offered customers in the Eurozone the choice of using either local currency or euro.

British Airways is currently managing the strategy for the withdrawal of the legacy currencies and the introduction of euro notes and coins in 2002. At the same time the airline is maintaining its corporate readiness for UK entry should a decision to join be taken.

Outlook

Implementation of the fleet and network strategy is progressing on track; elimination of unprofitable capacity continues. As capacity reductions are implemented over the next two years, cost control will be a prime focus. New technology offers opportunities for operating efficiencies and improved customer service.

Our new Club World cabin (with flat bed) continues to increase yields and win market share from competitors as it rolls out across the network. Development of further product upgrades continue, which, like the new World Traveller Plus cabin, will give our employees new opportunities to demonstrate their outstanding customer service skills.

Our continued focus on improving the fundamentals of the business will help us ride out short-term issues relating to slower world economic growth and the UK foot and mouth epidemic.

Board members as at May 22, 2001

CHAIRMAN
Lord Marshall of Knightsbridge (67)
Board Member since 1983, Executive Chairman 1993-1996; Non-executive Chairman since 1996. Chairman of the Nominations Committee.

Lord Marshall served as Chief Executive for 13 years. He is also non-executive Chairman of Invensys plc, Deputy Chairman of British Telecommunications plc, and a non-executive director of HSBC Holdings plc. He is a crossbench member of the House of Lords, allied to no political party.

CHIEF EXECUTIVE
Roderick Eddington (51)
Executive Board member since 2000.

Rod Eddington joined the airline as Chief Executive in May 2000. He is a non-executive director of News Corporation and of John Swire & Son Pty Limited. He serves as a director of Qantas Airways Ltd (as nominee for British Airways).

CHIEF FINANCIAL OFFICER
Derek Stevens (62)
Executive Board member since 1989.

Derek Stevens joined the airline as Chief Financial Officer in 1989. He serves as Chairman of the Trustees of the Airways Pension Scheme and the New Airways Pension Scheme and is a non-executive director of CGNU plc. Derek Stevens will retire as a director of British Airways on August 31, 2001.

DIRECTOR OF CUSTOMER SERVICE AND OPERATIONS
Mike Street (53)
Executive Board member since December 2000.

Mike Street has been Director of Customer Service and Operations since 1997. He is a Trustee of the two British Airways pension schemes and sits on the Council of Buckinghamshire Chiltern University College.

NON-EXECUTIVE DIRECTORS
Captain Colin Barnes (67)
Non-executive director since 1991. Chairman of the Safety Review Committee.

Colin Barnes retired from British Airways as Chief Pilot and Director of Flight Crew in 1991. He is a Governor Emeritus of the Flight Safety Foundation and is a Member of the Council and Policy Committee of the Air League. Colin Barnes will retire as a director on September 30, 2001.

Martin Broughton (54)
Non-executive director since May 2000. Chairman of the Audit Committee and senior independent non-executive director. Safety Review and Nominations Committees. Martin Broughton is Chairman of British American Tobacco p.l.c.

Michael Davies (66)
Non-executive director since 1983. Audit, Remuneration and Nominations Committees.

Michael Davies is Chairman of Simon Group PLC, National Express Group PLC and Corporate Services Group plc.

Dr Ashok Ganguly (65)
Non-executive director since 1996. Audit and Safety Review Committees.

A Fellow of the Royal Society of Chemistry, Ashok Ganguly is Chairman of ICI India Ltd, and a director of ICICI, Technology Network (India) Ltd, ICICI Knowledge Park Ltd, Mahindra & Mahindra Ltd, Sedgwick Parekh Health Management Ltd and Wipro Corporation. Director and non-executive chairman of ICICI West Bengal Infrastructure Development Corporation Ltd and non-executive director of Central Board of Directors of Reserve Bank of India.

Baroness O'Cathain (63)
Non-executive director since 1993. Audit, Remuneration, Nominations and Safety Review Committees.

Detta O'Cathain is also a non-executive director of Thistle Hotels PLC, BNP Paribas UK Holdings Ltd, South East Water plc, William Baird plc and Allders plc.

Dr Martin Read (51)
Non-executive director since May 2000. Chairman of the Remuneration Committee.

Martin Read is Managing Director and Chief Executive of Logica plc and a non-executive director of The Boots Company PLC.

Lord Renwick of Clifton (63)
Non-executive director since 1996. Safety Review Committee.

A former career diplomat, Robin Renwick is Chairman of Fluor Daniel Ltd and Vice Chairman Investment Banking JP Morgan. He is also a non-executive director of Compagnie Financiere Richemont AG, Fluor Corporation, Harmony Gold, Billiton plc and South African Breweries Plc.

The Hon Raymond Seitz (60)
Non-executive director since 1995. Safety Review Committee.

A former US Ambassador to the Court of St James, Ray Seitz is Vice-Chairman of Lehman Brothers International, and a non-executive director of The Chubb Corporation, Authoriszor Inc., Marconi plc, Cable and Wireless plc, The Telegraph Group plc and Rio Tinto plc.

COMPANY SECRETARY Alan Buchanan

PRESIDENT EMERITUS
The Rt Hon The Lord King of Wartnaby (83)
Lord King was Chairman of British Airways for 12 years from 1981, and served as President from 1993 to 1997.

LEADERSHIP TEAM
Rod Eddington (51) Chief Executive

Derek Stevens (62) Chief Financial Officer, retires on August 31, 2001, to be succeeded by John Rishton

Mike Street (53) Director of Customer Service and Operations

Martin George (39) Director of Marketing and Communications

Mike Jeffrey (56) Director of Flight Operations, retires on June 30, 2001, to be succeeded by Lloyd Cromwell Griffiths

Colin Matthews (45) Director of Technical Operations

Roger Maynard (58) Director of Investments & Joint Ventures

Dale Moss (52) Director of Sales Worldwide

David Spurlock (33) Director of Strategy

Mervyn Walker (42) Director for People

Robert Webb QC (52) General Counsel

Directors' report

The directors present their Report and Accounts for the year ended March 31, 2001. The accounts are set out on pages 24 to 53.

Principal activities

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

Results for the year

Profit for the year attributable to members of British Airways Plc amounted to £114 million, against a loss of £21 million in the previous year. The Board recommends a final dividend of 12.8p per share. An interim dividend of 5.1p per share was paid in January making a total of 17.9p per share, the same as last year. After providing £193 million for dividends, the retained loss for the year amounted to £79 million.

Directors

The names and details of the directors are set out on page 14.

During the year to March 31, 2001 there were five changes to the membership of the Board. Rod Eddington, Martin Broughton and Martin Read all joined the Board on May 12, 2000, Sir Michael Angus retired at the annual general meeting on July 11, 2000 and Mike Street joined the Board on December 8, 2000.

Derek Stevens and The Honorable Raymond Seitz retire and seek re-election in accordance with the company's Articles of Association at the annual general meeting to be held on July 17, 2001. On May 14, 2001 the company announced that Derek Stevens will retire on August 31, 2001. Derek Stevens has a service contract with the company. In accordance with Article 93, Mike Street is required to seek re-election. Biographical notes about the directors seeking re-election are set out on page 14 and in the explanatory notes of the notice of annual general meeting.

Directors' membership of Board Committees appears on page 14. Details of the directors' remuneration and share interests are set out in the Remuneration Report on pages 19 to 22.

Employee involvement

The motivation and commitment of employees is key to the success of British Airways.

Employee ownership in the company is encouraged. As at May 2001, some 56 per cent of employees owned 2.6 per cent of the company's shares. In May 2001 the 1998 Shareshave Scheme matured. The scheme currently in place was launched in February 2000 which attracted over 36,000 applications from employees in 73 countries. Participants are saving, and will have the opportunity to acquire shares in 2003 at the predetermined option price of £2.38.

The company obtained shareholder approval at the annual general meeting held in July 2000 to operate any aspect of the new all employee share plans. These plans are currently being evaluated by the company. They include a new partnership share plan which allows employees in the UK to buy shares from their pre-tax salary. Companies can also give matching shares to those participating in a partnership share plan and have the discretion to grant free shares. Financial limits apply to all these new plans.

'Bravo!', our enhanced company-wide recognition programme continues to prosper. The programme operates in the UK and overseas and provides people managers with a fast and simple way to recognise and reward their staff, whether for doing a good job day-to-day or for making an outstanding effort.

In March 2000 British Airways ran the second company-wide employee opinion survey. The response rate was slightly lower than the previous year with 25,000 replies world-wide. The results were communicated across the business and action plans put in place at all levels.

Equal opportunity

British Airways' policy is to promote equal opportunity in all areas of employment. The airline recognises the importance of awareness around this subject and consequently has made a training workshop on equal opportunities mandatory for all people managers. This will mean that over 5,000 people will attend this course over a period of 18 months. During the year 2000 equal opportunities action plans were drawn up for the company as a whole and for each department reflecting the key areas for improvement. Each department now has a senior manager whose role it is to champion diversity in British Airways and monitor progress against the given action plans. British Airways is also an active member of the Employers' forum on Disability and pursues initiatives to raise awareness of the needs of disabled employees and potential employees. In addition, the company works with Opportunity Now on gender issues and with the Commission for Racial Equality on ethnic issues.

Community and Environment

One of the company's five key values is to be a "Good Neighbour" showing concern for the environment and the community. This is supported by strong policies, underpinning a revised code of business conduct which was introduced in 2000.

This year British Airways became the first major airline to endorse the Global Sullivan Principles for Corporate Social Responsibility. The principles which include support of universal human rights, sustainable development and equal opportunity, largely reflect the terms of our newly revised code of business conduct. Critically, our endorsement of the Global Sullivan Principles offers a measure of public transparency and an opportunity for our company to learn from industry peers who also seek to conduct their business operations in a responsible manner.

Last year saw the merger of the Community and Environment groups to form the Sustainable Business Unit, charged with implementing community and environmental policy through provision of support and advice, as well as monitoring, measuring, and reporting across the areas of social and environmental performance. The first combined Annual Social and Environmental Report was published in July 2000. The next report will be published in July 2001.

British Airways direct charitable donations for the year to March 31, 2001 were £782,000 (2000 – £807,000). The company's investment in the community is much greater when benefits in kind are included. Business in the Community reported our total contributions last year at £6.4 million, our forecast for the year to March 31, 2001 is £4.8 million.

British Airways carries out a wide range of Community and Environment programmes. The Board approved community priorities are youth development, heritage and tourism, and the environment. Over 1,000 travel awards were made during the year to groups and individuals working in these areas. One example is the British Airways Assisting Conservation programme which works with leading conservation organisations to promote work aimed at the protection of threatened species, and other aspects of environmental management. The airline's Tourism for Tomorrow Awards, now in their 10th year, recognised tourism projects that serve as a role model for sustainable tourism. Over the years more than 1,000 entries have been received from more than 40 countries.

More than 10,000 students, largely from local schools but also including groups such as women returning to work, have now passed through the British Airways Community Learning Centre, located in the Waterside parkland at our London business centre, which opened in October 1999. Within the centre students are taught key skills such as information technology, languages, customer service, and about the environment. The success of the centre depends on partnership with local schools and their teachers, and with the Hayes/West Drayton educational authorities.

Encouragement is given to staff to become involved in community work. A payroll giving scheme is run for our 50,000 UK staff and £532,000 was given to a range of charities (2000: £402,203). A Cheques for Charity scheme recognises the way many employees help local communities. Some £120,000, including £20,000 recovered from waste recycling activities, was distributed to charities supported by 365 employees.

Some of our remarkable employees have set up independent charities to bring much needed services to deprived and distressed communities around the world. These include Nyumbani, caring for HIV positive children outside Nairobi; Children of Mukuru for some of Kenya's street children; Dreamflight, which each year since 1986 has taken incurably ill and disabled children to Disneyworld in Florida; the BA Runners, through which BA staff interact with children around the world while delivering aid; Sreepur Children's Village in Bangladesh, caring for more than 600 destitute children; Nyanyano Educational Centre in Ghana providing education for some 500 children; and Happy Child providing holidays and trips for deprived and handicapped children in the United Kingdom.

Through our customers we continue to support the Change for Good partnership with UNICEF. Our thanks goes to all our passengers for the £12.5 million which has now been generated for projects providing children with basic health education and welfare in developing countries. The programme is supported by some 800 champions from cabin crew.

The environmental programme includes site audits and reviews of specific topics within key areas of noise, fuel efficiency and emissions to the atmosphere, waste, materials and water, congestion in the air, and tourism and conservation. The airline has responded to concern over climate change by adopting a 30 per cent target for improvement in fuel efficiency over 20 years. We continue to be involved in the work of the International Civil Aviation Organisation (ICAO) and other relevant groups and to be part of relevant research programmes. During the year we hosted a visit from the German national laboratory, DLR, developing ways to characterise aircraft engine exhaust emissions. The airline has supported the work of the UK Emissions Trading Group and a study by the Institute of Public Policy Research on market options for control of emissions. British Airways is sponsoring work and leading a multi stakeholder group aiming to understand better the role of emissions from airport activities in air quality in West London.

The airline has now one of the quietest and most fuel efficient fleets in the world. British Airways supported the proposal for the new "Chapter 4" noise standard which will be presented to the Assembly of the ICAO for adoption in September of this year. The airline has taken a leading part in developing a code of practice, again involving a range of stakeholders, for procedures to minimise approach noise (Continuous Descent Approach). We have taken other voluntary measures including a voluntary ban on scheduled departures at Heathrow and Gatwick after 23:30 to reduce our noise impact. Through the purchase of new aircraft, management of schedules and attention to operational procedures, the overall number of noise infringements at Heathrow and Gatwick has fallen over the last year by 15 per cent.

The airline has received a number of awards for its environmental and community programmes. In March, 2001, the Association of Chartered Certified Accountants, recognised our long-term leadership in environmental reporting with a special award for continued excellence. We were one of two British companies recognised in the WorldAware awards for our range of community programmes with special recognition of British Airways Assisting Conservation.

The company is supportive of the recent initiative by the UK Government to reduce injuries in the workplace. In support of this, the Social and Environmental Report to be published in July 2001 will contain appropriate disclosure on the group's Health and Safety at Work record.

Since 1992, the airline has published an Annual Environmental Report. Copies of the 2000-01 report and information on other programmes can be obtained from Sustainable Business Unit, British Airways Plc, Waterside (HBBG), PO Box 365, Harmondsworth, UB7 0GB, UK and are available on the internet at www.britishairways.com/responsibility.

Political donations

No donations were made to political parties during the year (2000: nil).

Corporate governance

The company has complied throughout the year with the code of best practice set out in Section 1 of the Combined Code appended to the Listing Rules of the Financial Services Authority.

The Board of British Airways Plc meets ten times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the company and for these purposes the Board has drawn up a schedule of matters reserved for Board decision. In recognition of the international nature of the airline business, the Board holds at least three of its meetings each year at important destinations on British Airways' route network.

The Board is led by the Chairman and the executive management of the company is led by Rod Eddington, the Chief Executive. The Board has twelve members: three are executive directors and nine non-executive directors. Of the nine non-executive directors, the Chairman and Captain Colin Barnes were formerly executives of the company. The other seven are fully independent non-executive directors drawn from a diversity of business and diplomatic backgrounds, bringing a broad range of views and experiences to Board deliberations. Martin Broughton is the senior independent non-executive director on the Board.

All directors receive a regular supply of information about the company so that they are equipped to play as full a part as possible in Board meetings. All Board members have access to the Company Secretary for any further information they require. Non-executive directors are encouraged to visit the company's operations and to speak to customers and employees whenever they fly. All directors are required to submit themselves for re-election every three years. Independent professional advice would be available to directors in appropriate circumstances, at the company's expense. New directors are appointed to the Board on the recommendation of the Nominations Committee whose terms of reference are described opposite.

The Board has four standing Board Committees which meet regularly under terms of reference set by the Board:

The Audit Committee meets quarterly under the chairmanship of the non-executive director, Martin Broughton. As at May 22, 2001, its other members are Michael Davies, Ashok Ganguly and Baroness O'Cathain all of whom are independent non-executive directors. The external and internal auditors, the General Counsel and the Company Secretary attend all meetings of the Committee and have rights of access to the Committee. Executives attend as required. The Committee reviews the company's financial statements to ensure that its financial reporting presents a balanced and understandable assessment of the company's position and prospects. It also reviews the company's system of internal control, accounting policies, internal audit reports, compliance procedures including the Turnbull Guidance and the company's Code of Business Conduct.

The Safety Review Committee meets at least five times per year under the chairmanship of Colin Barnes, a former Chief Pilot of the airline. Its members are Ashok Ganguly, Baroness O'Cathain, Lord Renwick, The Hon. Raymond Seitz and Martin Broughton. The Committee considers matters relating to the operational safety and security of the airline and subsidiary airlines as well as health and safety issues.

The Nominations Committee meets once a year and additionally if required to consider the balance of the Board's membership, to identify any additional skills or experience which might benefit the Board's performance and to interview candidates and recommend appointments to the Board. The Committee also reviews the performance of any director seeking re-election at the forthcoming annual general meeting. Its Chairman is Lord Marshall and, as at May 22, 2001, its other members are Michael Davies, Baroness O'Cathain and Martin Broughton. No member of the Committee participates in any discussion of his or her own performance.

The Remuneration Committee of the Board meets at least once a year to determine the company's policy on executive directors' remuneration and remuneration for senior executives below Board level, to review that remuneration, to consider and decide grants under the company's long term incentive and share option plans. The Committee is chaired by Martin Read, an independent non-executive director and its other members, as at May 22, 2001, are Michael Davies and Baroness O'Cathain who are also independent non-executive directors. No director is involved in deciding his own remuneration.

The company maintains regular contact with its larger institutional shareholders through its investor relations team and through meetings with the Chief Executive and the Chief Financial Officer. Private shareholders receive the British Airways Investor magazine twice annually and are encouraged to attend the annual general meeting and to express their views by completing and returning a freepost 'Issue of Concern' card, the main themes of which are reported to the Board and responded to in the Chairman's address at the annual general meeting.

In order to protect the operating rights of the company, the number of ordinary shares held by the non-UK nationals is monitored. At March 31, 2001, 43 per cent of the ordinary shares of the company were held by non-UK nationals (2000: 43 per cent). Having regard to all relevant factors including the fact that there are no large interests of single or associated non-UK nationals and, in the absence of unforeseen developments, the directors do not expect (but without limiting their freedom to act) to seek to exercise their powers to restrict non-UK share ownership. Shareholders are being asked at the annual general meeting to approve changes to the relevant provisions of the Articles of Association.

Internal control

The directors are responsible for the company's system of internal control, including internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding:

(a) the safeguarding of assets against unauthorised use or disposition, and

(b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

In reviewing the effectiveness of the system of internal control, the Board have taken account of the results of all the work carried out to audit and review the activities of the group.

There is an on-going process to identify, assess and manage risk. This process has been in place throughout the year to which these statements apply and up to the date of their approval.

As part of its continuing drive to embed internal control into its business processes, the company has an established Risk and Opportunity Management Group with specific accountability for reviewing the system of risk management and for reporting key risks and their associated mitigating factors to the Board. These include economic, political and regulatory, technical and operational and financial and business risks. For example, the group has recently reviewed risks to the business in relation to liquidity and financing, fuel and information technology.

All necessary measures have been taken to ensure that Internal Control: Guidance for Directors on the Combined Code published in September 1999 was fully complied with in the accounting period which ended on March 31, 2001 and have remained in place to the date hereof.

For the accounting period ending on March 31, 2001, the key procedures that the directors established to provide effective internal controls were as follows:

The company reissued its Code of Business Conduct in 2000 which conveys ethical values and establishes the norms of business behaviour throughout the company. Its statement of mission, values and goals is currently under review.

A clear organisational structure exists detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, accountability, control consciousness and identifies appropriate training requirements. Action plans are consequently prepared and implemented to ensure that staff obtain the required skills to fulfil their responsibilities, and that the company can meet its future management requirements.

A four-year business plan sets the business agenda. For the first two years it includes detailed departmental performance projections and high level figures for a further two years. The plan is the operational and financial evaluation of the corporate strategy, setting out the agreed targets for financial return and service standards, identifying and prioritising improvement opportunities to deliver those targets and the agreed capital and manpower requirements.

The business planning process confirms that the targeted results can be achieved, satisfies departments that their plans are robust and establishes performance indicators against which departments can be evaluated. The business plan is approved by the Board on an annual basis.

A comprehensive management accounting system is in place providing financial and operational performance measure indicators to executive management. Detailed management accounts are prepared to cover each major area of the business. Variances from the business plan are analysed, explained and acted on in a timely manner. As well as regular Board discussions, monthly meetings are held by the Leadership Team to discuss performance with specific projects being discussed as and when required.

Information systems are developed to support the company's long term objectives and are managed by a professionally staffed Information Management department. Appropriate policies and procedures are in place covering all significant areas of the business. These detail lower level controls including authorisation and approval processes.

Business controls are reviewed on an ongoing basis by the Internal Audit department which operates internationally and to a programme based on risk assessment. The department is managed by professionally qualified personnel with experience gained from both inside and outside the industry. The department also ensures that recommendations made by both internal and external auditors to improve controls are followed up by management. The Audit Committee, comprising four independent non-executive directors, considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board.

The directors have reviewed the effectiveness of the company's internal control system considering the processes set out above and make this statement pursuant to the guidance for directors issued in September 1999.

Going concern

After making enquiries, the directors consider that the company has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

Payment policy

British Airways is a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and is committed to the payment of its suppliers to agreed terms. Further information in respect of this code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU.

Specific actions included the establishment of an integrated procurement and payment management system during 1997 with effective supplier payment as one of its core objectives. The number of days' purchases in creditors as at March 31, 2001 in respect of the company is calculated as 45 days (2000: 46 days). (Calculation basis as defined by the Companies Act 1985).

Post balance sheet events

On May 10, 2001 the Group's offer for British Regional Air Lines Group plc was declared unconditional.

On April 30, 2001 British Airways and Thomas Cook Holdings Limited completed the merger of the outbound package tour businesses from the UK, undertaken by British Airways Holidays Limited and Thomas Cook Holdings Limited.

By order of the Board
Alan Buchanan
Company Secretary
May 22, 2001

Remuneration report

Policy

The company's remuneration policy is to provide compensation packages at market rate which reward successful performance and attract, retain and motivate senior executives. The remuneration packages offered by the company are comparable with other international businesses of similar size and nature to British Airways.

The Remuneration Committee determines the remuneration packages for the Chairman, Executive Directors and the Chief Executive's direct reports.

Remuneration package for executive directors

The remuneration package, which is determined by the Remuneration Committee, consists of a basic salary, an annual bonus, participation in a long term incentive plan and share option plan. The company also provides private health care, a car and fuel.

Basic salary and benefits

The basic salary reflects the level of responsibility of the executive director, his or her market value and individual performance. In reviewing basic salary, independent external advice is taken on salaries for comparable jobs in companies similar to British Airways.

Annual bonus

Executive directors participate in an annual bonus scheme which is designed to reward achievement of financial and non-financial targets agreed by the Remuneration Committee and linked to the business plan approved by the Board. Maximum bonus is capped at 50 per cent of salary payable only if stretching targets are achieved.

Long term incentive plan

The British Airways Long Term Incentive Plan 1996 was first approved by the shareholders at the annual general meeting in July 1996 but more stringent performance criteria were adopted at the annual general meeting on July 13, 1999.

The Plan permits the Remuneration Committee to make awards of options over shares to the most senior group of executives conditional upon the company's performance relative to other companies in the FTSE-100 index. Awards become unconditional as to one third on the third, fourth and fifth anniversaries of the start of the financial year in which the award was made if the company's ranking by total shareholder return (TSR) places it at the median percentile or above. No award will be made for below median performance and maximum awards will only be achieved at the 90th percentile. All awards are subject to the Remuneration Committee being satisfied that the company's overall financial performance justifies the grant of the option.

Rod Eddington and Mike Street received conditional awards under the Plan during the year under review, details of which may be found on page 22.

British Airways Share Option Plan 1999

The Plan enables the Remuneration Committee to grant options to acquire ordinary shares in the company or British Airways' American Depositary Shares (ADS) at an option price in sterling or (in the case of ADSs) in US dollars which is not less than the market value of the shares on the date of grant and, where shares are to be subscribed, their nominal value (if greater). An individual's participation is limited so that the option prices payable for options granted in any one year will not exceed basic salary.

It is not, however, subject to any limit on the value of options outstanding, in order to discourage early exercise of options and sale of shares. Exercise of options is subject to a performance condition the aim of which is to link the exercise of options to sustained improvements in the underlying financial performance of the company. The performance condition currently in use requires the Remuneration Committee to be satisfied that there has been an increase in the earnings per share of the company which is at least 4 per cent per annum more than the increase in the retail prices index during any period of three consecutive financial years within the life of the grant.

Rod Eddington and Mike Street received awards under the Plan during the year under review, details of which may be found on page 21.

Service contracts

Derek Stevens will retire on August 31, 2001. As from May 1, 2001, Rod Eddington's contract period reduced to one year. Mike Street's contract has a one year notice period. In the event of new appointments, the length of service contract would be determined by the Committee in the light of the then prevailing market practice and the Committee acknowledges that the trend is towards contract periods which reduce to one year after an initial period.

Non-executive directorships

The Board encourages executive directors to broaden their experience outside the company. Accordingly they are permitted to take up a limited number of non-executive appointments from which they may keep any fee.

Pension schemes

Executive directors participate in the New Airways Pension Scheme which is the main contributory pension scheme open to employees of the company. Under Derek Stevens' service contract, pensionable remuneration included any annual bonus paid, as this was the prevailing practice for senior executives in the company when he joined. The Committee does not propose to change these arrangements for Derek Stevens since these are contractual rights. Annual bonuses are not part of Rod Eddington's or Mike Street's pensionable pay and future appointments of executive directors will not include the annual bonus for pensionable purposes. Provision for payment of a widow's pension on death and life insurance providing payment of a lump sum for death in service is also made.

Non-executive directors' fees

The Chairman's fee is determined by the Remuneration Committee. Fees for the non-executive directors (other than the Chairman) are determined by the executive directors on the recommendation of the Chairman and were reviewed in April 2001 having remained unchanged for the last three years. They will be reviewed again in two years time. Neither the Chairman nor the non-executive directors participate in the long term incentive plan nor the share option plan. Their fees are not pensionable. Lord Marshall and Captain Barnes, being former executives of the company, are in receipt of pensions under the New Airways Pension Scheme and the Airways Pension Scheme respectively.

Directors' remuneration and share interests

The remuneration of the executive directors was:

	Basic Salary		Bonus		Taxable benefits		Compensation for loss of office		Total	
£'000	**2001***	*2000*	**2001****	*2000*	**2001**	*2000*	**2001**	*2000*	**2001**	*2000*
Rod Eddington	**458**		**185**		**108**				**751**	
Derek Stevens	**292**	*282*	**108**		**10**	*10*			**410**	*292*
Mike Street***	**89**		**33**		**5**				**127**	
Robert Ayling		*500*				*11*		*1,980*		*2,491*

* or from date of appointment.

** a further amount not exceeding 5 per cent of salary could be earned if the outstanding element of the bonus criteria is satisfied.

*** figures shown are pro-ration of annual amounts.

Taxable benefits include a company car, fuel and private health insurance and, in respect of Rod Eddington, relocation expenses.

Pensions

	Age as at March 31, 2001	Annual pension earned during 2000-01	Total deferred annual Pension		Transfer value of increase in accrued benefit
Rod Eddington	51	15,231	£15,231	as at March 31, 2001	165,000
Derek Stevens	62	9,839	£234,980	as at March 31, 2001	141,000
Mike Street	53	413***	£179,586	as at March 31, 2001	2,000

The fees paid to non-executive directors were:

£'000	**2001***	*2000*
Lord Marshall	**250**	*250*
Captain Colin Barnes	**43**	*41*
Michael Davies	**27**	*28*
Dr Ashok Ganguly	**39**	*27*
Baroness O'Cathain	**31**	*33*
Lord Renwick	**28**	*26*
The Hon Raymond Seitz	**27**	*26*
Martin Broughton	†	
Dr Martin Read	**20**	
Sir Michael Angus	**19**	*75*

* or from date of appointment

Lord Marshall's fee as non-executive Chairman was £250,000 per annum in addition to which he enjoyed taxable benefits of £14,200.

Lord Marshall waived fees of £25,000 in respect of the period during the year in which he served as acting Chief Executive.

The fees paid to non-executive directors comprised for the year under review a basic £22,500 per annum plus £500 for each Board or Committee separately attended. In addition, Captain Colin Barnes receives £15,000 per annum for his chairmanship of the Safety Review Committee, and taxable benefits of £15,090.

† Fees of £22,910 were paid to Martin Broughton's employer in respect of his services as a non-executive director of British Airways Plc.

Directors' share interests at March 31, 2001

	Ordinary shares subject to no restrictions		British Airways Plc Ordinary shares subject to restrictions		British Airways Capital Limited Convertible Capital Bonds	
	March 31, 2001	April 1, 2000*	March 31, 2001	April 1, 2000*	March 31, 2001	April 1, 2000
Lord Marshall	69,225	*69,225*			11,304	*11,304*
Rod Eddington						
Derek Stevens	342,228	*197,872*	491	*1,664*	109	*109*
Mike Street	6,206	*6,206*	472	*472*		
Captain Colin Barnes	22,315	*22,315*			644	*644*
Michael Davies	5,224	*5,224*			2,221	*2221*
Dr Ashok Ganguly	104	*104*				
Baroness O'Cathain	6,000	*6,000*				
Lord Renwick	6,514	*5,514*				
The Hon Raymond Seitz	1,506	*1,506*				
Martin Broughton	8,372	*4,772*				
Dr Martin Read	7,539	*463*				
	475,233	*319,201*	963	*2,136*	14,278	*14,278*

* or as at date of appointment

No director has any beneficial interest in any subsidiary undertaking of the company other than those shown above in the 9.75 per cent Convertible Capital Bonds 2005 of British Airways Capital Limited.

On April 4, 2001 Martin Broughton acquired 72 shares in respect of an ISA reinvestment.

Directors' share options at March 31, 2001

The following directors held options to purchase ordinary shares of British Airways Plc granted under the British Airways Executive Share Option Scheme 1987 and the British Airways Share Option Plan 1999:

	Date of grant	Number of options	Option price	Options* exercised	Exercisable for seven years from
Lord Marshall	June 9, 1993	81,911	293p		June 9, 1996
	July 1, 1994	12,903	372p		July 1, 1997
	Aug 11, 1994	95,465	419p		Aug 11, 1997
Balance at April 1, 2000 and March 31, 2001		190,279			
Rod Eddington	May 26, 2000	138,888	360p		May 26, 2003
Balance at March 31, 2001		138,888			
Derek Stevens	June 1, 1990	143,183	196p	143,183	June 1, 1993
	June 16, 1992	46,022	261p		June 16, 1995
	June 9, 1993	13,651	293p		June 9, 1996
	July 1, 1994	5,645	372p		July 1, 1997
	June 30, 1995	7,654	405p		June 30, 1998
	Aug 26, 1999	71,573	394p		Aug 26, 2002
Balance at April 1, 2000		287,728			
	May 31, 2000	(143,183)		143,183	
Balance at March 31, 2001		144,545			
Mike Street	Aug 26, 1999	79,517	394p		Aug 26, 2002
	June 28, 2000	75,605	380p		June 28, 2003
Balance at March 31, 2001		155,122			

* The share price on the date of exercise was 362p. Had Derek Stevens disposed of the shares, his gain would have been £237,684.

Derek Stevens and Mike Street also hold 559 options at 418p and 814 options at 238p under the 1998 and 2000 operations of the British Airways Savings Related Share Option Scheme 1996, exercisable for a six month period from May 1, 2001 and June 1, 2003 respectively.

The following directors held conditional awards of options over ordinary shares of British Airways Plc granted under the British Airways Long Term Incentive Plan.

	Date of Grant	Number of Options
Rod Eddington	June 5, 2000	103,022
Derek Stevens	Aug 2, 1996	11,225
	June 13, 1997	18,171
	June 12, 1998	30,882
	July 2, 1999	46,484
Mike Street	Aug 2, 1996	7,523
	June 13, 1997	12,230
	June 12, 1998	31,108
	July 2, 1999	46,698
	June 5, 2000	59,196

On April 1, 2001 a third of each of the conditional awards made on August 2,1996, June 13, 1997 and June 12, 1998 lapsed as the performance condition was not met in the respective financial years 1997 to 2001.

In relation to awards made in 1996, 1997 and 1998, one third of each individual award may vest at the end of the third, fourth and fifth financial years from the year of the grant if the performance of the company, measured by total shareholder return (TSR) from the year of the grant through to the end of the year in question, places the company at or above the 75th percentile when compared with the TSR for each of the companies in the FTSE-100 index. If the company's TSR for the period to that financial year end is at or below the 40th percentile, no options will be granted. If the company's TSR for that period is between the 41st and 74th percentiles, the number of options will be determined pro-rata on a straight line basis.

In relation to awards made from 1999 onwards, one third of each individual award may vest at the end of the third, fourth and fifth financial years from the year of the grant if the performance of the company, measured by total shareholder return (TSR) from the year of the grant through to the end of the year in question, places the company at or above the median percentile when compared with the TSR for each of the companies in the FTSE-100 index. If the company's TSR for the period to that financial year end is at or below the 50th percentile, no options will be granted. If the company's TSR for that period is between the 50th and 90th percentiles, the number of options will be determined pro-rata on a straight line basis.

No payment is due upon exercise of options. Options are exercisable for seven years from vesting.

All grants of options are subject to the Remuneration Committee being satisfied that the company's overall financial performance justifies the grant of an option.

Closing prices of the ordinary shares	**2001**	*2000*
At March 31	**315p**	*329.5p*
Highest in the year	**463p**	*553.5p*
Lowest in the year	**265p**	*261.5p*

On behalf of the Board

Dr Martin Read
Non-Executive Director and Chairman of Remuneration Committee
May 22, 2001

Statement of directors' responsibilities in relation to the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit and loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the auditors to the members of British Airways Plc

We have audited the accounts on pages 24 to 53 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 29 to 31.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described above, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the corporate governance statement on pages 17 and 18 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit 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 group'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 and of the group at March 31, 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young Ernst & Young
Registered Auditor
London
May 22, 2001

Group profit and loss account

For the year ended March 31, 2001

£ million	Note	Group 2001	Group 2000
Turnover	2	9,278	*8,940*
Cost of sales	4	(8,711)	*(8,679)*
Gross profit		567	*261*
Administrative expenses	4	(187)	*(177)*
Operating profit		380	*84*
Share of operating profit in associates	7	64	*75*
Total operating profit including associates		444	*159*
Other income and charges	8	1	*5*
(Loss)/profit on sale of fixed assets and investments	9	(69)	*249*
Net interest payable	10	(226)	*(408)*
Profit before tax		150	*5*
Tax	11	(22)	*(15)*
Profit/(loss) after tax		128	*(10)*
Equity minority interest		(2)	
Non equity minority interest	37	(12)	*(11)*
Profit/(loss) for the year		114	*(21)*
Dividends paid and proposed	12	(193)	*(195)*
Retained loss for the year	36	(79)	*(216)*
Earnings per share	13		
Basic earnings per share		10.6p	*(2.0)p*
Diluted earnings per share		10.5p	*n/a*
Dividends per share	12	17.9p	*17.9p*

Balance sheets

At March 31, 2001

£ million	Note	Group 2001	Group 2000	Company 2001	Company 2000
Fixed assets					
Intangible assets	14	60	62		
Tangible assets	15				
Fleet		8,865	8,437	8,817	8,342
Property		1,418	1,488	1,342	1,410
Equipment		483	369	370	245
		10,766	10,294	10,529	9,997
Investments	18				
Subsidiary undertakings and quasi-subsidiary				1,393	1,391
Associated undertakings		381	507	14	2
Trade investments		20	35	19	34
Investment in own shares		25	25	25	25
		426	567	1,451	1,452
		11,252	10,923	11,980	11,449
Current assets					
Stocks	23	66	78	47	51
Debtors	25	1,444	1,368	1,243	1,203
Short-term loans and deposits	26c	865	1,043	808	969
Cash at bank and in hand		71	103	8	23
		2,446	2,592	2,106	2,246
Creditors: amounts falling due within one year	27	(3,308)	(3,366)	(3,957)	(3,892)
Net current liabilities		(862)	(774)	(1,851)	(1,646)
Total assets less current liabilities		10,390	10,149	10,129	9,803
Creditors: amounts falling due after more than one year					
Borrowings and other creditors	28	(6,788)	(6,615)	(6,963)	(6,719)
Convertible Capital Bonds 2005	31	(113)	(113)		
		(6,901)	(6,728)	(6,963)	(6,719)
Provisions for liabilities and charges	32	(70)	(81)	(69)	(79)
		3,419	3,340	3,097	3,005
Capital and reserves					
Called up share capital	34	271	270	271	270
Reserves	36				
Share premium account		788	785	788	785
Revaluation reserve		290	285	290	285
Profit and loss account		1,866	1,807	1,748	1,665
		2,944	2,877	2,826	2,735
Total equity shareholders' funds		3,215	3,147	3,097	3,005
Minority interest		18	16		
Non equity minority interest	37	186	177		
		3,419	3,340	3,097	3,005

Rod Eddington *Chief Executive Officer* R. I Eddington
Derek Stevens *Chief Financial Officer* Derek Stevens
May 22, 2001

Group cash flow statement

For the year ended March 31, 2001

£ million	Note	Group 2001	Group 2000
Cash inflow from operating activities	5a	1,251	*1,186*
Dividends received from associates		33	*44*
Returns on investments and servicing of finance			
Interest received		83	*85*
Interest paid on bank and other loans		(88)	*(93)*
Interest paid on finance leases and hire purchase arrangements		(326)	*(300)*
Dividends received from trade investments		1	*3*
Non equity minority interest		(12)	*(10)*
Net cash outflow from returns on investments and servicing of finance		(342)	*(315)*
Tax			
UK Corporation tax		18	*25*
Overseas tax		(3)	*(27)*
Net cash inflow/(outflow) from taxation		15	*(2)*
Capital expenditure and financial investment			
Tangible fixed assets purchased for cash	15e	(1,115)	*(1,019)*
Refund of progress payments		373	*387*
Sale of tangible fixed assets and investments		298	*311*
Purchase of trade investments		(13)	*(3)*
Investment in own shares			*(14)*
Sale of investment in Galileo International Inc.			*192*
Net cash outflow for capital expenditure and financial investment		(457)	*(146)*
Acquisitions and disposals			
Sale of interests in Participations Aéronautiques	19	25	
Sale of interests in subsidiary undertakings		16	
Purchase of subsidiary undertakings			*(39)*
Purchase of investment in Iberia			*(161)*
Purchase of interests in other associated undertakings		(15)	*(18)*
Net cash inflow/(outflow) for acquisitions and disposals		26	*(218)*
Equity dividends paid		(194)	*(242)*
Net cash inflow before management of liquid resources and financing		332	*307*
Management of liquid resources		159	*9*
Financing			
Changes in borrowings			
Bank and other loans raised		214	*60*
Bank and other loans repaid		(228)	*(202)*
Capital elements of finance leases and hire purchase arrangements repaid		(510)	*(374)*
		(524)	*(516)*
Issue of preferred securities			*193*
Changes in share capital			
Issue of ordinary share capital and share premium received		3	*4*
Decrease in cash	26	(30)	*(3)*

£ million	Note	Group 2001	Group 2000
Group financing requirement			
Net cash inflow before management of liquid resources and financing		332	*307*
Acquisitions under loans, finance leases and hire purchase arrangements	15e	(663)	*(659)*
Total financing requirement for the year		(331)	*(352)*
Total tangible fixed asset expenditure, net of progress payment refunds		1,405	*1,291*

Statement of total recognised gains and losses

For the year ended March 31, 2001

£ million	Note	Group 2001	Group 2000
Profit/(loss) for the year		114	*(21)*
Other recognised gains and losses relating to the year			
Exchange and other movements	36a	(30)	*(20)*
Total gains and losses recognised since last annual report		84	*(41)*

Profit for the year relating to associated undertakings is shown in Note 22.

Reconciliation of movements in shareholders' funds

For the year ended March 31, 2001

£ million	Note	Group 2001	Group 2000
Profit/(loss) for the year		114	*(21)*
Dividends	12	(193)	*(195)*
Retained loss for the year		(79)	*(216)*
Other recognised gains and losses relating to the year		(30)	*(20)*
Issue of ordinary share capital, on the conversion of Convertible Capital Bonds, and on the exercise of options under Employee Share Option Schemes			
Share capital		1	*2*
Share premium		3	*21*
		4	*23*
Reduction in reserves resulting from shares issued to a Qualifying Employee Share Ownership Trust in relation to the 1993 Share Save Scheme			*(2)*
Goodwill transferred to the profit and loss account in respect of disposals		173	*7*
Net increase/(deductions) to shareholders' funds		68	*(208)*
Equity shareholders' funds at April 1		3,147	*3,355*
Equity shareholders' funds at March 31		3,215	*3,147*

The difference between reported and historical cost profits and losses is not material.

Summary statements in euro

Included for information purposes only

Group profit and loss account

For the year ended March 31, 2001

Euro million	2001	*2000*
Turnover	15,013	*14,887*
Operating expenditure	(14,398)	*(14,747)*
Operating profit	615	*140*
Share of operating profit in associates	104	*125*
Total operating profit including associates	719	*265*
Other income and charges	2	*8*
(Loss)/profit on sale of fixed assets and investments	(112)	*415*
Net interest payable	(366)	*(679)*
Profit before tax	243	*9*
Tax	(36)	*(25)*
Profit/(loss) after tax	207	*(16)*
Equity minority interest	(3)	
Non equity minority interest	(19)	*(18)*
Profit/(loss) for the year	185	*(34)*
Dividends paid and proposed	(312)	*(325)*
Retained loss for the year	(127)	*(359)*

Group statement of total recognised gains and losses

For the year ended March 31, 2001

Euro million	2001	*2000*
Profit/(loss) for the year	185	*(34)*
Other recognised gains and losses relating to the year		
Exchange and other movements	(49)	*(33)*
Total gains and losses recognised since last annual report	136	*(67)*

Group balance sheet

At March 31, 2001

Euro million	2001	*2000*
Fixed assets		
Intangible assets	97	*103*
Tangible assets	17,420	*17,142*
Investments	689	*944*
	18,206	*18,189*
Current assets	3,958	*4,316*
Creditors: amounts falling due within one year	(5,352)	*(5,605)*
Net current liabilities	(1,394)	*(1,289)*
Total assets less current liabilities	16,812	*16,900*
Creditors: amounts falling due after more than one year	(11,166)	*(11,202)*
Provisions for liabilities and charges	(113)	*(135)*
	5,533	*5,563*
Capital and reserves		
Called up share capital	439	*450*
Reserves	4,764	*4,791*
Minority interest	29	*27*
Non equity minority interest	301	*295*
	5,533	*5,563*
Translation rate	£=1.62 euro	*£=1.67 euro*

Euro amounts have been included for information only and have been translated from sterling at the rate of exchange applying on March 31, 2001 and 2000.

1 Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention modified by the inclusion of certain assets at valuation, as stated below, and in accordance with all applicable United Kingdom accounting standards and the Companies Act 1985.

Basis of consolidation

The group accounts include the accounts of the company and its subsidiary undertakings, each made up to March 31, together with the attributable share of results and reserves of associated undertakings, adjusted where appropriate to conform with British Airways accounting policies. The group's share of the profits less losses of associated undertakings is included in the group profit and loss account and its share of the post-acquisition results of these companies is included in interests in associated undertakings in the group balance sheet. Certain associated undertakings make up their annual audited accounts to dates other than March 31. In the cases of Qantas and Iberia, published results up to the year ended December 31 are included. For Qantas the results are unaudited. In other cases, results disclosed by subsequent unaudited management accounts are included.

The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership. Where an entity, though not fulfilling the legal definition of a subsidiary or subsidiary undertaking, gives rise to benefits for the group that are, in substance, no different than those that would arise were that entity a subsidiary or subsidiary undertaking, that entity is classified as a quasi-subsidiary. In determining whether the group has the ability to enjoy the benefits arising from such entities' net assets, regard is given as to which party is exposed to the risks inherent in the benefits and which party, in practice, carries substantially all the risks and rewards of ownership.

In accordance with section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company only is not presented.

Turnover

Passenger ticket and cargo waybill sales, net of discounts, are recorded as current liabilities in the 'sales in advance of carriage' account until recognised as revenue when the transportation service is provided. Commission costs are recognised at the same time as the revenue to which they relate and are charged to cost of sales. Unused tickets are recognised as revenue on a systematic basis. Other revenue is recognised at the time the service is provided.

Segmental reporting

a Business segments

The directors regard all material group activities as relating to the airline business.

b Geographical segments

i) *Turnover by destination:* The analysis of turnover by destination is based on the following criteria:

Scheduled and non-scheduled services: Turnover from domestic services within the United Kingdom is attributed to the United Kingdom.

Turnover from inbound and outbound services between the United Kingdom and overseas points is attributed to the geographical area in which the relevant overseas point lies.

Other revenue: Revenue from the sale of package holidays is attributed to the geographical area in which the holiday is taken, while revenue from aircraft maintenance and other miscellaneous services is attributed on the basis of where the customer resides.

ii) *Turnover by origin:* The analysis of turnover by origin is derived by allocating revenue to the area in which the sale was made. Operating profit resulting from turnover generated in each geographical area according to origin of sale is not disclosed as it is neither practical nor meaningful to allocate the group's operating expenditure on this basis.

iii) *Geographical analysis of net assets:* The major revenue-earning asset of the group is the aircraft fleet, the majority of which are registered in the United Kingdom. Since the group's aircraft fleets are employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

iv) The geographical analysis of turnover and operating profit for associates has not been disclosed as it would be prejudicial to the businesses of the associates.

Goodwill

Prior to March 31, 1998, goodwill was set off against reserves on the acquisition of a business, including an equity interest in an associated undertaking.

Goodwill is released to the profit and loss account on disposal of the business to which it relates. From April 1, 1998, where the cost of acquisition exceeds the values attributed to such net assets, the resulting goodwill is capitalised and amortised over a period not exceeding 20 years.

Tangible fixed assets

Tangible fixed assets are held at cost, subject to the property revaluations carried out at March 31, 1995, and the fleet revaluations carried out at March 31, 1988 which were retained in accordance with the transitional provisions of FRS 15 – Tangible Fixed Assets. The group adopted a policy of not revaluing tangible fixed assets in the future. Depreciation is calculated to write off the cost or valuation, less estimated residual value, on a straight line basis.

a Capitalisation of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other assets under construction is capitalised and added to the cost of the asset concerned. Interest capitalised in respect of progress payments on those aircraft which subsequently become subject to extendible operating lease arrangements is carried forward and written off over the initial lease period.

1 Accounting policies continued

b Fleet

i) Cost or valuation: All aircraft are stated at cost, net of manufacturers' credits, with the exception of a small number that are stated at March 31, 1988 valuations, with subsequent expenditure stated at cost. The Concorde fleet remains at nil book value. Aircraft not in current use are included at estimated net realisable value.

ii) Depreciation: Fleet assets owned, or held on finance leases or hire purchase arrangements, are depreciated at rates calculated to write down the cost or valuation to the estimated residual value at the end of their planned operational lives. Cabin interior modifications, including those required for brand changes and re-launches, are depreciated over the lower of 5 years and the remaining life of the aircraft. Residual values and operational lives are reviewed annually.

c Property and equipment

Freehold properties and certain leasehold properties, professionally valued at March 31, 1995, are included in these accounts on the basis of that valuation. Subsequent additions are included at cost. 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 and hire purchase assets

Where assets are financed through finance leases or hire purchase arrangements, under which substantially all the risks and rewards of ownership are transferred to the group, the assets are treated as if they had been purchased outright. The amount included in the cost of tangible fixed assets represents the aggregate of the capital elements payable during the lease or hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease or hire purchase payments made, is included in creditors. The amount included in the cost of tangible fixed assets is depreciated on the basis described in the preceding paragraphs and the interest element of lease or hire purchase payments made is included in interest payable in the profit and loss account. Payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account in equal annual amounts over the period of the lease. In respect of aircraft, operating lease arrangements allow the group to terminate the leases after a limited initial period, normally 5 to 7 years, without further material financial obligations. In certain cases the group is entitled to extend the initial lease period on pre-determined terms; such leases are described as extendible operating leases.

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 fleet 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.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Cash and liquid resources

Cash includes cash in hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand. Liquid resources includes current asset investments held as readily disposable stores of value.

Pension and other post-retirement benefits

Retirement benefits are payable through separately funded United Kingdom pension schemes with equivalent arrangements for overseas territories. Contributions to pension funds are made on the basis of independent actuarial advice and charged to the profit and loss account so as to spread the cost over the remaining service lives of the employees.

Provision is made based on actuarial advice for post-retirement medical benefits of employees in the United States.

Frequent flyer programmes

The group operates two principal frequent flyer programmes. The Airline scheme, 'Executive Club', allows frequent travellers to accumulate 'BA Miles' mileage credits which entitle them to a choice of various awards, including free travel. In addition, Airmiles Travel Promotions Limited sells 'Airmiles' to United Kingdom companies to use for promotional incentives. The direct incremental cost of providing free redemption services, including British Airways flights, in exchange for redemption of miles earned by members of the group's Executive Club and Airmiles schemes is accrued as members of these schemes accumulate mileage. Costs accrued include incremental fuel, catering servicing costs and cost of redemptions on air and non-air partners; these costs are charged to cost of sales.

Deferred tax

Provisions are made for deferred tax, 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 in the foreseeable future.

Foreign currency translation

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. Aircraft which are financed in US dollars

1 Accounting policies continued

either by loans, finance leases or hire purchase arrangements, are regarded together with the related assets and liabilities as a separate group of assets and liabilities and accounted for in US dollars. The amounts in US dollars are translated into sterling at rates ruling at the balance sheet date and the net differences arising from the translation of aircraft costs and related US dollar loans are taken to reserves. Exchange differences arising on the translation of net assets of overseas subsidiary undertakings and associated undertakings are taken to reserves. Profits and losses of such undertakings are translated into sterling at average rates of exchange during the year. All other profits or losses arising on translation are dealt with through the profit and loss account.

Derivatives and financial instruments

The group's policies for using derivatives and financial instruments are explained in the Operating and Financial Review on page 13.

The group's accounting policy for derivatives is to defer and only recognise in the group profit and loss account gains and losses on hedges of revenues or operating payments as they crystallise. Amounts payable or receivable in respect of interest rate swap agreements are recognised in the net interest payable charge over the period of the contracts on an accruals basis. Cross currency swap agreements and forward foreign exchange contracts taken out to hedge borrowings are brought into account in establishing the carrying values of the relevant loans, leases or hire purchase arrangements in the balance sheet. Gains or losses on forward foreign exchange contracts to hedge capital expenditure commitments are recognised as part of the total sterling carrying cost of the relevant tangible asset as the contracts mature or are closed out. Short term debtors and creditors are held at fair value and have therefore been excluded from the financial instrument disclosures except note 24 on currency exposures.

2 Turnover

	Group	
£ million	2001	*2000*
Traffic revenue		
Scheduled services – passenger	7,803	*7,465*
– freight and mail	579	*556*
	8,382	*8,021*
Non-scheduled services	50	*71*
	8,432	*8,092*
Other revenue (including aircraft maintenance, package holidays and other airline services)	846	*848*
	9,278	*8,940*

3 Geographical analysis of turnover and operating profit

a Turnover

	Group			
	By area of original sale		By area of destination	
£ million	2001	*2000*	2001	*2000*
Europe	6,054	*5,898*	3,388	*3,400*
United Kingdom	4,632	*4,062*	815	*719*
Continental Europe	1,422	*1,836*	2,573	*2,681*
The Americas	1,745	*1,655*	3,450	*3,253*
Africa, Middle East and Indian sub-continent	783	*687*	1,304	*1,220*
Far East and Australasia	696	*700*	1,136	*1,067*
	9,278	*8,940*	9,278	*8,940*

b Operating profit

	Group	
	By area of destination	
£ million	2001	*2000*
Europe	(172)	*(310)*
The Americas	470	*308*
Africa, Middle East and Indian sub-continent	92	*62*
Far East and Australasia	(10)	*24*
	380	*84*

4 Analysis of operating expenditure

£ million	Group 2001	Group 2000
Employee costs	2,376	*2,481*
Depreciation and amortisation	715	*648*
Aircraft operating lease costs	221	*190*
Fuel and oil costs	1,102	*804*
Engineering and other aircraft costs	662	*661*
Landing fees and en route charges	645	*682*
Handling charges, catering and other operating costs	1,303	*1,328*
Selling costs	1,135	*1,188*
Accommodation, ground equipment costs and currency differences	739	*874*
Total operating expenditure	8,898	*8,856*
Total operating expenditure comprises:		
Cost of sales	8,711	*8,679*
Administrative expenses	187	*177*
Total operating expenditure	8,898	*8,856*

5 Operating profit

a Reconciliation of operating profit to cash inflow from operating activities

£ million	Group 2001	Group 2000
Group operating profit	380	*84*
Depreciation and amortisation	715	*648*
Other items not involving the movement of cash	(1)	*39*
(Increase)/decrease in stocks and debtors	(38)	*4*
Increase in creditors	195	*411*
Cash inflow from operating activities	1,251	*1,186*

b Operating profit is arrived at after charging:

Depreciation of group tangible fixed assets

£ million	Group 2001	Group 2000
Owned assets	335	*274*
Finance leased aircraft	132	*112*
Hire purchased aircraft	202	*223*
Other leasehold interests	43	*38*
	712	*647*

Operating lease costs

£ million	Group 2001	Group 2000
Lease rentals – aircraft	221	*190*
– property	128	*128*
Hire of equipment and charter of aircraft and crews	163	*150*
	512	*468*

5 Operating profit continued

Auditors' remuneration

£'000		Group 2001	2000
Group auditors	*– audit fees*	**1,247**	*1,223*
	– other professional fees		
	– United Kingdom	**3,560**	*1,558*
	– overseas	**568**	*406*
Other auditors	*– audit fees*	**14**	*52*
		5,389	*3,239*

Directors' emoluments

£'000	Group 2001	2000
Fees	**507**	*506*
Salary and benefits	**962**	*803*
Bonus	**326**	
Compensation for loss of office		*1,980*
	1,795	*3,289*

The report of the Remuneration Committee discloses full details of directors' emoluments and can be found on pages 19 to 22.

6 Employee costs and numbers

Number	Group 2001	2000
The average number of persons employed in the group during the year was as follows:		
United Kingdom	**50,086**	*51,310*
Overseas	**12,089**	*13,847*
	62,175	*65,157*

£ million	Group 2001	2000
Wages and salaries	**1,682**	*1,790*
Social security costs	**167**	*184*
Contributions to pension schemes	**124**	*123*
	1,973	*2,097*

7 Share of operating profit in associates

£ million	Group 2001	2000
Operating profits less losses	**64**	*75*

8 Other income and charges

£ million	Group 2001	2000
Income from trade investments	**1**	*3*
Other		*2*
	1	*5*
Other income and charges represented by:		
Group	**1**	*5*

9 (Loss)/profit on sale of fixed assets and investments (see also Note 19)

£ million	Group 2001	Group 2000
Net loss on disposal of investment in Participations Aéronautiques	(54)	
Net profit on disposal of investment in Galileo International Inc.		*149*
Share of net profit on disposal of investment in Amadeus by Iberia	22	
Net profit on part disposal of investment in Equant		*70*
Net (loss)/profit on disposal of other fixed assets and investments	(37)	*30*
	(69)	*249*
(Loss)/profit on sale of fixed assets and investments represented by:		
Group	(96)	*237*
Associates (including disposal of Amadeus)	27	*12*
	(69)	*249*

10 Net interest payable

£ million	Group 2001	Group 2000
Interest payable		
On bank loans	60	*65*
On finance leases	117	*88*
On hire purchase arrangements	212	*198*
On other loans, including interest of £11 million (2000: £11 million) on Convertible Capital Bonds 2005	35	*44*
	424	*395*
Interest capitalised	(35)	*(38)*
	389	*357*
Interest receivable	(92)	*(85)*
Retranslation (credits)/charges on currency borrowings	(71)	*136*
	226	*408*
Net interest payable represented by:		
Group	215	*396*
Associates	11	*12*
	226	*408*

In respect of all loans, including finance lease and hire purchase arrangements repayable in whole or in part after five years, the latest repayment date is July 2033.

Interest costs on progress payments are capitalised at a rate based on LIBOR (London Interbank Offered Rate) plus 0.5 per cent to reflect the average cost of borrowing to the group unless specific borrowings are used to meet the payments, in which case the actual rate is used.

11 Tax (see also Note 38)

£ million	Group 2001	Group 2000
British Airways Plc and subsidiary undertakings		
United Kingdom corporation tax at 30% (2000: 30%)	8	*125*
Less: relief for overseas tax	(8)	*(125)*
UK tax	0	*0*
Overseas tax	7	*17*
Advance corporation tax	(1)	
Prior year adjustments	(8)	*(26)*
	(2)	*(9)*
Share of tax of associated undertakings	24	*24*
	22	*15*

There is no UK tax payable on the operating result for the year. UK tax arises on dividend remittances from overseas and is partially offset by double tax relief.

11 Tax continued

There is no charge for deferred tax. If full provision had been made for deferred tax there would have been a credit for the year of £137 million (2000: charge £41 million) arising principally from capital allowances.

£ million	Group 2001	Group *2000*
Accelerated capital allowances	(147)	*51*
Other timing differences	9	*(10)*
Advance corporation tax	1	
	(137)	*41*

The need to provide for deferred tax relating to accelerated capital allowances is dependent on the way in which capital expenditure (mainly on aircraft) is financed. Under current accounting standards, and based on future capital expenditure plans, it is not expected that there will be a requirement to provide for any deferred tax on new originating timing differences.

12 Dividends

£ million	Group 2001	Group *2000*
Interim dividend of 5.10p per share paid (2000: 5.10p per share)	55	*57*
Final dividend of 12.80p per share proposed (2000: 12.80p per share)	138	*138*
	193	*195*

There was no charge to the profit and loss account in relation to 1999-00 final dividends paid to Convertible Capital Bond holders (1998-99: £1 million), who converted their bonds in June 2000, in accordance with the terms of the bond.

13 Earnings per share

	Profit/(loss) 2001 £m	Profit/(loss) *2000 £m*	Earnings per share 2001 Pence	Earnings per share *2000 Pence*
Profit/(loss) for the year and basic earnings per share	114	*(21)*	10.6	*(2.0)*
Diluted profit/(loss) for the year and earnings per share	114	*(21)*	10.5	*n/a*
Weighted average number of shares for basic EPS ('000)			1,075,496	*1,074,823*
Dilutive potential ordinary shares:				
Outstanding share options ('000)			9,265	*n/a*
Weighted average number of shares for diluted EPS ('000)			1,084,761	*1,074,823*

Basic earnings per share are calculated on a weighted average number of ordinary shares in issue as adjusted for shares held for the purposes of Employee Share Ownership Plans including the Long Term Incentive Plan.

n/a: not applicable

14 Intangible assets

Goodwill

£ million	Group 2001	Group *2000*
Cost		
Balance at April 1	63	
Additions	1	*63*
Balance at March 31	64	*63*
Amortisation		
Balance at April 1	1	
Charge for the year	3	*1*
Balance at March 31	4	*1*
Net book amounts		
March 31, 2001	60	
March 31, 2000		*62*

15 Tangible assets

a Group

£ million	Fleet	Property	Equipment	Group total 2001	Group total 2000
Cost or valuation					
Balance at April 1	11,896	1,714	784	14,394	*13,811*
Exchange movements	248	13	2	263	*10*
Additions – net of progress payments (Note 15e)	1,192	95	125	1,412	*1,318*
Disposals	(745)	(27)	(62)	(834)	*(745)*
Transfers		(105)	105		
Balance at March 31	12,591	1,690	954	15,235	*14,394*
Depreciation					
Balance at April 1	3,459	226	415	4,100	*3,972*
Exchange movements	90	1		91	*3*
Charge for the year	553	53	106	712	*647*
Disposals	(376)	(8)	(50)	(434)	*(522)*
Balance at March 31	3,726	272	471	4,469	*4,100*
Net book amounts					
March 31, 2001	8,865	1,418	483	10,766	
March 31, 2000	*8,437*	*1,488*	*369*		*10,294*
Utilisation at March 31					
Assets in current use					
Owned	2,265	1,213	433	3,911	*3,406*
Finance leased	2,002			2,002	*1,554*
Hire purchase arrangements	3,932			3,932	*4,042*
Progress payments	327	192	48	567	*919*
Assets held for resale	14			14	*39*
Capitalised interest	325	13	2	340	*334*
	8,865	1,418	483	10,766	*10,294*
The net book amount of property comprises:					
Freehold				374	*376*
Long leasehold				434	*412*
Short leasehold				610	*700*
				1,418	*1,488*

	Valuation/cost	Depreciation	Net book amount 2001	Net book amount 2000
Revalued fleet and properties are included in the accounts at the following amounts:				
Fleet – valuation	218	188	30	*34*
– subsequent additions at cost	39	32	7	*12*
Property – valuation	509	66	443	*470*
– subsequent additions at cost	82	16	66	*66*
March 31, 2001	848	302	546	
March 31, 2000	*860*	*278*		*582*
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 2001	526	270	256	
March 31, 2000	*533*	*247*		*286*

15 Tangible assets continued

b Company

£ million	Fleet	Property	Equipment	Company total 2001	Company total 2000
Cost or valuation					
Balance at April 1	11,743	1,613	598	13,954	*13,466*
Exchange movements	248	12		260	*25*
Additions – net of refund of progress payments	1,166	94	104	1,364	*1,203*
Disposals	(623)	(17)	(20)	(660)	*(740)*
Transfers		(111)	111		
Balance at March 31	12,534	1,591	793	14,918	*13,954*
Depreciation					
Balance at April 1	3,401	203	353	3,957	*3,853*
Exchange movements	90			90	*8*
Charge for the year	549	50	87	686	*613*
Disposals	(323)	(4)	(17)	(344)	*(517)*
Balance at March 31	3,717	249	423	4,389	*3,957*
Net book amounts					
March 31, 2001	8,817	1,342	370	10,529	
March 31, 2000	*8,342*	*1,410*	*245*		*9,997*
Utilisation at March 31					
Assets in current use					
Owned	2,217	1,137	322	3,676	*3,148*
Finance leased	2,002			2,002	*1,514*
Hire purchase arrangements	3,932			3,932	*4,042*
Progress payments	327	192	48	567	*920*
Assets held for resale	14			14	*39*
Capitalised interest	325	13		338	*334*
	8,817	1,342	370	10,529	*9,997*
The net book amount of property comprises:					
Freehold				373	*374*
Long leasehold				367	*348*
Short leasehold				602	*688*
				1,342	*1,410*

	Valuation/cost	Depreciation	Net book amount 2001	Net book amount 2000
Revalued fleet and properties are included in the accounts at the following amounts:				
Fleet – valuation	218	188	30	*34*
– subsequent additions at cost	39	32	7	*12*
Property – valuation	509	66	443	*465*
– subsequent additions at cost	82	16	66	*65*
March 31, 2001	848	302	546	
March 31, 2000	*854*	*278*		*576*
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 2001	526	270	256	
March 31, 2000	*526*	*246*		*280*

15 Tangible assets continued

c Revaluation

At March 31, 1995, all freehold properties of the group, and certain leasehold properties, where leases give long term security of tenure and rights to development, disposal and sub-letting, were revalued at open market value for existing use.

d Depreciation

The Fleet is generally depreciated over periods ranging from 18 to 25 years after making allowance for estimated residual values. Effective annual depreciation rates resulting from those methods are shown in the following table:

	Group	
%	2001	*2000*
Boeing 747-200, 747-400, and 777-200	3.8	*4.3*
Boeing 767-300 and 757-200	4.5	*4.6*
Airbus A320, A319, Boeing 737-400 and Avro RJ100	4.9	*5.9*

Property, apart from freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from 3 to 25 years, according to the type of equipment.

e Analysis of group tangible asset additions

				Group total	
£ million	Fleet	Property	Equipment	2001	*2000*
Cash paid	915	75	125	1,115	*1,019*
Acquisitions under loans, finance leases and hire purchase arrangements	637	26		663	*659*
Acquisition of subsidiary undertakings					*8*
Acquisition of quasi-subsidiary undertaking					*33*
Capitalised interest	22	13		35	*38*
Accrual movements	(9)	(19)		(28)	*(52)*
	1,565	95	125	1,785	*1,705*
Refund of progress payments	(373)			(373)	*(387)*
	1,192	95	125	1,412	*1,318*

16 Capital expenditure commitments

Capital expenditure authorised and contracted for, but not provided for in the accounts, amounts to £1,160 million for the group (2000: £1,830 million) and £1,155 million for the company (2000: £1,818 million).

The outstanding commitments include £189 million which relates to the acquisition of 5 Boeing 777 aircraft on order and £915 million which relates to the acquisition of Airbus A318, A319 and A320 aircraft scheduled for delivery over the next 4 years. It is intended that these aircraft will be financed partially by cash holdings and internal cash flow and partially through external financing, including committed facilities arranged prior to delivery.

At March 31, 2001 British Airways had undrawn committed aircraft financing facilities of $225 million (expiry date March 31, 2003) and a further £40 million (expiry date March 31, 2002) relating to the New World Cargo Centre, together with unused overdraft and revolving credit facilities of £40 million. Undrawn uncommitted money market lines of £65 million were also held with a number of banks.

17 Operating lease commitments

£ million	Group 2001	Group *2000*	Company 2001	Company *2000*
a Fleet				
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	8	*47*	6	*10*
Between one and five years	150	*125*	73	*49*
Over five years	58	*45*	9	*5*
Within one year	216	*217*	88	*64*
Between one and five years	519	*497*	175	*133*
Over five years	123	*115*	8	*4*
	858	*829*	271	*201*
b Property and equipment				
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	23	*32*	22	*31*
Between one and five years	23	*22*	22	*20*
Over five years	33	*32*	33	*30*
Within one year	79	*86*	77	*81*
Between one and five years	197	*188*	189	*175*
Over five years, ranging up to the year 2145	1,632	*1,450*	1,613	*1,423*
	1,908	*1,724*	1,879	*1,679*

Property and equipment commitments relate largely to property leases.

18 Investments

a Group

i) Associated undertakings

£ million	Equity	Loans at cost	Group total 2001	Group total *2000*
Balance at April 1	495	12	507	*323*
Exchange movements	(26)		(26)	*(15)*
Additions	36		36	*175*
Goodwill amortisation	(1)		(1)	*20*
Share of attributable results	(18)		(18)	*7*
Share of movements on other reserves	(5)		(5)	
Disposals	1	(12)	(11)	
Part refund of initial investment in Iberia	(101)		(101)	
Reclassification to quasi-subsidiary loans				*(3)*
Balance at March 31	381	0	381	*507*
Equity comprises:				
Cost of shares			390	*475*
Goodwill (less amortisation)			19	*20*
Goodwill set off			(80)	*(80)*
Share of post-acquisition profits			65	*88*
Share of movements on other reserves			(13)	*(8)*
			381	*495*

18 Investments continued

ii) Trade investments

£ million	Cost: Shares	Cost: Loans	Provisions: Shares	Provisions: Loans	Group total: 2001	Group total: 2000
Balance at April 1	34	4	(2)	(1)	35	*68*
Additions	12	1			13	*3*
Disposal	(28)				(28)	*(36)*
Balance at March 31	18	5	(2)	(1)	20	*35*

In March 2001, the group purchased a 16.7 per cent shareholding in the Airline Group for £8 million. In addition, the group also invested £4 million in Cordiem LLC. In June 2000, the group disposed of its investment in Hogg Robinson Plc for cash proceeds, net of costs, of £33 million.

iii) Investment in own shares

£ million	Group: 2001	Group: 2000
Investment in own shares	25	*25*

Investment in own shares consists of shares held by British Airways Plc Employee Benefits Trustees (Jersey) Limited, a wholly owned subsidiary, for the purposes of the employee share ownership plans including the Long Term Incentive Plan. At March 31, 2001 the group and company held 6,650,000 shares for the Long Term Incentive Plan and other employee share schemes (2000: 6,650,000 shares). The purchase of shares was financed by British Airways Plc granting a loan to British Airways Plc Employee Benefits Trustees (Jersey) Limited.

Net book value of total investments

£ million	Associated undertakings	Trade investments	Investment in own shares	Group total: 2001	Group total: 2000
Listed	278	4	25	307	*376*
Unlisted	103	16		119	*191*

Following Iberia's initial public offering, shares commenced trading on April 3, 2001. Therefore, Iberia has been included as an unlisted investment, as at March 31, 2001 in the table above.

Market value of listed investments

£ million	Group total: 2001	Group total: 2000
Associated undertakings	276	*415*
Trade investments	40	*144*
Investment in own shares	21	*22*

The group's principal investments in subsidiary undertakings, associated undertakings and trade investments are listed on page 53.

b Company

i) Subsidiary undertakings and quasi-subsidiary

£ million	Cost: Shares	Cost: Loans	Provisions: Shares	Provisions: Loans	Company total: 2001	Company total: 2000
Balance at April 1	2,098	47	(754)		1,391	*888*
Exchange movements	4				4	*(6)*
Additions	14	7	(20)		1	*287*
Net transfer to subsidiary undertakings						*229*
Disposal	(3)				(3)	
Reclassification from intra group loans						*(12)*
Reclassification from associated undertakings						*5*
Balance at March 31	2,113	54	(774)		1,393	*1,391*
ii) Associated undertakings						
Balance at April 1	2				2	*7*
Additions	12				12	
Reclassification to quasi-subsidiary loans						*(5)*
Balance at March 31	14				14	*2*
iii) Trade investments						
Balance at April 1	33	4	(2)	(1)	34	*31*
Additions	12	1			13	*3*
Disposal	(28)				(28)	
Balance at March 31	17	5	(2)	(1)	19	*34*

18 Investments continued

iv) Investment in own shares

£ million	Company total 2001	Company total 2000
Investment in own shares	25	*25*

See Note 18a iii)

Net book value of total investments

£ million	Subsidiary and Quasi-Subsidiary undertakings	Associated undertakings	Trade investments	Investment in own shares	Company total 2001	Company total 2000
Listed				25	25	*53*
Unlisted	1,393	14	19		1,426	*1,352*

Market value of listed investments

£ million	Company total 2001	Company total 2000
Trade investments	36	*140*
Investment in own shares	21	*22*

19 Disposal of Participations Aéronautiques S.A.

In May 2000, the group completed the disposal of its 85.83 per cent holding in Participations Aéronautiques S.A., the holding company of Air Liberté S.A. and TAT European Airlines S.A. to Taitbout Antibes B.V. The loss arising from the disposal was as follows:

£ million	Group total
Sale proceeds (net of disposal costs)	28
Net liabilities of Participations Aéronautiques at March 31, 2000	91
Goodwill written back on disposal	(173)
Loss on disposal	(54)
Loss on disposal before and after taxation	(54)

20 Acquisition of associates

i) Iberia

On March 15, 2000, in partnership with American Airlines, British Airways completed the purchase of 10 per cent of Iberia Lineas Aéreas de España, S.A. ('Iberia'), an international airline based in Madrid, Spain. The 10 per cent investment is held by BA & AA Holdings Limited, in which British Airways has a 90 per cent stake. The consideration paid was subject to amendment based on the initial public offering price. Iberia completed its flotation on April 3, 2001 at an offer price of euro 1.19 which meant that a refund became payable to BA & AA Holdings just after the end of the financial year under review. The refund was received by British Airways on April 19, 2001 and has been taken into account in determining the goodwill arising on the acquisition.

During the period since acquisition, British Airways has exercised significant influence over Iberia and as a result has accounted for the investment as an associated undertaking.

The table below shows the calculation of the goodwill arising on the acquisition:

£ million	Group total
Cash consideration	171
Refund related to offer price	(101)
Legal and professional fees	4
Net cost of investment	74
Net assets acquired at date of acquisition	64
Accounting policy realignment adjustments	2
Fair value of net assets acquired at acquisition	66
Goodwill arising on 10% stake	8
Minority interest	(1)
Goodwill arising on 9% stake	7

ii) Online Travel Portal Limited

On August 30, 2000 British Airways purchased for £11 million a 23.1 per cent shareholding in Online Travel Portal Limited, an online travel agency business. The fair value of the net assets acquired is considered to be £11 million and hence there is no goodwill arising.

21 Quasi-subsidiary

Summarised financial information of the London Eye Company Limited, prepared in accordance with British Airways' accounting policies, is set out below.

£ million	Total 2001	Total 2000
Profit and Loss Account		
Turnover	29	*2*
Operating profit/(loss)	5	*(2)*
Loss before taxation and loss for the period	(12)	*(2)*
Balance Sheet		
Fixed assets	76	*75*
Current assets	9	*5*
Creditors: Amounts falling due within one year	(11)	*(10)*
Net current liabilities	(2)	*(5)*
Total assets less current liabilities	74	*70*
Creditors: Amounts falling due after more than one year	(89)	*(74)*
Capital and reserves deficit	(15)	*(4)*
Cash Flow Statement		
Cash inflow/(outflow) from operating activities	13	*(3)*
Returns on investments and servicing of finance	(2)	
Capital expenditure and financial investment	(6)	*(49)*
Net cash inflow/(outflow) before management of liquid resources and financing	5	*(52)*
Financing		*49*
Increase/(decrease) in cash	5	*(3)*

There are no recognised gains or losses other than the loss for the period. The loss for the period includes interest payable to British Airways of £15 million (2000: £nil million).

22 Investments in associates

Summarised financial information

No individual associate accounts for more than 25 per cent of any of the gross assets, gross liabilities, turnover or operating results (on a three year average) of the group (excluding any amount for associates).

£ million	Group 2001	Group 2000
Operating revenue	1,223	*864*
Profit for the year	56	*51*
Share of fixed assets	1,114	*1,039*
Share of current assets	326	*206*
Share of assets	1,440	*1,245*
Liabilities due within one year	(505)	*(386)*
Liabilities due after more than one year	(584)	*(542)*
Share of liabilities	(1,089)	*(928)*
Share of net assets at associated companies' year end accounting dates	351	*317*
Goodwill on acquisition (less amortisation)	19	*20*
Additional equity investment in Online Travel Portal Limited	11	
Investment in Iberia		*158*
Total group investment in associated undertakings at March 31	381	*495*

The sterling equivalents for the statements of operations of Qantas Airways Limited have been translated at the average exchange rates for the six months ended June 30, 2000 and six months ended December 31, 2000 (2000: six months ended June 30, 1999 and six months ended December 31, 1999). The sterling equivalents for the results of Iberia have been translated using the average rate for the nine months ended December 31, 2000. Balance sheets for all associates have been translated at the closing rates ruling at March 31. At March 31, 2000 it was not possible to establish the fair values of attributable assets and liabilities of Iberia since its acquisition. It was shown at cost of investment at that time. The comparatives for March 31, 2000 have now been restated to reflect the goodwill arising on the acquisition.

23 Stocks

	Group		Company	
£ million	2001	*2000*	2001	*2000*
Raw materials, consumables and work in progress	66	*78*	47	*51*

The replacement cost of stocks is considered to be not materially different from their balance sheet values.

24 Currency exposures

						Group	
£ million						Net foreign currency assets/(liabilities)	
Functional currency	Sterling	US dollar	Euro	Japanese yen	Other	2001	*2000*
Sterling		229	(101)	(813)	248	(437)	*(553)*
Euro	1	(58)				(57)	*(59)*
Total March 31, 2001	1	171	(101)	(813)	248	(494)	
Total March 31, 2000	*4*	*95*	*(23)*	*(852)*	*164*		*(612)*

The table above shows the monetary assets and liabilities of the group that are not denominated in the functional (or 'operating') currency of the operating unit involved other than certain non-sterling borrowings treated as hedges of aircraft accounted for as foreign currency assets, and of net investments in overseas subsidiaries. Amounts also take into account the effect of derivatives entered into to manage these currency exposures.

25 Debtors

	Group		Company	
£ million	2001	*2000*	2001	*2000*
Trade debtors	853	*889*	818	*834*
Amounts owed by subsidiary undertakings			83	*52*
Amounts owed by associated undertakings	39	*33*	26	*32*
Other debtors	212	*121*	89	*73*
Prepayments and accrued income	340	*325*	227	*212*
	1,444	*1,368*	1,243	*1,203*

Amounts due after more than one year included above are not significant.

26 Cash

a Reconciliation of net cash flow to movement in net debt

	Group	
£ million	2001	*2000*
Decrease in cash during the year	(30)	*(3)*
Net cash outflow from decrease in debt and lease financing	524	*516*
Cash inflow from liquid resources	(159)	*(9)*
Changes in net debt resulting from cash flows	335	*504*
New loans and finance leases taken out and hire purchase arrangements made	(663)	*(659)*
Assumed from subsidiary undertakings acquired during the year		*(42)*
Divested from subsidiary undertakings sold during the year	69	
Conversion of Convertible Capital Bonds 2005		*13*
Exchange movements	(48)	*(206)*
Movement in net debt during the year	(307)	*(390)*
Net debt at April 1	(5,916)	*(5,526)*
Net debt at March 31	(6,223)	*(5,916)*

26 Cash continued

b Analysis of net debt

£ million	Balance at April 1	Cash flow	Other non-cash	Exchange	Balance at March 31
					Group
Cash	103	(32)			71
Overdrafts	(5)	2			(3)
	98	(30)			68
Short-term loans and deposits	1,043	(159)		(19)	865
Bank and other loans	(1,043)	14	23	(35)	(1,041)
Finance leases and hire purchase arrangements	(5,901)	510	(617)	6	(6,002)
Convertible Capital Bonds 2005	(113)				(113)
Year to March 31, 2001	**(5,916)**	**335**	**(594)**	**(48)**	**(6,223)**
Year to March 31, 2000	*(5,526)*	*504*	*(688)*	*(206)*	*(5,916)*

c Analysis of short-term loans and deposits by currency

£ million	Group 2001	Group *2000*	Company 2001	Company *2000*
Sterling	646	*794*	601	*728*
US dollar	27	*34*	15	*26*
Japanese yen	192	*215*	192	*215*
	865	*1,043*	808	*969*

Short-term surplus cash is deposited for periods typically with maturity of less than six months.

27 Creditors: amounts falling due within one year

£ million	Group 2001	Group *2000*	Company 2001	Company *2000*
Loans, finance leases and hire purchase arrangements				
Bank and other loans	49	*140*	35	*122*
Finance leases	106	*120*	105	*112*
Hire purchase arrangements	329	*288*	329	*288*
Loans from subsidiary undertakings			7	*8*
	484	*548*	476	*530*
Overdrafts – unsecured	3	*5*	3	
Trade creditors	1,211	*1,159*	1,050	*977*
Unredeemed frequent flyer liabilities	108	*87*	72	*54*
Amounts owed to subsidiary undertakings			1,015	*1,032*
Amounts owed to associated undertakings	30	*27*	30	*27*
Other creditors				
Other creditors	341	*458*	321	*349*
Corporate tax	31	*18*	24	*13*
Other tax and social security	44	*64*	40	*41*
	416	*540*	385	*403*
Dividends payable	139	*140*	139	*138*
Accruals and deferred income				
Sales in advance of carriage	846	*801*	754	*697*
Accruals and deferred income	71	*59*	33	*34*
	917	*860*	787	*731*
	3,308	*3,366*	3,957	*3,892*

28 Borrowings and other creditors

£ million	Group 2001	Group 2000	Company 2001	Company 2000
Loans, finance leases and hire purchase arrangements				
Bank and other loans	992	*903*	967	*848*
Finance leases	2,240	*1,768*	2,238	*1,727*
Hire purchase arrangements	3,327	*3,725*	3,327	*3,725*
Loans from subsidiary undertakings			298	*300*
	6,559	*6,396*	6,830	*6,600*
Other creditors	22	*56*		
Accruals and deferred income	207	*163*	133	*119*
	6,788	*6,615*	6,963	*6,719*

29 Loans, finance leases and hire purchase arrangements

a Total loans, finance leases and hire purchase arrangements

£ million		Group 2001	Group 2000	Company 2001	Company 2000
Loans					
Bank	*– French franc*		*FFr22m*		
	– US dollar	US$349m	*US$557m*	US$349m	*US$523m*
	– sterling	£674m	*£570m*	£642m	*£526m*
		919	*921*	888	*855*
Euro-sterling notes		100	*100*	100	*100*
Other	*– sterling*	22	*22*	14	*15*
Loans from subsidiary undertakings	*– euro*			euro300m	*euro300m*
	– sterling			£119m	*£127m*
				305	*308*
Finance leases	*– French franc*		*FFr94m*		
	– US dollar	US$720m	*US$391m*	US$720m	*US$329m*
	– sterling	£1,841m	*£1,633m*	£1,838m	*£1,632m*
		2,346	*1,888*	2,343	*1,839*
Hire purchase arrangements	*– Japanese yen*	¥210,883m	*¥214,968m*	¥210,883m	*¥214,968m*
	– US dollar	US$869m	*US$1,037m*	US$869m	*US$1,037m*
	– sterling	£1,866m	*£2,048m*	£1,866m	*£2,048m*
		3,656	*4,013*	3,656	*4,013*
		7,043	*6,944*	7,306	*7,130*
Comprising:					
Bank loans					
Repayable wholly within five years		268	*397*	237	*331*
Repayable in whole or in part after five years		651	*524*	651	*524*
		919	*921*	888	*855*
Other loans, finance leases and hire purchase arrangements					
Repayable wholly within five years		982	*647*	1,091	*600*
Repayable in whole or in part after five years		5,142	*5,376*	5,327	*5,675*
		6,124	*6,023*	6,418	*6,275*
		7,043	*6,944*	7,306	*7,130*

Bank and other loans are repayable up to the year 2016. In addition to finance leases and hire purchase arrangements, bank and other loans of the group amounting to US$340 million (2000: US$565 million), and £307 million (2000: £190 million) and bank loans of the company amounting to US$340 million (2000: US$514 million) and £307 million (2000: £190 million) are secured on aircraft.

29 Loans, finance leases and hire purchase arrangements continued

b Analysis by type of borrowing

	Fixed rate borrowings			Floating rate borrowings	Group 2001	Group 2000
	Weighted average years	Weighted average rate %	£ million	£ million	Total £ million	*Total £ million*
Sterling	6.1	8.28	556	3,947	4,503	*4,374*
US dollar	10.7	8.10	267	1,092	1,359	*1,246*
Japanese yen	7.0	1.49	1,181		1,181	*1,314*
Euro						*10*
Total 2001	7.2	4.25	2,004	5,039	7,043	
Total 2000	*7.3*	*4.43*	*2,140*	*4,804*		*6,944*

Floating rates of interest are based on LIBOR (London Interbank Offered Rate)

The interest rate profiles of the Convertible Capital Bonds and the euro perpetual preferred securities are disclosed separately in Notes 31 and 37 respectively.

c Incidence of repayments

£ million	Bank loans	Other loans	Finance leases	Hire purchase arrangements	Group 2001	Group *2000*
Instalments falling due:						
Within one year	47	2	106	329	484	*548*
After more than one year						
Between one and two years	~~47~~	~~3~~	~~114~~	~~413~~	~~577~~	~~*627*~~
Between two and five years	377	3	431	1,117	1,928	*1,770*
In five years or more	448	114	1,695	1,797	4,054	*3,999*
	872	120	2,240	3,327	6,559	*6,396*
Total 2001	919	122	2,346	3,656	7,043	
Total 2000	*921*	*122*	*1,888*	*4,013*		*6,944*
Analysis of total 2001						
British Airways Plc	888	114	2,343	3,656	7,001	*6,822*
Subsidiary undertakings	31	8	3		42	*122*
	919	122	2,346	3,656	7,043	6,944

30 Analysis of changes in borrowings during the year

£ million	Bank and other loans	Finance leases and hire purchase arrangements	Group 2001	Group *2000*
Balance at April 1	1,043	5,901	6,944	*6,552*
New loans raised	214		214	*60*
Loans on acquisition of subsidiary				*43*
Divested from subsidiary undertakings sold during the year	(23)	(46)	(69)	
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft and other assets		663	663	*659*
Repayment of amounts borrowed	(228)	(510)	(738)	*(576)*
Exchange movements	35	(6)	29	*206*
Balance at March 31	1,041	6,002	7,043	*6,944*

31 Convertible Capital Bonds 2005

£ million	Group 2001	Group 2000
	113	*113*

The terms of the 9.75 per cent Convertible Capital Bonds allow the holders to convert into British Airways Plc ordinary shares during the period June 1993 to June 2005 on the basis of one ordinary share for every £2.34 (adjusted for the effect of the 1993 rights issue) of Bonds held. On June 15, 2000, 145,000 ordinary shares were issued in exchange for 341,000 Bonds (June 15, 1999, 5,732,000 ordinary shares were issued in exchange for 13,416,000 Bonds). The terms also provide that on maturity in 2005, the company may require remaining bondholders to convert their Bonds into ordinary shares of the company which would be sold on their behalf. If the proceeds of such a sale are less than the issue price of the Bonds, the company has to fund any deficit from its own resources. Full conversion of the remaining Bonds would require the issue of 48,128,000 ordinary shares.

The mid market closing prices of the Bonds and the ordinary shares at March 31, 2001 as quoted in the London Stock Exchange Daily Official List were 147.8p and 315.0p each respectively.

32 Provisions for liabilities and charges

Group

£ million	Balance at April 1	Transfers from profit and loss account	Other movements	Provisions utilised	Balance at March 31
Pensions and similar obligations	10	5		(1)	14
Post-retirement medical benefits	24	4		1	29
Severance	47	40		(60)	27
Year to March 31, 2001	81	49		(60)	70
Year to March 31, 2000	*65*	*87*	*3*	*(74)*	*81*
Analysis of total 2001					
British Airways Plc	79	50		(60)	69
Subsidiary undertakings	2	(1)			1
Year to March 31, 2001	81	49		(60)	70

The severance provision at March 31, 2001 covers both pension augmentation costs relating to severance for individuals who have left the group in the current financial year and committed severance costs to be paid during the next financial year.

33 Litigation

a A legal claim has been made against the company by Virgin Atlantic Airways Limited. Having regard to legal advice received, and in all the circumstances, the directors are of the opinion that this claim will not give rise to liabilities which will in the aggregate have a material effect on these accounts.

b There are a number of identified legal and other claims which emanate from international airline operations and other activities of the group for which the directors have made what they believe is appropriate provision.

34 Share capital

Group and Company

Ordinary shares of 25p each	2001 Number of shares '000	2001 £ million	*2000 Number of shares '000*	*2000 £ million*
Authorised				
At April 1 and March 31	1,508,000	377	*1,508,000*	*377*
Allotted, called up and fully paid				
At April 1	1,081,515	270	*1,073,167*	*268*
Conversion of Convertible Capital Bonds	145		*5,732*	*2*
Exercise of options under Employee Share Option Schemes	892	1	*1,562*	
Conversion of scrip dividends			*1,054*	
At March 31	1,082,552	271	*1,081,515*	*270*

35 Share options

Number of shares '000	Group and Company 2001	2000
Outstanding at April 1	50,999	*22,908*
Granted in the year	6,327	*34,078*
Exercised during the year	(892)	*(1,562)*
Expired/cancelled	(3,656)	*(4,425)*
At March 31	52,778	*50,999*
Date exercisable	2001-2010	*2000-2009*
Price per share	195p-465p	*195p-579p*
Price range of options exercised during the year	195p-419p	*196p-419p*

36 Reserves

a Group

£ million	Share premium account	Revaluation reserve	Profit and loss account	Group total 2001	2000
Balance at April 1	785	285	1,807	2,877	*3,087*
Retained loss for the year			(79)	(79)	*(216)*
Transfers relating to revalued assets, including release of prior year deficit		5	(5)		
Exchange and other movements			(30)	(30)	*(20)*
Goodwill written back on disposal			173	173	*7*
Reduction due to QUEST (see below)					*(2)*
Share premium	3			3	*21*
Balance at March 31	788	290	1,866	2,944	*2,877*

The group profit and loss account includes cumulative retained profits in respect of associated undertakings and is shown in Note 18.

The group has a Qualifying Employee Share Ownership Trust ('QUEST') for the purposes (inter alia) of the 1993 Share Save Scheme. No contributions were made during the year to the QUEST (2000: £2 million).

b Goodwill

Cumulative goodwill set off against reserves at March 31 comprises:

£ million	Group total 2001	2000
In respect of subsidiary undertakings	442	*615*
In respect of associated undertakings	80	*80*
	522	*695*

c Company

£ million	Share premium account	Revaluation reserve	Profit and loss account	Company total 2001	2000
Balance at April 1	785	285	1,665	2,735	*2,675*
Retained profit for the year			72	72	*72*
Transfers relating to revalued assets, including release of prior year deficit		5	(5)		
Exchange and other movements			16	16	*(31)*
Reduction due to QUEST (see above)					*(2)*
Share premium	3			3	*21*
Balance at March 31	788	290	1,748	2,826	*2,735*

37 Non equity minority interests

The non equity minority interest represents euro 300 million of 6.75 per cent fixed interest perpetual preferred securities issued by British Airways Finance (Jersey) L.P. in which the general partner is British Airways Holdings Limited, a wholly owned subsidiary of British Airways Plc. The holders of these securities have no rights against group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, the company. The guarantee in relation to these securities has been structured so as to place the holders of the securities ranking senior to all other share capital but junior to any outstanding liabilities including the Convertible Capital Bonds 2005.

38 Deferred tax (see also Note 11)

If full provision for deferred tax had been made at 30 per cent (2000: 30 per cent) the following amounts would have been required:

	Group		Company	
£ million	2001	*2000*	2001	*2000*
Accelerated capital allowances less unrelieved losses	1,048	*1,195*	1,037	*1,181*
Other timing differences	3	*(6)*	(24)	*(33)*
Advance corporation tax	(92)	*(93)*	(92)	*(93)*
	959	*1,096*	921	*1,055*

In arriving at the amount of the full provision for the group at March 31, 2001 of £959 million, no account has been taken of any tax liability that might arise on the realisation of the revaluation surplus on properties as the directors have no present intention to dispose of any significant property assets.

39 Pension costs

British Airways operates two principal defined benefit pension schemes in the United Kingdom, the Airways Pension Scheme (APS), which is closed to new members, and the New Airways Pension Scheme (NAPS), of which all new permanent employees over the age of 18 employed by the company and certain subsidiary undertakings in the United Kingdom may become members. The assets of these schemes are held in separate trustee-administered funds. Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in payment in line with the Retail Price Index. Those provided under NAPS are based on final average pensionable pay reduced by an amount (the "abatement") not exceeding one and a half times the Government's lower earnings limit. NAPS benefits are subject to Retail Price Index increases in payment up to a maximum of 5 per cent in any one year.

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

Standard employees' contributions range from 5.75 per cent to 8.5 per cent of full pensionable pay in APS, and from 3.75 per cent to 6.5 per cent of full pensionable pay less the abatement in NAPS.

The latest actuarial valuations of APS and NAPS were made as at March 31, 2000 by an independent firm of qualified actuaries, Watson Wyatt Partners, using the attained age method for APS and the projected unit method for NAPS. These valuations showed that no employer's contributions were required in respect of APS for the year to March 31, 2001 (2000: £nil million) while for NAPS an employer's contribution equal to an average of 3.0 times the standard employees' contribution for the period January 1, 2001 to March 31, 2001 (2.35 times for April 1, 1999 to December 31, 2000) was appropriate.

All amounts recognised as costs were either funded or paid directly.

Employer's contributions (calculated as set out above for APS and NAPS) charged in the accounts were:

	Group	
£ million	2001	*2000*
Airways Pension Scheme		
New Airways Pension Scheme	108	*107*
Other pension schemes and provident funds – mainly outside the United Kingdom	16	*16*
	124	*123*

At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £6,687 million and £3,796 million respectively. The relevant value of the assets represented 114 per cent (APS) and 93 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. In the case of APS, the market value of the assets together with future contributions from employees was sufficient to cover both past and future service liabilities. In the case of NAPS, the actuarial value of the assets was insufficient to cover past service liabilities. The employer's contribution is intended to make up the balance of past and future service liabilities after allowing for the future contributions by employees. The principal assumptions used in the actuarial valuations were that, over the long term, the annual increase in earnings and (NAPS only) in dividends would be 1.5 per cent higher than annual increases in price inflation.

The annual return on investments was assumed to be 0.59 per cent (APS) or 2.75 per cent (NAPS) higher than the onward increase in earnings. Annual pension increases, over the long term, were assumed to be equal to price inflation for APS and 0.25 per cent less than price inflation for NAPS.

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

40 Forward transactions

The group had outstanding forward transactions to hedge foreign currencies and fuel purchases as follows:

	In currency		Sterling equivalents	
	2001	2000	2001	2000
Maturing within one year				
– to cover future capital commitments in US dollars	US$70m	*US$150m*	£42m	*£90m*
– to hedge future currency revenues against US dollars		*US$5m*		
– to hedge future currency revenues against sterling			£71m	*£117m*
– to hedge future operating payments against US dollars	US$38m	*US$190m*		
– to hedge future fuel costs in US dollars	US$594m	*US$1,067m*	£417m	*£669m*
– to hedge future operating payments against sterling			£72m	
– to hedge debt in foreign currency	euro49m	*euro49m*	£31m	*£30m*
Maturing after one year				
– to cover future capital commitments in US dollars		*US$70m*		*£42m*
– to hedge future currency revenues against sterling			£1m	
– to hedge future operating payments against US dollars		*US$4m*		

41 Interest rate arrangements

To reduce interest rate risk, British Airways has entered into single currency interest rate swap arrangements so as to change the interest payable elements of certain loans and lease obligations from variable to fixed rates and, accordingly, accounts for such swaps as hedges.

Outstanding single currency interest rate swap arrangements are summarised as follows:

	Notional principal balance	Termination dates	Interest rates Fixed payable
At March 31, 2001			
US dollar	US$132m	2001-2003	8.4%-9.9%
At March 31, 2000			
US dollar	*US$166m*	*2001-2003*	*8.4% – 9.9%*

42 Fair values of financial instruments

a Primary financial instruments held or issued to finance the group's operations

£ million	2001 Carrying amount	2001 Fair value	*2000 Carrying amount*	*2000 Fair value*
Cash at bank and in hand and overdrafts	68	68	*98*	*98*
Short-term loans and deposits	865	865	*1,043*	*1,043*
Bank and other borrowings	(941)	(974)	*(943)*	*(949)*
Finance leases	(2,346)	(2,353)	*(1,888)*	*(1,890)*
Hire purchase arrangements	(3,656)	(3,665)	*(4,013)*	*(4,019)*
Euro-sterling notes	(100)	(123)	*(100)*	*(121)*
Convertible Capital Bonds 2005	(113)	(166)	*(113)*	*(169)*
6.75 per cent perpetual preferred securities	(186)	(159)	*(177)*	*(126)*

42 Fair values of financial instruments continued

b Derivative financial instruments held to manage the interest rate and currency profile

£ million	Fair value 2001	Fair value 2000
Interest rate swaps	(6)	*(4)*
Forward currency transactions	6	*10*
Fuel derivatives	4	*55*

No carrying amounts are shown as all items are held off balance sheet.

Included within forward currency transactions are derivative financial instruments held to hedge the currency exposure on expected future sales.

The following methods and assumptions were used by the group in estimating its fair value disclosures for financial instruments:

Bank and other loans, finance leases, hire purchase arrangements and the non Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest

- the repayments which the group is committed to make have been discounted at the relevant interest rates applicable at March 31, 2001.

Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest

- these amounts relate to the tax equity portions of Japanese leveraged leases which are personal to the group, and cannot be assigned and could not be refinanced or replaced in the same cross border market on a marked to market basis, and accordingly a fair value cannot be determined. The carrying value of £1,181 million has therefore been included as the fair value above.

Euro sterling notes, Convertible Capital Bonds 2005 and 6.75 per cent perpetual preferred securities

- quoted market value.

Off balance sheet interest rate swaps

- discounted cash flow analysis, to determine the estimated amount the group would receive or pay to terminate the agreements.

Off balance sheet forward currency transactions

- difference between marked to market value and forward rate.

Off balance sheet over the counter (OTC) fuel derivatives

- the marked to market value of the instruments.

The fair value of all other assets and liabilities is deemed to be equal to their carrying value unless stated otherwise in the relevant note to the accounts.

c Hedges

The instruments used to hedge future exposures are interest rate swaps, forward currency contracts and fuel derivatives.

At March 31, 2001 there were unrecognised gains of £14 million and unrecognised losses of £10 million relating to hedges of future exposure. All of the unrecognised gains are expected to occur within one year and of the unrecognised losses, £4 million are expected to occur within one year and £6 million after one year.

At March 31, 2000 there were unrecognised gains of £65 million and unrecognised losses of £4 million. Of the unrecognised gains, £63 million related to the period to March 31, 2001 and £2 million related to periods over one year and of the unrecognised losses £1 million related to the year to March 31, 2001 and £3 million related to periods in excess of one year.

43 Contingencies

There were contingent liabilities at March 31, 2001 in respect of guarantees and indemnities entered into as part of, and claims arising from, the ordinary course of business, upon which no material losses are likely to arise.

The group and the company have guaranteed certain borrowings, liabilities and commitments which at March 31, 2001 amounted to £143 million (2000: £254 million) and £689 million (2000: £801 million) respectively. For the company these included guarantees given in respect of the Convertible Capital Bonds and the fixed perpetual preferred securities issued by subsidiary undertakings.

44 Related party transactions

The group has had transactions, during the year under review, with related parties, as defined in Financial Reporting Standard 8, Related Party Disclosures.

As is common practice in the airline industry, British Airways, Qantas, Iberia and Comair from time to time carry each other's passengers travelling on the other airlines' tickets. The settlement between related carriers is actioned through the IATA Clearing House, of which the airlines below are members.

Qantas Airways Limited

The group has a 25 per cent equity investment in Qantas, and has a 'Joint Services Agreement' with the airline which started in November 1995. The agreement allows the two airlines to co-operate in developing schedules and fares and to share revenues and costs for the core 'Kangaroo' routes between Europe and Australia.

As at March 31, 2001 the net trading balance due to British Airways from Qantas (via the IATA clearing house) amounted to £13 million (2000: £22 million).

Iberia Líneas Aéreas de España, S.A. ('Iberia')

The group has a 9 per cent investment in Iberia, which was completed in March, 2000. Substantial areas of opportunity for co-operation and improvement have been identified as a result of the investment, and work continues to pursue and implement these in the next financial year.

As at March 31, 2001 the net trading balance due to British Airways from Iberia amounted to £0.1 million (2000: £0.3 million).

Comair Limited

The group has a 18.3 per cent investment in Comair and has a franchise agreement with the company that commenced in October 1996.

As at March 31, 2001 the net trading balance due to Comair amounted to £9 million (2000: £9 million)

Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with directors or officers of the company at the end of the year which need to be disclosed in accordance with the requirements of Schedule 6 to the Companies Act 1985.

In addition to the above, the group also has transactions with related parties which are conducted in the normal course of airline business. These include the provision of airline and related services.

45 Post balance sheet events

On April 30, 2001 British Airways and Thomas Cook Holdings Limited completed the merger of the outbound package tour businesses from the United Kingdom undertaken by British Airways Holidays Limited and Thomas Cook Holidays Limited. On that date, British Airways Holidays Limited transferred its outbound business and related net assets to a new company, BAH (2001) Limited, which at the same time acquired Thomas Cook Holidays Limited. Following this transaction British Airways and Thomas Cook Holdings Limited each own 50 per cent of BAH (2001) Limited. No profit or loss arose on this transaction.

On May 10, 2001 British Airways' offer to acquire the whole of the issued share capital of British Regional Air Lines Group Plc ('BRAL') was declared wholly unconditional. The cash offer was recommended by the directors of BRAL and values BRAL at £78 million.

BRAL's main operating subsidiaries are British Regional Air Lines, which operates under a British Airways franchise agreement, and Manx Air Lines, which operates between the Isle of Man and major airports in the United Kingdom and Ireland. British Airways plans to combine BRAL's operations with those of Brymon Airways Limited in order to co-ordinate better the shorthaul businesses in the United Kingdom regions and to remain competitive in this market.

46 Foreign currency translation rates

	At March 31		Annual average	
	2001	*2000*	2000-01	*1999-00*
US dollar	**1.43**	*1.60*	**1.49**	*1.61*
Japanese yen	**178**	*164*	**163**	*180*
German mark	**3.17**	*3.26*	**3.19**	*3.05*
Australian dollar	**2.93**	*2.63*	**2.66**	*2.50*
French franc	**10.61**	*10.92*	**10.71**	*10.23*
Euro	**1.62**	*1.67*	**1.63**	*1.56*

Principal investments

At March 31, 2001

Subsidiary undertakings

Principal subsidiary undertakings are wholly-owned except where indicated.

	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Ltd *	Airline marketing	England
BA & AA Holdings Ltd*	Holding company	England
(90 per cent of equity owned)		
Bedford Associates Inc.	Specialist software development	USA
Britair Holdings Ltd*	Holding company	England
British Airways Capital Ltd *	Airline finance	Jersey
(89 per cent of founders' shares owned)		
British Airways (European Operations at Gatwick) Ltd *	Airline operations	England
British Airways Finance B.V. *	Airline finance	Netherlands
British Airways Holdings Ltd *	Airline finance	Jersey
British Airways Holidays Ltd *	Package holidays	England
British Airways Maintenance Cardiff Ltd *	Aircraft maintenance	England
British Airways Regional Ltd *	Air travel services	England
British Airways Travel Shops Ltd *	Travel agency	England
British Asia Airways Ltd *	Air travel services	England
CityFlyer Express Ltd*	Airline operations	England
Deutsche BA Luftfahrtgesellschaft GmbH	Airline operations	Germany
Go Fly Limited *	Airline operations	England
Speedbird Insurance Company Ltd *	Insurance	Bermuda
The Plimsoll Line Ltd *	Airline holding company	England
(Holding company of Brymon Airways Ltd)		
World Network Services Pvt Ltd*	Data processing services	India

Quasi-subsidiary undertaking

	Principal activities	Country of incorporation and registration and principal operations
The London Eye Company Ltd *	Leisure company	England
(33 per cent of equity owned)		

Associated undertakings

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Concorde International Travel Pty Ltd	50.0	Travel services	Australia
Qantas Airways Ltd	25.0	Airline operations	Australia
Iberia Lineas Aéreas de España, S.A. ('Iberia')	9.0	Airline operations	Spain
Comair Ltd	18.3	Airline operations	South Africa
Online Travel Portal Ltd *	23.1	Internet travel agency	England

Trade investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
The Airline Group *	16.7	Air traffic control holding company	England
Equant NV* (Note 1)	1.0	Telecommunications	Netherlands
Cordiem LLC *	8.3	Internet trade exchange	USA

* Owned directly by British Airways Plc

Notes:

1 Percentage of equity is based on latest audited information.

United States generally accepted accounting principles (US GAAP) information

US GAAP Accounting Principles

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:

Deferred tax

British Airways provides for deferred tax using the liability method on all material timing differences to the extent that it is probable that the liabilities will crystallise in the foreseeable future. Under US GAAP deferred tax is generally provided on a full liability basis on all temporary differences between the accounting and tax bases for the group.

Goodwill

Up to March 31, 1998, under UK GAAP, British Airways set off goodwill arising on acquisitions directly against retained earnings. Goodwill arising on acquisitions since April 1, 1998 is capitalised and amortised over its useful economic life. Under US GAAP, goodwill arising on acquisitions has always been amortised over its useful life. For the purposes of determining the differences between UK GAAP and US GAAP in relation to goodwill arising prior to March 31, 1998, the expected useful life of goodwill has been taken to be 40 years.

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 at March 31, 1995 and fleet at March 31, 1988 incorporated by British Airways in its financial statements would not, therefore, have been included in financial statements prepared in accordance with US GAAP and the subsequent charges for depreciation would have been correspondingly lower. When such assets are sold any revaluation surplus thus realised would be reflected in income.

Forward exchange contracts

Under US GAAP, the notional gain or loss arising on the translation of certain outstanding foreign currency forward exchange contracts at each balance sheet date, at the forward rates of exchange ruling at that date, would have been included in the determination of net income. British Airways does not take account of such notional gains and losses.

Dividends

Under UK GAAP, dividends are recorded in the financial statements for the period to which the dividend relates. Under US GAAP, the liability for dividends is recorded in the financial statements when declared. The proposed final dividend at March 31, 2001 would not, therefore, be included in the financial statements for 2001 prepared in accordance with US GAAP.

Foreign currency translation

Aircraft which are financed in whole or in part in foreign currency, either by loans, finance lease obligations or hire purchase arrangements, are regarded, together with the related liabilities, as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into sterling at rates ruling at the balance sheet date and the differences arising from the translation of aircraft costs and related foreign currency loans are taken to retained earnings. Under US GAAP, the cost of these aircraft would be fixed in sterling at the rate of exchange ruling at the date of the original acquisition, lease or hire purchase and the exchange gain or loss on the related foreign currency loans would be reflected in income.

Gains on sale and leaseback transactions

Under UK GAAP, gains arising on sale and leaseback transactions are recognised as part of income to the extent that the sale proceeds do not exceed the fair value of the assets concerned. Gains arising on the portion of the sale proceeds which exceed the fair value are deferred and amortised over the minimum lease term. Under US GAAP, the total gains, including any realised revaluation gains, would be deferred in full and amortised over the minimum lease term.

Pension costs

Under US GAAP, the cost of providing pensions is attributed to periods of service in accordance with the benefit formulae underlying the pension plans. The resultant projected benefit obligation is matched against the current value of the underlying plan assets and unrecognised actuarial gains and losses in determining the pension cost or credit for the year. The net periodic pension costs for these plans for the year ended March 31, 2001 amounted to £111 million (2000: £107 million) under UK GAAP compared with an estimated credit of £15 million (2000: charge of £189 million) under FAS 87 'Employers' Accounting for Pensions'. The resultant decrease in operating costs of £126 million (2000: increase of £82 million), net of related deferred tax charge of £38 million (2000: credit £25 million), would increase net income under US GAAP by £88 million (2000: decrease of £57 million), and would be reflected in the consolidated balance sheet as an increase in accrued pension costs.

Capitalised operating leases

Under UK GAAP, certain aircraft operating leases have been capitalised and the related liabilities included in finance lease obligations and the resulting assets are being depreciated over the remaining term of the lease. Under US GAAP, such leases would be classified as operating leases and neither the capital element nor the associated liability would be brought onto the balance sheet.

Quasi-subsidiary

Under UK GAAP, where an entity, though not fulfilling the legal definition of a subsidiary, gives rise to benefits for the group that are, in substance, no different than those that would arise were that entity to be a subsidiary, that entity is classified as a quasi-subsidiary. Under US GAAP, this entity would be treated as an associated undertaking and, accordingly, the results of British Airways' quasi-subsidiary would be accounted for as an associated undertaking.

Associated undertakings

Adjustments made in respect of associated undertakings accounted for under UK GAAP to bring then into line with the US GAAP accounting principles are as set out above.

Trade investments

Under UK GAAP, trade investments are stated at cost less provision for permanent diminution in value. Under US GAAP, trade investments classified as available for sale are stated at market value and the unrealised gains/losses are accounted for as other comprehensive income in shareholders' equity.

Investment in own shares

Under UK GAAP, company shares held for the purposes of employee share ownership plans (ESOP) to meet future requirements of employee share schemes including the Long Term Incentive Plan are recorded in the balance sheet as fixed asset investments. Under US GAAP such shares are recorded in the balance sheet as a reduction of shareholders' equity.

Stock – based compensation

FAS 123 'Accounting for Stock-Based Compensation' encourages a fair value based method of accounting for employee stock options or similar equity instruments, but allows continued use of the intrinsic value based method of accounting as prescribed by Accounting Principles Board Opinion 25 ('APB 25') 'Accounting for Stock Issued to Employees'. British Airways has elected to continue under APB 25 and consequently no compensation cost has been required to be accounted for.

Frequent Flyer revenue

Under US GAAP, following the implementation of SAB 101 'Revenue Recognition in Financial Statements', a proportion of frequent flyer revenue is deferred until the frequent flyer airmiles are redeemed. The cumulative effect of this adjustment for the periods prior to April 1, 1999 was dealt with in the determination of net income for the year ended March 31, 2000.

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 UK GAAP are summarised on pages 55 to 57.

Net income/(loss) under US GAAP

For the year ended March 31, 2001

	Group			
	2001 £ million	*2000 £ million*	2001 $ million*	*2000 $ million**
Income/(loss) for the year as reported in the group profit and loss account	114	*(21)*	163	*(34)*
Adjustments:				
Other revenue				
Deferred frequent flyer revenue	(15)	*(136)*	(21)	*(217)*
Depreciation and amortisation				
Goodwill set off in respect of subsidiary undertakings	(11)	*(15)*	(16)	*(24)*
Goodwill set off in respect of associated undertakings	(1)	*(2)*	(1)	*(3)*
Write back of goodwill amortised and impaired in prior years on Air Liberté	56	*(39)*	80	*(62)*
Fleet	10		14	
Finance leased aircraft	37	*55*	53	*88*
Property	4	*2*	6	*3*
	95	*1*	136	*2*
Aircraft operating lease costs	(87)	*(96)*	(124)	*(153)*
Equity accounting of associated undertakings				
Share of results of associated undertakings	1	*14*	1	*22*
Share of taxation of associated undertakings	(1)	*(5)*	(1)	*(8)*
		9		*14*
Interest payable	40	*41*	57	*65*
Pension costs	126	*(82)*	180	*(131)*
Exchange (losses)/gains				
Arising on translation of aircraft related loans	(152)	*(44)*	(217)	*(70)*
Relating to revaluation of forward exchange contracts	(4)	*4*	(6)	*6*
	(156)	*(40)*	(223)	*(64)*
(Loss)/income on disposal of tangible fixed assets				
Arising on disposal of revalued aircraft		*2*		*3*
Arising on disposal of revalued property	(7)	*1*	(10)	*2*
Arising on sale and leaseback transactions	7	*(2)*	10	*(3)*
Loss on disposal of FRS5 aircraft	(12)		(17)	
	(12)	*1*	(17)	*2*
Deferred tax				
Effect of the above adjustments	(25)	*64*	(36)	*102*
Effect of differences in methodology	146	*(192)*	208	*(306)*
	121	*(128)*	172	*(204)*
	112	*(430)*	160	*(686)*
Net income/(loss) as adjusted to accord with US GAAP	226	*(451)*	323	*(720)*
Net income/(loss) before cumulative effect of change in accounting principle as adjusted to accord with US GAAP	226	*(371)*	321	*(592)*
Cumulative effect on prior years of adopting SAB 101		*(80)*		*(128)*
Net income/(loss) as adjusted to accord with US GAAP	226	*(451)*	321	*(720)*
Number of shares	'000	*'000*	'000	*'000*
Basic weighted average number of shares	1,075,496	*1,074,822*	1,075,496	*1,074,822*
Diluted weighted average number of shares	1,084,761	*1,074,822*	1,084,761	*1,074,822*

* US$ amounts are included for information only. Translation rate £1=$1.43 *£1=$1.60*

Net income/(loss) under US GAAP continued

For the year ended March 31, 2001

				Group
	2001 pence	2000 pence	2001 cents	2000 cents
Net income/(loss) per ordinary share as so adjusted basic				
Income/(loss) before cumulative effect of change in accounting principle as adjusted to accord with US GAAP	21.0	*(34.5)*	29.9	*(54.9)*
Cumulative effect on prior years of adopting SAB 101		*(7.4)*		*(11.8)*
	21.0	*(41.9)*	29.9	*(66.7)*
Net income per ordinary share as so adjusted diluted				
Income before cumulative effect of change in accounting principle as adjusted to accord with US GAAP	20.8	*n/a*	29.7	*n/a*
Net income/(loss) per American depositary share as so adjusted basic				
Income/(loss) before cumulative effect of change in accounting principle as adjusted to accord with US GAAP	£2.10	*£(3.45)*	$2.99	*$(5.49)*
Cumulative effect on prior years of adopting SAB 101		*£(0.74)*		*$(1.18)*
	£2.10	*£(4.19)*	$2.99	*$(6.67)*
Net income per American depositary share as so adjusted diluted				
Income before cumulative effect of change in accounting principle as adjusted to accord with US GAAP	£2.08	*n/a*	$2.97	*n/a*
* US$ amounts are included for information only.	Translation rate		£1=$1.43	*£1=$1.60*

n/a = not applicable

Shareholders' equity under US GAAP

At March 31, 2001

	Group			
	2001 £ million	2000 £ million	2001 $ million*	2000 $ million*
Shareholders' equity as reported in the group balance sheet	**3,215**	*3,147*	**4,584**	*5,020*
Adjustments:				
Intangible assets				
Goodwill set off in respect of subsidiary undertakings				
Cost	448	*621*	639	*991*
Amortisation	(137)	*(143)*	(195)	*(228)*
Impairment		*(39)*		*(62)*
	311	*439*	444	*701*
Tangible assets				
Cost				
Fleet	(1,215)	*(1,089)*	(1,732)	*(1,737)*
Property and equipment	(398)	*(372)*	(568)	*(594)*
	(1,613)	*(1,461)*	(2,300)	*(2,331)*
Amortisation				
Fleet, property and equipment	613	*516*	874	*823*
Associated undertakings				
Quasi-subsidiary	52	*42*	74	*67*
Net equity	(16)	*(17)*	(23)	*(27)*
Goodwill set off in respect of associated undertakings				
Cost	80	*80*	114	*128*
Amortisation	(16)	*(14)*	(23)	*(22)*
	64	*66*	91	*106*
Trade investments				
Uplift to market value	39	*115*	56	*183*
Investment in own shares	(25)	*(25)*	(36)	*(40)*
Current assets				
Debtors		*3*		*5*
Cash, short-term loans and deposits	(8)	*(3)*	(11)	*(5)*
Current liabilities				
Loans, finance leases and hire purchase arrangements	58	*80*	83	*128*
Unredeemed frequent flyer liabilities	(151)	*(136)*	(215)	*(217)*
Other creditors	5	*13*	7	*21*
Proposed dividends	138	*138*	197	*220*
Pension cost accruals	136	*10*	194	*16*
Accruals and deferred income	7	*6*	10	*9*
Long-term liabilities				
Loans, finance leases and hire purchase arrangements	474	*570*	676	*909*
Accruals and deferred income	(10)	*(15)*	(14)	*(24)*
Provisions for liabilities and charges				
Deferred tax				
Effect of the above adjustments	(5)	*(3)*	(7)	*(5)*
Effect of differences in methodology	(950)	*(1,096)*	(1,355)	*(1,748)*
	(955)	*(1,099)*	(1,362)	*(1,753)*
	(881)	*(758)*	(1,255)	*(1,208)*
Shareholders' equity as adjusted to accord with US GAAP	2,334	*2,389*	3,329	*3,811*

* US$ amounts are included for information only.

Translation rate: 2001 £1=$1.43; 2000 *£1=$1.60*

Five year summaries

For the five years ended March 31, 2001

Group profit and loss account

£ million	2001	2000	1999	1998	1997
Turnover	9,278	8,940	8,892	8,642	8,359
Operating expenditure	(8,898)	(8,856)	(8,450)	(8,138)	(7,813)
Operating profit	380	84	442	504	546
Share of operating profit in associates	64	75	62	69	87
Other income and charges	1	5	27	19	52
Writeback of provision against investment in US Airways Group, Inc.					125
(Loss)/profit on sale of fixed assets and investments	(69)	249	51	169	17
Net interest payable	(226)	(408)	(357)	(181)	(187)
Profit before tax	150	5	225	580	640
Tax	(22)	(15)	(19)	(133)	(90)
Profit/(loss) after tax	128	(10)	206	447	550
Minority interests	(2)			13	3
Non equity minority interests	(12)	(11)			
Profit/(loss) for the year	114	(21)	206	460	553
Dividends	(193)	(195)	(191)	(176)	(154)
Retained (loss)/profit for the year	(79)	(216)	15	284	399
Earnings per share					
Basic earnings per share	10.6p	(2.0)p	19.5p	44.7p	55.7p
Diluted earnings per share	10.5p	n/a	19.2p	42.2p	51.1p
Dividends per share	17.90p	17.90p	17.90p	16.60p	15.05p

Geographical analysis of group turnover and operating profit

By area of destination

£ million	2001	2000	1999	1998	1997
Turnover					
Europe	3,388	3,400	3,409	3,214	3,168
The Americas	3,450	3,253	3,272	3,073	2,861
Africa, Middle East and Indian sub-continent	1,304	1,220	1,133	1,118	1,134
Far East and Australasia	1,136	1,067	1,078	1,237	1,196
	9,278	8,940	8,892	8,642	8,359
Operating profit					
Europe	(172)	(310)	(166)	(127)	6
The Americas	470	308	451	395	364
Africa, Middle East and Indian sub-continent	92	62	124	125	157
Far East and Australasia	(10)	24	33	111	146
	380	84	442	504	673
Exceptional operating charge for restructuring costs					(127)
	380	84	442	504	546

Group balance sheet

£ million	2001	2000	1999	1998	1997
Fixed assets					
Intangible assets	60	62			
Tangible assets	10,766	10,294	9,839	8,667	7,588
Investments	426	567	402	388	684
	11,252	10,923	10,241	9,055	8,272
Current assets	2,446	2,592	2,583	2,245	2,164
Creditors: amounts falling due within one year	(3,308)	(3,366)	(3,048)	(2,821)	(3,160)
Net current liabilities	(862)	(774)	(465)	(576)	(996)
Total assets less current liabilities	10,390	10,149	9,776	8,479	7,276
Creditors: amounts falling due after more than one year	(6,901)	(6,728)	(6,356)	(5,128)	(4,260)
Provisions for liabilities and charges	(70)	(81)	(65)	(30)	(58)
	3,419	3,340	3,355	3,321	2,958
Capital and reserves					
Called up share capital	271	270	268	260	251
Reserves	2,944	2,877	3,087	3,061	2,733
Minority interest	18	16			(26)
Non equity minority interest	186	177			
	3,419	3,340	3,355	3,321	2,958

Group cash flow statement

£ million	2001	2000	1999	1998	1997
Cash inflow from operating activities	1,251	1,186	1,241	736	1,212
Dividends received from associates	33	44	11	12	44
Returns on investments and servicing of finance	(342)	(315)	(309)	(269)	(221)
Tax	15	(2)	(40)	(134)	(83)
Capital expenditure and financial investment	(457)	(146)	(118)	161	(944)
Acquisitions and disposals	26	(218)	(6)	75	(16)
Equity dividends paid	(194)	(242)	(113)	(148)	(131)
Cash inflow/(outflow) before management of liquid resources and financing	332	307	666	433	(139)
Management of liquid resources	159	9	(363)	(90)	560
Financing	(521)	(319)	(235)	(372)	(392)
(Decrease)/increase in cash	(30)	(3)	68	(29)	29

Group financing requirement and tangible fixed asset expenditure

£ million	2001	2000	1999	1998	1997
Total financing requirement for the year	(331)	(352)	(804)	(869)	(572)
Total tangible fixed asset expenditure, net of progress payment refunds	1,405	1,291	1,807	1,638	1,485

Operating and financial statistics

For the five years ended March 31, 2001

Mainline scheduled services (Note 1 and 2)		2001	2000	1999	1998	1997
Traffic and capacity						
Revenue passenger km (RPK)	m	116,674	117,463	118,310	106,739	102,304
Available seat km (ASK)	m	162,824	168,361	167,265	149,659	139,789
Passenger load factor	%	71.7	69.8	70.7	71.3	73.2
Cargo tonne km (CTK)	m	4,731	4,536	4,277	4,181	3,790
Total revenue tonne km (RTK)	m	16,409	16,256	16,075	14,818	14,004
Total available tonne km (ATK)	m	24,228	24,400	23,982	21,410	19,907
Overall load factor	%	67.7	66.6	67.0	69.2	70.3
Passengers carried	'000	36,221	36,346	37,090	34,377	33,440
Tonnes of cargo carried	'000	907	897	855	816	721
Frequent flyer RPKs as a percentage of total RPKs (Note 3)	%	2.1	2.2	2.3	2.2	2.0
Financial						
Passenger revenue per RPK	p	6.29	5.84	5.91	6.38	6.47
Passenger revenue per ASK	p	4.51	4.07	4.18	4.55	4.73
Cargo revenue per CTK	p	12.13	11.99	12.32	14.02	14.78
Average fuel price (US cents/US gallon)		103.94	71.46	48.66	64.70	75.90
Operations						
Unduplicated route km	'000	739	678	686	769	759
Punctuality - within 15 minutes	%	80	81	79	80	82
Regularity	%	98.5	99.0	99.2	98.0	99.2

Notes:

1 Operating statistics do not include those of associated undertakings (Qantas Airways, Comair and Iberia) and franchisees (BASE Limited, British Mediterranean Airways, British Regional Airlines, GB Airways, Loganair, Maersk Air UK, National Jet Italia, Sun Air (Scandinavia) and Zambian Air Services).

2 Mainline scheduled services include those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.

3 The carriage of passengers on Frequent Flyer Programme is evaluated on a ticket by ticket basis.

Operating and financial statistics

For the five years ended March 31, 2001

Total group operations (Notes 1 and 2)

(including Deutsche BA, Air Liberté, CityFlyer Express and go		2001	*2000*	*1999*	*1998*	*1997*
Traffic and capacity						
Revenue passenger km (RPK)	m	**123,197**	*127,425*	*125,951*	*113,045*	*106,059*
Available seat km (ASK)	m	**172,524**	*183,158*	*178,820*	*159,921*	*146,182*
Total revenue tonne km (RTK)	m	**16,987**	*17,215*	*16,831*	*15,406*	*14,336*
Total available tonne km (ATK)	m	**25,196**	*25,840*	*25,114*	*22,403*	*20,542*
Passengers carried	'000	**44,462**	*46,578*	*45,049*	*40,955*	*38,180*
Revenue aircraft km	m	**737**	*742*	*669*	*640*	*579*
Revenue flights	'000	**499**	*538*	*439*	*420*	*399*
Break-even overall load factor	%	**64.4**	*65.9*	*63.4*	*64.4*	*63.6*
Financial						
Interest cover	times	**1.7**	*1.0*	*1.7*	*4.5*	*4.5*
Dividend cover	times	**0.6**	*(0.1)*	*1.1*	*2.6*	*3.6*
Operating margin	%	**4.1**	*0.9*	*5.0*	*5.8*	*8.1*
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	**1,509**	*1,130*	*1,427*	*1,385*	*1,541*
Net debt/total capital ratio	%	**64.5**	*63.9*	*62.2*	*58.1*	*57.0*
Total traffic revenue per RTK	p	**49.64**	*47.01*	*48.04*	*51.16*	*53.07*
Total traffic revenue per ATK	p	**33.47**	*31.32*	*32.20*	*35.18*	*37.04*
Net operating expenditure per RTK	p	**47.40**	*46.52*	*45.42*	*47.88*	*48.37*
Net operating expenditure per ATK	p	**31.96**	*30.99*	*30.44*	*32.93*	*33.76*
Operations						
Average manpower equivalent (MPE)		**62,844**	*65,640*	*64,051*	*60,770*	*59,218*
RTKs per MPE	'000	**270.3**	*262.3*	*262.8*	*253.5*	*242.1*
ATKs per MPE	'000	**400.9**	*393.7*	*392.1*	*368.7*	*346.9*
Aircraft in service at year end		**338**	*366*	*335*	*330*	*308*
Aircraft utilisation (average hours per aircraft per day)		**9.75**	*9.79*	*8.71*	*8.48*	*8.46*

Notes:

1 Operating statistics do not include those of associated undertakings (Qantas Airways, Comair and Iberia) and franchisees (BASE Limited, British Mediterranean Airways, British Regional Airlines, GB Airways, Loganair, Maersk Air UK, National Jet Italia, Sun Air (Scandinavia) and Zambian Air Services).

2 Group operating and financial statistics for the year ended March 31, 1997 included Air Liberté since its acquisition by the group in January 1997 and excluded the exceptional operating charge of £127 million. No results for Air Liberté are included for the year ended March 31, 2001.

Aircraft fleet

	Number in service with group companies at March 31, 2001								
	On balance sheet aircraft	Operating leases off balance sheet: Extendible	Operating leases off balance sheet: Other	Total	Future deliveries	Options	2000-01 revenue hours flown	Average hours per aircraft/day	Average age (years)
Mainline (Note 1 and 2)									
Concorde (Note 3)	7			7			2,105	2.21	24.3
Boeing 747-200	12	1		13			61,087	11.39	20.4
Boeing 747-400	56			56			252,399	12.24	6.8
Boeing 777	40			40	5	16	161,932	12.24	2.8
Boeing 767-300	21			21			78,870	9.39	8.2
Boeing 757-200	42	2	1	45			126,000	6.98	12.1
Airbus A318					12	12			
Airbus A319 (Note 4)	11	10		21	18	120	36,401	6.81	0.9
Airbus A320	10			10	20		23,274	6.38	12.2
Boeing 737-200							15,761	6.40	
Boeing 737-300			8	8			19,595	7.67	5.3
Boeing 737-400	22	5	7	34			100,710	8.12	9.0
Boeing 737-500			10	10			12,558	5.85	8.7
Turbo Props (Note 5)			15	15			38,098	6.87	7.0
Embraer RJ145			7	7		14	10,717	6.46	1.0
Hired aircraft							114,872		
Sub total	221	18	48	287	55	162	1,054,379	9.18	8.1
Deutsche BA, CityFlyer Express and go (Note 6)									
Boeing 737-300			30	30			86,983	7.75	4.7
Avro RJ100 (Note 7)	5	10		15	1	6	22,322	5.56	2.0
Turbo Props (Note 8)		6		6			17,182	4.71	5.0
Sub total	5	16	30	51	1	6	126,487	6.70	3.8
Group total	**226**	**34**	**78**	**338**	**56**	**168**	**1,180,866**	**8.79**	**7.5**

Notes:

1 Includes those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.

2 Excludes 1 McDonnell Douglas DC10-30, 3 Boeing 737-200s and 2 Boeing 757-200s stood down pending disposal or return to lessor, 1 Boeing 747-400 sub-leased to Qantas and 2 Boeing 737-300 delivered but not yet in service.

3 7 Concordes are currently stood down as a result of the investigation into the Air France accident of July 25. Modification work has commenced and we are confident that Concorde will resume services in the not too distant future, pending the reissuing of a certificate of airworthiness by the Civil Aviation Authority.

4 Options include reserved delivery positions and, if taken, may be A319, A320 or A321.

5 De Havilland Canada DHC-8s.

6 Net reductions since March 31, 2000 include 14 McDonnell Douglas aircraft, 15 Fokker aircraft and 3 ATR aircraft, totalling 32 aircraft disposed of with Air Liberté.

7 Includes 4 owned by British Airways Plc and 1 owned by British Airways Leasing Limited which are operated by CityFlyer Express.

8 6 ATR 72 for CityFlyer Express.

Shareholders

As at May 15, 2001 there were 265,107 shareholders (May 17, 2000: 264,191). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	85.66	6.46
1,001 – 5,000	12.87	5.87
5,001 – 10,000	0.84	1.40
10,001 – 50,000	0.36	1.81
50,001 – 100,000	0.07	1.19
100,001 – 250,000	0.07	2.77
250,001 – 500,000	0.05	4.06
500,001 –750,000	0.02	2.88
750,001 – 1,000,000	0.01	2.72
Over 1,000,000	0.05	70.84
	100.00	100.00

Classification of shareholding	Percentage of shareholders	Percentage of shares
Individuals	96.74	14.12
Bank or Nominee	2.24	80.30
Insurance companies	0.05	1.16
Pension trusts	0.01	0.84
Investment trusts	0.05	0.06
Other corporate bodies	0.91	3.52
	100.00	100.00

Franklin Resources Inc., The Capital Group Companies Inc. and Wellington Management Company have non-beneficial interests in 5.85 per cent, 4.95 per cent and 4.15 per cent of the shares of the company respectively.

General Information

Financial Calendar

Financial year end	March 31, 2001
Annual General Meeting	July 17, 2001

Announcement of 2001-2002 results and dividends

First quarter results to June 30, 2001	August 2001
Second quarter results to September 30, 2001	November 2001
Interim dividend	November 2001 (payable January 2002)
Third quarter results to December 31, 2001	February 2002
Preliminary announcement	mid May 2002
Report and Accounts	June 2002
Final dividend	May 2002 (payable July 2002)

Registered Office

Waterside, PO Box 365, Harmondsworth, UB7 OGB

Registered number – 1777777

Outside advisers

Company Registrars: Computershare Services Plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH

ADR Depositary: Morgan Guaranty Trust Company of New York, 60 Wall Street, New York, NY 10260

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.

Sharegift

Shareholders with small numbers of shares may like to consider donating their shares to charity under ShareGift, administered by The Orr Mackintosh Foundation. Details are available from the Company Registrars.

Glossary

Mainline	This includes British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown.
Available tonne kilometres (ATK)	The number of tonnes (2,240 lb) of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown.
Revenue passenger kilometres (RPK)	The number of revenue passengers carried multiplied by the distance flown.
Cargo tonne kilometres (CTK)	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown.
Load factor	The percentage relationship of revenue load carried to capacity available.
Passenger load factor	RPK expressed as a percentage of ASK.
Overall load factor	RTK expressed as a percentage of ATK.
Break-even load factor	The load factor required to equate total traffic revenue with operating costs.
Frequent flyer RPKs as a percentage of total RPKs	The amount of frequent flyer RPKs expressed as a percentage of total RPKs is indicative of the proportion of total passenger traffic that is represented by redemption of frequent flyer points in the year.
Revenue per RPK	Passenger revenue from mainline scheduled operations divided by mainline scheduled RPK.
Total traffic revenue per RTK	Revenue from total traffic (scheduled and non-scheduled) divided by RTK.
Total traffic revenue per ATK	Revenue from total traffic (scheduled and non-scheduled) divided by ATK.
Punctuality	The industry's standard, measured as 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.
Unduplicated route kilometres	All scheduled flight stages counted once, regardless of frequency or direction.
Operating cash flow/market value of assets	Group operating profit plus depreciation, less rentals for aircraft and property, divided by market value of assets.
Interest cover	The number of times profit before taxation and net interest payable covers the net interest payable.
Dividend cover	The number of times profit for the year covers the dividends paid and proposed.
Operating margin	Operating profit as a percentage of turnover.
Net debt	Loans, finance leases and hire purchase arrangements, plus Convertible Capital Bonds, net of short-term loans and deposits and cash less overdrafts.
Total capital	Capital and reserves plus net debt.
Net debt/total capital ratio	Net debt as a ratio of total capital.
Manpower equivalent	Number of employees adjusted for part-time workers and overtime.
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rentals.
n/a	Not applicable.

Published by Black Sun plc. Photography by John Wildgoose.

www.britishairways.com

Our investor relations website is

www.bashares.com

Our website for individual shareholders is

www.bashareholders.com