

BRITISH AIRWAYS



1999/2000 Annual Report & Accounts



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Aer Lingus 

American Airlines

BRITISH AIRWAYS 

 CATHAY PACIFIC

 FINNAIR

IBERIA 

LANCHILE 

 QANTAS

oneworld™ – the alliance of British Airways, American Airlines,
Cathay Pacific, Finnair, Iberia and Qantas will be further strengthened
in 2000 when it is joined by Aer Lingus and LanChile.
Our vision is to make global travel easier and more rewarding for you.

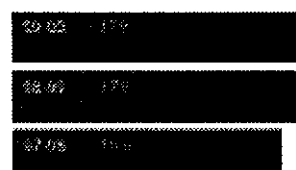
Year at a glance

- Worst result in eighteen years but dividend held.
- Delivery of the new strategy under way, with new aircraft, new products and training for a new service style.
- Significant investment announced in 21st Century Travel, with flat beds in Club World, a new World Traveller Plus cabin, upgrades to Club Europe, Concorde and First and ongoing implementation of the seat-back video and other improvements to World Traveller.
- The Business Efficiency Programme exceeds its £1 billion target.
- Nine major new initiatives to improve the profitability of the company launched.
- e-business strategy unveiled, including plans to increase on-line commercial activity, smarter ways to work and plans for several e-ventures to capitalise on the airline's assets.
- Further progress made with oneworld alliance partners, including combining sales functions in the Far East and schedule changes with Qantas, and investment in a 9% stake in Iberia.
- A Y2K bug-free entry into the new Millennium, with the British Airways London Eye adding to the celebrations.
- Bob Ayling resigned as Chief Executive in March 2000, after 15 years' service with the airline. Rod Eddington appointed Chief Executive, with effect from 1 May 2000.

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Key results

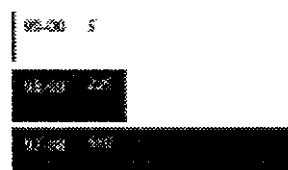
Dividends (pence)



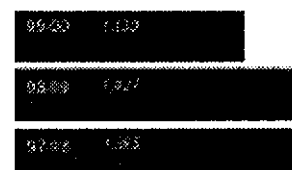
Share price highs and lows (pence per ordinary share)



Profit before taxation (£ million)



Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR) (£ million)



		1999-00	1998-99
Group results			
Turnover	up 0.5%	8,940	8,892
Operating profit	down 81.0%	84	442
Profit before taxation	down 97.8%	5	225
Attributable profit for the year	n/m	(21)	206
Equity shareholders' funds	down 6.2%	3,147	3,355
Basic earnings per share	n/m	(2.0)	19.5

		1999-00	1998-99
Key financial statistics			
Operating margin	down 4.1 points	0.9	5.0
Net debt/total capital ratio	up 1.7 points	63.9	62.2
Operating statistics			
Passengers carried group	up 3.4%	46,578	45,049
Revenue tonne kilometres group	up 2.3%	17,215	16,831
Available tonne kilometres group	up 2.9%	25,840	25,114
Passenger load factor mainline scheduled services	down 0.9 points	69.8	70.7

Statement from the Chairman



Lord Marshall, Chairman

Group profit before tax for the year was £5 million, £220 million below last year. After payment of tax, this results in a loss of £10 million, compared with a profit of £206 million in the previous year. The Board has recommended a final dividend of 12.8 pence. When added to the interim dividend, this will produce a total dividend of 17.9 pence, the same as last year.

Chairman's review

It is disappointing to report our worst result since 1982 – a situation in which your company barely breaks even at the pre-tax level and incurs an overall net loss. It has been a difficult and intensely competitive year, for shareholders and employees alike. The lingering effects of economic downturn in some major markets combined with excess industry capacity and continued, extensive price discounting, dealt a blow to performance, especially in the earlier part of the year. Other adverse factors included the substantially increased costs of fuel and the strength of sterling which not only affected inbound tourism to the UK and the British manufacturing and export sectors, but also reduced the repatriated value of overseas earnings. In short, costs increased while revenue stood still.

Group passenger carryings increased by 3.4 per cent to 46.5 million, while capacity rose by less than 3.0 per cent. On British Airways 'mainline' scheduled services, the number of passengers carried fell by 2.0 per cent to 36.3 million; and capacity held steady. Scheduled cargo revenue improved by 3.2 per cent, with volume rising by almost 5.0 per cent. Total revenue increased marginally to £8,940 million. The operating performance, in terms of revenue passenger kilometres, showed a slight improvement. Overall load factor decreased by 0.4 points. Seat factor showed a marginal reduction. The competitive and economic environments maintained a relentless pressure on yields, although there were encouraging signs in the latter part of the year that our strategies are attracting increased demand in the premium cabins. Mainline premium traffic grew in the last two quarters by 7.7 per cent and overall yield improved by 3.2 per cent.

"Cost reductions delivered by the three-year Business Efficiency Programme have passed the £1 billion target as a result of new profit improvement schemes during the financial year."

Cost reductions delivered by the three-year Business Efficiency Programme have passed the £1 billion target as a result of new profit improvement schemes during the financial year. While productivity continued to improve across the board, unit costs increased largely because of the inflationary pressure from a year-on-year fuel cost increase of 14 per cent, after the benefits of hedging.

Some £61 million was spent in preparing for the Millennium change. As anticipated, no major problems were experienced and I am grateful to all those involved in ensuring that our systems met the stringent Year 2000 compliance requirements.

Customer service standards fell below our norm, with a consequent impact on our reputation in the marketplace. This, together with the inevitable discomfort of ongoing structural change to control costs and improve efficiency, led to a fall in employee morale.

The year culminated in the Chief Executive, Robert Ayling, tendering his resignation to the Board in response to a recognition of the need for a fresh and different kind of leadership. I want to acknowledge the contribution made to British Airways by Bob Ayling during his 15 years of service. As Chief Executive since January 1996, he led your company through some difficult, if not turbulent, times. Achievements during his term of office include establishment of the oneworld alliance; creation of the latest range of product and service innovations; a successful focus on cost efficiencies; and implementation of the current business strategy. We are grateful to him for the continuing benefits we will obtain and wish him well in his future career.

In setting out to recruit a new Chief Executive, three key criteria were laid down by the Board. We needed a person highly skilled in people relations, who has successfully run a large organisation with millions of customers, and has had experience of working in different countries with different cultures. Fortunately, we quickly found Rod Eddington, then Executive Chairman of Ansett Holdings and former

Managing Director of Cathay Pacific Airways. His appointment was announced on April 25, 2000; and he took up his position with your company on May 1, 2000. Rod Eddington brings an established reputation as a robust, successful international business leader with a fine track record in inter-personal skills. He introduces himself to shareholders on page 6.

Strategy

The results reflect a period of significant transition which continues into the current year. Our revised business strategy has begun to be implemented. It is based on achieving better returns on aircraft and network assets, by avoiding wasteful production, on one hand; and creating superior value for all market segments, on the other. The new fleet development plan is firmly on schedule. Orders have been placed and we will be taking delivery of 100 more efficient new aircraft over the next three years.

During the year, the nine remaining Boeing 747-100 aircraft and eight Boeing 737-200 aircraft were retired. A further 32 older aircraft will be stood down in the financial year 2000/01.

British Airways Regional, operating from hubs at Birmingham, Glasgow and Manchester is undergoing its own programme of reform and improvement, under its new Chairman, Sir Alan Cockshaw.

go is performing to expectations and competing well in the low-fare, alternative air travel market.

Product and Service Improvements

Our competitive commitment to quality, value and innovation was demonstrated in a very significant way by the launch, in January, of the £600 million investment in a new generation of premium products and services. Presented under the banner 'Air Travel For The 21st Century', the catalogue of innovations will be rolled out progressively in the marketplace over the next two years. The Club World 'lounge in the sky' is now on sub sonic services linking Heathrow with JFK International Airport, New York, and is receiving

"The results reflect a period of significant transition which continues into the current year."

People are key to the success of the business

Well trained, highly motivated people are at the heart of a successful business and British Airways' commitment to people has been reinforced with significant investment

in training. More than 15,000 staff have now completed the *Putting People first again* programme. Underpinning the investment in new products, over 6,000 staff from both

the ground and cabin crews have already undergone training to enable them to learn about our new products and their role in delivering the new British Airways service style.

Statement from the Chairman continued

critical acclaim from customers. Very importantly, the overall investment has been made possible by cost savings achieved over the last three years. The new premium products come in the wake of the transformation now well over 60 per cent completed, in World Traveller, our intercontinental economy class.

Disposals and Investments

We made a number of disposals and investments. They included the sale of our remaining shareholding in Galileo International; and part of our holding in Equant. Since the year ended, the French subsidiary, Air Liberté, has been sold to the European investment company, Taitbout Antibes BV.

Strategic acquisitions included purchase of the entire shareholding of CityFlyer Express, based at Gatwick; an 18.3 per cent stake in Comair, our franchise partner in Southern Africa; and a 9 per cent holding in Iberia Lineas Aereas de Espana S A, prior to the airline's privatisation, expected to take place during the course of 2000.

Global Alliance

Announced in the autumn of 1998, the oneworld global alliance became a competitive reality in January 1999, with five founding carriers: American Airlines, British Airways, Canadian International, Cathay Pacific and Qantas. During the year, the consortium made good progress, in terms of network integration and global customer loyalty incentives. The original partners were joined by Iberia and Finnair in September 1999, and LanChile and Aer Lingus will join shortly. A Governing Board, comprising the Chief Executives of each airline was formed; and a Managing Partner appointed. As from June 1, 2000, Canadian International will relinquish oneworld membership, following its acquisition by Air Canada. oneworld is enabling British Airways to fulfil its objective of establishing itself at the heart of a global air transport system, based on commercial alliance with complementary airlines in the world's main markets.

E-Business

Your company has long seen the potential of electronic commerce for increasing dramatically the scope and efficiency of sales, distribution, marketing and procurement. We also recognise the way in which e-business can revolutionise the way we relate to our customers. A dedicated e-business unit has been formed to ensure that your company remains at the forefront of this new economy. Shortly after the year end, British Airways announced the formation of a new company to create and manage an internet aviation marketplace, in association with American Airlines, Air France, Continental Airlines, Delta Air Lines and United Airlines. The company will link the carriers with suppliers of airline-related goods and services. Substantial savings will be achieved and efficiencies generated in the procurement process for all of the airlines involved.

We have also confirmed our participation in the first European multi-airline leisure travel portal in conjunction with ten other airlines. Within British Airways the move to more efficient electronic transaction is progressing well.

Our People

No group of people will be more disappointed with the year's results than our employees. At every level, in every area of activity, they have invariably faced a difficult environment with professional resolve and fortitude. The process of business transition meant that a total of 1,549 employees left the company under the programme for

voluntary severance and early retirement. On behalf of the Board, I want to thank each of them for their past contribution to British Airways, and extend good wishes for the future.

Our employees are as keen as any stakeholder to see our company return to competitive success and consistent, acceptable profitability. This has been evident in the way they have understood the need for strategic and structural change to the business and they deserve our appreciation. We are fortunate in having some of the very best professionals in the entire air transport industry. More than 70 per cent of employees are also shareholders.

As always, I thank the executive management team for its efforts during the year. I also pay tribute to fellow Board members for their support and enduring commitment to the interests of shareholders.

Sir Michael Angus

After 12 years as a member of your Board, Sir Michael Angus will leave in July, having reached retirement age of 70. Sir Michael joined the Board in 1988, becoming Joint Deputy Chairman in 1989; and Deputy Chairman, in 1993. He also serves as Chairman of your company's Audit, Remuneration and Nominations committees. Sir Michael, former Chairman of Unilever and current Chairman of Whitbread, has brought a wealth of valuable business expertise and wise counsel to our company. I am immensely grateful to him for the outstanding role he has played.

New Directors

Your Board has been strengthened by the recruitment of three new directors. In addition to the formal appointment of Chief Executive, Rod Eddington, as an executive director, Martin Broughton, Chairman of British American Tobacco p.l.c. and Dr. Martin Read, Managing Director and Chief Executive of Logica plc, have joined as non-executive directors. They are respected business leaders who bring proven expertise and experience to your company. They will stand for election by shareholders at the forthcoming annual general meeting.

Community and environment

British Airways has continued its wide ranging community investment programme around the world, seeking to live up to the company's corporate value of being a "Good Neighbour".

The Change for Good programme (on board collection of currencies for UNICEF) continues to go from strength to strength thanks to the continuing generosity of our customers. During the year under review we raised £2.2 million (a record) and were awarded a kitemark by Business in the Community for excellence in cause related marketing. By mid summer 2000 the aggregate raised by Change for Good will reach £10 million since its inauguration in April 1994.

We take great pride in the charitable achievements of many British Airways people. Four current employees have received the MBE for their efforts in recent years – Pat Pearce (Cabin Service Director) co founded Dreamflight which has now taken over 2000 seriously ill children to Disneyworld; Dougie Wood (Engineering) founded British Airways Happy Child which takes disadvantaged children on trips within the UK that they could not otherwise enjoy; Dave Mustill (Customer Service Terminal 1, Heathrow) has built a school for more than 500 children in Ghana; and Stephanie Moore (Cabin Service Director) has now raised more than £1 million for cancer research in memory of her late husband, who captained the England World Cup winning football team in 1966.

British Airways encourages other employees in their community endeavours as well and much good work is done. Our Cheques for Charity scheme allowed 325 employees to take a share of a £100,000 fund made available to support their charitable projects. In addition 62 charities nominated by staff shared £22,000 in revenue generated from recycling of paper and other materials.

Our environmental outreach programmes continued to make a significant impact. More than 100 entries were received for the world-wide British Airways Tourism for Tomorrow Awards. The overall Global winner was Chumbe Island, off Zanzibar in Tanzania, selected by a panel of distinguished experts in tourism and conservation and chaired by Professor David Bellamy OBE. Through our British Airways Assisting Conservation programme more than £600,000 in value was given to conservation programmes. These included partnerships with leading organisations such as The Smithsonian Institution, The Royal Botanical Gardens at Kew, The Natural History Museum, The World Conservation Union and the Royal Geographical Society as well as many other groups and individuals. Through this programme a contribution has been made to the preservation of more than 100 threatened species.

Outlook

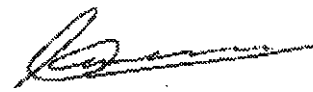
As the transition of British Airways continues, we are seeing signs of upturn, with demand increasing in the business travel, leisure travel and cargo markets. Our strategy to invest in widening the frontiers of real air transport innovation, in terms of product, service, distribution and customer relationships, should re-establish a marked competitive advantage. Careful control of capacity is seeing a favourable adjustment to load factors and yields. Special attention is focused on cost control to ensure we deliver our products and services as efficiently as possible.

The shape and structure of British Airways and the group of companies which surround the airline will continue to evolve.

Activities which fail to offer long-term contribution to profit will be curtailed, and new opportunities for growing and strengthening our business will be pursued.

The economies in our principal markets around the world appear largely favourable in the immediate future. The major question concerns the USA and how long its prevailing growth rate can be sustained.

The continuing journey back to acceptable levels of profitability will not be easy, but we have good momentum under a high calibre of leadership. I remain optimistic that progress will be made in the current year.



Lord Marshall, Chairman

"The continuing journey back to acceptable levels of profitability will not be easy, but we have good momentum under a high calibre of leadership."

21st Century travel in flying beds and a new cabin

After the announcement and ongoing implementation of our new World Traveller product last year, further improvements to products were announced. The new fully flat beds in Club World are already flying on the

London Heathrow-JFK route, and will be progressively rolled out across the network. A brand new cabin was launched. World Traveller Plus will be pitched between World Traveller and Club World and will be targeted at

cost conscious business travellers and discerning leisure passengers who want more space and privacy than in World Traveller.

Message from the Chief Executive



Rod Eddington, Chief Executive

It was a privilege and honour to be invited to lead one of the world's great airlines and I hope the speed with which I was recruited and appointed indicates how enthusiastic I was to take the job.

In my previous roles with Ansett Holdings and Cathay Pacific I viewed British Airways with great respect. In so many ways, your airline set the competitive pace and charted the course of contemporary air transport development. I can tell you from the outside that the first lesson for any airline aspiring to gain a 'world class' reputation was: match up to British Airways.

In these first few weeks as your Chief Executive, I have stuck to three priorities: learn, learn and learn. My time has been spent getting to grips with the airline – finding out what makes it tick and (frankly) what doesn't. I have consulted, both formally and informally, with our key stakeholders – customers, employees and shareholders. In many cases, of course, members of the former two categories also belong to the latter. Put at its simplest, my job is to keep each of them happy, all of the time.

I know full well that this has not been the case recently and the results presented in this Annual Report & Accounts spell that out in the very clearest of terms – hard cash.

It is neither my job, nor my inclination, to rake over the recent past. Suffice to say that adverse economic and competitive circumstances have taken their toll on customer, employee and shareholder satisfaction.

We have a robust strategic response already in place and this clearly needs to be strengthened and refined as the further transformation of British Airways continues.

Over the next few months I will be translating the learning of the present into our agenda for the future. I offer no magic wand, no easy fix.

This is an intensely competitive industry and it will get tougher as time goes on. But British Airways has deep, inherent strength and a proud pedigree. We must bring both of them into effective play, alongside the airline's proven appetite for innovation, to create a potent competitive formula.

We must build a team that puts the smiles back on the faces of our customers, our employees and our shareholders and that means adding value all round.

I look forward to serving you.

Rod Eddington, Chief Executive

Operating and financial review

SUMMARY

Group profits before tax for the year were £5 million; at an operating level profits were £84 million.

OPERATING REVIEW

Business performance

Operating results were adversely affected by excess industry capacity, particularly on the North Atlantic and from the growth of low-cost carriers in Europe. This led to high levels of price discounting in the industry. In line with our fleet and network strategy, we partly offset the impact of discounting by increasing our mix of premium passengers and improving the mix of fare types within cabins.

Cost efficiencies have continued despite higher spending on products, including the new "flying-bed" in Club World. The Business Efficiency Programme (BEP) delivered improvements worth £1.1 billion over the last 3 years – well over target thanks to additional profit improvement actions in the year just ended. Mainline capacity was only slightly up on a year ago, in line with current strategy.

Turnover

For the twelve month period, group turnover – at £8,940 million – was up 0.5 per cent on a flying programme 2.9 per cent larger in available tonne kilometres (ATKs).

Expenditure

For the twelve month period, unit costs (pence per ATK) were 1.8 per cent higher than a year ago, inflated by higher fuel prices, increased restructuring costs and product improvements. The overall increase occurred despite substantial improvements in cost efficiency.

The average number of employees in the group rose by 2.2 per cent to 65,157. In terms of average manpower equivalent (MPE), the increase was 2.5 per cent to 65,640. Productivity, as measured in terms of group ATKs per MPE, was up by 0.4 per cent. Employee costs increased by 5.3 per cent to £2,481 million, reflecting the increase in staff numbers,

the impact of pay settlements and restructuring costs, partially offset by further BEP efficiency actions.

Depreciation and amortisation costs increased by 4.7 per cent to £648 million reflecting the increase in fleet size, whilst aircraft operating lease costs increased 26.7 per cent to £190 million, principally as a result of the introduction of new Airbus A319s on operating leases together with a further 5 Boeing 737-300s at go. Fuel and oil costs increased by 14.0 per cent to £804 million, due to average fuel price increases of 46.9 per cent, offset to a large extent by hedging. Engineering and other aircraft costs increased by only 0.2 per cent to £661 million reflecting the benefit of the newer fleet.

Landing fees and en route charges fell by £54 million or 7.3 per cent to £682 million. This principally reflects benefits from the recovery of passenger service charges and exchange rates. Handling charges, catering and other operating costs increased by 3.9 per cent, as a result of additional costs on increased food quality, higher activity in the subsidiaries and inflation, which were partially offset by further cost efficiencies.

Selling and marketing costs decreased marginally by 0.6 per cent or £7 million, to £1,188 million. Investments in new products were more than offset by commission savings and cost efficiencies. Accommodation, ground equipment and currency differences rose by 16.4 per cent, to £874 million. This included costs associated with Year 2000, higher rent and rates and other inflationary impacts.

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 7.6 per cent to £1,220 million, driven by increases in capacity. In Europe, the strengthening of sterling against European currencies contributed to a £9 million fall in revenue. The Americas region revenue fell by 0.5 per cent against a back drop of heavy industry discounting as carriers switched capacity onto the North Atlantic routes.

"The focus on business efficiency improvements will continue over the next five years with the launch of our new strategic initiatives."

e-business offers a vast array of opportunities

Technology is revolutionising practically every aspect of the way we do business. It presents a huge range of opportunities to work more effectively and more efficiently.

There are many new opportunities to sell tickets on-line and to offer other services, such as e-ticketing and on-line real time information. But the e-business strategy extends further

than e-commerce, with plans to use technology in every area of our business, from procurement, to recruitment, to business planning and reporting, to name just a few.

Operating and financial review continued

The Far East and Australasia routes saw a revenue decline of 1 per cent reflecting the downturn in Far East economies.

At the operating profit level the Americas region was again the most profitable with an operating profit of £308 million, although down 32 per cent or £143 million. The Africa, Middle East and Indian sub-continent returned profits of £62 million and the Far East and Australasia £24 million. Within Europe, increased competition, particularly from low cost carriers, caused an operating loss of £310 million.

Business efficiency programme

The Business Efficiency Programme, announced three years ago with a target to deliver £1 billion of annual efficiency savings by March 2000, has been successfully completed. Annual efficiencies of £1.1 billion have been achieved in this year's results, £100 million ahead of original plans.

Actions taken since March 1997 include:

- Changes in working practices and pay restructuring leading to improved productivity in Heathrow and Gatwick operations, British Airways Regional and Engineering
- New cabin and flight crew agreements
- Outsourcing of a number of non-core activities including in-flight catering operations and ground vehicle management
- Reducing selling and distribution costs through restructuring of travel agents commission and incentive reward systems in major markets
- Negotiations with suppliers to reduce overflying charges and ground handling operations overseas as well as joint purchasing agreements with oneworld partners
- Focus on new income streams from increased third party and charter handling
- Business restructuring of fleet engineering operations
- Centralisation of accounting operations in the UK
- Repositioning of cargo operations including construction of the New World Cargo Centre

The focus on business efficiency improvements will continue over the next five years with the launch of our new strategic initiatives. These are:

- Improving the productivity of our people
- Cost of sales reduction
- Low value product spend reduction
- Optimise aircraft utilisation
- e-business exploitation
- Procurement efficiency
- Gatwick and Domestic profitability
- Improving the profitability of our subsidiaries

Year 2000

British Airways continued to operate successfully over the millennium period with no disruption to our operations or business due to the so-called "millennium bug". The total cost of achieving Year 2000 compliance was £61 million, a saving of £9 million from last year's estimate. This included the costs of the employee incentives, but excluded the revenue shortfall due to lower demand over the New Year holiday period.

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 are 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 is also offering customers in the Eurozone the choice of using either local currency or euro.

British Airways will continue to manage and co-ordinate euro activities across the group with particular focus leading up to the withdrawal of local currencies in 2002. In addition, conversion planning and preparations required should the UK decide to join the single currency are underway.

Alliance benefits

The world's largest 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 grouping in September 1999 and LanChile and Aer Lingus are to join as the eighth and ninth members in 2000. Co-operation across the alliance is underway in a number of areas that will benefit both customers and airline effectiveness. A substantial package of customer benefits has been introduced, including reciprocal reward and recognition programmes, common lounge access and global fares.

Although bilateral discussions with American Airlines regarding intended co-operation across the Atlantic continue, linked to UK/US "open skies" negotiations, the relationship has continued to develop with the introduction of oneworld and the filing for behind and beyond codeshare.

The alliance with Qantas enters its seventh year and continues to develop and drive significant value, with co-operation occurring across almost all functions. Flights operated under the Joint Services Agreement (JSA), which covers markets between Europe, SE Asia and Australia, will see considerable change over the course of the next 12 months with further network integration. It is envisaged that the nature of benefit sharing on joint services will be changed during 2000/01 to encourage and enable enhanced co-operation. The Australian Competition and Consumer Commission have re-approved the British Airways/Qantas JSA for a further three years, the term of the original approval for co-operation having ended in May 2000. A similar application has been made to the UK Office of Fair Trading.

The alliance with Cathay Pacific entered its first phase of bilateral co-operation during the latter part of 1999/00 and a review of opportunities to generate further value is underway.

In November 1999, Air Canada formally took control of Canadian International Airlines who will join STAR in the future. Code-share and revenue share agreements with Canadian terminated on March 25, 2000. Canadian will leave oneworld in June 2000.

Bilateral arrangements with LOT Polish Airlines and Finnair continue to operate.

British Airways has purchased a 9 per cent investment in Iberia, and substantial areas of opportunity for co-operation have been identified which will be implemented progressively in 2000.

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

Qantas

Commercial co-operation between British Airways and its Australian partner Qantas, in which it holds a 25 per cent stake, continue to

strengthen, providing travellers on the "kangaroo route" with an improved choice of flight times and routings.

From the end of March, changes phased in progressively across the two airlines' combined operations between Europe and Australia will offer more flights between the UK and the two prime Australian destinations of Sydney and Melbourne, and additional services to their joint Asian hubs, Singapore and Bangkok.

To support the new schedules, Qantas is in the process of leasing seven Boeing 767s from the fleet of British Airways, and will use some of these to operate higher frequencies between Singapore and Brisbane and Perth, in place of Boeing 747-400s previously flown by British Airways, providing higher frequencies and more suitable capacity.

In Hong Kong, the two airlines have merged their sales and administrative activities, following the successful joint offices introduced several years ago in Singapore, Thailand and Malaysia. The two organisations continue to co-ordinate sales and marketing activity elsewhere around the world, investing in joint travel shop and airport facilities, offering the best in customer service to all passengers.

Qantas' pre-tax profit for the six months ended December 31, 1999 (consolidated in the March 31, 2000 result) amounted to A\$473 million, an increase of 33 per cent on the corresponding period last year. Group profit after tax amounted to A\$338 million, up 52 per cent. The result included the benefit of A\$82 million comprising an after tax gain of A\$37 million from a further sale of part of the investment in the international data network company Equant NV and an abnormal tax credit of A\$45 million (due to changes in the rate of corporate tax). Revenue for the six months was A\$4.5 billion, up 4.9 per cent compared to last year. Including the favourable impact of exchange movements, the increase in total expenditure was restricted to 3.8 per cent due to costs associated with expanded capacity and higher depreciation costs flowing from the programme of investment in aircraft, terminals, products and services.

Net passenger revenue also increased by 7 per cent, reflecting both improved overall yield of 2.1 per cent (excluding the adverse impact of movements in foreign exchange rates) and passenger load of 2.9 percentage points. The revenue growth was a significant improvement given capacity growth over the corresponding period last year was only 2.3 per cent.

Franchising

As at March 31, 2000, 148 aircraft of 21 different types have been franchised into British Airways colours, of which 109 aircraft are additional to the British Airways group fleet. These operate to 120 different destinations worldwide, of which 68 are additional to the British Airways mainline network. During the year franchisees CityFlyer Express and Comair joined the group as a wholly owned subsidiary and an associate of the group, respectively. They continue their franchisee relationships.

FINANCIAL REVIEW

Earnings per share

Losses attributable to the shareholders of British Airways totalled £21 million, compared with profits of £206 million for the previous year, equivalent to a loss of 2.0 pence per share compared with earnings of 19.5 pence 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.

Share of operating profit in associates

British Airways' share of operating profits from associated undertakings increased by £13 million to £75 million during the year, principally due to higher profits from Qantas.

Profit on sale of fixed assets and investments

Net profit on disposal of fixed assets and investments amounted

"Co-operation across **oneworld** is underway in a number of areas that will benefit both customers and airline effectiveness."

Key trends beginning to improve

1999/00 has been a pivotal year. Actions to improve future profitability were put in place and the first signs of improvement in the business materialised. Premium traffic rose by 4 per cent over the

year, including growth every month since July 1999. This helped to drive the first improvements in quarterly yields for eight quarters, with a 3.2 per cent improvement in the third quarter and an 3.3 per cent

improvement in the fourth quarter. Capacity increased by just 0.6 per cent, with a planned capacity decrease for 2000/01 of around 2 per cent.

Operating and financial review continued

to £249 million, including £149 million from the disposal of the group's remaining investment in Galileo International Inc. and £70 million from the further partial disposal of our, and Qantas', shareholdings in Equant.

Net interest payable

Net interest expense, including related foreign exchange differences, was £408 million for the year. This was up £51 million on last year, principally as a result of an increase of £32 million in book charges relating to the revaluation of yen debt used to fund aircraft acquisitions. This charge does not represent cash lost to the business, but is required by standard accounting practice. The revaluation results from the strengthening of the yen by 15 per cent during the year.

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 in the US and in Australia. The UK tax charge arising on such profits has been offset by credits for taxes paid overseas 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 and previous years. The tax charge for the year arises from overseas mainly in respect of the group's interest in Qantas.

Share capital

On June 15, 1999, 5,732,382 ordinary shares were issued in exchange for 13,415,674 Convertible Capital Bonds on the basis of one ordinary share for every 2.34 Bonds held. During the year, more than one and a half million shares were issued on the exercise of options under Employee Share Option Schemes.

Net debt/total capital ratio

Borrowings, net of cash and short-term loans and deposits, amounted to £5,916 million at the year end, an increase of £390 million on last year. This is the result of new finance lease and hire purchase arrangements (£659 million), exchange effects (£206 million), and a small fall in cash, short-term loans and deposits (£17 million) offset by a reduction in borrowings (£492 million). Capital and reserves fell £15 million. The net debt/total capital ratio now stands at 63.9 per cent, a 1.7 point increase over last year mainly due to a reduction in reserves of £210 million partially offset by the issue of 300 million euro perpetual preferred securities.

Review of cash flow

Net cash inflow from operating activities totalled £1,186 million. During the year there was significant investment in fixed assets amounting to £1,291 million. The sale of the group's remaining investment in Galileo International Inc. and part of the group's holding in Equant generated proceeds of £250 million. Other miscellaneous disposals, mainly aircraft, contributed a further £253 million.

The net financing requirement for the year amounted to £352 million, a decrease of £452 million over last year. Overall, cash decreased by £3 million.

Working capital

At March 31, 2000, net current liabilities were £774 million, up £309 million on last year. This change reflects lower short-term loans and deposits and cash (£17 million), increased sales in advance of carriage as a result of higher forward bookings ahead of the later than usual Easter in April 2000 together with higher average yields (£115 million)

and an increase in trade creditors (£149 million), reflecting increased spend on new products and higher fuel prices.

Capital expenditure

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

Aircraft fleet changes

The group fleet increased by 31 to 366 aircraft at March 31, 2000.

New aircraft joining the mainline fleet included four Boeing 747-400s – three of which were delivered in the prior financial year and entered service this financial year, eleven Boeing 777s (including four of the new Rolls-Royce powered extended range variants), two Boeing 757s, six Airbus A319s and two Embraer RJ145s. Within the subsidiaries, the acquisition of CityFlyer Express brought eight Avro RJ100s, seven ATR 72s and five ATR 42s into the group. go's fleet increased by five Boeing 737-300s, Deutsche BA's fleet increased by the return of a wet leased Boeing 737-300 from the mainline operation and Air Liberté's fleet increased by one McDonnell Douglas MD82.

Leaving the mainline fleet were nine Boeing 747-100s, one Boeing 747-200, one Boeing 767-300, eight Boeing 737-200s and the Boeing 737-300 returned to Deutsche BA at the end of its wet lease. Within the subsidiaries only one ATR 42 has left the fleet.

During last year a new strategy was developed which allows capacity to be matched 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 announced during the year involved placing orders and options for 24 Airbus A318s and seeking short-term operating leases for a number of Boeing 737-500s.

Financing

Of the eleven newly delivered Boeing 777-200s, ten (including the first four deliveries of the extended range version) were funded by UK finance lease arrangements, and the first six deliveries of the new fleet of Airbus A319 aircraft were financed on sterling denominated extendible operating leases.

In May 1999 British Airways Finance (Jersey) L.P. raised euro 300 million by way of an issuing of 6.75 per cent perpetual preferred securities guaranteed by British Airways Plc. This issue is accounted for as a non-equity minority interest.

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. During July 1999, the Board 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 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 adverse 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; 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 30c.

At March 31, 2000 approximately one third of the group's borrowings (after swaps), net of cash, short term loans and deposits, were at fixed rates of interest, and two thirds 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 25. 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 30a.

Liquidity and investments

At March 31, 2000 the group had at its disposal short term loans and deposits and cash at bank and in hand amounting to £1,146 million (1999: £1,163 million). In addition, the group had undrawn committed financing facilities relating to its New World Cargo Centre amounting to £40 million, together with unused overdraft and revolving credit facilities of £40 million. It also had undrawn uncommitted money market lines of £175 million and euro 15 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 and Airbus A320 family aircraft, scheduled for delivery during the next five 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 unsecured borrowing facilities 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 60 per cent of group revenue and approximately 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 arising respectively from: capital expenditure and some leasing costs together with expenditure on fuel payable in US dollars; and the majority of staff costs, central overheads and leasing costs payable 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

"The implementation of the fleet and network strategy supported by the introduction of new products is expected to contribute to yield and margin improvements in 2000/01."

Ongoing implementation of the fleet strategy

Implementation of the fleet strategy is well under way. The last Boeing 747 arrived in April and was followed by 11 Boeing 777s, including the first four of the 777

Extended Range aircraft. For the shorthaul network, the first Airbus A319 aircraft arrived in September, to be operated out of Birmingham. An order for 12 108 seater Airbus

318s was placed, and agreement reached to dispose of 34 of the airline's 53 Boeing 757s.

Operating and financial review continued

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 41.

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, 2000 are summarised in Note 42.

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, 2000 are summarised in Note 41.

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 fuel, finance, treasury and strategy.

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.

Corporate targeting

In 1995 British Airways developed a long-term financial target, expressed as a ratio of operating cashflow to the market value of net assets. This financial target was 17.3%, +/- 2.5 points according to the position in the economic cycle.

In 1999 further work was undertaken to build on this target and British Airways developed a new measure, Cash Value Added (CVA). CVA is an economic profit measure and deducts a capital charge from post-tax profit. In summary, it is profit after deducting all costs from revenue, including funding costs. Under this measure value is only deemed to be created when returns exceed the cost of capital employed in the business. This includes both the cost of debt and the market's expected return on equity.

The CVA measure seeks to focus on funding costs, asset levels and operating profitability. CVA has been used to ensure that, in its Corporate Plan, British Airways targets the improvements necessary to generate strong profitability and to ensure that asset investment is aligned to profitable business segments.

Outlook

Economic conditions have improved generally and the outlook for summer trading is better than last year. Competition and the strength of sterling against the euro continue to exert pressure on yields.

The implementation of the fleet and network strategy supported by the introduction of new products is expected to contribute to yield and margin improvements in 2000/01. Low capacity growth will support seat factors.

We continue to focus on unit costs. Fuel remains above \$250 per tonne and despite successful hedging our fuel bill will be considerably higher next year. Future cost efficiencies will be delivered through e-commerce and e-procurement innovations, improved aircraft utilisation, reductions in selling and distribution costs and improved manpower productivity. These gains will partially offset the costs associated with new aircraft and new products.

Board members as at May 23, 2000**CHAIRMAN**

Lord Marshall of Knightsbridge (66)

Chief Executive and Board Member since 1983; Executive Chairman since 1993; non-executive Chairman since 1996. Member of the Nominations Committee.

Lord Marshall served as Chief Executive for 13 years, latterly as Deputy Chairman and Chief Executive. He became Chairman in 1993, serving in a non-executive capacity from 1996. In March, 2000, following the resignation of the then Chief Executive, Lord Marshall assumed additional responsibility as Acting Chief Executive, on a temporary basis, until Rod Eddington's arrival on May 1, 2000.

He is also Chairman of Invensys plc and Inchcape plc; Deputy Chairman of British Telecommunications plc; and a Board member of HSBC Holdings plc. Lord Marshall also carries out a range of public service duties. He is a Crossbench member of the House of Lords, allied to no political party.

DEPUTY CHAIRMAN (NON-EXECUTIVE)

Sir Michael Angus (70)

Non-executive director since 1988. Deputy Chairman since 1989. Chairman of Audit, Remuneration and Nominations Committees.

Sir Michael is the Board's senior non-executive director. He is Chairman of Whitbread PLC, Deputy Chairman of The Boots Company PLC and a director of Halcrow Group Limited. He also serves as Chairman of the Governors at Ashridge Management College. Sir Michael is retiring at the annual general meeting and will not be seeking re-election.

CHIEF EXECUTIVE

Roderick Eddington (50)

Executive Board member since May 2000. Rod Eddington joined the airline as Chief Executive in May 2000. Previously Managing Director of Cathay Pacific Airlines and Executive Chairman of Ansett Holdings, he is a non-executive director of News Corporation and John Swire & Son Pty Limited.

CHIEF FINANCIAL OFFICER

Derek Stevens (61)

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 director of CGU plc.

NON-EXECUTIVE DIRECTORS

Captain Colin Barnes (66)

Non-executive director since 1991. Chairman Safety Review Committee.

Colin Barnes retired from British Airways as Chief Pilot and Director of Flight Crew in 1991. He represents British Airways on the Flight Safety Foundation and is a Member of the Council and Policy Committee of the Air League.

Martin Broughton (53)

Non-executive director since May 2000. Audit, Remuneration and Nominations Committees.

Martin Broughton is Chairman of British American Tobacco p.l.c.

Michael Davies (65)

Non-executive director since 1983. Audit, Remuneration and Nominations Committees.

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

Dr Ashok Ganguly (64)

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.

Baroness O'Cathain (62)

Non-executive director since 1993. Audit, Remuneration, Nominations and Safety Review Committees.

Detta O'Cathain is also a director of Tesco Plc, Thistle Hotels PLC, BNP (UK) Holdings Ltd, South East Water plc, William Baird plc and Alders plc.

Dr Martin Read (50)

Non-executive director since May 2000. Remuneration Committee.

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

Lord Renwick of Clifton (62)

Non-executive director since 1996. Safety Review Committee.

A former career diplomat, Robin Renwick is Chairman of Fleming Martin and of Fluor Daniel Ltd and Deputy Chairman of Robert Fleming Holdings. He is also a director of Compagnie Financiere Richemont AG, Liberty International plc, Fluor Corporation, Harmony Gold, Billiton plc, Canal Plus and South African Breweries Plc.

The Hon Raymond Seitz (59)

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 director of The Chubb Corporation, Authorisator Inc., Marconi plc, Cable and Wireless plc, The Telegraph Group plc and Rio Tinto plc.

PRESIDENT EMERITUS

The Rt Hon The Lord King of Wartnaby (82)

Lord King was Chairman of British Airways for 12 years from 1981, and served as President from 1993 to 1997.

LEADERSHIP TEAM

Rod Eddington (50) Chief Executive

Colin Matthews (44) Director of Technical Operations

Roger Maynard (57) Director of Investments & Joint Ventures

Carl Michel (37) Commercial Director

David Spurlock (32) Director of Strategy

Derek Stevens (61) Chief Financial Officer

Mike Street (52) Director of Customer Service and Operations

Mervyn Walker (41) Director for People

Simon Walker (46) Director of Communications

Robert Webb QC (51) General Counsel

Directors' report

Directors' report

The directors present their Report and Accounts for the year ended March 31, 2000. The accounts are set out on pages 22 to 53.

Business review

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.

Profit for the year

Loss for the year attributable to members of British Airways Plc amounted to £21 million, against a profit of £206 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 February making a total of 17.9p per share, the same as last year. After providing £195 million for dividends, the retained loss for the year amounted to £216 million.

Directors

The names and details of the directors are set out on page 13.

During the year to March 31, 2000, the only change to the membership of the Board was the resignation of Robert Ayling on March 10, 2000. Rod Eddington who replaced him joined the Board formally on May 12, 2000. Martin Broughton and Martin Read also joined the Board on May 12, 2000.

Captain Colin Barnes and Baroness O'Cathain retire and seek re-election in accordance with the company's Articles of Association at the annual general meeting to be held on July 11, 2000. Neither of these directors has a service contract with the company. In accordance with Article 93, Rod Eddington, Martin Broughton and Martin Read are required to seek re-election. Biographical notes about the directors seeking re-election are set out on page 13 and in the explanatory notes of the notice of annual general meeting.

Sir Michael Angus is retiring and will not be seeking re-election.

Directors' membership of Board Committees appears on page 13. Details of the directors' remuneration and share interests are set out on pages 18 and 19.

Commitment to employees

The company is committed to recognising the contribution to its success of well motivated and dedicated employees and to involving them fully in the company's fortunes.

During the year 98/99 British Airways ran its largest Employee Opinion Survey yet with questionnaires sent to almost 60,000 employees world-wide. The highest ever response in a British Airways company-wide survey was received with just over 30,000 employees responding. The leadership team has committed to act upon the results.

The company ran a second survey during 1999/00 the results of which will be available in Summer 2000.

The company fully supports employee share ownership and would like to see the number of staff holding shares and their shareholding increased.

The company has two Savings Related Share Option plans in operation. The 1998 plan matures in May 2001 with participants having the opportunity to acquire shares at an option price of £4.18. In February 2000 the company launched a new plan, known as Sharesave 2000, to employees in the United Kingdom as well as 82 countries outside the UK. It enables employees to save up to £50 per month, with the option, after three years to buy shares at £2.38 per share. A similar plan operates in the US and France.

The Government in the United Kingdom have announced new all employee share plans. A resolution will be proposed at the annual general meeting to enable the company to take advantage of these plans.

"The company is committed to recognising the contribution to its success of well motivated and dedicated employees and to involving them fully in the company's fortunes."

Equal opportunity

British Airways' Equal Opportunity Policy and Code of Practice is underpinned by a Steering Group chaired by the Equal Opportunities Manager and comprising senior line managers who champion equal opportunity and diversity throughout the company. This ensures that the Policy is translated into actions and that those actions take account of local departmental circumstances.

The company continues to be actively involved in Opportunity Now and Race for Opportunity, national campaigns to help and encourage women and ethnic minorities respectively to succeed in areas of employment, community affairs and business activity. In addition, 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.

Community

British Airways charitable donations in the year under review were £807,000 (1999 £1.2 million). We link our donations to profit before tax and the year on year reduction is a reflection of the trading conditions faced.

The company's investment in the community is much greater when benefits in kind are included. Business in the Community have audited British Airways contributions at £6.4 million qualifying the airline for membership of The Per Cent Club.

The British Airways Community Learning Centre, located in the Waterside parkland, was opened in October 1999 by The Rt. Hon Estelle Morris, Minister for School Standards. Within the Centre we showcase how key skills such as Information Technology, Languages, Customer Service, Marketing and Branding are used within the airline. Neighbouring schools have already sent over 5,000 pupils to learn these practical skills which we intend will make them more employable. We also believe the Centre will support the competitiveness of the international service economy in West London. We have enjoyed support from the Hayes/West Drayton Partnership with The Centre.

The 240 acre Community Parkland we created at our Waterside offices, out of a former refuse tip, will be fully opened this summer. We have planted 60,000 new trees, cleaned out the 3 rivers running through it and have created 12 kilometres of pathways. Education rangers are giving lessons on environmental and conservation issues using the Parkland.

Over 1,000 employees took part in the Race for Life at Waterside in June 1999 raising £87,000 for the Imperial Cancer Research Fund.

British Airways continues to support HMG Specialist Schools initiative by sponsoring selected neighbouring schools for language and technology college status. This support is supplemented with The British Airways Languages flag award scheme and The Community Learning Centre.

Political donations

No political donations were made during the year (1999: nil).

Health and safety

The company is committed to safeguarding the health and safety of its employees, passengers, contractors and others affected by its activities. Implementation of health and safety policies and procedures is a key management objective and performance is monitored by the Board's Safety Review Committee.

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 a strong environmental policy and there is a small central group charged with implementing the policy through provision of support and advice as well as monitoring, measuring, and reporting on performance.

The 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 participated in the preparation of the report "Aviation and the Global Atmosphere" published in summer 1999 by the United Nations Intergovernmental Panel on Climate Change. The airline has responded to concern over climate change by adopting a 30 per cent target for improvement in fuel efficiency over 20 years and by contributing to the work of the International Civil Aviation Organisation and other groups on ways in which to manage emissions from aviation. A paper was prepared for the British Air Transport Association on the possibility of voluntary agreements on carbon dioxide emissions, which has been submitted to the UK Government.

Through the purchase of new aircraft, management of schedules and attention to operational procedures, the number of noise infringements at Heathrow and Gatwick has fallen over the last year by 60 per cent and 80 per cent, respectively.

The airline has received a number of awards for its environmental programmes from organisations including ACCA (the Association of Chartered Certified Accountants), for environmental reporting, the Royal Geographical Society, the Smithsonian Institution, and the Council on Economic Priorities. Since 1992, the airline has published an Annual Environmental Report. Copies of the 1999-2000 report and information on other programmes can be obtained from Environment Branch, British Airways Plc, Waterside (HBBG), PO Box 365 Harmondsworth, UB7 0GB, UK and are available on the internet at www.britishairways.com.

Year 2000 compliance

One of the year's major achievements was that British Airways continued to operate over the millennium period and there was no disruption to our operations or business due to the so-called computer 'millennium bug'. The comprehensive 'Readiness Programme' was successful and we played a leading role in ensuring that international aviation was ready.

Shareholders

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 newspaper 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, responded to in the Chairman's address at the annual general meeting and reported in the next edition of British Airways Investor.

Directors' report continued

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, 2000, 43 per cent of the ordinary shares of the company were held by non-UK nationals (1999: 36 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.

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 UK Listing Authority. The directors adopted the transitional arrangements for the implementation of the requirements of Internal Control Guidance for Directors on the Combined Code (otherwise known as the Turnbull Guidance) issued in September 1999 and have continued to review and report upon internal financial controls in accordance with the guidance for directors Internal Control and Financial Reporting issued in December 1994.

The company's existing internal control and risk management processes have been adapted to the extent necessary to ensure full compliance with the requirements of Internal Control Guidance for Directors on the Combined Code for the accounting period commencing on April 1, 2000.

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. The executive management of the company was led by Robert Ayling, the Chief Executive, until March 10, 2000. Although not an executive director, Lord Marshall was Acting Chief Executive until Rod Eddington's appointment on May 1, 2000. Prior to Mr Ayling's resignation, the Board had ten members: two of whom were executive directors and eight were non-executive directors. Of the eight non-executive directors, the Chairman and Captain Colin Barnes were formerly executives of the company. The other six 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. The non-executive Deputy Chairman Sir Michael Angus is the senior independent non-executive director on the Board. There are currently twelve directors, the Board having been further strengthened by the appointment in May 2000 of Martin Broughton and Dr Martin Read as non-executive directors.

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 below.

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 Deputy Chairman, Sir Michael Angus. As at May 23, 2000, in addition to Sir Michael its members are Mr Michael Davies, Dr Ashok Ganguly, Baroness O'Cathain and Mr Martin Broughton, 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 Year 2000 programme and the company's Code of Business Conduct.

The Safety Review Committee meets at least five times per year under the chairmanship of Captain Colin Barnes, a former Chief Pilot of the airline. Its members are Dr Ashok Ganguly, Baroness O'Cathain, Lord Renwick and The Hon. Raymond Seitz. 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 non-executive Deputy Chairman Sir Michael Angus and, as at May 23, 2000, its members are Lord Marshall, Mr Michael Davies, Baroness O'Cathain and Mr Martin Broughton. No member of the Committee participates in any discussion of his or her own performance.

Directors' remuneration

The Remuneration Committee of the Board meets at least once a year to determine the company's policy on executive directors' remuneration, to review that remuneration, to consider and decide grants under the company's long term incentive and share option plans and to advise on remuneration for senior executives below Board level.

The Committee is chaired by Sir Michael Angus, the non-executive Deputy Chairman and its other members, as at May 23, 2000, are Mr Michael Davies, Baroness O'Cathain, Mr Martin Broughton and Dr Martin Read who are also independent non-executive directors. No director is involved in deciding his own remuneration.

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 package consists of a basic salary, an annual bonus and 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, as well as the remuneration earned by leaders of other international airlines.

Annual bonus

Executive directors and senior executives participate in an annual bonus scheme which is designed to reward achievement of pre-tax profit targets agreed by the Remuneration Committee and linked to the budget approved by the Board. For executive directors, maximum bonus is capped at 50 per cent of salary payable only if an extremely stretching pre-tax profit target is achieved. Robert Ayling and Derek Stevens participated in this scheme, but no annual bonus was achieved in the year under review.

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.

Robert Ayling and Derek Stevens received conditional awards under the Plan during the year under review, details of which may be found on page 19.

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 one times 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. For the first operation of the Plan the condition required the Remuneration Committee to be satisfied that there had

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.

Robert Ayling and Derek Stevens received awards under the Plan during the year under review, details of which may be found on page 19.

Service contracts

Derek Stevens holds a two-year service contract with the company. This was market practice at the time of his appointment and no change is proposed. It is, in any event, less than two years to his normal retirement date. His service contract does not have provision for predetermined compensation on termination but full mitigation would be sought.

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. As from May 1, 2001, Rod Eddington's contract period reduces to one year.

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 Robert Ayling's and Derek Stevens' service contracts, pensionable remuneration included any annual bonus paid, as this was the prevailing practice for senior executives in the company when they joined. The Committee does not propose to change these arrangements for Derek Stevens since these are contractual rights. Annual bonuses will not be part of Rod Eddington's pensionable pay and further 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 are reviewed every three years. Neither the Chairman nor the non-executive directors participate in the long term incentive plan nor the British Airways Share Option Plan 1999. 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.

Details of the directors' remuneration for the year under review and their share interests as at March 31, 2000, may be found on pages 18 and 19.

Directors' remuneration and share interests

The remuneration of the executive directors was:

£'000	Robert Ayling		Derek Stevens	
	2000	1999	2000	1999
Basic salary	500	485	282	273
Taxable benefits	11	9	10	9
Compensation for loss of office*	1,980			
Total	2,491	494	292	282

Taxable benefits include a company car, fuel and private health insurance.

* This figure includes a special non-pensionable payment of remuneration, damages for breach of contract, and other benefits comprising health care and a car for a specified period in relation to the early termination of his employment on May 15, 2000.

Pensions

	Age as at March 31, 2000	Annual pension earned during 1999-00	Total deferred annual Pension	Transfer value or increase in accrued benefit
Robert Ayling	53	£19,414	£262,358* as at March 10, 2000	£278,100
Derek Stevens	61	£14,528	£217,949 as at March 31, 2000	£222,000

*Robert Ayling will receive an annual pension of £260,000 from May 16, 2000.

The fees paid to non-executive directors were:

£'000	2000	1999
Lord Marshall	250	250
Sir Michael Angus	75	73
Captain Colin Barnes	41	41
Michael Davies	28	25
Dr Ashok Ganguly	27	27
Baroness O'Cathain	33	31
Lord Renwick	26	26
The Hon Raymond Seitz	26	25

Lord Marshall's fee as non-executive Chairman was £250,000 per annum in addition to which he enjoyed taxable benefits of £965.

Sir Michael Angus' fee as non-executive Deputy Chairman was £70,000 per annum also reflecting his chairmanship of the Audit, Remuneration and Nominations Committees. 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 meeting separately attended. In addition, Captain Colin Barnes receives £15,000 per annum for his Chairmanship of the Safety Review Committee and taxable benefits of £14,160.

Directors' share interests at March 31, 2000

Number	British Airways Plc				British Airways Capital Limited	
	Ordinary shares subject to no restrictions		Ordinary shares subject to restrictions		Convertible Capital Bonds	
	March 31, 2000	April 1, 1999	March 31, 2000	April 1, 1999	March 31, 2000	April 1, 1999
Lord Marshall	69,225	67,030		1,451	11,304	11,304
Sir Michael Angus	5,393	5,212			1,333	1,333
Robert Ayling	42,422	40,971	1,173	2,624		
Derek Stevens	197,872	166,421	1,664	3,115	109	109
Captain Colin Barnes	21,368	21,368			644	644
Michael Davies	5,224	5,224			2,221	2,221
Dr Ashok Ganguly	104	100				
Baroness O'Cathain	6,000	6,000				
Lord Renwick	5,514	3,058				
The Hon Raymond Seitz	1,506	500				
	354,628	315,884	2,837	7,190	15,611	15,611

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.

There were no changes to the directors' interests shown above from April 1, 2000 to May 23, 2000.

Directors' share options at March 31, 2000

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	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, 1999 and March 31, 2000		190,279		
Robert Ayling*	June 9, 1993	102,389	293p	June 9, 1996
	July 1, 1994	16,129	372p	July 1, 1997
	Aug 11, 1994	81,145	419p	Aug 11, 1997
	June 30, 1995	14,814	405p	June 30, 1998
Balance at April 1, 1999		214,477		
	Aug 26, 1999	126,903	394p	Aug 26, 2002
Balance at March 31, 2000		341,380		
Derek Stevens	June 1, 1990	143,183	196p	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
Balance at April 1, 1999		216,155		
	Aug 26, 1999	71,573	394p	Aug 26, 2002
Balance at March 31, 2000		287,728		

*These options can be exercised until May 15, 2001.

Derek Stevens also holds 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 on May 1, 2001 and May 1, 2003 respectively. Robert Ayling holds 559 options at 418p under operation of the British Airways Savings Related Share Option Scheme 1996 which are exercisable until November 15, 2000.

Directors' conditional share options at March 31, 2000

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
Robert Ayling*	August 2, 1996	38,213
	June 13, 1997	46,940
	June 12, 1998	54,864
	July 2, 1999	82,417
Derek Stevens	August 2, 1996	22,450
	June 13, 1997	27,121
	June 12, 1998	30,882
	July 2, 1999	46,484

*all awards lapsed May 15, 2000.

On April 1, 2000 the second third of the conditional award made on August 2, 1996 lapsed, as the performance condition was not met in the financial years ended in 1997, 1998, 1999 and 2000.

On April 1, 2000 one third of the conditional award made on June 13, 1997 lapsed, as the performance condition was not met in the financial years ended in 1998, 1999 and 2000. 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 90th 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 calculated in accordance with a pre-determined formula.

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	2000	1999
At March 31	329.5p	429.5p
Highest in the year	553.5p	703.0p
Lowest in the year	261.5p	308.5p

Directors' report continued

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.

As mentioned under the heading Corporate Governance, the directors have taken advantage of the UK Listing Authority's transitional rules, however, all necessary measures have been taken to ensure that the Turnbull Guidance will be fully complied with in the accounting period which commenced on April 1, 2000. A new committee of senior executives has been convened to identify and monitor significant risks and opportunities facing the business.

For the accounting period ending on March 31, 2000, the key procedures that the directors established to provide effective internal financial controls were as follows:

The company has a well established statement of its mission, values and goals and these are supported by a recently re-issued Code of Business Conduct which conveys ethical values and establishes the norms of business behaviour throughout the company.

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 three-year business plan sets the business agenda. The plan communicates the corporate strategy, agrees targets for financial return and service standards, identifies and prioritises improvement opportunities to deliver the targets and agrees capital and manpower requirements. The business plan priorities link into the annual budgeting process which defines specific departmental action plans.

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

A comprehensive management accounting system is in place providing both key financial and operational performance indicators to executive management. Detailed management accounts are prepared to cover each major area of the business. Variances from budget are analysed, explained and acted on in a timely manner. Monthly meetings are held to discuss performance and specific projects are 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. The company follows a professional approach to financial reporting.

Manuals of 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. The Committee reports its findings to the Board.

The directors have reviewed the effectiveness of the company's internal financial control system considering the processes set out above and make this statement pursuant to the guidance for directors issued in December 1994.

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, 2000 in respect of the company is calculated as 46 days (1999: 43 days). (Calculation basis as defined by the Companies Act 1985).

Post balance sheet event

On May 4, 2000, the company disposed of its 86 per cent shareholding in Participations Aéronautiques, the holding company of Air Liberté.

Auditors

The auditors, Ernst & Young, have indicated their willingness to continue in office and a resolution proposing their reappointment and authorising the directors to determine their remuneration will be proposed at the annual general meeting.

By order of the Board
Alan Buchanan
Company Secretary
May 23, 2000



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 22 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 27 to 29.

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 page 16 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, 2000 and of the loss 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 23, 2000

Group profit and loss account

For the year ended March 31, 2000

£ million	Note	Group	
		2000	1999
Turnover	2	8,940	8,892
Cost of sales	4	(8,679)	(8,273)
Gross profit		261	619
Administrative expenses	4	(177)	(177)
Operating profit		84	442
Share of operating profit in associates	7	75	62
Total operating profit including associates		159	504
Other income and charges	8	5	27
Profit on sale of fixed assets and investments	9	249	51
Net interest payable	10	(408)	(357)
Profit before taxation		5	225
Taxation	11	(15)	(19)
(Loss)/profit after taxation		(10)	206
Non equity minority interest	38	(11)	
(Loss)/profit for the year		(21)	206
Dividends paid and proposed	12	(195)	(191)
Retained (loss)/profit for the year	37	(216)	15
Earnings per share	13		
Basic earnings per share		(2.0)p	19.5p
Diluted earnings per share		n/a	19.2p
Dividends per share	12	17.9p	17.9p


Balance sheets

At March 31, 2000

£ million	Note	Group		Company	
		2000	1999	2000	1999
Fixed assets					
Intangible assets	14	62			
Tangible assets	15				
<i>Fleet</i>		8,437	8,207	8,342	8,108
<i>Property</i>		1,488	1,331	1,410	1,254
<i>Equipment</i>		369	301	245	251
		10,294	9,839	9,997	9,613
Investments	18				
<i>Subsidiary undertakings and quasi-subsidiary</i>				1,391	888
<i>Associated undertakings</i>		507	323	2	7
<i>Trade investments</i>		35	68	34	31
<i>Investment in own shares</i>		25	11	25	11
		567	402	1,452	937
		10,923	10,241	11,449	10,550
Current assets					
Stocks	24	78	84	51	62
Debtors	26	1,368	1,336	1,203	1,168
Short-term loans and deposits	27c	1,043	1,051	969	987
Cash at bank and in hand		103	112	23	27
		2,592	2,583	2,246	2,244
Creditors: amounts falling due within one year	28	(3,366)	(3,048)	(3,892)	(3,624)
Net current liabilities		(774)	(465)	(1,646)	(1,380)
Total assets less current liabilities		10,149	9,776	9,803	9,170
Creditors: amounts falling due after more than one year					
Borrowings and other creditors	29	(6,615)	(6,230)	(6,719)	(6,165)
Convertible Capital Bonds 2005	32	(113)	(126)		
		(6,728)	(6,356)	(6,719)	(6,165)
Provisions for liabilities and charges	33	(81)	(65)	(79)	(62)
		3,340	3,355	3,005	2,943
Capital and reserves					
Called up share capital	35	270	268	270	268
Reserves	37				
<i>Share premium account</i>		785	764	785	764
<i>Revaluation reserve</i>		285	290	285	290
<i>Profit and loss account</i>		1,807	2,033	1,665	1,621
		2,877	3,087	2,735	2,675
Total equity shareholders' funds		3,147	3,355	3,005	2,943
Minority interest	20	16			
Non equity minority interest	38	177			
		3,340	3,355	3,005	2,943

Lord Marshall of Knightsbridge
Derek Stevens
May 23, 2000

Chairman
Chief Financial Officer


Derek Stevens

Group cash flow statement

For the year ended March 31, 2000

£ million	Note	Group	
		2000	1999
Cash inflow from operating activities	5a	1,186	1,241
Dividends received from associates		44	11
Returns on investments and servicing of finance			
Interest received		85	72
Interest paid on bank and other loans		(93)	(95)
Interest paid on finance leases and hire purchase arrangements		(300)	(290)
Dividends received from trade investments		3	4
Non equity minority interest		(10)	
Net cash outflow from returns on investments and servicing of finance		(315)	(309)
Taxation			
UK Corporation taxation		25	(36)
Overseas taxation		(27)	(4)
Net cash outflow from taxation		(2)	(40)
Capital expenditure and financial investment			
Tangible fixed assets purchased for cash	15e	(1,019)	(1,611)
Refund of progress payments		387	1,274
Sale of tangible fixed assets and investments		311	230
Purchase of trade investments		(3)	
Investment in own shares		(14)	(11)
Sale of investment in Galileo International Inc.		192	
Net cash outflow for capital expenditure and financial investment		(146)	(118)
Acquisitions and disposals			
Purchase of subsidiary undertakings	21	(39)	
Purchase of investment in Iberia		(161)	
Purchase of interests in other associated undertakings		(18)	(6)
Net cash flow for acquisitions and disposals		(218)	(6)
Equity dividends paid		(242)	(113)
Net cash inflow before management of liquid resources and financing		307	666
Management of liquid resources		9	(363)
Financing			
Changes in borrowings			
Bank and other loans raised		60	178
Bank and other loans repaid		(202)	(127)
Capital elements of finance leases and hire purchase arrangements repaid		(374)	(351)
		(516)	(300)
Issue of preferred securities		193	
Changes in share capital			
Issue of ordinary share capital and share premium received		4	65
(Decrease)/increase in cash	27	(3)	68

£ million	Note	Group	
		2000	1999
Group financing requirement			
Net cash inflow before management of liquid resources and financing		307	666
Acquisitions under loans, finance leases and hire purchase arrangements	15e	(659)	(1,470)
Total financing requirement for the year		(352)	(804)
Total tangible fixed asset expenditure, net of progress payment refunds		1,291	1,807

Statement of total recognised gains and losses

For the year ended March 31, 2000

£ million	Note	Group	
		2000	1999
(Loss)/profit for the year		(21)	206
Other recognised gains and losses relating to the year			
<i>Exchange and other movements</i>	37a	(20)	(82)
Total gains and losses recognised since last annual report		(41)	124

Profit for the year relating to associated undertakings is shown in Note 23.

Reconciliation of movements in shareholders' funds

For the year ended March 31, 2000

£ million	Note	Group	
		2000	1999
(Loss)/profit for the year		(21)	206
Dividends	12	(195)	(191)
Retained (loss)/profit for the year		(216)	15
Other recognised gains and losses relating to the year		(20)	(82)
Issue of ordinary share capital, on the conversion of Convertible Capital Bonds, and on the exercise of options under Employee Share Option Schemes			
<i>Share capital</i>		2	8
<i>Share premium</i>		21	114
		23	122
Reduction in reserves resulting from shares issued to a Qualifying Employee Share Ownership Trust in relation to the 1993 Share Save Scheme		(2)	(21)
Movement in goodwill in the year		7	
Net (deductions)/additions to shareholders' funds		(208)	34
Equity shareholders' funds at April 1		3,355	3,321
Equity shareholders' funds at March 31		3,147	3,355

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

Summary statements in euros

Included for information purposes only

Group profit and loss account

For the year ended March 31, 2000

EUR million	2000	1999
Turnover	14,887	13,346
Operating expenditure	(14,747)	(12,682)
Operating profit	140	664
Share of operating profit in associates	125	93
Total operating profit including associates	265	757
Other income and charges	8	41
Profit on sale of fixed assets and investments	415	77
Net interest payable	(679)	(536)
Profit before taxation	9	339
Taxation	(25)	(29)
(Loss)/profit after taxation	(16)	310
Non equity minority interest	(18)	
(Loss)/profit for the year	(34)	310
Dividends paid and proposed	(325)	(287)
Retained (loss)/profit for the year	(359)	23

Group statement of total recognised gains and losses

For the year ended March 31, 2000

EUR million	2000	1999
(Loss)/profit for the year	(34)	310
Other recognised gains and losses relating to the year		
Exchange and other movements	(33)	(124)
Total gains and losses recognised since last annual report	(67)	186

Group balance sheet

At March 31, 2000

EUR million	2000	1999
Fixed assets		
Intangible assets	103	
Tangible assets	17,142	14,766
Investments	944	603
	18,189	15,369
Current assets	4,316	3,877
Creditors: amounts falling due within one year	(5,605)	(4,574)
Net current liabilities	(1,289)	(697)
Total assets less current liabilities	16,900	14,672
Creditors: amounts falling due after more than one year	(11,202)	(9,539)
Provisions for liabilities and charges	(135)	(98)
	5,563	5,035
Capital and reserves		
Called up share capital	450	402
Reserves	4,791	4,633
Minority interest	27	
Non equity minority interest	295	
	5,563	5,035
Translation rate £1=euros	1.6652	1.5008

Euro amounts have been included for information only and have been translated from sterling at the rates of exchange applying on March 31, 2000 and 1999.

Notes to the accounts

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. During the year the group implemented the following new accounting standards: FRS15 – Tangible Fixed Assets and FRS16 – Current Tax. The adoption of the standards did not have a significant effect on the results although a number of minor presentational changes have been made to the financial statements.

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 case of Qantas, unaudited published results up to the year ended December 31 are included; 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 will be 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 are being retained in accordance with the transitional provisions of FRS 15 – Tangible Fixed Assets. The group has 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.

Notes to the accounts continued

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 interiors, including those required for brand changes and re-launches, are depreciated over the lower of five years and the remaining life of the aircraft at the date of such modification.

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 purchased 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 five to seven 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 three principal frequent flyer programmes. The Airline schemes are run through the 'Executive Club' where frequent travellers may accumulate mileage credits which entitle them to a choice of various awards, including free travel. In addition, Airmiles Travel Promotions Ltd sell airmiles to United Kingdom companies to use for promotional incentives. The incremental direct 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 scheme 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 taxation

Provisions are made for deferred taxation, using the liability method, on short-term timing differences and all other material timing differences to the extent that it is probable that the liabilities will crystallise 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 foreign currency, 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 foreign currency. The amounts in foreign currency 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 foreign currency 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.

1 Accounting policies continued

Derivatives and financial instruments

The group's policies for using derivatives and financial instruments are explained in the Operating and Financial Review on page 12.

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 payment 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 excluded from the financial instrument disclosures except Note 25 on currency exposures.

2 Turnover

£ million	Group	
	2000	1999
Traffic revenue		
<i>Scheduled services – passenger</i>	7,465	7,485
<i>– freight and mail</i>	556	539
	8,021	8,024
<i>Non-scheduled services</i>	71	62
	8,092	8,086
Other revenue (including aircraft maintenance, package holidays and other airline services)	848	806
	8,940	8,892

3 Geographical analysis of turnover and operating profit

a Turnover

£ million	Group			
	By area of original sale		By area of destination	
	2000	1999	2000	1999
Europe	5,898	5,936	3,400	3,409
<i>United Kingdom</i>	4,062	4,043	719	698
<i>Continental Europe</i>	1,836	1,893	2,681	2,711
The Americas	1,655	1,672	3,253	3,272
Africa, Middle East and Indian sub-continent	687	624	1,220	1,133
Far East and Australasia	700	660	1,067	1,078
	8,940	8,892	8,940	8,892

b Operating profit

£ million	Group	
	By area of destination	
	2000	1999
Europe	(310)	(166)
The Americas	308	451
Africa, Middle East and Indian sub-continent	62	124
Far East and Australasia	24	33
	84	442

Notes to the accounts continued

4 Analysis of operating expenditure

£ million	Group	
	2000	1999
Employee costs	2,481	2,356
Depreciation and amortisation	648	619
Aircraft operating lease costs	190	150
Fuel and oil costs	804	705
Engineering and other aircraft costs	661	660
Landing fees and en route charges	682	736
Handling charges, catering and other operating costs	1,328	1,278
Selling costs	1,188	1,195
Accommodation, ground equipment costs and currency differences	874	751
Total operating expenditure	8,856	8,450
Total operating expenditure comprises:		
Cost of sales	8,679	8,273
Administrative expenses	177	177
Total operating expenditure	8,856	8,450

5 Operating profit

a Reconciliation of operating profit to cash inflow from operating activities

£ million	Group	
	2000	1999
Group operating profit	84	442
Depreciation and amortisation	648	619
Other items not involving the movement of cash	39	21
Decrease in stocks and debtors	4	60
Increase in creditors	411	99
Cash inflow from operating activities	1,186	1,241

b Operating profit is arrived at after charging:

Depreciation of group tangible fixed assets

£ million	Group	
	2000	1999
<i>Owned assets</i>	274	301
<i>Finance leased aircraft</i>	112	98
<i>Hire purchased aircraft</i>	223	190
<i>Other leasehold interests</i>	38	30
	647	619

Operating lease costs

£ million	Group	
	2000	1999
<i>Lease rentals – aircraft</i>	190	150
<i>– property</i>	128	127
<i>Hire of equipment and charter of aircraft and crews</i>	150	171
	468	448

5 Operating profit continued

Auditors' remuneration	Group	
	2000	1999
£'000		
Group auditors – audit fees	1,223	1,157
– other professional fees – United Kingdom	1,558	1,563
– overseas	406	377
Other auditors – audit fees	52	61
	3,239	3,158

Directors' emoluments	Group	
	2000	1999
£'000		
Fees	506	513
Salary and benefits	803	776
Compensation for loss of office	1,980	
	3,289	1,289

The report of the Remuneration Committee discloses full details of directors' emoluments and can be found on pages 18 to 19.

6 Employee costs and numbers

Number	Group	
	2000	1999
The average number of persons employed in the group during the year was as follows:		
United Kingdom	51,310	51,022
Overseas	13,847	12,757
	65,157	63,779

£ million	Group	
	2000	1999
Wages and salaries	1,790	1,671
Social security costs	184	171
Contributions to pension schemes	123	111
	2,097	1,953

7 Share of operating profit in associates

£ million	Group	
	2000	1999
Operating profits less losses	75	62

Notes to the accounts continued

8 Other income and charges

£ million	Group	
	2000	1999
Income from trade investments	3	4
Other	2	23
	5	27
Other income and charges represented by:		
Group	5	26
Associates		1
	5	27

9 Profit on sale of fixed assets and investments (see also Note 19)

£ million	Group	
	2000	1999
Net profit on disposal of investment in Galileo International Inc.	149	
Net profit on part disposal of investment in Equant	70	48
Net profit on disposal of other fixed assets and investments	30	3
	249	51
Profit on sale of fixed assets and investments represented by:		
Group	237	51
Associates (relating to part disposal of investment in Equant)	12	
	249	51

10 Net interest payable

£ million	Group	
	2000	1999
Interest payable		
On bank loans	65	59
On finance leases	88	73
On hire purchase arrangements	198	212
On other loans, including interest of £11 million (1999: £13 million) on Convertible Capital Bonds 2005	44	46
	395	390
Interest capitalised	(38)	(54)
	357	336
Interest receivable	(85)	(71)
Retranslation charges on currency borrowings	136	92
	408	357
Net interest payable represented by:		
Group	396	345
Associates	12	12
	408	357

In respect of all loans, including finance lease and hire purchase arrangements repayable in whole or in part after five years, the final repayment date is July 2019.

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 Taxation

£ million	Group	
	2000	1999
British Airways Plc and subsidiary undertakings		
United Kingdom corporation taxation at 30% (1999: 31%)	125	7
less: relief for overseas taxation	(125)	
UK taxation		7
Overseas taxation	17	25
Irrecoverable advance corporation tax		(5)
Prior year adjustments	(26)	(27)
	(9)	
Share of taxation of associated undertakings	24	19
	15	19

There is no UK tax payable on the operating results for the year. UK tax arises on dividend remittances from overseas and is offset by Double Tax relief. Prior year adjustments arise mainly from the reduction in the provisions for taxation on dividends.

There is no charge for deferred taxation. If full provision had been made for deferred taxation there would have been a charge for the year of £41 million (1999: £40 million) arising principally from the accelerated capital allowances in excess of carried forward losses:

£ million	Group	
	2000	1999
Accelerated capital allowances less unrelieved losses	51	17
Other timing differences	(10)	18
Advance corporation tax		5
	41	40

Any requirement for deferred taxes relating to accelerated capital allowances has been reduced by the value of UK tax losses arising in the current year and carried forward of approximately £126 million (£421 million at 30 per cent). The need to provide for deferred taxation relating to accelerated capital allowances is dependent on the way in which capital expenditure (mainly on aircraft) is financed. Based on future capital expenditure plans it is not expected that there will be any requirement to provide for any deferred taxation on new originating timing differences.

12 Dividends

£ million	Group	
	2000	1999
Interim dividend of 5.10p per share paid (1999: 5.10p per share)	57	54
Final dividend of 12.80p per share proposed (1999: 12.80p per share)	138	137
	195	191

The amounts charged to the profit and loss account include £1 million in relation to 1998-99 final dividends paid to Convertible Capital Bond holders (1997-98: £1 million) who converted their Bonds in June 1999, in accordance with the terms of the Bonds.

Notes to the accounts continued

13 Earnings per share

	Group			
	(Loss)/profit		Earnings per share	
	2000 £m	1999 £m	2000 Pence	1999 Pence
(Loss)/profit for the period and basic earnings per share	(21)	206	(2.0)	19.5
<i>Interest on Convertible Capital Bonds</i>	8	9		
Diluted (loss)/profit for the year and earnings per share	(13)	215	n/a	19.2
Weighted average number of shares for basic EPS ('000)			1,074,823	1,054,543
Dilutive potential ordinary shares:				
<i>Convertible Capital Bonds ('000)</i>			49,464	56,116
<i>Outstanding share options ('000)</i>			n/a	10,141
Weighted average number of shares for diluted EPS ('000)			1,124,287	1,120,800

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. The outstanding share options do not have a dilutive effect for the year ended March 31, 2000, as the average exercise price exceeds the average share price.

14 Intangible assets

	Group
£ million	2000
Cost	
Balance at April 1	
Additions	63
Balance at March 31	63
Amortisation	
Balance at April 1	
Charge for the year	1
Balance at March 31	1
Net book amounts	
March 31, 2000	62

a Group

[illegible]

15 Tangible assets continued

Company total

			Net book amount	
	Valuation/cost	Depreciation	2000	1999
Revalued fleet and properties are included in the accounts at the following amounts:				
Fleet – valuation	218	184	34	50
– subsequent additions at cost	39	27	12	18
Property – valuation	523	58	465	503
– subsequent additions at cost	74	9	65	45
March 31, 2000	854	278	576	
March 31, 1999	1,124	508		616
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 2000	526	246	280	
March 31, 1999	764	441		323

15 Tangible assets continued

c Revaluation

The group has elected to retain tangible fixed assets at revalued amounts, where applicable, under the transitional arrangements of FRS 15, rather than at depreciated historical cost.

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 at March 31, 1995.

d Depreciation

Fleets are generally depreciated over periods ranging from 16 to 25 years after making allowance for estimated residual values. Effective depreciation rates resulting from this method are shown in the following table:

%	Group	
	2000	1999
Boeing 747-100, 747-200, 747-400, 777-200 and McDonnell Douglas DC-10-30	4.3	4.2
Boeing 767-300 and 757-200	4.6	4.6
Airbus A320, Boeing 737-200, 737-400, McDonnell Douglas MD83, Fokker 100 and F28	5.9	5.9
Turbo Props	6.5	6.5

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 three to 25 years, according to the type of equipment.

e Analysis of group tangible asset additions

£ million	Fleet	Property	Equipment	Group total	
				2000	1999
Cash paid	715	179	125	1,019	1,611
Acquisitions under loans, finance leases and hire purchase arrangements	659			659	1,470
Acquisition of subsidiary undertakings	6	1	1	8	
Acquisition of quasi-subsidiary			33	33	
Capitalised interest	24	14		38	54
Accrual movements	(62)	14	(4)	(52)	53
	1,342	208	155	1,705	3,188
Refund of progress payments	(387)			(387)	(1,274)
	955	208	155	1,318	1,914

16 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £1,818 million for the group (1999: £2,863 million) and £1,830 million for the company (1999: £2,859 million).

The outstanding commitments include £488 million which relates to the acquisition of twelve Boeing 777 aircraft on order and £1,092 million which relates to the acquisition of Airbus A318, A319 and A320 aircraft scheduled for delivery over the next five 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, 2000 British Airways had an unused committed financing facility of £40 million, together with unused overdraft and revolving credit facilities of £40 million. Undrawn uncommitted money market lines of £175 million and euro 15 million were held with a number of banks.

Notes to the accounts continued

17 Operating lease commitments

£ million	Group		Company	
	2000	1999	2000	1999
a Fleet				
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
<i>Amounts payable within one year relate to commitments expiring as follows:</i>				
Within one year	47	21	10	2
Between one and five years	125	86	49	31
Over five years	45	35	5	15
Within one year	217	142	64	48
Between one and five years	497	354	133	106
Over five years	115	74	4	7
	829	570	201	161
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:				
<i>Amounts payable within one year relate to commitments expiring as follows:</i>				
Within one year	32	19	31	18
Between one and five years	22	24	20	19
Over five years	32	38	30	35
Within one year	86	81	81	72
Between one and five years	188	223	175	206
Over five years, ranging up to the year 2145	1,450	1,399	1,423	1,371
	1,724	1,703	1,679	1,649

Property and equipment commitments relate largely to property leases.

18 Investments

a Group

i) Associated undertakings

£ million	Group total		2000	1999
	Equity	Loans at cost		
Balance at April 1	311	12	323	321
Exchange movements	(15)		(15)	(17)
Additions (Note 20)	183		183	22
Goodwill on acquisition	12		12	
Share of attributable results	7		7	16
Share of movements on other reserves				(19)
Reclassification to quasi-subsidary loans	(3)		(3)	
Balance at March 31	495	12	507	323
Equity comprises:				
Cost of shares			483	320
Goodwill on acquisitions			12	
Goodwill set off			(80)	(80)
Share of post acquisition profits			88	79
Share of movements on other reserves			(8)	(8)
			495	311

18 Investments continued

ii) Trade investments

£ million	Cost		Provisions		Group total	
	Shares	Loans	Shares	Loans	2000	1999
Balance at April 1	68	4	(3)	(1)	68	67
Exchange movements						1
Additions	3				3	
Disposal (Note 19)	(37)		1		(36)	
Balance at March 31	34	4	(2)	(1)	35	68

iii) Investment in own shares

£ million	Group	
	2000	1999
Investment in own shares	25	11

Investments in own shares consist 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, 2000 the group and company held 6,650,000 shares for the Long Term Incentive Plan and other employee share schemes (1999: 3,250,000 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	
				2000	1999
Listed	322	29	25	376	376
Unlisted	185	6		191	26

Market value of listed investments

£ million	Group total	
	2000	1999
Associated undertakings	415	491
Trade investments	144	379
Investment in own shares	22	14

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

Notes to the accounts continued

18 Investments continued

b Company

i) Subsidiary undertakings and quasi-subsidiary

£ million	Cost		Provisions		Company total	
	Shares	Loans	Shares	Loans	2000	1999
Balance at April 1	1,601		(713)		888	885
Exchange movements	(6)				(6)	
Additions/(reductions)	274	42	(29)		287	3
Net transfer to subsidiary undertakings	229				229	
Reclassification from intra group loans			(12)		(12)	
Reclassification from associated undertakings		5			5	
Balance at March 31	2,098	47	(754)		1,391	888

ii) Associated undertakings

Balance at April 1	7				7	1
Additions						6
Reclassification to quasi-subsidiary loans	(5)				(5)	
Balance at March 31	2				2	7

iii) Trade investments

Balance at April 1	30	4	(2)	(1)	31	31
Additions	3				3	
Balance at March 31	33	4	(2)	(1)	34	31

iv) Investment in own shares

£ million	Company	
	2000	1999
Investment in own shares	25	11

See Note 18a iii)

Net book value of total investments

£ million	Subsidiary undertakings	Associated undertakings	Trade investments	Investment in own shares	Company total	
					2000	1999
Listed			28	25	53	40
Unlisted	1,344	2	6		1,352	897

Market value of listed investments

£ million	Company total	
	2000	1999
Trade investments	140	166
Investment in own shares	22	14

19 Disposal of investments

In June 1999, the group disposed of its wholly owned subsidiary Britair Acquisition Corp. Inc., that indirectly held 7,000,400 Galileo International Inc. common shares, to Galileo International Inc. In December 1999, the group disposed of 34 per cent of its holding in Equant as part of the second public offering. The profit arising from these disposals was as follows:

£ million	Britair Acquisition Corp. Inc.	Equant	Total
Sales proceeds (net of disposal costs)	192	58	250
Net cost of investment	(36)		(36)
Goodwill written back on disposal	(7)		(7)
Profit on disposal before and after taxation	149	58	207
Associates		12	12
Group including associates	149	70	219

20 Acquisition of associates

On March 15, 2000, in partnership with American Airlines, British Airways completed the purchase of 10 per cent of Iberia, an international airline based in Madrid, Spain for £177 million. The amount paid is subject to amendment based on the initial public offering price. The 10 per cent investment is held by a new subsidiary BA & AA Holdings Limited, in which British Airways has a 90 per cent stake. The value of the group's investment in Iberia is included in the balance sheet at £166 million, representing the shares acquired, adjusted for currency movements as it has not been possible to establish fair values of attributable assets and liabilities since the date of acquisition.

In February 2000, British Airways invested in 18.3 per cent of the shares of Comair for £17 million, representing £5 million of assets and £12 million of goodwill. Comair is a South African airline operating mainly domestic services and is an existing British Airways franchise partner.

21 Acquisitions of interest in subsidiary undertakings and quasi-subsiary

In November 1999, British Airways acquired effective control and 100 per cent of the shares in CityFlyer Express Limited, based at London Gatwick airport. CityFlyer Express was previously a British Airways franchisee, operating mainly scheduled services within the UK and to mainland Europe.

During the year, British Airways acquired the majority of risks and rewards in the activities of the London Eye Company Ltd and has accordingly accounted for it as a quasi-subsiary from July 1999.

The following table sets out the fair value of the assets and liabilities of purchased subsidiary undertakings and quasi-subsiary at their date of acquisition and the goodwill capitalised as a result of these transactions, which will be amortised over a useful economic life of twenty years.

i) Goodwill

£ million	Subsidiaries		Quasi-subsiary	Total
	CityFlyer Express	Other	London Eye	
Fixed assets	8		33	41
Current assets	22	1	4	27
Cash less overdrafts	23			23
Creditors: amounts falling due within one year	(27)		(12)	(39)
Net current assets	18	1	(8)	11
Total assets less current liabilities	26	1	25	52
Creditors: amounts falling due after more than one year	(10)	(1)	(25)	(36)
Net assets at date of acquisition	16			16
Amount paid – cash	(60)	(1)		(61)
– loan notes	(15)	(2)		(17)
	(75)	(3)		(78)
Legal and professional costs	(1)			(1)
Goodwill capitalised	(60)	(3)		(63)

Accounting policy changes to align with British Airways' policies and fair value adjustments to assets and liabilities of purchased subsidiary undertakings and quasi-subsiary are not material.

ii) Cashflow effect of purchase of subsidiary undertakings

£ million	Subsidiaries		Quasi-subsiary	Total
	CityFlyer Express	Other	London Eye	
Cash paid	60	1		61
Net cash acquired	(23)			(23)
Legal and professional costs	1			1
	38	1		39

iii) Summarised statement of operations

Profit after taxation for the year ended March 31, 1999 as disclosed in the last published audited financial statements of CityFlyer Express, prepared in accordance with UK generally accepted accounting principles, and for the seven months ended October 31, 1999 was £4 million and £6 million respectively.

Results after taxation for both CityFlyer Express and the London Eye Company in the period from acquisition to March 31, 2000 were not material.

Notes to the accounts continued

22 Quasi-subsiidiary

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

£ million	Total
Profit and Loss Account	
Turnover	2
Operating loss, loss before taxation and loss for the period	(2)
Balance Sheet	
Fixed assets	75
Current assets	5
Creditors: Amounts falling due within one year	(10)
Net current liabilities	(5)
Total assets less current liabilities	70
Creditors: Amounts falling due after more than one year	(74)
Capital and reserves deficit	(4)
Cash Flow Statement	
Cash outflow from operating activities	(3)
Capital expenditure and financial investment	(49)
Net cash outflow before management of liquid resources and financing	(52)
Financing	49
Decrease in cash	(3)

There are no recognised gains or losses other than the loss for the period.

23 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	
	2000	1999
Operating revenue	864	823
Profit for the year	51	32
Share of fixed assets	1,039	1,026
Share of current assets	206	194
Share of assets	1,245	1,220
Liabilities due within one year	(386)	(362)
Liabilities due after more than one year	(542)	(551)
Share of liabilities	(928)	(913)
Share of net assets at associated companies' year end accounting dates	317	307
Goodwill on acquisition (less amortisation)	12	
Additional equity investment in Qantas for the period January 1 to March 31		4
Investment in Iberia (Note 20)	166	
Total group investment in associated undertakings at March 31	495	311

The sterling equivalents for the statements of operations of Qantas Airways Limited have been translated at the average exchange rates for the year ended June 30, 1999 and six months ended December 31, 1999. Balance sheets for all associates have been translated at the closing rates ruling at March 31.

24 Stocks

£ million	Group		Company	
	2000	1999	2000	1999
Raw materials, consumables and work in progress	78	84	51	62

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

25 Currency exposures

£ million	Net foreign currency assets/(liabilities)					
	Functional currency					
Net assets/(liabilities)	Sterling	US dollar	Euro currency	Japanese yen	Other	
Sterling		158	(23)	(852)	164	(553)
Euro currencies	4	(63)				(59)
Total March 31, 2000	4	95	(23)	(852)	164	(612)
<i>Total March 31, 1999</i>		<i>170</i>	<i>(98)</i>	<i>(721)</i>	<i>47</i>	<i>(602)</i>

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.

26 Debtors

£ million	Group		Company	
	2000	1999	2000	1999
Trade debtors	889	905	834	842
Amounts owed by subsidiary undertakings			52	17
Amounts owed by associated undertakings	33	22	32	22
Other debtors	121	152	73	106
Prepayments and accrued income	325	257	212	181
	1,368	1,336	1,203	1,168

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

27 Cash

a Reconciliation of net cash flow to movement in net debt

£ million	Group	
	2000	1999
(Decrease)/increase in cash during the year	(3)	68
Cash outflow from decrease in debt and lease financing	516	300
Cash (inflow)/outflow from liquid resources	(9)	363
Changes in net debt resulting from cash flows	504	731
New loans and finance leases taken out and hire purchase arrangements made	(659)	(1,470)
Assumed from subsidiary undertakings acquired during the year	(42)	
Conversion of Convertible Capital Bonds 2005	13	24
Exchange movements	(206)	(208)
Movement in net debt during the year	(390)	(923)
Net debt at April 1	(5,526)	(4,603)
Net debt at March 31	(5,916)	(5,526)

Notes to the accounts continued

27 Cash continued

b Analysis of net debt

£ million	Group			
	Balance at April 1	Cash flow	Other non-cash	Balance at March 31
Cash	112	(9)		103
Overdrafts	(11)	6		(5)
	101	(3)		98
Short-term loans and deposits	1,051	(9)	1	1,043
Bank and other loans	(1,142)	142	(40)	(1,043)
Finance leases and hire purchase arrangements	(5,410)	374	(662)	(5,901)
Convertible Capital Bonds 2005	(126)		13	(113)
Year to March 31, 2000	(5,526)	504	(688)	(5,916)
Year to March 31, 1999	(4,603)	731	(1,446)	(5,526)

c Analysis of short-term loans and deposits by currency

£ million	Group		Company	
	2000	1999	2000	1999
Sterling	794	738	728	690
US dollars	34	124	26	108
Japanese yen	215	189	215	189
	1,043	1,051	969	987

Surplus cash is deposited for the short-term for periods typically with maturity of less than six months.

28 Creditors: amounts falling due within one year

£ million	Group		Company	
	2000	1999	2000	1999
Loans, finance leases and hire purchase arrangements				
Bank and other loans	140	202	122	28
Finance leases	120	91	112	84
Hire purchase arrangements	288	264	288	264
Loans from subsidiary undertakings			8	671
	548	557	530	1,047
Overdrafts – unsecured	5	11		
Trade creditors	1,159	1,010	977	848
Unredeemed frequent flyer liabilities	87	70	54	47
Amounts owed to subsidiary undertakings			1,032	505
Amounts owed to associated undertakings	27	35	27	35
Other creditors				
Other creditors	458	361	349	254
Corporate taxation	18	25	13	23
Other taxation and social security	64	63	41	40
	540	449	403	317
Dividends payable	140	190	138	190
Accruals and deferred income				
Sales in advance of carriage	801	686	697	616
Accruals and deferred income	59	40	34	19
	860	726	731	635
	3,366	3,048	3,892	3,624

29 Borrowings and other creditors

£ million	Group		Company	
	2000	1999	2000	1999
Loans, finance leases and hire purchase arrangements				
Bank and other loans	903	940	848	892
Finance leases	1,768	1,244	1,727	1,197
Hire purchase arrangements	3,725	3,811	3,725	3,811
Loans from subsidiary undertakings			300	140
	6,396	5,995	6,600	6,040
Other creditors	56	61		
Accruals and deferred income	163	174	119	125
	6,615	6,230	6,719	6,165

30 Loans, finance leases and hire purchase arrangements

a Total loans, finance leases and hire purchase arrangements

£ million	Group		Company	
	2000	1999	2000	1999
Loans				
Bank				
– French franc	FFr22m	FFr40m		
– US dollar	US\$557m	US\$593m	US\$523m	US\$552m
– sterling	£570m	£509m	£526m	£478m
	921	882	855	820
Euro-sterling notes	100	100	100	100
Other				
– US dollar		US\$250m		
– French franc		FFr50m		
– sterling	£22m		£15m	
	22	160	15	
Loans from subsidiary undertakings				US\$1,065m
– US dollar				
– euro			€300m	
– sterling			£127m	£148m
			308	811
Finance leases				
– French franc	FFr94m	FFr107m		
– US dollar	US\$391m	US\$389m	US\$329m	US\$320m
– sterling	£1,633m	£1,083m	£1,632m	£1,083m
	1,888	1,335	1,839	1,281
Hire purchase arrangements				
– Japanese yen	¥214,968m	¥215,426m	¥214,968m	¥215,426m
– US dollar	US\$1,037m	US\$1,186m	US\$1,037m	US\$1,186m
– sterling	£2,048m	£2,217m	£2,048m	£2,217m
	4,013	4,075	4,013	4,075
	6,944	6,552	7,130	7,087
Comprising:				
Bank loans				
Repayable wholly within five years	397	212	331	150
Repayable in whole or in part after five years	524	670	524	670
	921	882	855	820
Other loans, finance leases and hire purchase arrangements				
Repayable wholly within five years	647	692	600	1,189
Repayable in whole or in part after five years	5,376	4,978	5,675	5,078
	6,023	5,670	6,275	6,267
	6,944	6,552	7,130	7,087

Bank and other loans are repayable up to the year 2014. In addition to finance leases and hire purchase arrangements, bank and other loans of the group amounting to US\$354 million (1999: US\$582 million), £190 million (1999: £199 million) and FFr nil (1999: FFr50 million) and bank loans of the company amounting to US\$322 million (1999: US\$542 million) and £190 million (1999: £199 million) are secured on aircraft.

Notes to the accounts continued

30 Loans, finance leases and hire purchase arrangements continued

b Analysis by type of borrowing

b Analysis by type of borrowing						Group	
						2000	1999
	Fixed rate borrowings						
	Weighted average period rate is fixed	Weighted average rate	Floating rate borrowings		Total	Total	
	years	%	£million	£million	£million	£million	
Sterling	6.3	8.54	570	3,804	4,374	3,909	
US Dollar	6.9	8.52	253	993	1,246	1,501	
Japanese Yen	7.9	1.51	1,314		1,314	1,122	
Euro	5.0	7.58	3	7	10	20	
Total 2000	7.3	4.43	2,140	4,804	6,944		
Total 1999	7.6	4.59	2,128	4,424		6,552	

Floating rates of interest are based on LIBOR (London Interbank Offered Rate) or EURIBOR (European Interbank Offered Rate).

The interest rate profiles of the Convertible Capital Bonds and the euro perpetual preferred securities are disclosed separately in Notes 32 and 38 respectively.

c Incidence of repayments

£ million	Group				2000	1999
	Bank loans	Other loans	Finance leases	Hire purchase arrangements		
Instalments falling due:						
Within one year	140		120	288	548	557
After more than one year						
Between one and two years	198		105	324	627	420
Between two and five years	219	7	392	1,152	1,770	1,718
In five years or more	364	115	1,271	2,249	3,999	3,857
	781	122	1,768	3,725	6,396	5,995
Total 2000	921	122	1,888	4,013	6,944	
Total 1999	882	260	1,335	4,075		6,552
Analysis of total 2000						
British Airways Plc	855	115	1,839	4,013	6,822	6,276
Subsidiary undertakings	66	7	49		122	276
	921	122	1,888	4,013	6,944	6,552

31 Analysis of changes in borrowings during the year

£ million	Finance leases and hire purchase arrangements		Group	
	Bank and other loans		2000	1999
Balance at April 1	1,142	5,410	6,552	5,174
New loans raised	60		60	178
Loans on acquisition of subsidiary	40	3	43	
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft		659	659	1,470
Repayment of amounts borrowed	(202)	(374)	(576)	(478)
Exchange movements	3	203	206	208
Balance at March 31	1,043	5,901	6,944	6,552

32 Convertible Capital Bonds 2005

£ million	Group	
	2000	1999
	113	126

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 each £2.34 (adjusted for the effect of the 1993 rights issue) of Bonds held. On June 15, 1999, 5,732,000 ordinary shares were issued in exchange for 13,416,000 Bonds (June 15, 1998, 10,096,000 ordinary shares were issued in exchange for 23,628,000 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 48,274,000 ordinary shares.

The mid market closing prices of the Bonds and the ordinary shares at March 31, 2000 as quoted in the London Stock Exchange Daily Official List were 149.8p and 329.5p each respectively.

33 Provisions for liabilities and charges

£ million	Group				
	Balance at April 1	Transfers from profit and loss account	Other movements	Provisions applied/ (released)	Balance at March 31
Pensions and similar obligations	9		1		10
Post-retirement medical benefits	23	(1)	2		24
Severance	33	88		(74)	47
Year to March 31, 2000	65	87	3	(74)	81
<i>Year to March 31, 1999</i>	<i>88</i>	<i>35</i>	<i>1</i>	<i>(59)</i>	<i>65</i>
Analysis					
British Airways Plc	62	88	3	(74)	79
Subsidiary undertakings	3	(1)			2
Year to March 31, 2000	65	87	3	(74)	81

The severance provision at March 31, 2000, covers both pension augmentation costs relating to severance for individuals who have left the group in the current financial year and committed severance costs for the next financial year.

34 Litigation

- A number of legal claims have 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 these claims will not give rise to liabilities which will in the aggregate have a material effect on these accounts.
- 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.

35 Share capital

	Group and Company			
	2000		1999	
	Number of shares '000	£ million	Number of shares '000	£ million
Ordinary shares of 25p each				
Authorised				
At April 1 and March 31	1,508,000	377	1,508,000	377
Allotted, called up and fully paid				
At April 1	1,073,167	268	1,038,905	260
Conversion of Convertible Capital Bonds	5,732	2	10,096	3
Exercise of options under Employee Share Option Schemes	1,562		22,371	5
Conversion of scrip dividends	1,054		1,795	
At March 31	1,081,515	270	1,073,167	268

Notes to the accounts continued

36 Share options

Number of shares '000	Group and Company	
	2000	1999
Outstanding at April 1	22,908	45,942
Granted in the year	26,439	
Exercised during the year	(1,562)	(22,371)
Expired/cancelled	(4,425)	(663)
At March 31	43,360	22,908
Date exercisable	2000-2005	1998-2005
Price per share	144p-579p	144p-579p
Price range of options exercised during the year	196p-419p	144p-419p

Share options granted in the year reflect the share purchase in three years time by employees in the 2000 Share Save Scheme.

37 Reserves

a Group

£ million	Share premium account	Revaluation reserve	Profit and loss account	Group total	
				2000	1999
Balance at April 1	764	290	2,033	3,087	3,061
Retained (loss)/profit for the year			(216)	(216)	15
Transfers relating to revalued assets		(5)	5		
Exchange and other movements			(20)	(20)	(63)
Goodwill written back on disposal			7	7	
Other movement on reserves relating to investment in associates					(19)
Reduction in reserves resulting from shares issued to a Qualifying Employee Share Ownership Trust in relation to the 1993 Share Save Scheme (see below)			(2)	(2)	(21)
Share premium	21			21	114
Balance at March 31	785	285	1,807	2,877	3,087

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

b Goodwill

Cumulative goodwill set off against reserves at March 31 comprises:

£ million	Group total	
	2000	1999
In respect of subsidiary undertakings	615	615
In respect of associated undertakings	80	80
In respect of trade investments		7
	695	702

c Company

£ million	Share premium account	Revaluation reserve	Profit and loss account	Company total	
				2000	1999
Balance at April 1	764	290	1,621	2,675	2,756
Retained profit/(loss) for the year			72	72	(138)
Transfers relating to revalued assets		(5)	5		
Exchange and other movements			(31)	(31)	(36)
Reduction in reserves resulting from shares issued to a Qualifying Employee Share Ownership Trust in relation to the 1993 Share Save Scheme (see below)			(2)	(2)	(21)
Share premium	21			21	114
Balance at March 31	785	285	1,665	2,735	2,675

The group has established a Qualifying Employee Share Ownership Trust ('QUEST') for the purposes (inter alia) of the 1993 Share Save Scheme. During the year, contributions of £2 million (1999: £21 million) have been made to the QUEST. The QUEST used the funds to subscribe for 933,537 new ordinary shares (1999: 19,749,829 new ordinary shares) in the group, issued at the market price prevailing on the date of issue. As at March 31, 2000, all shares issued to the QUEST had been transferred to the option holders exercising options under the 1993 Share Save Scheme.

38 Non-equity minority interests

The non-equity minority interest represents euro 300 million of 6.75 per cent 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.

39 Deferred taxation (see also Note 11)

If full provision for deferred taxation had been made at 30 per cent (1999: 30 per cent) the following amounts would have been required:

£ million	Group		Company	
	2000	1999	2000	1999
Accelerated capital allowances less unrelieved losses	1,195	1,144	1,181	1,131
Other timing differences	(6)	4	(33)	(27)
Advance corporation tax	(93)	(93)	(93)	(93)
	1,096	1,055	1,055	1,011

In arriving at the amount of the full provision for the group at March 31, 2000, of £1,096 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.

40 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 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 five 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, 1998 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 further employers' contributions were required in respect of APS while for NAPS an employers' contribution equal to an average of 2.35 times the standard employees' contribution for the period December 1, 1998 to March 31, 2000 (2.20 times for April 1, 1998 to November 30, 1998) was appropriate.

£ million	Group	
	2000	1999
All amounts recognised as costs were either funded or paid directly.		
Employers' contributions (calculated as set out above for APS and NAPS) charged in the accounts were:		
<i>Airways Pension Scheme</i>		
<i>New Airways Pension Scheme</i>	107	94
<i>Other pension schemes and provident funds – mainly outside the United Kingdom</i>	16	17
	123	111

At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £5,889 million and £2,992 million respectively. The value of the assets represented 110 per cent (APS) and 100 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 actuarial 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 together with future contributions from employees was sufficient to cover past service liabilities and some future service liabilities. The employers' contributions are intended to make up the balance of future service liabilities. The principal assumptions used in the actuarial valuations were that, over the long term, the annual increase in earnings would be 0.75 per cent higher than annual increases in dividends. The annual return on investments was assumed to be 2.25 per cent (APS) or 2.5 per cent (NAPS) higher than the onward increase in earnings. Annual pension increases, over the long term, were assumed to be 1 per cent less than dividend growth for APS and 1.5 per cent less than dividend growth for NAPS.

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

Notes to the accounts continued

41 Forward transactions

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

	In currency		Sterling equivalents	
	2000	1999	2000	1999
Maturing within one year				
– to cover future capital commitments in US dollars	US\$150m	US\$774m	£90m	£473m
– to hedge future currency revenues against US dollars	US\$5m	US\$27m		
– to hedge future currency revenues against sterling			£117m	£62m
– to hedge future operating payments against US dollars	US\$190m	US\$66m		
– to hedge future fuel costs in US dollars	US\$1,067m	US\$319m	£669m	£194m
– to hedge debt in foreign currency		US\$225m		£138m
– to hedge debt in foreign currency	euro49m		£30m	
Maturing after one year				
– to cover future capital commitments in US dollars	US\$70m	US\$90m	£42m	£54m
– to hedge future currency revenues against sterling				£2m
– to hedge future operating payments against US dollars	US\$4m			

42 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, 2000			
US dollar	US\$166m	2001-2003	8.4%-9.9%
At March 31, 1999			
US dollar	US\$449m	2000-2003	8.4% – 9.9%

43 Fair values of financial instruments

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

£ million	2000		1999	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash at bank and in hand and overdrafts	98	98	101	101
Short-term loans and deposits	1,043	1,043	1,051	1,051
Bank and other borrowings	(943)	(949)	(1,042)	(1,078)
Finance leases	(1,888)	(1,890)	(1,335)	(1,345)
Hire purchase arrangements	(4,013)	(4,019)	(4,075)	(4,101)
Euro-sterling notes	(100)	(121)	(100)	(136)
Convertible Capital Bonds 2005	(113)	(169)	(126)	(237)
6.75 per cent perpetual preferred securities	(177)	(126)		

43 Fair values of financial instruments continued

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

£ million	2000	1999
	Fair value	Fair value
Interest rate swaps	(4)	(15)
Forward currency transactions	10	14
Fuel derivatives	55	10

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 having been discounted at the relevant interest rates applicable at March 31, 2000.

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, 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 £1,314 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, 2000 there were unrecognised gains of £65 million and unrecognised losses of £4 million relating to hedges of future exposures. Of the unrecognised gains, £63 million are expected to occur within one year and £2 million after one year and of the unrecognised losses £1 million are expected to occur within one year and £3 million after one year.

At March 31, 1999 there were unrecognised gains of £26 million and unrecognised losses of £17 million. Of the unrecognised gains, £24 million related to the period to March 31, 2000 and £2 million related to periods over one year and of the unrecognised losses £9 million related to the year to March 31, 2000 and £8 million related to periods in excess of one year.

44 Contingencies

There were contingent liabilities at March 31, 2000 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, 2000 amounted to £254 million (1999: £182 million) and £670 million (1999: £541 million) respectively. For the company these included guarantees given in respect of the Convertible Capital Bonds and the perpetual preferred securities issued by subsidiary undertakings.

Notes to the accounts continued

45 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 follows:

Qantas Airways Limited

The group has a 25 per cent equity investment in Qantas Airways Limited, 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 for the core 'Kangaroo routes' between Europe and Australia. There was no balance outstanding on this agreement at March 31, 2000 (1999: £5 million).

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

As at March 31, 2000, the net trading balance due to British Airways from Qantas amounted to £22 million (March 31, 1999: amount due to Qantas £15 million).

Jet Trading and Leasing Company ('JTLC') and Prop Leasing and Trading Company ('PLTC')

TAT European Airlines has a 35 per cent equity investment in each of JTLC and PLTC, international aircraft leasing companies. During the year under review, TAT European Airlines paid FF139 million to JTLC for the rental of 7 aircraft (1999: FF126 million) and FF22 million to PLTC for the rental of 4 aircraft (1999: FF22 million).

As at March 31, 2000, the financing balances outstanding were FF38 million for JTLC (1999: FF34 million) and FF33 million for PLTC (1999: FF30 million).

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 the intention is to actively pursue and implement these in the next financial year.

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

Comair

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

As at March 31, 2000, the net trading balance due to Comair amounted to £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.

46 Post balance sheet event

British Airways disposed of its 85.83 per cent shareholding in Participations Aéronautiques (holding company for Air Liberté and TAT European Airlines) on May 4, 2000 to Taitbout Antibes BV. The preliminary loss on disposal, subject to, inter alia, any price adjustment based on the audited net liabilities of Participations Aéronautiques at March 31, 2000 is a loss of £56 million after writing back goodwill of £173 million. The 1999/00 result before taxation of Participation Aéronautiques was a loss of £41 million.

47 Foreign currency translation rates

	At March 31		Annual average	
	2000	1999	1999-00	1998-99
US dollar	1.60	1.61	1.61	1.66
Japanese yen	164	192	180	215
Deutsche mark	3.26	2.94	3.05	2.90
Australian dollar	2.63	2.56	2.50	2.68
French franc	10.92	9.85	10.23	9.72
Euro	1.67	1.50	1.56	n/a

Principal investments

At March 31, 2000

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
Bedford Associates Inc.	Specialist computer reservations software	USA
British Airways Capital Ltd *	Airline finance	Jersey
<i>(89 per cent of founders' shares owned)</i>		
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 mbH	Airline operations	Germany
Go Fly Ltd *	Airline operations	England
Participations Aéronautiques SA (Note 3)	Airline holding company	France
<i>(85.83 per cent of equity owned)</i>		
<i>(Holding company of TAT European Airlines SA and Air Liberté SA)</i>		
Speedbird Insurance Company Ltd *	Insurance	Bermuda
The London Eye Company Ltd*	Leisure company	England
<i>(33 per cent of equity owned)</i>		
The Plimsoll Line Ltd * (Note 2)	Airline holding company	England
<i>(Holding company of Brymon Airways Ltd, Plymouth City Airport Ltd)</i>		
Travel Automation Services Ltd * (Note 2)	Computer reservations systems	England
<i>(Trading as Galileo United Kingdom)</i>		

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	9.0	Airline operations	Spain
Comair	18.3	Airline operations	South Africa

Trade investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Hogg Robinson plc *	14.1	Travel services	England
Equant NV* (Note 1)	1.0	Telecommunications	Netherlands

* Owned directly by British Airways Plc

Notes:

- 1 Percentage of equity is based on latest audited information.
- 2 Subsequent to the year end, the group has disposed of Travel Automation Services Ltd and Plymouth City Airport Ltd. No material sale proceeds or profit or loss arose on these disposals.
- 3 Subsequent to the year end, the group has disposed of Participations Aéronautiques SA (see note 46).

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 taxation

British Airways provides for deferred taxation 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 taxation is generally provided on a full liability basis.

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, 2000, would not, therefore, be included in the financial statements for 2000 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 pounds 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, 2000 amounted to £107 million (1999: £94 million) under UK GAAP compared with an estimated charge of £189 million (1999: charge of £54 million) under FAS 87 'Employers' Accounting for Pensions'. The resultant increase in operating costs of £82 million (1999: decrease of £40 million), net of related deferred tax of £25 million (1999: £12 million), would decrease net income under US GAAP by £57 million (1999: increase of £28 million), and would be reflected in the consolidated balance sheet as a reduction 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 them 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 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 assets 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. This adjustment would have been dealt with as a cumulative effect of change in method of accounting 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, 56 and 57.

Net (loss)/income under US GAAP

For the year ended March 31, 2000

	Group			
	2000 £ million	1999 £ million	2000 \$ million*	1999 \$ million*
(Loss)/profit for the year as reported in the group profit and loss account	(21)	206	(34)	332
Adjustments:				
Other revenue				
Deferred frequent flyer revenue	(136)		(217)	
Depreciation and amortisation				
Goodwill set off in respect of subsidiary undertakings	(15)	(15)	(24)	(24)
Goodwill set off in respect of associated undertakings	(2)	(2)	(3)	(3)
Fleet		1		2
Finance leased aircraft	55	56	88	90
Property	2	1	3	2
	40	41	64	67
Aircraft operating lease costs	(96)	(105)	(153)	(169)
Equity accounting of associated undertakings				
Share of results of associated undertakings	14	(9)	22	(15)
Share of taxation of associated undertakings	(5)	3	(8)	5
	9	(6)	14	(10)
Interest payable	41	47	65	76
Pension costs	(82)	40	(131)	64
Exchange gains/(losses)				
Arising on translation of aircraft related loans	(44)	(74)	(70)	(119)
Relating to revaluation of forward exchange contracts	4	(6)	6	(10)
	(40)	(80)	(64)	(129)
Profit on disposal of tangible fixed assets				
Arising on disposal of revalued aircraft	2	1	3	2
Arising on disposal of revalued property	1	(1)	2	(2)
Arising on sale and leaseback transactions	(2)	(19)	(3)	(31)
	1	(19)	2	(31)
Deferred taxation				
Effect of the above adjustments	64	(1)	102	(2)
Effect of differences in methodology	(192)	(8)	(306)	(13)
	(128)	(9)	(204)	(15)
	(391)	(91)	(624)	(147)
Net (loss)/income as adjusted to accord with US GAAP	(412)	115	(658)	185

* US\$ amounts are included for information only.

Translation rate £1=\$1.60 £1=\$1.61

Net (loss)/income under US GAAP continued

For the year ended March 31, 2000

	Group			
	2000 £ million	1999 £ million	2000 \$ million*	1999 \$ million*
Basic net (loss)/income before cumulative effect of change in accounting principle				
as adjusted to accord with US GAAP	(298)	115	(476)	185
Cumulative effect on prior years of adopting SAB 101	(114)		(182)	
Basic net (loss)/income as adjusted to accord with US GAAP	(412)	115	(658)	185
Diluted net (loss)/income before cumulative effect of change in accounting principle				
as adjusted to accord with US GAAP	(290)	115	(464)	185
Cumulative effect on prior years of adopting SAB 101	(114)		(182)	
Diluted net (loss)/income as adjusted to accord with US GAAP	(404)	115	(646)	185
Number of shares	'000	'000	'000	'000
Basic weighted average number of shares	1,074,823	1,054,543	1,074,823	1,054,543
Diluted weighted average number of shares	1,124,287	1,120,800	1,124,287	1,120,800
Net (loss)/income per ordinary share as so adjusted	Pence	Pence	Cents	Cents
Basic and diluted				
(Loss)/income before cumulative effect of change in accounting principle				
as adjusted to accord with US GAAP	(27.7)	10.9	(44.2)	17.6
Cumulative effect on prior years of adopting SAB 101	(10.6)		(17.0)	
	(38.3)	10.9	(61.2)	17.6
Net (loss)/income per American depositary share as so adjusted				
Basic and diluted				
(Loss)/income before cumulative effect of change in accounting principle				
as adjusted to accord with US GAAP	£(2.77)	£1.09	\$(4.42)	\$1.76
Cumulative effect on prior years of adopting SAB 101	£(1.06)		\$(1.70)	
	£(3.83)	£1.09	\$(6.12)	\$1.76
* US\$ amounts are included for information only.	Translation rate		£1=\$1.60	£1=\$1.61

Shareholders' equity under US GAAP

At March 31, 2000

	Group			
	2000	1999	2000	1999
	£ million	£ million	\$ million*	\$ million*
Shareholders' equity as reported in the group balance sheet	3,147	3,355	5,020	5,406
Adjustments:				
Intangible assets				
Goodwill set off in respect of subsidiary undertakings				
Cost	621	621	991	1,001
Amortisation	(143)	(128)	(228)	(206)
	478	493	763	795
Tangible assets				
Cost				
Fleet	(1,089)	(1,112)	(1,737)	(1,792)
Property and equipment	(372)	(308)	(594)	(496)
	(1,461)	(1,420)	(2,331)	(2,288)
Amortisation				
Fleet, property and equipment	516	498	823	802
Associated undertakings				
Quasi-subsidiary	42		67	
Net equity	(17)	(26)	(27)	(42)
Goodwill set off in respect of associated undertakings				
Cost	80	80	128	129
Amortisation	(14)	(11)	(22)	(18)
	66	69	106	111
Trade investments				
Uplift to market value	115	313	183	504
Goodwill set off in respect of trade investments at cost		7		11
Investment in own shares	(25)	(11)	(40)	(18)
Current assets				
Debtors	3	1	5	2
Cash, short-term loans and deposits	(3)		(5)	
Current liabilities				
Loans, finance leases and hire purchase arrangements	80	47	128	76
Unredeemed frequent flyer liabilities	(136)		(217)	
Other creditors	13	8	21	13
Proposed dividends	138	137	220	221
Pension cost accruals	10	92	16	148
Accruals and deferred income	6	6	9	10
Long-term liabilities				
Loans, finance leases and hire purchase arrangements	570	634	909	1,022
Accruals and deferred income	(15)	(16)	(24)	(26)
Provisions for liabilities and charges				
Deferred taxation				
Effect of the above adjustments	(3)	(126)	(5)	(203)
Effect of differences in methodology	(1,096)	(904)	(1,748)	(1,457)
	(1,099)	(1,030)	(1,753)	(1,660)
	(719)	(198)	(1,147)	(319)
Shareholders' equity as adjusted to accord with US GAAP	2,428	3,157	3,873	5,087

* US amounts are included for information only.

Translation rate £1=\$1.60 £1=\$1.61

Five year summaries

For the five years ended March 31, 2000

Group profit and loss account

£ million	2000	1999	1998	1997	1996
Turnover	8,940	8,892	8,642	8,359	7,760
Operating expenditure	(8,856)	(8,450)	(8,138)	(7,813)	(7,032)
Operating profit	84	442	504	546	728
Share of operating profit in associates	75	62	69	87	103
Other income and charges	5	27	19	52	(1)
Provision against investment in US Airways Group, Inc.				125	
Profit on sale of fixed assets	249	51	169	17	16
Net interest payable	(408)	(357)	(181)	(187)	(261)
Profit before taxation	5	225	580	640	585
Taxation	(15)	(19)	(133)	(90)	(112)
(Loss)/profit after taxation	(10)	206	447	550	473
Minority interests			13	3	
Non equity minority interests	(11)				
(Loss)/profit for the year	(21)	206	460	553	473
Dividends	(195)	(191)	(176)	(154)	(131)
Retained (loss)/profit for the year	(216)	15	284	399	342
Earnings per share					
Basic earnings per share	(2.0)p	19.5p	44.7p	55.7p	49.4p
Adjusted earnings per share	(2.0)p	19.5p	44.7p	55.9p	49.4p
Diluted earnings per share	n/a	19.2p	42.2p	51.1p	44.6p
Diluted adjusted earnings per share	n/a	19.2p	42.2p	51.3p	44.6p
Dividends per share	17.90p	17.90p	16.60p	15.05p	13.65p

Adjusted earnings per share for 1997 have been adjusted to exclude the exceptional operating charge of £127 million and the write back of provision of £125 million against investment in US Airways Group, inc.

Geographical analysis of group turnover and operating profit

	By area of destination				
	2000	1999	1998	1997	1996
Turnover					
Europe	3,400	3,409	3,214	3,168	3,109
The Americas	3,253	3,272	3,073	2,861	2,449
Africa, Middle East and Indian sub-continent	1,220	1,133	1,118	1,134	1,074
Far East and Australasia	1,067	1,078	1,237	1,196	1,128
	8,940	8,892	8,642	8,359	7,760
Operating profit					
Europe	(310)	(166)	(127)	6	26
The Americas	308	451	395	364	315
Africa, Middle East and Indian sub-continent	62	124	125	157	220
Far East and Australasia	24	33	111	146	167
	84	442	504	673	728
Exceptional operating charge for restructuring costs				(127)	
	84	442	504	546	728

Group balance sheet

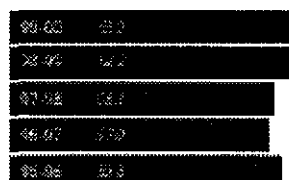
£ million	2000	1999	1998	1997	1996
Fixed assets					
Intangible assets	62				
Tangible assets	10,294	9,839	8,667	7,588	6,826
Investments	567	402	388	684	531
	10,923	10,241	9,055	8,272	7,357
Current assets	2,592	2,583	2,245	2,164	2,684
Creditors: amounts falling due within one year	(3,366)	(3,048)	(2,821)	(3,160)	(2,824)
Net current liabilities	(774)	(465)	(576)	(996)	(140)
Total assets less current liabilities	10,149	9,776	8,479	7,276	7,217
Creditors: amounts falling due after more than one year	(6,728)	(6,356)	(5,128)	(4,260)	(4,664)
Provisions for liabilities and charges	(81)	(65)	(30)	(58)	(59)
	3,340	3,355	3,321	2,958	2,494
Capital and reserves					
Called up share capital	270	268	260	251	240
Reserves	2,877	3,087	3,061	2,733	2,254
Minority interest	16			(26)	
Non equity minority interest	177				
	3,340	3,355	3,321	2,958	2,494

Group cash flow statement

£ million	2000	1999	1998	1997	1996
Cash inflow from operating activities	1,186	1,241	736	1,212	1,424
Dividends received from associates	44	11	12	44	8
Returns on investments and servicing of finance	(315)	(309)	(269)	(221)	(249)
Taxation	(2)	(40)	(134)	(83)	(51)
Capital expenditure and financial investment	(146)	(118)	161	(944)	(699)
Acquisitions and disposals	(218)	(6)	75	(16)	
Equity dividends paid	(242)	(113)	(148)	(131)	(121)
Cash inflow/(outflow) before management of liquid resources and financing	307	666	433	(139)	312
Management of liquid resources	9	(363)	(90)	560	(59)
Financing	(319)	(235)	(372)	(392)	(259)
(Decrease)/increase in cash	(3)	68	(29)	29	(6)



Operating margin (%)



Net debt/total capital ratio (%)

Operating and financial statistics (Note 1)

For the five years ended March 31, 2000

Mainline scheduled services (Note 2)

		2000	1999	1998	1997	1996
Traffic and capacity						
Revenue passenger km (RPK)	m	117,463	118,310	106,739	102,304	96,163
Available seat km (ASK)	m	168,361	167,265	149,659	139,789	130,286
Passenger load factor	%	69.8	70.7	71.3	73.2	73.8
Cargo tonne km (CTK)	m	4,536	4,277	4,181	3,790	3,476
Total revenue tonne km (RTK)	m	16,256	16,075	14,818	14,004	13,084
Total available tonne km (ATK)	m	24,400	23,982	21,410	19,907	18,508
Overall load factor	%	66.6	67.0	69.2	70.3	70.7
Passengers carried	'000	36,346	37,090	34,377	33,440	32,272
Tonnes of cargo carried	'000	897	855	816	721	672
Frequent flyer RPKs as a percentage of total RPKs (Note 3)	%	2.2	2.3	2.2	2.0	1.9
Financial						
Passenger revenue per RPK	p	5.84	5.91	6.38	6.47	6.39
Cargo revenue per CTK	p	11.99	12.32	14.02	14.78	16.20
Average fuel price (US cents/US gallon)		71.46	48.66	64.70	75.90	63.16
Operations						
Unduplicated route km	'000	678	686	769	759	767
Punctuality – within 15 minutes	%	81	79	80	82	82
Regularity	%	99.0	99.2	98.0	99.2	99.1



Passenger (mainline) load factor (%)



Average fuel price (US cents/US gallons)

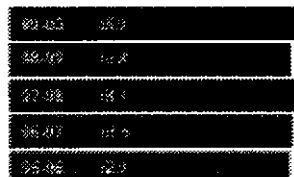
Total group operations

(including Deutsche BA, Air Liberté, CityFlyer Express and go) (Note 4)

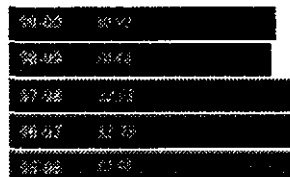
		2000	1999	1998	1997	1996
Traffic and capacity						
Revenue passenger km (RPK)	m	127,425	125,951	113,045	106,059	98,424
Available seat km (ASK)	m	183,158	178,820	159,921	146,182	134,911
Total revenue tonne km (RTK)	m	17,215	16,831	15,406	14,336	13,311
Total available tonne km (ATK)	m	25,840	25,114	22,403	20,542	18,982
Passengers carried	'000	46,578	45,049	40,955	38,180	36,003
Revenue aircraft km	m	742	669	640	579	567
Revenue flights	'000	538	439	420	399	381
Break-even overall load factor	%	65.9	63.4	64.4	63.6	62.9
Financial						
Interest cover	times	1.0	1.7	4.5	4.5	3.6
Dividend cover	times	(0.1)	1.1	2.6	3.6	3.6
Operating margin	%	0.9	5.0	5.8	8.1	9.4
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	1,130	1,427	1,385	1,541	1,508
Net debt/total capital ratio	%	63.9	62.2	58.1	57.0	59.8
Total traffic revenue per RTK	p	47.01	48.04	51.16	53.07	53.21
Total traffic revenue per ATK	p	31.32	32.20	35.18	37.04	37.31
Net operating expenditure per RTK	p	46.52	45.42	47.88	48.37	47.74
Net operating expenditure per ATK	p	30.99	30.44	32.93	33.76	33.48
Operations						
Average manpower equivalent (MPE)		65,640	64,051	60,770	59,218	56,720
RTKs per MPE	'000	262.3	262.8	253.5	242.1	252.8
ATKs per MPE	'000	393.7	392.1	368.7	346.9	362.2
Aircraft in service at year end		366	335	330	308	293
Aircraft utilisation (average hours per aircraft per day)		9.79	8.71	8.48	8.46	8.28

Notes:

- Operating statistics do not include those of associated undertakings (Qantas Airways, Comair and Iberia) and franchisees (British Mediterranean Airways, British Regional Airlines, GB Airways, Maersk Air, Loganair, and Sun Air (Scandinavia)).
- Mainline scheduled services include those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd and Brymon Airways Ltd.
- The carriage of passengers on Frequent Flyer Programme is evaluated on a ticket by ticket basis.
- 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.



Breakeven overall load factor (%)



Net operating expenditure per ATK (pence)

Aircraft fleet

Number in service with group companies at March 31, 2000

	On balance sheet aircraft	Operating leases off balance sheet		Total	Future deliveries	Options	1999-00 revenue hours flown	Average hours per aircraft/day	Average age (years)
		Extendible	Other						
Mainline (Note 1 and 6)									
Concorde	7			7			5,963	2.33	23.3
Boeing 747-100							16,788	11.40	
Boeing 747-200	12	3		15			66,084	11.51	19.2
Boeing 747-400	57			57			264,439	12.75	5.8
Boeing 777	33			33	12	16	121,914	12.00	1.8
Boeing 767-300	27			27			87,528	8.67	7.4
Boeing 757-200	47	3	3	53			137,031	7.11	11.7
Airbus A318					12	12			
Airbus A319 (Note 5)		6		6	33	125	4,209	7.33	0.3
Airbus A320	10			10	20		23,705	6.48	11.2
Boeing 737-200			13	13			36,027	5.72	18.4
Boeing 737-300			7	7			19,234	7.51	2.0
Boeing 737-400	22		12	34			98,577	7.92	8.1
Turbo Props (Note 3)	2		17	19			39,070	5.64	6.0
Embraer RJ145			2	2	5	14	98	8.18	0.1
Hired aircraft							132,561		
Sub total	217	12	54	283	82	167	1,053,228	10.27	8.5
Deutsche BA, Air Liberté, CityFlyer Express and go (Note 2 and 7)									
McDonnell Douglas DC-10-30			3	3			13,666	12.48	23.5
McDonnell Douglas MD82			1	1			234	7.80	18.8
McDonnell Douglas MD83	3		7	10			28,659	7.85	8.2
Boeing 737-300			31	31			77,599	9.05	3.7
Fokker 100	4	7		11			31,906	7.95	8.4
Fokker F28	4			4			7,791	5.34	25.0
Avro RJ100		8		8	2		6,231	5.26	1.6
Turbo Props (Note 4)	1	12	2	15			24,992	5.53	5.5
Sub total	12	27	44	83	2		191,078	7.82	6.9
Group total	229	39	98	366	84	167	1,244,306	9.79	8.2

Notes:

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

2 Excludes 4 ATR 72s, 7 ATR 42s and 2 Embraer subleased to other carriers.

3 Includes 2 de Havilland Canada DHC-7-100s and 17 de Havilland Canada DHC-8s.

4 Excluding 1 ATR 72 and 1 ATR 42, stood down out of service. Including 7 ATR 72s and 5 ATR 42s for CityFlyer Express and 1 ATR 42 and 2 ATR 72s for Air Liberté.

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

6 Excludes 2 McDonnell Douglas DC-10-30s, 1 Boeing 737-200 and 1 Boeing 767-300 stood down pending disposal or return to lessor and 3 Boeing 737-500s delivered but not yet in service.

7 Net increase includes 8 Avro RJ100s, 7 ATR 72s and 5 ATR 42s through the acquisition of CityFlyer Express.

Shareholder information

Shareholders

As at May 17, 2000 there were 264,191 shareholders (May 14, 1999: 256,647). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares	Classification of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	85.23	6.77	Individuals	95.95	13.99
1,001 – 5,000	13.29	6.03	Bank or Nominee	2.82	78.93
5,001 – 10,000	0.83	1.41	Insurance companies	0.06	1.00
10,001 – 50,000	0.37	1.89	Pension trusts	0.02	0.64
50,001 – 100,000	0.08	1.41	Investment trusts	0.08	0.10
100,001 – 250,000	0.09	3.46	Other corporate bodies	1.07	5.34
250,001 – 500,000	0.05	4.48			
500,001 – 750,000	0.01	1.87			
750,001 – 1,000,000	0.01	1.86			
Over 1,000,000	0.04	70.82			
	100.00	100.00		100.00	100.00

Franklin Resources Inc., The Capital Group Companies Inc. and Wellington Management Company have non-beneficial interests in 8.04 per cent, 6.38 per cent and 4.15 per cent of the shares of the company respectively.

General Information

Financial Calendar

Financial year end	March 31, 2000
Annual General Meeting	July 11, 2000

Announcement of 2000-2001 results and dividends

First quarter results to June 30, 2000	August 2000
Second quarter results to September 30, 2000	November 2000
Interim dividend	November 2000 (payable January 2001)
Third quarter results to December 31, 2000	February 2001
Preliminary announcement	mid May 2001
Report and Accounts	June 2001
Final dividend	May 2001 (payable July 2001)

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.
n/m	Not meaningful.

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