



November 2000

Incorporating the summary 2000-2001 interim financial statement

# Investor

Interim dividend announced  
A 'Passion for Service'  
New BA Miles launched

# Your company's performance

Lord Marshall answers your questions about how the airline has performed during the first half of the year

## What are the interim financial results being reported?

With this edition of Investor, we are reporting results for the second quarter and the first half of our financial year, ended September 30. The second quarter has delivered a profit before tax of £200 million. It represents a 400 per cent improvement on the result for the corresponding period of 1999. Operating profit – the basic result from airline operations – was £264 million, an increase of 125 per cent. Operating margin doubled to 10.3 per cent.

Operating profit for the half-year came to £361 million, a rise of 71 per cent; and was achieved in the face of higher fuel costs and the recent suspension of Concorde services. The pre-tax profit for the same period was down at £150 million, because of the difference between the £149 million profit from the sale of our remaining Galileo interest in 1999 and the loss of £67 million on disposals – principally the £56 million book loss from the sale of Air Liberté – this year.



Lord Marshall of Knightsbridge,  
Chairman

**“The results indicate that our objectives of improving margins and increasing shareholder value are beginning to bear fruit.”**

overall competitiveness are beginning to bear fruit. I must stress the word ‘beginning’, however, because while the strategy’s current performance is very satisfying, we have a way to go before realising its full potential. In particular, we can put our fingers on four key factors which have contributed to this excellent improvement:

- The decision to reduce capacity and concentrate on more lucrative network opportunities. Available Seat Kilometres were down by 3.3 per cent over the six-month period.
- Relentless, ongoing cost control. Unit costs were held to an increase of less than one per cent in the second quarter, despite rising fuel prices and exchange rates.
- The impact on the market of our highly successful product and service innovations, notably the new Club World and Club Europe offerings. They have significantly increased high-value sales, thereby boosting yields.
- Generally stronger demand in both the passenger and cargo markets.

## How did the sales figures perform?

Group turnover for the quarter was up by 5.8 per cent, at £2.5 billion and revenue earned during the six months totalled £4.8 billion, an increase of 4.9 per cent, although capacity was reduced. These sales figures show that we achieved better sales returns from fewer seats, with yield rising by almost nine per cent, our biggest-ever, year on year improvement. This is a very welcome and highly-significant development.

## What do these results mean for shareholders’ dividends?

For the half-year, the profit attributed to shareholders after all costs and taxes were taken into account, was £133 million, a drop of 39 per cent due to the non-operating items mentioned earlier. It equates to 12.4 pence per share, also a reduction compared to last year. Nevertheless, the Board has decided to hold the interim dividend at the 1999 level of 5.1 pence per share.

## How do we account for these attractive results? What has changed?

The results indicate that our objectives of improving margins and increasing shareholder value, through effective strategies to sharpen up the business in terms of network, fleet and

**“These sales figures show that we achieved better sales returns from fewer seats, with yield rising by almost nine per cent, our biggest-ever, year on year improvement.”**



### What more is there to do in order to "sharpen up" the company?

Pressing on with our margin-improvement strategy in a bold, highly-focused way is the overriding objective for the long-term. The immediate priority, however, is the need to improve the performance and return on assets of our UK and European shorthaul activities. This is why we have announced plans for the re-assessment of Gatwick-based activities and the structure, within the group, of shorthaul subsidiary airlines. Our low-fare, no frills airline, go, will be sold to realise shareholder value, as it no longer fits the core British Airways strategy of full service to the customer.

### How about the employees of British Airways and the problems of low morale?

There is no doubt that the morale of our people is improving and that this contributed to our performance. Having a better feeling about themselves and their company adds so much extra competitive, customer service drive to their underlying levels of commitment and professionalism. Improved morale is helped by the clearer sense of direction and strength of purpose being demonstrated by the executive management team led by our new Chief Executive, Rod Eddington.

### Finally, will our flagship, Concorde, fly again commercially?

The only answer I can give at this stage is, hopefully as soon as possible. Following the tragic accident in France, we have been working very closely with the British and French authorities, as well as the airframe and engine manufacturers to understand the cause and ensure there are no

### Key facts for the six months ended September 30, 2000

- Dividend held at 5.1p per share.
- Profit before tax £150m.
- Operating profit up 71.1% at £361m.
- Turnover up 4.9% to £4,862m.
- Mainline yield up 8.9%.
- Group unit costs up 2.2%, despite fuel prices up 62.6%.
- Mainline passenger load factor up 1.9pts to 75.0%.

prevailing safety implications for Concorde. Proposals for modifications are being assessed and will have to be formally reviewed and agreed by the safety regulators. We remain confident that Concorde will fly again.

**"There is no doubt that the morale of our people is improving and that this contributed to our performance."**



Our investment in new lounges was designed to attract more business travellers

# Company news

Everything you need to know about your airline

## Introducing our new board members



**Dr. Martin Read,**  
Non-Executive Director

### **Dr Martin Read**

**Managing Director and Chief Executive, Logica**

In the seven years that computer services giant Logica has been under Dr Martin Read's stewardship, its value has soared from £130 million to £9 billion, taking the company into the top 100 on the London Stock Exchange.

This broad business experience built up with Logica, International Paint and GEC Marconi prompted Lord Marshall to approach Martin when he was looking to strengthen the BA Board. "The BA brand has always been very strong, and I admired the way Colin Marshall and Lord King turned BA into a first class airline," he says. "Then, disappointingly, it seemed to lose its way. It forgot that customers and staff matter.

"But in Rod Eddington we have got a man who understands how important it is to inspire the workforce and look after the customer. BA has huge potential, and it is a very exciting time for everyone in the airline."

While the signs are encouraging, he is emphatic that the airline has to make a cultural shift in its thinking and develop "a ferocious instinct" about profit and shareholder value.

"The people who invest in BA expect to see a return on their money. In the past, perhaps, there has been a culture which says 'we fly everywhere because it is our duty'. But there's no point flying from A to B if we can't make any money out of it. At the end of the day we won't be able to fly anywhere if we don't make a decent return on our capital."

Outside BA and Logica, Martin is a non-executive director of Boots and devotes much of his spare time to helping the homeless. He sits on the Management Committee of the Portsmouth Housing Association and on Shelter's Finance Committee. He also manages to find time to improve his French and German, and keeps fit by gardening and jogging around his home near Winchester.



**Martin Broughton,**  
Non-Executive Director

### **Martin Broughton**

**Chairman, British American Tobacco**

Martin Broughton relishes a challenge. As a non-smoker who heads one of the world's largest tobacco companies, he's under pressure much of the time – and loves every minute of it.

"You've always got your back to the wall, fighting your corner," he says. "I suppose that's why the job appeals to me so much." Like the tobacco industry, aviation throws up plenty of challenges. "The normal laws of commercial life still don't really apply," he says, citing the regulatory barriers to expansion and

the relatively small number of slots British Airways has at Heathrow (around 38 per cent) compared with the dominant positions held by Air France at Paris and Lufthansa at Frankfurt. "BA is extremely well positioned to compete in an open market – but the regulators make it more difficult for BA than for other airlines by making the UK a much more open market than is the case elsewhere." Martin has worked for British American Tobacco since 1971, starting as a travelling auditor in a career that took him around the world. "I joined BAT because it was an international group, and it gave me the chance to travel the world at somebody else's expense," he smiled. "During that time, of course, I spent a lot of time on BA."

Martin joined the BA Board in May. His main responsibilities are chairing the Audit Committee, sitting on the Safety Review Committee, and acting as senior independent Non-Executive Director.

Outside his business life, Martin is also an independent director of the British Horseracing Board, fuelled by a long-time love of National Hunt racing which spurred him to own two horses of his own. His favourite course, Sandown Park, lies within easy reach of his Oxted home. When he's not racing he plays a bit of golf ("I hack my way round with a handicap of 23"), is a Chelsea season ticket-holder and enjoys the theatre.



# New

## Miles programme launched

British Airways has launched a new programme for its UK Executive Club members using a new currency – BA Miles. BA Miles make longhaul destinations much easier for Executive Club members to reach. For example, under the BA Miles scheme, members need to fly just five times to Sydney to qualify for one free flight there – compared with 34 flights using *Air Miles*.

The scheme is also easier to understand. Members earn one BA Mile for every mile flown, and destinations are now split into eight simple zones based on distance.

The one drawback for customers is that some shorthaul redemptions become more costly. To recognise this, we are offering members a minimum award of 500 Miles on all eligible flights – even those less than

500 miles – and have launched an introductory offer of 50% off the number of Miles required for their first free flight to destinations that are less than 600 miles return.

BA Miles can be collected with all current airline, hotel, car rental and oneworld™ partners, and with retail partners. The new scheme also allows members to collect Miles on discounted fares at 25% of the standard rate, and family members can now collect and spend their Miles together.

All UK Executive Club members will also have the opportunity to save up their Miles over a period of time, providing their account is active during a three-year period. For more information visit [www.britishairways.com/bamiles](http://www.britishairways.com/bamiles)

## Passion for Service

Customer Service and Operations have launched a new programme for the millennium designed to strengthen our efforts to deliver top-class customer service.

Passion for Service stresses the importance of making every contact with customers count and recognises that, for the airline to be successful, these principles must also apply to the way staff support each other.

The initiative also aims to inspire team members to embrace British Airways' service vision by encouraging staff to talk to customers and respond to their comments. It explores how we can learn from other service industries and how we can implement best practices worldwide.

Embracing the challenge of the 'dot.com' world plays an important part too – the increasing use of electronic media and systems will change the way the airline interacts with its customers. Customers have given a clear message about the use of new technology: 'use it to make my journey smoother, but do not lose the personal and human touch.'

Passion for Service's vision is to inspire all 20,000 staff in Customer Service and Operations to provide the best possible service to every British Airways customer.



Customers will receive top-quality service from all our staff

# Company news

Everything you need to know about your airline



## Share price update

The market for airline stocks, including British Airways shares, was difficult through the summer and early autumn with shares falling to year lows. Concerns over our proposed merger with KLM, ever rising fuel prices and instability in the Middle East all featured. Our shares improved in the run up to our interim results announcement on 6 November. The market responded very favourably both to the results and also to the proposed plans for our shorthaul business. This drove the share price up a further 11% to close at 365p on 7 November.

## Dividend in depth

British Airways has declared its interim dividend. The Board of Directors decided, in the light of an improving trend, to maintain the dividend at last year's level. This means that a dividend of 5.1p per share will be paid to investors.

The record date for the dividend is 17 November 2000. This means that all investors who are on the register of shareholders on 17 November will receive the interim dividend. The dividend will be paid in cash on 31 January 2001.

Alternatively, you might prefer to have your dividend automatically reinvested in British Airways shares by joining the Dividend Share Plan. Details can be obtained by telephoning the Registrar on: 0870 702 0110. To reinvest the interim dividend a completed election form must be received by the Registrar no later than 10 January 2001.

## Dividend timetable

The winter 2000 Dividend timetable is as follows:

6 November 2000	Announcement date
13 November 2000	Shares ex-dividend
17 November 2000	Record date for the dividend
10 January 2001	Final election date for shareholders wishing to take shares instead of cash dividend for those who have not already elected to do so under the Dividend Share Plan
31 January 2001	Cash dividend payment date
20 February 2001	Last date to post Dividend Share Plan certificates



Customers can now spend their BA Miles online

## Online developments continue

British Airways is forging ahead with its online developments, with the launch of a number of exciting new services during recent months.

With these new online services we are keeping pace with the extremely competitive online travel market, enabling customers to carry out an ever-increasing range of transactions online and freeing up valuable staff resources.

Among the most recent developments is the launch of an online redemption facility for UK Executive Club members – allowing them to book online if using their BA Miles to buy a British Airways flight. If you have an online PIN you can use this facility by visiting: [www.britishairways.com/execclub](http://www.britishairways.com/execclub). The service will be launched in North America next year.

## Las Vegas winner revealed

A retired shareholder who has wanted to return to Las Vegas since his first visit last year has seen his wish come true. Alf Parker, of Waltham Cross, Hertfordshire, could scarcely have realised how soon he would be flying back to Nevada after entering the Las Vegas promotion in the June 2000 issue of Investor. His entry was picked out at random among the hundreds which flooded into British Airways' Waterside headquarters. "I was in Las Vegas for four days last year, but it wasn't long enough to do and see everything," he said. "It's a fantastic place – like living in a different world."

Alf, who retired from Universal Oil Products eight years ago, has held shares in British Airways ever since the airline's privatisation 13 years ago. "Buying shares in companies was the big thing at the time, and I thought it would be a good investment." He and his wife Dorothy win a five-night break in 'the city in the desert', courtesy of British Airways Holidays. The prize includes hotel accommodation, return flights from either Heathrow or Gatwick, and Alamo Gold car hire.

American customers already enjoy the convenience of 'Fare Explorer', a facility that allows customers to see at a glance which fares are available on which routes, on which days. Until now customers have had to use a 'trial and error' approach when checking fares online – checking each date individually. UK members will be able to try this service next year, but if you'd like to see how it works, visit: [www.britishairways.com](http://www.britishairways.com) and click on the American flag under 'worldwide'.

These are just the start. Corporate customers can now use our on-line check-in facilities and the latest WAP technology will soon allow customers to check seat availability and arrival and departure information on their mobile phones. And there's much more to come...

The three answers Alf correctly answered were as follows: 1. BA operates three daily services to Las Vegas. 2. Las Vegas is in Nevada. 3. The city was founded in 1855.

### London Eye winners

The five winners of the London Eye promotion, who each receive a family ticket to the capital's hottest attraction, are: M. Elford, of Stourport, Worcs; Sharon Walsh, of Leeds, West Yorks; G. J. Armstrong, of Horsham, West Sussex; Piers Delegh, of Crawley Down, West Sussex; and Mrs D. Osmond, of Lingfield, Surrey.

The answers are: 1. The Eye is 135 metres high. 2. It has 32 capsules. 3. It is expected to draw 2.75 million visitors in its first full year.

## UK Directory

### Registered Office

Waterside, PO Box 365  
Harmondsworth UB7 0GB  
Registered Number 1777777

### Shareholder Information

For queries in relation to your shareholding:

Company Registrars:

Computershare Services PLC  
PO Box 82, The Pavilions,  
Bridgwater Road, Bristol BS99 7NH  
Tel: 0870 702 0110

With your folio number you can check your shareholding online at

[www-uk.computershare.com/investor](http://www-uk.computershare.com/investor)

For requests for Reports & Accounts and Shareholder Benefits:

British Airways Shareholder Services  
Waterside HBA3, PO Box 365  
Harmondsworth UB7 0GB

Tel: 020 8562 5100

email: [cosec.1.cosec@britishairways.com](mailto:cosec.1.cosec@britishairways.com)

The dedicated Shareholder

Reservations Line: 0845 76 007 10

For your flight bookings

How to Contact Us:

[www.britishairways.com](http://www.britishairways.com)

If calling from the UK (24 hours a day):

Fares, Availability and New Bookings,  
Flights, Hotels, Insurance, Car Hire:  
0845 77 333 77

**Flight Arrival and Departure Information:**

0870 55 111 55

**All other Enquiries:** 0845 77 999 77

**Or in the US:** 1 800 247 9297

**Holiday Reservations**

Worldwide, Australia & Tours of the World:

0870 242 4245

America & Canada, Florida, and Cities

& Shortbreaks: 0870 242 4243

**British Airways Travel Shops:**

0845 606 0747

**Travel Clinics:** 01276 685040

# Interim accounts

For the six months ended September 30, 2000

## Summary Group profit and loss account

Unaudited – for the six months to September 30, 2000

£ million	2000	1999	Difference on a year ago
<b>Most of our revenue was earned from our main business, airline operations.</b>			
<i>Income from passengers flying on our scheduled services, plus excess baggage, was</i>	4,095	3,879	+5.6%
<i>Freight and mail carried on scheduled services brought in another</i>	292	269	+8.6%
<i>Revenue from operating charter flights added</i>	34	49	-30.6%
<b>Added together, that gave us a total traffic revenue of</b>	<b>4,421</b>	<b>4,197</b>	<b>+5.3%</b>
<i>Income from other activities, largely aircraft maintenance and other airline services provided to third parties, earned</i>	441	438	+0.7%
<b>This gave us a total Group TURNOVER of</b>	<b>4,862</b>	<b>4,635</b>	<b>+4.9%</b>
<b>Our expenses comprised:</b>			
<i>Pay, pension contributions and other employee costs</i>	1,172	1,269	-7.6%
<i>Depreciation and amortisation of fixed assets</i>	351	314	+11.8%
<i>Charges for hiring the aircraft we fly on operating leases</i>	105	88	+19.3%
<i>Fuel and oil costs (net of hedging)</i>	503	366	+37.4%
<i>Engineering and other aircraft costs</i>	338	354	-4.5%
<i>Airport landing fees and air traffic control charges</i>	339	363	-6.6%
<i>Handling charges, catering and other operational costs</i>	688	663	+3.8%
<i>Selling costs</i>	596	585	+1.9%
<i>Accommodation, ground equipment costs and currency differences</i>	409	422	-3.1%
<b>In total, therefore, our overall Group operating costs were</b>	<b>4,501</b>	<b>4,424</b>	<b>+1.7%</b>
<b>Deducting this from our Group turnover left a Group OPERATING PROFIT of</b>	<b>361</b>	<b>211</b>	<b>+71.1%</b>
<i>We took into account our share of the operating profit of our associated undertakings a sum of</i>	28	30	-6.7%
<i>Other income and charges amounted to</i>	2	3	-33.3%
<i>The net (loss)/profit on disposal of fixed assets and investments during the period was</i>	(67)	191	nm
<i>Net interest payable amounted to</i>	(174)	(195)	-10.8%
<b>This produced a Group PROFIT BEFORE TAX of</b>	<b>150</b>	<b>240</b>	<b>-37.5%</b>
<i>Then we provided for tax totalling</i>	(10)	(17)	-41.2%
<b>This produced a Group PROFIT AFTER TAX of</b>	<b>140</b>	<b>223</b>	<b>-37.2%</b>
<i>In the period, 6.75% interest was paid to holders of 300 million euro preferred securities</i>	(7)	(5)	nm
<b>This left a Group profit attributable to shareholders of</b>	<b>133</b>	<b>218</b>	<b>-39.0%</b>
<i>From this, we allowed for dividends of 5.1p per share, the same as last year</i>	(55)	(57)	-3.5%
<b>Finally, this left a profit retained in the business of</b>	<b>78</b>	<b>161</b>	<b>-51.6%</b>
<b>EARNINGS PER SHARE</b>			
The standard measure of a company's profitability is calculated by dividing profit attributable to shareholders by the average number of shares in issue during the period.			
<i>On this basis, our earnings per share were</i>	12.4p	20.3p	-38.9%

nm = not meaningful

## Independent review report to British Airways Plc

### Introduction

We have been instructed by the Company to review the financial information set out on pages 8 to 9 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### Director's responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in

preparing the preceding annual accounts except where any changes, and the reason for them, are disclosed.

### Review Work Performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions.

It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 6 months ended September 30, 2000.

Ernst & Young, London, November 6, 2000

## Summary Group balance sheet

Unaudited – as at September 30, 2000

£ million	2000	1999
The Group's intangible assets comprised:		
<i>Goodwill</i>	61	
The Group's tangible assets comprised:		
<i>Our fleet</i>	8,469	8,294
<i>Property</i>	1,509	1,419
<i>Computers and ground and other equipment</i>	370	302
<b>Together, these represented our intangible and tangible assets, of</b>	<b>10,409</b>	<b>10,015</b>
<i>In addition, we had invested in other businesses</i>	483	398
<b>So our intangible assets, tangible assets and investments together equalled</b>	<b>10,892</b>	<b>10,413</b>
<b>Our current assets, mainly money we are owed, our "cash in hand" and stock, represented</b>	<b>2,831</b>	<b>3,239</b>
<i>Most passengers book, and pay for, tickets in advance. This money, and amounts owing to creditors that are payable within one year, totalled</i>	(3,341)	(3,207)
<b>Deducting this gave our net current (liabilities)/assets</b>	<b>(510)</b>	<b>32</b>
<b>Adding this to the sum of our intangible assets, tangible assets and investments left us with total assets less current liabilities of</b>	<b>10,382</b>	<b>10,445</b>
In addition, we owed to creditors amounts due after more than a year including:		
Long-term borrowings of	(6,618)	(6,492)
The nominal value of our Convertible Capital Bonds 2005, at £1 each	(113)	(113)
We have also made provision for other liabilities and charges	(74)	(90)
<b>Thus, our assets less liabilities represented</b>	<b>3,577</b>	<b>3,750</b>
The money invested in the British Airways Group comprised:		
<i>Our called-up share capital, some 1,082.1 million 25p shares</i>	271	270
<i>Our reserves</i>	3,114	3,287
	3,385	3,557
<i>Issue of 300 million Euro Preferred Securities which entitle holders to a return of 6.75%</i>	176	193
<i>Amount due to a minority shareholder in one of our subsidiaries</i>	16	
	3,577	3,750

## Key performance indicators

	For the 6 months to September 30, 2000	Difference a year ago
Mainline scheduled services		
Passengers carried	19,835,000	+0.5%
Revenue passenger kilometres (RPKs)	63,677 million	+1.4%
<i>The number of passengers carried, multiplied by the distance they flew in kilometres</i>		
Available seat kilometres (ASKs)	84,893 million	-1.2%
<i>The number of seats available for sale, multiplied by the distance they flew</i>		
Passenger load factor	75.0%	+1.9pts
<i>The percentage of seats available that were actually purchased</i>		
Revenue per RPK	6.05p	+6.0%
<i>How much we received on average from each passenger for every kilometre flown</i>		
Tonnes of cargo carried	467,000	+9.9%
<b>TOTAL GROUP OPERATIONS</b>		
<i>(including Deutsche BA, go and CityFlyer Express; previous year included Air Liberté)</i>		
Passengers carried	24,248,000	-1.9%
Aircraft in service (as at September 30, 2000)	334	-6
Average manpower equivalent (MPE)	62,102	-5.0%
<i>The number of employees adjusted for part time workers and overtime</i>		
Productivity (in terms of available tonne kilometres per MPE)	210,600	+4.9%

# In focus

An in-depth look at the key issues affecting the business today

## European consolidation update

As many of you will already know, our talks with KLM on a possible combination of our businesses were abandoned in September. However, we do still expect to see consolidation in the European airline industry.

In a joint statement with KLM to announce that we would proceed no further in our discussions, Rod Eddington and Leo van Wijk, Chief Executive of KLM, said: "We emphasised throughout that there was no assurance that our discussions would lead to a deal.

"We always recognised that this would be a complex transaction, involving not only commercial and economic issues, but also aeropolitical, regulatory and other matters. We made considerable progress, but it has not been possible to resolve these, so we have decided to draw a line under these negotiations.

"We will now focus all our attention on taking steps to improve the performance of the business, through our fleet and network strategy and continued product improvement, and also by working with our established alliance and franchise partners," Rod Eddington added. "This will include considering how the airline and our oneworld partners could make our global alliance more successful still.

"We are already at the forefront of European aviation in our own right. Our subsidiary Deutsche BA is the second biggest player in the German market, and we have a 9% stake and broad commercial agreement with fellow oneworld member Iberia.

We also have marketing agreements with oneworld members Finnair, and Aer Lingus, plus code-sharing arrangements with Poland's LOT and Hungary's Malev.

"Our franchise family now also includes National Jet Italia, besides Sunair of Denmark, and BASE of the Netherlands." Lord Marshall, British Airways' Chairman, said: "We still believe there must be consolidation in the European airline industry. "We have always been a leading player in this market, and we will continue to look for opportunities to strengthen our position in it."

"The deal with KLM was not right for the company and so we rightly decided not to pursue it."



# Chief Exec



infrastructure, such as terminal and runway capacity and I don't foresee that situation changing in the near future. Heathrow is especially constrained, in a way that Paris and Amsterdam, for example, are not – another reason for looking to Europe for future opportunities.

The Air France Concorde accident was a major tragedy and any safety issues that come out of the investigation will be addressed. Concorde has a special place in the hearts of our company and our customers, and we are keen to see Concorde services resume safely as soon as possible.

Europe has never been more competitive. We have two major competitors in our home market – British Midland and Virgin Atlantic – as well as low cost competitors such as Ryanair and Easyjet. Major European carriers, like Lufthansa and Air France, now provide stiff competition, having been in a state of disarray just five years ago.

We relish the challenges ahead and British Airways is in ever-improving shape to meet those challenges. I have no doubt that we have the people and the products which will restore the company to a proper level of profitability and prosperity.

A handwritten signature in blue ink that reads "R. Eddington". The signature is written in a cursive, slightly slanted style.

**Rod Eddington, Chief Executive**

**Dear Shareholder,**

My first six months as Chief Executive have been an exciting, eventful and challenging time, and I have been encouraged by what I find at British Airways.

British Airways has one of the best brand names in the airline industry and a reputation for high quality customer service. But one of the best things about British Airways is its people. We have many terrific people and I spend as much time as I can talking to people throughout the company. Morale was bruised but our staff have remained highly committed. We are working hard to rebuild and maintain spirits because in a service business, motivated, happy staff are the biggest asset you can have. Our talks with KLM caught many headlines. Consolidation in the European airline industry is beginning to happen. Europe is our backyard and we must be a major player in the consolidation process. Acquiring KLM would be a good strategic move, but only on the right terms. Unfortunately, we weren't able to reach agreement with KLM over the effective control of the company. It is still early days for consolidation, and we don't need to rush into a deal.

In the long term, British Airways will need to grow outside the UK. Our home base in London is constrained by a major lack of

utive's view...