BRITISH AIRWAYS

2002/2003 Annual Report & Accounts

Key Results

			2002-03	2001-02
Group results				
Turnover	m	down 7.8%	**7,688**	8,340
Operating profit/(loss)	m	n/m	**295**	(110)
Profit/(loss) before tax	m	n/m	**135**	(200)
Attributable profit/(loss) for the year	m	n/m	**72**	(142)
Net assets	m	up 3.0%	**2,274**	2,207
Basic earnings/(loss) per share	p	n/m	**6.7**	(13.2)
Key financial statistics				
Airline operations yield	p/RPK	down 1.3%	**6.58**	6.67
Operating margin	%	up 5.1 points	**3.8**	(1.3)
Net debt/total capital ratio	%	down 5.3 points	**60.7**	66.0
Group operating statistics				
Passengers carried	'000	down 5.0%	**38,019**	40,004
Revenue passenger kilometres	m	down 5.8%	**100,112**	106,270
Revenue tonne kilometres	m	down 2.9%	**14,213**	14,632
Available tonne kilometres	m	down 6.7%	**21,328**	22,848
Passenger load factor	%	up 1.5 points	**71.9**	70.4

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Chairman's Statement

Group pre-tax profit for the year was £135 million, compared to a loss of £200 million in the previous year. At the operating level, a surplus of £295 million, including an exceptional cost item of £84 million, was achieved. Profit attributable to shareholders was £72 million. No interim dividend was paid and the Board has recommended that no final dividend be paid.

Year in review

For your company and the air transport industry as a whole, this has been the most difficult period in living memory. In the first part of the year, we were still suffering from the aftershock of September 11th, 2001, together with accelerating world-wide economic downturn. As the year progressed, the threat of war in the Middle East began to loom large, creating uncertainty and severely depressing demand. Towards the end of the financial year, hostilities broke out with their inevitable, adverse consequences for international travel in general, and services to the Middle East, in particular. It seemed that the situation could not get any worse. Then, in the last month of the year, news broke of a new, unknown, contagious disease, SARS, Severe Acute Respiritory Syndrome, with devastating effect.

It is reliably estimated that over the three year period 2001/2003, the air transport industry will have accumulated a collective loss of around £26 billion. Some major airlines have gone out of business entirely, others are struggling to remain viable. In the US, carriers have been propped up by government handouts and loan guarantees, a competitive advantage not available to - nor desired by - your company. The industry is in a state of disarray, if not despair.

Against this sombre background, our result stands out as a welcome, creditable performance. The fact that the profit is derived from reducing costs, rather than improving revenue and yield, tells the story of the year.

Revenue earned was £7.7 billion, a reduction of £650 million from the previous year, with yield down by 1.3 per cent. Passenger numbers reduced by 5 per cent to 38 million. Cargo volume increased by 4.4 per cent, however, freight yield fell by 4 per cent.

Capacity deployed in the market decreased by almost 8 per cent and performance, in terms of revenue passenger kilometres achieved, declined by less than 6 per cent. This drove the load factor up by 1.5 percentage points to 71.9 per cent.

The well-established drive to cut costs and improve efficiency continued relentlessly under the Future Size and Shape programme. A total of £1 billion of costs was taken out of the business, resulting in unit costs reducing by 5.5 per cent. Manpower has been reduced by the equivalent of 10,000 people since August, 2001, and by September, 2003, a reduction of a further 3,000 is targeted. The Chief Executive reports on these strategic matters in more detail elsewhere.

To withstand an inevitable loss of business through war in the Middle East, it was obvious that financial reserves would be needed. Consequently, your company built up cash funds and available credit lines of more than £2 billion. The closing cash balance of £1.65 billion is our largest ever for year end.

Concorde

One of the year's most significant and difficult decisions concerned the much-anticipated retirement of the Concorde fleet. In April, we announced that Concorde would be withdrawn from service at the end of October, 2003.

Our decision was made in the light of compelling economic and technical evidence. The sharp decline in demand for premium class travel, because of factors already described, had a particularly heavy effect on Concorde. Supersonic service across the North Atlantic was reduced by 50 per cent, as traditional Concorde customers stayed away or traded down, and there was faint hope of services returning to profitability or breaking even. At the same time, with Concorde now well into its third decade of commercial service, maintenance needs were becoming more intensive and, consequently, more uneconomic. An in-depth technical review of Concorde operations was carried out with Airbus Industrie, the descendant manufacturer. This concluded that there was no realistic prospect for the operation of Concorde beyond October, 2003. Retiring Concorde resulted in a write off of £84 million in the year under review.

Concorde has a unique place in air transport history and we have been extremely proud to have the world's only supersonic transport as the British Airways flagship for almost 30 years. As the embodiment of far-sighted vision, technological supremacy and sheer human endeavour, Concorde has won a special place in the hearts of people across the globe, but especially in Britain, where the aircraft has become a national icon. Over its last months of service, Concorde is being celebrated with a programme of special promotions and commemorative activities. After retirement, the Concorde fleet will not be scrapped, but kept for posterity in places of honour at some of the world's great aviation museums and at other locations.

Investments and disposals

During the year, it was agreed by British Airways and Thomas Cook UK, to dissolve the 50/50 joint venture company, Accoladia Ltd., as the partnership no longer fitted the strategies of either company. It was, therefore, announced in November that Thomas Cook UK would acquire the stake held by your company and that Accoladia would become a wholly owned subsidiary of Thomas Cook UK. The British Airways Holidays brand would revert to British Airways' control. Shortly after the end of the year, British Airways Holidays launched its first programmes since its re-integration with British Airways. The programmes, Florida and Tropical Beaches, are for holidays in 2004. Three more programmes are to be launched during 2003.

In March, easyJet advised that it did not intend to exercise the option, secured through agreement in May, 2002, to acquire our German subsidiary, dba (formerly Deutsche BA). Under the terms of the agreement, easyJet paid your company £6.1 million for the purchase option.

Industry Development

The crises of the past two years have highlighted the urgent need for reform and re-structure within the European airline industry. The existing international regime covering airline ownership and airspace sovereignty has prohibited the industry from responding in a normal, commercial way. There are too many inter-continental airline network bases, or hubs, in Europe and consolidation through cross-border merger and acquisition is badly needed, but so far the regulatory rules have made this impossible. We welcomed, therefore, the second stage of an initiative for progressive change put forward at the end of February by the European Transport Commissioner, Loyola de Palacio. If ratified by the European Parliament and the European Council of Ministers, it would allow the Commission to negotiate an 'open skies' agreement with the US to create a transatlantic free market in air transport and co-ordinate air services agreements with other countries. This would effectively give European airlines an EU 'nationality' status, so allowing mergers to take place, with no adverse impact on international route rights.

Alliances

All members of the **one**world alliance have been affected by the unstable economic and political environment, but the alliance continues to deliver a good deal of benefit to the airlines and their customers. Closer productive ties continued to be established with our **one**world partners. New codeshare arrangements were agreed with Finnair, Iberia and Cathay Pacific.

In April, the US Department of Transportation tentatively approved the application for British Airways and American Airlines to codeshare on a wide number of flights beyond our respective gateways in the UK and in the USA.

Aviation Policy

After being stalled over the issue of whether or not Gatwick should be considered for runway expansion, consultation on the Government's proposed new 30-year aviation policy resumed in early 2003. Needless to say, British Airways is playing an energetic role in this process. In due course, growth will return to the industry and the global air transport market remains on track to double, in terms of passenger numbers, over the next 10-15 years. In the Southeast of England, passenger journeys are expected to rise three-fold - to 300 million a year - by 2030. If Britain is to remain at the forefront of world commercial aviation and therefore international economic development, it is clearly vital that the operating infrastructure is enhanced and expanded. We welcome the Government's commitment to draw up a progressive, long-term aviation policy and look forward to publication of the much-awaited White Paper before the end of 2003. Development is necessary throughout the UK, but the key issue is additional runway capacity for London and the Southeast. We believe firmly that the only logical answer is to build on established strengths and continue to press for the construction, on a sustainable basis, of a short third runway at Britain's only global hub, Heathrow.

Corporate Social Responsibility

The very difficult business climate has not diminished your company's commitment to high standards of corporate social responsibility. We have continued to work hard to improve performance in this increasingly important area. Apart from the fact that British Airways believes in social responsibility, including environmental care and concern for the communities we serve and in which we work, there are sound business reasons for this. Consumers will more and more judge a company on its integrity and ethics, as well as the value of its commercial products and services.

Details of the corporate social responsibility programme are provided in the Directors' Report, but last year British Airways became a founder member of the Business In The Community CSR Index. In the interests of recognising best practice and raising standards, we also take part in the Dow Jones Sustainability Index and the FTSE for Good scheme. Our Social and Environmental Report for 2002-03 will be available to shareholders in July. The publication gives a critical assessment of performance in these areas and provides an annual yardstick.

Our People

The people of British Airways have become accustomed to working in an uncertain environment of competitive and economic pressure, but they are hardly likely to have experienced a year as tough as the one under review. Nevertheless, employees everywhere, at every level, have stuck unfailingly to their jobs, maintaining standards of service to our customers and to each other, in a collective commitment to business recovery. Necessary manpower reductions are never easy to implement, but we are thankful that they have been achieved on a voluntary basis. As always, I am grateful for the professionalism and dedication of our people. They are, in my considered view, the best in this ever-challenging business.

The Board

I am also grateful for the support of my fellow Board members. Their commitment to your company and wise counsel over its affairs is always appreciated, but never more so than at times of crisis.

The Board takes its responsibilities for ensuring high standards of corporate governance throughout your company very seriously, as confirmed in the Directors' Report. We comply fully with the Combined Code laid down by the UK Listing Authority and await the final outcome of the Higgs review of the role and effectiveness of non-executive directors, which was published in January.

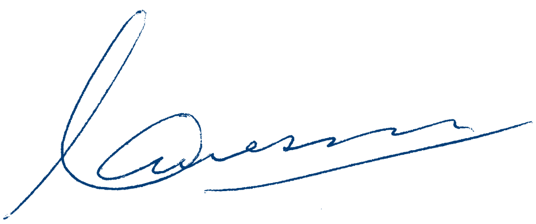
At the annual general meeting, Martin Broughton, Rod Eddington, and Martin Read will be standing for re-election for further three year terms. Having already served for ten years, Baroness O'Cathain will stand for re-election on an annual basis.

Outlook

We expect the business environment will continue to be challenging in 2003/2004 ahead of an economic recovery.

Forecasting revenue against a backdrop of continuing global economic weakness, SARS, and Middle East developments is very difficult, however, the outlook is that revenue in Quarter 1 will be lower than last year. Visibility beyond the first quarter is not clear.

The implementation of our Future Size and Shape programme and other cost cutting initiatives is on track and delivering more than the expected cost savings.



Lord Marshall of Knightsbridge
Chairman

Statement from the Chief Executive

There should be no doubt about the challenges that face our industry and this company. A press article summed it up when it suggested that the aviation industry must feel it has been assailed by the Four Horsemen of the Apocalypse in recent years.

They came in the guise of foot and mouth, September 11th, the threat of war and the reality of war in Iraq and, more recently, SARS, Severe Acute Respiratory Syndrome. All against a backdrop of continuing economic downturn.

Perhaps the toughest and certainly the saddest decision we had to make this year was to retire Concorde. The Concorde story has been one of the most compelling in the history of commercial flight and our pride in the aircraft will never wane.

Our supersonic flagship has served Britain and British Airways well in the past 27 years, and I am determined that we will make its final six months in the sky a time for celebration.

Our year end results, however, are proof of our management resolve and determination to remain focused, despite world events, on delivering sustained profitability through the Future Size and Shape programme, announced in February last year.

Future Size and Shape

At the heart of the Future Size and Shape programme are three simple tenets; to reduce costs, restructure the shorthaul operations and remove complexity from the business.

We have made significant progress towards these goals and seized further opportunities during the year to drive down costs and build on these principles.

Our target remains to deliver £650 million in annualised cost savings by March 2004. Of this, we aimed to achieve £450 million annualised cost savings and a manpower reduction equivalent to 10,000 by March 2003. We have exceeded both which is no mean feat given the hostile environment.

In a difficult climate, cash is always king. We maintained both record cash and committed facilities totalling £2,058 million which gave us confidence to combat the uncertainty in the months leading up to and during the war in the Middle East.

A new shorthaul low fares initiative spearheaded our competitive response to the no frills carriers. In April, we began the phased roll out of the new year-round low fares, scrapping traditional restrictions on tickets, beginning with the UK domestic market. By September, the new fares were extended across Europe to a total of almost 180 routes.

Underpinning the success of the new shorthaul model was the introduction of the new on-line booking engine called Fare Explorer, supported by a massive advertising campaign using the broadest mix of media ever. I am happy to say our aircraft on these routes are flying fuller, much to the chagrin of our no frills rivals.

We also reduced travel agency commissions in the UK and the US and the use of e-ticket continues to grow.

The changes we made utilising different distribution channels have resulted in a saving of £100 million on distribution costs.

We completed the planned-for reshaping of Gatwick which began early in 2001 and was accelerated as part of the Future Size and Shape programme. By summer this year we will have nearly halved the number of destinations served from Gatwick and moved 30 of them around the M25 to Heathrow.

We have also reduced the aircraft types operating from Gatwick from six to three and the unprofitable transfer traffic to around 20 per cent. Gatwick continues to be essential as a point-to-point airport.

Manpower

Turning to manpower reductions, we set a target of 10,000 by March 2003 and we have achieved 10,182. We will not be complacent in this respect. Our target of an overall headcount reduction, under the Future Size and Shape programme, of 13,000 by March 2004 has been accelerated to September this year.

Headcount reductions have been achieved with the support and understanding of our trade union representatives whom I commend for their sensible approach on this.

We managed to achieve these headcount reductions largely through natural wastage. The Business Response schemes that allow staff to take voluntary unpaid leave for as little as a month to two years have made an important contribution. Early retirement and voluntary severance were only used in a very targeted way.

It became clear, however, in the build up to the Iraq war, that the revenue outlook was going to be tougher than we had anticipated. Further steps were required if we were to achieve our stated aim of a 10 per cent operating margin.

Building on the principles of the Future Size and Shape programme, we implemented a two year Business Plan setting targets for 2005. This business planning process happens every year as you would expect.

The Plan identified the need for additional cost savings of a further £450 million most of which will be achieved by cutting our annual £3 billion external spend, excluding fuel, by 10 per cent. Greater use of e-technology for customers, staff and agents will deliver the remainder.

Franchisees and Alliances

At the beginning of the year, British Airways CitiExpress - a wholly owned subsidiary of British Airways - carried out its own Future Size and Shape review which identified the need for a further cost saving of £20 million to ensure the profitability of its services throughout the UK.

British Airways signed a 'heads of terms agreement' with easyJet for the sale of dba granting easyJet the option to buy 100 per cent of the company by the end of the year. Whilst easyJet eventually decided not to go ahead, they paid British Airways £6.1 million for the option.

As the Chairman has noted, our efforts to pursue our relationship with American Airlines continue and I am delighted that we have received tentative approval from the US regulatory authorities for codesharing on destinations beyond British Airways' UK gateways and American Airlines' US gateways.

We have consolidated our relationship with **one**world partner, Iberia. We sought regulatory approval for an immunised alliance.

In the meantime we expanded our codesharing agreement to cover a total of 45 routes. We will continue to find ways to deepen the relationship.

I am pleased that the European Commission approved our alliance relationship with SN Brussels enabling us to codeshare on six routes in Europe.

Products and Services

Cost reduction has been our priority, but we have balanced it against the need to continually re-invest in products and services to ensure we offer the very best to our customers.

The award winning Club World flat beds and the World Traveller Plus product is now flying on all longhaul services out of Heathrow. Embodiment is due to start soon on aircraft operating from Gatwick. The Executive Club is being re-launched to make the scheme simpler and deliver better benefits and incentives to our most loyal customers.

Modern technology is allowing us to place more and more control in the hands of our customers, when it comes to on-line booking, fare selection, electronic ticketing and self-service check-in. 41 per cent of our shorthaul leisure point-to-point traffic at the lowest fare level is sold on-line exceeding our target of 33 per cent by March 2003. We are aiming to achieve 50 per cent by March 2004.

Pensions

In April, the web-based British Airways Retirement Plan, which is a defined contribution pension scheme, was introduced. This followed a thorough review of pension arrangements, taking into account the changing competitive environment, new accounting standard (FRS17), market volatility and rising life expectancy.

The new arrangements do not affect the pension benefits of members of the company's existing schemes, APS and NAPS.

Other developments

We lobbied hard against the CAA's proposed 6.5 per cent increase in airport charges from April 2003-2008, which mean airlines pay £300 million in advance for services that airlines and passengers won't benefit from for many years. These extra costs are an additional burden we do not need at this time.

Despite the year's difficulties there have been a number of highlights. British Airways is the official carrier for the England football squad until 2004, for both the World Cup qualifiers and the European Championships in Portugal. We are joint sponsors with Qantas of the 2003 Rugby World Cup in Australia. British designer, Julien Macdonald, unveiled new uniform ideas for customer contact staff which have been undergoing wearer trials. The British Airways London Eye has attracted more than eleven million visitors since it opened in 2000, confirming its place as Britain's top paid-for visitor attraction.

Clearly the outbreak of SARS has had an impact on our business and will continue to do so. Our priority has been the health and safety of both our passengers and our staff and we have taken particular care with our crew flying into affected areas. This enabled us to maintain services with the minimum of exposure and inconvenience to passengers and staff.

It is, of course, another brake on world economic growth which is required to kick-start business travel again.

However, I am hopeful we will see an upturn in consumer confidence both here and in the US. There are signs of it already in America.

It is vital that we are in position to encourage and exploit any upturn in the market. In anticipation of this, we have launched a powerful worldwide TV, print and poster advertising campaign to kick-start travel. Called "It's Time", it reminds leisure and business customers, as its title suggests, that it's time to take to the air again.

Rod Eddington

Rod Eddington
Chief Executive

Operating and financial review

Summary

Group profits before tax for the year were £135 million; at an operating level, profits were £295 million.

Business performance

The improvement in operating profit against the prior year reflects substantial cost reduction initiatives, particularly the delivery of the first year of the Future Size and Shape (FSAS) programme. This was partially offset by the deterioration in revenue caused by economic weakness, war, competitors, terrorism and Severe Acute Respiratory Syndrome (SARS).

All of the first year targets of the FSAS programme, in relation to manpower savings, capital expenditure, asset disposals, procurement, information technology and distribution costs, were exceeded. The rollout of the new shorthaul pricing model was also completed and simplification of the UK regional operation continues.

Background to financial performance

The following table sets out the year-over-year percentage changes in group turnover and in selected operating statistics for the two years ended March 31, 2003:

	%(Decrease)/Increase Year ended March 31	
	2003	2002
Group turnover	**(7.8)**	(10.1)
Group operations		
Volume (RTK)	**(2.9)**	(13.9)
Capacity (ATK)	**(6.7)**	(9.3)
Yield (Revenue/RTK)	**(3.8)**	4.2

Turnover

Group turnover fell in the year by 7.8 per cent to £7,688 million. Revenue from airline operations (passenger and cargo) accounts for approximately 92 per cent of group operating revenue. For the twelve month period, airline operations revenue fell by 6.6 per cent to £7,074 million on a flying programme 6.7 per cent smaller in ATKs.

Airline operations passenger traffic (RPKs) declined 5.8 per cent, whilst capacity (ASKs) was reduced by 7.9 per cent; as a result passenger load factor increased by 1.5 points compared with 2001/02 to 71.9 per cent. Passenger yield (passenger revenue per RPK) deteriorated by 1.3 per cent for the full year.

Cargo volumes (CTKs) were up 4.4 per cent compared with last year but yields fell by 4.0 per cent. Cargo revenue was almost flat, up 0.2 per cent from £483 million to £484 million.

Other revenue fell 20.2 per cent to £614 million, primarily due to a reduction in revenue from the Qantas Joint Services Agreement, as well as deterioration in third party wetleasing and engineering revenue.

Expenditure

Unit costs (net operating expenditure per ATK) were 5.5 per cent lower than a year ago; total costs were down over £1 billion or 12.5 per cent. The average number of employees in the group, in manpower equivalents (MPE), fell by 11.6 per cent to 53,440 (2002: 60,468) and productivity (ATKs per MPE) improved by 5.6 per cent.

Operating expenses

	Year ended March 31		
	2003 £m	2002 £m	(Higher)/ Lower than 2002 (%)
Employee costs	**2,107**	2,409	12.5
Depreciation & amortisation	**734**	770	4.7
Aircraft operating lease costs	**189**	199	5.0
Fuel and oil costs	**842**	1,028	18.1
Engineering and other aircraft costs	**592**	673	12.0
Landing fees and en route charges	**576**	615	6.3
Handling charges, catering and other operating costs	**961**	1,110	13.4
Selling costs	**706**	824	14.3
Accommodation, ground equipment costs and currency differences	**686**	822	16.5
Total	**7,393**	8,450	12.5

The operating expenditure for the year ended March 31, 2003 includes an exceptional charge of £84 million relating to Concorde - the retirement of the Concorde fleet in October, 2003 was announced on April 10, 2003.

Employee costs fell by 12.5 per cent to £2,107 million primarily reflecting reduced staff numbers due to the FSAS programme and other efficiency actions, as well as the prior year impact of the £80 million restructuring charge. In total, MPEs, at group level, were down by 4,854 compared with March, 2002, and by 11,880 compared with August, 2001.

The costs relating to the delivery of the total FSAS manpower reduction of 13,000 during the financial year ending March, 2004 are included in the existing restructuring provision.

Depreciation and amortisation costs reduced by 4.7 per cent to £734 million reflecting primarily the withdrawal of the Boeing 747-200 fleet (including the prior year accelerated depreciation) partially offset by the £58 million exceptional charge relating to the impairment of capitalised Concorde engineering modifications and rotable inventory.

Aircraft operating lease costs reduced by 5.0 per cent to £189 million as a result of the return to lessors of Embraer 145s and Dash 8s, as well as Boeing 737-300s. These were partially offset by a £27 million onerous lease provision relating to the sub-lease of the British Airways CitiExpress Jetstream 41 fleet (12 aircraft) to Eastern Airways.

Fuel and oil costs fell by 18.1 per cent to £842 million due to hedging benefits, reduced flying, efficiencies from smaller, newer aircraft and the exchange rate effect of the weaker US dollar, which more than offset the increase in price.

Engineering and other aircraft costs reduced by 12.0 per cent to £592 million reflecting a volume related reduction in subcontract costs, cost efficiencies and exchange benefits, partially offset by the exceptional charge of £26 million relating to the write-down of Concorde stock, together with increased costs of hull insurance post September 11th, 2001.

Landing fees and en route charges fell by 6.3 per cent to £576 million. This principally reflects benefits from reduced flying and the recovery of service charges from transfer passengers, as well as efficiencies.

Handling charges, catering and other operating costs decreased by 13.4 per cent to £961 million, as a result of reduced passenger numbers, reduction in subcontract costs and efficiencies across the operational areas.

Selling and marketing costs fell by 14.3 per cent to £706 million. The introduction of the new agent commission structures, reduced sales volume and exchange rate effects were the main reasons for this reduction, partially offset by increases in advertising and promotional activity to support the launch of the new shorthaul pricing model.

Accommodation, ground equipment costs and currency differences fell by 16.5 per cent to £686 million. This reflected a reduction in contractors, reduced information management spend, reduced property costs, exchange differences and lower bad debt provisions, partially offset by increases in insurance.

Future Size and Shape

The FSAS restructuring programme continued during the year, with all 2002/03 targets delivered.

Annualised cost savings for the financial year 2002/03 totalled £570 million, £120 million better than target - targets for all the FSAS programmes (manpower, distribution, procurement and information technology) were exceeded.

The implementation of the shorthaul low fares initiative is complete with lower fares available without the previous restrictions on 172 routes.

Capital spend for the year was £319 million, £131 million better than the FSAS target of £450 million. Disposal proceeds were £393 million for the year, taking the cumulative FSAS total to £611 million, £111 million better than the £500 million March, 2003 target.

The reduction of 10,182 against the FSAS target of 10,000 was included in the group manpower reduction of 11,880 since August, 2001.

The two year Business Plan announced in February, 2003 reaffirmed our commitment to delivery of the 2003/04 FSAS objectives, together with additional focus on external spend and Customer Enabled BA (CEBA). CEBA is the umbrella name for a programme emerging as a major transformational force in British Airways. It covers:

- e-ticket (including interline)
- Relationship self-service
- Trip self-service
- Integrated pricing

Geographical analysis

The operating result improved in all regions compared with last year as cost performance more than offset the deterioration in revenue. Traffic was down in all areas except Domestic where lower prices throughout the year stimulated demand.

The effect of war and terrorism on Americas traffic and yield was more than offset by cost improvements and despite the impact of the exceptional charges relating to Concorde, Americas remained the most profitable region.

In addition to cabin mix benefits and lower fuel prices, Africa and South Asia both benefited from underlying yield improvements.

Reduced capacity on the Pacific routes and improvements in scheduling had a positive impact on loads and yields.

Shorthaul prices fell, reducing yields in an intensively competitive environment, but an 11 per cent reduction in capacity out of London cut volume-related costs and raised seat factors. This, combined with aggressive cost initiatives and lower fuel prices, halved last year's loss in Europe.

British Airways CitiExpress

British Airways is continuing to take steps towards simplifying and strengthening its UK regional operation. During the year, Manx Airlines, a wholly owned subsidiary, was integrated into British Airways CitiExpress Limited, which also assumed full operational control of another subsidiary, British Airways Regional.

During the year it was announced that two bases (Cardiff and Leeds-Bradford) would close and British Airways CitiExpress would withdraw from 21 regional routes. These changes are complemented by fleet simplification, with Airbus and 737 fleets having been transferred to mainline operations and Regional Jets switched from mainline to British Airways CitiExpress.

In addition, the entire fleet of 12 BAe Jetstream 41 Turboprop aircraft are being sublet to Air Kilfoyle Limited (trading as Eastern Airways). A number of routes previously operated by British Airways CitiExpress using this aircraft type will now be operated by Eastern Airways. This was the first part of an accelerated strategy to move to an all-jet regional operation.

In April, 2003, British Airways CitiExpress began flying from London City Airport to Frankfurt and Paris Charles de Gaulle, and to Glasgow in May, 2003.

In April, 2003, British Airways CitiExpress announced extensive further cost reductions following a review of the future direction of the regional operation. Immediate actions will reduce the cost base by £20 million, £7 million of which will be achieved in the financial year 2003/04. The next phase of the plan will generate improvements in the areas of network optimisation, product and distribution costs.

Alliance benefits

The **one**world alliance includes eight airline members; British Airways, Aer Lingus, American Airlines (AA), Cathay Pacific, Finnair, Iberia, LanChile and Qantas. Co-operation across the alliance in a number of areas benefits the customer and increases the airlines' effectiveness. **one**world offers a substantial package of customer benefits, including reciprocal reward and recognition programmes, common lounge access, smoother transfers, increased customer support and greater value.

In January, 2002, the US Department of Transportation's conditions for an anti-trust immune deal with AA were deemed by BA/AA to be too onerous to proceed with the plans. Both parties remain committed to an alliance relationship and on April 9, 2003 following a joint application, the Department of

Transportation granted tentative rights for the two airlines to codeshare on each other's routes excluding those between the US and London. This permission will be reviewed after a period of two years.

Outside **one**world, co-operation with Japan Airlines continues in the form of Frequent Flyer Programme agreements. British Airways and British Airways CitiExpress now codeshare with SN Brussels Airlines on routes between the UK and Brussels. Exemption from the anti-competitive provisions of Article 81 of the Treaty of Rome was granted by the European Commission on March 10, 2003, in respect of British Airways/SN Brussels Airlines cooperation for a six year period.

Following LOT Polish Airlines' decision to join the STAR alliance a number of bilateral arrangements between British Airways and LOT focusing on the London Heathrow - Warsaw route were terminated in March, 2003.

Subsidiaries

On March 17, 2003 it was confirmed that easyJet did not wish to take up their option to buy dba; during the period of the option British Airways received a total of £6.1 million in capital contributions and option payments from easyJet.

Qantas

The nine year relationship with Qantas is British Airways' longest standing and deepest alliance relationship. Under the Joint Services Agreement (JSA) there is full strategic, tactical and operational co-operation on all of British Airways' and Qantas' flights which serve markets between the United Kingdom and Continental Europe, Southeast Asia and Australia. This co-operation continues to strengthen and provides customers with improved flight departure times, routings and value for money, offering the very best of customer service to all passengers.

British Airways and Qantas continue to co-ordinate sales and marketing activities worldwide, and to share all costs and revenues on the JSA routes, giving both companies an incentive to improve the joint business. Additional value has been generated with cost savings and revenue co-operation across almost all functions.

Qantas' pre-tax profit for the six months ended December 31, 2002 (included in the March 31, 2003 result) amounted to A$513.1 million, an increase of 122 per cent on the corresponding period last year. Group profit after tax amounted to A$352.5 million, up 130 per cent. Revenue for the six months was A$5.9 billion, up 9.3 per cent compared to last year. Passenger revenue increased by 10.8 per cent and was due to growth in RPKs of 9.4 per cent and an increase in yield of 1.2 per cent.

Overall capacity grew by 5.2 per cent compared with the prior half-year. However, due to the effects of terrorism and the war in Iraq, Qantas moved capacity from the international network to the domestic network. International capacity reduced by 3.3 per cent across the period and domestic capacity increased by 24.9 per cent. International RPKs increased by 2.5 per cent and domestic by 24.5 per cent helping to increase overall seat factor by 3.0 points to 79.9 per cent.

Total expenditure, including interest, increased by 4.3 per cent to A$5.4 billion mainly due to costs associated with the increase in capacity, although a decrease in fuel costs has partially offset this. Cost per ASK decreased by 0.9 per cent.

In September and October 2002, Qantas issued new shares by way of an institutional placement and shareholder placing respectively. British Airways did not take up its allocation which resulted in the dilution of the group's shareholding from 21.4 per cent to 18.9 per cent.

Iberia

Following the acquisition of a 9 per cent stake in Iberia in 2000, work has been undertaken to generate value through commercial co-operation. The two airlines expanded bilateral co-operation by introducing codesharing on routes between the UK and Spain including London Heathrow and Gatwick, to Madrid and Barcelona.

Iberia's profit before tax for the 12 months to December 31, 2002 (included in the March 31, 2003 result) was Euro 194.1 million, compared to a loss before tax last year of Euro 85.2 million.

Franchising

As at March 31, 2003 there were 7 franchisees operating to 94 destinations of which 65 are additional to the British Airways and British Airways CitiExpress network. During the year, Zambian Air Services Limited, previously a franchisee, ceased operations.

Share of operating profit in associates

British Airways' share of operating profits from associated undertakings improved by £17 million to £39 million during the year, principally due to improvement in the operating profits of Qantas.

In November, 2002, British Airways sold its 50% shareholding in Accoladia, the joint venture between Thomas Cook Limited and the outbound tour business of British Airways Holidays. In December, 2002, British Airways sold its stake in the Australian travel businesses Concorde International Travel and World Aviation Services. During the year British Airways completed the sale of a 70 per cent stake in World Network Services (India) to Warburg Pincus, retaining an indirect 16.8 per cent stake at March, 2003.

Profit on disposal of fixed assets and investments

Profits on disposals of fixed assets and investments for the year were £60 million, down £85 million from last year when our disposal of Go Fly Limited in June, 2001 generated £98 million.

Disposals during the year included Boeing 777-200, 737-400, 757-200 and the sale and leaseback of Airbus A320 aircraft as well as GE90 engines. There was also significant rationalisation of our property portfolio including the sale of the New York Crew Hotel, Astral Towers Crawley and Odyssey Business Park. Where necessary these property sales were accompanied by the leasing of space from the purchaser for differing periods depending on future business requirements.

Net interest payable

Net interest expense for the year was £255 million, £23 million lower than the previous year. This included a charge for the revaluation of yen debt (used to fund aircraft acquisitions) of £10 million, compared to a credit the previous year of £49 million. The revaluation - a non cash item required by standard accounting practice - results from the strengthening of the yen against sterling.

Excluding the revaluation, the improvement in interest expense reflected lower rates, a higher cash balance and lower gross debt, together with exchange benefits.

Other income/charges

Other charges of £4 million for the year primarily relate to the write-down of our investments in the trade exchange Cordiem, and The Airline Group (NATS), partially offset by £7 million of lease transfer income. The £5 million write-down in the value of NATS equity to £7.3 million reflects revised estimates of the future long-term returns.

This compares to other income of £21 million in the prior year, relating primarily to £22 million compensation received from the UK Government for the closure of US airspace immediately following September 11th, 2001.

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. During the year the group has remitted profits to the UK from subsidiaries and associates including those in Australia and Spain. The UK tax charge arising on such profits has been offset partially by credits for taxes paid overseas and by other loss surrenders. No tax arises on profits on disposals as such profits are covered by tax losses from current and prior periods.

Earnings per share

For the twelve month period, profits attributable to shareholders were £72 million, equivalent to earnings of 6.7 pence per share, compared with losses of 13.2 pence per share last year.

Aircraft fleet changes

The number of group aircraft in service at March 31, 2003 was 330, a reduction of 30 on the prior year. Aircraft disposals and returns to lessors comprised 9 Boeing 757-200, 2 Boeing 777-200, 6 Boeing 737-300, 2 Boeing 737-400, 4 de Havilland Canada DHC-8 and 2 Embraer RJ145 aircraft. Deliveries comprised 11 Airbus A320 and 1 Embraer RJ145 aircraft. Of the 12 British Airways CitiExpress Jetstream 41 aircraft, 1 had been sub-leased and 11 stood down pending sub-lease to Eastern Airways.

Other stand downs included 1 Boeing 757-200, and 2 Boeing 737-400 aircraft pending disposal or return to lessor, together with 2 Concorde, reflecting the announcement on April 10, 2003, that the fleet will be retired from service in October, 2003.

Capital expenditure

Group capital expenditure on tangible assets is set out in Note 14e to the accounts.

The following table summarises group capital expenditure in the two years ended March 31, 2002:

	Year ended March 31	
	***2003* £m**	*2002 £m*
Aircraft, spares, modifications and refurbishments (net of refund of progress payments)	**225**	*739*
Property and equipment	**95**	*121*
Landing rights	**32**	*12*
	352	*872*
Investments	**24**	*44*
	376	*916*

Capital expenditure authorised and contracted for, but not provided in the accounts amounts to £482 million for the group (2002: £749 million), and £476 million for the company (2002: £723 million). The outstanding commitments include £456 million which relates to the acquisition of Airbus family aircraft scheduled for delivery over the next three 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.

Working capital

At March 31, 2003, net current liabilities were £179 million, down £463 million on last year. This change principally reflects higher short-term loans and deposits and cash (£433 million) and reduced trade creditors, due to reduced operational expenditure. These were partially offset by a reduction in debtors, mainly due to lower volumes and revenue, and reductions in stock.

Sales in advance of carriage increased from £716 million to £783 million, mainly due to the timing of Easter.

Cash flow

Net cash inflow from operating activities totalled £1,185 million, an improvement of £319 million on last year. Investment in tangible fixed assets amounted to £293 million, £452 million less than last year. The sale of tangible fixed assets and investments generated proceeds of £351 million.

Leases and other financing arrangements

The following table sets out the movements in loans and capital obligations under finance leases and hire purchase arrangements for the two years ended March 31, 2003:

£ million	Bank and other loans	Finance leases and hire purchase arrangements	Total **2003**	*Total 2002*
Balance at April 1	1,545	5,856	**7,401**	*7,043*
New loans raised	13		**13**	*495*
Assumed from subsidiary acquired during the year				*117*
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft		221	**221**	*512*
Repayment of amounts borrowed	(189)	(608)	**(797)**	*(712)*
Effect of exchange rate changes	(37)	(112)	**(149)**	*(54)*
Balance at March 31	1,332	5,357	**6,689**	*7,401*

Eleven A320 aircraft were delivered during the year. Five of the aircraft were financed through US dollar denominated operating leases and two aircraft were financed through UK operating leases. The remaining four aircraft were financed on balance sheet; two through US dollar denominated cross border finance leases and two through UK finance leases.

Three A319 aircraft that were delivered in the previous year were financed during the year through US dollar denominated cross border finance leases. Five shorthaul Airbus aircraft that had been delivered and financed on operating leases shortly after September 11th, 2001 were refinanced during the year at lower rates on US dollar denominated operating leases.

A Boeing 777-200 which had also been delivered and financed in the previous year was refinanced at lower rates through a cross border US dollar denominated finance lease.

In June, 2002, British Airways successfully raised US $85 million by way of a 30 year New York municipal bond issue. This bond was issued to finance the recently completed renovation of the JFK terminal in New York.

For the purposes of the financial statements, foreign currency debt is translated into sterling at year end exchange rates. Gains and losses on translation are recognised in the profit and loss account except for changes in the sterling value of US dollar denominated debt that finances US dollar denominated fixed assets. These gains or losses are taken to reserves, together with the differences arising on the translation of the related assets. The debt translation gain taken to reserves amounted to £139 million (2002: £4 million loss).

Net debt/total capital ratio

Net debt at the year end amounted to £5,149 million, including convertible bonds of £112 million, and net of cash and short-term loans and deposits totalling £1,652 million. This reduction in net debt of £1,145 million from last year resulted from additional cash, short-term loans and deposits (£433 million), and exchange effects. Debt repayments were partially offset by new loans and finance leases taken out.

The net debt/total capital ratio stood at 60.7 per cent, a 5.3 point reduction versus last year mainly due to the reduction in net debt. Including obligations under operating leases, net debt was 64.2 per cent, a 4.9 point reduction from last year.

Share capital

The number of shares allotted, called up, and fully paid on March 31, 2003 was 1,082,784,318 (March 31, 2002: 1,082,757,107). On June 17, 2002, 24,000 ordinary shares were issued in exchange for 57,000 Convertible Capital Bonds 2005 on the basis of one ordinary share for every 2.34 Bonds held. During the year, 3,000 shares were issued on the exercise of options under Employee Share Option schemes.

Other Matters

Management of financial risks

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

Responsibility for ensuring that treasury practices are consistent and compatible with the agreed governance statement is vested in a Finance Committee. Group Treasury implements the agreed policies on a day-to-day basis with a view to meeting the treasury objectives in a risk averse though cost effective manner. These objectives include ensuring that the group has sufficient liquidity to meet its day-to-day needs and to fund its capital investment programme and other investments; deploying any surplus liquidity in a prudent and profitable manner; managing currency, interest rate, fuel 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 27c. The group demonstrated its continuing ability to raise new financing by financing all aircraft deliveries during the year and putting in place committed facilities for all aircraft deliveries until March 31, 2004.

At March 31, 2003 approximately 58 per cent of the group's borrowings (after swaps), net of cash, short term loans and deposits, were at fixed rates of interest and 42 per cent were at floating rates. This proportion of fixed rate borrowings has increased from 48 per cent at March 31, 2002 as the group has taken advantage of the availability of historically low fixed rate funds and increased its short term loans and deposits.

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. 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 27a.

During the year the company's senior unsecured debt rating was maintained at one notch below investment grade. However, the major rating agencies have placed the company on Credit Watch as there is a risk of a downgrade due to continuing revenue pressures. The impact of any downgrade would be limited as there are no financial covenants in the existing debt portfolio. Furthermore, the group's main source of external funding, being secured aircraft financing, is less sensitive to credit ratings than the unsecured bond market.

Liquidity and investments

The continuing risk of terrorist attacks and the Iraq War led us to build and maintain high liquidity during the year. Cash flow was managed effectively through this period by successful implementation of the first year of our FSAS programme. This involved restoring our positive operating margin through cost cutting, reducing capital spend to £319 million (2002: £906m) and a programme of asset sales which yielded £611 million in the 15 months to March 31, 2003. We have also maintained the substantial committed borrowing facilities established in 2001.

At March 31, 2003 the group had at its disposal short-term loans and deposits and cash at bank and in hand amounting to £1,652 million (2002: £1,219 million). In addition, the group had undrawn long-term committed aircraft financing facilities totalling approximately US$541 million, a committed short-term unsecured revolving credit facility of US$100 million and undrawn uncommitted overdraft and money market lines with a number of banks totalling £80 million.

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 three years.

Surplus funds are invested in high quality short-term liquid instruments, usually bank deposits. 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 more than 100 foreign currencies, and generates a surplus in most of these currencies. In recent years the US dollar has been an exception to this as capital expenditure, together with ongoing operating lease and fuel payments denominated in US dollars has created a deficit. However, in the year to March 31, 2003 the group generated a surplus of US dollars as its capital expenditure and fuel costs reduced.

As a result, the group can experience adverse or beneficial effects arising from exchange rate movements; the group is likely to experience beneficial effects from a strengthening of foreign currencies and an adverse effect from a strengthening in sterling.

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 utilises its 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 37.

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 within the guidelines and parameters laid down by the Board of Directors and is designed to limit risk. The company's policy is not to trade in derivatives but to use these instruments to hedge actual and 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. The majority of these swaps are embedded in lease and loan agreements. A smaller number of interest rate swaps are not associated with specific loans and leases and are disclosed in Note 38. During the year the company increased the use of such instruments through fixing the interest payable on US$240 million for a period of five years as US dollar fixed rates continued to fall.

Forward foreign exchange contracts and collars are used to cover near term future revenues and operating payments in a variety of currencies. Forward foreign exchange contracts and collars outstanding at March 31, 2003 are summarised in Note 37.

The company considers the purchase of interest rate and foreign exchange options as bona fide treasury exposure management activities. It would not generally contemplate the opening of new exposures by selling options, except where the risks arising from selling the option are covered by other elements of the hedging portfolio or underlying exposure, for example, as a component of a collar. 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 Treasury Committee, which is made up of representatives from relevant internal departments.

In meeting these objectives, the fuel risk management programme allows for the judicious use of a number of derivatives traded on regulated exchanges in London (the International Petroleum Exchange) and New York (the New York Mercantile Exchange) as well as on the Over The Counter (OTC) markets, with approved counterparties and within approved limits. The instruments used include futures contracts, options and swaps. The Treasury 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. Counterparty credit risk is generally restricted to any hedging gain from time to time and is controlled through mark to market based credit limits.

Economic and Monetary Union

The airline is maintaining its corporate readiness for UK entry should a decision to join be taken.

Board members *as at May 19, 2003*

CHAIRMAN
Lord Marshall of Knightsbridge (69)
Board Member since 1983, Chief Executive 1983-1993, Executive Chairman 1993-1996; Non-executive Chairman since 1996. Chairman of the Nominations Committee. He is also Chairman of Invensys plc, and a non-executive director of HSBC Holdings Plc.

CHIEF EXECUTIVE
Roderick Eddington (53)
Executive Board member since 2000. Rod Eddington joined the airline as Chief Executive in May, 2000. He is a non-executive director of News Corporation and of John Swire & Son Pty Limited.

CHIEF FINANCIAL OFFICER
John Rishton (45)
Executive Board member since September, 2001. Having originally joined the airline in 1994 as Senior Vice-President Finance USA, John Rishton was appointed as Chief Financial Officer in September, 2001.

DIRECTOR OF CUSTOMER SERVICE AND OPERATIONS
Mike Street (55)
Executive Board member since December, 2000. Mike Street has been Director of Customer Service and Operations since 1997. He sits on the Council of Buckinghamshire Chiltern University College.

NON-EXECUTIVE DIRECTORS
Maarten van den Bergh (61)
Non-executive director since 2002. Audit and Nominations Committees. He is Chairman of Lloyds TSB Group Plc and a non-executive director of BT Group plc and Royal Dutch Petroleum Company, having previously been President of Royal Dutch Petroleum Company and Vice-Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of companies.

Martin Broughton (56)
Non-executive director since May 2000. Chairman of the Audit Committee and senior independent non-executive director. Nominations, Remuneration and Safety Review Committees. Martin Broughton is Chairman of British American Tobacco p.l.c.

Dr Ashok Ganguly (67)
Non-executive director since 1996. Audit and Safety Review Committees. A Fellow of the Royal Society of Chemistry, Ashok Ganguly is Chairman of Technology Network (India) Private Limited and ICICI OneSource Ltd, director of ICICI Knowledge Park Ltd, Mahindra & Mahindra Ltd, Wipro Corporation, Tata AIG Life Insurance Co. Ltd, Reserve Bank of India, Hemogenomics Pvt Ltd and New Skies Satellites.

Captain Michael Jeffery (58)
Non-executive director since October, 2001. Chairman of the Safety Review Committee. Captain Jeffery was Director of Flight Operations from 1995 until his retirement from British Airways in June, 2001. He is a member of the West Michigan University College of Aviation Advisory Board.

Baroness O'Cathain (65)
Non-executive director since 1993. Audit and Safety Review Committees. Detta O'Cathain is also a non-executive director of BNP Paribas UK Plc and South East Water plc.

Dr Martin Read (53)
Non-executive director since May, 2000. Chairman of the Remuneration Committee. Martin Read is Group Chief Executive of LogicaCMG plc and a non-executive director of the Boots Group PLC.

Lord Renwick of Clifton (65)
Non-executive director since 1996. Remuneration and Safety Review Committees. Previously British Ambassador to the United States and to South Africa. He is Vice Chairman Investment Banking of J P Morgan Europe, Chairman of Fluor Ltd, director of BHP Billiton, Harmony Gold, SABMiller Plc, Compagnie Financiere Richemont AG and a Trustee of The Economist.

COMPANY SECRETARY Alan Buchanan (44)

PRESIDENT EMERITUS
The Lord King of Wartnaby (85)
Lord King was Chairman of British Airways for 12 years from 1981, and served as President from 1993 to 1997.

LEADERSHIP TEAM
Rod Eddington (53) Chief Executive

John Rishton (45) Chief Financial Officer

Mike Street (55) Director of Customer Service and Operations

Paul Coby (47) Chief Information Officer

Lloyd Cromwell Griffiths (58) Director of Flight Operations

Martin George (41) Director of Marketing and Commercial Development

Alan McDonald (52) Director of Engineering

Roger Maynard (60) Director of Investments and Alliances

Dale Moss (54) Director of Sales Worldwide

Neil Robertson (50) Director for People

Robert Webb QC (54) General Counsel

Directors' report

The directors present their Report and Accounts for the year ended March 31, 2003. The accounts are set out on pages 25 to 58.

Principal activities

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

Results for the year

Profit for the year attributable to members of British Airways Plc amounted to £72 million, against a loss on the same basis of £142 million in the previous year. No interim dividend was paid during the year. The Board has recommended that no final dividend should be paid.

Directors

The names and details of the directors are set out on page 12. During the year to March 31, 2003 there were a number of changes to the membership of the Board. Maarten van den Bergh was elected to the Board by shareholders at the annual general meeting on July 16, 2002 and at the conclusion of that meeting Michael Davies and the Honorable Raymond Seitz retired from the Board.

Rod Eddington, Martin Broughton, Baroness O'Cathain and Dr Martin Read retire and seek re-election in accordance with the company's Articles of Association at the annual general meeting to be held on July 15, 2003. Biographical notes about the directors seeking re-election are set out on page 12. They are also in the explanatory notes of the notice of annual general meeting.

Directors' membership of Board Committees appears on page 12. Details of the directors' remuneration and share interests are set out in the Remuneration Report on pages 20 to 23.

Employee involvement

The motivation and commitment of employees are key to the success of British Airways and the company seeks to foster them in a number of ways.

Employee ownership in the company is encouraged. As at May 12, 2003, 51 per cent of employees owned 2.34 per cent of the company's shares. The Sharesave 2000 plan, which attracted over 36,000 applications from employees in 73 countries, matures in June, 2003. Participants will have the opportunity to acquire shares at the predetermined option price of £2.38, or alternatively not to exercise their option and keep their savings.

The company obtained shareholder approval at the annual general meeting held in July, 2000 to operate free share and partnership share plans in line with the new tax regime for all-employee share schemes. There are currently no time-scales on launching these new plans.

The company has a comprehensive internal communications programme to ensure employees are well informed about the business and the airline industry in general. Its weekly staff newspaper, BA News, is distributed free to all staff and there is, in addition, extensive communication through face to face briefings and electronic media, including the company's intranet. In addition, British Airways runs employee opinion surveys from time to time to gauge employee views.

The company works constructively with its recognised trade unions. There are well-developed structures within the company for appropriate trade union involvement. This includes BATUC, a monthly forum where the company's executive management provides a business update for trade union representatives.

Equal Opportunity

British Airways promotes equal opportunity and diversity in all areas of employment across the company. Training, raising awareness and improving communication around diversity issues remain key priorities. Each area of the company has a diversity action plan and a senior level diversity champion who ensures that local actions and communications are delivered effectively.

Disability

There is an established Disability Working Group and a Users Group which drives improvements for both our disabled employees and customers. This year, to coincide with the European Year of the Disabled, there is a focus on improving accessibility of our web site and on reviewing access at airports for physically disabled customers.

Corporate Responsibility - Community and Environment

In difficult trading conditions, the company has continued to work to improve its environmental and social responsibility performance.

The Corporate Community Relations and Environmental Affairs teams are charged with implementing community and environmental policy through provision of support and advice, as well as monitoring, measuring, and reporting across the areas of social and environmental performance.

British Airways is a member of the London Benchmarking Group and uses their model to value contributions. The company is also a member of Business in the Community's Percent Club which reported our total contributions for the year end March 31, 2003 as £1.6m (2002: £5.3m). British Airways' direct charitable donations (cash donations to charity) for the year to March 31, 2003 were £237,804 (2002: £515,802).

British Airways carries out a wide range of community and environment programmes. The Board approved priorities are youth development, heritage and tourism, and the environment. Over 800 travel awards were made during the year to charities and other not for profit organisations working in these areas under the "British Airways Communities and Conservation" programme. The airline's Tourism for Tomorrow Awards recognise tourism projects from around the world that are leading the industry in best practice in responsible tourism.

Since it opened in October 1999, more than 20,000 students have passed through the British Airways Community Learning Centre, located in the parkland at our London headquarters, Waterside. The programmes offered are based around our core competencies and include information technology, languages, customer service, and environmental awareness. The success of the centre depends on partnership with local schools and their teachers, and the Educational Business Partnerships in the local boroughs of Hillingdon, Hounslow, Slough and Windsor. In partnership with the Nuffield Foundation, programmes are now being taken to the communities around regional airports served by British Airways with Birmingham, Newcastle, and Manchester schools now benefiting from the Language Flag Awards.

British Airways supports and encourages employee involvement with charities and local communities. A payroll giving scheme is run for our current and retired UK staff and £631,779 was given for the year ended March 31, 2003 (2002: £708,205) to a range of charities chosen by the staff members. The British Airways Volunteering Awards recognise and reward employees with successful applicants receiving cheques for the charity they support. Our thanks goes to all our customers and cabin crew who continue to support the Change for Good partnership with UNICEF which has raised more than £15 million for projects in 40 developing countries providing children with basic health education and welfare. The programme funded two large scale projects: the immunisation against polio of 1.2 million Zambian children under the age of 5 years in July, 2002 and the rebuilding of Kuje school in Abuja, Nigeria into a model of a child friendly primary school, transforming the lives of 3,500 children. British Airways sponsored the inclusive theatre company Chicken Shed to work with the community around Heathrow. Weekly workshops for 100 children are held in the Waterside theatre with British Airways staff and parents volunteering as practitioners on the programme. Race for Life took place for the fourth year in the Waterside parkland. Run and organised by employees, it raised £55,000 for Cancer Research (UK).

The environmental performance of aviation has been in the spotlight, as the Government conducts its White Paper consultation. British Airways supports the addition of a short third runway at Heathrow Airport, but we also support conditions to limit its environmental impact. In developing our response to the Government, we have met with local residents and proposed changes to the runway plan to meet some of their concerns - including the threat to local access roads and the historic buildings of Harmondsworth. On the new runway, we have suggested limiting its use to quieter aircraft and preventing night flights. We have also proposed that at the airport as a whole, there should be no increase in night flights and that noise contours meet the level recommended by the Terminal 5 planning inquiry, even with a third runway.

Local air quality has been a particular focus of activity, following the suggestion in the Government consultation paper that a new runway could lead to a serious breach of EU air quality limits. We have sought to address this concern and improve the understanding of the impact of airport emissions on air quality in West London. This has included sponsoring two air quality surveys in the Heathrow area, which are still continuing, and contributing to discussions on improving air quality modelling. To oversee this work, we have established a stakeholder group, including government experts and local authority representatives. This research should enable an effective mitigation strategy to be developed for local air quality, even in the presence of a third runway.

The global warming impact of aviation has remained a priority area. British Airways continues to support emissions trading as the most environmentally effective and economically efficient mechanism to limit carbon dioxide emissions from aviation. We have made a successful start to our participation in the UK Emissions Trading Scheme - achieving a 16% reduction in our contribution to the UK CO_2 inventory in 2002, compared to the 1998-2000 baseline. This is considerably ahead of our target and has triggered an incentive payment of £1.3 million from the UK Government. We also remain committed to our target of a 30% fuel efficiency improvement in the 20 years to 2010. We continue to contribute to discussions within the International Civil Aviation Organisation on promoting more fuel-efficient industry practices and establishing an effective long-term framework for limiting the contribution of international aviation to global warming.

We continue to monitor and seek to improve our operational environmental performance, focusing on reducing noise, emissions, waste and local congestion. We operate voluntary limits on night noise, including avoiding arrivals at London airports before 4.30am. We are working with National Air Traffic Services (NATS) to limit aircraft approach noise, including a trial of new flight guidance systems.

Environmental management is being incorporated in the corporate Quality and Safety framework and environmental compliance is also overseen by a cross-functional team which has access to senior management through the Head of Environmental Affairs.

Our annual Social and Environmental report for 2002-03 will be available from July. We have produced an annual environment report since 1992 and this will be the fourth joint social and environmental report. Our 2001-02 report was shortlisted for the Association of Certified Chartered Accountants Sustainability reporting awards. This report and further information is available on-line at www.britishairways.com/responsibility or by writing to Environmental Affairs, British Airways Plc, Waterside (HBA3), PO Box 365, Harmondsworth, UB7 0GB, UK.

Political donations

At the annual general meeting in 2002, shareholders passed a resolution to approve donations to EU political organisations and EU political expenditure (as such terms are defined in section 347A of the Companies Act, 1985 (as amended)) not exceeding £250,000 per year for the next 4 years. This was done in response to the provisions of the Political Parties, Elections and Referendums Act 2000, which obliges companies to obtain prior shareholder approval before this type of cost can be incurred. The Board has repeatedly stressed that it does not make donations to political parties in the ordinary meaning of those words and that is has no intention of doing so.

The scope of the provisions of the 2000 Act are unclear and some of the activities which the company carries on, such as allowing additional paid leave to employees to perform civic duties (for example, to allow local councillors to attend council meetings) may now require prior shareholder approval. After taking legal advice, the company has set up a procedure to monitor certain types of expenditure which could reasonably be expected to fall within the intention of the 2000 Act (arguably a much narrower category than falls within the letter of the law). The amount expended in the period from April 1, 2002 to March 31, 2003 was £nil (2002: £10,283).

Corporate governance

The company has complied throughout the year with the code of best practice set out in Section 1 of the Combined Code appended to the Listing Rules of the Financial Services Authority. The Board of British Airways Plc meets ten times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the company, and for these purposes the Board has drawn up a schedule of matters reserved for Board decision. In recognition of the international nature of the airline business, the Board endeavours to hold at least three of its meetings each year at important destinations on British Airways' route network.

The Board is led by the Chairman and the executive management of the company is led by Rod Eddington, the Chief Executive. During the financial year under review, the Board reduced in number from twelve to eleven members. Of the eleven members serving at the year end, three were executive directors and eight were non-executive directors. Two of the non-executive directors, the Chairman, and Captain Michael Jeffery, were formerly executives of the company. The other six non-executive directors are fully independent, drawn from a diversity of business and diplomatic backgrounds, bringing a broad range of views and experiences to Board deliberations. As yet, there is no accepted definition of "independence" for these purposes, however, acknowledging that under many "codes" Baroness O'Cathain will be deemed to lose her independence on May 27, 2003 by virtue of having been on the Board for more than ten years, the company proposes that her appointment should be subject to annual re-election by shareholders. Martin Broughton is the senior independent non-executive director on the Board.

All directors receive a regular supply of information about the company so that they are equipped to play as full a part as possible in Board meetings. All Board members have access to the Company Secretary for any further information they require. Non-executive directors are encouraged to visit the company's operations and to speak to customers and employees whenever they fly. Independent professional advice would be available to directors in appropriate circumstances, at the company's expense. All directors are required to submit themselves for re-election every three years. 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 senior independent non-executive director, Martin Broughton. The Commitee consists soley of independent non-executive directors. At the beginning of the year the members were Martin Broughton, Ashok Ganguly, Baroness O'Cathain and Michael Davies who retired on July 16, 2002. Maarten van den Bergh joined the Committee on January 1, 2003. The external and internal auditors, the General Counsel and the Company Secretary normally attend meetings of the Committee and have rights of access to it. However, the Committee has held closed meetings and has met privately with each of the external and internal auditors. Executives attend as required. The Committee reviews the company's financial statements to ensure that its accounting policies are the most appropriate to the company's circumstances and that its financial reporting presents a balanced and understandable assessment of the company's position and prospects. It also keeps under review the company's system of internal control, including compliance with the company's code of business conduct and the scope and results of the work of internal audit and of external audit, together with the independence and objectivity of the auditors. The Committee is also responsible for oversight of the company's policy on whistleblowers.

The Safety Review Committee meets at least five times per year under the chairmanship of Captain Michael Jeffery, a former Director of Flight Operations, and its other members are Martin Broughton, Ashok Ganguly, Baroness O'Cathain and Lord Renwick. The Committee considers matters relating to the operational safety and security of the airline and subsidiary airlines as well as health and safety issues.

The Nominations Committee meets once a year, and additionally if required, to consider the balance of the Board's membership, to identify any additional skills or experience which might benefit the Board's performance, and to interview candidates and recommend appointments to the Board. The Committee also reviews the performance of any director seeking re-election at the forthcoming annual general meeting. Its Chairman is Lord Marshall and, with effect from April 1, 2003, its other members were Martin Broughton and Maarten van den Bergh. Prior to this date, the Committee consisted of Lord Marshall, Martin Broughton, Baroness O'Cathain and Maarten van den Bergh who replaced Michael Davies on the Committee as from July 16, 2002. No member of the Committee participates in any discussion of his or her own performance.

The Remuneration Committee of the Board meets at least twice a year and additionally if required to determine the company's policy on executive directors' remuneration and remuneration for senior executives below Board level, to review that remuneration and to consider and decide grants under the company's long term incentive and share option plans. The Report of the Remuneration Committee on pages 17 to 19 gives full details of the remuneration policy as well as the policies on notice periods and termination. The Committee consists solely of independent non-executive directors and is chaired by Dr Martin Read. Its other members, with effect from April 1, 2003, are Martin Broughton and Lord Renwick. Prior to this date, the Committee consisted of Dr Martin Read and Baroness O'Cathain with Martin Broughton replacing Michael Davies from July 16, 2002. No director is involved in deciding his or her own remuneration. Towards the end of the year under review, the Board carried out its first performance evaluation exercise, a process which will be refined during the current year.

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 as well as annual institutional investor events. The presentations from these institutional investor events are also available to private shareholders through the investor relations website, www.bashares.com. Private shareholders receive the British Airways Investor magazine twice annually and are encouraged to attend the annual general meeting and to express their views by completing and returning a freepost Issues of Concern card, the main themes of which are reported to the Board and responded to in the Chairman's address at the annual general meeting.

In order to protect the operating rights of the company, the number of ordinary shares held by non-UK nationals is monitored, as is the number of ordinary shares held by persons who are not nationals of states comprising the European Economic Area. At March 31, 2003, 44 per cent of the ordinary shares of the company were held by non-UK nationals (2002: 47 per cent) and 39 per cent of the ordinary shares were held by persons who were not nationals of states comprising the European Economic Area (2002: 42 per cent). Although there are no large interests of single or associated non-UK nationals, the directors cannot rule out the possibility that they may be required to exercise their powers to restrict non-UK or non-EEA share ownership in order to protect the company's operating rights.

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.

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

As part of its continuing drive to embed internal control into its business processes, a new risk management process was introduced into the company which encompasses the business continuity activity and has replaced the Risk and Opportunity Management Group. The process is aligned with the associated activities of Risk Finance, Insurance and Internal Audit. A high level Risk Group, chaired by the General Counsel and reporting to the Audit Committee, was set up to develop risk strategy and associated policies for the group. Beneath this sits a committee of risk leaders, each of whom represents parts of the group and is responsible for identifying risks, determining their level of impact and likelihood, and for developing mitigation strategies. The resultant departmental and corporate risk registers which have been established are subject to regular review by the Risk Group.

For the accounting period ending on March 31, 2003, the key procedures that the directors established to provide effective internal controls were as follows:

The company's Code of Business Conduct, which was re-issued in 2000, conveys ethical values and establishes the norms of business behaviour throughout the company. This is one of a number of Standing Instructions to employees of the group designed to enhance internal control. These, along with Finance and Procurement Standing Instructions, are regularly updated and made available to staff through the company's intranet.

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, reinforces accountability and control consciousness and identifies appropriate training requirements. Action plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the company can meet its future management requirements.

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

The business agenda is normally determined by the business plan which represents the operational and financial evaluation of the corporate strategy, setting out the agreed targets for financial return and service standards, identifying and prioritising improvement opportunities to deliver those targets and the agreed capital and manpower requirements. The business planning process confirms that the targeted results can be achieved, satisfies departments that their plans are robust and establishes performance indicators against which departments can be evaluated. The business plan is approved by the Board on an annual basis.

A combination of factors, including the severe global economic downturn, the foot and mouth epidemic in the United Kingdom and the terrorist atrocities on September 11th, 2001, arose during the financial year which ended on March 31, 2002 and interrupted the normal business planning cycle. In response to those events, a major strategy review known as Future Size and Shape was launched, the recommendations of which were announced in February, 2002. The normal business planning process was resumed during the financial year ended March 31, 2003 with the current business plan building upon, and completing the implementation of, the Future Size and Shape review.

A comprehensive management accounting system is in place providing financial and operational performance measure indicators to executive management. Detailed management accounts are prepared to cover each major area of the business. Variances from plan are analysed, explained and acted on in a timely manner. As well as regular Board discussions, monthly meetings are held by the Leadership Team to discuss performance with specific projects being discussed as and when required. The Capital Investment Committee and Manpower Control Group established in the previous financial year have been instrumental in achieving a significant reduction in capital expenditure and tight control of headcount. A major initiative to control and reduce further other external expenditure commenced during the financial year and is on-going.

Business controls are reviewed on an on-going basis by the Internal Control 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. To achieve a step change in internal control in the group, the department includes dedicated resources for regular audits of major ongoing projects, third party audits (suppliers, agents, partners), IT audits and risk control as well as continuing a full programme of internal audits. All areas of the company are audited over the course of a standard three year cycle. The standard of internal controls in different parts of the business are measured and rated satisfactory or unsatisfactory. Major projects are measured against four criteria: well controlled, on time, within budget and benefits delivered. Initiatives during the financial year have resulted in significant improvements to the control of employees' expenses and employees' financial approval authorities. The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board.

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

Going concern

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

Payment policy

British Airways is a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and is committed to the payment of its suppliers to agreed terms. Further information in respect of this code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU. The number of days' purchases in creditors as at March 31, 2003 in respect of the company is calculated in accordance with the provisions of the Companies Act 1985 and was 57 days (2002: 52 days).

By order of the Board

Alan Buchanan
Company Secretary
May 19, 2003

Remuneration report

Information not subject to audit

COMMITTEE AND ADVISERS

The company's Remuneration Committee determines on behalf of the Board, within the agreed terms of reference, the overall remuneration packages for the executive directors, certain other senior executives and the Chairman. Its members are all independent non-executive directors of the company, none of whom has any personal financial interest, other than as a shareholder, in the matters to be decided. Throughout the financial year 2002/03, the company's Remuneration Committee was chaired by Dr Martin Read and its other members with effect from April 1, 2003, are Martin Broughton and Lord Renwick. Prior to this date the committee consisted of Dr Martin Read, and Baroness O' Cathain, with Martin Broughton replacing Michael Davies from July 16, 2002. The Company Secretary acts as secretary to the committee.

British Airways currently contributes to three main salary survey sources – run by Hay, Monks, and Towers Perrin. Data is extracted from each of these in determining the company's approach to both base pay market rates, and identifying competitive market practice in respect of the other remuneration elements.

Towers Perrin gave advice to the committee that materially assisted it. It is the company's main adviser in relation to executive remuneration and was appointed by the company. The Chairman, the Chief Executive, the Company Secretary, Mervyn Walker and Neil Robertson, the former and current Director for People respectively and Christopher Hunt, Reward Manager, all assisted the committee in its deliberations but did not participate in any decisions relating to their own remuneration. None of those who materially assisted the committee in its deliberations was appointed by the Remuneration Committee.

POLICY

The company's remuneration policy was first approved by shareholders at the annual general meeting in 2001 and remains unchanged both in relation to the year under review and the financial year 2003/04 as well as for the foreseeable future. The company's remuneration policy is to provide compensation packages at market rates which reward successful performance and attract, retain and motivate managers. The remuneration packages offered by the company are comparable with other international businesses of similar size and nature to British Airways.

EXECUTIVE DIRECTORS

Remuneration package

The remuneration package for executive directors, which is determined by the Remuneration Committee, consists of a basic salary, pension, an annual bonus scheme, participation in a long term incentive plan and a share option plan. The company also provides private health care, a car, fuel and travel concessions. The proportion of performance related variable remuneration, through the bonus scheme and awards under the long term incentive plan and the share option plan, is approximately 45% of total target remuneration on achievement of demanding targets (excluding pension arrangements).

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 from the three survey sources referred to above.

Annual bonus

Executive directors participate in an annual bonus scheme which is designed to reward achievement of financial targets established by the Remuneration Committee and linked to the business plan approved by the Board. Maximum bonus is capped at 50 per cent of salary, payable only if stretching targets are achieved. Operating margin is the company's key internal financial measure. The bonus targets for the executive directors and senior management focused on the delivery of an acceptable operating margin. No annual bonus was paid in relation to the year under review.

Long term incentive plan

The British Airways Long Term Incentive Plan 1996 was first approved by shareholders at the annual general meeting in 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 achievement of a stretching performance condition, which requires the company's ranking by total shareholder return (TSR) to be placed at the median percentile or above relative to the companies in the FTSE-100 index before any options are granted and which produces the maximum option grant only if the company attains the 90th percentile or above. In relation to the awards made in 1999, 2000 and 2001, achievement against the performance condition is tested for a one third tranche of each award on the third, fourth and fifth anniversary of the start of the financial year in which the award was made. In relation to awards made in subsequent years, achievement against the performance condition will be tested in relation to the whole award on the third anniversary of the start of the financial year in which the award was made. If granted, all options are immediately exercisable for seven years. No payment is due upon exercise of options. All awards are subject to the Remuneration Committee being satisfied that the company's overall financial performance justifies the grant of the option. The Remuneration Committee selected the performance condition because it is challenging, aligned to shareholders interests and ensures awards only give benefit to executives if they outperform their peers. Performance against the condition is assessed using data on the TSR performance of the company and the FTSE-100 index as supplied by Towers Perrin. No changes are proposed to the long term incentive plan. On April 1, 2003 a third of each of the conditional awards made in 1998, 1999 and 2000 lapsed as the performance condition was not met in the financial years 1999 to 2003.

Rod Eddington, Mike Street and John Rishton received conditional awards under the Plan during the year under review, details of which may be found on page 23.

British Airways Share Option Plan 1999

The Plan enables the Remuneration Committee to grant options to acquire ordinary shares in the company or British Airways' American Depositary Shares (ADS) at an option price in sterling or (in the case of ADSs) in US dollars which is not less than the market value of the shares on the date of grant and, where shares are to be subscribed, their nominal value (if greater). An individual's participation is limited so that the option prices payable for options granted in any one year will not exceed basic salary. Exercise of options is subject to a performance condition, the aim of which is to link the exercise of options to sustained improvements in the underlying financial performance of the company. The performance condition currently in use requires the Remuneration Committee to be satisfied that there has been an increase in the earnings per share (EPS) 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. EPS is calculated as set out in the Statement of Investment Practice No. 1 of the Institute of Investment Management and Research as this is a recognised method in the market. In addition, the Remuneration Committee imposed a threshold of 20.8 pence as the minimum base year EPS before any such increase could qualify towards meeting the performance condition. The Remuneration Committee selected the performance condition because it is challenging, aligned to shareholders interests and ensures awards only give benefit to executives if they outperform their peers. Performance against the condition is assessed by calculating EPS growth of the company to see if it exceeds the minimum performance required. The threshold of 20.8 pence was first introduced by the Remuneration Committee in 2000 because EPS in the financial year ending March 31, 2000, was negative, the Committee having determined that it would be inappropriate to attempt to measure EPS from a negative base year. The threshold will be altered to reflect the adoption of FRS 19 'Deferred Tax' which has the effect on a like for like basis of reducing the figure of 20.8 pence to 17.3 pence. No other changes are proposed to the share option plan. No gains were made on the exercise of share options during the year under review.

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

Service contracts

Each of the three executive directors has a rolling contract with a one year notice period. As a matter of policy, in the event of new external appointments, the length of service contract would be determined by the Remuneration Committee in the light of the then prevailing market practice. However, the Remuneration Committee recognises that, in some cases, it may be necessary to offer a contract with a notice period in excess of one year in order to attract a new executive director. In these circumstances, the Remuneration Committee acknowledges that the notice period should reduce to one year after the initial period in accordance with paragraph B.1.8 of the Combined Code. Of the directors proposed for re-election at the forthcoming annual general meeting, only Rod Eddington has a service contract as detailed below. The service contracts include the following terms:

Executive	Date of contract	Unexpired term/ notice period
Rod Eddington	7 July 2000	terminable on 12 months notice
Mike Street	1 July 2001	terminable on 12 months notice
John Rishton	1 September 2001	terminable on 12 months notice

There are no express provisions for compensation payable upon early termination of an executive director's contract as at the date of termination other than payments due during the notice period. In the event of early termination, the company's policy is to act fairly in all circumstances and the duty to mitigate would be taken into account. The Remuneration Committee has noted the ABI/NAPF joint statement; "Best Practice on Executive Contracts and Severance". None of the contracts provides for compensation to be paid in the event of a change of control of the company.

External non-executive directorships

The Board encourages executive directors to broaden their experience outside the company by taking up non-executive appointments from which they may retain any fee. The company's consent is required as a matter of contract before an executive can accept such an appointment and permission will only be given in appropriate circumstances.

Pension schemes

Rod Eddington and John Rishton are members of both the New Airways Pension Scheme (NAPS) and an unfunded unapproved retirement scheme which, under the terms of their service contracts, will provide a total retirement benefit equivalent to 1/30th and 1/56th respectively of basic salary for each year of service. Mike Street is a member of NAPS which will provide 1/56th of pensionable pay for each year of service. Annual bonuses and awards under the two long term incentive plans are not part of the executive directors' pensionable pay and nor will they be included for pensionable purposes in relation to any future appointments of executive directors. 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. Should the proposals made by the Government in its green paper on pensions in December 2002 be implemented, a review of the group's UK pension arrangements may be required.

NON-EXECUTIVE DIRECTORS

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. For the year in question, these were set in April 2001 and were £27,500 per annum plus £600 for each Board Committee separately attended. The Chairman of the Safety Review Committee receives £15,000 in addition to these fees and is provided with a company car and fuel. The review of these fees scheduled for April 2003 has been deferred for six months. The Chairman and the non-executive directors are not eligible to participate in the long term incentive plan nor in the share option plan. Their fees are not pensionable. Lord Marshall and Captain Jeffery, being former executives of the company, are in receipt of pensions, in the case of Lord Marshall, under the New Airways Pension Scheme and, in the case of Captain Jeffery, under the Airways Pension Scheme. As a former executive, Lord Marshall retains options under the 1987 share option plan and, similarly, Captain Jeffery retains conditional share options under the long term incentive plan, granted, in each case, whilst they were serving as executives of the company.

Service Agreements

The dates of the Chairman's and current non-executive directors' appointments are as follows:

Non-executive	Date of appointment	Date of election/ last re-election	Expiry date
Lord Marshall	*13 December 1983*	*16 July 2002*	*20 July 2004*
Maarten van den Bergh	*16 July 2002*	*16 July 2002*	*19 July 2005*
Martin Broughton	*12 May 2000*	*11 July 2000*	*15 July 2003*
Dr Ashok Ganguly	*12 April 1996*	*16 July 2002*	*19 July 2005*
Captain Michael Jeffery	*1 October 2001*	*16 July 2002*	*19 July 2005*
Baroness O'Cathain	*27 May 1993*	*11 July 2000*	*15 July 2003*
Dr Martin Read	*12 May 2000*	*11 July 2000*	*15 July 2003*
Lord Renwick	*1 March 1996*	*16 July 2002*	*19 July 2005*

Except where appointed at a general meeting, non-executive directors stand for election by shareholders at the first annual general meeting following appointment and stand for re-election every three years thereafter under Article 87. Under his letter of engagement, the Chairman is entitled to one year's notice. There is no express provision for compensation payable upon early termination. None of the other non-executive directors has any right to compensation on the early termination of their appointment. The letters of engagement for non-executive directors, other than the Chairman, will be reviewed if the Financial Reporting Council announces any relevant changes to the Combined Code in light of the Higgs Report.

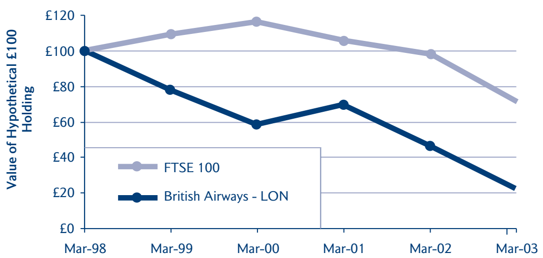
PERFORMANCE GRAPH

The graph shows the total shareholder return (with dividends reinvested where applicable) for each of the last five financial years of a holding of the company's shares against a hypothetical holding of shares in the FTSE-100.

The FTSE-100 was selected because it is used as the comparator group for the long term incentive plan and provides an appropriate indication of market movements against which to benchmark the company's performance.

Five-Year Historical TSR Performance
Change in the Value of a Hypothetical £100 Holding over Five Years

FTSE 100 Comparison Based on 30 Trading Day Average Values



Information subject to audit

Directors' remuneration

The remuneration of the directors was:

	Basic salary and fees	Taxable Benefits [1]	Performance related bonuses	Compensation for loss of office	Total 2003	Excluding the voluntary reduction the total for 2002 would have been	Actual Total 2002 [2]
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors							
Rod Eddington	531	22			553	536	497
Mike Street	309	19			328	320	297
John Rishton	244	12			256	138 [3]	121 [3]
Derek Stevens						207	207
Non-executive Directors							
Lord Marshall	250	1			251	266 [4]	204 [4]
Captain Colin Barnes [5]						30	30
Maarten van den Bergh [6]	21				21	n/a	n/a
Martin Broughton	35 [7]				35 [7]	34 [7]	27 [7]
Michael Davies [8]	9				9	32	25
Dr Ashok Ganguly	33				33	35	28
Captain Michael Jeffery	47	16			63	21 [6]	14 [6]
Baroness O'Cathain	36				36	37	30
Dr Martin Read	29	1			30	29	22
Lord Renwick	30				30	31	24
The Hon Raymond Seitz [8]	8				8	32	25
Aggregate emoluments	1,582	71			1,653	1,748	1,551

[1] Taxable benefits include a company car or cash equivalent, fuel, private health insurance and personal travel.

[2] Following the events of September 11th, 2001, the executive directors took a voluntary pay reduction of 15% for the period October 1, 2001 to March 31, 2002. For the same period the Chairman and the non-executive directors took a voluntary reduction in their basic fees of 50%.

[3] Figures shown from date of appointment and are pro-ration of annual amount.

[4] Includes taxable benefits of £16,406.

[5] Retired from the Board on September 30, 2001, figure includes taxable benefits of £6,268.

[6] Figures shown from date of appointment.

[7] The fees in respect of Martin Broughton's services as a non-executive director of British Airways Plc were paid to his employer.

[8] Retired from the Board on July 16, 2002.

The pension entitlements of the executive directors were:

	Accumulated accrued benefits March 31, 2003 £	Increase in accrued benefits during the year £	Increase, before inflation, in accrued benefits during the year £	Transfer value* of increase before inflation, less directors' contributions £
Rod Eddington	51,580	18,417	17,854	149,211
Mike Street	203,782	7,828	4,497	39,903
John Rishton	46,116	9,861	9,244	39,529

The transfer value* of each director's accrued benefits at the end of the financial year is as follows

	March 31, 2003 £	March 31, 2002 £	Movement, less directors' contributions £
Rod Eddington	511,650	411,271	72,488
Mike Street	2,523,476	2,679,172	-171,608
John Rishton	263,747	312,007	-61,626

Rod Eddington and John Rishton are members of both the New Airways Pension Scheme (NAPS) and an Unfunded Unapproved Retirement Scheme which, under the terms of their service contracts will provide a total retirement benefit equivalent to 1/30th and 1/56th respectively of basic salary for each year of service. Mike Street is a member of NAPS which will provide 1/56th of pensionable pay for each year of service.

* Transfer value represents a liability of the company, not a sum paid or due to the individual. It is calculated in accordance with "Retirement Benefit Schemes – Transfer Value (GN11)".

Directors' share interests at March 31, 2003

	British Airways Plc	
	Ordinary Shares	
	March 31, 2003	*April 1, 2002*
Lord Marshall	69,225	*69,225*
Rod Eddington		
Mike Street	6,678	*6,678*
John Rishton	2,039	*2,039*
Maarten van den Bergh	2,000	
Martin Broughton	24,090	*9,090*
Dr Ashok Ganguly	104	*104*
Capt Michael Jeffery	2,624	*2,624*
Baroness O'Cathain	10,000	*6,000*
Dr Martin Read	8,000	*8,000*
Lord Renwick	32,014	*32,014*
Total	156,774	*135,774*

In addition, the Chairman holds 11,304 British Airways Capital Limited Convertible Capital Bonds (2002: 11,304). No other director has any beneficial interest in any subsidiary undertaking of the company.

Directors' share options at March 31, 2003

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. In line with market practice at the time, the 1987 scheme is not subject to any performance condition. The 1999 plan is subject to a performance condition as detailed on page 18:

British Airways Executive Share Option Scheme 1987

	Date of Grant	Number of Options as at April 1 2002	Exercise Price	Options Exercised or lapsed during the year	Market price at date of exercise	Gain made on exercise £	Options granted during the year	Exercisable from	Expiry date	Number of Options as at March 31 2003
Lord Marshall	June 9, 1993	81,911	293p					June 9, 1996	June 9, 2003	81,911
	July 1, 1994	12,903	372p					July 1, 1997	July 1, 2004	12,903
	Aug 11, 1994	95,465	419p					Aug 11, 1997	Aug 11, 2004	95,465
Total		**190,279**								**190,279**

British Airways Share Option Plan 1999

	Date of Grant	Number of Options as at April 1 2002	Exercise Price	Options Exercised or lapsed during the year	Market price at date of exercise	Gain made on exercise £	Options granted during the year	Exercisable from	Expiry date	Number of Options as at March 31 2003
Rod Eddington	May 26, 2000	138,888	360p					May 26, 2003	May 26, 2010	138,888
	June 26, 2001	163,551	321p					June 26, 2004	June26, 2011	163,551
	July 1, 2002		181p				290,055	July 1, 2005	July 1, 2012	290,055
Total		**302,439**					**290,055**			**592,494**
Mike Street	Aug 26, 1999	71,903	394p					Aug 26, 2002	Aug 26, 2009	71,903
	June 28, 2000	75,605	380p					June 28, 2003	June 28, 2010	75,605
	June 26, 2001	95,015	321p					June 26, 2004	June 26, 2011	95,015
	July 1, 2002		181p				168,508	July 1, 2005	July 1, 2012	168,508
Total		**242,523**					**168,508**			**411,031**
John Rishton	Aug 26, 1999	21,852	394p					Aug 26, 2002	Aug 26, 2009	21,852
	June 28, 2000	31,578	380p					June 28, 2003	June 28, 2010	31,578
	June 26, 2001	70,093	321p					June 26, 2004	June 26, 2011	70,093
	July 1, 2002		181p				124,309	July 1, 2005	July 1, 2012	124,309
Total		**123,523**					**124,309**			**247, 832**

In addition, John Rishton and Mike Street each hold 814 options at 238p under the 2000 operation of the British Airways Savings Related Share Option Scheme 1996, exercisable for a six month period from June 1, 2003. As an all employee saving scheme there is no performance criterion.

Directors' Conditional Share Options at March 31, 2003

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 as at April 1, 2002	Awards vesting during the year	Awards lapsing during the year	Awards made during the year	Number of options as at March 31, 2003
Rod Eddington	June 5, 2000	103,022				103,022
	June 8, 2001	105,000				105,000
	June 12, 2002				185,731	185,731
Total		**208,022**			**185,731**	**393,753**
Mike Street	June 13, 1997	6,115		6,115		Nil
	June 12, 1998	20,842		10,421		10,421
	July 2, 1999	46,698		15,411		31,287
	June 5, 2000	59,196				59,196
	June 8, 2001	61,000				61,000
	June 12, 2002				107,901	107,901
Total		**193,851**		**31,947**	**107,901**	**269,805**
John Rishton	June 13, 1997	1,541		1,541		Nil
	June 12, 1998	3,547		1,773		1,774
	June 8, 2001	45,000				45,000
	June 12, 2002				79,599	79,599
Total		**50,088**		**3,314**	**79,599**	**126,373**
Captain Michael Jeffery	June 13, 1997	4,718		4,718		Nil
	June 12, 1998	10,768		5,387		5,381
	July 2, 1999	26,374		8,704		17,670
	June 5, 2000	33,420				33,420
Total		**75,280**		**18,809**		**56,471**

On April 1, 2003 a third of each of the conditional awards made on June 12, 1998, July 2, 1999 and June 5, 2000 lapsed as the performance condition was not met in the financial years 1999 to 2003.

In relation to awards made in 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 to 2001, 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 TSR from the year of the grant through to the end of the year in question, places the company at or above the median percentile when compared with the TSR for each of the companies in the FTSE-100 index. In relation to awards made from 2002 onwards the whole of the award may vest on the third anniversary of the start of the financial year in which the award was made. 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 the period is at the 50th percentile, 30% of the award (or one third portion in the case of awards between 1999 and 2001) will vest. If the company's TSR is at the 75th percentile, 65% of the award (or one third portion in the case of awards between 1999 and 2001) will vest. For performance between 50th and 75th percentile, the number of options will be determined on a straight-line basis. If the company's TSR for the period is at the 90th percentile all of the award (or one third portion in the case of awards between 1999 and 2001) will vest. For performance between 75th and 90th percentile, the number of options will be determined on a straight line basis.

No payment is due upon exercise of options. Options are exercisable for seven years from vesting. All grants of options are subject to the Remuneration Committee being satisfied that the company's overall financial performance justifies the grant of an option.

The highest and lowest prices of the company's shares during the financial year and the share price at March 31 were:

	2003	2002*
At March 31	**104p**	244p
Highest in the year	**245p**	387p
Lowest in the year	**86p**	139p

*closing price of the ordinary shares as at March 28, 2002.

Approved by the Board and signed on its behalf by
Dr Martin Read
Non-executive Director and Chairman of the Remuneration Committee
May 19, 2003

Statement of directors' responsibilities in relation to the financial statements

Company law requires the directors to prepare financial statements 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 these financial statements, 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 financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group 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.

Independent auditors' report to the members of British Airways Plc

We have audited the group's financial statements for the year ended March 31, 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 42. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the statement of directors' responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, 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 information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement 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 the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises the directors' report, unaudited part of the directors' remuneration report, Chairman's Statement, Statement from the Chief Executive and Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of the British Airways Plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements and the part of the directors' remuneration report to be audited 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 financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at March 31, 2003 and of the profit of the group for the year then ended; and the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
May 19, 2003

Group profit and loss account

For the year ended March 31, 2003

£ million	Note	Group 2003	Group *2002*
Turnover	2	**7,688**	*8,340*
Cost of sales	4	**(7,263)**	*(8,291)*
Gross profit		**425**	*49*
Administrative expenses	4	**(130)**	*(159)*
Operating profit/(loss) before exceptional operating charges		**379**	*(30)*
Exceptional operating charges	4	**(84)**	*(80)*
Operating profit/(loss)		**295**	*(110)*
Share of operating profit in associates	7	**39**	*22*
Total operating profit/(loss) including associates		**334**	*(88)*
Other income and charges	8	**(4)**	*21*
Profit on sale of fixed assets and investments	9	**60**	*145*
Net interest payable	10	**(255)**	*(278)*
Profit/(loss) before tax		**135**	*(200)*
Tax	11a	**(50)**	*71*
Profit/(loss) after tax		**85**	*(129)*
Equity minority interest			*(1)*
Non equity minority interest	35	**(13)**	*(12)*
Profit/(loss) for the year		**72**	*(142)*
Retained profit/(loss) for the year	34a	**72**	*(142)*
Earnings per share			
Basic earnings/(loss) per share	12	**6.7p**	*(13.2)p*
Diluted earnings/(loss) per share		**6.7p**	*(13.2)p*

Balance sheets

At March 31, 2003

£ million	Note	Group 2003	Group 2002	Company 2003	Company 2002
Fixed assets					
Intangible assets	13				
Goodwill		99	105		
Landing Rights		65	35	65	35
		164	140	65	35
Tangible assets	14				
Fleet		7,828	8,672	7,548	8,387
Property		1,219	1,300	1,144	1,221
Equipment		440	502	343	398
		9,487	10,474	9,035	10,006
Investments	17				
Subsidiary undertakings and quasi-subsidiary				1,208	1,266
Associated undertakings		461	425	33	24
Trade investments		32	39	31	38
Investment in own shares		31	25	31	25
		524	489	1,303	1,353
		10,175	11,103	10,403	11,394
Current assets					
Stocks	21	87	109	69	91
Debtors	23	986	1,231	923	1,144
Short-term loans and deposits		1,430	1,155	1,374	1,112
Cash at bank and in hand		222	64	194	4
		2,725	2,559	2,560	2,351
Creditors: amounts falling due within one year	25	(2,904)	(3,201)	(3,452)	(3,710)
Net current liabilities		(179)	(642)	(892)	(1,359)
Total assets less current liabilities		9,996	10,461	9,511	10,035
Creditors: amounts falling due after more than one year					
Borrowings and other creditors	26	(6,441)	(6,985)	(6,483)	(6,965)
Convertible Capital Bonds 2005	29	(112)	(112)		
		(6,553)	(7,097)	(6,483)	(6,965)
Provision for deferred tax	30	(1,062)	(1,031)	(1,025)	(985)
Provisions for liabilities and charges	31	(107)	(126)	(80)	(126)
		2,274	2,207	1,923	1,959
Capital and reserves					
Called up share capital	32	271	271	271	271
Reserves	34				
Share premium account		788	788	788	788
Revaluation reserve		270	270	270	270
Profit and loss account		729	687	594	630
		1,787	1,745	1,652	1,688
Total equity shareholders' funds		2,058	2,016	1,923	1,959
Minority interest					
Equity minority interest		10	9		
Non equity minority interest	35	206	182		
		216	191		
		2,274	2,207	1,923	1,959

Rod Eddington *Chief Executive Officer*
John Rishton *Chief Financial Officer*
May 19, 2003

Group cash flow statement

For the year ended March 31, 2003

£ million	Note	Group 2003	Group *2002*
Cash inflow from operating activities	5a	1,185	*866*
Dividends received from associates		23	*16*
Government compensation received			*22*
Returns on investments and servicing of finance			
Interest received		72	*62*
Interest paid on bank and other loans		(86)	*(103)*
Interest paid on finance leases and hire purchase arrangements		(222)	*(276)*
Dividends received from trade investments			*2*
Non equity minority interest		(13)	*(12)*
Net cash outflow from returns on investments and servicing of finance		(249)	*(327)*
Tax			
Overseas tax		(7)	*(1)*
Capital expenditure and financial investment			
Intangible assets purchased for cash		(32)	*(12)*
Tangible fixed assets purchased for cash	14e	(293)	*(745)*
Refund of progress payments		230	*408*
Sale of tangible fixed assets and investments		351	*465*
Investment in own shares		(6)	
Purchase of trade investments			*(22)*
Net cash inflow for capital expenditure and financial investment		250	*94*
Acquisitions and disposals			
Sale of interests in subsidiary undertakings		30	*4*
Purchase of subsidiary undertakings			*(77)*
Sale of interests in associated undertakings		12	
Partial refund of investment in Iberia			*97*
Purchase of interests in associated undertakings		(13)	*(43)*
Net cash inflow/(outflow) for acquisitions and disposals		29	*(19)*
Equity dividends paid			*(137)*
Net cash inflow before management of liquid resources and financing		1,231	*514*
Management of liquid resources		(289)	*(301)*
Financing			
Changes in borrowings			
Bank and other loans raised		13	*495*
Bank and other loans repaid		(189)	*(57)*
Capital elements of finance leases and hire purchase arrangements repaid		(608)	*(655)*
		(784)	*(217)*
Increase/(decrease) in cash	24	158	*(4)*

Statement of total recognised gains and losses

For the year ended March 31, 2003

£ million	Note	Group 2003	2002
Profit/(loss) for the year		**72**	*(142)*
Other recognised gains and losses relating to the year:			
Exchange and other movements	34a	**(38)**	*17*
Total recognised gains and losses relating to the year		**34**	*(125)*

Reconciliation of movements in shareholders' funds

For the year ended March 31, 2003

£ million	Note	Group 2003	2002
Profit/(loss) for the year		**72**	*(142)*
Other recognised gains and losses relating to the year:			
Exchange and other movements	34a	**(38)**	*17*
Goodwill transferred to the profit and loss account in respect of disposals	34a	**8**	*20*
Net increase/(decrease) in shareholders' funds		**42**	*(105)*
Equity shareholders' funds at April 1		**2,016**	*2,121*
Equity shareholders' funds at March 31		**2,058**	*2,016*

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

Summary statements in euro

Included for information purposes only

Group profit and loss account

For the year ended March 31, 2003

euro million	2003	2002
Turnover	11,145	*13,618*
Cost of sales	(10,528)	*(13,538)*
Gross profit	617	*80*
Administrative expenses	(188)	*(260)*
Operating profit/(loss) before exceptional operating charges	551	*(49)*
Exceptional operating charges	(122)	*(131)*
Operating profit/(loss)	429	*(180)*
Share of operating profit in associates	57	*36*
Total operating profit/(loss) including associates	486	*(144)*
Other income and charges	(6)	*34*
Profit on sale of fixed assets and investments	87	*237*
Net interest payable	(370)	*(454)*
Profit/(loss) before tax	197	*(327)*
Tax	(72)	*116*
Profit/(loss) after tax	125	*(211)*
Equity minority interest		*(2)*
Non equity minority interest	(19)	*(19)*
Profit/(loss) for the year	106	*(232)*
Retained profit/(loss) for the year	106	*(232)*

Group statement of total recognised gains and losses

For the year ended March 31, 2003

euro million	2003	2002
Profit/(loss) for the year	106	*(232)*
Other recognised gains and losses relating to the year:		
Exchange and other movements	(55)	*28*
Total gains and losses relating to the year	51	*(204)*

Group balance sheet

At March 31, 2003

euro million	2003	2002
Fixed assets		
Intangible assets	238	*228*
Tangible assets	13,752	*17,103*
Investments	760	*799*
	14,750	*18,130*
Current assets	3,950	*4,179*
Creditors: amounts falling due within one year	(4,210)	*(5,227)*
Net current liabilities	(260)	*(1,048)*
Total assets less current liabilities	14,490	*17,082*
Creditors: amounts falling due after more than one year	(9,500)	*(11,589)*
Provision for deferred tax	(1,539)	*(1,683)*
Provisions for liabilities and charges	(155)	*(206)*
	3,296	*3,604*
Capital and reserves		
Called up share capital	393	*443*
Reserves	2,590	*2,849*
	2,983	*3,292*
Minority interests		
Equity minority interest	14	*15*
Non equity minority interest	299	*297*
	313	*312*
	3,296	*3,604*
Translation rate	£1 =1.45 euro	*£1 =1.63 euro*

Euro amounts have been included for information only and have been translated from sterling at the rates of exchange applying on March 31, 2003 and 2002.

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. The principal accounting policies have been applied consistently with those applied in the previous year.

Due to the increasing incidence of the purchase of airport landing rights, these have been reclassified from tangible fixed assets to intangible fixed assets effective from April 1, 2002. This resulted in existing capitalised slots stated at £35 million being reclassified from Tangible Fixed Assets - Property to Intangible Fixed Assets - Landing Rights. The comparatives have been restated accordingly.

Basis of consolidation

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

The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

Where an entity, though not fulfilling the legal definition of a subsidiary or subsidiary undertaking, gives rise to benefits for the group that are, in substance, no different than those that would arise were that entity a subsidiary or subsidiary undertaking, that entity is classified as a quasi-subsidiary. In determining whether the group has the ability to enjoy the benefits arising from such entities' net assets, regard is given as to which party is exposed to the risks inherent in the benefits and which party, in practice, carries substantially all the risks and rewards of ownership. The group currently accounts for its investment in The London Eye Company Limited as a quasi-subsidiary.

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 using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends. 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.

1 Accounting policies continued

Intangible fixed assets

a 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.

b Landing Rights

Landing rights acquired from other airlines are capitalised at cost and amortised over a period not exceeding 20 years.

The carrying values of goodwill and other intangible assets are reviewed for impairment at the end of the first full year following acquisition and in the other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets

Tangible fixed assets are held at cost, subject to the property revaluations carried out at March 31, 1995 which are being retained in accordance with the transitional provisions of FRS 15 'Tangible Fixed Assets'. The group has a policy of not revaluing tangible fixed assets. Depreciation is calculated to write off the cost or valuation, less estimated residual value, on a straight line basis.
The carrying value of tangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

a Capitalisation of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other significant 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.

b Fleet

i) *Cost:* All aircraft are stated at cost, net of manufacturers' credits.

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

c Property and equipment

Freehold properties and certain leasehold properties, professionally valued at March 31, 1995, are included in these accounts on the basis of that valuation. Subsequent additions are included at cost. Provision is made for the depreciation of all property and equipment, apart from freehold land, based upon expected useful lives or in the case of leasehold properties, over the duration of the leases if shorter.

d Leased and hire purchase assets

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

Aircraft and engine overhaul expenditure

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotable spares purchased separately, 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, including aircraft expendables, are valued at the lower of cost and net realisable value.

Cash and liquid resources

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

Pension and other post-retirement benefits

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

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

Frequent flyer programmes

The group operates two principal frequent flyer programmes. The Airline scheme, 'Executive Club', allows frequent travellers to accumulate 'BA Miles' mileage credits which entitle them to a choice of various awards, including free travel, are sold to participating partners to use in promotional activities. The AIRMILES scheme, operated by the Company's wholly-owned subsidiary Airmiles Travel Promotions Limited allows companies to purchase miles for use in promotional incentives.

Revenue from the sale of BA Miles and AIRMILES to third parties is recognised when miles are issued to participants. The direct incremental cost of providing free redemption services, including British Airways flights, in exchange for redemption of miles earned by members of the group's Executive Club and AIRMILES schemes is accrued as members of these schemes accumulate mileage. Costs accrued include incremental fuel, catering, servicing costs and cost of redemptions on air and non-air partners; these costs are charged to cost of sales.

Deferred tax

Full provision is made for deferred tax on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised where the directors consider it more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

Foreign currency translation

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

Derivatives and financial instruments

The group's accounting policy for derivatives is to defer and only recognise in the group profit and loss account gains and losses on hedges of revenues or operating payments as they crystallise.

Amounts payable or receivable in respect of interest rate swap agreements are recognised in the net interest payable charge over the period of the contracts on an accruals basis. Cross currency swap agreements and forward foreign exchange contracts taken out to hedge borrowings are brought into account in establishing the carrying values of the relevant loans, leases or hire purchase arrangements in the balance sheet. Gains or losses on forward foreign exchange contracts to hedge capital expenditure commitments are recognised as part of the total sterling carrying cost of the relevant tangible asset as the contracts mature or are closed out.

Short term debtors and creditors are held at fair value and have therefore been excluded from the financial instrument disclosures except note 22 on currency exposures.

2 Turnover

£ million	Group 2003	Group 2002
Traffic revenue		
Scheduled services – passenger	**6,545**	*7,036*
– freight and mail	**484**	*483*
	7,029	*7,519*
Non-scheduled services	**45**	*52*
	7,074	*7,571*
Other revenue (including aircraft maintenance, package holidays and other airline services)	**614**	*769*
	7,688	*8,340*

3 Geographical analysis of turnover and operating profit/(loss)

a Turnover

	Group			
	By area of original sale		By area of destination	
£ million	2003	2002	2003	2002
Europe	**4,903**	*5,402*	**2,838**	*3,208*
United Kingdom	**3,634**	*4,101*	**725**	*863*
Continental Europe	**1,269**	*1,301*	**2,113**	*2,345*
The Americas	**1,482**	*1,549*	**2,763**	*2,863*
Africa, Middle East and Indian sub-continent	**733**	*789*	**1,201**	*1,262*
Far East and Australasia	**570**	*600*	**886**	*1,007*
	7,688	*8,340*	**7,688**	*8,340*

b Operating profit/(loss)

	Group	
	By area of destination	
£ million	2003	2002
Europe	**(117)**	*(244)*
The Americas	**223**	*144*
Africa, Middle East and Indian sub-continent	**168**	*91*
Far East and Australasia	**21**	*(101)*
	295	*(110)*

4 Analysis of operating expenditure

£ million	Group 2003	Group 2002
Employee costs	2,107	*2,409*
Depreciation and amortisation	734	*770*
Aircraft operating lease costs	189	*199*
Fuel and oil costs	842	*1,028*
Engineering and other aircraft costs	592	*673*
Landing fees and en route charges	576	*615*
Handling charges, catering and other operating costs	961	*1,110*
Selling costs	706	*824*
Accommodation, ground equipment costs and currency differences	686	*822*
Total operating expenditure	7,393	*8,450*
Total operating expenditure comprises:		
Cost of sales	7,263	*8,291*
Administrative expenses	130	*159*
Total operating expenditure	7,393	*8,450*
Exceptional operating charges recognised in arriving at operating profit and included in the above:		
Impairment of Concorde capitalised engineering modifications and rotable inventory (Note14)	58	
Concorde stock write down	26	
Early retirement and voluntary severance costs		*80*
Exceptional operating charges	84	*80*

The current year exceptional operating charges totalling £84 million relate to the fleet of seven Concorde aircraft which will be retired in October 2003. The tax effect on the exceptional operating charges is a tax credit of £25 million (2002: £24 million).

5 Operating profit/(loss)

a Reconciliation of operating profit/(loss) to cash inflow from operating activities

£ million	Group 2003	Group 2002
Group operating profit/(loss)	295	*(110)*
Depreciation and amortisation	734	*770*
Decrease in stocks and debtors	238	*250*
Decrease in creditors	(62)	*(89)*
(Decrease)/increase in provisions for liabilities and charges	(20)	*45*
Cash inflow from operating activities	1,185	*866*

b Operating profit/(loss) is arrived at after charging:

Depreciation of group tangible fixed assets

£ million	Group 2003	Group 2002
Owned assets	275	*341*
Finance leased aircraft	145	*161*
Hire purchased aircraft	191	*210*
Other leasehold interests	57	*50*
Impairment	58	
	726	*762*

5 Operating profit/(loss) continued

Operating lease costs

£ million	Group 2003	Group 2002
Lease rentals – aircraft	162	*199*
– property	146	*146*
Hire of equipment and charter of aircraft and crews	92	*147*
Onerous lease costs	27	
	427	*492*

Auditors' remuneration

£'000	Group 2003	Group 2002
Group Auditors – Audit fees	1,561	*1,543*
– Other professional fees		
– United Kingdom		
– Other assurance services	377	*1,302*
– Taxation	183	*302*
	560	*1,604*
– Overseas		
– Taxation	372	*197*
	2,493	*3,344*

The audit fees payable to Ernst & Young are reviewed by the Audit Committee in the context of other companies for cost effectiveness. The committee also reviews the nature and extent of non-audit services to ensure that independence is maintained.

Directors' emoluments

£'000	Group 2003	Group 2002
Fees	498	*407*
Salary and benefits	1,137	*1,122*
	1,635	*1,529*

The directors' remuneration report discloses full details of directors' emoluments and can be found on pages 17 to 23.

6 Employee costs and numbers

Number	Group 2003	Group 2002
The average number of persons employed in the group during the year was as follows:		
United Kingdom	47,162	*49,793*
Overseas	9,852	*11,667*
	57,014	*61,460*

£ million	Group 2003	Group 2002
Wages and salaries	1,472	*1,661*
Social security costs	148	*169*
Contributions to pension schemes	149	*147*
	1,769	*1,977*

7 Share of operating profit in associates

£ million	Group 2003	Group 2002
Operating profits less losses	**39**	*22*

8 Other income and charges

£ million	Group 2003	Group 2002
Income from trade investments		*1*
Government compensation (see note below)		*22*
Other	**(4)**	*(2)*
	(4)	*21*
Other income and charges represented by:		
Group	**(4)**	*21*

In the prior year, British Airways received Government compensation for the closure of US and Israeli airspace following September 11th, 2001.

9 Profit on sale of fixed assets and investments (also see Note 18)

£ million	Group 2003	Group 2002
Net profit on sale of investment in **go**	**10**	*98*
Net profit on sale of investment in France Telecom (formerly shares held in Equant)		*23*
Net profit on sale of other fixed assets and investments	**50**	*24*
	60	*145*
Profit on sale of fixed assets and investments represented by:		
Group	**58**	*142*
Associates	**2**	*3*
	60	*145*

There is no tax effect on the sale of fixed assets and investments (2002: £3 million).

10 Net interest payable

£ million	Group 2003	Group 2002
Interest payable		
On bank loans	**46**	*60*
On finance leases	**116**	*119*
On hire purchase arrangements	**108**	*153*
On other loans, including interest of £11 million (2002: £11 million) on Convertible Capital Bonds 2005	**50**	*49*
	320	*381*
Interest capitalised	**(10)**	*(7)*
	310	*374*
Interest receivable	**(63)**	*(50)*
Retranslation charges/(credits) on currency borrowings	**8**	*(46)*
	255	*278*
Net interest payable represented by:		
Group	**253**	*271*
Associates	**2**	*7*
	255	*278*

In respect of all loans, including finance lease and hire purchase arrangements repayable in whole or in part after five years, the latest repayment date is December 2032.

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

11 Tax

a Analysis of charge/(credit) for the year

£ million	Group 2003	Group 2002
Current tax		
United Kingdom corporation tax	5	*3*
Less: relief for overseas tax	(5)	*(2)*
UK tax		*1*
Overseas tax	8	*3*
Prior year adjustments	(10)	*(3)*
	(2)	*1*
Share of tax of associated undertakings	21	*(1)*
Total current tax charge	19	
Deferred tax		
Accelerated capital allowances	2	*(42)*
Other timing differences	19	*(16)*
Unrelieved losses	8	*(13)*
Prior year adjustments	2	
Total deferred tax charge/(credit)	31	*(71)*
Tax charge/(credit) on profit on ordinary activities	50	*(71)*

There is no UK tax payable on the operating result for the year (2002: £Nil).

b Factors affecting the tax charge for the year

The current tax charge/(credit) for the year is less than the profit/(loss) at the standard rate of corporation tax in the UK (30%).
The differences are explained below:

£ million	Group 2003	Group 2002
Profit/(loss) on ordinary activities before tax	135	*(200)*
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	41	*(60)*
Effects of:		
Expenses not deductible for tax purposes	26	*29*
Profit on disposals not taxable	(21)	*(35)*
Other differences	7	
Timing differences:		
Depreciation in excess of/(less than) capital allowances for the year	(2)	*42*
Other differences	(19)	*16*
Unrelieved losses	(8)	*13*
Lower tax rates on overseas earnings	(2)	*(9)*
Unrelieved overseas and associates' losses	13	*8*
Non taxable overseas income	(6)	*(1)*
Adjustments to tax charge in respect of previous periods	(10)	*(3)*
Current tax charge for the year (Note 11a)	19	

c Factors that may affect future tax charges

The group has substantial brought forward tax losses in the company and a number of its UK subsidiaries which are available to reduce tax payments on future taxable profits.

No provision has been made for deferred tax on gains arising on the revaluation of fixed assets or where potentially taxable gains have been rolled over into replacement assets since such gains would become taxable only if the assets were sold without it becoming possible to claim further rollover relief. The total amount unprovided for is approximately £29 million.

No deferred tax has been provided on the unremitted earnings of overseas subsidiaries and associates because there is no current intention to remit.

Additionally, no deferred tax asset has been recognised in respect of overseas tax losses or UK capital losses as the utilisation of such losses is uncertain.

12 Earnings/(loss) per share

	Group			
	Profit/(loss)		Earnings per share	
	2003	*2002*	**2003**	*2002*
	£m	*£m*	**Pence**	*Pence*
Profit/(loss) for the year and basic earnings/(loss) per share	**72**	*(142)*	**6.7**	*(13.2)*
Diluted profit/(loss) for the year and earnings/(loss) per share	**72**	*(142)*	**6.7**	*(13.2)*
Weighted average number of shares for basic EPS ('000)			**1,073,054**	*1,076,042*
Dilutive potential ordinary shares:				
Outstanding share options ('000)				*1,924*
Weighted average number of shares for diluted EPS ('000)			**1,073,054**	*1,077,966*

Basic earnings/(loss) per share are calculated on a weighted average number of ordinary shares in issue after deducting shares held for the purposes of Employee Share Ownership Plans including the Long Term Incentive Plan.

13 Intangible assets

			Group total	
£ million	Goodwill	Landing rights	**2003**	*2002*
Cost				
Balance at April 1	116	40	**156**	*92*
Additions		32	**32**	*65*
Other movements				*(1)*
Disposals	(2)		**(2)**	
Balance at March 31	114	72	**186**	*156*
Amortisation				
Balance at April 1	11	5	**16**	*8*
Charge for the year	6	2	**8**	*8*
Disposals	(2)		**(2)**	
Balance at March 31	15	7	**22**	*16*
Net book amounts				
March 31, 2003	**99**	**65**	**164**	
March 31, 2002	*105*	*35*		*140*

		Company	
£ million	Landing rights	**2003**	*2002*
Cost			
Balance at April 1	**40**	**40**	*28*
Additions	**32**	**32**	*12*
Balance at March 31	**72**	**72**	*40*
Amortisation			
Balance at April 1	**5**	**5**	*4*
Charge for the year	2	2	1
Balance at March 31	7	7	5
Net book amounts			
March 31, 2003	**65**	**65**	
March 31, 2002	*35*		*35*

14 Tangible assets

a Group

£ million	Fleet	Property	Equipment	Group total 2003	Group total *2002*
Cost or valuation					
Balance at April 1	12,307	1,605	1,030	**14,942**	*15,069*
Exchange movements	(250)	(16)		**(266)**	*6*
Additions – net of refund of progress payments (Note 14e)	225	55	40	**320**	*1,021*
Disposals	(827)	(95)	(37)	**(959)**	*(1,154)*
Reclassifications		1	(1)		
Balance at March 31	11,455	1,550	1,032	**14,037**	*14,942*
Depreciation					
Balance at April 1	3,635	305	528	**4,468**	*4,431*
Exchange movements	(80)	(2)		**(82)**	
Charge for the year	514	64	90	**668**	*762*
Disposals	(493)	(43)	(26)	**(562)**	*(725)*
Impairment (Note 14f)	58			**58**	
Reclassifications	(7)	7			
Balance at March 31	3,627	331	592	**4,550**	*4,468*
Net book amounts					
March 31, 2003	**7,828**	**1,219**	**440**	**9,487**	
March 31, 2002	*8,672*	*1,300*	*502*		*10,474*
Analysis at March 31					
Owned	1,851	1,070	379	**3,300**	*3,636*
Finance leased	2,220			**2,220**	*2,228*
Hire purchase arrangements	3,297			**3,297**	*3,710*
Progress payments	95	85	61	**241**	*406*
Assets held for resale	38			**38**	*34*
Assets not in current use	36			**36**	*96*
Capitalised interest	291	64		**355**	*364*
	7,828	1,219	440	**9,487**	*10,474*
The net book amount of property comprises:					
Freehold				**270**	*290*
Long leasehold				**407**	*420*
Short leasehold				**542**	*590*
				1,219	*1,300*

	Valuation/cost	Depreciation	Net book amount 2003	Net book amount *2002*
Revalued fleet and properties are included in the accounts at the following amounts:				
Fleet – valuation				*2*
Property – valuation	463	81	**382**	*422*
– subsequent additions at cost	61	19	**42**	*63*
March 31, 2003	**524**	**100**	**424**	
March 31, 2002	*663*	*176*		*487*
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 2003	**209**	**56**	**153**	
March 31, 2002	*346*	*144*		*202*

Included in fleet assets as at March 31, 2003 are assets with a cost of £1.8 billion (2002: £1.8 billion) held as security for the group's bank and other loans.

14 Tangible assets continued

b Company

£ million	Fleet	Property	Equipment	Company total 2003	Company total *2002*
Cost or valuation					
Balance at April 1	12,005	1,502	853	**14,360**	*14,752*
Exchange movements	(251)	(15)		**(266)**	*7*
Additions – net of refund of progress payments	210	55	26	**291**	*830*
Disposals	(825)	(94)	(32)	**(951)**	*(1,112)*
Net transfers to subsidiary undertakings					*(117)*
Reclassifications		1	(1)		
Balance at March 31	11,139	1,449	846	**13,434**	*14,360*
Depreciation					
Balance at April 1	3,618	281	455	**4,354**	*4,351*
Exchange movements	(81)	(1)		**(82)**	
Charge for the year	495	61	72	**628**	*717*
Disposals	(492)	(43)	(24)	**(559)**	*(710)*
Impairment	58			**58**	
Net transfers to subsidiary undertakings					*(4)*
Reclassifications	(7)	7			
Balance at March 31	3,591	305	503	**4,399**	*4,354*
Net book amounts					
March 31, 2003	**7,548**	**1,144**	**343**	**9,035**	
March 31, 2002	*8,387*	*1,221*	*398*		*10,006*
Analysis at March 31					
Owned	1,642	995	282	**2,919**	*3,244*
Finance leased	2,220			**2,220**	*2,228*
Hire purchase arrangements	3,227			**3,227**	*3,637*
Progress payments	95	85	61	**241**	*405*
Assets held for resale	38			**38**	*33*
Assets not in current use	36			**36**	*96*
Capitalised interest	290	64		**354**	*363*
	7,548	1,144	343	**9,035**	*10,006*
The net book amount of property comprises:					
Freehold				**270**	*290*
Long leasehold				**345**	*355*
Short leasehold				**529**	*576*
				1,144	*1,221*

	Valuation/cost	Depreciation	Net book amount 2003	Net book amount *2002*
Revalued fleet and properties are included in the accounts at the following amounts:				
Fleet – valuation				*2*
Property – valuation	463	81	**382**	*422*
– subsequent additions at cost	61	19	**42**	*63*
March 31, 2003	**524**	**100**	**424**	
March 31, 2002	*663*	*176*		*487*
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 2003	**209**	**56**	**153**	
March 31, 2002	*346*	*144*		*202*

14 Tangible assets continued

c Revaluation

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 15 to 25 years after making allowance for estimated residual values. Effective annual depreciation rates resulting from those methods are shown in the following table:

	Group	
per cent	**2003**	*2002*
Boeing 747-200, 747-400 and 777-200	**3.7**	*3.7*
Boeing 767-300 and 757-200	**4.7**	*4.6*
Airbus A320, A319 and Boeing 737-400	**4.9**	*4.9*
Embraer RJ145, British Aerospace 146	**4.5**	*4.5*

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

e Analysis of group tangible asset additions

				Group total	
£ million	Fleet	Property	Equipment	**2003**	*2002*
Cash paid	237	22	34	**293**	*745*
Acquisitions under loans, finance leases and hire purchase arrangements	162	43		**205**	*512*
Acquisition of subsidiary undertakings					*161*
Capitalised interest	1	9		**10**	*7*
Accrual movements	35	1	6	**42**	*4*
	435	75	40	**550**	*1,429*
Refund of progress payments	(210)	(20)		**(230)**	*(408)*
	225	55	40	**320**	*1,021*

f Impairment

On April 10, 2003, the group announced its intention to retire the fleet of seven Concorde aircraft with effect from the end of October 2003. The £58 million impairment charge relates to the impairment of capitalised engineering modifications and rotable inventory.

15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £482 million for the group (2002: £749 million) and £476 million for the company (2002: £723 million).

The outstanding commitments include £456 million which relates to the acquisition of Airbus A320 family of aircraft scheduled for delivery over the next three 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, 2003, British Airways had undrawn committed aircraft financing facilities of $148 million (expires December 31, 2003), a further $393 million facility (expires November 19, 2013) and a committed short term unsecured revolving credit facility of $100 million (expires June, 2004) together with unused overdraft facilities of £55 million. An undrawn uncommitted money market line of £25 million was held as at year end.

16 Operating lease commitments

a Fleet

£ million	Group 2003	Group 2002	Company 2003	Company 2002
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	25	*45*	4	*17*
Between one and five years	90	*79*	58	*55*
Over five years	36	*44*	11	*4*
Within one year	151	*168*	73	*76*
Between one and five years	333	*380*	166	*143*
Over five years	72	*94*	13	*2*
	556	*642*	252	*221*

b Property and equipment

£ million	Group 2003	Group 2002	Company 2003	Company 2002
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	31	*25*	29	*25*
Between one and five years	5	*16*	4	*15*
Over five years	34	*35*	34	*34*
Within one year	70	*76*	67	*74*
Between one and five years	151	*165*	142	*157*
Over five years, ranging up to the year 2145	1,491	*1,456*	1,471	*1,439*
	1,712	*1,697*	1,680	*1,670*

Property and equipment commitments relate largely to property leases.

17 Investments

a Group

i) Associated undertakings

£ million	Group 2003	Group 2002
Balance at April 1	425	*381*
Exchange movements	17	*26*
Additions	13	*22*
Goodwill amortisation	(1)	*(1)*
Share of attributable results	(4)	*(1)*
Share of movements on other reserves	42	*31*
Disposals	(31)	*(33)*
Balance at March 31	461	*425*
Equity comprises:		
Cost of shares	370	*385*
Goodwill (less amortisation)	17	*23*
Goodwill set off	(61)	*(69)*
Share of post-acquisition profits	64	*68*
Share of movements on other reserves	71	*18*
	461	*425*

17 Investments continued

ii) Trade investments

£ million	Cost: Shares	Cost: Loans	Provisions: Shares	Provisions: Loans	Group total: 2003	Group total: 2002
Balance at April 1	25	20	(5)	(1)	**39**	*20*
Additions	4	1			**5**	*22*
Provision			(11)	(1)	**(12)**	*(3)*
Balance at March 31	29	21	(16)	(2)	**32**	*39*

In completing the sale of its wholly owned subsidiary, World Network Services Ltd, to a holding company partly owned by British Airways and Warburg Pincus, British Airways has invested £4.1 million in the venture to give a 16.8 per cent stake.

iii) Investment in own shares

£ million	Group: 2003	Group: 2002
Investment in own shares	**31**	*25*

Investment in own shares consists of shares held by British Airways Plc Employee Benefits Trustees (Jersey) Limited, a wholly owned subsidiary, for the purposes of the employee share ownership plans including the Long Term Incentive Plan. At March 31, 2003 the group and company held 12,900,000 shares for the Long Term Incentive Plan and other employee share schemes (2002: 6,650,000 shares). The purchase of shares was financed by British Airways Plc granting a loan to British Airways Plc Employee Benefits Trustees (Jersey) Limited.

Net book value of total investments

£ million	Associated undertakings	Trade investments	Investment in own shares	Group total: 2003	Group total: 2002
Listed	453	1	31	**485**	*434*
Unlisted	8	31		**39**	*55*

Market value of listed investments

£ million	Group total: 2003	Group total: 2002
Associated undertakings	**454**	*647*
Trade investments	**4**	*3*
Investment in own shares	**13**	*16*

The group's principal investments in subsidiary undertakings, associated undertakings and trade investments are listed on page 58.

b Company

i) Subsidiary undertakings and quasi-subsidiary

£ million	Cost: Shares	Cost: Capital Contribution	Cost: Loans	Provisions: Shares	Provisions: Loans	Company total: 2003	Company total: 2002
Balance at April 1	2,000		54	(788)		**1,266**	*1,393*
Exchange movements	8					**8**	*(1)*
Additions		35				**35**	*4*
Repurchase of shares							*(91)*
Disposal	(202)			200		**(2)**	*(25)*
Repayment			(4)			**(4)**	
Provision				(95)		**(95)**	*(14)*
Balance at March 31	1,806	35	50	(683)		**1,208**	*1,266*
ii) Associated undertakings							
Balance at April 1	24					**24**	*14*
Additions	14					**14**	*10*
Disposal	(5)					**(5)**	
Balance at March 31	33					**33**	*24*
iii) Trade investments							
Balance at April 1	24		20	(5)	(1)	**38**	*19*
Additions	4		1			**5**	*22*
Provision				(11)	(1)	**(12)**	*(3)*
Balance at March 31	28		21	(16)	(2)	**31**	*38*

17 Investments continued

iv) Investment in own shares

£ million	Company 2003	Company 2002
Investment in own shares	**31**	*25*

See Note 17a iii)

Net book value of total investments

£ million	Subsidiary and quasi-subsidiary undertakings	Associated undertakings	Trade investments	Investment in own shares	Company total 2003	Company total 2002
Listed				31	**31**	*25*
Unlisted	1,208	33	31		**1,272**	*1,328*

Market value of listed investments

£ million	Company total 2003	Company total 2002
Investment in own shares	**13**	*16*

18 Disposal of associates

On September 5, 2002 and October 10, 2002, Qantas Airways issued new shares by way of an institutional placement and shareholder placing respectively. British Airways did not take up its allocation which resulted in the dilution of the group's shareholding from 21.4 per cent to 18.9 per cent. The profit on disposal resulting from the deemed disposal was £10 million.

With effect from November 1, 2002, British Airways sold its 50 per cent shareholding of Accoladia Ltd to Thomas Cook (UK) Ltd.
As a result, Thomas Cook (UK) Ltd is the sole shareholder of Accoladia Ltd. The profit on disposal from this sale was £2.9 million.

19 Quasi-subsidiary

Summarised financial information of The London Eye Company Limited is set out below.

£ million	Total 2003	Total 2002
Profit and Loss Account		
Turnover	**38**	*33*
Operating profit	**13**	*10*
Loss before tax for the year	**(11)**	*(11)*
Balance Sheet		
Fixed assets	**76**	*74*
Current assets	**9**	*12*
Creditors: Amounts falling due within one year	**(15)**	*(13)*
Net current liabilities	**(6)**	*(1)*
Total assets less current liabilities	**70**	*73*
Creditors: Amounts falling due after more than one year	**(109)**	*(99)*
Capital and reserves deficit	**(39)**	*(26)*
Cash Flow Statement		
Cash inflow from operating activities	**24**	*15*
Servicing of finance	**(5)**	*(1)*
Capital expenditure and financial investment	**(8)**	*(4)*
Net cash inflow before management of liquid resources and financing	**11**	*10*
Financing	**(15)**	*(7)*
(Decrease)/increase in cash	(4)	*3*

There are no recognised gains or losses other than the loss for the year. The loss for the year includes interest payable to British Airways of £24 million (2002: £19 million).

20 Investment in associates

Summarised financial information

£ million	Group 2003	Group 2002
Operating revenue	**1,938**	*1,593*
Profit before tax for the year	**40**	*19*
Share of fixed assets	**1,068**	*941*
Share of current assets	**544**	*589*
Share of assets	**1,612**	*1,530*
Liabilities due within one year	**(513)**	*(519)*
Liabilities due after more than one year	**(655)**	*(609)*
Share of liabilities	**(1,168)**	*(1,128)*
Share of net assets at associated companies' year end accounting dates	**444**	*402*
Goodwill on acquisition (less amortisation)	**17**	*23*
Total group investment in associated undertakings at March 31	**461**	*425*

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

The only associate which 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 is Qantas. For the year ending December 31, 2002, the group's share of Qantas' results was turnover of £834 million (2001: £942 million), profit before tax of £66 million (2001: £27 million), taxation of £21 million (2001: £6 million) and profit after tax of £45 million (2001: £21 million).

As at December 31, 2002, the group's share of Qantas' fixed assets was £959 million (2001: £945 million), current assets was £293 million (2001: £279 million), liabilities due within one year £382 million (2001: £407 million) and liabilities due after one year or more £521 million (2001: £511 million).

21 Stocks

£ million	Group 2003	Group 2002	Company 2003	Company 2002
Expendables and consumables	**87**	*109*	**69**	*91*

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

22 Currency exposures

£ million	Group – Net foreign currency assets/(liabilities)						
Functional currency	Sterling	US dollar	Euro	Japanese yen	Other	2003	2002
Sterling		167	46	(847)	137	**(497)**	*(337)*
Euro		(28)				**(28)**	*(44)*
Total March 31, 2003		139	46	(847)	137	**(525)**	
Total March 31, 2002	*1*	*278*	*17*	*(885)*	*208*		*(381)*

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.

23 Debtors

£ million	Group 2003	Group 2002	Company 2003	Company 2002
Trade debtors	**597**	*772*	**570**	*732*
Amounts owed by subsidiary undertakings			**104**	*109*
Amounts owed by associated undertakings	**38**	*43*	**28**	*33*
Other debtors	**64**	*73*	**53**	*55*
Prepayments and accrued income	**287**	*343*	**168**	*215*
	986	*1,231*	**923**	*1,144*

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

24 Cash

a Reconciliation of net cash flow to movement in net debt

£ million	Group 2003	Group 2002
Increase/(decrease) in cash during the year	**158**	*(4)*
Net cash outflow from decrease in debt and lease financing	**784**	*217*
Cash outflow from liquid resources	**289**	*301*
Changes in net debt resulting from cash flows	**1,231**	*514*
New loans and finance leases taken out and hire purchase arrangements made	**(221)**	*(512)*
Assumed from subsidiary undertakings acquired during the year		*(117)*
Conversion of Convertible Capital Bonds 2005		*1*
Exchange movements	**135**	*43*
Movement in net debt during the year	**1,145**	*(71)*
Net debt at April 1	**(6,294)**	*(6,223)*
Net debt at March 31	**(5,149)**	*(6,294)*

b Analysis of net debt

£ million	Balance at April 1	Cash flow	Other non-cash	Exchange	Balance at March 31
Cash	64	158			**222**
Short-term loans and deposits	1,155	289		(14)	**1,430**
Bank and other loans	(1,545)	176		37	**(1,332)**
Finance leases and hire purchase arrangements	(5,856)	608	(221)	112	**(5,357)**
Convertible Capital Bonds 2005	(112)				**(112)**
Year to March 31, 2003	(6,294)	1,231	(221)	135	**(5,149)**
Year to March 31, 2002	*(6,223)*	*514*	*(628)*	*43*	*(6,294)*

c Analysis of short-term loans and deposits by currency

£ million	Group 2003	Group 2002	Company 2003	Company 2002
Sterling	**1,104**	*847*	**1,078**	*815*
US dollar	**144**	*143*	**129**	*133*
Other	**182**	*165*	**167**	*164*
	1,430	*1,155*	**1,374**	*1,112*

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

25 Creditors: amounts falling due within one year

£ million	Group 2003	Group 2002	Company 2003	Company 2002
Loans, finance leases and hire purchase arrangements				
Bank and other loans	**57**	*62*	**41**	*34*
Finance leases	**124**	*208*	**123**	*208*
Hire purchase arrangements	**362**	*409*	**357**	*404*
Loans from subsidiary undertakings				*7*
	543	*679*	**521**	*653*
Trade creditors	**982**	*1,091*	**860**	*921*
Unredeemed frequent flyer liabilities	**117**	*111*	**74**	*72*
Amounts owed to subsidiary undertakings			**867**	*879*
Amounts owed to associated undertakings	**27**	*25*	**27**	*25*
Other creditors				
Other creditors	**299**	*409*	**273**	*370*
Corporate taxation	**19**	*29*	**16**	*24*
Other taxation and social security	**41**	*40*	**36**	*34*
	359	*478*	**325**	*428*
Accruals and deferred income				
Sales in advance of carriage	**783**	*716*	**751**	*687*
Accruals and deferred income	**93**	*101*	**27**	*45*
	876	*817*	**778**	*732*
	2,904	*3,201*	**3,452**	*3,710*

26 Borrowings and other creditors: amounts falling due after more than one year

£ million	Group 2003	Group 2002	Company 2003	Company 2002
Loans, finance leases and hire purchase arrangements				
Bank and other loans	**1,275**	*1,483*	**1,119**	*1,320*
Finance leases	**2,430**	*2,404*	**2,429**	*2,404*
Hire purchase arrangements	**2,441**	*2,835*	**2,396**	*2,781*
Loans from subsidiary undertakings			**309**	*288*
	6,146	*6,722*	**6,253**	*6,793*
Other creditors	**23**	*27*		
Accruals and deferred income	**272**	*236*	**230**	*172*
	6,441	*6,985*	**6,483**	*6,965*

27 Loans, finance leases and hire purchase arrangements

a Total loans, finance leases and hire purchase arrangements

£ million		Group 2003	Group 2002	Company 2003	Company 2002
Loans					
Bank	*– US dollar*	**US$612m**	*US$527m*	**US$503m**	*US$527m*
	– sterling	**£604m**	*£807m*	**£501m**	*£623m*
		991	*1,177*	**819**	*993*
Euro-sterling notes	*– sterling*	**337**	*346*	**337**	*346*
Other	*– sterling*	**4**	*22*	**4**	*15*
Loans from subsidiary undertakings	*– euro*			**euro300m**	*euro300m*
	– sterling			**£102m**	*£111m*
				309	*295*
Finance leases	*– US dollar*	**US$1,122m**	*US$929m*	**US$1,122m**	*US$929m*
	– sterling	**£1,844m**	*£1,961m*	**£1,842m**	*£1,959m*
		2,554	*2,612*	**2,552**	*2,612*
Hire purchase arrangements	*– Japanese yen*	**¥189,427m**	*¥200,816m*	**¥189,427m**	*¥200,816m*
	– US dollar	**US$527m**	*US$728m*	**US$513m**	*US$713m*
	– sterling	**£1,460m**	*£1,668m*	**£1,418m**	*£1,619m*
		2,803	*3,244*	**2,753**	*3,185*
		6,689	*7,401*	**6,774**	*7,446*
Comprising:					
Bank loans					
Repayable wholly within five years		**438**	*277*	**378**	*240*
Repayable in whole or in part after five years		**553**	*900*	**441**	*753*
		991	*1,177*	**819**	*993*
Other loans, finance leases and hire purchase arrangements					
Repayable wholly within five years		**2,419**	*1,243*	**2,494**	*1,340*
Repayable in whole or in part after five years		**3,279**	*4,981*	**3,461**	*5,113*
		5,698	*6,224*	**5,955**	*6,453*
		6,689	*7,401*	**6,774**	*7,446*

Bank and other loans are repayable up to the year 2016. In addition to finance leases and hire purchase arrangements, bank and other loans of the group amounting to US$602 million (2002: US$517 million), and £362 million (2002: £502 million) and bank loans of the company amounting to US$493 million (2002: US$517 million) and £264 million (2002: £289 million) are secured on aircraft.

b Analysis by type of borrowing

	Fixed rate borrowings: Weighted average years	Fixed rate borrowings: Weighted average rate %	Fixed rate borrowings: £ million	Floating rate borrowings: £ million	Group 2003 Total £ million	Group 2002 Total £ million
Sterling	12.9	6.89	1,424	2,825	**4,249**	*4,802*
US dollar	12.4	5.37	417	1,013	**1,430**	*1,534*
Japanese yen	5.6	1.45	1,010		**1,010**	*1,065*
Total 2003	10.3	4.74	2,851	3,838	**6,689**	
Total 2002	*10.8*	*4.80*	*2,835*	*4,566*		*7,401*

The borrowings are stated after taking into account the various interest rate swaps entered into by the group.

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

The interest rate profile of the Convertible Capital Bonds is disclosed separately in Note 29.

c Incidence of repayments

£ million	Bank loans	Other loans	Finance leases	Hire purchase arrangements	Group total 2003	Group total *2002*
Instalments falling due:						
Within one year	56	1	124	362	**543**	*679*
After more than one year						
Between one and two years	156		138	347	**641**	*562*
Between two and five years	226		437	1,010	**1,673**	*1,918*
In five years or more	553	340	1,855	1,084	**3,832**	*4,242*
	935	340	2,430	2,441	**6,146**	*6,722*
Total 2003	991	341	2,554	2,803	**6,689**	
Total 2002	*1,177*	*368*	*2,612*	*3,244*		*7,401*
Analysis of total 2003						
British Airways Plc	819	341	2,552	2,753	**6,465**	*7,151*
Subsidiary undertakings	172		2	50	**224**	*250*
	991	341	2,554	2,803	**6,689**	*7,401*

28 Analysis of changes in borrowings during the year

£ million	Bank and other loans	Finance leases and hire purchase arrangements	Group total 2003	Group total *2002*
Balance at April 1	1,545	5,856	**7,401**	*7,043*
New loans raised	13		**13**	*495*
Assumed from subsidiary undertakings acquired during the year				*117*
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft and other assets		221	**221**	*512*
Repayment of amounts borrowed	(189)	(608)	**(797)**	*(712)*
Exchange movements	(37)	(112)	**(149)**	*(54)*
Balance at March 31	1,332	5,357	**6,689**	*7,401*

29 Convertible Capital Bonds 2005

£ million	Group 2003	Group *2002*
	112	*112*

The terms of the 9.75 per cent Convertible Capital Bonds allow the holders to convert into British Airways Plc ordinary shares during the period June 1993 to June 2005 on the basis of one ordinary share for every 2.34 (adjusted for the effect of the 1993 rights issue) Bonds held. On June 17, 2002, 24,000 ordinary shares were issued in exchange for 57,000 Bonds (June 15, 2001, 61,000 ordinary shares were issued in exchange for 143,000 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 48,050,000 ordinary shares.

The mid market closing prices of the Bonds and the ordinary shares at March 31, 2003 as quoted in the London Stock Exchange Daily Official List were 99.0p and 104.0p each respectively.

30 Provision for deferred taxation (see also Note 11)

Deferred taxation has been provided at 30 per cent (2002: 30 per cent):

	Group		Company	
£ million	**2003**	*2002*	**2003**	*2002*
Accelerated capital allowances less unrelieved losses	**1,259**	*1,290*	**1,255**	*1,262*
Other timing differences	**18**	*(16)*	**(20)**	*(41)*
Tax losses carried forward	**(215)**	*(243)*	**(210)**	*(236)*
	1,062	*1,031*	**1,025**	*985*

Movement in provision:

	Group		Company	
£ million	**2003**	*2002*	**2003**	*2002*
Balance at April 1	**1,031**	*1,094*	**985**	*1,060*
Acquisitions during the year		*8*	**(3)**	
Deferred tax charge/(credit) in profit and loss (Note 11)	**31**	*(71)*	**43**	*(75)*
Balance at March 31	**1,062**	*1,031*	**1,025**	*985*

31 Provisions for liabilities and charges

Group

£ million	Balance at April 1	Transfers from profit and loss account	Provisions utilised	**Balance at March 31**
Pensions and similar obligations	12	5		**17**
Post-retirement medical benefits	31	2		**33**
Restructuring	83		(53)	**30**
Onerous lease contracts		27		**27**
Year to March 31, 2003	126	34	(53)	**107**
Year to March 31, 2002	*70*	*83*	*(27)*	*126*
Analysis				
British Airways Plc	126	7	(53)	**80**
Subsidiary undertakings		27		**27**
Year to March 31, 2003	126	34	(53)	**107**

The restructuring provision at March 31, 2003 relates to early retirement and voluntary severance costs associated with the group's Future Size and Shape programme and covers both pension augmentation costs relating to individuals who have left the group during the year ended March 31, 2003 and committed early retirement and voluntary severance costs to be paid during the next financial year.
The onerous lease provision arises from the sub-lease of 12 Jetstream 41 Turboprop aircraft to Eastern Airways.

32 Share capital

Group and Company

	2003		*2002*	
Ordinary shares of 25p each	**Number of shares '000**	**£ million**	*Number of shares '000*	*£ million*
Authorised				
At April 1 and March 31	**1,508,000**	**377**	*1,508,000*	*377*
Allotted, called up and fully paid				
At April 1	**1,082,757**	**271**	*1,082,552*	*271*
Conversion of Convertible Capital Bonds	**24**		*61*	
Exercise of options under Employee Share Option Schemes	**3**		*144*	
At March 31	**1,082,784**	**271**	*1,082,757*	*271*

33 Share options

Number of shares '000	Group and Company 2003	2002
Outstanding at April 1	**43,312**	*52,778*
Granted in the year	**12,484**	*7,277*
Exercised during the year	**(3)**	*(144)*
Expired/cancelled	**(7,168)**	*(16,599)*
At March 31	**48,625**	*43,312*
Date exercisable	**2003 - 2012**	*2002 - 2011*
Price per share	**181p - 465p**	*238p - 465p*
Price range of options exercised during the year	**238p**	*195p - 418p*

34 Reserves

a Group

£ million	Share premium account	Revaluation reserve	Profit and loss account	Group total 2003	2002
Balance at April 1	788	270	687	**1,745**	*1,850*
Retained profit/(loss) for the year			72	**72**	*(142)*
Transfers relating to revalued assets, including amounts realised on disposal		7	(7)		
Exchange and other movements		(7)	(31)	**(38)**	*17*
Goodwill written back on disposals			8	**8**	*20*
Balance at March 31	788	270	729	**1,787**	*1,745*

The group profit and loss account includes cumulative retained profits in respect of associated undertakings which is shown in Note 17.

b Goodwill

Cumulative goodwill set off against reserves at March 31 comprises:

£ million	Group 2003	2002
In respect of subsidiary undertakings	**433**	*433*
In respect of associated undertakings	**61**	*69*
	494	*502*

c Company

£ million	Share premium account	Revaluation reserve	Profit and loss account	Company total 2003	2002
Balance at April 1	788	270	630	**1,688**	*1,766*
Retained loss for the year			(11)	**(11)**	*(75)*
Transfers relating to revalued assets, including amounts realised on disposal		7	(7)		
Exchange and other movements		(7)	(18)	**(25)**	*(3)*
Balance at March 31	788	270	594	**1,652**	*1,688*

35 Non-equity minority interest

The non-equity minority interest represents Euro 300 million of 6.75 per cent fixed coupon euro 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 effect of the securities on British Airways group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

36 Pension costs

British Airways operates two funded principal defined benefit pension schemes in the United Kingdom, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are closed to new members. APS has been closed to new members since March 31, 1984 and NAPS closed to new members on March 31, 2003. From April 1, 2003 British Airways commenced a new defined contribution scheme, the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 18 employed by the company and certain subsidiary undertakings in the United Kingdom may become members. The assets of these schemes are held in separate trustee-administered funds. Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in payment in line with the Retail Price Index. Those provided under NAPS are based on final average pensionable pay reduced by an amount (the "abatement") not exceeding one and a half times the Government's lower earnings limit. NAPS benefits are subject to Retail Price Index increases in payment up to a maximum of 5 per cent in any one year.

Most employees engaged outside the United Kingdom are covered by appropriate local arrangements. Standard employees' contributions range from 5.75 per cent to 8.5 per cent of full pensionable pay in APS, and from 3.75 per cent to 6.5 per cent of full pensionable pay less the abatement in NAPS.The latest actuarial valuations of APS and NAPS were made as at March 31, 2000 by an independent firm of qualified actuaries, Watson Wyatt Partners, using the attained age method for APS and the projected unit method for NAPS. These valuations showed that no further employers' contributions were required in respect of APS while for NAPS an employers' contribution equal to an average of 3.0 times the standard employees' contribution with effect for the period January 1, 2001 to March 31, 2003 (2.35 times for the period April 1, 2000 to December 31, 2000) was appropriate. The actuarial valuations of APS and NAPS for March 31, 2003 have commenced and are due to be completed by autumn 2003.

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

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

	Group	
£ million	**2003**	*2002*
Airways Pension Scheme	**5**	
New Airways Pension Scheme	**127**	*127*
Other pension schemes and provident funds – mainly outside the United Kingdom	**29**	*20*
	161	*147*

At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £6,687 million and £3,796 million respectively. The value of the assets represented 114 per cent (APS) and 93 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. In the case of APS, the market value of the assets together with future contributions from employees was sufficient to cover both past and future service liabilities. In the case of NAPS, the actuarial value of the assets together with future contributions from employees was sufficient to cover past service liabilities and some future service liabilities. The employer's contribution is 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 and (NAPS only) in dividends would be 1.5 per cent higher than annual increases in price inflation. The annual return on investments was assumed to be 0.59 per cent (APS) or 2.75 per cent (NAPS) higher than the onward increase in earnings. Annual pension increases, over the long term, were assumed to be equal to price inflation for APS and 0.25 per cent less than price inflation for NAPS.

Under the projected unit method, the current service cost will increase as the members of the schemes approach retirement.

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

36 Pension costs continued

FRS 17 disclosures for the year ended March 31, 2003

The group has continued to account for pensions in accordance with SSAP 24. The following additional disclosures are required in accordance with FRS 17 'Retirement benefits'.

		Group		Group
		At March 31, 2003		At March 31, 2002
per cent p.a.	APS and NAPS	Other Schemes	*APS and NAPS*	*Other Schemes*
Inflation	**2.25**	**2.5 – 4.0**	*2.50*	*2.0 – 3.0*
Rate of increase in salaries	**3.75**	**1.5 – 6.0**	*4.00*	*2.5 – 6.0*
Rate of increase of pensions in payment	**2.25**	**2.0 – 8.0**	*2.50*	*2.0 – 8.0*
Rate of increase in deferred pension	**2.25**	**2.5 – 5.5**	*2.50*	*2.5 – 5.5*
Discount rate	**5.70**	**2.0 – 8.0**	*6.00*	*3.0 – 8.0*

Market values of the schemes' assets at March 31, 2003 were:

			Group			Group
			At March 31, 2003			At March 31, 2002
£ million	APS and NAPS	Other Schemes	Total	*APS and NAPS*	*Other Schemes*	*Total*
Equities	**3,571**	**123**	**3,694**	*5,024*	*153*	*5,177*
Bonds	**4,472**	**67**	**4,539**	*3,854*	*77*	*3,931*
Others	**567**	**58**	**625**	*796*	*49*	*845*
	8,610	**248**	**8,858**	*9,674*	*279*	*9,953*

Expected rate of return per cent per annum:

			Group			Group
			At March 31, 2003			At March 31, 2002
	APS	NAPS	Other Schemes	*APS*	*NAPS*	*Other Schemes*
Equities	**8.5**	**8.5**	**6.0 – 9.5**	*8.2*	*8.2*	*6.3 – 9.0*
Bonds	**4.5**	**4.5**	**3.0 – 9.0**	*5.1*	*5.1*	*3.3 – 10.0*
Others	**6.4**	**6.1**	**2.6 – 5.0**	*6.4*	*6.4*	*1.5 – 5.0*
	5.8	**7.2**	**5.0 – 9.0**	*6.5*	*7.3*	*5.3 – 10.0*

Had the group accounted for pensions in accordance with FRS 17, the defined benefit costs for the year ended March 31, 2003 would be as follows:

			Group
			2003
£ million	APS and NAPS	Other Schemes	Total
Current service cost	**148**	**5**	**153**
Past service cost	**12**	**1**	**13**
Total charged to operating profit	**160**	**6**	**166**
Amounts charged to other finance income:			
Interest on pension scheme liabilities	**525**	**25**	**550**
Expected return on assets in the pension scheme	**(581)**	**(16)**	**(597)**
Net charge/(income) to other finance income	**(56)**	**9**	**(47)**
Total profit and loss charge before deduction for tax	**104**	**15**	**119**

If the requirements of FRS 17 had been recognised in the financial statements, the amounts recognised in the group's statement of total recognised gains and losses for the year ended March 31, 2003 would have been:

			Group
			2003
£ million	APS and NAPS	Other Schemes	Total
Differences between actual and expected returns on assets	**1,421**	**43**	**1,464**
Experience loss on liabilities	**370**	**24**	**394**
Loss on change of assumptions (financial and demographic)	**114**	**46**	**160**
Total loss recognised in statement of total recognised gains and losses before adjustment for tax	**1,905**	**113**	**2,018**

The following amounts for the year ended March 31, 2003 were measured in accordance with the requirements of FRS 17:

			Group
			2003
	APS and NAPS	Other Schemes	Total
(Gain)/loss on scheme assets:			
Amount (£ million)	**1,421**	**43**	**1,464**
Percentage of scheme assets at year end	**16.5%**	**17.3%**	**16.5%**
Experience (gain)/loss on scheme liabilities:			
Amount (£ million)	**370**	**24**	**394**
Percentage of scheme liabilities at year end	**3.8%**	**5.4%**	**3.9%**
Total actuarial (gain)/loss recognised in statement of total recognised gains and losses:			
Amount (£ million)	**1,905**	**113**	**2,018**
Percentage of scheme liabilities at year end	**19.7%**	**25.4%**	**19.9%**

The following amounts at March 31, 2003 were measured in accordance with the requirements of FRS 17:

			Group			Group
			At March 31, 2003			At March 31, 2002
£ million	APS and NAPS	Other Schemes	Total	*APS and NAPS*	*Other Schemes*	*Total*
Total market value of assets	**8,610**	**248**	**8,858**	*9,674*	*279*	*9,953*
Present value of liabilities	**9,674**	**445**	**10,119**	*8,861*	*373*	*9,234*
(Deficit)/surplus	**(1,064)**	**(197)**	**(1,261)**	*813*	*(94)*	*719*
Less: APS irrecoverable surplus	**(418)**		**(418)**	*(1,207)*		*(1,207)*
Pension liability (before allowance for deferred tax)	**(1,482)**	**(197)**	**(1,679)**	*(394)*	*(94)*	*(488)*
Related deferred tax	**445**	**59**	**504**	*118*	*28*	*146*
Net pension liability	**(1,037)**	**(138)**	**(1,175)**	*(276)*	*(66)*	*(342)*

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at March 31, 2003 would be as follows:

	Group	
£ million	At March 31, 2003	At March 31, 2002
Net assets excluding pension liability	**2,274**	*2,207*
Pension liability, net of related deferred tax	**(1,175)**	*(342)*
Net assets including pension liability	**1,099**	*1,865*
Profit and loss reserve excluding pension liability	**729**	*687*
Pension liability	**(1,175)**	*(342)*
Profit and loss reserve	**(446)**	*345*

Analysis of the movement in deficit in the schemes during the year:

	Group		
			2003
	APS and NAPS	Other Schemes	Total
Surplus/(deficit) before irrecoverable surplus and impact of deferred tax at April 1, 2002	**813**	**(94)**	**719**
Contributions paid	**132**	**25**	**157**
Current service cost	**(148)**	**(5)**	**(153)**
Past service cost	**(12)**	**(1)**	**(13)**
Other finance income/(charge)	**56**	**(9)**	**47**
Actuarial loss	**(1,905)**	**(113)**	**(2,018)**
Deficit before irrecoverable surplus and impact of deferred tax at March 31, 2003	**(1,064)**	**(197)**	**(1,261)**

37 Forward transactions

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

	In currency		Sterling equivalents	
	2003	*2002*	**2003**	*2002*
Maturing within one year				
– to hedge future currency revenues against US dollars	**US$29m**			
– to hedge future currency revenues against sterling			**£91m**	*£34m*
– to hedge future operating payments against US dollars	**US$2m**	*US$39m*		
– to hedge future fuel costs in US dollars	**US$655m**	*US$757m*	**£414m**	*£532m*
– to hedge future operating payments against sterling			**£13m**	*£44m*
Maturing after one year				
– to hedge future currency revenues against sterling				*£1m*

38 Interest rate arrangements

To reduce interest rate risk, the group 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, 2003			
US dollar	**US$252m**	**2003 – 2008**	**2.95% – 8.9%**
At March 31, 2002			
US dollar	*US$82m*	*2002 – 2003*	*8.9% – 9.9%*

39 Fair values of financial instruments

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

£ million	2003 Carrying amount	2003 Fair value	2002 Carrying amount	2002 Fair value
Cash at bank and in hand and overdrafts	**222**	**222**	*64*	*64*
Short-term loans and deposits	**1,430**	**1,430**	*1,155*	*1,155*
Bank and other borrowings	**(995)**	**(1,027)**	*(1,199)*	*(1,222)*
Finance leases	**(2,554)**	**(2,643)**	*(2,613)*	*(2,605)*
Hire purchase arrangements	**(2,803)**	**(2,818)**	*(3,243)*	*(3,248)*
Euro-sterling notes	**(90)**	**(81)**	*(100)*	*(99)*
Convertible Capital Bonds 2005	**(112)**	**(111)**	*(112)*	*(148)*
Euro-sterling Bond 2016	**(247)**	**(179)**	*(246)*	*(218)*

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

£ million	Fair value 2003	Fair value 2002
Interest rate swaps	**(5)**	*(2)*
Forward currency transactions	**(9)**	*1*
Fuel derivatives	**18**	*43*

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

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

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

Bank and other loans, finance leases, hire purchase arrangements and the non Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest
– the repayments which the group is committed to make have been discounted at the relevant interest rates applicable at March 31, 2003.

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 £1,010 million has therefore been included as the fair value above.

Euro sterling notes, Convertible Capital Bonds 2005 and Euro-sterling Bond 2016
– 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.

39 Fair values of financial instruments continued

c Hedges

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

At March 31, 2003 there were unrecognised gains of £18 million and unrecognised losses of £14 million relating to hedges of future exposure. All of the unrecognised gains are expected to occur within one year and of the unrecognised losses £9 million are expected to occur within one year and £5 million after one year.

At March 31, 2002 there were unrecognised gains of £44 million and unrecognised losses of £2 million relating to hedges of future exposure. All of the unrecognised gains and losses related to the period to March 31, 2003.

40 Contingencies

There were contingent liabilities at March 31, 2003 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, 2003 amounted to £300 million (2002: £281 million) and £611 million (2002: £570 million) respectively. For the company these included guarantees given in respect of the Convertible Capital Bonds and the fixed perpetual preferred securities issued by subsidiary undertakings.

41 Related party transactions

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

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

Qantas Airways Limited

The group has an 18.9 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 and costs on the core 'Kangaroo' routes between Europe and Australia.

As at March 31, 2003, the net trading balance due to Qantas from British Airways (including amounts related to the Joint Services Agreement and via the IATA clearing house) amounted to £1 million (2002: £22 million due from Qantas).

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

The group has a 9 per cent investment in Iberia, which was completed in March 2000. Areas of opportunity for co-operation have been identified and work continues to pursue and implement these.

As at March 31, 2003, the net trading balance owed by British Airways to Iberia amounted to £1 million (2002: £nil).

Accoladia Limited

The group disposed of its interest in Accoladia with effect from November 25, 2002. Up until the date of disposal, settlement between British Airways and Accoladia was actioned through the Bank Settlement Plan of which both companies are members. The turnover for the period to November 25, 2002 was £31 million. As at March 31, 2003 the net trading balance was £nil.

Comair Limited

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

As at March 31, 2003, the net trading balance due to Comair amounted to £7 million (2002: £6 million).

Opodo Limited

The group has a 22.9 per cent investment in Opodo. The settlement between British Airways and Opodo is actioned through the Bank Settlement Plan of which both companies are members. As at March 31, 2003 the net trading balance was nil. The turnover during the year to March 31, 2003 was £15 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.

42 Foreign currency translation rates

	At March 31		Annual average	
	2003	*2002*	**2002-03**	*2001-02*
US dollar	**1.58**	*1.42*	**1.54**	*1.43*
Japanese yen	**188**	*189*	**188**	*179*
Australian dollar	**2.62**	*2.67*	**2.76**	*2.82*
Euro	**1.45**	*1.63*	**1.57**	*1.63*

Principal investments

At March 31, 2003

Subsidiary undertakings

The following table includes those principal undertakings which significantly impact the results or assets of the group.
These subsidiary undertakings are wholly-owned except where indicated.

	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Ltd *	Airline marketing	England
BA & AA Holdings Ltd *	Holding Company	England
(90 per cent of equity owned)		
Britair Holdings Ltd *	Holding Company	England
British Airways Capital Ltd *	Airline finance	Jersey
(89 per cent of founders' shares owned)		
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
CityFlyer Express Ltd *	Airline operations	England
Deutsche BA Luftfahrtgesellschaft GmbH	Airline operations	Germany
British Regional Air Lines Group Plc	Holding Company	England
Speedbird Insurance Company Ltd *	Insurance	Bermuda
British Airways CitiExpress Ltd	Airline operations	England
Brymon Airways Ltd	Holding Company	England
(Holding company of British Regional Air Lines Group Plc)		

Quasi-subsidiary undertaking

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

Associated undertakings

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Qantas Airways Ltd	18.9	Airline operations	Australia
Iberia, Líneas Aéreas de España, S.A. ('Iberia')	9.0	Airline operations	Spain
Comair Ltd	18.3	Airline operations	South Africa
Opodo Ltd *	22.9	Internet travel agency	England

Trade investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
The Airline Group *	16.7	Air traffic control holding company	England
WNS (Holdings) Ltd *	16.8	Holding company	Jersey

* Owned directly by British Airways Plc

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:

(a) Frequent flyer revenue

Under US GAAP, following the implementation of SAB 101 'Revenue Recognition in Financial Statements', a proportion of frequent flyer revenue is deferred until the frequent flyer airmiles are redeemed. The remaining portion of revenue is recognised upon sale as the related services have been provided. The cumulative effect of this adjustment for the periods prior to April 1, 1999 was £109 million and was included in the determination of net income for the year ended March 31, 2000.

(b) 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, 2003 amounted to £119 million (2002: £121 million) under UK GAAP compared with an estimated credit of £149 million (2002: credit of £125 million) under FAS 87 'Employers' Accounting for Pensions'. The resultant decrease in operating costs of £269 million (2002: decrease of £246 million), net of related deferred tax charge of £81 million (2002: charge £74 million), would increase net income under US GAAP by £188 million (2002: increase of £172 million), and would be reflected in the consolidated balance sheet as an increase in pension prepayments.

(c) Goodwill and other intangibles

Up to March 31, 1998, under UK GAAP, the group 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, the group adopted SFAS 142 'Goodwill and Intangible Assets' effective from April 1, 2002. In accordance with SFAS 142, goodwill and other intangible assets with indefinite lives are capitalised and not amortised, but tested for impairment on an annual basis or on an interim basis when a triggering event occurs.

With respect to investments in associated undertakings, under UK GAAP prior to March 31, 1998, any goodwill arising on the acquisition of an investment in associated undertakings was set off directly against retained earnings. From 1 April, 1998 goodwill is capitalised and amortised over its useful economic life. Under US GAAP, goodwill and intangible assets arising on the acquisition of an equity stake are capitalised and not amortised but tested for impairment in accordance with the requirements of APB 18 'The Equity Method of Accounting for Investments in Common Stock'.
Prior to April 1, 2002 goodwill was capitalised and amortised over its estimated useful life up to a maximum of 40 years. Intangible assets with finite lives continue to be capitalised and amortised over their useful economic lives. The group's landing rights have definite useful lives and will continue to be amortised over their useful economic lives not exceeding 20 years.

SFAS 142 requires a two-step process in evaluating goodwill for impairment. The first step requires the comparison of the fair value of each reporting unit to its carrying value. If the fair value of a reporting unit exceeds its carrying value, then no futher testing is required. If the carrying value of a reporting unit exceeds its fair value however, a second step is required to determine the amount of the impairment charge, if any. An impairment charge is recognised if the carrying value of a reporting unit exceeds its implied fair value.

During the second quarter of 2002, the group performed an initial evaluation of its goodwill using April 1, 2002, as the valuation date and determined that there was no impairment. As at March 31, 2003 the group completed an annual impairment test (using the two-step process), as required by SFAS 142. Using the British Airways group as the reporting unit, various valuation methods were evaluated before concluding that market capitalisation was the primary method of determining fair value for the purposes of SFAS 142. As a result, because the group's net carrying value was in excess of the group's market capitalisation as at March 31, 2003, a goodwill impairment charge of £399 million representing the entire balance of the group's goodwill was recognised under US GAAP.

Amortisation of goodwill charged under UK GAAP on the acquisition of subsidiary undertakings and on the acquisition of an equity stake in associated undertakings has been reversed for US GAAP for the year ending March 31, 2003. The adjustment to net income/(loss) in respect of the amortisation of goodwill comprises £6 million (2002: £(11) million) in respect of subsidiary undertakings and £1 million (2002: £(2) million) in respect of investments in associated undertakings.

(d) 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.

(e) Capitalised leases

Under UK GAAP, certain aircraft 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 on to the balance sheet.

United States generally accepted accounting principles (US GAAP) information continued

(f) 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 under US GAAP.

(g) Associated undertakings

US GAAP accounting principles applicable to the group have been applied to the group's share of associated undertakings' results.
The net effect of these adjustments were £(12) million (2002: £(13) million) and the tax effect was £4 million (2002 £4 million).

(h) Financial instruments

Under UK GAAP the fair value of most derivative instruments is not recognised on the group balance sheet and the gain or loss arising is reported in earnings as the instrument crystallises. Effective from April 1, 2001, the group adopted 'FAS 133', under which the fair value of all derivative instruments is reported as part of shareholder's equity. As none of the group's derivative instruments have been designated as hedges, for the purposes of FAS 133, any changes in the fair value of the derivative instrument is reported through net income.

(i) 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, any gain is deferred and amortised over the minimum lease term.

(j) 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 and its accounts are consolidated as if it were a subsidiary undertaking.
Under US GAAP, such an entity would be treated as an associated undertaking.

(k) Trade investments

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

(l) Investment in own shares

Under UK GAAP, company shares held for the purposes of employee share ownership plans 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.

(m) Stock compensation

FIN 44 'Accounting for Certain Transactions involving Stock Compensation' has been effective from July 1, 2000, and provides interpretative guidance on accounting for stock - based compensation. The company has not entered into any transactions involving share capital that would be accounted for under FIN 44 since its implementation and hence there is no impact on the financial statements for the US GAAP purposes.

(n) Deferred tax

British Airways provides for deferred tax in accordance with FRS 19 on all timing differences with the exception of gains on revaluations of fixed assets or where potentially taxable gains have been rolled over where there is no commitment to dispose of the relevant asset. Deferred tax assets are recognised when it is considered more likely than not that there will be suitable taxable profits from which to offset the timing differences. Under US GAAP deferred tax is generally provided on a full liability basis on all temporary differences between the accounting and tax bases of the group's assets and liabilities.
The effect of deferred tax methodology differences on net income/(loss) was £nil (2002: £(189) million) and deferred tax impact of US GAAP adjustments was £(99) million (2002: £(66) million). The cumulative effect of methodology differences on shareholders equity was £(45) million (2002: £(45) million) and deferred tax impact of US GAAP adjustments in shareholders' equity was £(159) million (2002: £(60) million).

The 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 61 and 62.

Net income/(loss) under US GAAP

For the year ended March 31, 2003

		Group			
		2003	2002	2003	2002
	Notes	£ million	£ million	$ million*	$ million*
Profit/(loss) for the year as reported in the group profit and loss account		72	(142)	114	(202)
Adjustments:					
Other revenue					
Deferred frequent flyer revenue	(a)	(32)	(22)	(51)	(31)
Employee costs					
Pension costs	(b)	269	246	425	349
Depreciation and amortisation					
Amortisation of goodwill in respect of subsidiary undertakings	(c)	6	(11)	9	(16)
Impairment of goodwill in respect of subsidiary undertakings	(c)	(399)		(631)	
Amortisation of goodwill in respect of associated undertakings	(c)	1	(2)	2	(3)
Depreciation – fleet	(d)	3	10	5	14
Depreciation – FRS 5 financed leased aircraft	(e)	30	30	47	43
Depreciation – revalued property	(f)	4	4	6	6
		(355)	31	(562)	44
Aircraft operating lease costs	(e)	(88)	(63)	(139)	(90)
Equity accounting of associated undertakings					
Share of results of associated undertakings	(g)	(12)	(13)	(19)	(19)
Share of tax of associated undertakings	(g)	4	4	6	6
		(8)	(9)	(13)	(13)
Interest payable					
Interest charge on FRS 5 finance leased aircraft	(e)	30	37	47	53
Exchange gains/(losses)					
Arising on translation of aircraft-related loans	(d)	149	(8)	236	(11)
Changes in the fair value of derivative instruments	(h)	(38)	41	(60)	58
		111	33	176	47
(Loss)/income on disposal of tangible fixed assets					
Arising on disposal of revalued property	(f)	(11)	15	(17)	21
Arising on sale and leaseback transactions	(i)	(20)	5	(32)	7
		(31)	20	(49)	28
Income on disposal of investments					
Disposal of interests in associated undertakings	(c)	3	2	5	3
Disposal of interests in subsidiary undertakings	(c)		3		4
		3	5	5	7
Deferred tax					
Effect of the above adjustments	(n)	(99)	(66)	(156)	(94)
Effect of differences in methodology	(n)		(189)		(269)
		(99)	(255)	(156)	(363)
		(200)	23	(317)	31
Net loss as adjusted to accord with US GAAP		(128)	(119)	(203)	(171)
Number of shares		'000	'000	'000	'000
Basic weighted average number of shares		1,073,054	1,076,042	1,073,054	1,076,042
Diluted weighted average number of shares		1,073,054	1,077,966	1,073,054	1,077,966

	Group			
	2003	2002	2003	2002
	Pence	Pence	Cents	Cents
Net loss per ordinary share as so adjusted – basic	(11.9)	(11.1)	(18.8)	(15.8)
Net loss per ordinary share as so adjusted – diluted	(11.9)	n/a	(18.8)	n/a
Net loss per american depositary share as so adjusted – basic	(119.00)	(111.00)	(188.00)	(158.00)
Net loss per american depositary share as so adjusted – diluted	(119.00)	n/a	(188.00)	n/a

* US$ amounts are included for information only — Translation rate £1 = $1.58 — £1 = $1.42

Shareholders' equity under US GAAP

At March 31, 2003

		Group			
		2003	*2002*	**2003**	*2002*
	Notes	**£ million**	*£ million*	**$ million***	*$ million**
Shareholders' equity as reported in the group balance sheet		**2,058**	*2,016*	**3,253**	*2,870*
Adjustments:					
Goodwill and other intangibles – net of amortisation	(c)	**300**	*294*	**474**	*419*
Impairment of goodwill	(c)	**(399)**		**(631)**	
Foreign currency translation on financed aircraft	(d)	**46**	*(129)*	**73**	*(183)*
Revalued property and equipment – net of depreciation	(f)	**(269)**	*(272)*	**(425)**	*(386)*
Quasi-subsidiary	(j)	**(15)**	*(6)*	**(24)**	*(9)*
Investment in associated undertakings	(g)	**35**	*39*	**55**	*55*
Trade investments	(k)	**2**	*2*	**3**	*3*
Investment in own shares	(l)	**(31)**	*(25)*	**(49)**	*(36)*
Fair value of derivative instruments	(h)	**4**	*41*	**6**	*58*
Unredeemed frequent flyer liabilities	(a)	**(205)**	*(173)*	**(324)**	*(246)*
Pension costs prepayment	(b)	**641**	*382*	**1,013**	*540*
Reversal of FRS 5 Finance lease aircraft:	(e)				
Fleet – net of depreciation		**(432)**	*(469)*	**(683)**	*(666)*
Finance lease obligations		**438**	*496*	**692**	*704*
Sale and lease back	(i)	**(37)**	*(10)*	**(58)**	*(14)*
Deferred tax	(n)	**(204)**	*(105)*	**(322)**	*(150)*
		(126)	*65*	**(200)**	*89*
Shareholders' equity as adjusted to accord with US GAAP		**1,932**	*2,081*	**3,053**	*2,959*

Total assets as reported in the group balance sheet		**12,900**	*13,662*	**20,391**	*19,400*
Adjustments:					
Goodwill and other intangibles – net of amortisation	(c)	**300**	*294*	**474**	*419*
Impairment of goodwill	(c)	**(399)**		**(631)**	
Foreign currency translation on financed aircraft and property	(d)	**46**	*(130)*	**73**	*(183)*
Revalued property and equipment – net of depreciation	(f)	**(271)**	*(271)*	**(428)**	*(386)*
Quasi-subsidiary	(j)	**(31)**	*(27)*	**(49)**	*(38)*
Investment in associated undertakings	(g)	**35**	*39*	**55**	*55*
Trade investments	(k)	**2**	*2*	**3**	*3*
Investment in own shares	(l)	**(31)**	*(25)*	**(49)**	*(36)*
Fair value of derivative instruments	(h)	**4**	*41*	**6**	*58*
Reversal of FRS 5 Finance lease aircraft	(e)	**(432)**	*(469)*	**(683)**	*(666)*
Pension costs prepayment	(b)	**641**	*382*	**1,013**	*540*
		(136)	*(164)*	**(216)**	*(234)*
Total assets as adjusted to accord with US GAAP		**12,764**	*13,498*	**20,175**	*19,166*

* US$ amounts are included for information only — Translation rate **£1 = $1.58** *£1 = $1.42*

Operating and financial statistics (Note 1)

For the five years ended March 31, 2003

Airline operations scheduled services		2003	2002	2001	2000	1999
Traffic and capacity						
Revenue passenger km (RPK)	m	**100,112**	*106,270*	*123,197*	*127,425*	*125,951*
Available seat km (ASK)	m	**139,172**	*151,046*	*172,524*	*183,158*	*178,820*
Passenger load factor	%	**71.9**	*70.4*	*71.4*	*69.6*	*70.4*
Cargo tonne km (CTK)	m	**4,210**	*4,033*	*4,735*	*4,584*	*4,329*
Total revenue tonne km (RTK)	m	**14,213**	*14,632*	*16,987*	*17,215*	*16,831*
Total available tonne km (ATK)	m	**21,328**	*22,848*	*25,196*	*25,840*	*25,114*
Overall load factor	%	**66.6**	*64.0*	*67.4*	*66.6*	*67.0*
Passengers carried	'000	**38,019**	*40,004*	*44,462*	*46,578*	*45,049*
Tonnes of cargo carried	'000	**764**	*755*	*914*	*909*	*869*
Frequent flyer RPKs as a percentage of total RPKs (Note 2)	%	**4.4**	*3.7*	*2.6*	*2.0*	*2.2*
Revenue aircraft km	m	**635**	*685*	*737*	*742*	*669*
Revenue flights	'000	**413**	*492*	*499*	*538*	*439*
Break-even overall load factor	%	**69.6**	*65.0*	*64.4*	*65.9*	*63.4*
Financial						
Passenger revenue per RPK	p	**6.58**	*6.67*	*6.37*	*5.91*	*5.99*
Passenger revenue per ASK	p	**4.74**	*4.69*	*4.55*	*4.11*	*4.22*
Cargo revenue per CTK	p	**11.50**	*11.98*	*12.22*	*12.14*	*12.99*
Average fuel price (US cents/US gallon)		**86.01**	*81.29*	*103.94*	*71.46*	*48.66*
Operations						
Unduplicated route km	'000	**693**	*814*	*755*	*751*	*761*
Punctuality – within 15 minutes	%	**76**	*81*	*79*	*81*	*79*
Regularity	%	**98.2**	*98.6*	*98.4*	*98.9*	*98.8*

Total group operations

		2003	2002	2001	2000	1999
Financial						
Interest cover	times	**1.6**	*0.3*	*1.7*	*1.0*	*1.7*
Dividend cover	times	**n/a**	*n/a*	*0.6*	*(0.1)*	*1.1*
Operating margin	%	**3.8**	*(1.3)*	*4.1*	*0.9*	*5.0*
Earnings before interest, tax, depreciation, amortisation, rentals and exceptional charges (EBITDAR)	m	**1,425**	*1,128*	*1,509*	*1,130*	*1,427*
Net debt/total capital ratio	%	**60.7**	*66.0*	*64.5*	*63.9*	*62.2*
Net debt/total capital ratio including operating leases	%	**64.2**	*69.1*	*68.4*	*67.8*	*65.8*
Total traffic revenue per RTK	p	**49.77**	*51.74*	*49.64*	*47.01*	*48.04*
Total traffic revenue per ATK	p	**33.17**	*33.14*	*33.47*	*31.32*	*32.20*
Net operating expenditure per RTK	p	**47.70**	*52.49*	*47.40*	*46.52*	*45.42*
Net operating expenditure per ATK	p	**31.78**	*33.62*	*31.96*	*30.99*	*30.44*
Operations						
Average manpower equivalent (MPE)		**53,440**	*60,468*	*62,844*	*65,640*	*64,051*
RTKs per MPE	'000	**266.0**	*242.0*	*270.3*	*262.3*	*262.8*
ATKs per MPE	'000	**399.1**	*377.9*	*400.9*	*393.7*	*392.1*
Aircraft in service at year end		**330**	*360*	*338*	*366*	*335*
Aircraft utilisation (average hours per aircraft per day)		**8.91**	*8.32*	*8.79*	*9.79*	*8.71*

Notes:

1 Operating statistics do not include those of associated undertakings (Qantas Airways, Comair and Iberia) and franchisees (British Mediterranean Airways, GB Airways, Loganair, Maersk Air UK, Sun Air (Scandinavia) and Regional Air).

2 The carriage of passengers on Frequent Flyer Programmes is evaluated on a ticket by ticket basis.

n/a = not applicable

Five year summaries

For the five years ended March 31, 2003

Group profit and loss account

£ million	2003	2002*	2001*	2000*	1999*
Turnover	7,688	8,340	9,278	8,940	8,892
Operating expenditure	(7,393)	(8,450)	(8,898)	(8,856)	(8,450)
Operating profit/(loss)	295	(110)	380	84	442
Share of operating profit of associates	39	22	64	75	62
Other income and charges	(4)	21	1	5	27
Profit/(loss) on sale of fixed assets and investments	60	145	(69)	249	51
Net interest payable	(255)	(278)	(226)	(408)	(357)
Profit/(loss) before tax	135	(200)	150	5	225
Tax	(50)	71	(69)	(56)	(54)
Profit/(loss) after tax	85	(129)	81	(51)	171
Equity minority interest		(1)	(2)		
Non equity minority interest	(13)	(12)	(12)	(11)	
Profit/(loss) for the year	72	(142)	67	(62)	171
Dividends			(193)	(195)	(191)
Retained profit/(loss) for the year	72	(142)	(126)	(257)	(20)
Earnings per share					
Basic earnings per share	6.7p	(13.2)p	6.2p	(5.8)p	16.2p
Diluted earnings per share	6.7p	(13.2)p	6.2p	n/a	16.1p
Dividends per share			17.9p	17.9p	17.9p

Geographical analysis of group turnover and operating profit/(loss)

	By area of destination				
£ million	2003	2002	2001	2000	1999
Turnover					
Europe	2,838	3,208	3,388	3,400	3,409
The Americas	2,763	2,863	3,450	3,253	3,272
Africa, Middle East and Indian sub-continent	1,201	1,262	1,304	1,220	1,133
Far East and Australasia	886	1,007	1,136	1,067	1,078
	7,688	8,340	9,278	8,940	8,892
Operating profit/(loss)					
Europe	(117)	(244)	(172)	(310)	(166)
The Americas	223	144	470	308	451
Africa, Middle East and Indian sub-continent	168	91	92	62	124
Far East and Australasia	21	(101)	(10)	24	33
	295	(110)	380	84	442

* Figures have been restated in accordance with latest relevant accounting standards and changes in group accounting policies where applicable.

Group balance sheet

£ million	2003	2002*	2001*	2000*	1999*
Fixed assets					
Intangible assets	**164**	*140*	*84*	*87*	*26*
Tangible assets	**9,487**	*10,474*	*10,638*	*10,202*	*9,751*
Investments	**524**	*489*	*426*	*567*	*402*
	10,175	*11,103*	*11,148*	*10,856*	*10,179*
Current assets	**2,725**	*2,559*	*2,550*	*2,659*	*2,645*
Creditors: amounts falling due within one year	**(2,904)**	*(3,201)*	*(3,308)*	*(3,366)*	*(3,048)*
Net current liabilities	**(179)**	*(642)*	*(758)*	*(707)*	*(403)*
Total assets less current liabilities	**9,996**	*10,461*	*10,390*	*10,149*	*9,776*
Creditors: amounts falling due after more than one year	**(6,553)**	*(7,097)*	*(6,901)*	*(6,728)*	*(6,356)*
Provision for deferred tax	**(1,062)**	*(1,031)*	*(1,094)*	*(1,047)*	*(1,006)*
Provisions for liabilities and charges	**(107)**	*(126)*	*(70)*	*(81)*	*(65)*
	2,274	*2,207*	*2,325*	*2,293*	*2,349*
Capital and reserves					
Called up share capital	**271**	*271*	*271*	*270*	*268*
Reserves	**1,787**	*1,745*	*1,850*	*1,830*	*2,081*
Minority interest	**10**	*9*	*18*	*16*	
Non equity minority interest	**206**	*182*	*186*	*177*	
	2,274	*2,207*	*2,325*	*2,293*	*2,349*

Group cash flow statement

£ million	2003	2002	2001	2000	1999
Cash inflow from operating activities	**1,185**	*866*	*1,251*	*1,186*	*1,241*
Dividends received from associates	**23**	*16*	*33*	*44*	*11*
Government compensation		*22*			
Returns on investments and servicing of finance	**(249)**	*(327)*	*(342)*	*(315)*	*(309)*
Tax	**(7)**	*(1)*	*15*	*(2)*	*(40)*
Capital expenditure and financial investment	**250**	*94*	*(457)*	*(146)*	*(118)*
Acquisitions and disposals	**29**	*(19)*	*26*	*(218)*	*(6)*
Equity dividends paid		*(137)*	*(194)*	*(242)*	*(113)*
Net cash inflow before management of liquid resources and financing	**1,231**	*514*	*332*	*307*	*666*
Management of liquid resources	**(289)**	*(301)*	*159*	*9*	*(363)*
Financing	**(784)**	*(217)*	*(521)*	*(319)*	*(235)*
Increase/(decrease) in cash	**158**	*(4)*	*(30)*	*(3)*	*68*

* Figures have been restated in accordance with latest relevant accounting standards and changes in group accounting policies where applicable.

Aircraft fleet

	Number in service with group companies at March 31, 2003								
	On balance sheet aircraft	Off balance sheet aircraft	Total	Changes since March 02	Future deliveries	Options	2002-03 revenue hours flown	Average hours per aircraft/day	Average age (years)
Airline operations (Note 1 & 2)									
Concorde (Note 3)	5		**5**	(2)			2,807	1.63	26.3
Boeing 747-400 (Note 4)	56		**56**				250,572	12.26	8.8
Boeing 777	43		**43**	(2)			194,251	12.30	4.3
Boeing 767-300 (Note 5)	21		**21**				60,184	9.09	10.2
Boeing 757-200	13		**13**	(10)			45,139	7.14	9.7
Airbus A319 (Note 6)	21	12	**33**		3	99	96,892	8.04	2.4
Airbus A320	11	13	**24**	11	6		48,591	7.33	6.3
Airbus A321					10				
Boeing 737-300		21	**21**	(6)			56,720	6.76	7.8
Boeing 737-400	19	8	**27**	(4)			81,883	7.51	11.9
Boeing 737-500		10	**10**				28,191	7.72	10.7
Turboprops (Note 7)		28	**28**	(16)			61,007	5.45	10.0
Embraer RJ145	16	12	**28**	(1)		17	71,617	7.03	3.0
Avro RJ100		16	**16**				42,061	7.2	3.0
British Aerospace 146	5		**5**				11,262	6.73	16.6
Hired aircraft							30,884		
Group Total	**210**	**120**	**330**	**(30)**	**19**	**116**	**1,082,061**	**8.91**	**7.5**

Notes:

1 Includes those operated by British Airways Plc, CityFlyer Express, dba and British Airways CitiExpress.

2 Excludes 2 Boeing 737-400s and 1 Boeing 757-200 stood down pending disposal or return to lessor and 11 Jetstream 41s stood down pending sub-lease to Eastern Airways and 1 Jetstream 41 sub-leased to Eastern Airways.

3 Excludes 2 Concordes stood down pending retirement of the fleet.

4 Excludes 1 previously sub-leased Boeing 747-400 temporarily stood down following return from Qantas.

5 Includes 2 Boeing 767-300s temporarily out of service.

6 Certain future deliveries and options include reserved delivery positions and may be taken as any A320 family aircraft.

7 Includes 13 British Aerospace ATPs, 5 ATR 72s and 10 de Havilland Canada DHC-8s.

Shareholder information

Shareholders

As at May 12, 2003 there were 258,034 shareholders (May 16, 2002: 258,818). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	85.01	6.44
1,001 – 5,000	13.33	6.25
5,001 – 10,000	1.02	1.68
10,001 – 50,000	0.40	1.85
50,001 – 100,000	0.06	1.05
100,001 – 250,000	0.06	2.43
250,001 – 500,000	0.04	3.81
500,001 –750,000	0.02	2.58
750,001 – 1,000,000	0.01	1.84
Over 1,000,000	0.05	72.07
	100.00	100.00

Classification of shareholding	Percentage of shareholders	Percentage of shares
Individuals	97.92	15.29
Bank or Nominee	1.71	81.22
Insurance companies	0.03	0.16
Pension trusts	0.01	0.91
Investment trusts	0.03	0.02
Other corporate bodies	0.30	2.40
	100.00	100.00

Franklin Resources Inc., The Capital Group Companies Inc. and Wellington Management Company have non-beneficial interest in 7.03 per cent, 7.03 per cent and 10.98 per cent of the shares of the company respectively.

General Information

Financial Calendar

Financial year end	March 31, 2003
Annual General Meeting	July 15, 2003

Announcement of 2003-2004 results

First quarter results to June 30, 2003	July 31, 2003
Second quarter results to September 30, 2003	November 2003
Third quarter results to December 31, 2003	February 2004
Preliminary announcement	mid May 2004
Report and Accounts	June 2004

Registered Office

Waterside, PO Box 365, Harmondsworth, UB7 OGB

Registered number – 1777777

Outside advisers

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

ADR Depositary: J P Morgan Service Centre, PO Box 43013, Providence, RI 02940 – 3013, USA

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

Airline Operations	This includes British Airways Plc, British Airways (European Operations at Gatwick) Ltd, Brymon Airways Limited, CityFlyer Express Limited, Deutsche BA Luftfahrtgesellschaft Gmbh, British Regional Air Lines Limited from May 10, 2001. Go Fly Limited until June 14, 2001 and Air Liberté for historic comparatives.
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 airline operations divided by airline 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.
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/(loss) 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.
Net debt/total capital ratio (including operating leases)	Net debt as a ratio of total capital, adjusted to include the discounted value of future operating lease commitments.
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, overtime and contractors.
EBITDAR	Earnings before interest, tax, depreciation, amortisation, rentals and exceptional charges.
n/a	Not applicable.

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Our website for individual shareholders is

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