

BRITISH AIRWAYS PLC  
Form 6-K  
May 19, 2003

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Report of Foreign Issuer

Furnished Pursuant to Rule 13a - 16 or 15d - 16 of the  
Securities Exchange Act of 1934

For the period ending 19 May 2003

BRITISH AIRWAYS Plc

Waterside HBA3, PO Box 365, Harmondsworth UB7 0GB

## CONTENTS

1. Preliminary Financial Results 2002-2003 19 May 2003

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

BRITISH AIRWAYS Plc

Date: 19 May 2003  
Sarah Billington Manager Shareholder Services

## PRELIMINARY FINANCIAL RESULTS 2002-2003

|                                       | Three months ended |         | Twelve months ended |          |         |       |        |  |  |  |
|---------------------------------------|--------------------|---------|---------------------|----------|---------|-------|--------|--|--|--|
|                                       | March 31           | Better/ | March 31            | Better/  |         |       |        |  |  |  |
|                                       | 2003               | (Worse) | 2003                | (Worse)  | (Worse) |       |        |  |  |  |
| Turnover                              | &#163;m            | 1,675   | 1,953               | (14.2)%  | 7,688   | 8,340 | (7.8)% |  |  |  |
| Operating (loss)/profit               | &#163;m            | (164)   | (45)                | nm       | 295     | (110) | nm     |  |  |  |
| Operating margin                      | %                  | (9.8)   | (2.3)               | (7.5)pts | 3.8     | (1.3) | 5.1pts |  |  |  |
| (Loss)/profit before tax              | &#163;m            | (200)   | (85)                | (135.3)% | 135     | (200) | nm     |  |  |  |
| Retained (loss)/profit for the period | &#163;m            | (133)   | (43)                | (209.3)% | 72      | (142) | nm     |  |  |  |
| Net assets at period end              | &#163;m            | 2,274   | 2,207               | 3.0%     | 2,274   | 2,207 | 3.0%   |  |  |  |
| Earnings per share                    |                    |         |                     |          |         |       |        |  |  |  |

Basic p (12.4) (4.0) nm 6.7 (13.2) nm

Diluted p (12.4) (4.0) nm 6.7 (13.2) nm

nm: Not meaningful

## GROUP PROFIT AND LOSS ACCOUNT

|                        | Three months ended |                         |               | Twelve months ended |                         |              |
|------------------------|--------------------|-------------------------|---------------|---------------------|-------------------------|--------------|
|                        | March 31           | Better/<br>2003 &#163;m | 2002 &#163;m  | March 31            | Better/<br>2003 &#163;m | 2002 &#163;m |
|                        |                    |                         | (Worse)       |                     |                         | (Worse)      |
| Traffic Revenue        |                    |                         |               |                     |                         |              |
| Scheduled Passenger    | 1,423              |                         | 1,653 (13.9)% | 6,545               |                         | 7,036 (7.0)% |
| Scheduled Cargo        | 111                | 120 (7.5)%              |               | 484                 | 483 0.2%                |              |
| Non-scheduled services | 6                  | 9 (33.3)%               |               | 45                  | 52 (13.5)%              |              |
|                        | 1,540              | 1,782 (13.6)%           |               | 7,074               | 7,571 (6.6)%            |              |
| Other revenue          | 135                | 171 (21.1)%             |               | 614                 | 769 (20.2)%             |              |
| TOTAL TURNOVER         | 1,675              | 1,953 (14.2)%           |               | 7,688               | 8,340 (7.8)%            |              |

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|  |              |              |             |              |              |              |  |  |  |
|--|--------------|--------------|-------------|--------------|--------------|--------------|--|--|--|
| Employee costs   | 531          | 548          | 3.1%        | 2,107        | 2,329        | 9.5%         |  |  |  |
| Depreciation and amortisation                                  | 180          | 171          | (5.3)%      | 676          | 770          | 12.2%        |  |  |  |
| Aircraft operating lease costs                                 | 63           | 52           | (21.2)%     | 189          | 199          | 5.0%         |  |  |  |
| Fuel and oil costs   | 206          | 186          | (10.8)%     | 842          | 1,028        | 18.1%        |  |  |  |
| Engineering and other aircraft costs                           | 148          | 197          | 24.9%       | 566          | 673          | 15.9%        |  |  |  |
| Landing fees and en route charges                              | 125          | 137          | 8.8%        | 576          | 615          | 6.3%         |  |  |  |
| Handling charges, catering and other operating costs           | 224          | 265          | 15.5%       | 961          | 1,110        | 13.4%        |  |  |  |
| Selling costs  | 127          | 194          | 34.5%       | 706          | 824          | 14.3%        |  |  |  |
| Accommodation, ground equipment costs and currency differences | 151          | 168          | 10.1%       | 686          | 822          | 16.5%        |  |  |  |
| Exceptional operating costs*                                   | 84           | 80           | (5.0)%      | 84           | 80           | (5.0)%       |  |  |  |
| <b>TOTAL OPERATING EXPENDITURE</b>                             | <b>1,839</b> | <b>1,998</b> | <b>8.0%</b> | <b>7,393</b> | <b>8,450</b> | <b>12.5%</b> |  |  |  |

|   |              |             |                 |            |              |               |  |  |  |
|---|--------------|-------------|-----------------|------------|--------------|---------------|--|--|--|
| <b>OPERATING (LOSS)/PROFIT</b>                            | <b>(164)</b> | <b>(45)</b> | <b>(264.4)%</b> | <b>295</b> | <b>(110)</b> | <b>368.2%</b> |  |  |  |
| Share of operating profits in associates                  | 33           | 18          | 83.3%           | 39         | 22           | 77.3%         |  |  |  |
| <b>TOTAL OPERATING (LOSS)/PROFIT INCLUDING ASSOCIATES</b> | <b>(131)</b> | <b>(27)</b> | <b>(385.2)%</b> | <b>334</b> | <b>(88)</b>  | <b>479.5%</b> |  |  |  |

|  |              |             |                 |            |              |               |      |     |         |
|--|--------------|-------------|-----------------|------------|--------------|---------------|------|-----|---------|
| Other income and charges                               | (11)         | 20          | (155.0)%        | (4)        | 21           | (119.0)%      |      |     |         |
| Profit on sale of fixed assets and investments         | 12           | 10          | 20.0%           | 60         | 145          | (58.6)%       |      |     |         |
| Interest   |              |             |                 |            |              |               |      |     |         |
| Net payable  | (52)         | (72)        | 27.8%           | (247)      | (324)        | 23.8%         |      |     |         |
| Retranslation (charges)/credits on currency borrowings | (18)         | (16)        | (12.5)%         | (8)        | 46           | (117.4)%      |      |     |         |
| <b>(LOSS)/PROFIT BEFORE TAX</b>                        | <b>(200)</b> | <b>(85)</b> | <b>(135.3)%</b> | <b>135</b> | <b>(200)</b> | <b>167.5%</b> |      |     |         |
| Tax  | 70           | 46          | 52.2%           | (50)       | 71           | (170.4)%      |      |     |         |
| <b>(LOSS)/PROFIT AFTER TAX</b>                         | <b>(130)</b> | <b>(39)</b> | <b>(233.3)%</b> | <b>85</b>  | <b>(129)</b> | <b>165.9%</b> |      |     |         |
| Equity minority interest                               |              |             |                 | (3)        | (1)          | (3) nm        | (13) | (1) | (12) nm |
| <b>(LOSS)/PROFIT FOR THE PERIOD</b>                    | <b>(133)</b> | <b>(43)</b> | <b>(209.3)%</b> | <b>72</b>  | <b>(142)</b> | <b>150.7%</b> |      |     |         |
| <b>RETAINED(LOSS)/PROFIT FOR THE PERIOD</b>            | <b>(133)</b> | <b>(43)</b> | <b>(209.3)%</b> | <b>72</b>  | <b>(142)</b> | <b>150.7%</b> |      |     |         |

nm: Not meaningful

\* Relates to the impairment of Concorde capitalised modifications and rotatable inventory and the write down of Concorde expendable stock. The prior year relates to severance costs under the 'Future Size & Shape' Review.

\*\* Cumulative Preferred Securities

OPERATING AND FINANCIAL STATISTICS

|  | Three months ended |                 |          | Twelve months ended |          |                 |
|--|--------------------|-----------------|----------|---------------------|----------|-----------------|
|  | March 31           | Increase/       | March 31 | Increase/           | March 31 | Increase/       |
|  | 2003               | 2002 (Decrease) | 2003     | 2002 (Decrease)     | 2003     | 2002 (Decrease) |
| <b>TOTAL AIRLINE OPERATIONS (Note 1)</b> |                    |                 |          |                     |          |                 |

TRAFFIC AND CAPACITY

|                          |        |        |          |         |         |        |
|--------------------------|--------|--------|----------|---------|---------|--------|
| RPK (m)                  | 23,439 | 25,221 | (7.1)%   | 100,112 | 106,270 | (5.8)% |
| ASK (m)                  | 33,729 | 34,988 | (3.6)%   | 139,172 | 151,046 | (7.9)% |
| Passenger load factor(%) | 69.5   | 72.1   | (2.6)pts | 71.9    | 70.4    | 1.5pts |
| CTK (m)                  | 991    | 1,005  | (1.4)%   | 4,210   | 4,033   | 4.4%   |

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|                               |       |       |          |        |        |        |
|-------------------------------|-------|-------|----------|--------|--------|--------|
| RTK (m)                       | 3,338 | 3,508 | (4.8)%   | 14,213 | 14,632 | (2.9)% |
| ATK (m)                       | 5,165 | 5,319 | (2.9)%   | 21,328 | 22,848 | (6.7)% |
| Overall load factor (%)       | 64.6  | 66.0  | (1.4)pts | 66.6   | 64.0   | 2.6pts |
| Passengers carried (000)      | 8,547 | 8,831 | (3.2)%   | 38,019 | 40,004 | (5.0)% |
| Tonnes of cargo carried (000) | 182   | 185   | (1.6)%   | 764    | 755    | 1.2%   |

FINANCIAL

|  |        |       |         |       |       |        |
|--|--------|-------|---------|-------|-------|--------|
| Passenger revenue per RPK (p)                          | 6.10   | 6.59  | (7.4)%  | 6.58  | 6.67  | (1.3)% |
| Passenger revenue per ASK (p)                          | 4.24   | 4.75  | (10.7)% | 4.74  | 4.69  | 1.1%   |
| Cargo revenue per CTK (p)                              | 11.20  | 11.94 | (6.2)%  | 11.50 | 11.98 | (4.0)% |
| Total traffic revenue per RPK (p)                      | 46.14  | 50.80 | (9.2)%  | 49.77 | 51.74 | (3.8)% |
| Total traffic revenue per ATK (p)                      | 29.82  | 33.50 | (11.0)% | 33.17 | 33.14 | 0.1%   |
| Average fuel price before hedging (US cents/US gallon) | 100.15 | 66.89 | 49.7%   | 86.01 | 81.29 | 5.8%   |

OPERATIONS

|                                   |        |        |        |        |        |        |
|-----------------------------------|--------|--------|--------|--------|--------|--------|
| Average Manpower Equivalent (MPE) | 50,309 | 53,410 | (5.8)% | 51,630 | 57,227 | (9.8)% |
| ATKs per MPE (000)                | 102.7  | 99.6   | 3.1%   | 413.1  | 399.3  | 3.5%   |
| Aircraft in service at period end | 330    | 360    | (30)   | 330    | 360    | (30)   |

TOTAL GROUP OPERATIONS

FINANCIAL

|                                       |       |       |        |       |       |        |
|---------------------------------------|-------|-------|--------|-------|-------|--------|
| Net operating expenditure per RPK (p) | 51.05 | 52.08 | (2.0)% | 47.70 | 52.49 | (9.1)% |
| Net operating expenditure per ATK (p) | 32.99 | 34.35 | (4.0)% | 31.78 | 33.62 | (5.5)% |

Note 1 Excludes non airline activity companies, principally, Airmiles Travel Promotions Ltd, BA Holidays Ltd, BA Travel Shops Ltd, Speedbird Insurance Company Ltd and The London Eye Company Ltd.

## CHAIRMAN'S STATEMENT

### Group performance

Group profit before tax for the year was £135 million against a £200 million loss in the previous year. No interim dividend was paid and the Board has recommended that no final dividend be paid.

The improvement in operating profit reflects substantial cost reduction initiatives, particularly the delivery of the first year of the Future Size and Shape (FSAS) programme, put in place in response to the deterioration in revenue caused by economic weakness and terrorism. Revenue has deteriorated further due to competitor actions, war and SARS. Group unit costs (pence/ATK), excluding exceptional charges, fell by 5.6% on capacity (ATKs) 6.7% lower. Airline operations passenger yield (pence/RPK) for the full year deteriorated by 1.3% compared with last year. The operating margin was 3.8%, 5.1 points better than last year.

Cash inflow before financing was £1,231 million for the twelve months. The closing cash balance of £1,652 million was up £433 million versus last year. Net debt fell by £1,145 million from March 31 last year to £5,149 million - - its lowest level since September 30, 1998 - - and is down £1.4 billion from the December 2001 peak.

As expected, the fourth quarter results were particularly affected by the conflict in Iraq. The loss before tax for the quarter was £200 million, £115 million worse than last year. Excluding exceptional charges and restructuring costs, the operating loss for the quarter was £80 million, £115 million worse than last year. Unit costs per ATK excluding exceptional items improved by 4.5% but yield (pence/RPK) deteriorated by 7.4% and seat factor was down 2.6 points to 69.5%.

### Turnover

For the twelve months, group turnover - - at £7,688 million - - was down 7.8% on a flying programme 6.7% smaller in ATKs. Airline operations passenger yields for the year were down 1.3% per RPK; seat factor was up 1.5 points at 71.9%, on capacity 7.9% lower in ASKs.

Group turnover for the quarter was down 14.2% - - at £1,675 million - - on capacity 2.9% lower in ATKs. Passenger yields were down 7.4% per RPK with seat factor down 2.6 points at 69.5% on capacity 3.6% lower in ASKs.

Cargo volumes for the full year (CTKs) were up 4.4% compared with last year, with yields down 4.0%. For the quarter, cargo volumes (CTKs) were down 1.4% compared with last year, with yields down 6.2%.

Overall load factor for the full year was up 2.6 points at 66.6%, and for the quarter down 1.4 points at 64.6%.

### Costs

For the quarter, unit costs excluding exceptional charges (pence/ATK) improved by 4.5% on the same period last year. This reflects a net cost reduction of 7.3% on capacity 2.9% lower in ATKs. Including exceptional charges, unit costs (pence/ATK) improved by 4.0%.

Significant reductions were achieved in most categories of operating cost, including engineering and other aircraft costs down 24.9%, selling and marketing costs down 34.5%, and accommodation and other costs down 10.1%. Fuel and oil costs increased by 10.8% (due to the increase in price only partially offset by hedging), depreciation costs increased by 5.3% and aircraft operating lease costs increased by 21.2% due to an onerous lease provision of £27 million for the sub-lease of the Jetstream 41 (J41) fleet from British Airways CitiExpress to Eastern Airways. The J41 sub-lease is a significant element of the ongoing drive to simplify the British Airways CitiExpress fleet and network and eliminate unprofitable routes.

The fourth quarter results include exceptional charges of £84 million relating to Concorde -- on April 10 it was announced that the Concorde fleet will be retired from service in October 2003. The exceptional charges comprise the impairment of capitalised modifications and rotatable inventory, together with the write-down of Concorde expendable stock.

For the twelve months, unit costs excluding exceptional charges (pence/ATK) improved by 5.6% on the same period last year. This reflects a net cost reduction of 11.9% on capacity 6.7% lower in ATKs. In total costs for the year were £1 billion lower than last year.

#### Non-operating items

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.

For the fourth quarter net interest expense was £70 million, down £18 million on last year.

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 in June 2001 generated £98 million. Profits on disposal for the quarter were £12 million, up £2 million on last year.

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

Other income last year was £21 million, relating primarily to £22 million compensation received from the UK Government for the closure of US airspace immediately following September 11th.

For the quarter, other charges were £11 million, relating to the partial write-down of the investments in NATS and Cordiem.

#### 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. The loss attributable to shareholders for the fourth quarter was equivalent to 12.4 pence per share, compared with last year's loss of 4.0 pence per share.

#### Net Debt / Total Capital ratio

Borrowings, net of cash and short-term loans and deposits, amounted to £5,149 million at the year end, a reduction of £1,145 million from last year, and £1.4 billion from the December 2001 peak.

The year-end net debt/total capital ratio was 60.7%, a 5.3 point reduction from last year. The net debt/total capital ratio including operating leases was 64.2%, a 4.9 point reduction from last year.

#### Cash flow

Net cash inflow from operating activities totalled £1,185 million, up £319 million from last year. The net cash flow before management of liquid resources and financing was £1,231 million, an improvement of £717 million on last year, due to a reduction in capital expenditure and an increase in the sale of fixed assets and investments as well as the improvement in operating cash flow.

#### Future Size and Shape

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

The group manpower reduction since August 2001 totals 11,880, including a reduction of 10,182 against the FSAS target of 10,000.

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

#### 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 or returns to lessors comprised 9 Boeing 757-200, 2 Boeing 777, 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, together with 2 Concorde, reflecting the announcement on April 10 that the fleet will be retired from service in October 2003.

#### Subsidiaries and Associates

Qantas issued new shares on two occasions during the year, 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 groups shareholding from 21.4% to 18.9%.

On March 17, it was confirmed that easyJet do 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.

#### Alliance Development

On April 9, the US Department of Transportation tentatively approved a broad behind/beyond codesharing agreement between American Airlines and British Airways.

We continue to strengthen links with other partners and during the year code-share agreements were extended with Finnair and Iberia, as well as outside oneworld with SN Brussels.

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.

#### Pensions

We continue to account for our group pension schemes under the current accounting standard SSAP 24.

However we are also required to disclose the impact of the new standard FRS 17 in the notes to the accounts. As at March 31, 2003 the accounting valuation of the Group pension schemes under FRS 17 shows a post-tax deficit of £1.2 billion.

The FRS 17 valuation reflects a snapshot of the pension scheme assets and liabilities at March 31, 2003 and does not impact employers contributions. The triennial actuarial review of the main UK pension schemes (APS and NAPS) will be completed by the end of 2003 and will determine any changes required to company contributions.

#### Outlook

We expect the business environment will continue to be challenging in 2003/04 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.

Certain information included in these statements is forward-looking and involves risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward looking statements.

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Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the Companys plans and objectives for future operations, including, without limitation, discussions of the Companys Future Size and Shape programme, expected future revenues, financing plans and expected expenditures and divestments. All forward-looking statements in this report are based upon information known to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemize all of the many factors and specific events that could cause the Companys forward looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Information on some factors which could result in material difference to the results is available in the Companys SEC filings, including, without limitation the Companys Report on Form 20F for the year ended March 2002.

GROUP BALANCE SHEET

March 31

2003 &#163;m      2002 &#163;m

FIXED ASSETS

|                   |       |        |
|-------------------|-------|--------|
| Intangible assets | 164   | 140    |
| Tangible assets   | 9,487 | 10,474 |
| Investments       | 524   | 489    |

10,175      11,103

CURRENT ASSETS

|                                     |       |       |
|-------------------------------------|-------|-------|
| Stocks                              | 87    | 109   |
| Debtors                             | 986   | 1,231 |
| Cash, short-term loans and deposits | 1,652 | 1,219 |

2,725      2,559

CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR      (2,904)      (3,201)

NET CURRENT LIABILITIES      (179)      (642)

TOTAL ASSETS LESS CURRENT LIABILITIES      9,996      10,461

CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

|                                |         |         |
|--------------------------------|---------|---------|
| Borrowings and other creditors | (6,441) | (6,985) |
| Convertible Capital Bonds 2005 | (112)   | (112)   |

(6,553)      (7,097)

PROVISION FOR DEFERRED TAX      (1,062)      (1,031)

PROVISIONS FOR LIABILITIES AND CHARGES      (107)      (126)

2,274      2,207

CAPITAL AND RESERVES

|                         |       |       |
|-------------------------|-------|-------|
| Called up share capital | 271   | 271   |
| Reserves                | 1,787 | 1,745 |

|                              |       |       |
|------------------------------|-------|-------|
| MINORITY INTEREST            | 2,058 | 2,016 |
| Equity minority interest     | 10    | 9     |
| Non equity minority interest | 206   | 182   |

216      191

2,274      2,207

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Twelve months ended

March 31

2003 &#163;m      2002 &#163;m

Profit/(loss) for the period    72      (142)

Other recognised gains and losses relating to the period:

Exchange and other movements    (38)      17

Total recognised gains and losses    34      (125)

These summary financial statements were approved by the Directors on May 19, 2003.

GROUP CASH FLOW STATEMENT

Twelve months ended

March 31

2003 &#163;m      2002 &#163;m

CASH INFLOW FROM OPERATING ACTIVITIES    1,185      866

DIVIDENDS RECEIVED FROM ASSOCIATES    23      16

GOVERNMENT COMPENSATION RECEIVED      22

RETURNS ON INVESTMENTS AND SERVICING OF FINANCE    (249)      (327)

TAX    (7)      (1)

|   |       |       |
|---|-------|-------|
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT                    | 250   | 94    |
| ACQUISITIONS AND DISPOSALS                                      | 29    | (19)  |
| EQUITY DIVIDENDS PAID   | (137) |       |
| Cash inflow before management of liquid resources and financing | 1,231 | 514   |
| MANAGEMENT OF LIQUID RESOURCES                                  | (289) | (301) |
| FINANCING   | (784) | (217) |
| Increase/(decrease) in cash in the period                       | 158   | (4)   |

## NOTES TO THE ACCOUNTS

For the period ended March 31, 2003

## 1 ACCOUNTING CONVENTION

The accounts have been prepared on the basis of the accounting policies set out in the Report and Accounts for the year ended March 31, 2003 in accordance with all applicable United Kingdom accounting standards and the Companies Act 1985 and are consistent 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 and the comparative figures restated accordingly.

Twelve months ended

March 31

2003 &amp;#163;m      2002 &amp;#163;m

## 2 RECONCILIATION OF OPERATING PROFIT

## TO CASH INFLOW FROM OPERATING ACTIVITIES

|   |       |       |              |
|---|-------|-------|--------------|
| 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   |              |

### 3 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

|  |         |         |       |       |
|--|---------|---------|-------|-------|
| Increase/(decrease) in cash during the period                    | 158     | (4)     |       |       |
| Net cash outflow from decrease in debt and lease financing       |         |         | 784   | 217   |
| Cash outflow from liquid resources                               | 289     | 301     |       |       |
| Change in net debt resulting from cash flows                     | 1,231   | 514     |       |       |
| New finance leases taken out and hire purchase arrangements made |         |         | (221) | (512) |
| Assumed from subsidiary undertakings acquired during the period  |         |         | (117) |       |
| Conversion of Convertible Capital Bonds                          |         | 1       |       |       |
| Exchange movements   | 135     | 43      |       |       |
| Movement in net debt during the period                           |         | 1,145   | (71)  |       |
| Net debt at April 1  | (6,294) | (6,223) |       |       |
| Net debt at period end   | (5,149) | (6,294) |       |       |

Three months ended    Twelve months ended

March 31    March 31

2003 &#163;m    2002 &#163;m    2003 &#163;m    2002 &#163;m

### 4 OTHER INCOME AND CHARGES

|                               |      |     |     |     |
|-------------------------------|------|-----|-----|-----|
| Income from trade investments |      |     | 1   |     |
| Government compensation       | 22   |     | 22  |     |
| Other                         | (11) | (2) | (4) | (2) |
|                               | (11) | 20  | (4) | 21  |

Other income and charges represented by:

|       |      |    |     |    |
|-------|------|----|-----|----|
| Group | (11) | 20 | (4) | 21 |
|       | (11) | 20 | (4) | 21 |

### NOTES TO THE ACCOUNTS (continued)

For the period ended March 31, 2003

Three months ended    Twelve months ended

March 31    March 31

2003 &#163;m    2002 &#163;m    2003 &#163;m    2002 &#163;m

### 5 PROFIT ON SALE OF FIXED ASSETS AND INVESTMENTS

|   |    |    |    |    |
|---|----|----|----|----|
| Net profit on disposal of go (Note 1 below)   | 10 | 98 |    |    |
| Net profit on disposal of shares in France Telecom (formerly shares held in Equant) |    |    |    | 23 |
| Net profit on disposal of other fixed assets and investments                        | 12 | 10 | 50 | 24 |

12    10    60    145

Represented by:

|                  |     |    |     |      |
|------------------|-----|----|-----|------|
| Group Associates | 102 | 73 | 582 | 1423 |
|                  | 12  | 10 | 60  | 145  |

Note 1 - The current year profit on disposal of go relates to the additional contracted proceeds resulting from the onward sale by 3i Plc to easyJet.

## 6 INTEREST

Net payable:

|  |      |     |      |      |
|--|------|-----|------|------|
| Interest payable less amount capitalised               | 69   | 78  | 310  | 374  |
| Interest receivable                                    | (17) | (6) | (63) | (50) |
|  | 52   | 72  | 247  | 324  |
| Retranslation charges/(credits) on currency borrowings |      |     | 18   | 16   |
|  |      |     | 8    | (46) |

70 88 255 278

Net interest payable represented by:

|            |    |    |     |     |
|------------|----|----|-----|-----|
| Group      | 69 | 85 | 253 | 271 |
| Associates | 1  | 3  | 2   | 7   |
|            | 70 | 88 | 255 | 278 |

## 7 TAX

The tax charge for the year is £50 million made up of a current tax charge of £19 million representing share of associates tax of £21 million and overseas tax of £8 million, a prior year tax credit of £10 million and £31 million by way of deferred taxes in the UK. The deferred tax provision is included on balance sheet and amounts to £1,062 million at March 31, 2003 (March 31, 2002: £1,031 million). None of the deferred tax is expected to become payable in the foreseeable future.

## 8 EARNINGS PER SHARE

Basic earnings per share for the quarter ended March 31, 2003 are calculated on a weighted average of 1,069,884,000 ordinary shares (March 2002: 1,076,090,000) and for the twelve months ended March 31, 2003, on a weighted average of 1,073,054,000 ordinary shares (March 2002: 1,076,042,000) as adjusted for shares held for the purposes of employee share ownership plans including the Long Term Incentive Plan. Diluted earnings per share for the quarter ended March 31, 2003 are calculated on a weighted average of 1,069,884,000 ordinary shares (March 2002: 1,076,090,000) and for the twelve months ended March 31, 2003 on a weighted average of 1,073,054,000 shares (March 2002: 1,077,966,000). The number of shares in issue at March 31, 2003 was 1,082,784,000 (March 31, 2002: 1,082,757,000) ordinary shares of 25 pence each.

## NOTES TO THE ACCOUNTS (continued)

For the period ended March 31, 2003

March 31  
2003 £m 2002 £m

## 9 INTANGIBLE ASSETS

|                |     |     |
|----------------|-----|-----|
| Goodwill       | 99  | 105 |
| Landing rights | 65  | 35  |
|                | 164 | 140 |

## 10 TANGIBLE ASSETS

|           |       |        |
|-----------|-------|--------|
| Fleet     | 7,828 | 8,672  |
| Property  | 1,219 | 1,300  |
| Equipment | 440   | 502    |
|           | 9,487 | 10,474 |

## 11 INVESTMENTS

|                          |     |     |     |
|--------------------------|-----|-----|-----|
| Associated undertakings  |     | 461 | 425 |
| Trade investments        | 32  | 39  |     |
| Investment in own shares |     | 31  | 25  |
|                          | 524 | 489 |     |

## 12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                              |       |       |       |       |
|------------------------------|-------|-------|-------|-------|
| Loans                        | 57    | 62    |       |       |
| Finance Leases               |       | 124   | 208   |       |
| Hire Purchase Arrangements   |       |       | 362   | 409   |
|                              | 543   | 679   |       |       |
| Corporate tax                |       | 19    | 29    |       |
| Other creditors and accruals |       |       | 2,342 | 2,493 |
|                              | 2,904 | 3,201 |       |       |

## 13 BORROWINGS AND OTHER CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR

|                              |       |       |       |       |
|------------------------------|-------|-------|-------|-------|
| Loans                        | 1,275 | 1,483 |       |       |
| Finance Leases               |       | 2,430 | 2,404 |       |
| Hire Purchase Arrangements   |       |       | 2,441 | 2,835 |
|                              | 6,146 | 6,722 |       |       |
| Other creditors and accruals |       |       | 295   | 263   |
|                              | 6,441 | 6,985 |       |       |

## 14 RESERVES

|                                       |       |       |       |       |       |
|---------------------------------------|-------|-------|-------|-------|-------|
| Balance at April 1                    |       | 1,745 | 1,850 |       |       |
| Retained profit/(loss) for the period |       |       | 72    | (142) |       |
| Exchange and other adjustments        |       |       |       |       | (38)8 |
| Goodwill written back on disposals    |       |       |       |       | 1720  |
|                                       | 1,787 | 1,745 |       |       |       |

15 The figures for the three months ended March 31, 2003 are unaudited and do not constitute full accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the twelve months ended March 31, 2003 form part of the Annual Report and Accounts and were approved by the Board of Directors today but have not been delivered to the Registrar of Companies; the report of the auditors on the accounts is unqualified. The figures for the year ended March 31, 2002 have been extracted from the full accounts with certain minor presentational changes for that year, which have been delivered to the Registrar of Companies and on which the auditors have issued an unqualified audit report.

#### UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) INFORMATION

The accounts have been prepared in accordance with accounting principles accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States. The significant differences are the same as those set out in the Report and Accounts for the year ended March 31, 2003, and are consistent with those of the previous year with the exception of the implementation of SFAS 142 Goodwill and Other Intangible Assets from April 1, 2002. SFAS 142 introduces the requirements to test goodwill and intangible assets with indefinite lives for impairment rather than amortise them. Amortisation of goodwill charged under UK GAAP on goodwill and intangible assets with indefinite lives has been reversed for US GAAP. During the second quarter of 2002, the group performed an initial evaluation of its goodwill and determined that there was no impairment. As at March 31, 2003 the group completed an annual impairment test, 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, the groups net carrying value was in excess of the groups market capitalisation as at March 31, 2003 and a goodwill impairment charge of £399 million representing the entire balance of the groups goodwill was recognised under US GAAP.

The adjusted net income and shareholders equity applying US GAAP are set out below:

|   | Three months ended |          | Twelve months ended |          |
|---|--------------------|----------|---------------------|----------|
|   | March 31           | March 31 | March 31            | March 31 |
|   | 2003               | 2002     | 2003                | 2002     |
|   | £m                 | £m       | £m                  | £m       |
| (Loss)/profit for the period as reported in the group profit and loss account | (133)              | (43)     | 72                  | (142)    |
| US GAAP adjustments   | (391)              | (12)     | (200)               | 23       |
| Net income as so adjusted to accord with US GAAP                              | (524)              | (55)     | (128)               | (119)    |

#### Net income per Ordinary Share as so adjusted

|         |         |        |         |         |
|---------|---------|--------|---------|---------|
| Basic   | (49.0)p | (5.1)p | (11.9)p | (11.1)p |
| Diluted | (49.0)p | (5.1)p | (11.9)p | na      |

Net income per American Depositary Share as so adjusted

|         |        |       |        |        |
|---------|--------|-------|--------|--------|
| Basic   | (490)p | (51)p | (119)p | (111)p |
| Diluted | (490)p | (51)p | (119)p | na     |

March 31

2003 &#163;m      2002 &#163;m

|  |       |       |
|--|-------|-------|
| Shareholders equity as reported in the group balance sheet | 2,058 | 2,016 |
| US GAAP adjustments  | (126) | 65    |
| Shareholders equity as so adjusted to accord with US GAAP  | 1,932 | 2,081 |

AIRCRAFT FLEET

NUMBER IN SERVICE WITH GROUP COMPANIES AT MARCH 31, 2003

Changes

|                        |                      |                  |                  |                   |         |
|------------------------|----------------------|------------------|------------------|-------------------|---------|
| On balance sheet       | Operating Leases off | Total March 2003 | since March 2002 | Future Deliveries | Options |
| Aircraft balance sheet |                      | 2003             | 2002             |                   |         |

AIRLINE OPERATIONS (Notes 1 & 2)

Concorde (Note 3)    5      5    (2)

Boeing 747-400(Note 4)    56      56

Boeing 777    43      43    (2)

Boeing 767-300 (Note 5)    21      21

Boeing 757-200    13      13    (10)

Airbus A319 (Note 6)    21    12    33      3    99

Airbus A320    11    13    24    11    6

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|                       |     |     |      |      |    |     |
|-----------------------|-----|-----|------|------|----|-----|
| Airbus A321           |     |     |      |      | 10 |     |
| Boeing 737-300        | 21  | 21  | (6)  |      |    |     |
| Boeing 737-400        | 19  | 8   | 27   | (4)  |    |     |
| Boeing 737-500        | 10  | 10  |      |      |    |     |
| Turbo Props (Note 7)  | 28  | 28  | (16) |      |    |     |
| Embraer RJ145         | 16  | 12  | 28   | (1)  | 17 |     |
| Avro RJ100            | 16  | 16  |      |      |    |     |
| British Aerospace 146 | 5   | 5   |      |      |    |     |
| GROUP TOTAL           | 210 | 120 | 330  | (30) | 19 | 116 |

Aircraft Fleet Notes:

- 1 Includes those operated by British Airways Plc, CityFlyer Express, dba and British Airways CitiExpress.
- 2 Excludes 2 Boeing 737-400s, 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 Concorde 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 ATR72s and 10 de Havilland Canada DHC-8s.