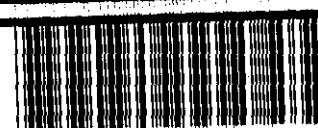


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BRITISH AIRWAYS

Annual Report & Accounts



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British Airways Plc

Annual Report and Accounts for the year ended March 31, 2005

Registered in England and Wales No. 1777777

Registered Office: Waterside, PO Box 365, Harmondsworth UB7 0GB

Certain statements included in this Report and Accounts may be forward-looking and may involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements. Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the company's plans and objectives for future operations, including, without limitation, discussions of the company's business and financing plans, expected future revenues and 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 itemise all of the many factors and specific events that could cause the company's 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.

British Airways Plc has disclosed on its website www.bashares.com significant ways in which its corporate governance practices differ from those mandated for US companies under NYSE listing standards.

British Airways.

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Key Results

			2004-05	2003-04
Group results				
Turnover	m	up 3.3%	7,813	7,560
Operating profit	m	up 33.3%	540	405
Profit before tax	m	up 80.4%	415	230
Attributable profit for the year	m	up 93.1%	251	130
Net assets	m	up 12.0%	2,684	2,397
Basic earnings per share	p	up 93.4%	23.4	12.1
Key financial statistics				
Airline operations yield	p/RPK	down 4.4%	6.02	6.30
Operating margin	%	up 1.5 points	6.9	5.4
Net debt/total capital ratio	%	down 11.4 points	42.7	54.1
Group operating statistics				
Passengers carried	'000	down 1.1%	35,717	36,103
Revenue passenger kilometres	m	up 4.7%	107,892	103,092
Revenue tonne kilometres	m	up 6.5%	15,731	14,771
Available tonne kilometres	m	up 3.2%	22,565	21,859
Passenger load factor	%	up 1.8 points	74.8	73.0

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Chairman's Statement

Group pre-tax profit for the year was £415 million, compared to £230 million in the previous year. Profit attributable to shareholders was £251 million, up from £130 million. The operating profit, at £540 million, was an improvement of £135 million. No interim dividend was paid and the Board has decided not to recommend a final dividend.

Introduction

As you know, Lord Marshall retired as Chairman on completion of last year's annual general meeting at which, on behalf of the Board, I expressed our deep appreciation for his outstanding contribution to your company over 21 years.

On taking over as Chairman of your company my priorities were clear. They included, improving our operating margin, debt reduction, refreshing the Board in light of corporate governance guidelines and finding a successor to Rod Eddington, Chief Executive.

I am pleased to report progress in all areas and a financial result that represents a significant improvement in your company's fortunes, despite the continuing burden of high fuel costs.

The journey to sustained profitability, however, is never ending and can only be achieved through well-defined business plan initiatives, superb customer service and the commitment of our people to deliver both.

I joined the Board of British Airways five years ago when it wasn't among the top 20 airlines for operating profits. So it gives me some satisfaction to see your company back amongst the leaders.

That said, this is an industry that is underperforming, and, if latest IATA predictions are borne out, the aviation industry will lose a further US\$5.5 billion in 2005. This would represent the fifth successive year of losses for the global aviation industry.

This is no time then, to be complacent. With our fuel costs now expected to be about £400 million more in the coming year, we must continue to reduce controllable costs and deliver on our business strategies.

The Chief Executive will report on progress in this area in his statement, but it is encouraging to note that your company exceeded the £450 million reduction in costs promised in the 2003/5 Business Plan by some £7 million.

Encouraging too, that our operating margin improved 1.5 points to 6.9 per cent, although, there is still some way to go before we reach our goal of ten per cent. Record seat factors are proof of our popularity and ability to attract customers. However, yields are down reflecting the challenging competitive environment we are operating in.

Profitability has improved across the network and in shorthaul the loss has narrowed from over £300 million five years ago to £26 million which includes a write-off of £16 million this year for British Airways CitiExpress BAe 146s.

Net debt has fallen to below £3 billion and is at its lowest level since March 1993 and gearing at its lowest since privatisation in 1987. Our cash position remains strong.

Cargo revenue also improved year on year with volumes up 11.1 per cent but yields were down 6.3 per cent. The overall load factor was up 2.1 points at 69.7 per cent.

This is the last time the Report and Accounts will be prepared under UK GAAP accounting standards. From April 1, 2005 your

company will report its financial results under IFRS (International Financial Reporting Standards) which is now mandatory for all UK listed companies. The 2004/05 accounts will be restated under IFRS in July, 2005.

The Group FRS17 pension deficit has deteriorated further and is now £1.4 billion, largely due to falling long-term interest rates and despite company contributions of some £250 million a year. It is disclosed in note 32 to the accounts. Under IFRS the deficit will appear on the balance sheet next year and will have a significant adverse impact on reserves, in particular distributable reserves.

Disposals and Investments

During the year we completed the sale of our 18.25 per cent shareholding in Qantas for A\$1.1 billion (£427 million) and used the proceeds to repay some of our debt. Although the reported loss on disposal was £11 million, Qantas proved to have been an excellent investment. Over the period of ownership, our share of their profits amounted to A\$896 million. Despite the sale, our relationship remains strong and we have secured regulatory clearance for a further five-years for the business we jointly operate on the 'kangaroo' routes.

We also ended our commercial agreement with Swiss International Airlines on an amicable basis but retained the slots exchanged as part of the 2003 deal. The codesharing agreement was subsequently terminated following the announcement of Lufthansa's acquisition of Swiss.

British Airways continued to extend its codeshare programme with American Airlines and the two airlines now carry joint codes on approximately 200 flights.

Industry development

Little progress was made during the year on a transatlantic air treaty between the EU and the US to replace the restrictive bilateral international agreements negotiated by each member state.

This is a dysfunctional industry bound by outdated regulations which prevent the natural process of cross border merger and acquisition common in every other business sector.

We stand by our recommendation to the UK Government to reject the offer that was on the table in 2004. This would have given the Americans full access to the EU market but allowed them to retain the high walls around their market created by foreign ownership limits, cabotage and the 'Fly America' policy.

Recently, however, it has been encouraging to see that United Airlines and FedEx have called for a change to the rules on foreign ownership. Fresh talks are pending which we hope will secure a more balanced deal and create a clear road map towards merging the EU and US markets and thus a liberalised global aviation market.

We believe in a truly barrier-free transatlantic market that can set the standard for 'open skies' negotiations with other countries.

Closer to home, we continue to lobby with other major European carriers against state aid of any kind. At the time of going to print a decision on the rescue plan for Alitalia, which has received a total of nearly €3 billion in aid of one kind or another, was pending.

The omens are not good in light of the commission's recent approval of a six-month government-backed loan guarantee of CYP30 million Cyprus pounds (US\$ 66.2 million) to Cyprus Airways to enable it to come up with a restructuring plan.

Markets, not governments, should decide which airlines should survive and we call on Commissioner Jacques Barrot to maintain the rigorous policies of successive Transport Commissioners.

We welcomed The White Paper on 'The Future of Air Transport' in 2003 in which the Government recommended the building of a third runway at Heathrow, and consideration of better use of the existing runways at Heathrow by 'mixed mode operations', subject to environmental concerns.

Mixed mode would enable airlines to use each runway for both take off and landing – commonplace in the rest of the UK and around the world. Over the longer-term, mixed mode would add to runway capacity at the airport, but in the short-term it could reduce congestion when there are weather or other delays which add to the airline costs and frustrate our customers.

During the past year, British Airways has been providing technical support for studies of noise, air quality and surface access at the airport. There has been steady progress and the studies are due to reach their conclusions next year.

BAA plc has produced an interim master plan for Heathrow showing a provisional boundary for the airport with a new runway. Next year there will be public consultations on mixed mode operations and on the terminal infrastructure that would be built with a third runway at Heathrow.

The airline continues work towards reducing its environmental impact, focusing on noise and emissions. This is particularly important if we are to secure future expansion at Heathrow. At the global level, we continue to support emissions trading as a feasible and cost-effective mechanism to limit the impact of aviation carbon emissions on climate change. We have now completed our third year as a member of the UK Emissions Trading Scheme, and are supporting the UK Government in their objective of including aviation in the EU Emissions Trading Scheme, from 2008 or as soon as possible afterwards.

Alliances

oneworld was the only alliance to achieve a collective profit in 2004. Its member airlines serve a network of some 600 airports worldwide in 135 countries. The alliance delivers valuable incremental revenue and passenger flow to British Airways. In April 2005, oneworld was the first of the global alliances to offer e-tickets throughout its network.

We began benefit sharing with Iberia on the two main trunk routes between Heathrow and Madrid and Barcelona and as a result schedules between us are better co-ordinated and offer the customer almost hourly flights throughout the day.

Future developments

Terminal 5 is quickly becoming a reality and building is now more than 50 per cent complete. When it opens in Spring 2008, it will usher in a new era for your company which for the first time in its history, will have a single terminal offering a unique customer experience and unrivalled access by road, rail and air.

It is more than just a new facility, it is a catalyst for change that will transform travel for millions of our customers. We must be prepared for it and at the heart of our Business Plan for the next two years is a programme called 'Fit for 5' which will drive the necessary operational efficiencies to that end.

It is supported by planned investment in training for our people and in new products to ensure we maintain our reputation for providing industry benchmarks in customer service and comfort.

Board changes

I would like to pay tribute to your Chief Executive, Rod Eddington, who steps down later this year to return to his native Australia. He has steered British Airways through a period of unprecedented crisis during the last five years, and, with his management team, restored the company to profitability. I have

been extremely grateful to have somebody of his calibre leading the company and pleased that he is taking up a new role advising the UK Government on another related issue – transport infrastructure.

Willie Walsh, the youthful, respected, reforming, ex-Aer Lingus Chief Executive, succeeds him and joined your company in May as Chief Executive Designate, to work alongside Rod until he leaves in September. He brings with him a reputation for strong leadership in difficult times – qualities that we will need to face the challenges ahead. I am confident he will build on the fundamental strategies in place that have delivered our current success.

We further strengthened the Board with the appointment of Denise Kingsmill as a non-executive director. Her extensive experience and knowledge in competition and legal issues will be invaluable. In recognition of the combined code provision on independence, Baroness O'Cathain stepped down as a non-executive director after serving more than ten years. Similarly, having served nine years on the Board, Robin Renwick and Ashok Ganguly will not seek re-election at the annual general meeting. In addition, again in recognition of the combined code provision on independence, Mike Jeffery as a former executive of the company will stand down and not seek re-election. I would like to thank all of them for their support and wise counsel over the years.

After 42 years of outstanding service with British Airways, Mike Street OBE, Director of Customer Service and Operations, is to retire from the airline in September. He was appointed to the British Airways Board in December 2000 and was awarded the OBE in May 2004 for services to the aviation industry. I would like to pay tribute to him for his unswerving loyalty and dedication to customer service.

Your Board is pleased to recommend Ken Smart, Liz Symons and Martin George for election by shareholders at the annual general meeting. I am confident that each of them will strengthen the Board in their own way.

Outlook

Market conditions remain broadly unchanged. For the year to March 2006, total revenue is expected to improve by 4-5 per cent. Capacity and volumes are expected to increase by about 3 per cent with total yield flat.

Fuel costs, net of hedging, are now expected to be about £400 million more than last year.

As announced in our latest Business Plan, our focus is on preparing for the move to Terminal 5 in 2008, investing in products for our customers and continuing to drive simplification to deliver a competitive cost base.



Martin Broughton
Chairman

Statement from the Chief Executive

It has become the norm for me to report on the impact of one crisis after another in my statement to shareholders.

The devastation wreaked by the tsunami in South East Asia at Christmas was a brutal reminder of the power of nature.

We were pleased to be able to give aid through UNICEF and fly in aid to the stricken area.

It has been a tough year nonetheless for the industry, one dominated by the high price of fuel against the backdrop of a continued competitive environment. There is too much capacity in the market and airlines propped up by their governments continue to undercut prices aggressively.

Despite this we have delivered good results for the year, driven by continued cost control and strong demand for our products. Seat factors are at record levels but yields continue under pressure. It is encouraging to note the small increase in revenue recorded this year.

We have delivered the £450 million savings targeted in the 2003/05 Business Plan. A plan which included reducing our £3 billion external spend by ten per cent and harnessing technology to simplify travel processes for customers. The £300 million employee cost-savings identified in the 2004/06 Business Plan will be delivered by 2007. Our Business Plan for 2005/07 focuses on ensuring we are fit to move to Terminal 5, targeting planned investment in products and the training for our people and ensuring the delivery of a competitive cost base. I will outline more detail on the implications of Terminal 5 later in this statement.

We are a step closer to achieving our goal of a ten per cent operating margin. At 6.9 per cent for the full year we are 1.5 points higher than last year. This has triggered the employee reward incentive programme which is a well deserved thank you to our staff for their hard work and commitment. However, there is still some way to go on this journey if we are to achieve the ten per cent margin that will deliver sustained profitability. Our focus on costs is undiminished.

As I mentioned earlier, the cost of fuel continued to rise and we had to apply four fuel surcharges during the year. There is no sign of fuel prices falling.

Security

Security has always been paramount, more so since the tragic events of 9/11. Since then, new security and immigration regulations have been introduced, which range from fitting new cockpit doors to providing authorities with passport information in advance of arrival. Further demands are in the pipeline and later this year we are required by the US authorities to include on the flight departure manifest the addresses at which visitors to America intend staying and their countries of residence.

Whilst these extra requirements are onerous, we are well prepared to meet these obligations in a manner which minimises any disruption to our customers. We are programming ba.com so that the required manifest data can be captured before

passengers arrive at the airport, thereby shortening any queues at airport check-in. The recent change in government policy on metal cutlery on flights will be welcomed by our customers.

Employee relations

Our industrial relations 'change programme' is making progress. It is designed to improve communications and foster an atmosphere in which effective industrial relations can flourish, with managers and trade union representatives working more closely together.

We have reached agreement with all employee groups for the first time on an inflation only three-year pay deal. This means we can remain focused on delivering our objectives without the distraction of annual pay talks.

One of the key issues under discussion with our trade union representatives is absenteeism, which was running at an average of 17 days a year for each employee. That is twice the national average and is unacceptable. Following the introduction of a new corporate absence policy which we agreed with our trade unions, we are seeing some improvements, and this must continue.

We have also begun working with our staff and trade unions on getting our operation ready for the move to Terminal 5.

Terminal 5

Terminal 5 is the most significant event in the airline's recent history. For British Airways it means a single terminal operation at our main hub, London Heathrow, with one team under one roof for the first time.

For our customers, travel will be faster, smoother, and simpler, thanks to the single terminal operation which will facilitate transfers and reduce connection times. The main terminal has been designed to minimise distances for passengers.

The two-year ceBA programme, that uses technology to make travel easy for customers, continues apace. Self-service check-in has reached an all time high, with nearly 600,000 passengers a month using our kiosks. They can also be used by families and groups of up to six. Online printed boarding passes are now accepted at 41 airports across the network and more than 40,000 customers a month choose to print their boarding passes from their home or office.

The "manage my booking" facility which allows customers to select a seat, choose a special meal, add their Executive Club details to their booking and e-mail their itinerary to friends, has won a Business Innovation Award. Usage of e-tickets has grown from 41 per cent to 76 per cent and 83 per cent of all Executive Club transactions are online.

In the air we have enhanced our Club World service by improving our award winning flat bed. To ensure our leading edge in product design and innovation, we have begun planning the next generation flat bed.

The new pre-flight dining option for longhaul business passengers at JFK airport in New York has proved popular and has been extended to Newark, Boston, Chicago, Toronto and Philadelphia, and Washington is currently under construction. We have improved the experience for families and children with the relaunch of the Skyflyers' product on flights over three hours. Families can now request seats and kids' meals whilst booking tickets online.

Network developments

The UK and India agreed a substantial increase in the number of direct services between the two countries. As a result, British Airways plans to operate a double daily service from London Heathrow to Mumbai, five a week to Bangalore and six a week to Chennai from October 2005. Next winter (2006), we plan to operate a double daily service to Delhi, and daily services to Bangalore and Chennai from London Heathrow.

We launch services to Shanghai from London Heathrow in June, with five services a week to Shanghai Pudong airport, operated by Boeing 777 aircraft.

Our summer schedule this year includes 13 new European services, lifting the total of daily British Airways flights between Britain and the Continent to an average of 631, well in excess of any other operator. An average of 372 daily flights are scheduled within the UK and across the Irish Sea, covering 60 routes.

In total, the airline and its franchise partners will fly to 206 destinations around the world and operate 1,182 flights each day.

Regrettably, we had to suspend flights between Heathrow and Jeddah and Riyadh in Saudi Arabia. It was not a decision taken lightly but the security situation had reduced commercial demand on these routes and increased our operating costs.

We have taken valuable lessons from the operational disruption that occurred last summer, which were caused by a series of operational issues. Since then we have taken steps to ensure we can deal with such exceptional circumstances.

Fleet

During the year, we took delivery of six Airbus A321 aircraft which operate on our European and domestic routes. The number of aircraft in service at year end was 290, down one on the previous year. Despite this, we flew 3.2 per cent more capacity (measured in Available Tonne Kilometres) through better utilisation of our fleet.

The new Airbus A380 aircraft was unveiled with much fanfare but, as I have said before, British Airways is in the fortunate position of having a relatively young fleet and we have no need to rush into new aircraft orders. When the time is right for us to invest, we will do so.

Social and environmental

British Airways has always been at the forefront of social and environmental progress and we pride ourselves on our proactive approach in halving aircraft noise levels, reducing carbon dioxide (15 per cent) and nitrogen dioxide (13 per cent) emissions over the past five years, and improving fuel efficiency by 25 per cent since 1990.

At the Aviation and Environment summit in Geneva in March 2005, I urged the global aviation industry to think about new ways of working together to reduce the impact of climate change caused by our industry, or risk facing additional taxation.

British Airways is currently the only airline trading emissions in the voluntary British Government scheme and supports the inclusion of aviation into the EU's emissions trading scheme from 2008.

Social and environmental leadership remains crucial to the performance of our business and its future success. All of these initiatives not only reduce our costs, but also help us achieve sustainable profitability.

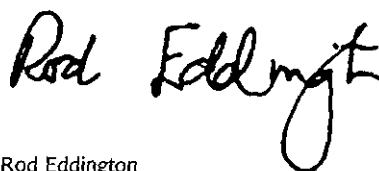
Awards

Good customer service remains our *raison d'être* on the ground and in the air. This is reflected in the number of awards we won last year - more than 50. While I am on the subject of awards, we are delighted to be the Official Airline of the England Rugby Team for the next four years and wish them well for the World Cup in 2007. We are sponsoring the British and Irish Lions tour and London's bid to host the Olympics in 2012. Prime Minister Tony Blair launched our 'flying petition' in support of the bid by being the first of thousands to sign his name on a dedicated British Airways Boeing 747 which will fly the bid to Singapore for the decision on the host country.

Finally

This is my last statement to shareholders in the annual report. It has been a privilege to lead British Airways for the last five years as part of a committed and dedicated workforce. We have survived the toughest period in aviation history, from the dark days post 9/11, the collapse of the stock market, the war with Iraq, SARS and continued terrorist threats. We have come through and emerged a leaner, fitter business with a strong balance sheet. We have done it by remaining focused on our goals. We must continue to push forward; we cannot afford to relax.

Finally, I would like to thank our people for their support. We have made tremendous progress as a company and I have no doubt that this will continue under Willie Walsh's leadership. I shall look forward to watching the continued success of British Airways and wish you all the very best for the future.



Rod Eddington
Chief Executive

Operating and financial review

Summary

Group profits before tax for the year were £415 million, compared with a £230 million profit in the previous year.

Operating profit in the year, at £540 million, was £135 million better than last year. The operating margin of 6.9 per cent was 1.5 points better than last year. The improvement in operating profit primarily reflects improvements in turnover – up 3.3 per cent – partially offset by increased operating costs, in particular fuel. Passenger yields (pence/RPK) for the year were down 4.4 per cent; seat factor was up 1.8 points at 74.8 per cent on capacity 2.1 per cent higher in ASKs.

Cargo volumes (CTKs) for the full year were up 11.1 per cent compared with last year, with yields down 6.3 per cent. Overall load factor for the full year was up 2.1 points at 69.7 per cent.

Cash inflow before financing was £1,181 million for the twelve months. The closing cash balance of £1,682 million was up £12 million versus last year. Net debt fell by £1,236 million during the year to £2,922 million. This is the lowest level since March 31, 1993, and is down £3.7 billion from the December 2001 peak.

Background to financial performance

The following table sets out the year-over-year percentage changes in Group operating revenue and in selected operating statistics for the years ended March 31, 2005 and 2004:

	% (Decrease)/Increase	
	Year ended March 31	
	2005	2004
Group operating revenue	3.3	(1.7)
Group operations		
Volume (RTK)	6.5	3.9
Capacity (ATK)	3.2	2.5
Yield (Revenue/RPK)	(4.4)	(4.3)

Turnover

Group operating revenue improved in the year by 3.3 per cent to £7,813 million. For the twelve month period, airline operations revenue improved by 0.4 per cent to £6,982 million on a flying programme 3.2 per cent larger in ATKs.

Passenger traffic (RPKs) increased by 4.7 per cent, whilst capacity (ASKs) was 2.1 per cent higher; as a result passenger load factor increased by 1.8 points compared with 2003/04 to 74.8 per cent. Passenger yield (pence per RPK) deteriorated by 4.4 per cent for the full year.

Cargo volumes (CTKs) were up 11.1 per cent compared with last year but yields fell by 6.3 per cent. Cargo revenue was up 4.1 per cent from £463 million to £482 million.

Other revenue improved by 36.9 per cent to £831 million, primarily due to the increase in the cargo fuel surcharge and the introduction of passenger fuel surcharges.

Expenditure

Unit costs (net operating expenditure per ATK) were 4.7 per cent lower than a year ago; net operating costs were down 1.6 per cent.

Operating expenses

	Year ended March 31		
	2005 £m	2004 £m	(Higher)/ Lower than 2004 (%)
Employee costs	2,273	2,180	(4.3)
Depreciation and amortisation	687	679	(1.2)
Aircraft operating lease costs	106	135	21.5
Fuel and oil costs	1,128	922	(22.3)
Engineering and other aircraft costs	502	511	1.8
Landing fees and en route charges	556	549	(1.3)
Handling charges, catering and other operating costs	930	934	0.4
Selling costs	488	554	11.9
Accommodation, ground equipment costs and currency differences	603	691	12.7
Total	7,273	7,155	(1.6)

Employee costs increased by 4.3 per cent to £2,273 million as pension and wage increases and the cost of the Employee Reward Plan were only partially offset by manpower reductions and other efficiencies. The average number of employees in the Group, in manpower equivalents (MPE), fell by 3.3 per cent to 47,472 and productivity (ATKs per MPE) improved by 6.7 per cent.

Depreciation costs increased by 1.2 per cent to £687 million reflecting a £16 million charge relating to the impairment of the BAe 146 aircraft at British Airways CitiExpress, following the decision to exit the fleet in 2005. This was partially offset by exchange due to the weaker US Dollar.

Aircraft operating lease costs reduced by 21.5 per cent to £106 million as a result of the return to lessors of two Boeing 737-400s and one de Havilland Canada DHC-8, and due to favourable exchange impacts. The previous year included an onerous lease charge of £11 million (relating to the withdrawal of the British Airways CitiExpress ATP fleet).

Fuel and oil costs increased by 22.3 per cent to £1,128 million due to a 44.4 per cent increase in fuel price (partially offset by hedging benefits) and the impact of the increased flying schedule. These were partially offset by the favourable exchange impact of the weaker US Dollar.

Engineering and other aircraft costs reduced by 1.8 per cent to £502 million reflecting lower hull insurance costs and the impact of exchange, partially offset by the cost of additional cargo freighter activity and additional engine sub-contract and lease costs.

Landing fees and en route charges increased by 1.3 per cent to £556 million. This principally reflects increases in price and the impact of the larger flying programme, partially offset by the impact of exchange.

Handling charges, catering and other operating costs decreased by 0.4 per cent to £930 million, primarily due to the impact of exchange, partially offset by additional freighter and trucking costs, and the full year effect of the British Airways Holidays package business costs.

Selling and marketing costs fell by 11.9 per cent to £488 million. The impact of the restructuring of travel agent commissions and the increase in online sales were partially offset by volume related costs.

Accommodation, ground equipment costs and currency differences decreased by 12.7 per cent to £603 million. This was due to reductions in information management spend, property costs, legal costs and favourable exchange impacts of £55 million, primarily due to the impact of the weaker US Dollar on the balance sheet retranslation.

Business Plan

Against a target of £450 million of savings announced in the 2003/05 Business Plan (including the £300 million of external spend savings) £457 million was realised. The £300 million employee cost savings announced in the 2004/06 Business Plan will be delivered by March 2007.

The 2005/07 Business Plan was announced on February 22, 2005 with the key elements being to ensure we are prepared for the move to Terminal 5 in 2008 ('Fit for 5'), targeted investment in our product and people and a continued focus on building a competitive cost base.

Geographical analysis

Operating results improved in each area. For longhaul, this reflected increased turnover partially offset by rising costs, in particular fuel. In Europe, losses continued to fall due to continued focus on cost reductions – the total loss of £26 million (£60 million last year) includes an impairment charge of £16 million due to the planned retirement of the BAe 146 fleet.

British Airways CitiExpress

British Airways CitiExpress continued to simplify its operation during 2004/05, building on the work started in 2003/04. Since 2001, aircraft numbers have fallen by 35 and types from nine to four – a further five aircraft (and another fleet type) will be taken out in 2005/06. The number of bases has also been reduced from 15 in 2001, to eight at the end of March 2005. As a consequence of this simplification, operational performance is more robust, costs have fallen and financial results have improved. Further cost reductions are targeted in 2005/06.

Alliance benefits

The oneworld alliance includes eight airline members: British Airways, Aer Lingus, American Airlines, 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. oneworld offers a substantial package of customer benefits, including reciprocal reward and recognition programmes, common lounge access, smoother transfers, increased customer support and greater value.

Qantas

The ten 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 that serve markets between the United Kingdom/ Continental Europe and Southeast Asia/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. In February 2005, the Australian Competition and Consumer Commission extended permission for both carriers to co-operate in this way for a further five years.

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.

On September 9, 2004 the Group completed the sale of its 18.25 per cent holding in Qantas through a book build sale of the shares, thereby reducing debt and continuing to strengthen our balance sheet. The sale realised gross proceeds of £427 million before tax. The loss on disposal of £11 million includes a write-off of goodwill of £59 million previously set off against reserves.

Iberia

In December 2004, British Airways and Iberia signed a Joint Business Agreement ('JBA') to establish profit-sharing on two routes, Heathrow-Madrid and Heathrow-Barcelona. This was accompanied by joint selling and the co-ordination of schedules on these routes from summer 2005.

British Airways and Iberia codeshare on more than 65 domestic and international routings. As well as all UK-Spain routes, this includes Iberia codesharing on services operated by British Airways franchise carriers GB Airways and Comair and British Airways codesharing on services operated by Iberia franchise Air Nostrum. The airlines carried over 700,000 codeshare passengers during 2004/05.

As at March 31, 2005 British Airways held an 8.76 per cent stake in Iberia. Iberia's profit before tax for the 12 months to December 31, 2004 (included in the March 31, 2005 result) was €283.2 million, compared to a profit before tax last year of €201.7 million.

Franchising

As at March 31, 2005 there were six franchisees operating to 83 destinations, of which 65 are additional to the British Airways network. The franchise with Regional Airways was subsequently terminated in April 2005, leaving five British Airways franchisees – Comair, GB Airways, British Mediterranean, Loganair and Sun-Air of Scandinavia.

Share of operating profit in associates

British Airways' share of operating profits from associated undertakings reduced by £17 million to £41 million during the year, principally due to the sale of the investment in Qantas.

Profit/loss on disposal of fixed assets and investments

Losses on disposals of fixed assets and investments for the year were £26 million, compared with losses of £46 million last year, which included an £83 million loss on disposal of dba.

The losses on disposal in this financial year primarily reflect the disposal of the investment in Qantas in September 2004 (£11 million).

Net interest payable

Net interest expense for the year was £157 million, £43 million lower than the previous year. This included a credit relating to the revaluation of yen debts (used to fund aircraft acquisitions) of £31 million, compared to a credit the previous year of £16 million. The revaluation – a non cash item required by standard accounting practice – results from the weakening of the yen against sterling.

Excluding the revaluation, the improvement in interest expense reflected lower gross debt and exchange benefits offset by higher interest rates.

Other finance income and related fees were £14 million for the year. This compares to a credit of £13 million last year.

Taxation

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

There is no tax payable in the UK either on operating results, as adjusted for taxation, or on profits on disposals as these are covered by tax losses from current and prior periods. 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. The tax payable overseas relates principally to Australian tax payable on the disposal of the shareholding in Qantas.

Earnings per share

For the twelve month period, profits attributable to shareholders were £251 million, equivalent to earnings of 23.4 pence per share, compared with earnings of 12.1 pence per share last year.

Aircraft fleet

The number of Group aircraft in service at March 31, 2005 was 290, a reduction of one on the prior year. Aircraft returns to lessors comprised two Boeing 737-400 aircraft and one de Havilland Canada DHC-8. In addition, a Boeing 737-400 aircraft was stood-down pending return to the lessor. An Airbus A320 and two Boeing 737-400's were sub-leased during the year. Deliveries comprised six Airbus A321 aircraft.

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, 2005:

	Year ended March 31	
	2005 £m	2004 £m
Aircraft, spares, modifications and refurbishments (net of refund of progress payments)	257	154
Property and equipment	37	67
Landing rights	32	14
	326	235

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £143 million for the Group (2004: £347 million) and £142 million for the company (2004: £346 million). The outstanding commitments include £132 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, 2005, net current liabilities were £136 million, down £95 million on last year. This change principally reflects lower creditors (£128 million) and an increase in debtors due to higher sales volumes and £12 million increase in cash, short-term loans and deposits, partially offset by the Convertible Capital Bonds that mature in June, 2005.

Sales in advance of carriage increased from £859 million to £880 million.

Cash flow

Net cash inflow from operating activities totalled £1,192 million, an improvement of £99 million from last year primarily due to the improvement in operating profit partially offset by the impact of working capital movements.

The net cash inflow before management of liquid resources and financing was £1,181 million, an increase of £307 million from last year, primarily due to the sale proceeds of £427 million from Qantas.

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, 2005:

£ million	Bank and other loans	Finance leases and hire purchase arrangements	Total 2005	Total 2004
Balance at April 1	1,225	4,491	5,716	6,689
New loans raised	116		116	81
Non-cash refinancing		(9)	(9)	(32)
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of assets		12	12	97
Repayment of amounts borrowed	(168)	(1,103)	(1,271)	(915)
Effect of exchange rate changes	(5)	(67)	(72)	(204)
Balance at March 31	1,168	3,324	4,492	5,716

Six Airbus A321 aircraft were delivered during the year. Two of the aircraft were financed through US Dollar mortgage loans; the remaining four aircraft were bought for cash. One Boeing 777-200 aircraft was sold and leased back for a period of ten years. This was the third of our Boeing 777-200 aircraft to be taken off balance sheet, helping to manage the Group's residual value exposure to this aircraft fleet. Four Boeing 747-400 aircraft previously held on finance leases were purchased during the year.

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 £21 million (2004: £169 million gain).

Net debt/total capital ratio

Net debt at the year end amounted to £2,922 million, a reduction of £1,236 million compared with last year. This included convertible bonds of £112 million and net of cash and short-term loans and deposits totalling £1,682 million.

The net debt/total capital ratio stood at 42.7 per cent, an 11.4 point reduction versus last year mainly due to the reduction in net debt. Including operating leases, net debt was 48.2 per cent, a 10.2 point reduction from last year.

Pension deficit

Under FRS17, the pension deficit after deferred tax increased by £205 million to £1.4 billion (due mainly to lower long-term interest rates), despite the doubling of company contributions to £250 million. The deficit is not consolidated into the accounts as we continue to report under SSAP24. Next year, under International Financial Reporting Standards (IAS19), the pension

deficit will be included in the balance sheet. This will have a significant adverse impact on reserves (in particular distributable reserves).

Share capital

The number of shares allotted, called up, and fully paid on March 31, 2005 was 1,082,903,000 (March 31, 2004: 1,082,845,000). On June 15, 2004, 39,000 ordinary shares were issued in exchange for 93,000 Convertible Capital Bonds 2005 on the basis of one ordinary share for every 2.34 Bonds held. During the year, 2,025,936 shares were issued on the exercise of options under Employee Share Option schemes.

Other Matters

Liquidity and investments

The Group maintained high liquidity throughout the year. Cash generated from operations together with continued low capital expenditure, and the disposal of our share in Qantas for £427 million, allowed us to make scheduled repayments of £542 million and to repay £729 million of debt early whilst maintaining the closing cash balances at last year's level. Early debt repayment in 2004/05 has been focused on aircraft leases where we have repaid the debt on 24 aircraft early; this increased the number of unencumbered aircraft to 70 at the year-end. The Group continually reviews liquidity requirements and will continue to repay debt early to utilise surplus liquidity.

At March 31, 2005 the Group had at its disposal short-term loans and deposits and cash at bank and in hand amounting to £1,682 million (2004: £1,670 million). In addition, the Group had undrawn long-term committed aircraft and general financing facilities totalling approximately US\$460 million and undrawn uncommitted overdraft and money market lines totalling £46 million.

The Group's holdings of cash and short-term loans and deposits, together with committed general funding facilities and net cash flow, are expected to be sufficient to cover the cost of all outstanding firm aircraft deliveries.

Surplus funds are invested in high quality short-term liquid instruments, usually bank deposits and money market funds. 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.

Management of financial and fuel price 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 towards management of corporate and asset financing, interest rate risk, fuel price risk, foreign exchange risk and cash and liquidity retention. The Treasury governance statement also lists the financial instruments that the Group's treasury function is authorised to use in managing financial risks. 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 that is chaired by the Chief Financial Officer.

A monthly Treasury Committee, chaired by the Group Treasurer, approves risk management strategies and reviews major foreign exchange, fuel and interest rate exposures and actions taken during the month to manage those exposures.

Group Treasury implements the agreed policies on a day-to-day basis to meet 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, fuel, interest rate and credit exposures to minimise group risk; 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 25b. Low capital expenditure has meant that the requirements for new financing have been limited. In April 2004, a Boeing 777 aircraft was sold and leased back. Other financing transactions have been met by the drawdown on existing committed facilities or from surplus liquidity.

At March 31, 2005 approximately 80 per cent of the Group's borrowings (after swaps), net of cash, short-term loans and deposits, were at fixed rates of interest and 20 per cent were at floating rates. This proportion of fixed rate borrowings has increased from 66 per cent at March 31, 2004 as the Group chose to focus its early debt repayments on floating rate debt, leaving fixed rate debt intact.

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 25a.

There were no changes to the company's credit ratings during the year. Both Standard & Poor's and Moody's maintain a corporate rating of one notch below investment grade. However, the rating has limited impact on the company, 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.

Foreign currency risk

The Group generates a surplus in most of the currencies in which it does business. The US Dollar can be an exception to this as capital expenditure, together with ongoing operating lease and fuel payments denominated in US Dollars, can create a deficit. In

the year to March 31, 2005, the Group had more US Dollar payments than US Dollar revenues, principally as a result of fuel purchased in US Dollars.

As a result, the Group can experience adverse or beneficial effects arising from exchange rate movements. For example, 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 or 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 2005 and 2011. The Group utilises its stream of yen traffic revenues as a natural hedge against these maturing yen liabilities as they fall due. At times, the Group will also purchase and hold yen as a partial hedge against future yen maturities.

The Group's forward transactions in foreign currency are detailed in Note 39.

Fuel price risk

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.

This strategy has moderated the impact of recent increases in the price of jet fuel and the company enters 2005/06 with a substantial fuel hedging portfolio which was valued at \$523 million at March, 31 2005.

Derivative financial instruments

The company uses derivative financial instruments (derivatives) with off-balance sheet risk selectively for treasury and fuel risk management purposes. The Group's policy is not to trade in derivatives but to use these instruments to hedge anticipated exposures.

As part of its treasury risk management activities, the company has entered into a number of swap agreements in order to hedge its direct exposure to interest rates. 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 35.

Forward foreign exchange contracts and "collars" are used to cover near term future net revenues in a variety of currencies. Forward foreign exchange contracts outstanding at March 31, 2005 are summarised in Note 39.

The company considers the purchase of interest rate, foreign exchange and fuel 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 physical position, 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.

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.

IAS 12 – Taxation

The effect of tax on earnings is still being evaluated. Further guidance will be provided in July.

International Financial Reporting Standards

British Airways will prepare its March 31, 2006, consolidated financial statements under International Financial Reporting Standards (IFRS).

The company established an IFRS convergence project team in 2003. The team reported (and continue to report) to the Audit Committee quarterly. Progress continues in accordance with the project plan, and the project is on track to deliver IFRS compliant information for comparative purposes for the 2005/06 accounts.

IFRS compliant information for the 2004/05 accounts will be communicated during July.

The adoption of IFRS will result in changes to the presentation of the financial statements (including disclosures, for example segmental analysis) and to the amount and timing of the recognition of profits and losses, and assets and liabilities. Although the Group is still in the process of finalising the full effects of adopting IFRS, the main impacts on British Airways will be as follows:

IAS 16 – Property, Plant and Equipment

Major engine overhaul will be treated as a separate component within fixed assets and depreciated over the period to the next overhaul as opposed to expensing when incurred.

IAS 18 – Revenue Recognition

The area impacted by this standard will be the two loyalty programmes the Group operates – the British Airways Executive Club (BA Miles) and Airmiles Travel Promotions Limited (Airmiles). A portion of the revenue on the sale of BA Miles to third parties and on the sale of Airmiles will be deferred. The amount deferred will be dependent on the fair value of the miles sold.

IAS 19 – Employee Benefits (defined benefit pension schemes)

On transition to IFRS, the full value of any pension surplus or deficit will appear on the balance sheet with the corresponding charge to reserves.

IAS 32 – Financial Instruments – Disclosure and Presentation

IAS 32 will be adopted on April 1, 2005 in line with the exemption under IFRS 1 to prepare the comparative period under IFRS without IAS 32. This standard does not have a material impact on British Airways.

IAS 39 – Financial Instruments, Recognition and Measurement

IAS 39 will be adopted on April 1, 2005 in line with the exemption under IFRS 1 to prepare the comparative period under IFRS without IAS 39. This standard impacts the accounting for a wide range of financial instruments, including those used as part of the Group risk management strategy, for example fuel hedging. A new fuel hedging system has been implemented to measure the effectiveness of the fuel hedges. Based on our experience to date, our fuel hedges are largely effective.

Board members as at May 12, 2005

CHAIRMAN

Martin Broughton (58)
Board Member since May 2000, Deputy Chairman from November, 2003 becoming non-executive Chairman in July, 2004. Safety Review Committee and Chairman of the Nominations Committee. Martin Broughton is Chairman of the British Horseracing Board.

CHIEF EXECUTIVE

Roderick Eddington (55)
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. Rod will be retiring from British Airways on September 30, 2005.

CHIEF EXECUTIVE DESIGNATE

William Walsh (43)
Executive Board Member since May 3, 2005. Formerly Chief Executive of Aer Lingus, he is a non-executive director of Fyffes Plc.

CHIEF FINANCIAL OFFICER

John Rishton (47)
Executive Board member since September, 2001. Having originally joined the airline in 1994, John Rishton was appointed as Chief Financial Officer in September, 2001. He is a non-executive director of Allied Domecq PLC.

DIRECTOR OF CUSTOMER SERVICE AND OPERATIONS

Michael Street OBE (57)
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 and is a director and trustee of The ACT Foundation Limited. He is a non-executive director of WSH Group Ltd and Kempton Park Racecourse Company Limited. Mike will be retiring from British Airways on September 30, 2005.

NON-EXECUTIVE DIRECTORS

Maarten van den Bergh (63)
Independent non-executive director since 2002, senior independent non-executive director since July, 2004. Audit, Nominations and Remuneration Committees. He is Chairman of Lloyds TSB Group Plc and a non-executive director of BT Group plc, Royal Dutch Petroleum Company and a member of the Supervisory Board of Akzo Nobel, 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.

Dr Ashok Ganguly (69)
Independent 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, ICICI OneSource Ltd and ABP Ltd Group, 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 (60)

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.

Denise Kingsmill (58)

Independent non-executive director since November, 2004. Audit and Safety Review Committees. Until December, 2003, she chaired the Department of Trade and Industry's accounting for people task force and was deputy chairman of the Competition Commission. She is also non-executive director with the Home Office and chairs the advisory forum for Laing O'Rourke plc.

Dr Martin Read (55)

Independent 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.

Alison Reed (48)

Independent non-executive director since December, 2003. Chairman of Audit Committee. Alison Reed left Marks & Spencer plc, where she was Group Finance Director, at the end of April and will be the Group Finance Director of Standard Life from June 13, 2005.

Lord Renwick of Clifton (67)

Independent 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, SABMiller Plc, Compagnie Financiere Richemont AG and a Trustee of The Economist.

COMPANY SECRETARY

Alan Buchanan (46)

PRESIDENT EMERITUS The Lord King of Wartnaby (87)

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

LEADERSHIP TEAM

Rod Eddington (55)	Chief Executive
John Rishton (47)	Chief Financial Officer
Mike Street OBE (57)	Director of Customer Service and Operations
Robert Boyle (40)	Director of Commercial Planning
Paul Coby (49)	Chief Information Officer
Lloyd Cromwell Griffiths (60)	Director of Flight Operations
Martin George (43)	Commercial Director
Alan McDonald (54)	Director of Engineering
Roger Maynard (62)	Director of Investments and Alliances
Neil Robertson (52)	Director for People
Robert Webb QC (56)	General Counsel

Directors' report

The directors present their Report and Accounts for the year ended March 31, 2005. The accounts are set out on pages 28 to 62.

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 £251 million, against a profit on the same basis of £130 million in the previous year. No interim dividend was paid during the year. Consistent with the priorities agreed with major investors, in order to continue to strengthen the company's balance sheet, the Board has again decided not to recommend payment of a dividend.

Directors

The names and details of the current directors are set out on page 12. During the year to March 31, 2005 there were a number of changes to the membership of the Board. At the annual general meeting in July, 2004, Lord Marshall retired as Chairman and was succeeded by Martin Broughton. Baroness O'Cathain retired from the Board in December, 2004. Denise Kingsmill was appointed to the Board in November, 2004 and Willie Walsh was appointed in May, 2005, both will seek election by shareholders at the annual general meeting to be held on July 19, 2005. John Rishton and Maarten van den Bergh retire and seek re-election in accordance with the company's Articles of Association at the annual general meeting. Dr Ganguly, Captain Jeffery and Lord Renwick of Clifton will retire from the Board at the conclusion of the annual general meeting. At the annual general meeting shareholders will be asked to elect Ken Smart CBE and The Rt Hon the Baroness Symons of Vernham Dean as non-executive directors for a term of three years. The decision of Mike Street OBE to retire on September 30, 2005 after 42 years with the company was announced on May 13. In order to maintain the balance between executives and non-executives on the Board, the company's Commercial Director, Martin George, will be proposed for election by shareholders as a new executive director. Biographical notes about the directors seeking election and re-election are set out 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 23 to 26.

'The BA Way'

Last year, 'The BA Way' – a new statement of British Airways' business strategy, values and goals was agreed and began to be communicated across the company. A key principle underpinning 'The BA Way' is the active engagement and support of all our stakeholders – investors, employees, customers and the communities in which we operate.

Our employees

The company continues to work constructively with its recognised trade unions and has well-developed structures within the company for appropriate trade union involvement. These include BATUC, a monthly forum where the company's executive management provides a business update for trade union representatives and a long-term Industrial Relations Change Programme, which began in 2001, designed to strengthen links between the airline and the trade unions and to develop better ways of working together. This year we concluded a three-year pay agreement and introduced a new corporate policy on attendance management.

Through a full programme of communications, involvement and feedback activities, a strong focus is being placed on strategies designed to ensure our people have a shared understanding of business challenges and opportunities, and how their role contributes. To achieve this change, it is recognised that everyone in the airline must have a shared view of business challenges and opportunities and must be able to feel that these are relevant to the role they play.

In order to increase employee involvement and increase their understanding of our business objectives, we have established an Employee Involvement Programme. This includes 'Owning Our Future' workshops created and run by British Airways' people for British Airways' people, which everyone in the airline will attend and at which business challenges, 'The BA Way' and our key strategies and plans are discussed in detail. By the end of April, 2005, 10,500 employees had attended 'Owning Our Future'.

As a key part of British Airways' comprehensive internal communications, an emphasis is being placed on face-to-face communication and investment is being made in training for the people managers and supervisors who deliver this day to day.

Regular feedback is solicited from British Airways employees through a formal Employee Feedback Programme and the output and actions that result from this shape and drive the direction and emphasis of the work on employee involvement. There has been extensive work carried out in relation to leadership and performance management in the business, which was directly connected to research conducted with a sample of employees in early 2004. Work is also being done to ensure that key business questions raised at 'Owning Our Future' or via other feedback mechanisms are regularly answered in 'BA News', British Airways' employee newspaper, and on the company's intranet.

The company remains committed to encouraging employee share ownership. As at May 11, 2005 50 per cent of employees owned 1.75 per cent of the company's shares. Ideas currently being considered by the company are the British Airways New All Employee Share Ownership Plan and Sharesave Scheme.

Diversity and Inclusion

Our commitment to promoting diversity and inclusion is an integral part of the culture of our company. We have an open and honest working environment that encourages people to reach their full potential and which recognises everyone's contribution to the business. In January, 2005 we joined the Stonewall Diversity Champions Scheme, the United Kingdom's leading good practice forum on sexual orientation issues in the workplace, underlining our commitment to supporting the gay and lesbian members of our workforce. One of our key pieces of work this year was to re-communicate our policy on harassment and bullying as we wanted our employees to

understand the impact of their behaviour on others and be tolerant of those with different values, religions or beliefs to their own. Another priority has been to start preparing for the implementation of forthcoming legislation in relation to age. We are currently engaged in work to assess the impact of this on our business and our employees, however, nothing can be finalised until after the Government announces the final regulations.

We welcome applications from people with disabilities and have a helpline number on the Internet site www.ba.com to arrange any reasonable adjustments which may be needed e.g. information in alternative format, extra time for tests. This also enables us to make adjustments to the workplace in advance of the employee taking up a position.

We work with our Disabled Employees Group and Occupational Health on disability issues, and make reasonable adjustments for employees who may become disabled. If reasonable adjustments cannot be made for any reason, an alternative suitable role and re-training will be considered through our Careerlink, redeployment service. Training for employees is increasingly provided online and accessibility to e-learning is constantly reviewed.

All our front line employees are now being trained in disability awareness to increase their knowledge about disabled customers and employees.

Corporate Responsibility

One of 'The BA Way' goals is to be a company which is respected by the communities we serve. Our environmental and community programmes are critical to the delivery of this goal, and to ensuring that the growth of our business can proceed in a way which is acceptable to society at large.

These programmes – along with other key social issues, such as diversity – are managed with the support of our internal Corporate Responsibility Board (CRB), established in 2003, and supported by independent adviser, Mark Goyder, director of Tomorrow's Company. The CRB has also established a programme of "challenge sessions" where external stakeholders are invited to comment on British Airways' performance on key social and environmental issues (climate change, community impact and diversity) and offer suggestions for future action.

We continue to attract recognition for our performance as a socially and environmentally responsible company, through participation in the Dow Jones Sustainability Index and the FTSE4Good Index. British Airways was a founding member of the Business in the Community Corporate Responsibility Index in 2002 and was ranked 69th in the 2004 Sunday Times top 100 "Companies that Count".

Our Annual Corporate Responsibility report for 2004/05 will be available during July. This report and further information is available online at www.ba.com/responsibility or by writing to Environmental Affairs, British Airways Plc, Waterside (HBA3), PO Box 365, Harmondsworth, UB7 0GB, UK.

Environment

The potential impact of aviation on climate change is a major issue for British Airways and we continue to work with other industry partners and government to develop a long-term strategy for responsibly managing our contribution to global warming. Central to this approach is our support for emissions trading as a cost effective mechanism for limiting carbon dioxide emissions from the air transport industry and a viable alternative to ineffective and punitive measures, such as taxation. We have

played an active part in the dialogue on aviation and climate change at the European level through the UN International Civil Aviation Organisation (ICAO).

In addition to contributing to the policy debate, British Airways plays its part in reducing climate change impacts through investment in modern aircraft and operational measures to minimise fuel consumption. We remain on target to meet our fuel efficiency target of 30 per cent improvement by 2010 on a 1990 baseline.

British Airways has participated in the voluntary UK Emissions Trading Scheme since 2002. The third year of compliance within the scheme has been successfully completed, achieving a 23 per cent reduction in our contribution to the UK CO₂ inventory in 2004, compared to the 1998-2000 baseline.

British Airways is also supporting a cross-sectoral initiative to develop a strategy for sustainable development of UK aviation over the long-term. The strategy will include commitments on key environmental challenges of aviation, including limitation of climate change, noise and local emissions.

We continue to take steps to reduce our impact on local communities by reducing aircraft noise and emissions which adversely affect local air quality. Our global noise energy indicator, shows a reduction relative to last year's value, partly due to the introduction of newer quieter types such as the A321 aircraft.

We have also maintained our emphasis on operational measures to improve environmental performance. Last year, 95.3 per cent of our departures met the strict track-keeping requirements at Heathrow and 98.6 per cent at Gatwick – above the average for each airport. Our performance on arrivals noise also continues to be better than average at Heathrow and Gatwick. We are currently trialing new techniques for reducing noise impact further away from the airport.

Local air quality around airports is becoming an increasingly important issue, particularly at Heathrow where future legal limits mean it could be a barrier to future expansion. We are working with both ICAO and the UK Department for Transport to help improve the measurement of the impact of aircraft on local air quality, including active involvement in the technical work underpinning the Project for the Sustainable Development of Heathrow.

British Airways launched a waste initiative in January, 2005 with new targets, aimed at saving up to £400,000 a year by 2010 through better waste management, to reduce waste disposal by two per cent per passenger each year, and ensure that at least 20 per cent of waste is reused or recycled, rising to 40 per cent by 2010.

The Community

We continue to focus our resources on the Board approved priorities of education and youth development, supporting our employees, sustainable tourism, environment and heritage. This year we were able to support over 130 community and conservation programmes worldwide.

We are soon to welcome our 30,000th child to the Community Learning Centre at Heathrow where we offer programmes for local children, young people and adult learners to support their education and skill development needs. British Airways has this year awarded £60,000 to over 30 schools in the three boroughs of Ealing, Hillingdon and Hounslow to run an Environmental Awards programme in partnership with the local Education

Business Partnerships. Our Language programme continues to grow with a further 1047 students receiving awards this year (4012 in total). We have now trained 66 teachers to deliver the 'British Airways Flag Award' that provides students with a work related dimension to their language learning at GCSE level.

In 2004/05 the 'British Airways Communities and Conservation' programme has provided over 900 travel awards to a wide range of charitable and not for profit organisations that work in destinations that we fly to.

The British Airways Change for Good programme in partnership with UNICEF continues to flourish. Since our fundraising partnership began Change for Good has raised over £20 million to help change children's lives around the world, through the donation of customers' loose change onboard our flights. In October, 2004, Change for Good hit the high street for the first time in partnership with Travelex and HSBC to collect old Eurozone currencies that are no longer valid.

During the year Change for Good funds have been spent on a variety of work such as water and sanitation projects in Huambo, one of the most war-affected provinces in Angola. Funds have also gone to emergency relief situations such as the devastation caused by the hurricanes in the Caribbean, the conflict in Sudan and the earthquake in Iran.

In July, Change for Good was awarded the 'Most effective corporate relationship' award at the Institute of Fundraising Conference, receiving praise for its longevity, scale and the close involvement of cabin crew.

Through the Change for Good Programme, British Airways customers raised over £800,000 in January alone, all of which was given directly to projects to support the recovery of the areas of South East Asia affected by a tsunami. In the same month our employees donated £51,000 directly from their own pay and the company gave a one-off donation of £1 million (£500,000 in cash and £500,000 in cargo space) through UNICEF. Working with governments, local communities and other charity organisations, UNICEF was able to ensure that children were protected and safe by providing clean water and sanitation, vaccinating against disease, providing education and healthcare and protecting children against exploitation. We would like to thank all our customers and employees who kindly donated through Change for Good and the British Airways Giving Scheme.

We continue to support the volunteering activities that our employees engage in through the 'British Airways Community Volunteering Awards'. This year British Airways donated over £100,000 to a range of charities supported by our employees. The British Airways Giving Scheme saw 4319 of our current and retired UK employees donate £636,489 directly from their payroll to their chosen charities.

British Airways is a member of both the London Benchmarking Group (LBG) and Business in the Community's Percent Club. We use the benchmarking model to assess our contributions to the community. Business in the Community reported our total contribution for the year ending March 31, 2005 as £6 million (2004: £4 million). British Airways direct charitable donations (cash donations to charity) for the year to March, 31 2005 were £830,000, (2004: £396,398) of which £500,000 was donated to UNICEF as detailed opposite.

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 annum for four years. The Board has repeatedly stressed that it does not make donations to political parties in the ordinary meaning of those words and that it has no intention of doing so. The amount expended in the period from April 1, 2004 to March 31, 2005 was £10,000, paid to the Labour Friends of India (2004: £nil). The London Eye Company Limited, which is accounted for as a quasi-subsidiary, made no donations-in-kind in the year under review (2004: £1,050).

Corporate governance

The company is committed to high standards of corporate governance. The Board is accountable to the company's shareholders for good corporate governance. The company has complied throughout the year with the code of best practice set out in Section 1 of the Combined Code (issued in 2003) appended to the Listing Rules of the Financial Services Authority (the "Combined Code").

The role of the Board is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives and reviews management performance. The Board sets the company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

The Board of British Airways Plc routinely meets eight 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. Broadly, the Board has reserved to itself major strategic and financial decisions, including investment and disinvestment decisions, approval of significant alliance or codeshare partnerships and commitments of greater than £10 million. The Board has also drawn up a schedule of matters which must be reported to it. These schedules are reviewed at least annually. In recognition of the international nature of the airline business, the Board endeavours to hold up to two of its meetings each year at important destinations on British Airways' route network. A statement of the directors' responsibilities in respect of the financial statements is set out on page 27 and a statement on going concern is given on page 18.

The Board is led by the Chairman and the executive management of the company is led by the Chief Executive. Their respective roles are more fully described in the corporate governance section of the company's website www.bashares.com. During the financial year under review, the Board reduced in number from 12 to 11 members. Of the 11 members serving at the year end, three were executive directors and eight were non-executive directors. One of the non-executive directors, Captain Michael Jeffery, was formerly an executive of the company and is not therefore considered independent for Combined Code purposes. The other seven non-executive directors are drawn from a diversity of business and diplomatic backgrounds, bringing a broad range of views and experiences to Board deliberations. On July 20, 2004, Maarten van den Bergh replaced Martin Broughton as the Board's senior independent director. The Board has included five or more fully independent non-executive

directors through the year under review. Although they are eligible for non-contractual travel concessions in addition to their fees, this is not considered to affect their independence.

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. Papers for Board and Committee Meetings are typically distributed one week prior to the relevant meeting. All Board members have access to the Company Secretary for any further information they require. In addition, the Secretary ensures that the Board members receive appropriate training as necessary. The appointment and removal of the Secretary is a matter for the Board as a whole. Non-executive directors are encouraged to visit the company's operations and to speak to customers and employees. 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 opposite.

The company has arranged appropriate insurance cover in respect of legal action against its directors and officers. In May, 2004, the company granted rolling indemnities to the directors and the secretary, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as officers of companies within the Group. If the annual general meeting approves the proposed changes to the Articles of Association, these current indemnities will be replaced with new indemnities which set out the terms on which the company may, in its discretion, advance defence costs.

The Board has four standing Board Committees which meet regularly under terms of reference set by the Board. Copies of these are available on the company's website www.bashares.com by clicking on the heading Corporate Governance. Each of the Committees has authority to take external advice as required.

The Audit Committee meets at least quarterly under the chairmanship of Alison Reed and consists solely of independent non-executive directors. At the beginning of the year the members were Martin Broughton, Maarten van den Bergh, Ashok Ganguly, and Alison Reed, who succeeded Martin Broughton as chairman of the Committee on July 20, 2004. Denise Kingsmill joined the Committee on November 1, 2004. 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. Executives attend as required. In addition, the Committee has held closed meetings and has also met privately with each of the external and internal auditors. 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 codes of 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 responsible for overseeing the performance, as well as the objectivity and independence, of the auditor which it does by requiring reports from the auditor, a requirement to pre-approve fees for non-audit work and by ensuring that fees for non-audit work remain lower than those for audit work. The Committee is also responsible for oversight of the company's policy on whistleblowers and the Risk Group (see Internal Control below).

The Safety Review Committee meets at least five times per year under the chairmanship of Captain Michael Jeffery, a former Director of Flight Operations. Its other members were Martin Broughton, (until July, 2004) Baroness O'Cathain (until December, 2004), Dr. Ganguly, Lord Renwick and, from November, 2004, Denise Kingsmill. 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 Committee is advised by an external expert, Sir Michael Alcock GCB KBE FREng.

The Safety Review Committee reviews reports from the various safety boards within the airline. For the purposes of the Air Operators Certificate and the Joint Airworthiness Requirements - Operations (JAR-Ops), the Chief Executive is the named Accountable Manager for British Airways Plc. As the Accountable Manager, he chairs meetings at bi-monthly intervals of the five Nominated Postholders (the executives responsible to the Civil Aviation Authority for safety in the various operational departments of the company) along with the General Counsel, the Director of Safety, Security and Risk Management and the Head of Safety. These meetings review operational compliance, quality and safety; monitor the effectiveness of the corporate safety management system and agree cross-departmental policy as appropriate. The Accountable Manager's meetings also allow him to review any issues with the Nominated Postholders and seek the necessary assurances that the company is compliant with the relevant regulations.

The Nominations Committee meets at least 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 enhance the Board's performance, and to interview candidates and recommend appointments to or, where necessary, removals from, the Board. The Committee also reviews the performance of any director seeking re-election at the forthcoming annual general meeting. The Committee's remit also includes review of corporate governance. On July 20, 2004 Lord Marshall retired as Chairman of the company and of the Nominations Committee. As reported last year, the process which resulted in the selection of the new chairman on November 7, 2003, was led by Maarten van den Bergh. From July 20, 2004, Martin Broughton has chaired the Committee and its other members are Maarten van den Bergh and Martin Read. No member of the Committee participates in any discussion of his or her own performance.

In relation to the appointment of new Board members, the process used for the nomination of new candidates commences with the identification of the skills and experience needed to maintain or enhance the diversity of skills and experience on the Board. Whilst in most cases this will result in the use of an independent search firm, this is not always the case. An independent search company was used to identify suitable candidates for the appointment of a Chief Executive Designate during the year under review and is being used to select two new non-executive directors. In the case of Denise Kingsmill, Ken Smart and Baroness Symons this did not prove to be necessary because there were unlikely to be many additional candidates fitting the detailed profiles set down by the Committee produced by a search consultancy or open advertising beyond those already identified by the Committee.

The Remuneration Committee of the Board meets at least twice a year and additionally if required to determine the company's policy on remuneration for the executive directors, senior executives below Board level, the Chairman and the Company

Secretary, to review that remuneration and to consider and decide grants under the company's long term incentive plans. The Report of the Remuneration Committee on pages 19 to 26 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 were Martin Broughton (until July 20, 2004), Lord Renwick (from July 20, 2004) and Maarten van den Bergh. No director is involved in deciding his or her own remuneration. The fees for the non-executive directors are fixed by the executive directors on the recommendation of the Chairman.

At the end of the financial year under review, a performance evaluation of the Board, its committee and individual members was undertaken through a series of one to one interviews by the Secretary. The results of this exercise were presented to and considered by the Board. The Chairman and non-executive members typically meet without any executives present on at least two occasions during each financial year. At least once a year, the non-executive members of the Board meet under the chairmanship of the senior independent director during which, and taking account of the views of the executive directors, they review the performance of the Chairman.

The company maintains regular contact with its larger institutional shareholders through its investor relations team and through meetings with the Chief Executive, the Chief Financial Officer and the Chairman as well as annual institutional investor events. The Board receives regular feedback on investors' views. The presentations from these institutional investor events are also available to private shareholders through the company's investor relations website, www.bashares.com. The annual investor day in March, 2005 was attended by six non-executive

directors and major investors were given the opportunity to discuss corporate governance matters with those directors in one-to-one meetings. 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, 2005, 38 per cent of the ordinary shares of the company were held by non-UK nationals (2004: 31 per cent) and 16 per cent of the ordinary shares were held by persons who were not nationals of states comprising the European Economic Area (2004: 22 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.

Board attendance

The number of Board and Committee meetings attended by each director during the year is shown in the table below:

Director	Board Meetings attended in the period or period of service	Audit Committees attended in the period or period of service	Nominations Committees attended in the period or period of service	Remuneration Committees attended in the period or period of service	Safety Review Committees attended in the period or period of service
Total in period	9	6	4	8	6
Lord Marshall*	3/3		1/1		
Martin Broughton	9/9	2/2	4/4	2/2	1/2
Rod Eddington	9/9				
Mike Street	9/9				
John Rishton	9/9				
Maarten van den Bergh	8/9	5/6	4/4	6/6	
Dr Ashok Ganguly	9/9	6/6			6/6
Captain Michael Jeffrey	9/9				6/6
Denise Kingsmill**	4/4	2/2			
Baroness O'Cathain***	7/7				4/4
Dr Martin Read	9/9		3/3	8/8	
Alison Reed	9/9	6/6			
Lord Renwick of Clifton	8/9			7/8	4/6

* retired from Board July 20, 2004 ** Joined the Board in November 2004 *** retired from the Board in December 2004

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 during 2002/03 which encompasses the business continuity activity. The process is aligned with the associated activities of Risk Finance, Insurance and Internal Control. The General Counsel chairs a high level risk group, whose function is to develop risk strategy and associated policies for the Group, which submits written progress reports to the Audit Committee regularly. 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 refined and developed during the year remain subject to regular review by the Risk Group.

For the accounting period ending on March 31, 2005, the key procedures that the directors established to provide effective internal controls were as follows:

During the year under review the Board adopted a new Statement of Business Principles applicable to all employees. This replaced the company's Code of Business Conduct introduced in 2000 and conveys ethical values and establishes the norms of business behaviour throughout the company. The company also has a Code of Business Conduct and Ethics which also applies to all employees. These are two of a number of Standing Instructions to employees of the Group designed to enhance internal control. Along with the Finance Standing Instructions, these 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. During the year under review, the company has worked to enhance controls in relation to IT risks.

The business agenda is 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. The latest Business Plan covering the period April 1, 2005 to March 31, 2007 was launched in February, 2005 and seeks to complete the implementation of the Business Plan 2004/06 and focuses on preparing for the move to Terminal 5, investing in our products and people and continued cost control.

A comprehensive management accounting system is in place providing financial and operational performance measure indicators to management. Detailed management accounts are prepared monthly 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 remain instrumental in maintaining tight control of capital expenditure and headcount respectively. All major corporate projects are audited regularly. A major initiative to control and reduce further other external expenditure was commenced during the previous 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. The department includes dedicated resources for regular audits of major projects, arrangements with third parties (suppliers, agents, partners), IT controls as well as internal departments and processes. All areas of the company are audited over the course of a standard four 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. During the financial year essential work necessary to achieve compliance with Section 404 of the Sarbanes-Oxley Act of 2002 to which the company is subject by virtue of its listing on the New York Stock Exchange has continued and the Board is confident of meeting the revised deadline imposed by the Securities and Exchange Commission. This work has already resulted in significant strengthening of the Group's internal control systems; the key controls necessary in each of the businesses' core processes have been identified and tested. 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.

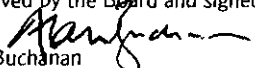
Going concern

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, 2005 in respect of the company is calculated in accordance with the provisions of the Companies Act 1985 and was 55 days (2004: 49 days).

Approved by the Board and signed on its behalf by


Alan Buchanan
Company Secretary

May 12, 2005

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, the members of the Leadership Team (listed on page 12), the Chairman and the Company Secretary. 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 2004/05, the company's Remuneration Committee was chaired by Dr Martin Read and its other members were Martin Broughton (until July 20, 2004), Lord Renwick and, from July 20, 2004, Maarten van den Bergh. The Company Secretary acts as secretary to the Committee.

British Airways currently participates in 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 base pay market rates, and identifying competitive market practice in respect of the other remuneration elements. The Remuneration Committee is cognisant of the risk of an upward ratchet of remuneration that can result from the use of pay surveys.

New Bridge Street Consultants LLP are advisers to the Remuneration Committee and gave advice to the Committee that materially assisted it. Their terms of reference are available for inspection on the company's investor relations website. Towers Perrin, which is the company's main adviser in relation to executive remuneration, also gave advice to the Committee that materially assisted it. The Chairman, the Chief Executive, the Company Secretary, Neil Robertson, Director for People and Christopher Hunt, Reward Manager, all assisted the Committee in its deliberations but none of them participated 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 other than New Bridge Street Consultants. New Bridge Street Consultants, Towers Perrin, Hay and Monks provided no other services to the company other than advice on remuneration matters during the financial year. Where appropriate, the Committee consults with investors about its proposals.

During the year under review, the Committee met on eight occasions and consulted with investors. Individual attendance details can be found within the Directors' Report on page 13. The terms of reference of the Committee are available on the Company's website.

EXECUTIVE DIRECTORS

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 2005/06 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 UK based international businesses of similar size and nature to British Airways.

In fixing packages, the Committee has regard to the compensation commitments which would result in the event of early termination.

Following a detailed review of the company's incentive arrangements, a number of changes are proposed which will take effect for the year 2005/06. The policy in relation to base salaries remains unchanged and aims to target base salaries at the market median. The proposed strategy for incentive pay is intended to increase the expected value to make the package more market-competitive for executive directors, but to retain as its aim the achievement of a market median value, subject to the achievement of stretching targets. Generally, variable pay will be altered to increase the emphasis on the achievement of short-term bonus. This is believed to represent a more effective approach due to the volatility associated with the airline industry, and is expected to provide a clearer link between performance and reward, although there will remain a good balance between the achievement of short and longer-term goals linked to the creation of shareholder value. The proposed changes will result in the most senior executives having the highest proportion of pay at risk, with a greater emphasis on the longer-term than other executives.

Further details of the new approach to incentive pay are described under the Remuneration Package section below, but in summary:

- The maximum annual bonus for the most senior executives will be increased from 50 per cent to 100 per cent of salary and based on a mixture of operating margin, customer advocacy and operational performance. The entire increase will be paid in deferred shares, which will vest after three years, conditional on the executive remaining employed and subject thereafter to the shareholding guidelines (detailed below). The deferred shares element replaces the performance related awards under the Share Option Plan 1999, and accordingly, other than in relation to performance for 2004/05, no further grants will be made under the Share Option Plan 1999.
- The existing Long Term Incentive Plan will be replaced by a Performance Share Plan, under which awards over shares can be made worth up to 150 per cent of an executive's salary although initially only the Chief Executive will receive this level of award. 50 per cent of each award will be based on relative Total Shareholder Return and 50 per cent based on operating margin targets.

Alongside these incentive plan changes, a shareholding guideline will be adopted, linked to the proposed share based incentive schemes. Executives will be expected to retain no fewer than 50 per cent of the shares (net of tax) which vest from the new schemes until they have built up a shareholding equivalent to 100 per cent of basic salary. This policy aims to further align the interests of executives and shareholders.

Remuneration package

The remuneration package for executive directors, will consist of a basic salary, benefits in kind (including private health care, a car and fuel or cash equivalent and non-contractual travel concessions), pension, an annual bonus scheme (including deferred element) and participation in the Performance Share Plan. The proportion of performance related variable remuneration,

through the bonus scheme and awards under the Performance Share Plan, is approximately 50-55 per cent of total target remuneration (excluding pension arrangements).

Basic salary

The basic salary reflects the level of responsibility of the executive director, his or her market value and individual performance. The Committee's objective is to offer basic salaries at the market median level. 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 previously. The Committee has regard to pay and employment conditions elsewhere in the Group when determining annual salary increases.

Annual bonus

For the year 2004/05, details of bonuses earned are given in the table on page 23.

In addition, a final grant of options over shares worth up to 100 per cent of base salary will be made to qualifying managers in June 2005. Under the previous remuneration policy the grant of options each year was linked to performance over the prior financial year, with grants made in arrears in the next financial year. For instance, new joiners to the business would normally wait until one year has elapsed before options are granted. No grant was made, however, to Rod Eddington or Mike Street both of whom have announced their retirement, nor to Willie Walsh who joined the company in 2005/06. For this grant, the Remuneration Committee has determined that the performance condition should remain based on the achievement of EPS growth in excess of four per cent plus RPI per annum over a single three-year period, however, unlike previous grants, there will be no re-testing. The Remuneration Committee believes that the continued use of EPS is appropriate as this has been used for all previous option grants and is a measure of underlying financial performance, which complements the requirement inherent in an option, which is to reward share price growth.

For the year 2005/06, the amount of annual bonus available for distribution to senior executives will be determined by performance against three performance measures and will be subject to a maximum limit of 100 per cent of salary. No bonus will be payable unless the minimum operating margin target threshold is achieved. If this threshold is achieved, 50 per cent of bonus potential will be determined by the achievement of a range of operating margin targets as this is the company's key internal financial measure. The second measure for 25 per cent of bonus potential will require the achievement of a customer recommendation target as this is a key measure of customer satisfaction and provides a strong link to future profitability. The third measure for the remaining bonus will assess performance against the Terminal 5 Transition Programme, known internally as "Fit for 5". In addition to the above targets, the Remuneration Committee must be satisfied that the performance of, and outlook for, the business is satisfactory.

As mentioned, 50 per cent of any bonus earned will be invested in shares and deferred for three years, subject to continued employment. On vesting, executives will receive the benefit of dividends paid over the deferred period.

Long term incentive arrangements

The Long Term Incentive Plan, which has operated since 1996,

will cease to be operated with immediate effect. It provides for conditional awards of shares worth up to 75 per cent of salary each year, subject to a Total Shareholder Return condition measured against the companies comprising the FTSE100. In its place, the company proposes to introduce a Performance Share Plan, which is being submitted to shareholders for approval at the annual general meeting, and it is intended that awards will be made as soon as possible following the annual general meeting. Details of the Performance Share Plan are included in the Notice of annual general meeting. The Committee considers that Performance Shares are more appropriate than share options since they should provide a more effective link between performance and reward and they are less volatile.

For awards in 2005, performance conditions applying to 50 per cent of the award will be subject to Total Shareholder Return ("TSR") and the remaining 50 per cent of the award will be subject to operating margin performance.

The Committee considers that TSR is an appropriate measure of performance and will determine a significant part of the long-term incentive programme. Under the current Long Term Incentive Plan British Airways' TSR performance is measured against the FTSE100. Generally there is a poor correlation between the performance of the airline industry and the FTSE100. The Remuneration Committee considers that measuring TSR performance against other airlines would be a more effective incentive and should provide a better link between pay and performance. Accordingly, the company's TSR performance will be compared against that of Air Canada, Air France, Air New Zealand, Alitalia, All Nippon Airlines, Iberia, Lufthansa, Northwest Airlines, Qantas Airways, Ryanair, American Airlines, Cathay Pacific, Continental Airlines, Delta Airlines, Easyjet, SAS, Singapore Airlines, South West, United Airlines and US Airways. The Leadership Team of British Airways is increasingly comparing British Airways' performance to that of competitor airlines in order to establish a clear picture of their relative performance within the aviation industry. This will remain a key aspect of performance benchmarking for the foreseeable future, particularly in the light of anticipated industry consolidation, along with the advent of "open skies" arrangements.

The vesting of the other 50 per cent of the Performance Shares will be determined by British Airways' operating margin performance. This will measure average annual operating margin over the three-year performance period. Averaging the annual operating margin over the three years is considered appropriate, since this means that all years are included in the calculation, thus rewarding sustained performance throughout the performance period.

Operating margin is defined as Operating Profit/(Loss) divided by Turnover and is the key measure of financial performance in British Airways. The central corporate financial target approved by the Board under the "Future Size and Shape" review is a long-term operating margin of ten per cent. The initial target range proposed represents a challenging performance condition which is aligned to British Airways' objective of delivering a ten per cent operating margin across the business cycle.

Details of the comparator group for TSR performance (and vesting schedule) together with the range of operating margin targets are contained in the Notice of annual general meeting.

The Remuneration Committee will ensure that both EPS and operating margin targets will be measured on a consistent basis

notwithstanding the transition to international accounting standards.

Service contracts

Each of the three executive directors who served during the year under review 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 contracts 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.1.6 of the Combined Code. The service contract for Willie Walsh provides for an initial notice period of two years reducing month-by-month to a period of one year.

Of the directors proposed for re-election and election at the forthcoming annual general meeting, John Rishton, Martin George and Willie Walsh have service contracts which are detailed below. The service contracts include the following terms:

Executive	Date of contract	Unexpired term/ notice period
Rod Eddington	7 July 2000	retiring on September 30, 2005
Mike Street	1 July 2001	retiring on September 30, 2005
John Rishton	1 September 2001	terminable on 12 months notice
Willie Walsh	8 March 2005	terminable on 12 months notice after the first year
Martin George	1 February 1997	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 normal 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. During the year in

question, Rod Eddington earned fees of US\$111,250 and A\$20,000, John Rishton earned fees of £47,500 and Mike Street earned fees of £15,113.

Pension schemes

The company has three main pension schemes. Two of these, Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS), are defined benefit schemes and are closed to new members. The new scheme, the British Airways Retirement Plan (BARP) is a defined contribution scheme. Rod Eddington and John Rishton are members of both NAPS and an unfunded unapproved retirement scheme. Mike Street is a member of NAPS and Willie Walsh is a member of BARP. 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.

In light of the December, 2003 consultation paper "Simplifying the taxation of pensions: the Government's Proposals", a review of the Group's UK pension arrangements is underway. The Committee is aware of investors' views that the companies should not seek to compensate executives for the effect of changes in taxation.

NON-EXECUTIVE DIRECTORS

Policy

In relation to the Chairman, the company's policy is that the Chairman should be remunerated in line with the market rate reflecting his time commitment to the Group. In relation to non-executive directors, the company's policy is that their remuneration should be sufficient to attract and retain world-class non-executive directors. The Chairman and the non-executive directors do not receive performance related pay.

Chairman's and non-executive directors' fees

The Chairman's fee is determined by the Remuneration Committee. Fees for the non-executive directors are determined by the executive directors on the recommendation of the Chairman. At the beginning of the year in question, the fees were £27,500 per annum plus £600 for each Board Committee separately attended. The fees were subsequently reviewed in September 2004, having last been reviewed in April 2001. From October 1, 2004 the fees were £35,000 per annum, with the chairmen of the Audit and Remuneration Committees and the senior independent non-executive director each receiving £7,500 per annum in addition to these fees. No other fees are now paid for attendance at Board committees. The current Chairman of the Safety Review Committee receives £15,000 in addition to these fees and is provided with a company car and fuel. The Chairman and the non-executive directors are not eligible to participate in the long term incentive plans. Their fees are not pensionable. They are also eligible for non-contractual travel concessions. Captain Jeffery, being a former executive of the company, is in receipt of a pension under the Airways Pension Scheme. As a former executive, Captain Jeffery retained conditional share options under the long term incentive plan, granted whilst he was serving as an executive of the company, however, these lapsed on April 1, 2005.

Service Agreements

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

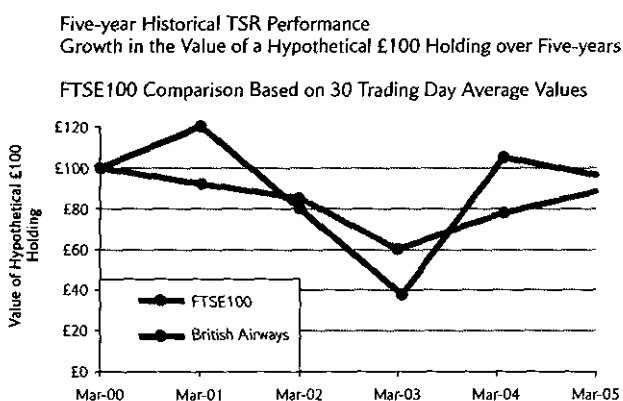
Non-executive	Date of appointment	Date of election/ last re-election	Expires at the Annual General Meeting in
Martin Broughton	12 May 2000	15 July 2003	2006
Maarten van den Bergh	16 July 2002	16 July 2002	2005
Dr Ashok Ganguly	12 April 1996	16 July 2002	2005
Captain Michael Jeffery	1 October 2001	16 July 2002	2005
Denise Kingsmill	1 November 2004	19 July 2005	2005
Dr Martin Read	12 May 2000	15 July 2003	2006
Alison Reed	1 December 2003	20 July 2004	2007
Lord Renwick	1 March 1996	16 July 2002	2005

Except where appointed at a general meeting, 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. There is no express provision for compensation payable upon early termination. None of the Chairman or the non-executive directors has any right to compensation on the early termination of their appointment. The letters of engagement for the Chairman and the non-executive directors, were reviewed after the publication of the revised Combined Code and new letters of engagement were entered into in March 2004, copies of which are available for inspection on the company's website.

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 FTSE100.

The FTSE100 was selected because it is a broad equity index of which the company is a constituent.



Information subject to audit

Directors' remuneration

The remuneration of the directors was:

	Basic salary and fees	Taxable benefits ¹	Performance related bonuses ²	Total 2005	Total 2004
	£'000	£'000	£'000	£'000	£'000
Executive Directors					
Rod Eddington ³	592	25	300	917	584
Mike Street	345	22	86	453	346
John Rishon	340	16	110	466	320
Non-executive Directors					
Lord Marshall ⁴	76	8		84	263
Martin Broughton ⁵	208	21		229	37
Maarten van den Bergh	38			38	30
Dr Ashok Ganguly	35			35	34
Captain Michael Jeffery ⁶	48	15		63	61
Denise Kingsmill ⁷	15	1		16	
Baroness O'Cathain ⁸	24			24	35
Dr Martin Read	37			37	30
Alison Reed	37			37	10
Lord Renwick	33	1		34	32
Aggregate emoluments	1,828	109	496	2,433	1,782

¹ Taxable benefits for executive directors and the Chairman include a company car or cash equivalent, fuel, private health insurance and personal travel. Subject to note 6 below, the only taxable benefits for non-executives are the non-contractual travel concessions.

² In relation to the year under review, the bonus entitlement was capped at 50 per cent of salary, payable only if stretching targets were achieved. The bonus targets for the executive directors and senior management focused on the delivery of an acceptable operating margin which is the company's key internal financial measure. For the year 2004/05, the operating margin target range, determined by the Remuneration Committee, was set at 6 per cent to 10 per cent. The bonus available for distribution was determined by reference to the achievement of this target range. For the year under review the operating margin achieved was 6.9 per cent. The Remuneration Committee therefore determined that a bonus should be triggered for the three executive directors.

³ In relation to Rod Eddington, the Committee determined that the exceptional performance over his period of service when taken together with the excellent results achieved in difficult conditions during the year under review, justified the maximum bonus award under the scheme.

⁴ Retired from the Board on July 20, 2004.

⁵ The fees in respect of Martin Broughton's services as a non-executive director of British Airways Plc for the period April 1 – June 30, 2004 were paid to his employer and amounted to £8,100 (2004: £37,000).

⁶ The Chairman of the Safety Review Committee currently receives £15,000 per annum in addition to the base fee and is provided with a company car and fuel.

⁷ Figures shown from date of appointment.

⁸ Retired from the Board on December 31, 2004.

The pension entitlements of the executive directors were:

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

	Accumulated accrued benefits March 31, 2005 £	Increase in accrued benefits during the year £	Increase, before inflation, in accrued benefits during the year £	Transfer value* of increase before inflation, less director's contributions £
Rod Eddington	96,883	24,074	21,817	281,264
Mike Street	239,886	19,789	12,966	195,220
John Rishton	76,540	13,374	11,416	87,734

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

	March 31, 2005 £	March 31, 2004 £	Director's contributions during the year £	Movement, less director's contributions £
Rod Eddington	1,353,657	948,761	31,060	373,836
Mike Street	3,839,314	3,285,696	17,786	535,832
John Rishton	688,725	531,620	17,515	139,590

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, 2005

British Airways Plc		
Ordinary Shares		
	March 31, 2005	April 1, 2004
Martin Broughton	24,090	24,090
Rod Eddington		
Mike Street	6,678	6,678
John Rishton	2,039	2,039
Maarten van den Bergh	2,000	2,000
Dr Ashok Ganguly	104	104
Capt Michael Jeffery	2,624	2,624
Denise Kingsmill		
Dr Martin Read	8,000	8,000
Alison Reed	10,000	
Lord Renwick	32,014	32,014
Total	87,549	77,549

No director has any interests in any subsidiary undertaking of the company. There have been no changes to the shareholdings set out above between the financial year end and the date of the report.

Directors' share options at March 31, 2005

The following directors held options to purchase ordinary shares of British Airways Plc granted under British Airways Share Option Plan 1999. The plan is subject to a performance condition as detailed on page 20:

British Airways Share Option Plan 1999

	Date of Grant	Number of Options as at April 1 2004	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 2005
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	June 26, 2011	163,551
	July 1, 2002	290,055	181p					July 1, 2005	July 1, 2012	290,055
	June 25, 2003	350,318	157p					June 25, 2006	June 25, 2013	350,318
	June 25, 2004		262p				216,221	June 25, 2007	June 25, 2014	216,221
	Total	924,812					216,221			1,159,033
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	168,508	181p					July 1, 2005	July 1, 2012	168,508
	June 25, 2003	203,821	157p					June 25, 2006	June 25, 2013	203,821
	June 25, 2004		262p				125,801	June 25, 2007	June 25, 2014	125,801
	Total	614,852					125,801			740,653
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	124,309	181p					July 1, 2005	July 1, 2012	124,309
	June 25, 2003	191,082	157p					June 25, 2006	June 25, 2013	191,082
	June 25, 2004		262p				117,938	June 25, 2007	June 25, 2014	117,938
	Total	438,914					117,938			556,852

Other than those options granted in June 2004, the performance condition attached to the options listed above 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 four per cent per annum more than the increase in the retail price 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 (IIMR) as this is a recognised method in the market. In addition, the Remuneration Committee imposed a threshold of 17.3 pence as the minimum base year EPS before any such increase could qualify towards meeting the performance condition. The threshold 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 was altered from 20.8 pence in the financial year 2002/03 to reflect the adoption of FRS 19 'Deferred Tax'.

For options granted in June 2004, there is a single opportunity to re-test performance over four years from the same fixed base.

No gains were made on the exercise of share options during the year under review.

Under the performance condition of the plan, the options granted from 1999 to 2002 inclusive were tested in 2005. In 2001/02, the company's EPS under the IIMR definition was (25.7)p and, accordingly, the threshold amount of 17.3p is the appropriate comparator. The earnings per share for 2004/2005 using the IIMR definition were 29.3p. The Remuneration Committee therefore determined that the performance condition had been satisfied in relation to the grants made in 1999 to 2002. These options became exercisable on the date of this determination with the exception of the 2002 grant which becomes exercisable on the third anniversary of the original grant, which is July 1, 2005.

Directors' Conditional Share Options at March 31, 2005

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 conditional options as at April 1, 2004	Awards vesting during the year	Awards lapsing during the year	Awards made during the year	Number of conditional options as at March 31, 2005
Rod Eddington	June 5, 2000	69,025		33,997		35,028
	June 8, 2001	105,000		34,650		70,350
	June 12, 2002	185,731				185,731
	June 9, 2003	294,643				294,643
	June 16, 2004				166,618	166,618
Total		654,399		68,647	166,618	752,370
Mike Street	July 2, 1999	15,877		15,877		Nil
	June 5, 2000	39,662		19,534		20,128
	June 8, 2001	61,000		20,130		40,870
	June 12, 2002	107,901				107,901
	June 9, 2003	171,429				171,429
	June 16, 2004				96,941	96,941
Total		395,869		55,541	96,941	437,269
John Rishton	June 8, 2001	45,000		14,850		30,150
	June 12, 2002	79,599				79,599
	June 9, 2003	160,714				160,714
	June 16, 2004				90,882	90,882
Total		285,313		14,850	90,882	361,345
Captain Michael Jeffery	June 2, 1999	8,967		8,967		Nil
	June 5, 2000	22,392		11,028		11,364
Total		31,359		19,995		11,364


On April 1, 2005 a third of each of the conditional awards made on June 5, 2000 and June 8, 2001 and the whole of the conditional award made on June 12, 2002 lapsed as the performance condition was not met in the financial years 2001 to 2005. The value attributed to the company's ordinary shares in accordance with the plan rules on the date of the 2004 award, (June 16, 2004), was 255p.

In relation to awards made in 2000 and 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 FTSE100 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 awards will vest. If the company's TSR for the period is at the 50th percentile, 30 per cent of the award (or one third portion in the case of awards in 2000 and 2001) will vest. If the company's TSR is at the 75th percentile, 65 per cent of the award (or one third portion in the case of awards in 2000 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 in 2000 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:

	2005	2004
At March 31	264p	276.5p
Highest in the year	305.25p	332.25p
Lowest in the year	199.5p	105.5p



Approved by the Board and signed on its behalf by

Dr Martin Read

Non-executive Director and Chairman of the Remuneration Committee

May 12, 2005

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, 2005 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Consolidated Shareholders' Funds and the related notes 1 to 44. 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. The directors are also responsible for preparing the Directors' Remuneration Report.

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 nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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, Operating and Financial Review and Corporate Governance Statement. 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.

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.

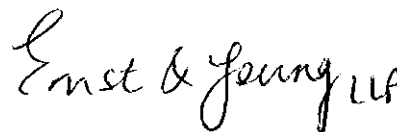
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from 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, 2005 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 12, 2005



Group profit and loss account

For the year ended March 31, 2005

£ million	Note	Group	
		2005	2004 <i>Restated</i>
Turnover	2	7,813	7,560
Cost of sales	4	(7,136)	(7,008)
Gross profit		677	552
Administrative expenses	4	(137)	(147)
Operating profit		540	405
Share of operating profit in associates	7	41	58
Total operating profit including associates		581	463
Income and charges relating to fixed asset investments	8	3	
Loss on sale of fixed assets and investments	9	(26)	(46)
Net interest payable	10	(143)	(187)
Profit before tax		415	230
Tax	11a	(149)	(85)
Profit after tax		266	145
Equity minority interest		(1)	(1)
Non equity minority interest	36	(14)	(14)
Profit for the year		251	130
Retained profit for the year	31a	251	130
Earnings per share			
Basic earnings per share	12	23.4p	12.1p
Diluted earnings per share		23.0p	12.1p

Balance sheets

At March 31, 2005

£ million	Note	Group		Company	
		2005	2004 Restated	2005	2004 Restated
Fixed assets					
Intangible assets	13				
Goodwill		88	93		
Landing Rights		102	75	102	75
		190	168	102	75
Tangible assets	14				
Fleet		6,748	7,104	6,358	6,727
Property		959	1,042	887	968
Equipment		445	491	377	411
		8,152	8,637	7,622	8,106
Investments	17				
Subsidiary undertakings and quasi-subsidiary				1,195	1,194
Associated undertakings		120	501	1	29
Trade investments		30	30	29	29
		150	531	1,225	1,252
		8,492	9,336	8,949	9,433
Current assets					
Stocks	20	84	76	76	66
Debtors	21	1,078	1,019	1,205	1,122
Short-term loans and deposits	22	1,604	1,606	1,542	1,558
Cash at bank and in hand		78	64	57	35
		2,844	2,765	2,880	2,781
Creditors: amounts falling due within one year					
Borrowings and other creditors	23	(2,868)	(2,996)	(4,018)	(3,599)
Convertible Capital Bonds 2005	34	(112)			
		(2,980)	(2,996)	(4,018)	(3,599)
Net current liabilities		(136)	(231)	(1,138)	(818)
Total assets less current liabilities		8,356	9,105	7,811	8,615
Creditors: amounts falling due after more than one year					
Borrowings and other creditors	24	(4,346)	(5,374)	(4,333)	(5,451)
Convertible Capital Bonds 2005			(112)		
		(4,346)	(5,486)	(4,333)	(5,451)
Provision for deferred tax	27	(1,243)	(1,137)	(1,166)	(1,106)
Provisions for liabilities and charges	28	(83)	(85)	(66)	(58)
		2,684	2,397	2,246	2,000
Capital and reserves					
Called up share capital	29	271	271	271	271
Reserves	31				
Share premium account		788	788	788	788
Investment in own shares		(26)	(31)	(26)	(31)
Revaluation reserve		255	262	255	262
Profit and loss account		1,177	897	958	710
		2,194	1,916	1,975	1,729
Total equity shareholders' funds		2,465	2,187	2,246	2,000
Minority interest					
Equity minority interest		12	10		
Non equity minority interest	36	207	200		
		219	210		
		2,684	2,397	2,246	2,000

Rod Eddington
John Rishton
May 12, 2005

Chief Executive Officer
Chief Financial Officer

R. Eddington

Group cash flow statement

For the year ended March 31, 2005

£ million	Note	Group	
		2005	2004
Cash inflow from operating activities	5a	1,192	1,093
Dividends received from associates		20	25
Returns on investments and servicing of finance			
Interest received		78	62
Interest paid on bank and other loans		(101)	(83)
Interest paid on finance leases and hire purchase arrangements		(141)	(182)
Other finance income and related fees		5	7
Dividends received from trade investments		3	1
Non equity minority interest		(14)	(14)
Net cash outflow from returns on investments and servicing of finance		(170)	(209)
Tax			
Overseas tax			(4)
Capital expenditure and financial investment			
Intangible assets purchased for cash		(32)	(14)
Tangible fixed assets purchased for cash	14e	(301)	(198)
Refund of progress payments			42
Sale of tangible fixed assets and investments		57	212
Net cash (outflow)/inflow for capital expenditure and financial investment		(276)	42
Acquisitions and disposals			
Sale of interests in subsidiary undertakings		(12)	(80)
Sale of interests in Qantas Airways	18	427	
Sale of interests in other associated undertakings			7
Net cash inflow/(outflow) for acquisitions and disposals		415	(73)
Net cash inflow before management of liquid resources and financing		1,181	874
Management of liquid resources		(16)	(198)
Financing			
Changes in borrowings			
Bank and other loans raised		116	81
Bank and other loans repaid		(168)	(339)
Capital elements of finance leases and hire purchase arrangements repaid		(1,103)	(576)
		(1,155)	(834)
Exercise of share options		4	
Increase/(decrease) in cash	22	14	(158)

Statement of total recognised gains and losses

For the year ended March 31, 2005

£ million	Note	Group	
		2005	2004
Profit for the year		251	130
Other recognised gains and losses relating to the year:			
Exchange and other movements	31a	(37)	16
Total recognised gains and losses relating to the year		214	146

Reconciliation of movements in shareholders' funds

For the year ended March 31, 2005

£ million	Note	Group	
		2005	2004 Restated
Profit for the year		251	130
Other recognised gains and losses relating to the year:			
Exchange and other movements	31a	(37)	16
Employee share option exercise through investment in own shares	31a	5	
Goodwill transferred to the profit and loss account in respect of disposals	31a	59	14
Net increase to shareholders' funds		278	160
Equity shareholders' funds at April 1		2,187	2,027
Equity shareholders' funds at March 31		2,465	2,187

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, 2005

€ million	2005	2004 <i>Restated</i>
Turnover	11,329	11,340
Cost of sales	(10,347)	(10,512)
Gross profit	982	828
Administrative expenses	(199)	(221)
Operating profit	783	607
Share of operating profit in associates	59	87
Total operating profit including associates	842	694
Income and charges relating to fixed asset investments	4	
Loss on sale of fixed assets and investments	(38)	(69)
Net interest payable	(207)	(280)
Profit before tax	601	345
Tax	(216)	(128)
Profit after tax	385	217
Equity minority interest	(1)	(2)
Non equity minority interest	(20)	(21)
Profit for the year	364	194
Retained profit for the year	364	194

Group statement of total recognised gains and losses

For the year ended March 31, 2005

€ million	2005	2004
Profit for the year	364	194
Other recognised gains and losses relating to the year:		
Exchange and other movements	(54)	23
Total gains and losses relating to the year	310	217

Group balance sheet

At March 31, 2005

€ million	2005	2004 <i>Restated</i>
Fixed assets		
Intangible assets	275	252
Tangible assets	11,820	12,956
Investments	218	797
	12,313	14,005
Current assets	4,124	4,148
Creditors: amounts falling due within one year	(4,321)	(4,494)
Net current liabilities	(197)	(346)
Total assets less current liabilities	12,116	13,659
Creditors: amounts falling due after more than one year	(6,302)	(8,229)
Provision for deferred tax	(1,802)	(1,706)
Provisions for liabilities and charges	(120)	(128)
	3,892	3,596
Capital and reserves		
Called up share capital	393	407
Reserves	3,181	2,874
	3,574	3,281
Minority interests		
Equity minority interest	18	15
Non equity minority interest	300	300
	318	315
	3,892	3,596

Translation rate E1 = €1.45 E1 = €1.50

Euro amounts have been included for information only and have been translated from sterling at the rates of exchange applying on March 31, 2005 and 2004.

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 with the exceptions noted below.

Effective from April 1, 2004 the Group applied the provisions of 'UITF Abstract 38 - Accounting for ESOP Trusts' and, as a result, the Group's investment in own shares held for the purpose of employee share ownership plans has been reclassified from fixed asset investments and is now recorded as a reduction in shareholders' equity. Comparative periods have been restated to reflect the adoption of UITF Abstract 38 and as a result £31 million for the period ending March 31, 2004 has been reclassified.

For the year ending March 31, 2004, other finance income and related fees were shown within 'other income'. For the year ended March 31, 2005 such income is shown within net interest payable. As a result £13 million of income has been reclassified to net interest payable for the year ended March 31, 2004.

Basis of consolidation

The Group accounts include the accounts of the company and its subsidiary undertakings, each made up to March 31, together with the attributable share of results and reserves of associated undertakings, adjusted where appropriate to conform with British Airways' accounting policies. The Group's share of the profits less losses of associated undertakings is included in the Group profit and loss account and its share of the post-acquisition results of these companies is included in interests in associated undertakings in the Group balance sheet. Certain associated undertakings make up their annual audited accounts to dates other than March 31. In the case of Iberia, published results up to the year ended December 31, 2004 are included. In other cases, results disclosed by subsequent unaudited management accounts are included. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership. In the case of the Group's investment in Qantas results up to the year ended June 30, 2004 are included. 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, and therefore consolidates its results within the Group accounts as if it were a subsidiary undertaking. 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.

Notes to the accounts continued

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 extendable 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 five to seven years, without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on pre-determined terms; such leases are described as extendable operating leases.

Aircraft and engine overhaul expenditure

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable 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.

1 Accounting policies continued

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, and 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 estimated 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 sufficiently 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 dollars 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 38 on currency exposures.

Notes to the accounts continued

2 Turnover

£ million	Group	
	2005	2004
Traffic revenue		
<i>Scheduled services – passenger</i>	6,484	6,460
<i>– freight and mail</i>	482	463
	6,966	6,923
<i>Non-scheduled services</i>	16	30
	6,982	6,953
Other revenue (including fuel surcharges, aircraft maintenance, package holidays and other airline services)	831	607
	7,813	7,560

3 Geographical analysis of turnover and operating profit

a Turnover

£ million	Group			
	By area of original sale		By area of destination	
	2005	2004	2005	2004
Europe	5,097	4,940	2,470	2,639
<i>United Kingdom</i>	3,922	3,731	609	664
<i>Continental Europe</i>	1,175	1,209	1,861	1,975
The Americas	1,383	1,347	2,884	2,767
Africa, Middle East and Indian sub-continent	751	717	1,412	1,253
Far East and Australasia	582	556	1,047	901
	7,813	7,560	7,813	7,560

b Operating profit

£ million	Group	
	By area of destination	
	2005	2004
Europe	(26)	(60)
The Americas	347	294
Africa, Middle East and Indian sub-continent	224	210
Far East and Australasia	(5)	(39)
	540	405

4 Analysis of operating expenditure

£ million	Group	
	2005	2004
Employee costs	2,273	2,180
Depreciation, amortisation and impairment	687	679
Aircraft operating lease costs	106	135
Fuel and oil costs	1,128	922
Engineering and other aircraft costs	502	511
Landing fees and en route charges	556	549
Handling charges, catering and other operating costs	930	934
Selling costs	488	554
Accommodation, ground equipment costs and currency differences	603	691
Total operating expenditure	7,273	7,155
Total operating expenditure comprises:		
Cost of sales	7,136	7,008
Administrative expenses	137	147
Total operating expenditure	7,273	7,155

5 Operating profit

a Reconciliation of operating profit to cash inflow from operating activities

£ million	Group	
	2005	2004
Group operating profit	540	405
Depreciation, amortisation and impairment	687	679
Other items not involving the movement of cash		11
(Increase)/decrease in stocks	(5)	8
Increase in debtors	(68)	(31)
Increase in creditors	40	43
Decrease in provisions for liabilities and charges	(2)	(22)
Cash inflow from operating activities	1,192	1,093

b Operating profit is arrived at after charging:

Depreciation of group tangible fixed assets

£ million	Group	
	2005	2004
Owned assets	286	262
Finance leased aircraft	141	159
Hire purchased aircraft	168	187
Other leasehold interests	66	61
Impairment	16	
	677	669

Notes to the accounts continued

5 Operating profit continued

Operating lease costs

	Group	
£ million	2005	2004
Lease rentals – aircraft	106	120
– property	139	133
Hire of equipment and charter of aircraft and crews	122	98
Onerous lease costs		15
	367	366

Auditors' remuneration

	Group	
£'000	2005	2004
Group Auditors – Audit fees		
– Statutory audit	1,675	1,498
– Audit-related regulatory reporting	117	152
– S.404 and International Financial Reporting Standards related work	550	
	2,342	1,650
– Further assurance services	519	243
Tax services		
– Compliance	67	259
– Advisory	27	6
	94	265
Other services	82	
	3,037	2,158

Of the above fees, £2,954,000 relates to the United Kingdom (2004: £1,810,000) and £83,000 relates to overseas (2004: £348,000). The audit fees payable to Ernst & Young LLP are approved by the Audit Committee having been reviewed in the context of other companies for cost effectiveness. The committee also reviews and approves the nature and extent of non-audit services to ensure that independence is maintained.

Directors' emoluments

	Group	
£'000	2005	2004
Fees	597	532
Salary and benefits	1,340	1,250
Bonus	496	
	2,433	1,782

The directors' remuneration report discloses full details of directors' emoluments and can be found on pages 19 to 26.

Other items

The prior year includes the release of revenue provisions totalling £35 million as a result of system enhancements that have enabled a more accurate assessment to be made of certain balances.

6 Employee costs and numbers

	Group	
Number	2005	2004
The average number of persons employed in the Group during the year was as follows:		
United Kingdom	42,360	43,942
Overseas	7,130	7,997
	49,490	51,939

	Group	
£ million	2005	2004
Wages and salaries	1,517	1,463
Social security costs	165	158
Contributions to pension schemes	239	214
	1,921	1,835

7 Share of operating profit in associates

	Group	
£ million	2005	2004
Operating profits less losses	41	58

8 Income and charges relating to fixed asset investments

	Group	
£ million	2005	2004
		<i>Restated</i>
Income from fixed asset investments	3	1
Amounts written off investments		(1)
	3	
Income and charges relating to fixed asset investments represented by:		
Group	3	

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

	Group	
£ million	2005	2004
Net loss on disposal of investment in Qantas	(11)	
Net (loss)/profit on sale of other fixed assets and investments	(15)	37
Net loss on disposal of dba		(83)
	(26)	(46)
(Loss)/profit on sale of fixed assets and investments represented by:		
Group	(32)	(47)
Associates	6	1
	(26)	(46)

The tax effect on the sale of the Group's interest in Qantas was a charge of £14 million.

The tax effect on the sale of other fixed assets and investments was nil (2004: nil).

10 Net interest payable

	Group	
£ million	2005	2004
		<i>Restated</i>
Interest payable		
On bank loans	49	50
On finance leases	86	95
On hire purchase arrangements	71	84
On other loans, including interest of £11 million (2004: £11 million) on Convertible Capital Bonds 2005	67	51
	273	280
Interest capitalised		(1)
	273	279
Interest receivable	(83)	(63)
Retranslation credits on currency borrowings	(33)	(16)
Other finance income and related fees	(14)	(13)
	143	187
Net interest payable represented by:		
Group	135	179
Associates	8	8
	143	187

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.

Notes to the accounts continued

11 Tax

a Analysis of charge for the year

£ million	Group	
	2005	2004
Current tax		
United Kingdom corporation tax	1	5
Less: relief for overseas tax	(1)	(5)
UK tax		
Overseas tax	29	1
Prior year adjustments	1	(10)
	30	(9)
Share of tax of associated undertakings	13	19
Total current tax charge	43	10
Deferred tax		
Depreciation in excess of capital allowances		(62)
Other timing differences	24	12
Losses utilised	89	118
Prior year adjustments	(7)	7
Total deferred tax charge	106	75
Tax charge on profit on ordinary activities	149	85

There is no UK tax payable on the operating result for the year (2004: £nil).

b Factors affecting the tax charge for the year

The current tax charge for the year is less than the profit at the standard rate of corporation tax in the UK (30%).

The differences are explained below:

£ million	Group	
	2005	2004
Profit on ordinary activities before tax	415	230
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	125	69
Effects of:		
Expenses not deductible for tax purposes	8	17
Profit/(loss) on disposals not taxable		12
Other differences	21	(4)
Timing differences:		
Depreciation in excess of capital allowances for the year		62
Other differences	(24)	(12)
Losses utilised	(89)	(118)
Unrecognised timing differences		(5)
Higher tax rates on overseas earnings	10	
Unrelieved overseas and associates' losses	2	5
Non taxable overseas income	(11)	(6)
Adjustments to tax charge in respect of previous periods	1	(10)
Current tax charge for the year (Note 11a)	43	10

c Factors that may affect future tax charges

The Group has brought forward tax losses which are available to reduce tax payments on future taxable profits and such losses are expected to be utilised in the foreseeable future. The Group has £94 million advanced corporation tax previously written off which may be utilised against future taxable profits. This may reduce future tax payments and the tax charge in future years. In accordance with FRS19, 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 £30 million before the deduction of UK capital losses currently available. 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 £4 million of overseas tax losses or £82 million of UK capital losses as the utilisation of such losses is uncertain.

12 Earnings per share

	Group			
	Profit		Earnings per share	
	2005 £m	2004 £m	2005 Pence	2004 Pence
Profit for the year and basic earnings per share	251	130	23.4	12.1
Interest on Convertible Capital Bonds	8			
Diluted profit for the year and earnings per share	259	130	23.0	12.1
Weighted average number of shares for basic ('000)			1,071,126	1,070,077
Dilutive potential ordinary shares:				
Convertible Capital Bonds ('000)			48,007	
Outstanding share options ('000)			7,352	
Weighted average number of shares for diluted EPS ('000)			1,126,485	1,070,077

Basic earnings 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

a Group

£ million	Group total			
	Goodwill	Landing rights	2005	2004
Cost				
Balance at April 1	114	86	200	186
Additions		32	32	14
Balance at March 31	114	118	232	200
Amortisation				
Balance at April 1	21	11	32	22
Charge for the year	5	5	10	10
Balance at March 31	26	16	42	32
Net book amounts				
March 31, 2005	88	102	190	
March 31, 2004	93	75		168

b Company

£ million	Company total		
	Landing rights	2005	2004
Cost			
Balance at April 1	86	86	72
Additions	32	32	14
Balance at March 31	118	118	86
Amortisation			
Balance at April 1	11	11	7
Charge for the year	5	5	4
Balance at March 31	16	16	11
Net book amounts			
March 31, 2005	102	102	
March 31, 2004	75		75

Notes to the accounts continued

14 Tangible assets

a Group

£ million	Group total				
	Fleet	Property	Equipment	2005	2004
Cost or valuation					
Balance at April 1	10,732	1,396	1,067	13,195	14,037
Exchange movements	(31)	(5)		(36)	(300)
Additions – net of refund of progress payments (Note 14e)	257	13	24	294	221
Disposals	(138)	(41)	(112)	(291)	(744)
Reclassifications	(20)	(13)	10	(23)	(19)
Balance at March 31	10,800	1,350	989	13,139	13,195
Depreciation					
Balance at April 1	3,628	354	576	4,558	4,550
Exchange movements	(8)			(8)	(97)
Charge for the year	507	76	78	661	669
Disposals	(71)	(38)	(110)	(219)	(549)
Impairment (Note 14f)	16			16	
Reclassifications	(20)	(1)		(21)	(15)
Balance at March 31	4,052	391	544	4,987	4,558
Net book amounts					
March 31, 2005	6,748	959	445	8,152	
March 31, 2004	7,104	1,042	491		8,637
Analysis at March 31					
Owned	2,739	918	432	4,089	3,281
Finance leased	1,742			1,742	2,248
Hire purchase arrangements	2,234			2,234	2,914
Progress payments	10	41	13	64	138
Assets held for resale					49
Assets not in current use	23			23	7
	6,748	959	445	8,152	8,637
The net book amount of property comprises:					
Freehold				303	313
Long leasehold				335	340
Short leasehold				321	389
				959	1,042
	Net book amount				
	Valuation/cost	Depreciation		2005	2004
Revalued properties are included in the accounts at the following amounts:					
Property – valuation	383	60		323	338
– subsequent additions at cost	72	34		38	29
March 31, 2005	455	94		361	
March 31, 2004	440	73			367
If these assets had not been revalued they would have been included at the following amounts:					
March 31, 2005	142	37		105	
March 31, 2004	129	24			105

Included in fleet assets as at March 31, 2005 are assets with a cost of £527 million (2004: £578 million) held as security for the Group's bank and other loans. Included in the cost of tangible assets for the Group is £339 million (2004: £344 million) of capitalised interest.

b Company

Included in the cost of tangible assets for the company is £336 million (2004: £341 million) of capitalised interest.

Notes to the accounts continued

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:

per cent	Group	
	2005	2004
Boeing 747-400 and 777-200	3.7	3.7
Boeing 767-300 and 757-200	4.7	4.7
Airbus A321, A320, A319, Boeing 737-400	4.9	4.9
Embraer RJ145, British Aerospace 146	4.8	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

£ million	Group total				
	Fleet	Property	Equipment	2005	2004
Cash paid	257	16	28	301	198
Acquisitions under loans, finance leases and hire purchase arrangements					83
Capitalised interest					1
Accrual movements		(3)	(4)	(7)	(19)
	257	13	24	294	263
Refund of progress payments					(42)
	257	13	24	294	221

f Impairment

In March 2005, the Group announced its intention to retire four BAe 146 aircraft currently operated by British Airways CitiExpress Limited. The aircraft will exit from service during the year ending March 2006. This decision resulted in an impairment charge of £16 million to reflect the estimated realisable value of the aircraft.

15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £143 million for the Group (2004: £347 million) and £142 million for the company (2004: £346 million).

The outstanding commitments include £132 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.

16 Operating lease commitments

a Fleet

£ million	Group		Company	
	2005	2004	2005	2004
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
<i>Amounts payable within one year relate to commitments expiring as follows:</i>				
Within one year	8	7	4	6
Between one and five years	72	78	48	54
Over five years	27	33	16	14
Within one year	107	118	68	74
Between one and five years	250	285	150	162
Over five years	83	78	71	49
	440	481	289	285

b Property and equipment

£ million	Group		Company	
	2005	2004	2005	2004
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
<i>Amounts payable within one year relate to commitments expiring as follows:</i>				
Within one year	10	18	8	14
Between one and five years	22	23	21	24
Over five years	33	37	31	35
Within one year	65	78	60	73
Between one and five years	185	206	169	188
Over five years, ranging up to the year 2145	1,429	1,366	1,401	1,333
	1,679	1,650	1,630	1,594

Property and equipment commitments relate largely to property leases.

17 Investments

a Group

i) Associated undertakings

£ million	Group	
	2005	2004
Balance at April 1	501	461
Exchange movements	(21)	27
Additions	6	
Goodwill amortisation	(1)	(1)
Share of attributable results	14	1
Share of movements on other reserves		8
Disposals	(379)	5
Balance at March 31	120	501
Equity comprises:		
Cost of shares	76	383
Goodwill (less amortisation)	15	16
Goodwill set off		(59)
Share of post-acquisition profits	27	65
Share of other reserves	2	96
	120	501

Notes to the accounts continued

17 Investments continued

ii) Trade investments

£ million	Cost		Provisions		Group total	
	Shares	Loans	Shares	Loans	2005	2004
Balance at April 1	29	21	(17)	(3)	30	32
Additions						
Disposal						
Reclassification from associated undertakings	30		(30)			
Provision						(2)
Balance at March 31	59	21	(47)	(3)	30	30

Net book value of total investments

£ million		Associated undertakings	Trade investments	Group total	
				2005	2004
					<i>Restated</i>
Listed		120	1	121	499
Unlisted			29	29	32

Market value of listed investments

£ million		Group total	
		2005	2004
			<i>Restated</i>
Associated undertakings		171	638
Trade investments		4	5

The Group's principal investments in subsidiary undertakings, associated undertakings and trade investments are listed on page 62.

b Company

i) Subsidiary undertakings and quasi-subsidiary

£ million	Cost		Provisions		Company total	
	Shares	Loans	Shares	Loans	2005	2004
Balance at April 1	1,869	49	(724)		1,194	1,208
Exchange movements	2				2	(2)
Additions						31
Repayment		(1)			(1)	(1)
Disposal	(1)		1			
Repayment						(1)
Provision						(41)
Balance at March 31	1,870	48	(723)		1,195	1,194

ii) Associated undertakings

Balance at April 1	31	(2)	29	33
Additions	(30)	2	(28)	
Disposal				(4)
Balance at March 31	1		1	29

iii) Trade investments

Balance at April 1	28	21	(17)	(3)	29	31
Reclassification from associated undertakings	30		(30)			
Provision						(2)
Balance at March 31	58	21	(47)	(3)	29	29

17 Investments continued

Net book value of total investments

£ million	Subsidiary and quasi-subsidiary undertakings	Associated undertakings	Trade investments	Company total	
				2005	2004 <i>Restated</i>
Unlisted	1,195	1	29	1,225	1,252

18 Disposal of associated undertakings

On September 9, 2004, the Group completed the sale of its 18.25% holding in Qantas Airways Limited through a book build sale of the shares. The sale realised gross proceeds of A\$1.1 billion before tax.

£ million	Group total
Proceeds, net of costs of disposal	427
Carrying value of investment at date of disposal	(379)
Goodwill written back on disposal	(59)
Loss on disposal	(11)
Tax	(14)
Loss on disposal after tax	(25)

19 Quasi-subsidiary

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

£ million	2005	Total 2004
Profit and loss account		
Turnover	39	37
Operating profit	9	10
Loss before tax for the year	(26)	(19)
Balance sheet		
Fixed assets	69	72
Current assets	12	13
Creditors: amounts falling due within one year	(10)	(11)
Net current assets	2	2
Total assets less current liabilities	71	74
Creditors: amounts falling due after more than one year	(155)	(132)
Capital and reserves deficit	(84)	(58)
Cash flow statement		
Cash inflow from operating activities	15	17
Servicing of finance	(12)	(6)
Capital expenditure and financial investment	(4)	(2)
Net cash (outflow)/inflow before management of liquid resources and financing	(1)	9
Financing		(5)
(Decrease)/increase in cash	(1)	4

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 £35 million (2004: £29 million).

Notes to the accounts continued

20 Stocks

£ million	Group		Company	
	2005	2004	2005	2004
Expendables and consumables	84	76	76	66

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

21 Debtors

£ million	Group		Company	
	2005	2004	2005	2004
Trade debtors	685	676	666	659
Amounts owed by subsidiary undertakings			234	241
Amounts owed by associated undertakings		42		31
Other debtors	35	54	30	46
Prepayments and accrued income	304	247	221	145
Pension prepayment	54		54	
	1,078	1,019	1,205	1,122

Amounts due after more than one year included above are not significant except for amounts shown above as pension prepayment.

22 Cash

a Reconciliation of net cash flow to movement in net debt

£ million	Group	
	2005	2004
Increase/(decrease) in cash during the year	14	(158)
Net cash outflow from decrease in debt and lease financing	1,155	834
Cash outflow from liquid resources	16	198
Changes in net debt resulting from cash flows	1,185	874
New loans and finance leases taken out and hire purchase arrangements made	(12)	(97)
Non cash refinancing	9	32
Exchange	54	182
Movement in net debt during the year	1,236	991
Net debt at April 1	(4,158)	(5,149)
Net debt at March 31	(2,922)	(4,158)

b Analysis of net debt

£ million	Group			
	Balance at April 1	Cash flow	Other non-cash	Balance at March 31
Cash	64	14		78
Short-term loans and deposits	1,606	16		1,604
Bank and other loans	(1,225)	52		(1,168)
Finance leases and hire purchase arrangements	(4,491)	1,103	(3)	(3,324)
Convertible Capital Bonds 2005	(112)			(112)
Year to March 31, 2005	(4,158)	1,185	(3)	(2,922)
Year to March 31, 2004	(5,149)	874	(65)	(4,158)

23 Creditors: amounts falling due within one year

£ million	Group		Company	
	2005	2004	2005	2004
Loans, finance leases and hire purchase arrangements				
<i>Bank and other loans</i>	63	102	43	81
<i>Finance leases</i>	96	119	95	119
<i>Hire purchase arrangements</i>	288	461	281	456
	447	682	419	656
Trade creditors	897	840	854	781
Unredeemed frequent flyer liabilities	112	120	43	63
Amounts owed to subsidiary undertakings			1,424	863
Amounts owed to associated undertakings		32		32
Other creditors				
<i>Other creditors</i>	301	291	296	284
<i>Corporate taxation</i>	36	6	14	3
<i>Other taxation and social security</i>	43	38	43	37
	380	335	353	324
Accruals and deferred income				
<i>Sales in advance of carriage</i>	880	859	853	831
<i>Accruals and deferred income</i>	152	128	72	49
	1,032	987	925	880
	2,868	2,996	4,018	3,599

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

£ million	Group		Company	
	2005	2004	2005	2004
Loans, finance leases and hire purchase arrangements				
<i>Bank and other loans</i>	1,105	1,123	797	795
<i>Finance leases</i>	1,493	1,978	1,493	1,976
<i>Hire purchase arrangements</i>	1,447	1,933	1,414	1,894
<i>Loans from subsidiary undertakings</i>			420	551
	4,045	5,034	4,124	5,216
Other creditors	8	14		
Accruals and deferred income	293	326	209	235
	4,346	5,374	4,333	5,451

Notes to the accounts continued

25 Loans, finance leases and hire purchase arrangements

a Total loans, finance leases and hire purchase arrangements

		Group		Company	
£ million		2005	2004	2005	2004
Loans					
<i>Bank</i>	– US dollar	US\$297m	US\$374m	US\$297m	US\$244m
	– sterling	£699m	£700m	£371m	£422m
		857	904	529	555
<i>Euro-sterling notes</i>	– sterling	308	318	308	318
<i>Other</i>	– sterling	3	3	3	3
<i>Loans from subsidiary undertakings</i>	– euro			€300m	€300m
	– sterling			£213m	£351m
				420	551
<i>Finance leases</i>	– US dollar	US\$1,089m	US\$1,190m	US\$1,088m	US\$1,188m
	– sterling	£1,010m	£1,448m	£1,010m	£1,447m
		1,589	2,097	1,588	2,095
<i>Hire purchase arrangements</i>	– Japanese yen	¥152,070m	¥181,738m	¥152,070m	¥181,738m
	– US dollar	US\$205m	US\$367m	US\$194m	US\$355m
	– sterling	£870m	£1,240m	£836m	£1,202m
		1,735	2,394	1,695	2,350
		4,492	5,716	4,543	5,872
Comprising:					
Bank loans					
<i>Repayable wholly within five years</i>		370	391	268	293
<i>Repayable in whole or in part after five years</i>		487	513	261	262
		857	904	529	555
Other loans, finance leases and hire purchase arrangements					
<i>Repayable wholly within five years</i>		1,992	2,338	1,984	2,435
<i>Repayable in whole or in part after five years</i>		1,643	2,474	2,030	2,882
		3,635	4,812	4,014	5,317
		4,492	5,716	4,543	5,872

Bank and other loans are repayable up to the year 2019. Bank and other loans of the Group amounting to US\$194 million (2004: US\$254 million), and £592 million (2004: £526 million) and bank loans of the company amounting to US\$194 million (2004: US\$125 million) and £263 million (2004: £248 million) are secured on aircraft. Euro-sterling notes, other loans and loans from subsidiary undertakings are not secured. Finance leases and hire purchase arrangements are all secured on aircraft or property assets.

25 Loans, finance leases and hire purchase arrangements continued

b Incidence of repayments

£ million	Bank loans	Other loans	Finance leases	Hire purchase arrangements	Group total	
					2005	2004
Instalments falling due:						
Within one year	63		96	288	447	682
After more than one year						
Between one and two years	85		108	289	482	500
Between two and five years	222	64	215	932	1,433	1,547
In five years or more	487	247	1,170	226	2,130	2,987
	794	311	1,493	1,447	4,045	5,034
Total 2005	857	311	1,589	1,735	4,492	
Total 2004	904	321	2,097	2,394		5,716
Analysis of total 2005						
British Airways Plc	529	311	1,588	1,695	4,123	5,321
Subsidiary undertakings	328		1	40	369	395
	857	311	1,589	1,735	4,492	5,716

26 Analysis of changes in borrowings during the year

£ million	Bank and other loans	Finance leases and hire purchase arrangements	Group total	
			2005	2004
Balance at April 1	1,225	4,491	5,716	6,689
New loans raised	116		116	81
Non cash refinancing		(9)	(9)	(32)
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft and other assets		12	12	97
Repayment of amounts borrowed	(168)	(1,103)	(1,271)	(915)
Exchange movements	(5)	(67)	(72)	(204)
Balance at March 31	1,168	3,324	4,492	5,716

Included within exchange movements above are £21 million offset in reserves (2004: £169 million).

27 Provision for deferred taxation (see also Note 11)

Deferred taxation has been provided at 30 per cent (2004: 30 per cent):

£ million	Group		Company	
	2005	2004	2005	2004
Accelerated capital allowances	1,287	1,251	1,248	1,258
Other timing differences	48	28	6	(11)
Tax losses carried forward	(92)	(142)	(88)	(141)
	1,243	1,137	1,166	1,106
Movement in provision:				
£ million	Group		Company	
	2005	2004	2005	2004
Balance at April 1	1,137	1,062	1,106	1,025
Deferred tax charge in profit and loss (Note 11)	106	75	60	81
Balance at March 31	1,243	1,137	1,166	1,106

Notes to the accounts continued

28 Provisions for liabilities and charges

£ million	Group			
	Balance at April 1	Transfers from profit and loss account	Provisions utilised	Balance at March 31
Pensions and similar obligations	17	(1)		16
Post-retirement medical benefits	36	6		42
Severance	5	8	(5)	8
Onerous lease contracts	27		(10)	17
Year to March 31, 2005	85	13	(15)	83
<i>Year to March 31, 2004</i>	<i>107</i>	<i>19</i>	<i>(41)</i>	<i>85</i>
Analysis				
British Airways Plc	58	13	(5)	66
Subsidiary undertakings	27		(10)	17
Year to March 31, 2005	85	13	(15)	83

The severance provision at March 31, 2005 covers pension augmentation costs relating to individuals who left the Group in February and March 2005, and committed early retirement and voluntary severance costs to be paid during the next financial year.

The onerous lease provision relates to the sub-lease of 12 Jetstream 41 aircraft to Eastern Airways and the grounding of the ATP fleet, which included the sub-lease of 3 aircraft to Loganair. This provision will be fully utilised by October 2009.

29 Share capital

	Group and Company			
	2005		2004	
	Number of shares '000	£ million	Number of shares '000	£ million
Ordinary shares of 25p each				
Authorised				
At April 1 and March 31	1,508,000	377	1,508,000	377
Allotted, called up and fully paid				
At April 1	1,082,845	271	1,082,784	271
Conversion of Convertible Capital Bonds	39		11	
Exercise of options under Employee Share Option Schemes	19		50	
At March 31	1,082,903	271	1,082,845	271

30 Share options

Number of shares '000	Group and Company	
	2005	2004
Outstanding at April 1	42,274	48,625
Granted in the year	8,942	14,618
Exercised during the year*	(2,026)	(226)
Expired/cancelled	(2,076)	(20,743)
At March 31	47,114	42,274
Date exercisable	2005 - 2014	2004 - 2013
Price per share	157p - 465p	157p - 465p
Price range of options exercised during the year	157p - 262p	157p - 238p

* Part of the exercise of shares during the year was met through shares previously held by British Airways Plc Employees Benefits Trustees (Jersey) Limited.

31 Reserves

a Group

£ million	Share premium account	Investment in own shares	Revaluation reserve	Profit and loss account	Group total	
					2005	2004 Restated
Balance at April 1	788	(31)	262	897	1,916	1,756
Retained profit for the year				251	251	130
Transfers relating to revalued assets, including amounts realised on disposal			(7)	7		
Exchange and other movements				(37)	(37)	16
Exercise of share options through investment in own shares		5			5	
Goodwill written back on disposals				59	59	14
Balance at March 31	788	(26)	255	1,177	2,194	1,916

The Group profit and loss account includes cumulative retained profits in respect of associated undertakings, as shown in Note 17.

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, 2005 the Group and company held 10,716,400 shares for the Long Term Incentive Plan and other employee share schemes (2004: 12,724,900 shares). The purchase of shares was financed by British Airways Plc granting a loan to British Airways Plc Employee Benefits Trustees (Jersey) Limited.

b Goodwill

Cumulative goodwill set off against reserves at March 31 comprises:

£ million	Group	
	2005	2004
In respect of subsidiary undertakings	421	421
In respect of associated undertakings		59
	421	480

c Company

£ million	Share premium account	Investment in own shares	Revaluation reserve	Profit and loss account	Company total	
					2005	2004 Restated
Balance at April 1	788	(31)	262	710	1,729	1,621
Retained profit for the year				251	251	130
Transfers relating to revalued assets, including amounts realised on disposal			(7)	7		
Exchange and other movements				(10)	(10)	(22)
Exercise of share options through investment in own shares		5			5	
Balance at March 31	788	(26)	255	958	1,975	1,729

Notes to the accounts continued

32 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, 2003 by an independent firm of qualified actuaries, Watson Wyatt LLP, using the attained age method for APS and the projected unit method for NAPS. At the date of the actuarial valuation the market values of the assets of APS and NAPS amounted to £5,421 million and £3,184 million respectively. The value of the assets represented 101% (APS) and 78% (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. These valuations showed that an employer's contribution equal to an average of 3.75 times the standard employees' contributions from November 1, 2003 (nil prior to November 1, 2003) was appropriate for APS. For NAPS the corresponding regular employer's contribution was 2.8 times the standard employees' contributions from January 1, 2004 (3.0 times from April 1, 2003 to December 31, 2003 including a multiple of 0.5 to cover the deficit contributions) in addition to deficit contributions of £9.56 million per month increasing each April in line with inflation for a period of 10 years.

The pension costs for the Schemes are assessed in accordance with the advice of an independent qualified actuary. For these purposes valuations of the Schemes were carried out as at March 31, 2003 using the attained age method for APS and the projected unit method for NAPS. The principal assumptions adopted were that investments would return 3.1% per annum in real terms (ahead of price inflation assumed to be 2.5% per annum) for APS and 4.6% per annum in real terms for NAPS. Annual increases in earnings were assumed to remain level with price inflation for the five years following March 31, 2003 and thereafter increase at 1.5% ahead of price inflation. Limited Price Indexation increases awarded to pensions in payment are assumed on average to follow the rate of inflation. On this basis the regular cost is 25.41% of pensionable pay for APS and 14.16% of pensionable pay for NAPS. Any SSAP 24 surplus or deficit has been amortised over the remaining service lives of members of the Scheme and this leads to a variation in cost of (20.21)% of pensionable pay for APS and 10.06% of pensionable pay for NAPS.

The total pension costs (calculated as set out above for APS and NAPS), including pension augmentation payments, charged in the accounts were:

£ million	Group	
	2005	2004
<i>Airways Pension Scheme</i>	5	9
<i>New Airways Pension Scheme</i>	182	183
<i>British Airways Retirement Plan</i>	2	
<i>Other pension schemes and provident funds – mainly outside the United Kingdom</i>	56	36
	245	228

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

There was a pension prepayment of £54 million as at March 31, 2005 (March 31, 2004: provision of £20 million). The pension prepayment arises due to the difference between the amounts recognised as cost and the amounts paid directly.

32 Pension costs continued

FRS 17 disclosures for the year ended March 31, 2005

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':

per cent p.a.	Group		Group	
	At March 31, 2005		At March 31, 2004	
	APS and NAPS	Other Schemes	APS and NAPS	Other Schemes
Inflation	2.8	3.0 – 4.0	2.5	3.0 – 4.0
Rate of increase in salaries	2.8*	1.5 – 6.0	2.5*	1.5 – 6.0
Rate of increase of pensions in payment	2.7	1.7 – 5.0**	2.5	2.0 – 5.0**
Rate of increase in deferred pension	2.8	3.0 – 5.5	2.5	3.0 – 5.5
Discount rate	5.4	2.0 – 7.0	5.6	2.0 – 9.0

* Rate of increase in salaries is 2.8 per cent per annum for three years and 4.3 per cent per annum thereafter (2004: Rate increase in salaries is 2.5 per cent per annum for four years and 4.0 per cent per annum thereafter).

** Excludes rate of increase on post-retirement medical benefit liabilities provided in the United States.

Market values of the schemes' assets at March 31, 2005 were:

£ million	Group			Group			Group		
	At March 31, 2005			At March 31, 2004			At March 31, 2003		
	APS and NAPS	Other Schemes	Total	APS and NAPS	Other Schemes	Total	APS and NAPS	Other Schemes	Total
Equities	5,054	186	5,240	4,669	170	4,839	3,571	123	3,694
Bonds	4,627	104	4,731	4,456	64	4,520	4,472	67	4,539
Others	914	1	915	642	59	701	567	58	625
	10,595	291	10,886	9,767	293	10,060	8,610	248	8,858

Expected rate of return per cent per annum:

£ million	Group			Group			Group		
	At March 31, 2005			At March 31, 2004			At March 31, 2003		
	APS	NAPS	Other Schemes	APS	NAPS	Other Schemes	APS	NAPS	Other Schemes
Equities	8.5	8.5	6.0 – 9.5	8.4	8.4	6.0 – 9.5	8.5	8.5	6.0 – 9.5
Bonds	4.7	4.8	3.0 – 7.0	4.4	4.7	3.0 – 9.0	4.5	4.5	3.0 – 9.0
Others	5.6	5.3	3.0 – 8.0	5.9	5.6	3.0	6.4	6.1	2.6 – 5.0
	6.0	7.4	5.0 – 8.25	5.8	7.3	3.0 – 9.0	5.8	7.2	5.0 – 9.0

If the requirements of FRS 17 had been recognised in the financial statements, the defined benefit costs for the year ended March 31, 2005 would be as follows:

£ million	Group			Group		
	At March 31, 2005			At March 31, 2004		
	APS and NAPS	Other Schemes	Total	APS and NAPS	Other Schemes	Total
Current service cost	178	13	191	162	11	173
Past service costs	5		5	15		15
Total charged to operating profit	183	13	196	177	11	188
Amounts charged to other finance income:						
Interest on pension scheme liabilities	603	26	629	545	24	569
Expected return on assets in the pension scheme	(599)	(20)	(619)	(522)	(13)	(535)
Net charge to other finance income	4	6	10	23	11	34
Total profit and loss charge before deduction for tax	187	19	206	200	22	222

Notes to the accounts continued

32 Pension costs continued

If the requirements of FRS 17 had been recognised in the financial statements, the Group's statement of total recognised gains and losses for the year ended March 31, 2005 would have been:

£ million	Group			Group		
	At March 31, 2005			At March 31, 2004		
	APS and NAPS	Other Schemes	Total	APS and NAPS	Other Schemes	Total
Differences between actual and expected returns on assets	(389)	(1)	(390)	(885)	(28)	(913)
Experience loss/(gain) on liabilities	108	(2)	106	625	4	629
Loss on change of assumptions (financial and demographic)	746	21	767	310	7	317
Total loss/(gain) recognised in statement of total recognised gains and losses before adjustment for tax	465	18	483	50	(17)	33

The following amounts for the year ended March 31, 2005 were measured in accordance with the requirements of FRS 17:

£ million	Group			Group		
	At March 31, 2005			At March 31, 2004		
	APS and NAPS	Other Schemes	Total	APS and NAPS	Other Schemes	Total
<i>(Gain)/loss on scheme assets:</i>						
Amount (£ million)	(389)	(1)	(390)	(885)	(28)	(913)
Percentage of scheme assets at year end	(3.7)%	(0.3)%	(3.6)%	(9.1)%	(9.6)%	(9.1)%
<i>Experience loss/(gain) on scheme liabilities:</i>						
Amount (£ million)	108	(2)	106	625	4	629
Percentage of scheme liabilities at year end	0.9%	(0.5)%	0.8%	5.7%	0.9%	5.5%
<i>Total actuarial loss/(gain) recognised in statement of total recognised gains and losses:</i>						
Amount (£ million)	465	18	483	50	(17)	33
Percentage of scheme liabilities at year end	3.8%	4.1%	3.8%	0.5%	(3.7)%	0.3%

£ million	Group		
	At March 31, 2003		
	APS and NAPS	Other Schemes	Total
<i>(Gain)/loss on scheme assets:</i>			
Amount (£ million)	1,421	43	1,464
Percentage of scheme assets at year end	16.5%	17.3%	16.5%
<i>Experience loss/(gain) on scheme liabilities:</i>			
Amount (£ million)	370	24	394
Percentage of scheme liabilities at year end	3.8%	5.4%	3.9%
<i>Total actuarial loss/(gain) recognised in statement of total recognised gains and losses:</i>			
Amount (£ million)	1,905	113	2,018
Percentage of scheme liabilities at year end	19.7%	25.4%	19.9%

32 Pension costs continued

The following amounts for the year ended March 31, 2005 were measured in accordance with the requirements of FRS 17:

£ million	Group			Group		
	At March 31, 2005			At March 31, 2004		
	APS and NAPS	Other Schemes	Total	APS and NAPS	Other Schemes	Total
Total market value of assets	10,595	291	10,886	9,767	293	10,060
Present value of liabilities	12,126	442	12,568	10,907	459	11,366
Deficit	(1,531)	(151)	(1,682)	(1,140)	(166)	(1,306)
APS irrecoverable surplus	(301)		(301)	(385)		(385)
Pension liability (before allowance for deferred tax)	(1,832)	(151)	(1,983)	(1,525)	(166)	(1,691)
Related deferred tax	550	45	595	458	50	508
Net pension liability	(1,282)	(106)	(1,388)	(1,067)	(116)	(1,183)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at March 31, 2005 would be as follows:

£ million	Group	
	At March 31, 2005	At March 31, 2004
Net assets excluding pension liability	2,684	2,428
Pension liability, net of related deferred tax and SSAP 24 provisions and prepayments	(1,442)	(1,163)
Net assets including pension liability	1,242	1,265
Profit and loss reserve excluding pension liability	1,177	897
Pension liability	(1,442)	(1,163)
Profit and loss reserve	(265)	(266)

The amounts above have been calculated after taking account of pensions prepayments and provisions for pension and other post-retirement benefits, net of related deferred tax.

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

£ million	Group			Group		
	At March 31, 2005			At March 31, 2004		
	APS and NAPS	Other Schemes	Total	APS and NAPS	Other Schemes	Total
Deficit before irrecoverable surplus and impact of deferred tax at April 1, 2004	(1,140)	(166)	(1,306)	(1,064)	(197)	(1,261)
Contributions paid	261	52	313	174	36	210
Current service cost	(178)	(13)	(191)	(162)	(11)	(173)
Past service cost	(5)		(5)	(15)		(15)
Other finance charge	(4)	(6)	(10)	(23)	(11)	(34)
Actuarial (loss)/gain	(465)	(18)	(483)	(50)	17	(33)
Deficit before irrecoverable surplus and impact of deferred tax at March 31, 2005	(1,531)	(151)	(1,682)	(1,140)	(166)	(1,306)

33 Derivatives and other financial instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found in the Operating and Financial Review on pages 6 to 11. With the exception of the analysis of currency exposures, the disclosures in notes 34 to 41 below exclude short-term debtors and creditors.

Notes to the accounts continued

34 Interest rate risk profile of financial liabilities

	Group					
	2005			2004		
	Fixed rate borrowings			Floating rate borrowings		
	Weighted average years	Weighted average rate %	£ million	£ million	Total £ million	Total £ million
Sterling	9.9	6.11	1,298	1,704	3,002	3,821
US dollar	12.9	4.50	275	571	846	1,053
Japanese yen	4.0	1.34	756		756	954
Total 2005	8.3	4.37	2,329	2,275	4,604	
Total 2004	8.9	4.84	2,744	3,084		5,828

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).

Fixed rate borrowings include £112 million (2004: £112 million) relating to the Convertible Capital Bonds 2005.

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 15, 2004, 39,000 ordinary shares were issued in exchange for 93,000 Bonds (June 16, 2003, 11,000 ordinary shares were issued in exchange for 26,000 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 47,999,000 ordinary shares.

The mid market closing prices of the Bonds and the ordinary shares at March 31, 2005 as quoted in the London Stock Exchange Daily Official List were 117.0p and 264.0p each respectively.

Excluded from the above table are long-term creditors and provisions for liabilities and charges amounting to £384 million (2004: £425 million) on which no interest is payable.

35 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, 2005			
US dollar	US\$240m	2008	2.95% – 3.57%
Sterling	£53m	2006	5.27% – 5.36%
At March 31, 2004			
US dollar	US\$240m	2008	2.95% – 3.57%
Sterling	£58m	2006	5.27% – 5.36%

36 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.

37 Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group as at March 31, is as follows:

£ million	Group	
	2005	2004
Sterling	1,407	1,334
US dollar	18	105
Japanese yen	199	207
Other	58	24
	1,682	1,670

Floating rate financial assets above comprise cash and cash deposits on money market deposit at call and at short term rates for periods typically with maturity of less than 12 months.

In addition, the Group has fixed asset investments (excluding associates and investments in own shares) amounting to £30 million (2004: £30 million).

38 Currency exposures

£ million	Group					
	Net foreign currency assets/(liabilities)					
Functional currency	US dollar	Euro	Japanese yen	Other	2005	2004
Sterling	154	(13)	(566)	198	(227)	(414)
Total March 31, 2005	154	(13)	(566)	198	(227)	
Total March 31, 2004	96	49	(751)	192		(414)

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.

39 Forward transactions

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

	In currency		Sterling equivalents	
	2005	2004	2005	2004
Maturing within one year				
– to hedge future currency revenues against US dollars	US\$87m	US\$80m		
– to hedge future currency revenues against sterling			£57m	£35m
– to hedge future operating payments against US dollars	US\$255m	US\$2m		
– to hedge future fuel costs in US dollars	US\$1,333m	US\$665m	£709m	£363m
– to hedge debt	¥9,719m	¥27,238m	£49m	£140m
Maturing after one year				
– to hedge future fuel costs in US dollars	US\$418m		£222m	

40 Borrowing facilities

At March 31, 2005 British Airways had undrawn committed aircraft financing facilities of US\$228 million (expires May 1, 2008), a further US\$232 million general facility (expires November 19, 2013) together with unused overdraft facilities of £21 million. An undrawn uncommitted money market line of £25 million was held as at year end.

41 Fair values of financial instruments

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

£ million	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash at bank and in hand and overdrafts	78	78	64	64
Short-term loans and deposits	1,604	1,604	1,606	1,606
Fixed asset investments (excluding associates and investments in own shares)	30	33	30	34
Bank and other borrowings	(860)	(888)	(907)	(967)
Finance leases	(1,589)	(1,585)	(2,097)	(2,106)
Hire purchase arrangements	(1,735)	(1,737)	(2,394)	(2,399)
Euro-sterling notes	(61)	(70)	(71)	(79)
Convertible Capital Bonds 2005	(112)	(132)	(112)	(155)
Euro-sterling Bond 2016	(247)	(270)	(247)	(248)

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

£ million	Fair value	
	2005	2004
Interest rate swaps	2	(5)
Forward currency transactions	(1)	(1)
Fuel derivatives	278	29

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:

Fixed asset investments

- listed fixed asset investments are stated at market value as at March 31, 2005. All other fixed asset investments are stated at carrying value less any provisions for permanent diminution in value.

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, 2005.

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 £756 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

- the marked-to-market value of the instrument.

Off balance sheet over the counter (OTC) fuel derivatives

- the marked-to-market value of the instruments.

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

c Hedges

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

At March 31, 2005 there were unrecognised gains of £281 million and unrecognised losses of £2 million relating to hedges of future exposure. Of the unrecognised gains £228 million are expected to occur within one year and £53 million after one year, and of the unrecognised losses £2 million are expected to occur within one year.

At March 31, 2004 there were unrecognised gains of £33 million and unrecognised losses of £10 million relating to hedges of future exposure. All of the unrecognised gains related to the period to March 31, 2005 and of the unrecognised losses £7 million related to the period to March 31, 2005 and £3 million related to periods in excess of one year.

42 Contingencies

There were contingent liabilities at March 31, 2005 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, 2005 amounted to £259 million (2004: £383 million) and £577 million (2004: £633 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.

43 Related party transactions

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

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

Qantas Airways Limited

The Group has a '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.

The Group disposed of its equity investment in Qantas in September 2004.

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

The Group has an 8.76 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, 2005, the net trading balance owed by British Airways to Iberia amounted to £0.3 million (2004: £0.1 million).

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, 2005, the net trading balance due to Comair amounted to £8 million (2004: £8 million).

Opodo Limited

In the current year the Group reduced its investment in Opodo from 19.05 per cent to 5.94 per cent. The settlement between British Airways and Opodo is actioned through the Bank Settlement Plan of which both companies are members.

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 that 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.

44 Foreign currency translation rates

	At March 31		Annual average	
	2005	2004	2004-05	2003-04
US dollar	1.88	1.83	1.84	1.68
Japanese yen	201	191	197	191
Australian dollar	2.43	2.41	2.50	2.46
Euro	1.45	1.50	1.47	1.44

Principal investments

At March 31, 2005

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 777 Leasing Limited *	Aircraft financing	England
British Airways Capital Ltd *	Airline finance	Jersey
British Airways Holdings Ltd *	Airline finance	Jersey
British Airways Holidays Ltd *	Package holidays	England
British Airways Leasing Limited *	Aircraft financing	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 *	Aircraft financing	England
British Regional Air Lines Group Plc	Holding company	England
Speedbird Insurance Company Ltd *	Insurance	Bermuda
British Airways CitiExpress Ltd	Airline operations	England
The Plimsoll Line 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
Iberia, Líneas Aéreas de España, S.A. ('Iberia')	8.76	Airline operations	Spain
Comair Ltd	18.3	Airline operations	South Africa

Trade investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Airline Group Ltd *	16.7	Air traffic control holding company	England
Opodo Ltd *	5.9	Internet travel agency	England
WNS (Holdings) Ltd *	16.8	Holding company	Jersey

* Owned directly by British Airways Plc

Operating and financial statistics (Note 1)

For the five years ended March 31, 2005

Airline operations scheduled services		2005	2004	2003	2002	2001
Traffic and capacity						
Revenue passenger km (RPK)	m	107,892	103,092	100,112	106,270	123,197
Available seat km (ASK)	m	144,189	141,273	139,172	151,046	172,524
Passenger load factor	%	74.8	73.0	71.9	70.4	71.4
Cargo tonne km (CTK)	m	4,954	4,461	4,210	4,033	4,735
Total revenue tonne km (RTK)	m	15,731	14,771	14,213	14,632	16,987
Total available tonne km (ATK)	m	22,565	21,859	21,328	22,848	25,196
Overall load factor	%	69.7	67.6	66.6	64.0	67.4
Passengers carried	'000	35,717	36,103	38,019	40,004	44,462
Tonnes of cargo carried	'000	877	796	764	755	914
Frequent flyer RPKs as a percentage of total RPKs (Note 2)	%	3.2	4.0	4.4	3.7	2.6
Revenue aircraft km	m	661	644	635	685	737
Revenue flights	'000	378	391	413	492	499
Break-even overall load factor	%	64.3	63.6	63.9	65.0	64.4
Financial						
Passenger revenue per RPK	p	6.02	6.30	6.58	6.67	6.37
Passenger revenue per ASK	p	4.51	4.59	4.74	4.69	4.55
Cargo revenue per CTK	p	9.73	10.38	11.50	11.98	12.22
Average fuel price (US cents/US gallon)		136.44	94.49	86.01	81.29	103.94
Operations						
Unduplicated route km	'000	623	657	693	814	755
Punctuality – within 15 minutes	%	76	81	76	81	79
Regularity	%	98.8	98.8	98.2	98.6	98.4
Total Group operations		2005	2004	2003	2002	2001
Financial						
Interest cover	times	3.2	2.1	1.6	0.3	1.7
Dividend cover	times	n/a	n/a	n/a	n/a	0.6
Operating margin	%	6.9	5.4	3.8	(1.3)	4.1
Earnings before interest, tax, depreciation, amortisation, rentals and Concorde retirement charges (EBITDAR)	m	1,530	1,422	1,425	1,128	1,509
Net debt/total capital ratio	%	42.7	54.1	60.9	66.2	64.7
Net debt/total capital ratio including operating leases	%	48.2	58.4	64.9	69.6	68.9
Total traffic revenue per RTK	p	44.4	47.1	49.8	51.7	49.6
Total traffic revenue per ATK	p	30.94	31.81	33.17	33.14	33.47
Net operating expenditure per RTK	p	40.95	44.33	47.70	52.49	47.40
Net operating expenditure per ATK	p	28.55	29.96	31.78	33.62	31.96
Operations						
Average manpower equivalent (MPE)		47,472	49,072	53,440	60,468	62,844
RTKs per MPE	'000	331.4	301.0	266.0	242.0	270.3
ATKs per MPE	'000	475.3	445.4	399.1	377.9	400.9
Aircraft in service at year end		290	291	330	360	338
Aircraft utilisation (average hours per aircraft per day)		9.83	9.21	8.91	8.32	8.79

Notes:

- Operating statistics do not include those of associated undertakings (Qantas Airways, Comair and Iberia) and franchisees (British Mediterranean Airways, GB Airways, Loganair, Sun Air (Scandinavia) and Regional Air). The franchise relationship with Regional Air was terminated in April 2005.
 - 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, 2005

Group profit and loss account

£ million	2005	2004*	2003*	2002*	2001*
Turnover	7,813	7,560	7,688	8,340	9,278
Operating expenditure	(7,273)	(7,155)	(7,393)	(8,450)	(8,898)
Operating profit/(loss)	540	405	295	(110)	380
Share of operating profit of associates	41	58	39	22	64
Other income and charges	3		(4)	21	1
Profit/(loss) on sale of fixed assets and investments	(26)	(46)	60	145	(69)
Net interest payable	(143)	(187)	(255)	(278)	(226)
Profit/(loss) before tax	415	230	135	(200)	150
Tax	(149)	(85)	(50)	71	(69)
Profit/(loss) after tax	266	145	85	(129)	81
Minority interests	(1)	(1)		(1)	(2)
Non equity minority interest	(14)	(14)	(13)	(12)	(12)
Profit/(loss) for the year	251	130	72	(142)	67
Dividends					(193)
Retained profit/(loss) for the year	251	130	72	(142)	(126)
Earnings per share					
Basic earnings per share	23.4p	12.1p	6.7p	(13.2)p	6.2p
Diluted earnings per share	23.0p	12.1p	6.7p	(13.2)p	6.2p
Dividends per share					17.9p

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

£ million	By area of destination				
	2005	2004*	2003*	2002*	2001*
Turnover					
Europe	2,470	2,639	2,838	3,208	3,388
The Americas	2,884	2,767	2,763	2,863	3,450
Africa, Middle East and Indian sub-continent	1,412	1,253	1,201	1,262	1,304
Far East and Australasia	1,047	901	886	1,007	1,136
	7,813	7,560	7,688	8,340	9,278
Operating profit/(loss)					
Europe	(26)	(60)	(117)	(244)	(172)
The Americas	347	294	223	144	470
Africa, Middle East and Indian sub-continent	224	210	168	91	92
Far East and Australasia	(5)	(39)	21	(101)	(10)
	540	405	295	(110)	380

* Figures are restated in accordance with latest relevant accounting standards and changes in Group accounting policies where applicable.

Group balance sheet

£ million	2005	2004*	2003*	2002*	2001*
Fixed assets					
Intangible assets	190	168	164	140	84
Tangible assets	8,152	8,637	9,487	10,474	10,638
Investments	150	531	493	464	401
	8,492	9,336	10,144	11,078	11,123
Current assets	2,844	2,765	2,725	2,559	2,550
Creditors: amounts falling due within one year	(2,980)	(2,996)	(2,904)	(3,201)	(3,308)
Net current liabilities	(136)	(231)	(179)	(642)	(758)
Total assets less current liabilities	8,356	9,105	9,965	10,436	10,365
Creditors: amounts falling due after more than one year	(4,346)	(5,486)	(6,553)	(7,097)	(6,901)
Provision for deferred tax	(1,243)	(1,137)	(1,062)	(1,031)	(1,094)
Provisions for liabilities and charges	(83)	(85)	(107)	(126)	(70)
	2,684	2,397	2,243	2,182	2,300
Capital and reserves					
Called up share capital	271	271	271	271	271
Reserves	2,194	1,916	1,756	1,720	1,825
Equity minority interest	12	10	10	9	18
Non equity minority interest	207	200	206	182	186
	2,684	2,397	2,243	2,182	2,300

Group cash flow statement

£ million	2005	2004	2003	2002	2001
Cash inflow from operating activities	1,192	1,093	1,185	866	1,251
Dividends received from associates	20	25	23	16	33
Government compensation				22	
Returns on investments and servicing of finance	(170)	(209)	(249)	(327)	(342)
Tax		(4)	(7)	(1)	15
Capital expenditure and financial investment	(276)	42	250	94	(457)
Acquisitions and disposals	415	(73)	29	(19)	26
Equity dividends paid				(137)	(194)
Net cash inflow before management of liquid resources and financing	1,181	874	1,231	514	332
Management of liquid resources	(16)	(198)	(289)	(301)	159
Financing	(1,151)	(834)	(784)	(217)	(521)
Increase/(decrease) in cash	14	(158)	158	(4)	(30)

* Figures are 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, 2005

	On balance sheet aircraft	Off balance sheet aircraft	Total	Changes since March 04	Future deliveries	Options	2004-05 revenue hours flown	Average hours per aircraft/day	Average age (years)
Airline operations (Note 1)									
Boeing 747-400	57		57				269,468	12.95	10.8
Boeing 777	40	3	43				202,833	12.92	6.3
Boeing 767-300	21		21				74,600	9.73	12.1
Boeing 757-200	13		13				34,190	7.21	10.5
Airbus A319 (Note 2)	21	12	33		3	47	101,234	8.4	4.4
Airbus A320 (Note 3)	9	17	26	(1)	3		77,808	7.92	7.7
Airbus A321	6		6	6	1		6,505	7.67	0.5
Boeing 737-300		5	5				15,590	8.54	15.7
Boeing 737-400 (Note 4)	18		18	(5)			59,550	8.26	12.6
Boeing 737-500		10	10				31,506	8.63	12.7
Turboprops (Note 5)		9	9	(1)			25,338	5.2	8.4
Embraer RJ145	16	12	28			17	75,927	7.43	5.1
Avro RJ100		16	16				43,028	7.37	5.6
British Aerospace 146 (Note 6)	5		5				13,300	7.29	18.5
Hired aircraft							22,171		
Group Total	206	84	290	(1)	7	64	1,053,048	9.83	8.5

Notes:

- 1 Includes those operated by British Airways Plc and British Airways CitiExpress Ltd.
- 2 Certain future deliveries and options include reserved delivery positions, and may be taken as any A320 family aircraft.
- 3 Excludes 1 Airbus A320 sub-leased to GB Airways.
- 4 Excludes 2 Boeing 737-400s sub-leased to Air One and 1 Boeing 737-400 stood down pending return to lessor.
- 5 Comprises 9 de Havilland Canada DHC-8s. Excludes 2 British Aerospace ATPs stood down pending return to lessor, 3 British Aerospace ATPs sub-leased to Loganair and 12 Jetstream 41s sub-leased to Eastern Airways.
- 6 The British Aerospace 146 fleet will be retired from service during 2005/06.

Shareholder information

Shareholders

As at May 11, 2005 there were 236,786 shareholders (May 12, 2004: 244,738). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares	Classification of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	86.08	5.83	Individuals	98.08	13.02
1,001 – 5,000	12.38	5.3	Bank or Nominee	1.59	83.75
5,001 – 10,000	0.93	1.41	Insurance companies	0.02	0.14
10,001 – 50,000	0.35	1.52	Pension trusts	0.01	0.92
50,001 – 100,000	0.06	0.89	Investment trusts	0.02	0.01
100,001 – 250,000	0.07	2.41	Other corporate bodies	0.28	2.16
250,001 – 500,000	0.04	3.41			
500,001 – 750,000	0.02	3.29			
750,001 – 1,000,000	0.01	2.58			
Over 1,000,000	0.06	73.36			
	100.00	100.00		100.00	100.00

Franklin Resources Inc. has a non-beneficial interest in 6.03 per cent of the shares of the Company.

General Information

Financial calendar

Financial year end	March 31, 2005
Annual General Meeting	July 19, 2005

Announcement of 2005-2006 results

First quarter results to June 30, 2005	August 2005
Second quarter results to September 30, 2005	November 2005
Third quarter results to December 31, 2005	February 2006
Preliminary announcement	May 2006
Report and Accounts	June 2006

Registered Office

Waterside, PO Box 365, Harmondsworth, UB7 0GB

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 and British Airways CitiExpress Ltd (CityFlyer Express Ltd, Deutsche BA Luftfahrtgesellschaft mbh, Go Fly Ltd and Air Liberté have been included 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 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 Concorde retirement charges.
n/a	Not applicable.

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