British Airways Plc
Annual Report and Accounts for the year ended March 31, 2004
Registered in England and Wales No. 1777777
Registered Office: Waterside, PO Box 365, Harmondsworth UB7 0GB



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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 intends to disclose 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.

Key Results

			2003-04	2002-03
Group results				
Turnover	m	down 1.7%	**7,560**	7,688
Operating profit	m	up 37.3%	**405**	295
Profit before tax	m	up 70.4%	**230**	135
Attributable profit for the year	m	up 80.6%	**130**	72
Net assets	m	up 6.8%	**2,428**	2,274
Basic earnings per share	p	up 80.6%	**12.1**	6.7
Key financial statistics				
Airline operations yield	p/RPK	down 4.3%	**6.30**	6.58
Operating margin	%	up 1.6 points	**5.4**	3.8
Net debt/total capital ratio	%	down 6.9 points	**53.8**	60.7
Group operating statistics				
Passengers carried	'000	down 5.0%	**36,103**	38,019
Revenue passenger kilometres	m	up 3.0%	**103,092**	100,112
Revenue tonne kilometres	m	up 3.9%	**14,771**	14,213
Available tonne kilometres	m	up 2.5%	**21,859**	21,328
Passenger load factor	%	up 1.1 points	**73.0**	71.9

Contents

1 Key results
2 Statement from the Chairman
4 Statement from the Chief Executive
6 Operating and financial review
12 Board members and leadership team
13 Directors' report
19 Remuneration report
23 Directors' remuneration and share interests
27 Statement of directors' responsibilities
27 Report of the auditors to the members of British Airways Plc
28 Group profit and loss account
29 Balance sheets
30 Group cash flow statement
31 Statement of total recognised gains and losses
31 Reconciliation of movements in shareholders' funds
32 Summary statements in euro
33 Notes to the accounts
62 Principal investments
63 United States generally accepted accounting principles (US GAAP) information
65 Net income/(loss) under US GAAP
66 Shareholders' equity under US GAAP
67 Operating and financial statistics
68 Five year summaries
70 Aircraft fleet
71 Shareholder information
72 Glossary

Chairman's Statement

Group pre-tax profit for the year was £230 million, compared to £135 million in the previous year. Profit attributable to shareholders was £130 million, up from £72 million. The operating profit, at £405 million, was an improvement of £110 million. No interim dividend was paid and the Board has decided not to recommend a final dividend.

Review of the year

This has been an intense period of reorganisation and recovery following the economic ravages of recent years. They were caused by a sequence of deeply damaging external events inflicted on your company and the international industry as a whole. The year started with the immediate aftermath of war in Iraq, the continued threat of terrorism and the Severe Acute Respiratory Syndrome (SARS) epidemic in full flow, all of which combined into a major impact on performance.

Although we have seen recent signs of improvement in demand – notably in the markets for intercontinental premium travel and air cargo – the year's achievement comes primarily from cost reduction in the face of considerable downward pressure on revenues and yields.

The remedial Future Size and Shape strategy continued to deliver significant savings and at the end of the financial year, your company had achieved its manpower reduction target of 13,000, since August, 2001. The Chief Executive reports in more detail but the key cost reduction targets for people, procurement and distribution were exceeded. Crucially, the savings have allowed your company to invest further in product innovation and to retain cash reserves at record levels.

Under the circumstances, your company's results for the year represent a very good performance by all of our people. Revenue totalled £7.6 billion, a slight reduction on the previous year. Production, in terms of available tonne kilometres, increased by 2.5 per cent. Passenger load factor improved marginally, while yields, measured year on year, decreased by 4.3 per cent.

British Airways World Cargo (BAWC) increased freight carryings by six per cent in extremely competitive market conditions which forced yield down by almost ten per cent. I am pleased to report that, shortly after the financial year end, BAWC won three trophies for customer service excellence in the annual Air Cargo News Awards.

Investments and disposals

During the year, the sale of our German subsidiary, dba (formerly Deutsche BA) to Intro Verwaltungsgesellschaft mbH was completed. dba no longer fitted British Airways' evolving business strategy and the opportunity to end long-term exposure to losses in Germany was taken. The actual loss on disposal for the year, as a result of certain conditions of sale, was £83 million.

Concorde

As planned, the supersonic Concorde fleet retired from commercial service on October 24, 2003, with much dignity and to universal acclaim. Concorde's last flight took place on November 26, 2003 when aircraft G-BOAF was delivered to its final destination, Airbus UK at Filton, near Bristol.

All seven British Airways Concorde aircraft have now been delivered to their final homes, in this country and overseas, where they will go on public display. We are immensely proud that Concorde served as our flagship for almost 28 years. We have been privileged to play a leading role in this historic phase of supersonic flight and look forward eventually to the next era of commercial supersonic – or even hypersonic – air transport.

Alliances

Towards the end of the year under review, all initial phases of the comprehensive code-share programme with American Airlines were completed. With joint codes now carried on a total of 172 flights, our important trans-Atlantic partnership with American has never been stronger.

The relationship with Qantas continues to be strong and productive in its three key areas: our 18.25 per cent stake in the company; the Joint Services Agreement between the two airlines; and the wider **one**world alliance.

Under an agreement concluded with Iberia at the end of 2003, co-operative development will take place in a wide range of commercial activities. All British Airways and Iberia flights between London and Spain are now code-shared.

A commercial agreement with Swiss International Air Lines was concluded in September, 2003.

British Airways remains an active member of the **one**world global alliance whose eight airline members collectively serve more than 570 destinations in 135 territories.

Aviation policy

We welcomed the long awaited White Paper, 'The Future of Air Transport,' published in December, as an effective, long-term aviation policy. During the consultative process we emphasised the vital strategic importance, now and for the future, of Heathrow as the UK's only global gateway. We were pleased that the Government recommended a third runway and sixth terminal at Heathrow within 15 years, subject to meeting certain environmental concerns. The airline has pledged to work with the Government, the BAA and local authorities in addressing the Heathrow environment issue so that this country's leading position in world air transport is assured. We also support the Government's plans for new runways at Birmingham, Edinburgh and Stansted, so long as the cost of development is not subsidised from operations at other airports.

A thriving Heathrow will be essential if the United Kingdom is to take full advantage of the proposed open aviation area covering the European Union and the US. We support this visionary, free-market concept which could bring important competitive advances for airlines and their customers and would enable much-needed European airline consolidation to take place. EU/US talks are continuing. We accept that progress will not be easy, but we encourage negotiators on both sides to be bold in order to reach a comprehensive agreement.

Corporate governance

Corporate governance remains very important, especially since the Financial Reporting Council issued its revised Combined Code in July, 2003. Further details can be found elsewhere in this report,

but I can confirm that British Airways intends to be fully compliant, in all material respects, with the revised Combined Code.

As your company is listed on the New York Stock Exchange, we comply with the provisions of the US Sarbanes-Oxley Act of 2002. Extensive work is well underway to ensure compliance with the provisions of Section 404 of the Act, which will apply to your company from April 1, 2005.

Corporate social responsibility

Your company was honoured, shortly after the year end, on May 7, 2004, with a visit to Heathrow by Her Majesty The Queen to mark the tenth anniversary of the Change For Good programme operated in conjunction with UNICEF. Under this scheme, cabin crew volunteers invite passengers to donate unwanted currency, or loose change, to UNICEF projects helping deprived and disadvantaged children around the world. They are supported in the counting and remittance of this money by colleagues and partner companies on the ground. Over ten years, some £17 million has been collected. During her visit to Heathrow, The Queen unveiled a commemorative plaque as well as the logo on a Boeing 747 aircraft which now carries the Change For Good message across the world. Her Majesty also met and gave great encouragement to many of our staff volunteers. Change For Good has clearly been an outstanding venture which brings employees, customers and business partners together in a global programme of charitable giving. We can be proud of its achievements.

In the UK, special note should be made of the Community Learning Centre at our Waterside headquarters which continues to build valuable community relationships through its innovative – and in many cases unique – educational programmes.

Our overall commitment to corporate social responsibility (CSR), including environmental best practice and constructive community relations, remains strong and is now an integral part of the British Airways business proposition. Details of the CSR programme are included in the Directors' Report. The annual Social and Environmental Report will be available to shareholders in July.

The Board

As always I am grateful for the support and wise guidance of my fellow Board members. The most significant Board change will be my retirement as Chairman at the end of the Annual General Meeting on July 20, 2004. As shareholders know, I will be succeeded by Martin Broughton, Deputy Chairman, who has been a member of the British Airways Board since 2000. Baroness O'Cathain, having already served for more than ten years, stands for re-election on an annual basis. During the year we were delighted to welcome Alison Reed as a non-executive director.

Outlook

Additional security expenditure is expected to continue and our fuel costs for the year ahead are, as I write, projected to be £150 million higher. At the same time, intercontinental premium travel volumes are recovering steadily, while shorthaul premium traffic remains at lower levels. Demand for non-premium travel is meeting expectations with the help of competitive offers in most major markets. We continue to forecast a small revenue improvement in the current year. We expect that small yield declines in the year will be more than offset by volume.

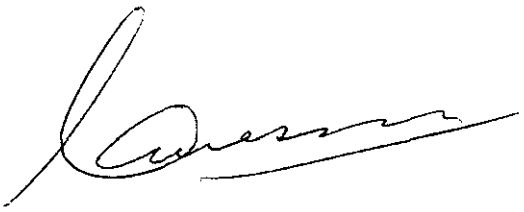
Although Future Size and Shape is now a reality and that particular strategy phase is complete, competitive pressures emphasise the need to continue simplifying the business and reduce costs further. The ultimate objective is a sustainable annual average operating margin of ten per cent, in order to achieve long-term stability and acceptable rewards for shareholders, employees and customers.

Finally

As I prepare to step down as your Chairman, I reflect on a remarkable total team effort of business transformation, customer-driven development, brand leadership and operational integrity that has been the hallmark of the modern British Airways. So, too, has our financial performance in an industry noted for regulatory constraint, tight margins and susceptibility to adverse world affairs.

My abiding memory will be of our people. Working with some of the most talented and dedicated professionals to be found in any industry, anywhere in the world, has been both an inspiring and humbling experience. It has been a great privilege to serve British Airways, its shareholders, its people and its customers for the past 21 years.

I know that, with Martin Broughton as your Chairman and Rod Eddington as Chief Executive, your company will continue in good hands.



Lord Marshall of Knightsbridge
Chairman

Statement from the Chief Executive

A difficult year

A year which began with the Iraq War was never going to be an easy one and subsequent security issues have served to remind us how vulnerable our business is.

Nevertheless, we have delivered a good set of results and exceeded all our Future Size and Shape cost targets thanks to the dedication and commitment of staff.

Let me remind you that the two year Future Size and Shape programme focused on reducing cost, restructuring to compete better with the no frills carriers and simplifying our business.

Future Size and Shape

Maintaining our focus on costs across the business has been paramount and, as the Chairman has already indicated in his statement, that will continue for the foreseeable future.

Through Future Size and Shape we delivered £869 million cost savings against a £650 million target, and achieved a manpower reduction of 13,082, ahead of our 13,000 target.

Through ba.com, other technology and travel agents' commission restructuring, we delivered £257 million savings on sales and distribution costs against a £100 million target. We also saved £130 million on procurement and IT against a £100 million target. On disposals we achieved £939 million to date against a £900 million target.

We are, however, only half way towards achieving a ten per cent operating margin – which is vital for our secure, prosperous future. When we first launched Future Size and Shape we factored in an element of market recovery, but this never materialised. Nonetheless, we have achieved a 1.6 points improvement on last year's operating margin to 5.4 per cent.

The new low fares strategy on 180 shorthaul routes allowed us to compete more effectively with the no-frills carriers, backed by a simpler business model. A couple of years ago the cynics said we couldn't do it but we have proved them wrong. We have also made significant progress in improving the performance of our European routes in a tough market.

We have reduced aircraft sub-types as a result of Future Size and Shape, and during the year reduced the fleet by 39 aircraft to 291 as a result of returns to lessors, retirements and sub-lease opportunities.

The completion of Future Size and Shape does not mean we have reached the end of our journey. Far from it. Last year we built on that strategy with our annual business plan targeting £450 million cost savings through a reduction in external spend (£300 million) and greater use of technology through customer enabled BA (ceBA) and more employee self service capability.

Operations

Unofficial industrial action last summer was a stark reminder of just how vulnerable an airline is to disruption of any kind.

The Operational Performance Improvement Programme has begun to tackle some of the issues, in particular fine-tuning our contingency planning procedures.

We know that we can't control the weather, for example – but we can control the way we react to it, and limit the impact accordingly. In a competitive service industry such as ours, where the customer invariably has a choice, this is absolutely critical in winning their confidence and retaining their business.

Customer benefits

The pace of change in the IT industry worldwide, and the new products and services which seem to come on to the market almost daily, presents us with opportunities to cut costs while improving the services we can offer our customers.

We can now send flight information direct to our customers on their mobile phones, and give them the option of choosing their seats, and even print boarding passes, from the comfort of their homes.

Two out of every three customers travel with an e ticket and 10,000 customers a day manage their booking online. A quarter of passengers travelling through our newly refurbished Heathrow Terminal 1 use self-service check-in kiosks. We introduced 191 self-service kiosks around the network throughout the year.

Our innovative products continue to set benchmarks for the industry in customer comfort. The Club World flat bed continues to win awards and praise from our customers. The Club World experience has been further enhanced with a new sleeper service to ensure customers get even more sleep time when they bed down with us.

The image and brand values of British Airways are reflected in the stylish new uniform designed by Julien Macdonald. Initial feedback shows staff are proud to wear the fashionable new look. We have also launched a new TV commercial in the UK showcasing our product and illustrating our commitment to customer service.

Employee costs

Employee costs continue to rise reflecting pay and pension increases. The latest three year actuarial valuation of our two UK pension schemes revealed a deficit of almost £1 billion which requires an extra £133 million contributions a year for some years to come.

In January we announced an initiative targeting £300 million in employee cost savings which we are progressing with our unions. To help a better understanding of business issues amongst our people we have also launched an Employee Involvement Programme.

Alliances

As the Chairman has said, we continue to develop commercial relationships with our **one**world partners. In particular, our relationship with American Airlines has never been stronger as more codeshare flights are added to the network. Of course, we continue to run our joint business with Qantas over the Kangaroo Routes.

Now that we have been cleared by the regulators to progress our relationship with Iberia, we are working closely with them to develop co-ordinated network, capacity and pricing along with the use of profit-sharing where appropriate.

Network

The strength of our Heathrow base is important to our success, and the last 12 months have seen significant developments on two fronts.

Firstly, a new runway for Heathrow, which was finally given Parliamentary go-ahead at the end of the year. A third, short runway is expected to be built some time between 2015 and 2020. Although Stansted was given priority, at least we know that Heathrow will get the capacity boost it so desperately needs.

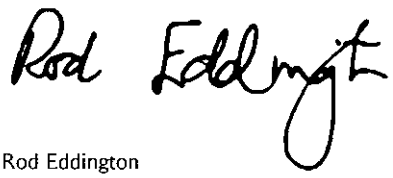
Secondly, at Terminal 5, work has been progressing at a cracking pace. Following an agreement signed with airport owners BAA, it will be our new home from the spring of 2008.

We have re-shaped the network at Gatwick and reduced duplication. Gatwick now focuses on point to point shorthaul markets with fewer longhaul services mainly targeting the leisure customer. We have added eight new destinations on shorthaul and simplified the fleet to a single aircraft type for shorthaul – Boeing 737s and Boeing 777s for longhaul. British Airways CitiExpress has concluded its restructuring and continues to make good progress with its programme to reduce costs. It has stopped serving loss making routes and started a total of 14 new routes over the last 18 months from three of its five core bases.

The way ahead

It has become almost *de rigueur* to talk about another challenging year ahead, but that is exactly what British Airways, and the global aviation industry as a whole, can expect. The recent hike in the price of oil to $40 a barrel is a reminder that cost-cutting achievements can be negated very quickly by factors outside our control.

But our results for 2003-04 show, that we have risen to all the challenges that have come our way and have emerged a stronger, fitter company. They give us every cause for confidence, and provide a sound foundation for investing in the new products we will need if we are to remain competitive and lead the way, rather than follow it.



Rod Eddington
Chief Executive

Operating and financial review

Summary

Group profits before tax for the year were £230 million, against a £135 million profit in the previous year.

Operating profits in the year, at £405 million, were £110 million better than last year. The operating margin of 5.4 per cent was 1.6 points better than last year. The improvement in operating profit reflects the continuing focus on cost reduction initiatives. All the targets of the Future Size and Shape (FSAS) programme were delivered; manpower savings, capital expenditure, asset disposals, procurement, information technology and distribution costs.

Turnover was down 1.7 per cent reflecting the impact of the war in Iraq, Severe Acute Respiratory Syndrome (SARS) and economic weakness in the first half of the year. The profit for the fourth quarter included £35 million of one-off credits relating to systems and process improvements that have enabled more accurate assessments to be made of certain balances.

Cash inflow before financing was £874 million for the twelve months. The closing cash and short-term loans and deposits balance of £1,670 million was up £18 million versus last year. Net debt fell by £991 million during the year to £4,158 million - - its lowest level since December 31, 1997 - - and is down £2.4 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 two years ended March 31, 2004:

	%(Decrease)/Increase Year ended March 31	
	2004	*2003*
Group operating revenue	(1.7)	(7.8)
Group operations		
Volume (RTK)	3.9	(2.9)
Capacity (ATK)	2.5	(6.7)
Yield (Revenue/RTK)	(5.4)	(3.8)

Turnover

Group operating revenue fell in the year by 1.7 per cent to £7,560 million. Revenue from airline operations (passenger and cargo) accounts for approximately 92 per cent of Group operating revenue. For the 12 month period, airline operations revenue fell by 1.7 per cent to £6,953 million on a flying programme 2.5 per cent larger in ATKs.

Passenger traffic (RPKs) increased by 3.0 per cent, whilst capacity (ASKs) was 1.5 per cent higher; as a result passenger load factor increased by 1.1 points compared with 2002/03 to 73.0 per cent. Passenger yield (passenger revenue per RPK) deteriorated by 4.3 per cent for the full year.

Cargo volumes (CTKs) were up 6.0 per cent compared with last year but yields fell by 9.7 per cent. Cargo revenue was down 4.3 per cent from £484 million to £463 million.

Other revenue fell by 1.1 per cent to £607 million, primarily due to a reduction in revenue from third parties.

Expenditure

Unit costs (net operating expenditure per ATK) were 5.7 per cent lower than a year ago; net operating costs were down 3.4 per cent. The average number of employees in the Group, in manpower equivalents (MPE), fell by 8.2 per cent to 49,072 and productivity (ATKs per MPE) improved by 11.6 per cent.

Operating expenses

	Year ended March 31		
	2004 £m	*2003 £m*	*(Higher)/ Lower than 2003 (%)*
Employee costs	2,180	2,107	(3.5)
Depreciation and amortisation	679	734	7.5
Aircraft operating lease costs	135	189	28.6
Fuel and oil costs	922	842	(9.5)
Engineering and other aircraft costs	511	592	13.7
Landing fees and en route charges	549	576	4.7
Handling charges, catering and other operating costs	934	961	2.8
Selling costs	554	706	21.5
Accommodation, ground equipment costs and currency differences	691	686	(0.7)
Total	7,155	7,393	3.2

The operating expenditure for the year ended March 31, 2003 included a charge of £84 million relating to Concorde - - the retirement of the Concorde fleet was announced on April 10, 2003 and took place on October 24.

Employee costs increased by 3.5 per cent to £2,180 million as pension, wage and National Insurance increases were only partially offset by manpower reductions and other efficiencies together with the disposal of dba. In total MPEs at Group level were down by 3,798 (7.4 per cent) compared with March, 2003.

Depreciation costs reduced by 7.5 per cent to £679 million reflecting primarily the £58 million prior year charge relating to the impairment of Concorde capitalised engineering modifications and rotable inventory. Increases in depreciation relating to the continuing embodiment of new products on the Boeing 777 fleet were offset by the favourable exchange impact of the weaker US Dollar.

Aircraft operating lease costs reduced by 28.6 per cent to £135 million as a result of the return to lessors of Boeing 737-300s, 737-400s and 757s, the disposal of dba (that reduced leased Boeing 737-300s by 16 aircraft), and exchange impacts. Onerous lease charges in the year were £15 million (relating to the withdrawal of the British Airways CitiExpress ATP fleet), £12 million lower than last year when the sub-lease of the J41 fleet resulted in a charge of £27 million.

Fuel and oil costs increased by 9.5 per cent to £922 million due to a 9.9 per cent increase in fuel price, the unwinding of prior year hedging benefits and the impact of the increased flying schedule. These were partially offset by the favourable exchange impact of the weaker US Dollar and the disposal of dba.

Engineering and other aircraft costs reduced by 13.7 per cent to £511 million reflecting increased recoveries of insurance costs from franchisees, the disposal of dba and the impact of exchange together with the prior year charge of £26 million relating to the

write-down of Concorde stock. This was partially offset by the costs of additional cargo freighter activity.

Landing fees and en route charges fell by 4.7 per cent to £549 million. This principally reflects increased recoveries of Passenger Service Charges (including those relating to transfer passengers) as well as efficiencies and the impact of the disposal of dba. These are partially offset by increases in price and the adverse exchange impact of the stronger Euro.

Handling charges, catering and other operating costs decreased by 2.8 per cent to £934 million, as a result of reduction in subcontract costs, efficiencies across the operational areas and the impact of dba, partially offset by the costs of the unofficial industrial action in July, 2003 and costs associated with increased cargo freighter activity.

Selling and marketing costs fell by 21.5 per cent to £554 million. The impact of the restructuring of travel agent commissions and the increase in online sales (leading to savings in booking payments) were partially offset by increases in marketing costs.

Accommodation, ground equipment costs and currency differences increased by 0.7 per cent to £691 million. Reductions in information management spend, property costs and vehicle contract costs were more than offset by adverse exchange impacts of £29 million, primarily due to the impact of the weaker US Dollar on the balance sheet retranslation.

Future Size and Shape

Annualised FSAS cost savings for the two year programme totalled £869 million, against a target of £650 million - - targets for all the FSAS programmes (manpower costs, distribution, procurement and information technology) were exceeded.

Capital spend for the year was £253 million, taking the cumulative two-year spend to £572 million, £278 million better than target. Disposal proceeds were £278 million for the year, with further sales during April 2004 taking the cumulative FSAS total to £939 million, £39 million better than the £900 million target.

The Group manpower reduction of 15,678 since August, 2001 includes 1,397 relating to the disposal of World Network Services and 750 relating to the disposal of dba and is a reduction of 13,082 against the FSAS target of 13,000.

Business Plan

The 2004/06 Business Plan was announced on January 28, and includes a target of £300 million saving in employment costs, together with the continuing delivery of last year's Business Plan programmes of Customer Enabled BA (ceBA), Employee Self Service and External Spend.

Geographical analysis

With the exception of Asia Pacific, the operating result for the year improved in all regions despite the impact of the Iraq War, SARS and economic weakness at the start of the year. Asia Pacific was most affected by the impact of SARS and fuel price increases.

The shorthaul result improved significantly on previous years – overall losses were halved to £60 million. However, new entrant growth on regional routes reduced British Airways CitiExpress results, triggering aggressive cost reduction initiatives. The shorthaul result also included a one-off £18 million charge relating to the withdrawal of the ATP fleet.

British Airways CitiExpress

British Airways is continuing to simplify and strengthen its UK regional operation.

In October, 2003, British Airways CitiExpress transferred the operation of its Plymouth-Gatwick route to Air Southwest.

As part of the strategy to move to an all-jet regional operation, the entire remaining fleet of eight British Aerospace ATPs has been stood down, five pending return to lessor and three sub-leased to Loganair. In March, 2004, the transfer took place of five British Airways CitiExpress intra-Scotland routes to Loganair; the three sub-leased ATPs will be operated on these routes. It has also been announced that British Airways CitiExpress will no longer operate four Isle of Man routes, previously ATP-operated, but will retain routes from London Gatwick and Manchester to the island with different aircraft types.

As a result of these changes, British Airways CitiExpress will operate a fleet of 59 aircraft and four types in 2004, compared with 92 aircraft and nine types in 2001.

In February, 2004, an agreement was signed with Eastern Airways allowing the closure of the British Airways CitiExpress ground handling operation in the Isle of Man, and its transfer to their newly established company.

In December, 2003, British Airways CitiExpress announced its 2004/06 Business Plan targets, including £33 million of further cost reductions of which £20 million will be achieved in the financial year 2004/05.

Alliance benefits

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

A commercial agreement with Swiss International Air Lines was concluded in September, 2003.

The final US Department of Transportation order, approving the American Airlines / British Airways (AA/BA) behind and beyond codeshare, was issued on May 30, 2003. The codeshare commenced in September, 2003, and by February, 2004, all initial phases of the codeshare had been implemented. In total, AA have placed their code on 68 British Airways routes to 58 destinations, spanning 34 countries and using nearly 300 flight numbers. In turn, BA have placed their code on 104 routes to 12 countries serving 85 destinations, of which 73 are new to the BA network. This includes the first transatlantic codeshares introduced – Manchester and Glasgow to Chicago and Manchester to New York.

Outside **one**world, co-operation with Japan Airlines (JAL) continues in the form of Frequent Flyer Programme agreements and codesharing. Codesharing commenced in January, 2004, on JAL flights between Tokyo and Seoul, Fukuoka, Osaka and Nagoya. JAL places its code on British Airways services between Heathrow and Hamburg and Stuttgart.

Subsidiaries

On June 30, 2003, the sale was completed of dba to Intro GmbH, for a loss on disposal in the period of £83 million.

In August, 2003, an agreement was signed to sell Speedwing Mobile Communications (the only remaining trading division of Speedwing International Limited) to AirRadio Limited for a profit on disposal of £3 million.

Qantas

Dating from 1993, the 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 and Continental Europe, Southeast Asia and Australia. This co-operation continues to strengthen and provides customers with improved flight departure times, routings and value for money, offering the very best of customer service to all passengers.

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

Qantas' pre-tax profit for the six months ended December 31, 2003 (included in the March 31, 2004 result) amounted to A$530.3 million, an increase of 3.4 per cent on the corresponding period last year. Group profit after tax amounted to A$357.8 million, up 1.5 per cent. Revenue for the six months was A$5.8 billion, down 4.4 per cent compared to last year. Passenger revenue decreased by 4.8 per cent due to a decline in RPKs of 0.8 per cent and a yield deterioration of 5.2 per cent.

In April and October, 2003, Qantas issued new shares by way of shareholder placings. On each occasion, British Airways did not take up its allocation which resulted in the dilution of the Group's shareholding from 18.93 per cent to 18.25 per cent.

Iberia

In December, 2003, the European Commission granted British Airways, Iberia and our franchise partner, GB Airways, exemption for a period of three years under Article 81 of the EU Treaty. The three airlines have used this exemption to deepen cooperation specifically on routes between the UK and Spain including London Heathrow and Gatwick, to Madrid and Barcelona.

In addition British Airways and Iberia have agreed that joint proposals will be developed for field sales co-operation and joint dealing in the UK and Spain markets, for enhanced co-operation in revenue management, for systems co-operation and for a benefit share on routes between the UK and Spain.

Iberia's profit before tax for the 12 months to December 31, 2003 (included in the March 31, 2004 result) was €201.7 million, compared to a profit before tax last year of €194.1 million.

Franchising

As at March 31, 2004 there were six franchisees operating to 78 destinations of which 60 are additional to the British Airways (including British Airways CitiExpress) network.

Share of operating profit in associates

British Airways' share of operating profits from associated undertakings improved by £19 million to £58 million during the year, principally due to improvement in the operating profits of Qantas.

In April, 2003, Amadeus Global Travel Distribution took a 16.67 per cent stake in Opodo. This resulted in the dilution of the Group's shareholding from 22.86 per cent to 19.05 per cent, and a profit on deemed disposal of £5 million.

Profit/loss on disposal of fixed assets and investments

Losses on disposals of fixed assets and investments for the year were £46 million, compared to last year when profits of £60 million were generated from disposals of aircraft and rationalisation of our property portfolio.

The losses on disposal in this financial year primarily reflect the disposal of dba on June 30, 2003 for a loss in the period of £83 million. This was partially offset by profits on the sale and leaseback of five Airbus A320 aircraft and V2500 spare engines. Other disposals during the year included the sale of a 20 per cent holding in China Aircraft Services, the Speedwing Mobile Communications business and the sale and leaseback of two Boeing 777-200 aircraft.

Net interest payable

Net interest expense for the year was £200 million, £55 million lower than the previous year. This included a credit relating to the revaluation of yen debt (used to fund aircraft acquisitions) of £15 million, compared to a charge the previous year of £10 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 rates, a higher cash balance and lower gross debt, together with exchange benefits.

Other income/charges

Other income of £13 million for the year primarily relates to lease transfer consent fees. This compares to a charge of £4 million last year.

Taxation

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

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

Earnings per share

For the 12 month period, profits attributable to shareholders were £130 million, equivalent to earnings of 12.1 pence per share, compared with earnings of 6.7 pence per share last year.

Aircraft fleet

The number of Group aircraft in service at March 31, 2004 was 291, a reduction of 39 on the prior year. Aircraft returns to lessors comprised five British Aerospace ATP and five ATR72 aircraft. In addition, a further five ATP and four Boeing 737-400 aircraft were stood-down pending return to lessors. The five remaining Concorde aircraft were retired from service in October, 2003 and 16 Boeing 737-300 aircraft were disposed of as part of the dba sale in June, 2003. In addition British Airways CitiExpress sub-leased three ATP aircraft to Loganair. Deliveries comprised three Airbus A320 aircraft whilst one Boeing 747-400 aircraft was returned to service having been previously sub-leased to Qantas.

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, 2004:

	Year ended March 31	
	2004 £m	*2003 £m*
Aircraft, spares, modifications and refurbishments (net of refund of progress payments)	**154**	*225*
Property and equipment	**67**	*95*
Landing rights	**14**	*32*
	235	*352*
Investments	**0**	*18*
	235	*370*

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £347 million for the Group (2003: £482 million) and £346 million for the company (2003: £476 million). The outstanding commitments include £323 million, which relates to the acquisition of Airbus family aircraft scheduled for delivery over the next four 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, 2004, net current liabilities were £231 million, up £52 million on last year. This change principally reflects higher creditors (£92 million) due to increased sales in advance of carriage and reductions in stock. These were partially offset by an increase in debtors, due to improved sales volumes and revenue, and an £18 million increase in cash, short-term loans and deposits.

Sales in advance of carriage increased from £783 million to £859 million due to improved forward bookings.

Cash flow

Net cash inflow from operating activities totalled £1,093 million, £92 million less than last year, as the improvement in operating profit was more than offset by the reduction in depreciation and the impact of working capital movements.

The net cash inflow before management of liquid resources and financing was £874 million, a reduction of £357 million from last year, due to the decrease in operating cash flow and a reduction in disposal proceeds, partially offset by a reduction in capital expenditure.

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, 2004:

£ million	Bank and other loans	Finance leases and hire purchase arrangements	Total 2004	*Total 2003*
Balance at April 1	1,332	5,357	**6,689**	*7,401*
New loans raised	81		**81**	*13*
Non-cash refinancing	193	(225)	**(32)**	
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of assets		97	**97**	*221*
Repayment of amounts borrowed	(339)	(576)	**(915)**	*(797)*
Exchange movements	(42)	(162)	**(204)**	*(149)*
Balance at March 31	1,225	4,491	**5,716**	*6,689*

Three A320 aircraft were delivered during the year. The aircraft were financed on balance sheet through US Dollar denominated cross border finance leases. Five older A320 aircraft were sold and leased back for a period of five years. Two Boeing 777-200 aircraft were sold and leased back for a period of ten years. These were the first of our Boeing 777-200 aircraft to be taken off balance sheet, thereby starting to manage the Group's residual value exposure to this aircraft fleet.

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 £169 million (2003: £139 million gain).

Net debt/total capital ratio

Net debt at the year end amounted to £4,158 million, including convertible bonds of £112 million and net of cash and short-term loans and deposits totalling £1,670 million. This reduction of £991 million reflected the application of the operating cash flow to the net repayment of debt and exchange effects.

The net debt/total capital ratio stood at 53.8 per cent, a 6.9 point reduction versus last year mainly due to the reduction in net debt. Including operating leases, net debt was 58.2 per cent, a 6.4 point reduction from last year.

Share capital

The number of shares allotted, called up, and fully paid on March 31, 2004 was 1,082,845,000 (March 31, 2003: 1,082,784,000). On June 16, 2003, 11,000 ordinary shares were issued in exchange for 26,000 Convertible Capital Bonds 2005 on the basis of one ordinary share for every 2.34 bonds held. During the year, 50,000 shares were issued on the exercise of options under Employee Share Option schemes.

Pensions

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

However we are also required to disclose the impact of the new standard FRS 17 in the notes to the accounts. As at March 31, 2004, the accounting valuation of the Group pension schemes under FRS 17 shows a post-tax deficit of £1.2 billion, in line with the previous year's valuation. The FRS 17 valuation reflects a snapshot of the pension scheme assets and liabilities at March 31, 2004 and does not impact employer's contributions.

The triennial actuarial review of the main UK pension schemes (APS and NAPS) was completed in October, 2003 and confirmed the cash contributions required to be made into the schemes. For APS, as there is no longer a surplus, contributions of £26 million per year commenced from November 1, 2003. For NAPS, the increase in the deficit requires additional contributions of £107 million to be made per year, commencing from January 1, 2004. As a result, total contributions to APS and NAPS for the year ended March 31, 2004, were £158 million (excluding augmentation payments). Contributions for the financial year ending March 31, 2005 are expected to be approximately £250 million.

Other Matters

Liquidity and investments

The Iraq war and the continuing risk of terrorist attacks led us to maintain high liquidity throughout the year. Cash flow was managed effectively through this period by successful completion of the Future Size and Shape programme. This involved a continuation of the low capital expenditure by maintaining capital spend at £253 million (2003: £319 million) and a programme of surplus asset sales which yielded £278 million in the year (£939 million in the 28 months to April 30, 2004).

This strong cash generation has allowed us to accelerate debt repayments. During the year the Group repaid £344 million of debt early and intends to continually review liquidity requirements and repay debt early to utilise long-term surplus liquidity. Early repayments of £143 million have already been scheduled for the quarter ending June 30, 2004.

At March 31, 2004 the Group had at its disposal short-term loans and deposits and cash at bank and in hand amounting to £1,670 million (2003: £1,652 million). In addition, the Group had undrawn long term committed aircraft and general financing facilities totalling approximately US$761 million, a committed short-term unsecured revolving credit facility of US$100 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 funding facilities and net cash flow, are expected to be sufficient to cover the cost of all firm aircraft deliveries due in the next three years.

Surplus funds are invested in high quality short-term liquid instruments, usually bank deposits. Credit risk is managed by limiting the aggregate exposure to any individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed and adjusted as necessary. Accordingly, the possibility of material loss arising in the event of non-performance by counterparties is considered to be unlikely.

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 governing corporate and asset financing, interest rate risk, fuel price risk, foreign exchange risk and cash and liquidity management. The governance statement also lists the financial instruments that the Group's treasury function is authorised to use in managing financial 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 which 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; 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 27b. The Group demonstrated its continuing ability to raise new financing by financing all aircraft deliveries during the year and maintaining committed facilities for all planned aircraft deliveries.

At March 31, 2004 approximately 66 per cent of the Group's borrowings (after swaps), net of cash, short-term loans and deposits, were at fixed rates of interest and 34 per cent were at floating rates. This proportion of fixed rate borrowings has increased from 58 per cent at March 31, 2003 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 27a.

In July, 2003 the company's senior unsecured debt rating was lowered by one notch to sub-investment grade having been put on credit watch due to the Iraq War and SARS. The impact of the downgrade was limited as there are no financial covenants in the existing debt portfolio. Furthermore, the Group's main source of external funding, being secured aircraft financing, is less sensitive to credit ratings than the unsecured bond market.

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, 2004 lower levels of US Dollar capital expenditure and US Dollar disposal proceeds resulted in the generation of a surplus.

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 and sterling.

The Group has substantial liabilities denominated in yen, which consist mainly of purchase option payments falling due under various Japanese leveraged lease arrangements maturing between 2004 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 the balance sheet translation risk.

The Group's forward transactions in foreign currency are detailed in Note 41.

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.

In meeting these objectives, the fuel risk management programme allows for the judicious use of a number of derivatives traded on regulated exchanges in London (the International Petroleum Exchange) and New York (the New York Mercantile Exchange) as well as on the Over The Counter (OTC) markets, with approved counterparties and within approved limits.

Derivative financial instruments

British Airways 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 37.

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, 2004 are summarised in Note 41.

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.

Economic and Monetary Union

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

International Financial Reporting Standards

British Airways will prepare its March 31, 2006, consolidated financial statements under International Financial Reporting Standards (IFRS). The IFRS convergence project team report quarterly to the Audit Committee and progress continues in accordance with the plan. The detailed implementation planning phase is underway and on track to deliver IFRS compliant information for comparative purposes during 2004/05. Communication to the investor community will commence during the second half of the year.

Board members *as at May 17, 2004*

CHAIRMAN
Lord Marshall of Knightsbridge (70)
Board Member since 1983, Chief Executive 1983-1993, Executive Chairman 1993-1996; Non-executive Chairman since 1996. Chairman of the Nominations Committee. He is also Chairman of Pirelli UK plc, and a non-executive director of HSBC Holdings Plc. Lord Marshall will retire at the Annual General Meeting to be held on July 20, 2004.

DEPUTY CHAIRMAN
Martin Broughton (57)
Independent non-executive director since May, 2000. Chairman of the Audit Committee and senior independent non-executive director. Nominations, Remuneration and Safety Review Committees. Martin Broughton is Chairman of British American Tobacco p.l.c.

CHIEF EXECUTIVE
Roderick Eddington (54)
Executive Board member since 2000. Rod Eddington joined the airline as Chief Executive in May, 2000. He is a non-executive director of News Corporation and of John Swire & Son Pty Limited.

CHIEF FINANCIAL OFFICER
John Rishton (46)
Executive Board member since September, 2001. Having originally joined the airline in 1994 as Senior Vice-President Finance USA, John Rishton was appointed as Chief Financial Officer in September, 2001. He is a non-executive director of Allied Domecq PLC.

DIRECTOR OF CUSTOMER SERVICE AND OPERATIONS
Michael Street (56)
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 Airways Charitable Trust Limited. He is a non-executive director of WSH Group Ltd and Kempton Park Racecourse Company Limited.

NON-EXECUTIVE DIRECTORS
Maarten van den Bergh (62)
Independent non-executive director since 2002. Audit and Nominations Committees. He is Chairman of Lloyds TSB Group Plc and a non-executive director of BT Group plc and Royal Dutch Petroleum Company, having previously been President of Royal Dutch Petroleum Company and Vice-Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of companies.

Dr Ashok Ganguly (68)
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 (59)
Non-executive director since October, 2001. Chairman of the Safety Review Committee. Captain Jeffery was Director of Flight Operations from 1995 until his retirement from British Airways in June, 2001. He is a member of the West Michigan University College of Aviation Advisory Board.

Baroness O'Cathain (66)
Non-executive director since 1993. Safety Review Committee. Detta O'Cathain is also a non-executive director of BNP Paribas UK Plc and South East Water plc.

Dr Martin Read (54)
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 (47)
Independent non-executive director since December, 2003. Audit Committee. Alison Reed is Group Finance Director of Marks & Spencer plc, non-executive director of HSBC Bank plc and a Trustee of Whizz-Kidz.

Lord Renwick of Clifton (66)
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, Harmony Gold, SABMiller Plc, Compagnie Financiere Richemont AG and a Trustee of The Economist.

COMPANY SECRETARY Alan Buchanan (45)

PRESIDENT EMERITUS
The Lord King of Wartnaby (86)
Lord King was Chairman of British Airways for 12 years from 1981, and served as President from 1993 to 1997.

LEADERSHIP TEAM

Rod Eddington (54)	Chief Executive
John Rishton (46)	Chief Financial Officer
Mike Street (56)	Director of Customer Service and Operations
Paul Coby (48)	Chief Information Officer
Lloyd Cromwell Griffiths (59)	Director of Flight Operations
Martin George (42)	Director of Marketing and Commercial Development
Alan McDonald (53)	Director of Engineering
Roger Maynard (61)	Director of Investments and Alliances
Dale Moss (55)	Director of Sales Worldwide
Neil Robertson (51)	Director for People
Robert Webb QC (55)	General Counsel

Directors' report

The directors present their Report and Accounts for the year ended March 31, 2004. 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 £130 million, against a profit on the same basis of £72 million in the previous year. No interim dividend was paid during the year. The Board has decided not to recommend payment of a final dividend.

Directors

The names and details of the directors are set out on page 12. During the year to March 31, 2004 there was one change to the membership of the Board. Alison Reed was appointed to the Board in December, 2003 and will seek election by shareholders at the annual general meeting on July 20, 2004. Mike Street and Baroness O'Cathain retire and seek re-election in accordance with the company's Articles of Association at the annual general meeting to be held on July 20, 2004. Biographical notes about the directors seeking re-election are set out on page 12. They are also in the explanatory notes of the notice of annual general meeting.

Directors' membership of Board Committees appears on page 12. Details of the directors' remuneration and share interests are set out in the Remuneration Report on pages 23 to 26.

Employee involvement

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

Employee ownership in the company is encouraged. As at May 12, 2004, 52 per cent of employees owned 1.95 per cent of the company's shares. The Sharesave 2000 Plan matured in June, 2003, but as the option price of £2.38 was below the market price, most employees kept their savings and did not exercise their options. Future Sharesave and Share Incentive Plans remain under review.

The company works constructively with its recognised trade unions. There are well-developed structures within the company for appropriate trade union involvement. This includes BATUC, a monthly forum where the company's executive management provides a business update for trade union representatives. The dispute in the Heathrow terminals that took place during the summer of 2003 has in part led to the role of BATUC being further developed with the launch of the BATUC Initiative. Through a process of engagement and communication, the initiative seeks to increase the transparency in the relationship between British Airways and its trade unions with the aim of enabling both parties to move forward together to successfully meet future challenges to the business.

To reflect the importance of employee motivation and commitment, particulary during a period of rapid change and external challenges, the company has developed a plan of action to refocus on these issues. Employee research has been conducted to understand the feelings and views of people after three difficult years. The research confirmed that communication of the company direction and priorities is essential to ensure that employees understand the issues facing the business and the reasons for change. Face to face communication is strongly preferred as it allows people to contribute ideas. Managers will refocus on key people management and leadership skills, ensuring their teams are well equipped to do their jobs. Regular research will be undertaken to ensure that actions taken have improved the motivation and commitment of our people.

Diversity and Inclusion

British Airways is committed to moving the diversity agenda forward. Last year, we surveyed different parts of the company to gain employees views on sexual orientation and religious faith ahead of legislation, which was introduced in December, 2003. Over 20 per cent of the work force is now on some form of part time working which underlines our commitment to supporting flexible working. There has also been increased take up of paternity leave and unpaid parental leave as people make different lifestyle choices.

A diversity strategy and plan of work has been agreed for the next two years which will focus on racial and gender equality, improvements for disabled travellers and the impact of forthcoming age legislation.

Corporate Responsibility - Community and Environment

British Airways is committed to improving its social and environmental performance by protecting and enhancing the welfare of our customers, our employees and the communities affected by our operations. This activity is overseen by an internal Corporate Responsibility Board, established in June, 2003, and chaired by Robert Webb, the General Counsel. An independent adviser, Mark Goyder, director Tomorrow's Company, has recently been appointed to this Board.

The Government's December, 2003 White Paper raised the profile of the environmental performance of the aviation industry in the media and political debate. British Airways has welcomed the Government's decision to support the addition of a short third runway at Heathrow Airport, subject to key environmental conditions being met – notably in relation to local air quality. We plan to be actively engaged in the programme of work which the Government will be leading to resolve this issue. Over the last two years, we have been sponsoring research on Heathrow air quality, overseen by a local stakeholder group. We have also supported the development of a website to enable broader access to research and data – www.heathrowairwatch.org.uk. This research and data helps to provide a more solid base for modelling future scenarios and the development of a mitigation strategy.

The global warming impact of aviation has also remained in the spotlight, with environmental campaigners arguing for a significant rise in taxes on air travel on these grounds. In its White Paper, the UK Government accepted the arguments put forward by British Airways and others that taxation would be a blunt and ineffective instrument and that emissions trading

provided a more effective solution. The UK Government is proposing to make the inclusion of aviation in EU Emissions Trading a priority for its 2005 EU Presidency.

British Airways is well prepared to manage emissions trading, having gained valuable experience within the UK Emissions Trading Scheme. We have successfully completed our second year within the scheme, achieving a 17 per cent reduction in our contribution to the UK CO_2 inventory in 2003, compared to the 1998-2000 baseline. This is considerably ahead of our target and has triggered a further incentive payment of £1.3 million from the UK Government. We also remain committed to our target of a 30 per cent fuel efficiency improvement in the 20 years to 2010. We continue to contribute to international discussions on promoting more fuel-efficient industry practices and establishing an effective long-term framework for limiting the contribution of international aviation to global warming.

We continue to monitor and seek to improve our operational environmental performance, focusing on reducing noise, emissions, waste and local congestion. Our relatively new aircraft fleet helps us to limit our noise impact and we continue to support a number of voluntary initiatives at the major London airports, including avoiding arrivals before 4.30am. We have also been active in developing, promoting and updating Codes of Practice to limit the impact of aircraft noise and we have in place a wide range of operational practices and procedures aimed at limiting our noise impact on local airport communities.

British Airways supports over 100 community and conservation programmes worldwide, in support of our Board-approved priorities which were comprehensively reviewed over the course of the year - education and youth development, sustainable tourism, environment, supporting our staff and heritage.

Since the opening of the Community Learning Centre at Heathrow we have welcomed more than 26,000 children, young people and adult learners. We offer programmes which support the school curriculum such as languages, vocational guidance, environmental education, business studies and citizenship. We have awarded Language Flags to a total of 3,065 students. We have also trained 62 teachers to deliver the British Airways Flag Award which is designed to provide students with a work related dimension to their language learning and fits within the framework of their GCSE programme. We have also continued to develop our adult learning programme - which aims to help the long term unemployed improve their skills.

We continue to support the UNICEF Change for Good programme, which allows loose change donated by our customers to help children throughout the world, mostly in very poor and deprived countries. Since our fundraising partnership with UNICEF began in 1994 we have raised over £17 million and funded UNICEF programmes in over 50 countries around the world. Change for Good has supported two major programmes in 2003/4: £1 million was given to support the protection and education of street children in Mexico and over £485,000 was given to support a HIV education programme in Andhra Pradesh. The programme has also supported other projects in Kenya, South Africa and Angola as well as providing emergency relief in Iran and Iraq. The tenth anniversary of Change for Good was celebrated by a visit of Her Majesty The Queen to British Airways in May, 2004, including the unveiling of a commemorative plaque as well as the logo on a Boeing 747 aircraft which now carries the Change for Good message across the world.

Support for a wide range of other charitable organisations is provided through over 900 travel awards made to charitable organisations and other not for profit organisations working under the "British Airways Communities and Conservation" programme. Through the British Airways Community Volunteering Awards over £90,000 was awarded to charities supported by our staff in their volunteering endeavours. The company's payroll giving scheme was re-launched in December, with a visit by Lawrence Dallaglio, the current English Rugby Captain, helping to generate valuable publicity. It is now known as the British Airways Giving Scheme and over 4,500 of our current and retired UK staff donated £638,624 (2003 £631,779) to their chosen charities in 2003/4.

The national charity Get Kids Going – which supports young disabled athletes - received almost £400,000 as a result of the successful auction of Concorde memorabilia at Bonhams in December, 2003. Race for Life took place for the fifth year in the Waterside parkland in July, 2003. The event is organised by our employees and raised £70,000 for Cancer Research UK.

British Airways is a member of both the London Benchmarking Group (LBG) and Business in the Community's Percent Club. We use the LBG's benchmarking model to assess our contributions to the community. Business in the Community reported our total contribution for the year end March 31, 2004 as £4.0 million (2003 £1.6 million). British Airways direct charitable donations (cash donations to charity) for the year to March 31, 2004 were £396,398 (2003: £237,804).

Our social and environmental performance continues to be recognised by external bodies. British Airways was selected as a member of the 2004 Dow Jones Sustainability Index and the 2004 FTSE4Good Index - the only UK airline to be included. British Airways was a founding member of the Business in the Community Corporate Responsibility Index in 2002 and was ranked 64th in the 2003 Sunday Times top 100 "Companies that Count", the only airline to be recognised for the second year running.

Our Annual Social and Environmental report for 2003/04 will be available from July. We have produced annual environmental reports since 1990/91 and this year's will be the fifth joint social and environmental report. This report and further information is available by writing to Environmental Affairs, British Airways Plc, Waterside (HBA3), PO Box 365, Harmondsworth, UB7 0GB, UK and online at www.ba.com/responsibility.

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 the next four years. This was done in response to changes to the provisions of the Companies Act made by the Political Parties, Elections and Referendums Act 2000, which oblige companies to obtain prior shareholder approval before this type of cost can be incurred. The Board has repeatedly stressed that it does not make donations to political parties in the ordinary meaning of those words and that it has no intention of doing so.

The precise scope of these provisions remains unclear and some of the activities which the company carries on may require prior shareholder approval. After taking legal advice, the company set up a procedure to monitor certain types of expenditure which could reasonably be expected to fall within the intention of the

2000 Act (arguably a much narrower category than falls within the letter of the law). The amount expended in the period from April 1, 2003 to March 31, 2004 was £nil (2003: £nil). The London Eye Company Limited, which is accounted for as a quasi-subsidiary, made donations-in-kind aggregating £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. This statement describes how the principles of corporate governance are applied to the company and the company's compliance with the Code provisions set out in Section 1 of the Combined Code appended to the Listing Rules of the Financial Services Authority (the "Current Code").

The company has complied throughout the year with the code of best practice set out in Section 1 of the Current Code. A revised version of the Combined Code which will be applicable to the company with effect from the financial year commencing on April 1, 2004 has been adopted by the Financial Reporting Council (the "New Code"). The Board has taken steps to comply with the New Code and, by March 31, 2004, the company was largely compliant with its requirements. The Board intends to achieve compliance in all material respects with the New Code and will report on this in its next annual report.

The Board of British Airways Plc routinely meets ten times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the company, and for these purposes the Board has drawn up and annually reviews a schedule of matters reserved for Board decision. In recognition of the international nature of the airline business, the Board endeavours to hold at least three of its meetings each year at important destinations on British Airways' route network. 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 Rod Eddington, the Chief Executive. During the financial year under review, the Board increased in number from eleven to twelve members. Of the twelve members serving at the year end, three were executive directors and nine were non-executive directors. Two of the non-executive directors, the Chairman, and Captain Michael Jeffery, were formerly executives of the company. 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. In relation to Baroness O'Cathain, who has served on the Board for more than ten years, the requirements of provision A.3.1 of the New Code have led the Board to determine that she is no longer "independent" for the purposes of the New Code, and accordingly her appointment is subject to annual re-election by shareholders. Until the annual general meeting on July 20, 2004, the Deputy Chairman, Martin Broughton, remains the senior independent non-executive director on the Board. The Board includes six fully independent non-executive directors.

All directors receive a regular supply of information about the company so that they are equipped to play as full a part as possible in Board meetings. 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 below.

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.

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 the Deputy Chairman, Martin Broughton. The Committee 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 Baroness O'Cathain. Alison Reed joined the Committee on December 1, 2003 and, subject to being elected by shareholders at the annual general meeting on July 20, 2004, will succeed Martin Broughton as chairman of the Audit Committee from that date. For the reasons previously given, Baroness O'Cathain left the Committee on March 31, 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. In addition, the Committee has held closed meetings and has also met privately with each of the external and internal auditors. Executives attend as required. The Committee reviews the company's financial statements to ensure that its accounting policies are the most appropriate to the company's circumstances and that its financial reporting presents a balanced and understandable assessment of the company's position and prospects. It also keeps under review the company's system of internal control, including compliance with the company's 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 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 are Martin Broughton, Ashok Ganguly, Baroness O'Cathain and Lord Renwick. The Committee considers matters relating to the operational safety and security of the airline and subsidiary airlines as well as health and safety issues. The 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 benefit 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. Its Chairman is Lord Marshall and its other members are Martin Broughton and Maarten van den Bergh. No member of the Committee participates in any discussion of his or her own performance.

Maarten van den Bergh led the process which resulted in the selection of the new chairman whose appointment was determined by the Board on November 7, 2003. In relation to the appointment of new Board members, an independent search company is used to identify suitable candidates as was the case with the appointment of Alison Reed during the year under review. The Committee's remit has recently been extended to include review of corporate governance.

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, with effect from April 1, 2004, the Company Secretary to review that remuneration and to consider and decide grants under the company's long term incentive and share option plans. The Report of the Remuneration Committee on pages 19 to 22 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 are Martin Broughton and Lord Renwick. No director is involved in deciding his or her own remuneration. The fees for the non-executive directors, other than the Chairman, are fixed by the executive directors on the recommendation of the Chairman.

At the end of March, 2004, the Board carried out an internal performance evaluation exercise.

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

Board attendance

Director	Board Meeting 11 in period[1]	Audit Committee 5 in period	Nominations Committee 2 in period	Remuneration Committee 5 in period	Safety Review Committee 6 in period
Lord Marshall	11		2		
Rod Eddington	11				
Mike Street	10				
John Rishton	11				
Maarten van den Bergh	11	4	2		
Martin Broughton	10	5	2	4[2]	5
Dr Ashok Ganguly	11	5			5
Captain Michael Jeffery	11				6
Baroness O'Cathain	11	5			6
Dr Martin Read	9			5	
Alison Reed[3]	4	1			
Lord Renwick of Clifton	8			2	5

[1] *The meeting normally scheduled for April, 2004 was brought forward to March 29, 2004.*

[2] *Martin Broughton was excluded from the meeting which concerned his remuneration as the future chairman of the company.*

[3] *Joined the Board in December, 2003.*

The company maintains regular contact with its larger institutional shareholders through its investor relations team and through meetings with the Chief Executive and the Chief Financial Officer as well as annual institutional investor events. The presentations from these institutional investor events are also available to private shareholders through the company's investor relations website, www.bashares.com. The annual investor day in March, 2004 was attended by three non-executive directors and major investors were given the opportunity to put their views to 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, 2004, 31 per cent of the ordinary shares of the company were held by non-UK nationals (2003: 44 per cent) and 22 per cent of the ordinary shares were held by persons who were not nationals of states comprising the European Economic Area (2003: 39 per cent). Although there are no large interests of single or associated non-UK nationals, the directors cannot rule out the possibility that they may be required to exercise their powers to restrict non-UK or non-EEA share ownership in order to protect the company's operating rights.

Internal control

The directors are responsible for the company's system of internal control, including internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding:

(a) the safeguarding of assets against unauthorised use or disposition, and

(b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

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

As part of its continuing drive to embed internal control into its business processes, a new risk management process was introduced into the company during 2002/03 which encompasses the business continuity activity. The process is aligned with the associated activities of Risk Finance, Insurance and Internal Audit. A high level Risk Group, chaired by the General Counsel and reporting to the Audit Committee, develops risk strategy and associated policies for the group. Beneath this sits a committee of risk leaders, each of whom represents parts of the group and is responsible for identifying risks, determining their level of impact and likelihood, and for developing mitigation strategies. The resultant departmental and corporate risk registers, which have been refined and developed during the year under review, remain subject to regular review by the Risk Group.

For the accounting period ending on March 31, 2004, the key procedures that the directors established to provide effective internal controls were as follows:

At the end of the year under review the Board adopted a new Code of Business Conduct and Ethics applicable to all employees. As part of the process leading to its adoption, the company's Code of Business Conduct introduced in 2000 to convey ethical values and establish the norms of business behaviour throughout the company was the subject of a detailed review and will shortly be replaced by new Statement of Business Principles which will be promoted during the summer of 2004. These are two of a number of Standing Instructions to employees of the Group designed to enhance internal control. These, along with Finance and Procurement Standing Instructions, are regularly updated and made available to staff through the company's intranet.

A clear organisational structure exists detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and control consciousness and identifies appropriate training requirements. Action plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the company can meet its future management requirements.

Information systems are developed to support the company's long-term objectives and are managed by a professionally staffed Information Management department. Appropriate policies and procedures are in place covering all significant areas of the business. These detail lower level controls including authorisation and approval processes. During the year under review, the company has worked to enhance controls in relation to IT risks.

The business agenda is normally determined by the business plan which represents the operational and financial evaluation of the corporate strategy, setting out the agreed targets for financial return and service standards, identifying and prioritising improvement opportunities to deliver those targets and the agreed capital and manpower requirements. The business planning process confirms that the targeted results can be achieved, satisfies departments that their plans are robust and establishes performance indicators against which departments can be evaluated. The business plan is approved by the Board on an annual basis. The latest business plan covering the period April 1, 2004 to March 31, 2006 was launched in January, 2004 and seeks to complete the implementation of the business plan 2003/05 and to build upon the successful implementation of the Future Size and Shape review.

A comprehensive management accounting system is in place providing financial and operational performance measure indicators to management. Detailed management accounts are prepared to cover each major area of the business. Variances from plan are analysed, explained and acted on in a timely manner. As well as regular Board discussions, monthly meetings are held by the Leadership Team to discuss performance with specific projects being discussed as and when required. The Capital Investment Committee and Manpower Control Group remain instrumental in maintaining tight control of capital expenditure and headcount respectively. 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 ongoing projects, third party audits (suppliers, agents, partners), IT audits and risk control as well as continuing a full programme of internal audits. All areas of the company are audited over the course of a standard three year cycle. The standard of internal controls in different parts of the business are measured and rated satisfactory or unsatisfactory. Major projects are measured against four criteria: well controlled, on time, within budget and benefits delivered. Initiatives during the financial year have included the essential planning and groundwork 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. This work has already resulted in significant strengthening of the Group's internal control systems. 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, 2004 in respect of the company is calculated in accordance with the provisions of the Companies Act 1985 and was 49 days (2003: 57 days).

By order of the Board

Alan Buchanan
Company Secretary
May 17, 2004



Remuneration report

Information not subject to audit

COMMITTEE AND ADVISERS

The company's Remuneration Committee determines on behalf of the Board, within the agreed terms of reference, the overall remuneration packages for the executive directors, certain other senior executives, the Chairman and, with effect from April 1, 2004, 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 2003/04, the company's Remuneration Committee was chaired by Dr Martin Read and its other members were Martin Broughton and Lord Renwick. Prior to taking up his appointment as Chairman of the Company on July 20, 2004, Martin Broughton will cease to be a member of the Committee. The Company Secretary acts as secretary to the Committee.

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

New Bridge Street Consultants LLP were appointed as advisers to the Remuneration Committee during October, 2003 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.

During the year under review, the Committee met on five occasions.

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 2004/05 as well as for the foreseeable future. The company's remuneration policy is to provide compensation packages at market rates which reward successful performance and attract, retain and motivate managers. The remuneration packages offered by the company are comparable with other international businesses of similar size and nature to British Airways.

EXECUTIVE DIRECTORS

Remuneration package

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

As the British Airways Long Term Incentive Plan 1996 is due to expire in 2006, a full scale review of long term incentive arrangements is currently being undertaken. Any new long term incentive schemes proposed as a result of this review will be put to shareholders for approval. In conjunction with this review, changes may also be made to the structure of the annual bonus scheme for future years. In light of the December, 2003 consultation paper "Simplifying the taxation of pension: the Government's Proposals", a review of the Group's UK pension arrangements is also likely to be undertaken in due course.

Basic salary

The basic salary reflects the level of responsibility of the executive director, his or her market value and individual performance. The Commitee'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 above. John Rishton was promoted to Chief Financial Officer in September, 2001. The increases in his basic salary are intended to bring him towards the market median for the position of Chief Financial Officer of a FTSE100 company.

Annual bonus

Executive directors participate in an annual bonus scheme which is designed to reward achievement of financial targets established by the Remuneration Committee and linked to the business plan approved by the Board. 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. The annual bonuses earned by each of the three executive directors in relation to the year under review were voluntarily waived.

Long term incentive plan

The current performance criteria for the British Airways Long Term Incentive Plan 1996 were adopted at the annual general meeting on July 13, 1999. The Plan permits the Remuneration Committee to make awards of options over shares up to a maximum of 75 per cent of basic salary to senior executives conditional upon the company's achievement of a stretching performance condition, which requires the company's ranking by total shareholder return (TSR) to be placed at the median percentile or above relative to the companies in the FTSE100 index before any options are granted and which produces the

maximum option grant only if the company attains the 90th percentile or above. In relation to awards made in recent years, achievement against the performance condition will be tested in relation to the whole award on the third anniversary of the start of the financial year in which the award was made. If granted, all options are immediately exercisable for seven years. No payment is due upon exercise of options. All awards are subject to the Remuneration Committee being satisfied that the company's overall financial performance justifies the grant of the option. The Remuneration Committee selected the performance condition because it is challenging, aligned to shareholders interests and ensures awards only give benefit to executives if they outperform their peers. Performance against the condition is assessed using data on the TSR performance of the company and the FTSE100 index as supplied by Towers Perrin. No changes are proposed to the long term incentive plan in relation to 2004/05. On April 1, 2004 a third of each of the conditional awards made in 1999, 2000 and 2001 lapsed as the performance condition was not met in the financial years 2000 to 2004.

Rod Eddington, Mike Street and John Rishton received conditional awards under the Plan during the year under review, details of which may be found on page 26.

British Airways Share Option Plan 1999

The Plan enables the Remuneration Committee to grant options to acquire ordinary shares in the company or British Airways' American Depositary Shares (ADS) at an option price in sterling or (in the case of ADSs) in US dollars which is not less than the market value of the shares on the date of grant and, where shares are to be subscribed, their nominal value (if greater). No payment is due upon the initial grant of options. An individual's participation is limited so that the aggregrate value of the shares over which options are granted in any one year will not exceed basic salary. Exercise of options is subject to a performance condition, the aim of which is to link the exercise of options to sustained improvements in the underlying financial performance of the company. The performance condition used in the year under review and preceding years required 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 as this is a recognised method in the market. In addition, the Remuneration Committee has 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 Remuneration Committee selected the performance condition because it is challenging and aligned to shareholders interests. Performance against the condition is assessed by calculating EPS growth of the company to see if it exceeds the minimum performance required. 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'. No gains were made on the exercise of share options during the year under review. In relation to grants to be awarded under the plan during 2004/05, the Remuneration Committee has determined that the performance condition and the EPS threshold should remain unchanged. If the performance condition is not satisfied over the initial three year period, there will be a single retest after a further year which will measure performance of the company over the four year period commencing with the year in which the grant was made. This retest has been retained, after consultation with major shareholders, in order to recognise the highly cyclical nature of the company's EPS and the continued use of 17.3 pence as the minimum base year EPS, which represents a challenging performance hurdle.

Rod Eddington, Mike Street and John Rishton received awards under the Plan during the year under review, details of which may be found on page 25.

Service contracts

Each of the three executive directors has a rolling contract with a one year notice period. As a matter of policy, in the event of new external appointments, the length of service 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.1.8 of the current Combined Code (and paragraph B.1.6 of the revised Combined Code). Of the directors proposed for re-election at the forthcoming annual general meeting, only Mike Street has a service contract which is detailed below. The service contracts include the following terms:

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

There are no express provisions for compensation payable upon early termination of an executive director's contract as at the date of termination other than 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.

Pension schemes

Rod Eddington and John Rishton are members of both the New Airways Pension Scheme (NAPS) and an unfunded unapproved retirement scheme which, under the terms of their service contracts, will provide a total retirement benefit equivalent to 1/30th and 1/56th respectively of basic salary for each year of service. Mike Street is a member of NAPS which will provide 1/56th of pensionable pay for each year of service. Annual bonuses and awards under the two long term incentive plans are not part of the executive directors' pensionable pay and neither will they be included for pensionable purposes in relation to any future appointments of executive directors. Provision for payment of a widow's pension on death and life insurance providing payment of a lump sum for death in service is also made.

NON-EXECUTIVE DIRECTORS

Non-executive directors' fees

The Chairman's fee is determined by the Remuneration Committee. Fees for the non-executive directors (other than the Chairman) are determined by the executive directors on the recommendation of the Chairman. For the year in question, these were set in April, 2001 and were £27,500 per annum plus £600 for each Board Committee separately attended. The Chairman of the Safety Review Committee receives £15,000 in addition to these fees and is provided with a company car and fuel. The review of these fees scheduled for April, 2003 was deferred for six months and an increase in line with the rise in base pay for the workforce was declined by all of the non-executive directors when offered in October, 2003. The Chairman and the non-executive directors are not eligible to participate in the long term incentive plan nor in the share option plan. Their fees are not pensionable. Lord Marshall and Captain Jeffery, being former executives of the company, are in receipt of pensions, in the case of Lord Marshall, under the New Airways Pension Scheme and, in the case of Captain Jeffery, under the Airways Pension Scheme. As a former executive, Lord Marshall retains options under the 1987 share option plan and, similarly, Captain Jeffery retains conditional share options under the long term incentive plan, granted, in each case, whilst they were serving as executives of the company.

Service Agreements

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

Non-executive	Date of appointment	Date of election/ last re-election	Expiry date
Lord Marshall	*13 December 1983*	*16 July 2002*	*20 July 2004*
Maarten van den Bergh	*16 July 2002*	*16 July 2002*	*19 July 2005*
Martin Broughton	*12 May 2000*	*15 July 2003*	*18 July 2006*
Dr Ashok Ganguly	*12 April 1996*	*16 July 2002*	*19 July 2005*
Captain Michael Jeffery	*1 October 2001*	*16 July 2002*	*19 July 2005*
Baroness O'Cathain	*27 May 1993*	*15 July 2003*	*20 July 2004*
Dr Martin Read	*12 May 2000*	*15 July 2003*	*18 July 2006*
Alison Reed	*1 December 2003*	*20 July 2004*	*20 July 2004*
Lord Renwick	*1 March 1996*	*16 July 2002*	*19 July 2005*

Except where appointed at a general meeting, non-executive directors stand for election by shareholders at the first annual general meeting following appointment and stand for re-election every three years thereafter under Article 87. The Chairman's letter of engagement was amended in June, 2003 to remove a one year notice provision, and he subsequently indicated his intention to retire at the annual general meeting on July 20, 2004. None of the non-executive directors has any right to compensation on the early termination of their appointment. The letters of engagement for non-executive directors, other than the Chairman, 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 investor relations website, www.bashares.com.

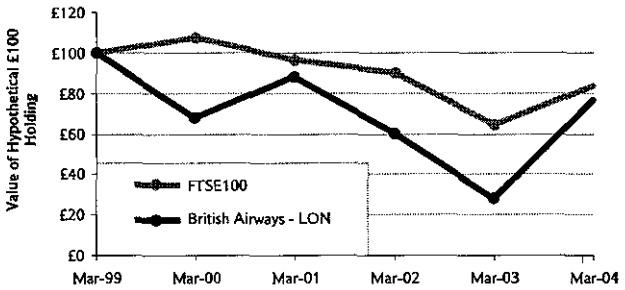
PERFORMANCE GRAPH

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 used as the comparator group for the long term incentive plan and provides an appropriate indication of market movements against which to benchmark the company's performance.

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

FTSE100 Comparison Based on 30 Trading Day Average Values



Information subject to audit

Directors' remuneration

The remuneration of the directors was:

	Basic salary and fees	Taxable Benefits[1]	Total 2004	Total 2003
	£'000	*£'000*	*£'000*	*£'000*
Executive Directors[2]				
Rod Eddington	*558*	*26*	*584*	*553*
Mike Street	*325*	*21*	*346*	*328*
John Rishton[3]	*305*	*15*	*320*	*256*
Non-executive Directors				
Lord Marshall	*250*	*13*	*263*	*251*
Maarten van den Bergh	*30*		*30*	*21*[5]
Martin Broughton[4]	*36*	*1*	*37*	*35*
Michael Davies[6]				*9*
Captain Michael Jeffery	*46*	*15*	*61*	*63*
Dr Martin Read	*29*	*1*	*30*	*30*
Dr Ashok Ganguly	*34*		*34*	*33*
Baroness O'Cathain	*34*	*1*	*35*	*36*
Alison Reed[5]	*10*		*10*	
Lord Renwick	*31*	*1*	*32*	*30*
The Hon Raymond Seitz[6]				*8*
Aggregate emoluments	*1,688*	*94*	*1,782*	*1,653*

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

[2] The annual bonuses earned by the three executive directors in relation to the year under review were voluntarily waived.

[3] John Rishton was promoted to Chief Financial Officer in September, 2001. The increases in his basic salary are intended to bring him towards the market median for the position of Chief Financial Officer of a FTSE100 company

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

[5] Figures shown from date of appointment.

[6] Retired from the Board on July 16, 2002

The pension entitlements of the executive directors were:

	Accumulated accrued benefits *March 31, 2004* £	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	72,809	21,229	19,785	234,845
Mike Street	220,097	16,315	10,609	145,836
John Rishton	63,166	17,050	15,579	120,214

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

	March 31, 2004 £	March 31, 2003 £	Director's contributions during the year £	Movement, less director's contributions £
Rod Eddington	948,761	511,650	29,308	407,803
Mike Street	3,285,696	2,523,476	16,741	745,479
John Rishton	531,620	263,747	15,675	252,198

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, 2004

	British Airways Plc Ordinary Shares	
	March 31, 2004	*April 1, 2003*
Lord Marshall	69,225	*69,225*
Rod Eddington		
Mike Street	6,678	*6,678*
John Rishton	2,039	*2,039*
Maarten van den Bergh	2,000	*2,000*
Martin Broughton	24,090	*24,090*
Dr Ashok Ganguly	104	*104*
Capt Michael Jeffery	2,624	*2,624*
Baroness O'Cathain	10,000	*10,000*
Dr Martin Read	8,000	*8,000*
Alison Reed		
Lord Renwick	32,014	*32,014*
Total	156,774	*156,774*

In addition, the Chairman holds 11,304 British Airways Capital Limited Convertible Capital Bonds (2003: 11,304). No other director has any beneficial interest in any subsidiary undertaking of the company. There have been no changes since March 31, 2004.

Directors' share options at March 31, 2004

The following directors held options to purchase ordinary shares of British Airways Plc granted under the British Airways Executive Share Option Scheme 1987 and the British Airways Share Option Plan 1999. In line with market practice at the time, the 1987 scheme is not subject to any performance condition. The 1999 plan is subject to a performance condition as detailed on page 20:

British Airways Executive Share Option Scheme 1987

	Date of Grant	Number of Options as at April 1 2003	Exercise Price	Options 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 2004
Lord Marshall	June 9, 1993	81,911	293p	81,911				June 9, 1996	June 9, 2003	Nil
	July 1, 1994	12,903	372p					July 1, 1997	July 1, 2004	12,903
	Aug 11, 1994	95,465	419p					Aug 11, 1997	Aug 11, 2004	95,465
Total		**190,279**								**108,368**

No options were exercised during the financial year.

British Airways Share Option Plan 1999

	Date of Grant	Number of Options as at April 1 2003	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 2004
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		157p				350,318	June 25, 2006	June 25, 2013	350,318
Total		**592,494**					**350,318**			**942,812**
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		157p				203,821	June 25, 2006	June 25, 2013	203,821
Total		**411,031**					**203,821**			**614,852**
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		157p				191,082	June 25, 2006	June 25, 2013	191,082
Total		**247,832**					**191,082**			**438,914**

In addition, John Rishton and Mike Street each held 814 options at 238p under the 2000 operation of the British Airways Savings Related Share Option Scheme 1996, which were exercisable for a six month period from June 1, 2003 but which were not exercised. As an all employee saving scheme, there was no performance criterion.

Directors' Conditional Share Options at March 31, 2004

The following directors held conditional awards of options over ordinary shares of British Airways Plc granted under the British Airways Long Term Incentive Plan 1996:

	Date of grant	Number of conditional options as at April 1, 2003	Awards vesting during the year	Awards lapsing during the year	Awards made during the year	Number of conditional options as at March 31, 2004
Rod Eddington	June 5, 2000	103,022		33,997		69,025
	June 8, 2001	105,000				105,000
	June 12, 2002	185,731				185,731
	June 9, 2003				294,643	294,643
Total		**393,753**		**33,997**	**294,643**	**654,399**
Mike Street	June 12, 1998	10,421		10,421		Nil
	July 2, 1999	31,287		15,409		15,877
	June 5, 2000	59,196		19,534		39,662
	June 8, 2001	61,000				61,000
	June 12, 2002	107,901				107,901
	June 9, 2003				171,429	171,429
Total		**269,805**		**45,364**	**171,429**	**395,869**
John Rishton	June 12, 1998	1,774		1,774		Nil
	June 8, 2001	45,000				45,000
	June 12, 2002	79,599				79,599
	June 9, 2003				160,714	160,714
Total		**126,373**		**1,774**	**160,714**	**285,313**
Captain Michael Jeffery	June 12, 1998	5,381		5,381		Nil
	June 2, 1999	17,670		8,703		8,967
	June 5, 2000	33,420		11,028		22,392
Total		**56,471**		**25,112**		**31,359**

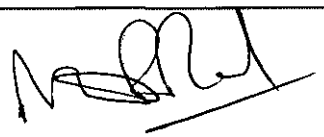
On April 1, 2004 a third of each of the conditional awards made on July 2, 1999, June 5, 2000 and June 8, 2001 lapsed as the performance condition was not met in the financial years 2000 to 2004. The market value on June 9, 2003 of the shares over which conditional options were awarded was 140p.

In relation to awards made from 1999 to 2001, one third of each individual award may vest at the end of the third, fourth and fifth financial years from the year of the grant if the performance of the company, measured by TSR from the year of the grant through to the end of the year in question, places the company at or above the median percentile when compared with the TSR for each of the companies in the 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 options will be granted. 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 between 1999 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 between 1999 and 2001) will vest. For performance between the 50th and 75th percentile, the number of options vesting will be determined on a straight-line basis. If the company's TSR for the period is at the 90th percentile all of the award (or one third portion in the case of awards between 1999 and 2001) will vest. For performance between the 75th and 90th percentile, the number of options vesting will be determined on a straight line basis.

Upon vesting, participants are granted an option for no payment and 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:

	2004	2003
At March 31	**276.5p**	104.0p
Highest in the year	**332.3p**	245.0p
Lowest in the year	**105.5p**	86.0p



Approved by the Board and signed on its behalf by
Dr Martin Read
Non-executive Director and Chairman of the Remuneration Committee
May 17, 2004

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, 2004 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 46. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

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, 2004 and of the profitof 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 17, 2004

Group profit and loss account

For the year ended March 31, 2004

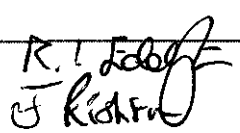
£ million	Note	Group 2004	Group *2003*
Turnover	2	**7,560**	*7,688*
Cost of sales	4	**(7,008)**	*(7,263)*
Gross profit		**552**	*425*
Administrative expenses	4	**(147)**	*(130)*
Operating profit		**405**	*295*
Share of operating profit in associates	7	**58**	*39*
Total operating profit including associates		**463**	*334*
Other income and charges	8	**13**	*(4)*
(Loss)/profit on sale of fixed assets and investments	9	**(46)**	*60*
Net interest payable	10	**(200)**	*(255)*
Profit before tax		**230**	*135*
Tax	11a	**(85)**	*(50)*
Profit after tax		**145**	*85*
Equity minority interest		**(1)**	
Non equity minority interest	38	**(14)**	*(13)*
Profit for the year		**130**	*72*
Retained profit for the year	33a	**130**	*72*
Earnings per share	12		
Basic earnings per share		**12.1p**	*6.7p*
Diluted earnings per share		**12.1p**	*6.7p*

Balance sheets

At March 31, 2004

£ million	Note	Group 2004	Group *2003*	Company 2004	Company *2003*
Fixed assets					
Intangible assets	13				
Goodwill		93	*99*		
Landing Rights		75	*65*	75	*65*
		168	*164*	75	*65*
Tangible assets	14				
Fleet		7,104	*7,828*	6,727	*7,548*
Property		1,042	*1,219*	968	*1,144*
Equipment		491	*440*	411	*343*
		8,637	*9,487*	8,106	*9,035*
Investments	17				
Subsidiary undertakings and quasi-subsidiary				1,194	*1,208*
Associated undertakings		501	*461*	29	*33*
Trade investments		30	*32*	29	*31*
Investment in own shares		31	*31*	31	*31*
		562	*524*	1,283	*1,303*
		9,367	*10,175*	9,464	*10,403*
Current assets					
Stocks	22	76	*87*	66	*69*
Debtors	23	1,019	*986*	1,122	*923*
Short-term loans and deposits	24b	1,606	*1,430*	1,558	*1,374*
Cash at bank and in hand	24b	64	*222*	35	*194*
		2,765	*2,725*	2,781	*2,560*
Creditors: amounts falling due within one year	25	(2,996)	*(2,904)*	(3,599)	*(3,452)*
Net current liabilities		(231)	*(179)*	(818)	*(892)*
Total assets less current liabilities		9,136	*9,996*	8,646	*9,511*
Creditors: amounts falling due after more than one year					
Borrowings and other creditors	26	(5,374)	*(6,441)*	(5,451)	*(6,483)*
Convertible Capital Bonds 2005	36	(112)	*(112)*		
		(5,486)	*(6,553)*	(5,451)	*(6,483)*
Provision for deferred tax	29	(1,137)	*(1,062)*	(1,106)	*(1,025)*
Provisions for liabilities and charges	30	(85)	*(107)*	(58)	*(80)*
		2,428	*2,274*	2,031	*1,923*
Capital and reserves					
Called up share capital	31	271	*271*	271	*271*
Reserves	33				
Share premium account		788	*788*	788	*788*
Revaluation reserve		262	*270*	262	*270*
Profit and loss account		897	*729*	710	*594*
		1,947	*1,787*	1,760	*1,652*
Total equity shareholders' funds		2,218	*2,058*	2,031	*1,923*
Minority interest					
Equity minority interest		10	*10*		
Non equity minority interest	38	200	*206*		
		210	*216*		
		2,428	*2,274*	2,031	*1,923*

Rod Eddington *Chief Executive Officer*
John Rishton *Chief Financial Officer*
May 17, 2004



Group cash flow statement

For the year ended March 31, 2004

£ million	Note	Group 2004	*2003*
Cash inflow from operating activities	5a	1,093	*1,185*
Dividends received from associates		25	*23*
Returns on investments and servicing of finance			
Interest received		62	*72*
Interest paid on bank and other loans		(83)	*(86)*
Interest paid on finance leases and hire purchase arrangements		(182)	*(222)*
Lease transfer consent fees		7	
Dividends received from trade investments		1	
Non equity minority interest		(14)	*(13)*
Net cash outflow from returns on investments and servicing of finance		(209)	*(249)*
Tax			
Overseas tax		(4)	*(7)*
Capital expenditure and financial investment			
Intangible assets purchased for cash		(14)	*(32)*
Tangible fixed assets purchased for cash	14e	(198)	*(293)*
Refund of progress payments		42	*230*
Sale of tangible fixed assets and investments		212	*351*
Investment in own shares			*(6)*
Net cash inflow for capital expenditure and financial investment		42	*250*
Acquisitions and disposals			
Sale of interests in subsidiary undertakings		(80)	*30*
Sale of interests in associated undertakings		7	*12*
Purchase of interests in other associated undertakings			*(13)*
Net cash (outflow)/inflow for acquisitions and disposals		(73)	*29*
Net cash inflow before management of liquid resources and financing		874	*1,231*
Management of liquid resources		(198)	*(289)*
Financing			
Changes in borrowings			
Bank and other loans raised		81	*13*
Bank and other loans repaid		(339)	*(189)*
Capital elements of finance leases and hire purchase arrangements repaid		(576)	*(608)*
		(834)	*(784)*
(Decrease)/increase in cash	24	(158)	*158*

Statement of total recognised gains and losses

For the year ended March 31, 2004

£ million	Note	Group 2004	Group *2003*
Profit for the year		**130**	*72*
Other recognised gains and losses relating to the year:			
Exchange and other movements	33a	16	*(38)*
Total recognised gains and losses relating to the year		**146**	*34*

Reconciliation of movements in shareholders' funds

For the year ended March 31, 2004

£ million	Note	Group 2004	Group *2003*
Profit for the year		**130**	*72*
Other recognised gains and losses relating to the year:			
Exchange and other movements	33a	16	*(38)*
Goodwill transferred to the profit and loss account in respect of disposals	33a	14	*8*
Net increase to shareholders' funds		**160**	*42*
Equity shareholders' funds at April 1		**2,058**	*2,016*
Equity shareholders' funds at March 31		**2,218**	*2,058*

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, 2004

€ million	2004	2003
Turnover	11,340	11,145
Cost of sales	(10,512)	(10,528)
Gross profit	828	617
Administrative expenses	(221)	(188)
Operating profit	607	429
Share of operating profit in associates	87	57
Total operating profit including associates	694	486
Other income and charges	20	(6)
(Loss)/profit on sale of fixed assets and investments	(69)	87
Net interest payable	(300)	(370)
Profit before tax	345	197
Tax	(128)	(72)
Profit after tax	217	125
Equity minority interest	(2)	
Non equity minority interest	(21)	(19)
Profit for the year	194	106
Retained profit for the year	194	106

Group statement of total recognised gains and losses

For the year ended March 31, 2004

€ million	2004	2003
Profit for the year	194	106
Other recognised gains and losses relating to the year:		
Exchange and other movements	23	(55)
Total gains and losses relating to the year	217	51

Group balance sheet

At March 31, 2004

€ million	2004	2003
Fixed assets		
Intangible assets	252	238
Tangible assets	12,956	13,752
Investments	843	760
	14,051	14,750
Current assets	4,148	3,950
Creditors: amounts falling due within one year	(4,494)	(4,210)
Net current liabilities	(346)	(260)
Total assets less current liabilities	13,705	14,490
Creditors: amounts falling due after more than one year	(8,229)	(9,500)
Provision for deferred tax	(1,706)	(1,539)
Provisions for liabilities and charges	(128)	(155)
	3,642	3,296
Capital and reserves		
Called up share capital	407	393
Reserves	2,920	2,590
	3,327	2,983
Minority interests		
Equity minority interest	15	14
Non equity minority interest	300	299
	315	313
	3,642	3,296
Translation rate	£1 = €1.50	£1 = €1.45

Euro amounts have been included for information only and have been translated from sterling at the rates of exchange applying on March 31, 2004 and 2003.

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.

Basis of consolidation

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

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

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

b Fleet

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

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

c Property and equipment

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

d Leased and hire purchase assets

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

Aircraft and engine overhaul expenditure

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotable spares purchased separately, are carried as tangible fixed assets and generally depreciated in line with the fleet to which they relate. Replacement spares and all other costs relating to the maintenance and overhaul of aircraft and engines are charged to the profit and loss account on consumption and as incurred respectively.

Stocks

Stocks, including aircraft expendables, are valued at the lower of cost and net realisable value.

Cash and liquid resources

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

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 dollar loans are taken to reserves. Exchange differences arising on the translation of net assets of overseas subsidiary undertakings and associated undertakings are taken to reserves. Profits and losses of such undertakings are translated into sterling at average rates of exchange during the year. All other profits or losses arising on translation are dealt with through the profit and loss account.

Derivatives and financial instruments

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

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

Short term debtors and creditors are held at fair value and have therefore been excluded from the financial instrument disclosures except note 40 on currency exposures.

Notes to the accounts continued

2 Turnover

£ million	Group 2004	*2003*
Traffic revenue		
Scheduled services – passenger	6,460	*6,545*
– freight and mail	463	*484*
	6,923	*7,029*
Non-scheduled services	30	*45*
	6,953	*7,074*
Other revenue (including aircraft maintenance, package holidays and other airline services)	607	*614*
	7,560	*7,688*

3 Geographical analysis of turnover and operating profit

a Turnover

£ million	Group By area of original sale 2004	*2003*	By area of destination 2004	*2003*
Europe	4,940	*4,903*	2,639	*2,838*
United Kingdom	3,731	*3,634*	664	*725*
Continental Europe	1,209	*1,269*	1,975	*2,113*
The Americas	1,347	*1,482*	2,767	*2,763*
Africa, Middle East and Indian sub-continent	717	*733*	1,253	*1,201*
Far East and Australasia	556	*570*	901	*886*
	7,560	*7,688*	7,560	*7,688*

b Operating profit

£ million	Group By area of destination 2004	*2003*
Europe	(60)	*(117)*
The Americas	294	*223*
Africa, Middle East and Indian sub-continent	210	*168*
Far East and Australasia	(39)	*21*
	405	*295*

4 Analysis of operating expenditure

£ million	Group 2004	*2003*
Employee costs	2,180	*2,107*
Depreciation and amortisation	679	*734*
Aircraft operating lease costs	135	*189*
Fuel and oil costs	922	*842*
Engineering and other aircraft costs	511	*592*
Landing fees and en route charges	549	*576*
Handling charges, catering and other operating costs	934	*961*
Selling costs	554	*706*
Accommodation, ground equipment costs and currency differences	691	*686*
Total operating expenditure	7,155	*7,393*
Total operating expenditure comprises:		
Cost of sales	7,008	*7,263*
Administrative expenses	147	*130*
Total operating expenditure	7,155	*7,393*

5 Operating profit

a Reconciliation of operating profit to cash inflow from operating activities

£ million	Group 2004	*2003*
Group operating profit	405	*295*
Depreciation and amortisation	679	*734*
Other items not involving the movement of cash	11	
(Increase)/decrease in stocks and debtors	(23)	*238*
Increase/(decrease) in creditors	43	*(62)*
Decrease in provisions for liabilities and charges	(22)	*(20)*
Cash inflow from operating activities	1,093	*1,185*

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

Depreciation of group tangible fixed assets

£ million	Group 2004	*2003*
Owned assets	262	*275*
Finance leased aircraft	159	*145*
Hire purchased aircraft	187	*191*
Other leasehold interests	61	*57*
Impairment		*58*
	669	*726*

5 Operating profit continued

Operating lease costs

£ million		Group 2004	Group 2003
Lease rentals	– aircraft	120	162
	– property	133	146
Hire of equipment and charter of aircraft and crews		98	92
Onerous lease costs		15	27
		366	427

Auditors' remuneration

£'000		Group 2004	Group 2003
Group Auditors – Audit fees		1,650	1,561
– Other professional fees			
– United Kingdom			
– Due diligence		156	377
– Taxation		26	183
		182	560
– Overseas			
– Due diligence		87	
– Taxation		239	372
		326	372
		2,158	2,493

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

£'000	Group 2004	Group 2003
Fees	532	516
Salary and benefits	1,250	1,137
	1,782	1,653

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 charges totalling £84 million relating to the retirement of Concorde, comprising £58 million for the impairment of capitalised engineering modifications and rotable inventory and £26 million for the write down of stocks. The current 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

Number	Group 2004	Group 2003
The average number of persons employed in the group during the year was as follows:		
United Kingdom	43,942	47,162
Overseas	7,997	9,852
	51,939	57,014

£ million	Group 2004	Group 2003
Wages and salaries	1,463	1,472
Social security costs	158	148
Contributions to pension schemes	214	149
	1,835	1,769

7 Share of operating profit in associates

£ million	Group 2004	Group *2003*
Operating profits less losses	58	*39*

8 Other income and charges

£ million	Group 2004	Group *2003*
Other	13	*(4)*
Other income and charges represented by:		
Group	13	*(4)*

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

£ million	Group 2004	Group *2003*
Net loss on disposal of dba	(83)	
Net profit on sale of other fixed assets and investments	37	*50*
Net additional profit from onward disposal of go		*10*
	(46)	*60*
(Loss)/profit on sale of fixed assets and investments represented by:		
Group	(47)	*58*
Associates	1	*2*
	(46)	*60*

There is no tax effect on the sale of fixed assets and investments (2003: £nil).

10 Net interest payable

£ million	Group 2004	Group *2003*
Interest payable		
On bank loans	50	*46*
On finance leases	95	*116*
On hire purchase arrangements	84	*108*
On other loans, including interest of £11 million (2003: £11 million) on Convertible Capital Bonds 2005	51	*50*
	280	*320*
Interest capitalised	(1)	*(10)*
	279	*310*
Interest receivable	(63)	*(63)*
Retranslation (credits)/charges on currency borrowings	(16)	*8*
	200	*255*
Net interest payable represented by:		
Group	192	*253*
Associates	8	*2*
	200	*255*

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

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

11 Tax

a Analysis of charge for the year

£ million	Group 2004	Group *2003*
Current tax		
United Kingdom corporation tax	5	*5*
Less: relief for overseas tax	(5)	*(5)*
UK tax		
Overseas tax	1	*8*
Prior year adjustments	(10)	*(10)*
	(9)	*(2)*
Share of tax of associated undertakings	19	*21*
Total current tax charge	10	*19*
Deferred tax		
Depreciation (in excess of)/below capital allowances	(62)	*2*
Other timing differences	12	*19*
Losses utilised	118	*8*
Prior year adjustments	7	*2*
Total deferred tax charge	75	*31*
Tax charge on profit on ordinary activities	85	*50*

There is no UK tax payable on the operating result for the year (2003: £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 2004	Group *2003*
Profit on ordinary activities before tax	230	*135*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	69	*41*
Effects of:		
Expenses not deductible for tax purposes	17	*26*
Profit/(loss) on disposals not taxable	12	*(21)*
Other differences	(4)	*7*
Timing differences:		
Depreciation in excess of/(less than) capital allowances for the year	62	*(2)*
Other differences	(12)	*(19)*
Losses utilised	(118)	*(8)*
Unrecognised timing differences	(5)	
Lower tax rates on overseas earnings		*(2)*
Unrelieved overseas and associates' losses	5	*13*
Non taxable overseas income	(6)	*(6)*
Adjustments to tax charge in respect of previous periods	(10)	*(10)*
Current tax charge for the year (Note 11a)	10	*19*

c Factors that may affect future tax charges

The group has substantial brought forward tax losses which are available to reduce tax payments on future taxable profits.

Such losses are expected to be utilised in the foreseeable future. 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 £32 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 overseas tax losses or UK capital losses as the utilisation of such losses is uncertain.

12 Earnings per share

	Group			
	Profit		Earnings per share	
	2004	*2003*	2004	*2003*
	£m	*£m*	Pence	*Pence*
Profit for the year and basic earnings per share	130	*72*	12.1	*6.7*
Diluted profit for the year and earnings per share	130	*72*	12.1	*6.7*
Weighted average number of shares for basic and diluted EPS ('000)			1,070,077	*1,073,054*

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

			Group total	
£ million	Goodwill	Landing rights	2004	*2003*
Cost				
Balance at April 1	114	72	186	*156*
Additions		14	14	*32*
Disposals				*(2)*
Balance at March 31	114	86	200	*186*
Amortisation				
Balance at April 1	15	7	22	*16*
Charge for the year	6	4	10	*8*
Disposals				*(2)*
Balance at March 31	21	11	32	*22*
Net book amounts				
March 31, 2004	93	75	168	
March 31, 2003	*99*	*65*		*164*

b Company

		Company total	
£ million	Landing rights	2004	*2003*
Cost			
Balance at April 1	72	72	*40*
Additions	14	14	*32*
Balance at March 31	86	86	*72*
Amortisation			
Balance at April 1	7	7	*5*
Charge for the year	4	4	*2*
Balance at March 31	11	11	*7*
Net book amounts			
March 31, 2004	75	75	
March 31, 2003	*65*		*65*

14 Tangible assets

a Group

£ million	Fleet	Property	Equipment	Group total 2004	Group total *2003*
Cost or valuation					
Balance at April 1	11,455	1,550	1,032	**14,037**	*14,942*
Exchange movements	(275)	(25)		**(300)**	*(266)*
Additions – net of refund of progress payments (Note 14e)	154	24	43	**221**	*320*
Disposals	(593)	(43)	(108)	**(744)**	*(959)*
Reclassifications	(9)	(110)	100	**(19)**	
Balance at March 31	10,732	1,396	1,067	**13,195**	*14,037*
Depreciation					
Balance at April 1	3,627	331	592	**4,550**	*4,468*
Exchange movements	(95)	(2)		**(97)**	*(82)*
Charge for the year	517	71	81	**669**	*668*
Disposals	(407)	(37)	(105)	**(549)**	*(562)*
Impairment (Note 14f)					*58*
Reclassifications	(14)	(9)	8	**(15)**	
Balance at March 31	3,628	354	576	**4,558**	*4,550*
Net book amounts					
March 31, 2004	**7,104**	**1,042**	**491**	**8,637**	
March 31, 2003	*7,828*	*1,219*	*440*		*9,487*
Analysis at March 31					
Owned	1,855	1,005	421	**3,281**	*3,433*
Finance leased	2,247		1	**2,248**	*2,324*
Hire purchase arrangements	2,914			**2,914**	*3,415*
Progress payments	32	37	69	**138**	*241*
Assets held for resale	49			**49**	*38*
Assets not in current use	7			**7**	*36*
	7,104	1,042	491	**8,637**	*9,487*
The net book amount of property comprises:					
Freehold				**313**	*270*
Long leasehold				**340**	*407*
Short leasehold				**389**	*542*
				1,042	*1,219*

	Valuation/cost	Depreciation	Net book amount 2004	Net book amount *2003*
Revalued properties are included in the accounts at the following amounts:				
Property – valuation	393	55	**338**	*382*
– subsequent additions at cost	47	18	**29**	*42*
March 31, 2004	**440**	**73**	**367**	
March 31, 2003	*524*	*100*		*424*
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 2004	**129**	**24**	**105**	
March 31, 2003	*209*	*56*		*153*

Included in fleet assets as at March 31, 2004 are assets with a cost of £578 million (2003: £1.8 billion) held as security for the group's bank and other loans.
Included in the cost of tangible assets for the group is £344 million (2003: £355 million) of capitalised interest.

14 Tangible assets continued

b Company

£ million	Fleet	Property	Equipment	Company total 2004	Company total *2003*
Cost or valuation					
Balance at April 1	11,139	1,449	846	13,434	*14,360*
Exchange movements	(275)	(25)		(300)	*(266)*
Additions – net of refund of progress payments	150	21	40	211	*291*
Disposals	(574)	(43)	(80)	(697)	*(951)*
Net transfers to subsidiary undertakings	(167)		1	(166)	
Reclassifications	(10)	(105)	100	(15)	
Balance at March 31	10,263	1,297	907	12,467	*13,434*
Depreciation					
Balance at April 1	3,591	305	503	4,399	*4,354*
Exchange movements	(95)	(2)		(97)	*(82)*
Charge for the year	494	68	64	626	*628*
Disposals	(395)	(37)	(80)	(512)	*(559)*
Impairment					*58*
Net transfers to subsidiary undertakings	(45)		1	(44)	
Reclassifications	(14)	(5)	8	(11)	
Balance at March 31	3,536	329	496	4,361	*4,399*
Net book amounts					
March 31, 2004	**6,727**	**968**	**411**	**8,106**	
March 31, 2003	*7,548*	*1,144*	*343*		*9,035*
Analysis at March 31					
Owned	1,544	931	342	2,817	*3,051*
Finance leased	2,246			2,246	*2,324*
Hire purchase arrangements	2,849			2,849	*3,345*
Progress payments	32	37	69	138	*241*
Assets held for resale	49			49	*38*
Assets not in current use	7			7	*36*
	6,727	968	411	8,106	*9,035*
The net book amount of property comprises:					
Freehold				258	*270*
Long leasehold				333	*345*
Short leasehold				377	*529*
				968	*1,144*

	Valuation/cost	Depreciation	Net book amount 2004	Net book amount *2003*
Revalued properties are included in the accounts at the following amounts:				
Property – valuation	393	55	338	*382*
– subsequent additions at cost	47	18	29	*42*
March 31, 2004	**440**	**73**	**367**	
March 31, 2003	*524*	*100*		*424*
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 2004	129	24	105	
March 31, 2003	*209*	*56*		*153*

Included in the cost of tangible assets for the company is £341 million (2003: £354 million) of capitalised interest.

14 *Tangible assets continued*

c Revaluation

All freehold properties of the group, and certain leasehold properties, where leases give long-term security of tenure and rights to development, disposal and sub-letting, were revalued at open market value for existing use at March 31, 1995.

d Depreciation

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

	Group	
per cent	2004	*2003*
Boeing 747-400 and 777-200	3.7	*3.7*
Boeing 767-300 and 757-200	4.7	*4.7*
Airbus A320, A319 and Boeing 737-400	4.9	*4.9*
Embraer RJ145, British Aerospace 146	*4.5*	*4.5*

Property, apart from freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from 3 to 25 years, according to the type of equipment.

e *Analysis of group tangible asset additions*

				Group total	
£ million	Fleet	Property	Equipment	2004	*2003*
Cash paid	131	23	44	198	*293*
Acquisitions under loans, finance leases and hire purchase arrangements	*76*	*7*		83	*205*
Capitalised interest		1		1	*10*
Accrual movements	*(11)*	*(7)*	*(1)*	*(19)*	*42*
	196	24	43	263	*550*
Refund of progress payments	(42)			(42)	*(230)*
	154	*24*	*43*	*221*	*320*

f Impairment

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

15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £347 million for the group (2003: £482 million) and £346 million for the company (2003: £476 million).

The outstanding commitments include £323 million which relates to the acquisition of Airbus A320 family of aircraft scheduled for delivery over the next four 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 2004	Group *2003*	Company 2004	Company *2003*
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	7	*25*	6	*4*
Between one and five years	78	*90*	54	*58*
Over five years	33	*36*	14	*11*
Within one year	118	*151*	74	*73*
Between one and five years	285	*333*	162	*166*
Over five years	78	*72*	49	*13*
	481	*556*	285	*252*

b Property and equipment

£ million	Group 2004	Group *2003*	Company 2004	Company *2003*
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
Amounts payable within one year relate to commitments expiring as follows:				
Within one year	18	*41*	14	*39*
Between one and five years	23	*13*	24	*12*
Over five years	37	*45*	35	*45*
Within one year	78	*99*	73	*96*
Between one and five years	206	*209*	188	*200*
Over five years, ranging up to the year 2145	1,366	*1,559*	1,333	*1,539*
	1,650	*1,867*	1,594	*1,835*

Property and equipment commitments relate largely to property leases.

17 Investments

a Group

i) Associated undertakings

£ million	Group 2004	Group *2003*
Balance at April 1	461	*425*
Exchange movements	27	*17*
Additions		*13*
Goodwill amortisation	(1)	*(1)*
Share of attributable results	1	*(4)*
Share of movements on other reserves	8	*42*
Disposals	5	*(31)*
Balance at March 31	501	*461*
Equity comprises:		
Cost of shares	383	*370*
Goodwill (less amortisation)	16	*17*
Goodwill set off	(59)	*(61)*
Share of post-acquisition profits	65	*64*
Share of other reserves	96	*71*
	501	*461*

17 Investments continued

ii) Trade investments

£ million	Cost: Shares	Cost: Loans	Provisions: Shares	Provisions: Loans	Group total 2004	Group total 2003
Balance at April 1	29	21	(16)	(2)	**32**	*39*
Additions						*5*
Provision			(1)	(1)	**(2)**	*(12)*
Balance at March 31	29	21	(17)	(3)	**30**	*32*

iii) Investment in own shares

£ million	Group 2004	Group 2003
Investment in own shares	**31**	*31*

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, 2004 the group and company held 12,724,900 shares for the Long Term Incentive Plan and other employee share schemes (2003: 12,900,000 shares). The purchase of shares was financed by British Airways Plc granting a loan to British Airways Plc Employee Benefits Trustees (Jersey) Limited.

Net book value of total investments

£ million	Associated undertakings	Trade investments	Investment in own shares	Group total 2004	Group total 2003
Listed	498	1	31	**530**	*485*
Unlisted	3	*29*		**32**	*39*

Market value of listed investments

£ million	Group total 2004	Group total 2003
Associated undertakings	**638**	*454*
Trade investments	**5**	*4*
Investment in own shares	**36**	*13*

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: Shares	Cost: Capital Contribution	Cost: Loans	Provisions: Shares	Provisions: Loans	Company total 2004	Company total 2003
Balance at April 1	1,806	35	50	(683)		**1,208**	*1,266*
Exchange movements	(2)					**(2)**	*8*
Additions		31				**31**	*35*
Repayment of share premium	(1)					**(1)**	
Disposal							*(2)*
Repayment			(1)			**(1)**	*(4)*
Provision				(41)		**(41)**	*(95)*
Balance at March 31	1,803	66	49	(724)		**1,194**	*1,208*

ii) Associated undertakings

Balance at April 1	33					**33**	*24*
Additions							*14*
Disposal	(2)			(2)		**(4)**	*(5)*
Balance at March 31	31			(2)		**29**	*33*

iii) Trade investments

Balance at April 1	28		21	(16)	(2)	**31**	*38*
Additions							*5*
Provision				(1)	(1)	**(2)**	*(12)*
Balance at March 31	28		21	(17)	(3)	**29**	*31*

17 Investments continued

iv) Investment in own shares

£ million	Company 2004	Company 2003
Investment in own shares	**31**	*31*

See Note 17a iii)

Net book value of total investments

£ million	Subsidiary and quasi-subsidiary undertakings	Associated undertakings	Trade investments	Investment in own shares	Company total 2004	Company total 2003
Listed				31	**31**	*31*
Unlisted	1,194	29	29		**1,252**	*1,272*

Market value of listed investments

£ million	Company total 2004	Company total 2003
Investment in own shares	**36**	*13*

18 Disposal of subsidiary undertakings

i) On June 30, 2003, the group completed the disposal of its 100 per cent holding in Deutsche BA Luftfahrtgesellschaft mbH (dba) to Intro GmbH. The loss arising from the disposal was as set out below. Final completion accounts have not been agreed between the group and Intro GmbH. However, the group does not believe further provision is required for future costs and obligations under the sale agreement. Included in the group's contingent liabilities are certain guarantees in relation to aircraft operating leases held by dba at the date of sale. The value of these guarantees at May 17, 2004 was £60 million.

£ million	Group total
Disposal costs	**6**
Payments to and on behalf of Intro GmbH	**85**
Net liabilities of dba at June 30, 2003	**(20)**
Goodwill written back on disposal	**12**
Loss on disposal	**83**
Loss on disposal before and after tax	**83**

ii) On August 27, 2003, the group completed the disposal of Speedwing Mobile Communications, that formed part of Speedwing International Limited, to Air Radio Limited. The profit on disposal from this sale was £3 million.

19 Disposal of associates

On April 9, 2003 and October 1, 2003, Qantas Airways issued new shares by way of shareholder placings. British Airways did not take up its allocation which resulted in the dilution of the group's shareholding from 18.93 per cent to 18.25 per cent. There was no profit on disposal resulting from the deemed disposal.

On July 3, 2003, British Airways sold its 20 per cent shareholding in China Aviation Services Limited. The profit on disposal from this sale was £2 million.

On April 2, 2003 Amadeus Global Travel Distribution, a technology provider to the travel industry, took a 16.67 per cent stake in Opodo. This resulted in the dilution of the group's shareholding from 22.86 per cent to 19.05 per cent. The profit on disposal resulting from the deemed disposal was £5 million.

20 Quasi-subsidiary

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

£ million	2004	Total 2003
Profit and loss account		
Turnover	37	38
Operating profit	10	13
Loss before tax for the year	(19)	(11)
Balance sheet		
Fixed assets	72	76
Current assets	13	9
Creditors: amounts falling due within one year	(11)	(15)
Net current assets/(liabilities)	2	(6)
Total assets less current liabilities	74	70
Creditors: amounts falling due after more than one year	(132)	(109)
Capital and reserves deficit	(58)	(39)
Cash flow statement		
Cash inflow from operating activities	17	24
Servicing of finance	(6)	(5)
Capital expenditure and financial investment	(2)	(8)
Net cash inflow before management of liquid resources and financing	9	11
Financing	(5)	(15)
Increase/(decrease) in cash	4	(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 £29 million (2003: £24 million).

21 Investment in associates

Summarised financial information £ million	2004	Group 2003
Operating revenue	3,600	1,938
Profit before tax for the year	49	40
Share of fixed assets	1,214	1,068
Share of current assets	515	544
Share of assets	1,729	1,612
Liabilities due within one year	(456)	(513)
Liabilities due after more than one year	(788)	(655)
Share of liabilities	(1,244)	(1,168)
Share of net assets at associated companies' year end accounting dates	485	444
Goodwill on acquisition (less amortisation)	16	17
Total group investment in associated undertakings at March 31	501	461

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

The only associate which accounts for more than 25 per cent of any of the gross assets, gross liabilities, turnover or operating results (on a three year average) of the group is Qantas. For the year ending December 31, 2003, the group's share of Qantas' results was turnover of £811 million (2002: £834 million), profit before tax of £49 million (2002: £66 million), taxation of £15 million (2002: £21 million) and profit after tax of £34 million (2002: £45 million).

As at December 31, 2003, the group's share of Qantas' fixed assets was £1,132 million (2002: £959 million), current assets was £289 million (2002: £293 million), liabilities due within one year £349 million (2002: £382 million) and liabilities due after one year or more £688 million (2002: £521 million).

22 Stocks

£ million	Group 2004	Group *2003*	Company 2004	Company *2003*
Expendables and consumables	**76**	*87*	**66**	*69*

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

23 Debtors

£ million	Group 2004	Group *2003*	Company 2004	Company *2003*
Trade debtors	**676**	*597*	**659**	*570*
Amounts owed by subsidiary undertakings			**241**	*104*
Amounts owed by associated undertakings	**42**	*38*	**31**	*28*
Other debtors	**54**	*64*	**46**	*53*
Prepayments and accrued income	**247**	*287*	**145**	*168*
	1,019	*986*	**1,122**	*923*

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

24 Cash

a Reconciliation of net cash flow to movement in net debt

£ million	Group 2004	Group *2003*
(Decrease)/increase in cash during the year	**(158)**	*158*
Net cash outflow from decrease in debt and lease financing	**834**	*784*
Cash outflow from liquid resources	**198**	*289*
Changes in net debt resulting from cash flows	**874**	*1,231*
New loans and finance leases taken out and hire purchase arrangements made	**(97)**	*(221)*
Non cash refinancing	**32**	
Exchange	**182**	*135*
Movement in net debt during the year	**991**	*1,145*
Net debt at April 1	**(5,149)**	*(6,294)*
Net debt at March 31	**(4,158)**	*(5,149)*

b Analysis of net debt

£ million	Balance at April 1	Cash flow	Other non-cash	Exchange	Balance at March 31
Cash	222	(158)			**64**
Short-term loans and deposits	1,430	198		(22)	**1,606**
Bank and other loans	(1,332)	258	(193)	42	**(1,225)**
Finance leases and hire purchase arrangements	(5,357)	576	128	162	**(4,491)**
Convertible Capital Bonds 2005	(112)				**(112)**
Year to March 31, 2004	(5,149)	874	(65)	182	**(4,158)**
Year to March 31, 2003	*(6,294)*	*1,231*	*(221)*	*135*	*(5,149)*

25 Creditors: amounts falling due within one year

£ million	Group 2004	Group *2003*	Company 2004	Company *2003*
Loans, finance leases and hire purchase arrangements				
Bank and other loans	102	*57*	81	*41*
Finance leases	119	*124*	119	*123*
Hire purchase arrangements	461	*362*	456	*357*
	682	*543*	656	*521*
Trade creditors	840	*982*	781	*860*
Unredeemed frequent flyer liabilities	120	*117*	63	*74*
Amounts owed to subsidiary undertakings			863	*867*
Amounts owed to associated undertakings	32	*27*	32	*27*
Other creditors				
Other creditors	291	*299*	284	*273*
Corporate taxation	6	*19*	3	*16*
Other taxation and social security	38	*41*	37	*36*
	335	*359*	324	*325*
Accruals and deferred income				
Sales in advance of carriage	859	*783*	831	*751*
Accruals and deferred income	128	*93*	49	*27*
	987	*876*	880	*778*
	2,996	*2,904*	3,599	*3,452*

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

£ million	Group 2004	Group *2003*	Company 2004	Company *2003*
Loans, finance leases and hire purchase arrangements				
Bank and other loans	1,123	*1,275*	795	*1,119*
Finance leases	1,978	*2,430*	1,976	*2,429*
Hire purchase arrangements	1,933	*2,441*	1,894	*2,396*
Loans from subsidiary undertakings			551	*309*
	5,034	*6,146*	5,216	*6,253*
Other creditors	14	*23*		
Accruals and deferred income	326	*272*	235	*230*
	5,374	*6,441*	5,451	*6,483*

27 Loans, finance leases and hire purchase arrangements

a Total loans, finance leases and hire purchase arrangements

£ million		Group 2004	Group *2003*	Company 2004	Company *2003*
Loans					
Bank	*– US dollar*	US$374m	*US$612m*	US$244m	*US$503m*
	– sterling	£700m	*£604m*	£422m	*£501m*
		904	*991*	555	*819*
Euro-sterling notes	*– sterling*	318	*337*	318	*337*
Other	*– sterling*	3	*4*	3	*4*
Loans from subsidiary undertakings	*– euro*			€300m	*€300m*
	– sterling			£351m	*£102m*
				551	*309*
Finance leases	*– US dollar*	US$1,190m	*US$1,122m*	US$1,188m	*US$1,122m*
	– sterling	£1,448m	*£1,844m*	£1,447m	*£1,842m*
		2,097	*2,554*	2,095	*2,552*
Hire purchase arrangements	*– Japanese yen*	¥181,738m	*¥189,427m*	¥181,738m	*¥189,427m*
	– US dollar	US$367m	*US$527m*	US$355m	*US$513m*
	– sterling	£1,240m	*£1,460m*	£1,202m	*£1,418m*
		2,394	*2,803*	2,350	*2,753*
		5,716	*6,689*	5,872	*6,774*
Comprising:					
Bank loans					
Repayable wholly within five years		391	*438*	293	*378*
Repayable in whole or in part after five years		513	*553*	262	*441*
		904	*991*	555	*819*
Other loans, finance leases and hire purchase arrangements					
Repayable wholly within five years		2,338	*2,419*	2,435	*2,494*
Repayable in whole or in part after five years		2,474	*3,279*	2,882	*3,461*
		4,812	*5,698*	5,317	*5,955*
		5,716	*6,689*	5,872	*6,774*

Bank and other loans are repayable up to the year 2016. In addition to finance leases and hire purchase arrangements, bank and other loans of the group amounting to US$254 million (2003: US$602 million), and £526 million (2003: £362 million) and bank loans of the company amounting to US$125 million (2003: US$493 million) and £248 million (2003: £264 million) are secured on aircraft.

b Incidence of repayments

£ million	Bank loans	Other loans	Finance leases	Hire purchase arrangements	Group total 2004	Group total *2003*
Instalments falling due:						
Within one year	102		119	461	682	*543*
After more than one year						
Between one and two years	62		130	308	500	*641*
Between two and five years	227	74	346	900	1,547	*1,673*
In five years or more	513	247	1,502	725	2,987	*3,832*
	802	321	1,978	1,933	5,034	*6,146*
Total 2004	904	321	2,097	2,394	5,716	
Total 2003	*991*	*341*	*2,554*	*2,803*		*6,689*
Analysis of total 2004						
British Airways Plc	555	321	2,095	2,350	5,321	*6,465*
Subsidiary undertakings	349		2	44	395	*224*
	904	321	2,097	2,394	5,716	*6,689*

Notes to the accounts continued

28 Analysis of changes in borrowings during the year

£ million	Bank and other loans	Finance leases and hire purchase arrangements	Group total 2004	Group total *2003*
Balance at April 1	1,332	5,357	**6,689**	*7,401*
New loans raised	81		**81**	*13*
Non cash refinancing	193	(225)	**(32)**	
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft and other assets		97	**97**	*221*
Repayment of amounts borrowed	(339)	(576)	**(915)**	*(797)*
Exchange movements	(42)	(162)	**(204)**	*(149)*
Balance at March 31	1,225	4,491	5,716	6,689

29 Provision for deferred taxation *(see also Note 11)*

Deferred taxation has been provided at 30 per cent (2003: 30 per cent):

£ million	Group 2004	Group *2003*	Company 2004	Company *2003*
Accelerated capital allowances	**1,251**	*1,259*	**1,258**	*1,255*
Other timing differences	**28**	*18*	(11)	*(20)*
Tax losses carried forward	**(142)**	*(215)*	**(141)**	*(210)*
	1,137	*1,062*	1,106	*1,025*

Movement in provision: £ million	*Group* 2004	*Group* *2003*	*Company* 2004	*Company* *2003*
Balance at April 1	**1,062**	*1,031*	**1,025**	*985*
Acquisitions during the year				*(3)*
Deferred tax charge in profit and loss (Note 11)	*75*	*31*	**81**	*43*
Balance at March 31	**1,137**	1,062	1,106	1,025

30 Provisions for liabilities and charges

£ million	Balance at April 1	Transfers from profit and loss account	Provisions utilised	Balance at March 31
				Group
Pensions and similar obligations	17			**17**
Post-retirement medical benefits	33	3		**36**
Restructuring	30	5	(30)	**5**
Onerous lease contracts	27	11	(11)	**27**
Year to March 31, 2004	107	19	(41)	**85**
Year to March 31, 2003	*126*	*34*	*(53)*	*107*
Analysis				
British Airways Plc	80	8	(30)	**58**
Subsidiary undertakings	27	11	(11)	**27**
Year to March 31, 2004	107	19	(41)	**85**

The restructuring provision at March 31, 2004 covers pension augmentation costs relating to individuals who left the group in February and March 2004 under the Future Size and Shape Programme, 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.

31 Share capital

Ordinary shares of 25p each	Group and Company 2004 Number of shares '000	2004 £ million	*2003 Number of shares '000*	*2003 £ million*
Authorised				
At April 1 and March 31	1,508,000	377	*1,508,000*	*377*
Allotted, called up and fully paid				
At April 1	1,082,784	271	*1,082,757*	*271*
Conversion of Convertible Capital Bonds	11		*24*	
Exercise of options under Employee Share Option Schemes	50		*3*	
At March 31	1,082,845	271	*1,082,784*	*271*

32 Share options

Number of shares '000	Group and Company 2004	*2003*
Outstanding at April 1	48,625	*43,312*
Granted in the year	14,618	*12,484*
Exercised during the year*	(226)	*(3)*
Expired/cancelled	(20,743)	*(7,168)*
At March 31	42,274	*48,625*
Date exercisable	2004 - 2013	*2003 - 2012*
Price per share	157p - 465p	*181p - 465p*
Price range of options exercised during the year	157p - 238p	*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.

33 Reserves

a Group

£ million	Share premium account	Revaluation reserve	Profit and loss account	Group total 2004	*2003*
Balance at April 1	788	270	729	1,787	*1,745*
Retained profit for the year			130	130	*72*
Transfers relating to revalued assets, including amounts realised on disposal		(8)	8		
Exchange and other movements			16	16	*(38)*
Goodwill written back on disposals			14	14	*8*
Balance at March 31	788	262	897	1,947	*1,787*

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

b Goodwill

Cumulative goodwill set off against reserves at March 31 comprises:

£ million	Group 2004	*2003*
In respect of subsidiary undertakings	421	*433*
In respect of associated undertakings	59	*61*
	480	*494*

33 Reserves continued

c Company

£ million	Share premium account	Revaluation reserve	Profit and loss account	Company total 2004	Company total 2003
Balance at April 1	788	270	594	**1,652**	*1,688*
Retained profit/(loss) for the year			130	**130**	*(11)*
Transfers relating to revalued assets, including amounts realised on disposal		(8)	8		
Exchange and other movements			(22)	**(22)**	*(25)*
Balance at March 31	788	262	710	**1,760**	*1,652*

34 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 per cent (APS) and 78 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. These valuations showed that an employers' 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 employers' 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 cent per annum in real terms (ahead of price inflation assumed to be 2.5 per cent per annum) for APS and 4.6 per cent 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 per cent 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 24.71 per cent of pensionable pay for APS and 13.31 per cent 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 (19.65) per cent of pensionable pay for APS and 9.46 per cent 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 2004	Group 2003
Airways Pension Scheme	**9**	*5*
New Airways Pension Scheme	**183**	*127*
Other pension schemes and provident funds – mainly outside the United Kingdom	**36**	*29*
	228	*161*

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

The main reason for the increase in the pension cost in respect of NAPS over the year is the significant fall in equity values since the last formal actuarial valuation.

There was no provision or prepayment as at March 31, 2003. As at March 31, 2004 there was a provision of £20 million.

34 Pension costs continued

FRS 17 disclosures for the year ended March 31, 2004

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

	Group		Group
	At March 31, 2004		At March 31, 2003
per cent p.a.	APS and NAPS	Other Schemes	*APS and NAPS*	*Other Schemes*
Inflation	2.5	3.0 – 4.0	*2.25*	*2.5 – 4.0*
Rate of increase in salaries	2.5*	1.5 – 6.0	*3.75*	*1.5 – 6.0*
Rate of increase of pensions in payment	2.5	2.0 – 7.5	*2.25*	*2.0 – 8.0*
Rate of increase in deferred pension	2.5	3.0 – 5.5	*2.25*	*2.5 – 5.5*
Discount rate	5.6	2.0 – 9.0	*5.70*	*2.0 – 8.0*

* Rate of increase in salaries is 2.5 per cent per annum for 4 years and 4.0 per cent per annum thereafter.

Market values of the schemes' assets at March 31, 2004 were:

	Group			Group		
	At March 31, 2004			At March 31, 2003		
£ million	APS and NAPS	Other Schemes	Total	*APS and NAPS*	*Other Schemes*	*Total*
Equities	4,669	170	4,839	*3,571*	*123*	*3,694*
Bonds	4,456	64	4,520	*4,472*	*67*	*4,539*
Others	642	59	701	*567*	*58*	*625*
	9,767	293	10,060	*8,610*	*248*	*8,858*

Expected rate of return per cent per annum:

	Group			Group		
	At March 31, 2004			At March 31, 2003		
	APS	NAPS	Other Schemes	*APS*	*NAPS*	*Other Schemes*
Equities	8.4	8.4	6.0 – 9.5	*8.5*	*8.5*	*6.0 – 9.5*
Bonds	4.4	4.7	3.0 – 9.0	*4.5*	*4.5*	*3.0 – 9.0*
Others	5.9	5.6	3.0	*6.4*	*6.1*	*2.6 – 5.0*
	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, 2004 would be as follows:

	Group			Group		
	At March 31, 2004			At March 31, 2003		
£ million	APS and NAPS	Other Schemes	Total	*APS and NAPS*	*Other Schemes*	*Total*
Current service cost	162	11	173	*148*	*5*	*153*
Past service cost	15		15	*12*	*1*	*13*
Total charged to operating profit	177	11	188	*160*	*6*	*166*
Amounts charged to other finance income:						
Interest on pension scheme liabilities	545	24	569	*525*	*25*	*550*
Expected return on assets in the pension scheme	(522)	(13)	(535)	*(581)*	*(16)*	*(597)*
Net charge/(income) to other finance income	23	11	34	*(56)*	*9*	*(47)*
Total profit and loss charge before deduction for tax	200	22	222	*104*	*15*	*119*

34 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, 2004 would have been:

	Group			Group		
	At March 31, 2004			At March 31, 2003		
£ million	APS and NAPS	Other Schemes	Total	*APS and NAPS*	*Other Schemes*	*Total*
Differences between actual and expected returns on assets	(885)	(28)	(913)	*1,421*	*43*	*1,464*
Experience loss on liabilities	625	4	629	*370*	*24*	*394*
Loss on change of assumptions (financial and demographic)	310	7	317	*114*	*46*	*160*
Total loss/(gain) recognised in statement of total recognised gains and losses before adjustment for tax	50	(17)	33	*1,905*	*113*	*2,018*

The following amounts for the year ended March 31, 2004 were measured in accordance with the requirements of FRS 17:

	Group			Group		
	At March 31, 2004			At March 31, 2003		
	APS and NAPS	Other Schemes	Total	*APS and NAPS*	*Other Schemes*	*Total*
(Gain)/loss on scheme assets:						
Amount (£ million)	(885)	(28)	(913)	*1,421*	*43*	*1,464*
Percentage of scheme assets at year end	(9.1)%	(9.6)%	(9.1)%	*16.5%*	*17.3%*	*16.5%*
Experience loss on scheme liabilities:						
Amount (£ million)	625	4	629	*370*	*24*	*394*
Percentage of scheme liabilities at year end	5.7%	0.9%	5.5%	*3.8%*	*5.4%*	*3.9%*
Total actuarial loss/(gain) recognised in statement of total recognised gains and losses:						
Amount (£ million)	50	(17)	33	*1,905*	*113*	*2,018*
Percentage of scheme liabilities at year end	0.5%	(3.7)%	0.3%	*19.7%*	*25.4%*	*19.9%*

The following amounts at March 31, 2004 were measured in accordance with the requirements of FRS 17:

	Group			Group		
	At March 31, 2004			At March 31, 2003		
£ million	APS and NAPS	Other Schemes	Total	*APS and NAPS*	*Other Schemes*	*Total*
Total market value of assets	9,767	293	10,060	*8,610*	*248*	*8,858*
Present value of liabilities	10,907	459	11,366	*9,674*	*445*	*10,119*
Deficit	(1,140)	(166)	(1,306)	*(1,064)*	*(197)*	*(1,261)*
APS irrecoverable surplus	(385)		(385)	*(418)*		*(418)*
Pension liability (before allowance for deferred tax)	(1,525)	(166)	(1,691)	*(1,482)*	*(197)*	*(1,679)*
Related deferred tax	458	50	508	*445*	*59*	*504*
Net pension liability	(1,067)	(116)	(1,183)	*(1,037)*	*(138)*	*(1,175)*

34 Pension costs continued

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at March 31, 2004 would be as follows:

	Group	
£ million	At March 31, 2004	At March 31, 2003
Net assets excluding pension liability	2,428	*2,274*
Pension liability, net of related deferred tax, and SSAP 24 provisions	(1,163)	*(1,175)*
Net assets including pension liability	1,265	*1,099*
Profit and loss reserve excluding pension liability	897	*729*
Pension liability	(1,163)	*(1,175)*
Profit and loss reserve	(266)	*(446)*

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:

	Group			Group		
	At March 31, 2004			At March 31, 2003		
£ million	APS and NAPS	Other Schemes	Total	*APS and NAPS*	*Other Schemes*	*Total*
(Deficit)/surplus before irrecoverable surplus and impact of deferred tax at April 1	(1,064)	(197)	(1,261)	*813*	*(94)*	*719*
Contributions paid	174	36	210	*132*	*25*	*157*
Current service cost	(162)	(11)	(173)	*(148)*	*(5)*	*(153)*
Past service cost	(15)		(15)	*(12)*	*(1)*	*(13)*
Other finance (charge)/income	(23)	(11)	(34)	*56*	*(9)*	*47*
Actuarial (loss)/gain	(50)	17	(33)	*(1,905)*	*(113)*	*(2,018)*
Deficit before irrecoverable surplus and impact of deferred tax at March 31	(1,140)	(166)	(1,306)	*(1,064)*	*(197)*	*(1,261)*

35 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 36 to 43 exclude short-term debtors and creditors.

36 Interest rate risk profile of financial liabilities

	Group	
	2004	*2003*

	Fixed rate borrowings			Floating rate borrowings		
	Weighted average years	Weighted average rate %	£ million	£ million	Total £ million	Total £ million
Sterling	11.0	7.03	1,373	2,448	**3,821**	*4,361*
US dollar	11.7	5.50	417	636	**1,053**	*1,430*
Japanese yen	4.6	1.41	954		**954**	*1,010*
Total 2004	8.9	4.84	2,744	3,084	**5,828**	
Total 2003	*10.0*	*4.93*	*2,963*	*3,838*		*6,801*

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 (2003: £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 16, 2003, 11,000 ordinary shares were issued in exchange for 26,000 Bonds (June 17, 2002, 24,000 ordinary shares were issued in exchange for 57,000 Bonds). The terms also provide that on maturity in 2005, the company may require remaining bondholders to convert their Bonds into ordinary shares of the company which would be sold on their behalf. If the proceeds of such a sale are less than the issue price of the Bonds, the company has to fund any deficit from its own resources. Full conversion of the remaining Bonds would require the issue of 48,039,000 ordinary shares.

The mid market closing prices of the Bonds and the ordinary shares at March 31, 2004 as quoted in the London Stock Exchange Daily Official List were *137.5p and 276.5p each respectively.*

Excluded from the above table are long term creditors and provisions for liabilities and charges amounting to £425 million (2003: £402 million) on which no interest is payable.

37 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, 2004			
US dollar	**US$240m**	**2008**	**2.95% – 3.57%**
Sterling	**£58m**	**2006**	**5.27% – 5.36%**
At March 31, 2003			
US dollar	*US$252m*	*2003 – 2008*	*2.95% – 8.9%*

38 Non equity minority interest

The non equity minority interest represents €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.

39 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 2004	Group *2003*
Sterling	1,334	*1,291*
US dollar	105	*145*
Japanese yen	207	*182*
Other	24	*34*
	1,670	*1,652*

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 6 months.

In addition, the group has fixed asset investments (excluding associates and investments in own shares) amounting to £30 million (2003: £32 million).

40 Currency exposures

£ million	Group					
	Net foreign currency assets/(liabilities)					
Functional currency	US dollar	Euro	Japanese yen	Other	2004	*2003*
Sterling	96	49	(751)	192	(414)	*(497)*
Euro						*(28)*
Total March 31, 2004	96	49	(751)	192	(414)	
Total March 31, 2003	*139*	*46*	*(847)*	*137*		*(525)*

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.

41 Forward transactions

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

	In currency		Sterling equivalents	
	2004	*2003*	2004	*2003*
Maturing within one year				
– *to hedge future currency revenues against US dollars*	US$80m	*US$29m*		
– *to hedge future currency revenues against sterling*			£35m	*£91m*
– *to hedge future operating payments against US dollars*	US$2m	*US$2m*		
– *to hedge future fuel costs in US dollars*	US$665m	*US$655m*	£363m	*£414m*
– *to hedge future operating payments against sterling*				*£13m*
– *to hedge debt*	¥27,238m		£140m	

42 Borrowing facilities

At March 31, 2004 British Airways had undrawn committed aircraft financing facilities of US$421 million (expires December, 2004 and May, 2006), a further US$340 million general facility (expires November 19, 2013) and committed short term unsecured revolving credit facilities of US$100 million (expiring April, 2004) together with unused overdraft facilities of £21 million. An undrawn uncommitted money market line of £25 million was held as at year end.

43 Fair values of financial instruments

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

£ million	2004 Carrying amount	2004 Fair value	*2003 Carrying amount*	*2003 Fair value*
Cash at bank and in hand and overdrafts	64	64	*222*	*222*
Short-term loans and deposits	1,606	1,606	*1,430*	*1,430*
Fixed asset investments (excluding associates and investments in own shares)	30	34	*32*	*35*
Bank and other borrowings	(907)	(967)	*(995)*	*(1,027)*
Finance leases	(2,097)	(2,106)	*(2,554)*	*(2,643)*
Hire purchase arrangements	(2,394)	(2,399)	*(2,803)*	*(2,818)*
Euro-sterling notes	(71)	(79)	*(90)*	*(81)*
Convertible Capital Bonds 2005	(112)	(155)	*(112)*	*(111)*
Euro-sterling Bond 2016	(247)	(248)	*(247)*	*(179)*

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

£ million	Fair value 2004	Fair value *2003*
Interest rate swaps	(5)	*(5)*
Forward currency transactions	(1)	*(9)*
Fuel derivatives	29	*18*

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, 2004. 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, 2004.

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 £954 million has therefore been included as the fair value above.

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

- quoted market value.

Off balance sheet interest rate swaps

- discounted cash flow analysis, to determine the estimated amount the group would receive or pay to terminate the agreements.

Off balance sheet forward currency transactions

- difference between marked-to-market value and forward rate.

Off balance sheet over the counter (OTC) fuel derivatives

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

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

c Hedges

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

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 are expected to occur within one year, and of the unrecognised losses £7 million are expected to occur within one year and £3 million after one year.

At March 31, 2003 there were unrecognised gains of £18 million and unrecognised losses of £14 million relating to hedges of future exposure. All of the unrecognised gains related to the period to March 31, 2004 and of the unrecognised losses £9 million related to the period to March 31, 2004 and £5 million related to periods in excess of one year.

44 Contingencies

There were contingent liabilities at March 31, 2004 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, 2004 amounted to £383 million (2003: £300 million) and £633 million (2003: £611 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. Included above are the values of guarantees the group continues to provide under operating leases held by dba at June 30, 2003 which have not expired. The remaining leases under which the guarantees are provided are due to expire by the end of June 2004.

45 Related party transactions

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

As 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 an 18.25 per cent equity investment in Qantas Airways Limited, and has a 'Joint Services Agreement' with the airline which started in November 1995. The agreement allows the two airlines to co-operate in developing schedules and fares and to share revenues and costs on the core 'Kangaroo' routes between Europe and Australia.

As at March 31, 2004, the net trading balance due to British Airways from Qantas (including amounts related to the Joint Services Agreement and via the IATA clearing house) amounted to £4 million (2003: £1 million due from British Airways).

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

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

As at March 31, 2004, the net trading balance owed by British Airways to Iberia amounted to £0.1 million (2003: £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, 2004, the net trading balance due to Comair amounted to £8 million (2003: £7 million).

Opodo Limited

The group has a 19.05 per cent investment in Opodo. The settlement between British Airways and Opodo is actioned through the Bank Settlement Plan of which both companies are members. As at March 31, 2004 the net trading balance was nil (2003: £nil). The turnover during the year to March 31, 2004 was £16 million (2003: £15 million).

Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with directors or officers of the company at the end of the year 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.

46 Foreign currency translation rates

	At March 31		Annual average	
	2004	*2003*	2003-04	*2002-03*
US dollar	**1.83**	*1.58*	**1.68**	*1.54*
Japanese yen	**191**	*188*	**191**	*188*
Australian dollar	**2.41**	*2.62*	**2.46**	*2.76*
Euro	**1.50**	*1.45*	**1.44**	*1.57*

Principal investments

At March 31, 2004

Subsidiary undertakings

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

	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Ltd *	Airline marketing	England
BA & AA Holdings Ltd *	Holding Company	England
(90 per cent of equity owned)		
Britair Holdings Ltd *	Holding Company	England
British Airways Capital Ltd *	Airline finance	Jersey
(89 per cent of founders' shares owned)		
British Airways Holdings Ltd *	Airline finance	Jersey
British Airways Holidays Ltd *	Package holidays	England
British Airways Maintenance Cardiff Ltd *	Aircraft maintenance	England
British Airways Regional Ltd *	Air travel services	England
British Airways Travel Shops Ltd *	Travel agency	England
CityFlyer Express Ltd *	Airline operations	England
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
Qantas Airways Ltd	*18.25*	*Airline operations*	*Australia*
Iberia, Líneas Aéreas de España, S.A. ('Iberia')	9.0	Airline operations	Spain
Comair Ltd	18.3	Airline operations	South Africa
Opodo Ltd *	19.05	Internet travel agency	England

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*
WNS (Holdings) Ltd *	16.8	Holding company	Jersey

* Owned directly by British Airways Plc

United States generally accepted accounting principles (US GAAP) information

The financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States. The significant differences are described below:

(a) Frequent flyer revenue

Under US GAAP, following the implementation of SAB 101 'Revenue Recognition in Financial Statements', a proportion of frequent flyer revenue is deferred until the frequent flyer airmiles are redeemed. The remaining portion of revenue is recognised upon sale as the related services have been provided.

(b) Pension costs

Under US GAAP, the cost of providing pensions is attributed to periods of service in accordance with the benefit formulae underlying the pension plans. The resultant projected benefit obligation is matched against the current value of the underlying plan assets and unrecognised actuarial gains and losses in determining the pension cost or credit for the year. The net periodic pension costs for these plans for the year ended March 31, 2004 amounted to £179 million (2003: £119 million) under UK GAAP compared with a credit of £72 million (2003: credit of £149 million) under FAS 87 'Employers' Accounting for Pensions'. The resultant decrease in operating costs of £252 million (2003: decrease of £269 million), net of related deferred tax charge of £76 million (2003: charge £81 million), would increase net income under US GAAP by £176 million (2003: increase of £188 million), and would be reflected in the consolidated balance sheet as an increase in pension prepayments.

(c) Goodwill and other intangibles

Up to March 31, 1998, under UK GAAP, the group set off goodwill arising on acquisitions directly against retained earnings. Goodwill arising on acquisitions since April 1, 1998 is capitalised and amortised over its useful economic life. Under US GAAP, the group adopted SFAS 142 'Goodwill and Intangible Assets' effective from April 1, 2002. In accordance with SFAS 142, goodwill and other intangible assets with indefinite lives are capitalised and not amortised, but tested for impairment on an annual basis or on an interim basis when a triggering event occurs.

Under UK GAAP prior to March 31, 1998, any goodwill arising on the acquisition of an investment in associated undertakings was set off directly against retained earnings. From April 1, 1998, goodwill is capitalised and amortised over its useful economic life. Under US GAAP, goodwill and other intangible assets with indefinite lives arising on the acquisition of an equity stake are capitalised and not amortised but tested for impairment in accordance with the requirements of APB 18 'The Equity Method of Accounting for Investments in Common Stock'.

Under US GAAP prior to April 1, 2002, goodwill was capitalised and amortised over its estimated useful life up to a maximum of 40 years. Intangible assets with finite lives continue to be capitalised and amortised over their useful economic lives. The group's landing rights have definite useful lives and will continue to be amortised over their useful economic lives not exceeding 20 years.

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

As at March 31, 2003, the group completed an impairment test, as required by SFAS 142 using the two-step process. Using the British Airways group as the reporting unit, various valuation methods were evaluated before concluding that market capitalisation was the primary method of determining fair value for the purposes of SFAS 142. As a result, the group recognised a goodwill impairment charge of £399 million representing the entire balance of the group's goodwill as recognised under US GAAP.

Amortisation of goodwill arising on the acquisition of subsidiary undertakings and on the acquisition of an equity stake in associated undertakings charged under UK GAAP is reversed for US GAAP. The adjustment to profit for the year in respect of the amortisation of goodwill comprises £6 million (2003: £6 million) in respect of subsidiary undertakings and £1 million (2003: £1 million) in respect of investment in associated undertakings. A charge of £1 million (2003: £1 million) has been recognised in respect of amortisation of goodwill - set off against associated undertakings.

(d) Foreign currency translation

Aircraft which are financed in whole or in part in foreign currency, either by loans, finance lease obligations or hire purchase arrangements, are regarded, together with the related liabilities, as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into sterling at rates ruling at the balance sheet date and the differences arising from the translation of aircraft costs and related foreign currency loans are taken to retained earnings. Under US GAAP, the cost of these aircraft would be fixed in pounds sterling at the rate of exchange ruling at the date of the original acquisition, lease or hire purchase and the exchange gain or loss on the related foreign currency loans would be reflected in income.

(e) Capitalised leases

Under UK GAAP, certain aircraft leases have been capitalised with the related liabilities included in finance lease obligations and the resulting assets are being depreciated over the remaining term of the lease. Previously, under US GAAP, such leases would have been classified as operating leases and neither the capital element nor the associated liability would have been brought onto the balance sheet. As a result of the application of FIN 46, effective from March 2004, these leases are classified as finance leases under US GAAP with both the liability and asset brought onto the balance sheet.

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

(f) Property and fleet valuation

Under US GAAP, tangible assets must be stated at cost less accumulated depreciation in the financial statements. The valuation of properties at March 31, 1995 and fleet at March 31, 1988 incorporated by British Airways in its financial statements would not, therefore, have been included in financial statements prepared in accordance with US GAAP and the subsequent charges for depreciation would have been correspondingly lower. When such assets are sold any revaluation surplus thus realised would be reflected in income under US GAAP.

(g) Associated undertakings

US GAAP applicable to the group have been applied to the group's share of associated undertakings' results. The net effect of these adjustments was £3 million (2003: £(12) million) and the tax effect was £(1) million (2003: £4 million).

UK GAAP requires the operating profit or loss, exceptional items and interest expense and tax of associated undertakings to be shown separately from those of the group. For US GAAP, the after tax profits or losses would be included in the income statement as a single line item. The reclassification has no overall effect on net income for the year or on net assets.

(h) Financial instruments

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

(i) Gains on sale and leaseback transactions

Under UK GAAP, gains arising on sale and leaseback transactions are recognised as part of income to the extent that the sale proceeds do not exceed the fair value of the assets concerned. Gains arising on the portion of the sale proceeds which exceed the fair value are deferred and amortised over the minimum lease term. Under US GAAP, any gain, is deferred and amortised over the minimum lease term.

(j) Quasi-subsidiary

Under UK GAAP, where an entity, though not fulfilling the legal definition of a subsidiary, gives rise to benefits for the group that are, in substance, no different than those that would arise were that entity to be a subsidiary, that entity is classified as a quasi-subsidiary and its accounts are consolidated as if it were a subsidiary undertaking. As a result of this treatment The London Eye Company Limited is classified as a quasi-subsidiary.

Effective from March 14, 2004, under US GAAP, the group applied in full the provisions of FIN 46-Consolidation of Variable Interest Entities. The group assessed its variable interests to identify where it is a primary beneficiary in a variable interest entity requiring consolidation in the group results. As a result of this assessment, The London Eye Company Limited, which was previously accounted for as an associated undertaking, has been consolidated and hence no UK/US GAAP difference remains.

(k) Trade investments

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

(l) Investment in own shares

Under UK GAAP, company shares held for the purposes of employee share ownership plans to meet future requirements of employee share schemes including the Long Term Incentive Plan are recorded in the balance sheet as fixed assets investments. Under US GAAP, such shares are recorded in the balance sheet as a reduction of shareholders' equity.

(m) Deferred tax

British Airways provides for deferred tax in accordance with FRS 19 on all timing differences with the exception of gains on revaluations of fixed assets or where potentially taxable gains have been rolled over where there is no commitment to dispose of the relevant asset. Deferred tax assets are recognised when it is considered more likely than not that there will be suitable taxable profits from which to offset the timing differences.

Under US GAAP, deferred tax is generally provided on a full liability basis on all temporary differences between the accounting and tax bases of the group's assets and liabilities.

The effect of deferred tax methodology differences on profit for the year was £(10) million (2003: £nil) and the deferred tax impact of the US GAAP adjustments was £(121) million (2003: £(107) million). The cumulative effect of methodology differences on shareholders' equity was £(55) million (2003: £(45) million) and the deferred tax impact of the US GAAP adjustments in shareholders' equity was £(280) million (2003: £(167) million).

The effect of the significant adjustments to profit for the year and to shareholders' equity which would be required if US GAAP were to be applied instead of UK GAAP are summarised on pages 65 and 66.

Net income/(loss) under US GAAP

For the year ended March 31, 2004

	Notes	Group 2004 £ million	2003 Restated £ million	2004 $ million*	2003 Restated $ million*
Profit for the year as reported in the group profit and loss account		130	72	238	114
Adjustments:					
Other revenue					
Deferred frequent flyer revenue	(a)	(34)	(32)	(62)	(51)
Employee costs					
Pension costs	(b)	252	269	462	425
Depreciation and amortisation					
Amortisation of goodwill in respect of subsidiary undertakings	(c)	6	6	11	9
Impairment of goodwill in respect of subsidiary undertakings	(c)		(399)		(631)
Amortisation of goodwill in respect of associated undertakings	(c)	1	1	2	2
Depreciation – fleet	(d)	(11)	3	(20)	5
Depreciation – revalued property	(f)	4	4	7	6
			(385)		(609)
Aircraft operating lease costs	(e)	(11)	(7)	(20)	(11)
Equity accounting of associated undertakings					
Share of results of associated undertakings	(g)	3	(12)	5	(19)
Share of tax of associated undertakings	(g)	(1)	4	(2)	6
		2	(8)	3	(13)
Exchange gains/(losses)					
Arising on translation of aircraft related loans	(d)	173	149	317	236
Changes in the fair value of derivative instruments	(h)	19	(38)	35	(60)
		192	111	352	176
(Loss)/income on disposal of tangible fixed assets					
Arising on disposal of revalued property	(f)	4	(11)	7	(17)
Arising on sale and leaseback transactions	(i)	(20)	(20)	(37)	(32)
		(16)	(31)	(30)	(49)
Income on disposal of investments					
Disposal of interests in associated undertakings	(c)		3		5
Disposal of interests in subsidiary undertakings	(c)	12		22	
		12	3	22	5
Deferred tax					
Effect of the above adjustments	(m)	(121)	(107)	(222)	(169)
Effect of differences in methodology	(m)	(10)		(18)	
		(131)	(107)	(240)	(169)
		266	(187)	487	(296)
Net income/(loss) as adjusted to accord with US GAAP		396	(115)	725	(182)
Number of shares		'000	'000	'000	'000
Basic weighted average number of shares		1,070,077	1,073,054	1,070,077	1,073,054
Diluted weighted average number of shares		1,118,117	1,073,054	1,118,117	1,073,054

	Group 2004 Pence	2003 Pence	2004 Cents	2003 Cents
Net income/(loss) per ordinary share as so adjusted – basic	37.0	(10.7)	67.8	(16.9)
Net income/(loss) per ordinary share as so adjusted – diluted	36.1	(10.7)	66.2	(16.9)
Net income/(loss) per american depositary share as so adjusted – basic	370.0	(107.0)	643.0	(169.1)
Net income/(loss) per american depositary share as so adjusted – diluted	361.0	(107.0)	629.0	(169.1)

* US$ amounts are included for information only

Translation rate £1 = $1.83 £1 = $1.58

Shareholders' equity under US GAAP

At March 31, 2004

	Notes	Group 2004 £ million	2003 Restated £ million	2004 $ million*	2003 Restated $ million*
Shareholders' equity as reported in the group balance sheet		**2,218**	*2,058*	**4,066**	*3,253*
Adjustments:					
Intangible assets					
Goodwill set off in respect of subsidiary companies					
Cost	(c)	(114)	*40*	(209)	*63*
Amortisation	(c)	21	*(139)*	38	*(220)*
Tangible assets					
Fleet					
Cost					
Exchange differences	(d)	282	*7*	517	*11*
Depreciation					
Exchange differences	(d)	(85)	*24*	(156)	*38*
Property and equipment					
Cost					
Valuation uplift	(f)	(301)	*(304)*	(552)	*(480)*
Exchange differences	(d)	38	*15*	70	*24*
Depreciation					
Valuation uplift	(f)	40	*35*	73	*55*
Associated companies					
Net equity	(g)	(6)	*(7)*	(11)	*(11)*
Goodwill set off in respect of associated companies					
Cost	(c)	54	*56*	99	*88*
Amortisation	(c)	(13)	*(14)*	(24)	*(22)*
Trade investments					
Uplift to market value	(k)	4	*2*	7	*3*
Investment in own shares	(l)	(31)	*(31)*	(57)	*(49)*
Current assets					
Fair value of financial derivatives	(h)	23	*4*	42	*6*
Pension costs prepayment	(b)	893	*641*	1,637	*1,013*
Current liabilities					
Accruals and deferred income					
Gain on sale and leaseback transactions	(i)	(13)	*(8)*	(24)	*(13)*
Unredeemed frequent flyer liabilities	(a)	(239)	*(205)*	(438)	*(324)*
Long-term liabilities					
Accruals and deferred income					
Gain on sale and leaseback transactions	(i)	(55)	*(29)*	(101)	*(46)*
Provisions for liabilities and charges					
Deferred tax					
Effect of the above adjustments	(m)	(280)	*(167)*	(513)	*(264)*
Effect of difference in methodology	(m)	(55)	*(45)*	(101)	*(71)*
		163	*(125)*	297	*(199)*
Shareholders' equity as adjusted to accord with US GAAP		**2,381**	*1,933*	**4,363**	*3,054*

* US$ amounts are included for information only.

Translation rate £1 = $1.83 *£1 = $1.58*

Operating and financial statistics (Note 1)

For the five years ended March 31, 2004

Airline operations scheduled services		2004	2003	2002	2001	2000
Traffic and capacity						
Revenue passenger km (RPK)	m	**103,092**	*100,112*	*106,270*	*123,197*	*127,425*
Available seat km (ASK)	m	**141,273**	*139,172*	*151,046*	*172,524*	*183,158*
Passenger load factor	%	**73.0**	*71.9*	*70.4*	*71.4*	*69.6*
Cargo tonne km (CTK)	m	**4,461**	*4,210*	*4,033*	*4,735*	*4,584*
Total revenue tonne km (RTK)	m	**14,771**	*14,213*	*14,632*	*16,987*	*17,215*
Total available tonne km (ATK)	m	**21,859**	*21,328*	*22,848*	*25,196*	*25,840*
Overall load factor	%	**67.6**	*66.6*	*64.0*	*67.4*	*66.6*
Passengers carried	'000	**36,103**	*38,019*	*40,004*	*44,462*	*46,578*
Tonnes of cargo carried	'000	**796**	*764*	*755*	*914*	*909*
Frequent flyer RPKs as a percentage of total RPKs (Note 2)	%	**4.0**	*4.4*	*3.7*	*2.6*	*2.0*
Revenue aircraft km	m	**644**	*635*	*685*	*737*	*742*
Revenue flights	'000	**391**	*413*	*492*	*499*	*538*
Break-even overall load factor	%	**63.6**	*63.9*	*65.0*	*64.4*	*65.9*
Financial						
Passenger revenue per RPK	p	**6.30**	*6.58*	*6.67*	*6.37*	*5.91*
Passenger revenue per ASK	p	**4.59**	*4.74*	*4.69*	*4.55*	*4.11*
Cargo revenue per CTK	p	**10.38**	*11.50*	*11.98*	*12.22*	*12.14*
Average fuel price (US cents/US gallon)		**94.49**	*86.01*	*81.29*	*103.94*	*71.46*
Operations						
Unduplicated route km	'000	**657**	*693*	*814*	*755*	*751*
Punctuality – within 15 minutes	%	**81**	*76*	*81*	*79*	*81*
Regularity	%	**98.8**	*98.2*	*98.6*	*98.4*	*98.9*

Total group operations		2004	2003	2002	2001	2000
Financial						
Interest cover	times	**2.1**	*1.6*	*0.3*	*1.7*	*1.0*
Dividend cover	times	**n/a**	*n/a*	*n/a*	*0.6*	*(0.1)*
Operating margin	%	**5.4**	*3.8*	*(1.3)*	*4.1*	*0.9*
Earnings before interest, tax, depreciation, amortisation, rentals and Concorde retirement charges (EBITDAR)	m	**1,422**	*1,425*	*1,128*	*1,509*	*1,130*
Net debt/total capital ratio	%	**53.8**	*60.7*	*66.0*	*64.5*	*63.9*
Net debt/total capital ratio including operating leases	%	**58.2**	*64.6*	*69.5*	*68.8*	*68.2*
Total traffic revenue per RTK	p	**47.1**	*49.8*	*51.7*	*49.6*	*47.0*
Total traffic revenue per ATK	p	**31.81**	*33.17*	*33.14*	*33.47*	*31.32*
Net operating expenditure per RTK	p	**44.33**	*47.70*	*52.49*	*47.40*	*46.52*
Net operating expenditure per ATK	p	**29.96**	*31.78*	*33.62*	*31.96*	*30.99*
Operations						
Average manpower equivalent (MPE)		**49,072**	*53,440*	*60,468*	*62,844*	*65,640*
RTKs per MPE	'000	**301.0**	*266.0*	*242.0*	*270.3*	*262.3*
ATKs per MPE	'000	**445.4**	*399.1*	*377.9*	*400.9*	*393.7*
Aircraft in service at year end		**291**	*330*	*360*	*338*	*366*
Aircraft utilisation (average hours per aircraft per day)		**9.21**	*8.91*	*8.32*	*8.79*	*9.79*

Notes:

1 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). On October 31, 2003 Maersk (UK) ceased to operate as a franchise.

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

n/a = not applicable

Five year summaries

For the five years ended March 31, 2004

Group profit and loss account

£ million	2004	2003*	2002*	2001*	2000*
Turnover	**7,560**	7,688	8,340	9,278	8,940
Operating expenditure	(7,155)	(7,393)	(8,450)	(8,898)	(8,856)
Operating profit/(loss)	**405**	295	(110)	380	84
Share of operating profit of associates	**58**	39	22	64	75
Other income and charges	**13**	(4)	21	1	5
(Loss)/profit on sale of fixed assets and investments	**(46)**	60	145	(69)	249
Net interest payable	**(200)**	(255)	(278)	(226)	(408)
Profit/(loss) before tax	**230**	135	(200)	150	5
Tax	**(85)**	(50)	71	(69)	(56)
Profit/(loss) after tax	145	85	(129)	81	(51)
Equity minority interests	(1)		(1)	(2)	
Non equity minority interest	**(14)**	(13)	(12)	(12)	(11)
Profit/(loss) for the year	**130**	72	(142)	67	(62)
Dividends				(193)	(195)
Retained profit/(loss) for the year	**130**	72	(142)	(126)	(257)
Earnings per share					
Basic earnings per share	**12.1p**	6.7p	(13.2)p	6.2p	(5.8)p
Diluted earnings per share	**12.1p**	6.7p	(13.2)p	6.2p	n/a
Dividends per share				17.9p	17.9p

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

				By area of destination	
£ million	2004	2003	2002	2001	2000
Turnover					
Europe	**2,639**	2,838	3,208	3,388	3,400
The Americas	**2,767**	2,763	2,863	3,450	3,253
Africa, Middle East and Indian sub-continent	**1,253**	1,201	1,262	1,304	1,220
Far East and Australasia	**901**	886	1,007	1,136	1,067
	7,560	7,688	8,340	9,278	8,940
Operating profit/(loss)					
Europe	**(60)**	(117)	(244)	(172)	(310)
The Americas	**294**	223	144	470	308
Africa, Middle East and Indian sub-continent	**210**	168	91	92	62
Far East and Australasia	**(39)**	21	(101)	(10)	24
	405	295	(110)	380	84

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

Group balance sheet

£ million	2004	2003*	2002*	2001*	2000*
Fixed assets					
Intangible assets	168	164	140	84	87
Tangible assets	8,637	9,487	10,474	10,638	10,202
Investments	562	524	489	426	567
	9,367	10,175	11,103	11,148	10,856
Current assets	**2,765**	2,725	2,559	2,550	2,659
Creditors: amounts falling due within one year	**(2,996)**	(2,904)	(3,201)	(3,308)	(3,366)
Net current liabilities	**(231)**	(179)	(642)	(758)	(707)
Total assets less current liabilities	**9,136**	9,996	10,461	10,390	10,149
Creditors: amounts falling due after more than one year	**(5,486)**	(6,553)	(7,097)	(6,901)	(6,728)
Provision for deferred tax	**(1,137)**	(1,062)	(1,031)	(1,094)	(1,047)
Provisions for liabilities and charges	**(85)**	(107)	(126)	(70)	(81)
	2,428	2,274	2,207	2,325	2,293
Capital and reserves					
Called up share capital	**271**	271	271	271	270
Reserves	**1,947**	1,787	1,745	1,850	1,830
Equity minority interest	**10**	10	9	18	16
Non equity minority interest	**200**	206	182	186	177
	2,428	2,274	2,207	2,325	2,293

Group cash flow statement

£ million	2004	2003	2002	2001	2000
Cash inflow from operating activities	**1,093**	1,185	866	1,251	1,186
Dividends received from associates	**25**	23	16	33	44
Government compensation			22		
Returns on investments and servicing of finance	(209)	(249)	(327)	(342)	(315)
Tax	**(4)**	(7)	(1)	15	(2)
Capital expenditure and financial investment	42	250	94	(457)	(146)
Acquisitions and disposals	**(73)**	29	(19)	26	(218)
Equity dividends paid			(137)	(194)	(242)
Net cash inflow before management of liquid resources and financing	**874**	1,231	514	332	307
Management of liquid resources	**(198)**	(289)	(301)	159	9
Financing	**(834)**	(784)	(217)	(521)	(319)
(Decrease)/increase in cash	**(158)**	158	(4)	(30)	(3)

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

Aircraft fleet

	Number in service with group companies at March 31, 2004								
	On balance sheet aircraft	Off balance sheet aircraft	Total	Changes since March 03	Future deliveries	Options	2003-04 revenue hours flown	Average hours per aircraft/day	Average age (years)
Airline operations (Note 1)									
Concorde (Note 2)				(5)			1,579	1.53	
Boeing 747-400 (Note 3)	57		57	1			264,486	12.68	9.8
Boeing 777	41	2	43				192,037	12.2	5.3
Boeing 767-300 (Note 4)	21		21				69,067	9.6	11.1
Boeing 757-200	13		13				34,003	7.15	9.5
Airbus A319 (Note 5)	21	12	33		3	51	100,461	8.32	3.4
Airbus A320	9	18	27	3	3		77,320	8.00	6.7
Airbus A321					10				
Boeing 737-300 (Note 6)		5	5	(16)			14,271	7.80	14.7
Boeing 737-400 (Note 7)	19	4	23	(4)			70,988	7.51	11.6
Boeing 737-500		10	10				28,012	7.65	11.7
Turboprops (Note 8)		*10*	*10*	*(18)*			*39,893*	*4.62*	*8.0*
Embraer RJ145	16	12	28			17	73,988	7.22	4.0
Avro RJ100		16	16				41,471	7.06	4.0
British Aerospace 146	5		5				12,557	6.86	17.6
Hired aircraft							15,744		
Group Total	*202*	*89*	*291*	*(39)*	*16*	*68*	*1,035,877*	*9.21*	*7.7*

Notes:

1 Includes those operated by British Airways Plc and British Airways CitiExpress Ltd.

2 The Concorde fleet retired from service on October 24, 2003.

3 Includes the return to service of 1 Boeing 747-400 previously sub-leased to Qantas.

4 Includes 1 Boeing 767-300 temporarily stood down at year end but returned to service on April 30, 2004.

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

6 Excludes 16 Boeing 737-300s disposed of with dba (formerly Deutsche BA) and associated utilisation data.

7 Excludes 4 Boeing 737-400s stood down pending return to lessor.

8 Comprises 10 deHavilland Canada DHC-8s. Excludes 5 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.

Shareholder information

Shareholders

As at May 12, 2004 there were 244,738 shareholders (May 12, 2003: 258,034). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	86.02	6.07
1,001 – 5,000	12.44	5.46
5,001 – 10,000	0.91	1.42
10,001 – 50,000	0.35	1.56
50,001 – 100,000	0.06	0.91
100,001 – 250,000	0.08	2.87
250,001 – 500,000	0.05	4.21
500,001 –750,000	0.02	2.87
750,001 – 1,000,000	0.02	3.26
Over 1,000,000	0.05	71.37
	100.00	100.00

Classification of shareholding	Percentage of shareholders	Percentage of shares
Individuals	98.08	13.34
Bank or Nominee	1.56	83.50
Insurance companies	0.02	0.10
Pension trusts	0.01	1.40
Investment trusts	0.03	0.02
Other corporate bodies	0.30	1.64
	100.00	100.00

Franklin Resources Inc. and Wellington Management Company have non-beneficial interest in 5.91 per cent, and 5.52 per cent of the shares of the Company respectively.

General Information

Financial calendar

Financial year end	March 31, 2004
Annual General Meeting	July 20, 2004

Announcement of 2004-2005 results

First quarter results to June 30, 2004	August 2004
Second quarter results to September 30, 2004	November 2004
Third quarter results to December 31, 2004	February 2005
Preliminary announcement	mid May 2005
Report and Accounts	June 2005

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, British Airways CitiExpress Ltd, CityFlyer Express Ltd, Deutsche BA Luftfahrtgesellschaft mbh (until June 30, 2003). (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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