

BRITISH AIRWAYS PLC
Form 20-F
July 26, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
FORM 20-F**

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: March 31, 2005

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-9384

BRITISH AIRWAYS Plc

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

Waterside, PO Box 365, Harmondsworth, UB7 0GB England

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
----------------------------	--

American Depositary Shares	New York Stock Exchange
Ordinary Shares of 25p each	New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

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Ordinary Shares of 25p each

1,082,902,918

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

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INTRODUCTORY NOTE

Unless the context indicates otherwise, the Company, BA or British Airways refers to British Airways Plc and BA Group or Group referred to as British Airways, its subsidiaries and its quasi-subsidiary. Airline refers to British Airways Plc and British Airways CitiExpress Limited, and for historical comparatives, dba (formerly Deutsche BA Luftfahrtgesellschaft mbh) and Air Liberté. Qantas refers to Qantas Airways Limited and Iberia refers to Iberia Lineas Aéreas de Espana, S.A.

BA publishes its Financial Statements expressed in UK (UK) pounds Sterling. In this document references to US Dollars, US \$, or \$ are to US (US) Dollars, references to pounds Sterling, Sterling or £ and pence or p are to UK currency, references to Japanese Yen, Yen or ¥ are to the currency of Japan, references to Euro or € are to the currency of the European Union and references to A\$ are to Australian Dollars. For the convenience of the reader, this document contains translations of certain pounds Sterling amounts to US Dollars at \$1.8888 to £1.00, the noon buying rate in New York City for cable transfers in pounds Sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on March 31, 2005. These translations should not be construed as representations that the pounds Sterling amounts actually represent such US Dollar amounts or could be converted into US Dollars at the rate indicated. The Noon Buying Rate on June 30, 2005 was \$1.793 to £1.00. For historical information regarding rates of exchange between US Dollars and pounds Sterling, see Item 3 Key Information Exchange Rates. For a discussion of the Group's exposure to exchange rate fluctuations arising from its operations, see Item 5 Operating and Financial Review and Prospects Other Matters Foreign Currency Risk and Item 11 Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk.

Cash dividends, if any, paid by BA will be in pounds Sterling, and exchange rate fluctuations will affect the US Dollar amounts received by holders of American Depositary Shares (ADS) on conversion of such dividends. Moreover, fluctuations in the exchange rates between pounds Sterling and the US Dollar will affect the US Dollar equivalent of the pounds Sterling price of the ordinary shares of the Company (the Ordinary Shares) on the London Stock Exchange, and, as a result, are likely to affect the market price of the ADS traded on the New York Stock Exchange in the US.

The Company's fiscal year ends on March 31 of each year, and references herein to fiscal year or fiscal are to the year ended March 31 of the year specified.

Certain information contained in this report, including, without limitation, in Item 4 Information on the Company and Item 8 Financial Information Legal Proceedings as well as certain statements made throughout Item 5 Operating and Financial Review and Prospects and Item 11 Quantitative and Qualitative Disclosures about Market Risk are forward-looking and 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 included in this document and in documents incorporated herein by reference generally may be identified by the words will, expects, plans, anticipates, intends and similar expressions that indicate the statement addresses the future. 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 practicable to itemize 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. Some factors that could significantly affect expected capacity, load factors, yields, revenues, expenses, unit costs, capital expenditures, cash flows and margins include the airline pricing environment, customer demand, fuel and other commodity costs, capacity decisions of other carriers, cost of safety and security measures, actions of the UK and other governments, foreign currency exchange rate fluctuations, inflation, the economic environment of the airline industry, the general economic environment, the commencement or escalation of hostilities, terrorist activities, health scares, the ability to reach labor and wage agreements, industrial actions such as strikes, compensation levels in the industry, the status of the Company's relationships with the union groups, and other factors discussed herein, including under Item 3 Key Information Risk Factors.

SPECIALIST TERMS

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.

Codesharing

Co-operation between two airlines where one airline sells tickets using its own flight code for other airline's flight

n/a

Not applicable.

PART 1**Item 1 Identity of Directors, Senior Management and Advisers**

Not applicable.

Item 2 Offer Statistics and Expected Timetable

Not applicable.

Item 3 Key Information**Selected Financial Data**

The summarized financial information (expressed in pounds Sterling) set out below is derived from the audited consolidated Financial Statements of the Group presented elsewhere herein or otherwise included in BA's annual reports and which were audited by Ernst & Young LLP, independent registered public accounting firm. The data should be read in conjunction with, and are qualified in their entirety by reference to, such Financial Statements and accompanying notes included elsewhere in this report.

Group Profit and Loss Account

	Year ended March 31					
	2005	2005	2004	2003	2002	2001
			Restated	Restated	Restated	
	(in millions, except per Ordinary Share amounts)					
	\$ (1)	£	£	£	£	£
Amounts in accordance with UK GAAP						
Turnover	14,757	7,813	7,560	7,688	8,340	9,278
Cost of sales	(13,478)	(7,136)	(7,008)	(7,263)	(8,291)	(8,757)
Gross profit	1,279	677	552	425	49	521
Administrative expenses	(137)	(137)	(147)	(130)	(159)	(141)
Operating profit/(loss)	1,020	540	405	295	(110)	380
Share of operating profit in associates	77	41	58	39	22	64
Total operating profit/(loss) including associates	1,097	581	463	334	(88)	444
Other income and charges	6	3		(11)	21	1
(Loss)/profit on sales of fixed assets and investments	(49)	(26)	(46)	60	145	(69)
Net interest payable and other finance income and related fees	(270)	(143)	(187)	(248)	(278)	(226)
Profit/(loss) before tax	784	415	230	135	(200)	150
Tax	(282)	(149)	(85)	(50)	71	(69)
Profit/(loss) after tax	502	266	145	85	(129)	81
Equity minority interests	(2)	(1)	(1)		(1)	(2)
Non-equity minority interests	(26)	(14)	(14)	(13)	(12)	(12)

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Profit/(loss) for the year	474	251	130	72	(142)	67
Dividends						(193)
Retained profit/(loss) for the year	474	251	130	72	(142)	(126)
Earnings/(loss) per Ordinary Share (2)						
Basic	44.2c	23.4p	12.1p	6.7p	(13.2)p	6.2p
Diluted	43.4c	23.0p	12.1p	6.7p	(13.2)p	6.2p
Basic weighted average number of shares	1,071	1,071	1,070	1,073	1,076	1,075
Diluted weighted average number of shares	1,126	1,126	1,070	1,073	1,078	1,085
Amounts in accordance with US GAAP (3):						
Net income/(loss) for the year	676	358	396	(115)	(123)	244
Per Ordinary Share (3)						
Basic						
Net income/(loss) for the year	63.1c	33.4p	37.0p	(10.7)p	(11.4)p	22.7p
Diluted						
Net income/(loss) for the year	61.4c	32.5p	36.1p	(10.7)p	(11.4)p	22.5p
Per American Depositary Share (4)						
Basic						
Net income/(loss) for the year	631c	334p	370p	(107)p	(114)p	227p
Diluted						
Net income/(loss) for the year	614c	325p	361p	(107)p	(114)p	225p

Footnote on page 7

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Balance Sheet

	At March 31					
	2005	2005	2004	2003	2002	2001
			Restated	Restated	Restated	Restated
	(in millions, except per Ordinary Share amounts)					
	\$ (1)	£	£	£	£	£
Amounts in accordance with UK GAAP						
Fixed assets						
Intangible assets						
Goodwill and landing rights	359	190	168	164	140	84
Tangible assets						
Fleet, property and equipment	15,397	8,152	8,637	9,487	10,474	10,638
Investments	283	150	531	493	464	401
	16,039	8,492	9,336	10,144	11,078	11,123
Current assets	5,372	2,844	2,765	2,725	2,559	2,550
Creditors: amounts falling due within one year	(5,629)	(2,980)	(2,996)	(2,904)	(3,201)	(3,308)
Net current liabilities	(257)	(136)	(231)	(179)	(642)	(758)
Total assets less current liabilities	15,782	8,356	9,105	9,965	10,436	10,365
Creditors: amounts falling due after more than one year	(8,209)	(4,346)	(5,486)	(6,553)	(7,097)	(6,901)
Provisions for deferred tax	(2,347)	(1,243)	(1,137)	(1,062)	(1,031)	(1,094)
Provisions for liabilities and charges	(156)	(83)	(85)	(107)	(126)	(70)
	5,070	2,684	2,397	2,243	2,182	2,300
Capital and reserves						
Called up share capital	512	271	271	271	271	271
Reserves	4,144	2,194	1,916	1,756	1,720	1,825
Total equity shareholders funds	4,656	2,465	2,187	2,027	1,991	2,096
Equity minority interest	23	12	10	10	9	18
Non equity minority interest	391	207	200	206	182	186
	414	219	210	216	191	204

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5,070 2,684 2,397 2,243 2,182 2,300

Amounts in accordance with US GAAP (3)

Fixed assets

Intangible assets

Goodwill and landing rights 223 118 93 91 434 395

Tangible assets

Fleet, property and equipment 15,367 8,136 8,626 9,264 10,073 10,209

Investments 277 147 570 530 505 488

15,867 8,401 9,289 9,885 11,012 11,092

Current assets 7,463 3,951 3,681 3,370 2,983 2,687

Creditors: amounts falling due within one year (6,190) (3,277) (3,248) (3,117) (3,378) (3,326)

Net current assets/(liabilities) 1,273 674 433 253 (395) (639)

Total assets less current liabilities 17,140 9,075 9,722 10,138 10,617 10,453

Creditors: amounts falling due after more than one year

(10,504) (5,561) (6,413) (7,058) (7,103) (6,911)

Provision for deferred tax (2,395) (1,268) (1,240) (1,120) (1,117) (937)

Provisions for liabilities and charges (156) (83) (85) (107) (126) (70)

4,085 2,163 1,984 1,853 2,271 2,535

Capital and reserves

Called up share capital 512 271 271 271 271 271

Reserves 3,159 1,673 1,503 1,366 1,809 2,060

Total equity shareholders funds 3,671 1,944 1,774 1,637 2,080 2,331

Equity minority interests 23 12 10 10 9 18

Non-equity minority interest 391 207 200 206 182 186

414 219 210 216 191 204

4,085 2,163 1,984 1,853 2,271 2,535

Footnote page 7

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- (1) Translations of pounds Sterling into US Dollars have been made at the Noon Buying Rate on March 31, 2005 of £1.00 = US\$1.8888.
- (2) See Note 12 to the Financial Statements for a discussion of the weighted average number of shares outstanding for basic and diluted calculations for the relevant period.
- (3) For fiscal 2005, BA prepared its Financial Statements in accordance with accounting principles generally accepted in the UK (UK GAAP) which differ in certain respects from US generally accepted accounting principles (US GAAP). A discussion of the significant differences between UK GAAP and US GAAP and reconciliations of net income and shareholders' equity from a UK GAAP basis to a US GAAP basis are set out in Note 43 to the Financial Statements.

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

For Fiscal 2004 to Fiscal 2000, other finance income and related fees were shown with other income. For Fiscal 2005, such income is shown within net interest payable. As a result income reclassified to net interest payable was £13 million for Fiscal 2004 and £7 million for Fiscal 2003.

Effective April 1, 2005 BA will prepare its Financial Statements in accordance with International Financial Reporting Standards (IFRS).

- (4) Each American Depositary Share represents ten Ordinary Shares.

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Group Operating Statistics (1)

	Year ended March 31				
	2005	2004	2003	2002	2001
		Restated	Restated	Restated	Restated
Airline Operations					
Traffic and capacity					
Revenue passenger km (RPK)(m)	107,892	103,092	100,112	106,270	123,197
Available seat km (ASK)(m)	144,189	141,273	139,172	151,046	172,524
Passenger load factor (%)	75	73	72	70	71
Cargo tonne km (CTK)(m)	4,954	4,461	4,210	4,033	4,735
Revenue tonne km (RTK)(m)	15,731	14,771	14,213	14,632	16,987
Available tonne km (ATK)(m)	22,565	21,859	21,328	22,848	25,196
Overall load factor (%)	70	68	67	64	67
Passengers carried (000)	35,717	36,103	38,019	40,004	44,462
Tonnes of cargo carried (000)	877	796	764	755	914
Frequent flyer RPKs as a percentage of total RPKs (%) (2)	3	4	4	4	3
Financial					
Passenger yield (see definition under specialist terms) (p)	6	6	7	7	6
Cargo revenue per CTk (p)	10	10	12	12	12
Average fuel price (US cents/US gallon)	136	94	86	81	104
Operations					
Unduplicated route km (000)	623	657	693	814	755
Punctuality (% within 15 minutes)	76	81	76	81	79
Regularity (%)	99	99	98	99	98
Total Group Operations					
Financial					
Interest cover (times)(3)	3.2	2.1	1.5	0.4	1.5
Operating margin (%) (4)	6.9	5.4	3.8	(1.3)	4.1
Net debt/total capital ratio (%) (5)	42.7	54.1	60.9	66.2	64.7
Scheduled (passenger, freight and mail) and non scheduled services revenue per RTK (p)	44	47	50	52	50
Scheduled (passenger, freight and mail) and non scheduled services revenue per ATK (p)	31	32	33	33	33
Net operating expenditure per RTK (p)(6)	41	44	48	52	47
Net operating expenditure per ATK (p)(6)	29	30	32	34	32
Operations					
Average manpower equivalent (MPE)	47,472	49,072	53,440	60,468	62,844
RTKs per MPE (000)	331.4	301.0	266.0	242.0	270.3
ATKs per MPE (000)	475.3	445.4	399.1	377.9	400.9
Aircraft in service at year end	290	291	330	360	338
Aircraft utilization (average hours per aircraft per day)	9.83	9.21	8.91	8.32	8.79

- (1) Operating statistics do not include those of associated undertakings (Qantas, Comair and Iberia) and franchisees (British Mediterranean Airways, GB Airways, Loganair, Sun-Air (Scandinavia) and Regional Air). The franchise relationship with Regional Air was terminated in April, 2005. Qantas ceased to be an associated undertaking in September, 2004.
- (2) The carriage of passengers on Frequent Flyer Programs is evaluated on a ticket by ticket basis.
- (3) The number of times profit/(loss) before tax excluding net interest payable covers the net interest payable. For the purposes of calculating the interest cover ratio, retranslation charges/(credits) and other finance income and charges are excluded from net interest payable as they are unrealized at year end. Interest cover is not a financial measure under UK GAAP or US GAAP. However, management believes this measure is useful to investors when analyzing the Company's ability to meet its interest commitments from current earnings.

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The following table shows a reconciliation of net interest payable and the interest cover ratio for each of the five most recent financial years:

	Year ended March 31				
	2005	2004	2003	2002	2001
		Restated	Restated	Restated	Restated
	(£ millions (except ratios))				
Profit before tax	415	230	135	(200)	150
Net interest payable	(143)	(187)	(248)	(278)	(226)
Add back:					
Retranslation charges/(credits)	(33)	(16)	8	(46)	(71)
Other finance income and charges	(14)	(13)	(7)		
	(190)	(216)	(247)	(324)	(297)
Interest cover	3.2	2.1	1.5	0.4	1.5

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- (4) Operating profit/(loss) as a percentage of turnover. Turnover comprises revenue from: passenger revenue (scheduled services and non scheduled services), cargo services and other revenue. See Note 2 to the Financial Statements with respect to turnover.
- (5) Net debt as a percentage of total capital.

Net debt is defined as the total of loans, finance leases and hire purchase liabilities, plus Convertible Capital Bonds, net of short-term loans and deposits and cash less overdrafts. See Note 22 to the Financial Statements for details of the calculation of net debt.

Total capital is defined as the total of capital, reserves, minority interests, net debt and deferred tax. Total capital and net debt/total capital percentage are not financial measures under UK GAAP or US GAAP. Similarly, net debt adjusted to include obligations under operating leases (as presented in Item 5 Operating and Financial Review and Prospects Results of Operations) is not a financial measure under UK GAAP or US GAAP. However, management believe these measures are useful to investors when analyzing the extent to which the Company is funded by debt compared to shareholders funds. Deferred tax has been added back in calculating total capital.

The following table shows a reconciliation of total capital to total shareholders funds and the net debt/capital percentage for each of the five most recent financial years:

	At March 31				
	2005	2004	2003	2002	2001
		Restated	Restated	Restated	Restated
	(£ millions (except ratios))				
Net debt	2,922	4,158	5,149	6,294	6,223
Capital and reserves	2,465	2,187	2,027	1,991	2,096
Add minority interests	219	210	216	191	204
Total shareholders funds	2,684	2,397	2,243	2,182	2,300
Add back:					
Net debt	2,922	4,158	5,149	6,294	6,223
Provision for deferred tax	1,243	1,137	1,062	1,031	1,094
Total capital	6,849	7,692	8,454	9,507	9,617
Net debt/capital percentage	42.7	54.1	60.9	66.2	64.7

- (6) Net operating expenditure is total operating expenditure less other revenue. Net operating expenditure, net operating expenditure per RTK and net operating expenditure per ATK are not financial measures under UK GAAP or US GAAP. However, management believe these measures are useful to investors as they provide further analysis of the performance of the Group's main business activity i.e. airline operations. The Board of Directors reviews this measure internally on a monthly basis as an indication of management's performance in reducing costs.

The following table shows a reconciliation of net operating expenditure to total operating expenditure, total operating expenditure per RTK and total operating expenditure per ATK for each of the five most recent financial years:

	Year ended March 31				
	2005	2004	2003	2002	2001

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(£ millions (except ratios))

Total operating expenditure	7,273	7,155	7,393	8,450	8,898
Less: other revenue	(831)	(607)	(614)	(769)	(846)
Net operating expenditure	6,442	6,548	6,779	7,681	8,052
RTKs	15,731	14,771	14,213	14,632	16,987
ATKs	22,565	21,859	21,328	22,848	25,196
Total operating expenditure per RTK	46	48	52	58	52
Total operating expenditure per ATK	32	33	35	37	35

Exchange Rates

The Noon Buying Rate expressed in US Dollars to pounds Sterling as of June 30, 2005 was \$1.793. The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate, expressed in US Dollars to £1.00. For a discussion of the impact of exchange rates on the Group's business, see Item 5 Operating and Financial Review and Prospects Other Matters Foreign Currency Risk Exposure and Item 11 Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk .

	Period End	Average(1)	High	Low
	\$	\$	\$	\$
Fiscal year				
2001	1.42	1.47	1.56	1.42
2002	1.43	1.43	1.48	1.37
2003	1.58	1.55	1.65	1.43
2004	1.83	1.68	1.90	1.55
2005	1.88	1.84	1.95	1.75
Month				
January 2005			1.91	1.86
February 2005			1.92	1.86
March 2005			1.93	1.87
April 2005			1.92	1.87
May 2005			1.90	1.82
June 2005			1.84	1.79

(1) The average of the Noon Buying Rates on the last day of each month during the fiscal year.

Risk Factors

This section describes some of the risks which could affect the business operations and results of the Group. There may be others (see also the cautionary statement regarding forward looking statements contained in the introductory note on page 3).

The commercial airline industry is highly competitive and the market for air travel has experienced, and will continue to experience, significant structural change. Further, the Group's future performance is likely to continue to be subject to a variety of factors over which the Group itself has little or no control including, by way of example only, governmental regulation whether domestically within the United Kingdom, within the European Union or worldwide; fluctuations in the price of jet fuel; acts of terrorism, changes in economic conditions, the (non) availability of financing and fluctuations in currency and interest rates. The Group's results may also be affected by information technology risks as well as by the uncertainties inherent in labor relations and the uncertainty of pension costs. There may well be other risks which emerge from time to time including war, changes in liquidity and capital resources and restrictions in the availability and scope of insurance.

Factors Generally Affecting Commercial Strategy & Performance*Planned Move to Terminal 5*

In 2008, the Group expects to move into Terminal 5 at Heathrow. The construction of Terminal 5 is one of the largest construction projects in Europe. This project and the planned move bring with them significant risks and challenges, including completion risk, risks associated with moving and risks associated with starting operations in a new facility.

Commercial Strategy/Product Effectiveness

The Group strives to operate to its strategic and business plans. By reason of the matters listed above and discussed in this section, such plans may not always prove able to be implemented along the lines and in the timescales envisaged.

Competition

The markets in which the Group operates are highly competitive. The Group faces competition from other airlines on its routes, as well as from indirect flights, charter services and from other forms of transport. Some competitors have cost structures that are lower than the Group's or have other competitive advantages. Fare discounting by competitors has historically had a negative effect on the Group's results because the Group is generally required to respond to competitors' fares to maintain passenger traffic.

Market/Economic Factors

The Group is dependent on passengers and cargo shippers to be able and willing to pay for carriage by air. This ability and willingness is influenced by economic and security conditions.

Alliances, Franchise & Subsidiary effectiveness

Controlled consolidation in the aviation industry has proven difficult to obtain. Accordingly, Alliances, Franchises and Subsidiaries are a part of the Group operation but necessarily control is or can be looser than in the case of owned operations.

Certain Business Disruption Risks

Loss of Systems infrastructure/data

The Group is dependent on IT systems for delivery of its functions. It believes its IT systems and the systems provided by third parties to be reliable and well protected but they require regular updating and maintenance and are under constant threat from hackers/viruses.

Security

The Group believes its operations to be safe and secure but security matters have in the past and have the potential in the future to disrupt the business on temporary or longer term grounds.

Supplier failure

The Group is dependent on third parties, e.g. fuel suppliers, caterers, IT, for important aspects of its operation. It is essential that critical supplies should be maintained; if this were not so, operations would be disrupted and the business and results would suffer.

Fleet grounding or restriction

The Group operates a number of aircraft types. An accident or discovered defect could ground significant portions or all of the fleet.

Insurance Market failure

After the events of September 11, 2001, there was a market failure of the airline insurance market in the UK. It is possible that a further failure could occur, either wholly or in part.

Constrained operating infrastructure

Most UK airports, and Heathrow in particular, are constrained and operating beyond their build capacity. This can impair operations and adversely effect our business and results.

Medical epidemics/pandemics/hygiene

Epidemics and pandemics (e.g. SARS) as well as other health risks may occur and would be beyond the Group's control.

Loss of key buildings/airport infrastructure

Loss of access to or function of key infrastructure components such as terminal and hanger facilities would disrupt the business.

Factors that could increase operating and other Costs

Pensions shortfall

There is a substantial deficit in the Group's pension funding and a high degree of uncertainty regarding future funding needs. The introduction of a pension regulator and a Pension Protection Fund in the UK is expected to increase costs.

Operating Costs

Operating costs increases are frequently outside of our control e.g. fuel costs and can have a significant impact on our results of operations.

Security costs

These have increased significantly since the events of September 11, 2001 and are a substantial part of the Group's costs. It is possible that these will continue to increase at a substantial rate.

Claims against the Group that are not covered by or exceed Insurance

The Group believes its insurance cover would substantially mitigate the effect of claims likely to be brought against the Group in foreseeable circumstances but limits can always be broken or uncovered claims may emerge.

Financial commitments

The Group carries substantial debt which needs to be repaid or refinanced. The Group's ability to finance its operations and capital needs may be affected adversely by various factors including financial market conditions. Most of the Company's debt is asset-related, reflecting the attractiveness of aircraft as security to lenders and other financiers. However, there can be no assurance that aircraft will continue to provide attractive security for lenders.

Fleet Maintenance and Modernization

It is essential to the Group's strategy that it maintain a high-quality fleet and this requires funds sufficient to support the upgrade and replacement of aircraft. The Group's ability to follow this strategy would be jeopardized if the trading climate were to deteriorate substantially.

Market power and Importance of suppliers

In some areas it is difficult for the Group to spread its risk by sourcing from many alternative suppliers.

Political restrictions

Route rights and landing rights are often determined by the country of destination. If permissions are withdrawn our operations would be impaired and our business and results could be adversely affected.

Risks to Reputation/Public Confidence

Corporate Governance/Corporate Responsibility

The Group has detailed corporate governance and corporate responsibility programmes. Were they to fail, reputation and public confidence could be damaged.

Adverse publicity

Whether justified or not, adverse publicity can damage public confidence which in the end can damage our business and results.

Inadequate crisis management

If a crisis arises, the Group's future business and results are likely to be substantially affected by the quality of its response to the crisis.

Legal & Regulatory Issues

Employment law

Worldwide and within the UK, labor activities and the balance between workers' rights and shareholders' interests is in flux. Increased labor activity or adverse labor market regulation could damage the operations and results of the Group.

Industry Regulation

Worldwide and particularly in the UK, airline industry is being increasingly regulated. Such regulation, including environmental regulation, does not generally enhance business or financial results and, accordingly, further increases in regulation could be damaging.

Competition law

Continued impairment of consolidation opportunities may restrict the Group's ability to compete effectively in the marketplace.

National/International law

The Group operates under a large and complex body of national and international laws and regulations. Were these to cease to allow it to operate in any particular way or in any particular route, the Group's business and results could be damaged.

Government Intervention and Support

State aid for the aviation industry, whilst not technically lawful in Europe, can still be provided. Also, the differing nature of the insolvency laws of different countries also distorts aviation markets. Disparate levels of government assistance between the Group and other airlines could place the Group at a competitive disadvantage and adversely affect operations and results.

Workforce/Health and Safety Considerations

Industrial relations

The Group has a large unionized workforce. Collective bargaining takes place on a regular basis. A breakdown in the bargaining process could disrupt our operations and adversely affect our business and results.

Manpower levels/skills

The Group operates a highly technical business; if sufficient technically qualified staff from pilots to engineers and many others cease to be available, operations and results could be adversely affected.

Health & Safety at Work

The Group operates in a confined environment carrying out difficult and specialist tasks 24 hours a day 365 days a year. A major incident affecting the health and safety of staff would disrupt the operations of the Group.

Item 4 Information on the Company

Introduction

British Airways is one of the world's leading scheduled international passenger airlines. Its main activity is the operation of international and domestic scheduled passenger airline services. The Group's principal place of business is London, one of the world's premier airport locations, which serves a large geographical area and a comparatively high proportion of point-to-point business. The Group also operates a worldwide air cargo business in conjunction with its scheduled passenger services. The Group currently operates one of the world's most extensive international scheduled airline route networks, comprising 149 destinations in 72 countries at March 31, 2005. In fiscal 2005, the Group carried more than 35 million passengers on its services.

British Airways Plc was incorporated in 1983 with Registered Number 1777777. It is domiciled in England and has its registered offices at Waterside, PO Box 365, Harmondsworth UB7 0GB, England, Telephone: +44 (0) 870 850 9 850. It is a public limited company organized and operating under the laws of England and Wales. Its agent in the US is Paul C. Jasinski, 75-80 Astoria Boulevard, Jackson Heights, NY 11370.

Strategic Developments and Investments

Background

In 2001, to mitigate the effects of the economic downturn prior to the events of September 11, 2001, the Group adopted a strategy of tight capacity management and cost control. After the events of September 11, 2001, as it became apparent that more drastic action was necessary, the Group undertook a comprehensive review of its cost structures, network operation, fleet complement and business strategies.

Future Size and Shape

In February, 2002, the results of this review were announced as part of a major package of measures designed to return the Group to profitability. This program, known as FSAS, signaled a significant change in the size of the Company and took further steps to restructure its cost base over the two years to March 31, 2004.

The FSAS program set out to simplify the business, to drive cost reduction (particularly manpower), to restructure the European shorthaul business to provide a competitive response to the no-frills carriers, to endorse and accelerate the Group's existing fleet and network strategy unveiled in 1999 and to accelerate the strategy to de-hub operations at Gatwick.

Cost Reduction

Cost reduction targets were exceeded for all the FSAS programs — manpower costs, distribution, procurement and information technology.

In addition to the cost programs, targets were also set and achieved for manpower, capital spend and disposals.

Restructuring of the Shorthaul Business

The FSAS program outlined further significant changes to the shorthaul business. These included changes to the shorthaul pricing structure, offering passengers lower fares and greater flexibility, which were rolled out from May, 2002. As part of the drive to reduce global distribution costs, payments to travel agents in the UK for shorthaul bookings have been reduced and BA's lowest available fares are now available on its website. The website, www.ba.com, was significantly changed and usage has increased significantly with approximately 50% of shorthaul non-premium point-to-point bookings sold in the United Kingdom and Ireland now made online.

Fleet and Network Strategy

The fleet and network strategy aims to match capacity more closely to demand, simplify the fleet and reduce exposure to unprofitable markets whilst selectively growing capacity in profitable markets. Through increased aircraft utilization and network restructuring fleet numbers have steadily decreased. This process is nearing completion and in fiscal 2005 the number of aircraft in service was reduced by one to 290.

The Company's overhaul of its wide-bodied aircraft is complete. Currently the Group has no further orders for wide-bodied aircraft. In shorthaul, six Airbus A321 aircraft were delivered during the year whilst three Boeing 737-400s were returned to lessors or stood down pending return to lessor and two Boeing 737-400s and one A320-200 were sub-leased. One de Havilland Canada DHC-8 turboprop was returned to its lessor.

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BA has confirmed future deliveries for three Airbus A319s, three A320s and one A321.

See Item 4 Information on the Company Airline Fleet .

Gatwick Operations

In December, 2000 our plan to de-hub Gatwick was announced. As a result of the changes and simplification introduced, the number of seats flying out of Gatwick by March, 2005 has more than halved since 1999. The Company now operates a fleet of 43 aircraft from Gatwick compared to 68 in 1999.

Simplification

Simplification of the business was a core principal of the FSAS program. It remains a key priority for the Company. While much progress has been made in the areas of fleet, IT, executive club and engineering inventory, to give a few examples, we believe more work can be done to make the business less complex for both our customers and our staff.

Business Plans

Given the challenging trading environment that the airline industry continues to face, the focus on controlling costs has not ended with the completion of FSAS. In conjunction with its annual business plan process, the Company has announced two further cost saving programs. The first measure, £450 million by March, 2005, focused on reducing external spend and further simplification, in particular giving customers and staff more online access to systems and procedures. This program was completed on schedule. The second program aims to remove £300 million of employee costs across the business by March, 2007, deferred from March, 2006.

British Airways CitiExpress

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

Alliance benefits

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

Qantas

The relationship with Qantas, which is in its twelfth year, is British Airways longest standing and deepest alliance relationship. Under the Joint Services Agreement (JSA) there is full strategic, tactical and operational co-operation on all of British Airways and Qantas flights that serve markets between the United Kingdom/Continental Europe and Southeast Asia/Australia. This co-operation continues to strengthen and provides customers with improved flight departure times, routings and value for money, offering the very best of customer service to all passengers. In February, 2005, the Australian Competition and Consumer Commission extended permission for both carriers to co-operate in this way for a further five years. Application has also been made to the UK Office of Fair Trading and the EU competition authorities and their ruling is outstanding at this time.

British Airways and Qantas continue to co-ordinate sales and marketing activities worldwide and to share all costs and revenues on the JSA routes, giving both companies an incentive to improve the joint business.

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

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American Airlines

American Airlines and BA continued to roll out codesharing on points behind and beyond the US and London gateways. BA now places its code on more than 120 American routes, whilst American Airlines applies its code to more than 80 BA routes.

Iberia

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

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

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

Aer Lingus

In September, 2004, BA and Aer Lingus removed all but three of the fifteen codeshares that had been in place, in order to focus efforts on selling the routes of greatest value to both partners and to reduce costs.

Swiss International Air Lines

A commercial agreement with Swiss International Air Lines was concluded in September, 2003. The proposal for Swiss to merge its frequent flyer program into the BA Executive Club and go on to join oneworld was rejected by Swiss in June, 2004 and BA agreed to release Swiss from its obligations under the commercial agreement. A new agreement was reached for Swiss to codeshare on BA's Heathrow-Geneva services.

Segmental Information

BA's principal activities are the operation of international and domestic scheduled air services for the carriage of passengers and cargo. BA's main business is the provision of scheduled passenger services, which accounted for approximately 83% of Group revenue in the year ended March 31, 2005.

The Group also provides other services to outside parties, such as aircraft maintenance. In addition, the Group's operations include certain ancillary airline activities. See *Ancillary Airline Activities* below.

The following table sets out the Group's revenue by business activity:

	Year ended March 31			
	2005	2005	2004	2003
		(in millions)		
	\$	£	£	£
Traffic revenue				
Passenger revenue	12,277	6,500	6,490	6,590
Cargo	910	482	463	484
	13,187	6,982	6,953	7,074
Other revenue (including aircraft maintenance, package holidays and other airline services)	1,570	831	607	614
	14,757	7,813	7,560	7,688

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Geographical Analysis

The following table sets out the Group's results by geographical area.

	Year ended March 31			
	2005	2005	2004	2003
	\$	(in millions) £		£
Turnover by area of original sale(1)				
UK	7,408	3,922	3,731	3,634
Continental Europe	2,219	1,175	1,209	1,269
Europe	9,627	5,097	4,940	4,903
The Americas	2,612	1,383	1,347	1,482
Africa, Middle East and Indian sub-continent	1,419	751	717	733
Far East and Australasia	1,099	582	556	570
	14,757	7,813	7,560	7,688
Turnover by area of destination(2)				
UK	1,150	609	664	725
Continental Europe	3,515	1,861	1,975	2,113
Europe	4,665	2,470	2,639	2,838
The Americas	5,447	2,884	2,767	2,763
Africa, Middle East and Indian sub-continent	2,667	1,412	1,253	1,201
Far East and Australasia	1,978	1,047	901	886
	14,757	7,813	7,560	7,688
Operating profit/(loss) by area of destination(3)				
Europe	(49)	(26)	(60)	(117)
The Americas	655	347	294	223
Africa, Middle East and Indian sub-continent	423	224	210	168
Far East and Australasia	(9)	(5)	(39)	21
	1,020	540	405	295

(1) Turnover by area of original sale is derived by allocating revenue to the area in which the sale was made.

(2) Turnover from domestic services within the UK is attributed to the UK. Traffic revenue from inbound and outbound services between the UK and overseas points is attributed to the geographical area in which the relevant overseas point lies. Other 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 customer residence.

(3) 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.

See Item 5 Operating and Financial Review and Prospects Year By Year Analysis Year ended March 31, 2005 compared with year ended March 31, 2004 Geographical Analysis and Item 5 Operating and Financial Review and Prospects Year By Year Analysis Year ended March 31, 2004 compared with year ended March 31, 2003 - Geographical Analysis.

Route Network

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BA's scheduled route network forms the basis of its business and is one of the world's most extensive. As of March, 2005, BA (including subsidiary carrier British Airways CitiExpress) served some 149 destinations in 72 countries. Including codesharing and franchise arrangements, flights with BA codes served some 346 destinations in 104 countries. Adding the services of BA's alliance partners, the global network served some 558 destinations in 130 countries.

During the year ended March, 2005, BA introduced services to Basle, Cagliari, Catania, Split, Thessaloniki and Vilnius. Services to Bilbao, Bogota, Caracas, Genoa, Jeddah, Knock, Riyadh, and the Seychelles were discontinued. Routes to Bennecula, Shetland and Stornoway were transferred to franchisee Loganair.

Airline Fleet

Details of the Group's fleet at March 31, 2005 are set out below:

**Number in service with Group companies at
March 31, 2005**

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

(1) Includes those operated by British Airways Plc and British Airways CitiExpress Limited.

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

(3) Excludes one Airbus A320 sub-leased to GB Airways.

(4) Excludes two Boeing 737-400s sub-leased to Air One and one Boeing 737-400 stood down pending return to lessor.

(5) Comprises nine de Havilland Canada DHC-8s. Excludes two British Aerospace ATPs stood down pending return to lessor, three British Aerospace ATPs sub-leased to Loganair and 12 Jetstream 41s sub-leased to Eastern Airways.

(6) The British Aerospace 146 fleet will be retired from service during 2005/06.

In the five-year period ended March 31, 2005, 55 new (British Airways Plc, British Airways CitiExpress) aircraft were purchased or acquired under finance leases representing a total capital investment of approximately \$2,311 million. 26 new aircraft with an initial purchase price to the lessors of approximately \$577 million were obtained under operating leases, and a further seven used aircraft, with an approximate market value of \$254 million, were obtained under short-term operating leases. In the same period, 120 aircraft were disposed of from the BA fleet.

Future Fleet Commitments

During fiscal 2005, BA made further changes through revised delivery dates to future fleet commitments, to facilitate its continuing strategy to match capacity more closely to profitable demand and in response to changes in market conditions and operational requirements.

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BA has confirmed future deliveries for three Airbus A319s, three Airbus A320s and one Airbus A321. The company has agreed to sell on a further three Airbus A321 future deliveries to GB Airways. BA also has 47 option positions / purchase rights on the Airbus family aircraft.

Aircraft fleet

The number of Group aircraft in service at March 31, 2005 was 290, a reduction of one on the prior year. Aircraft returned to lessors comprised two Boeing 737-400 and one de Havilland Canada DHC-8. In addition, two Boeing 737-400s were sub-leased to Air One, as was one Airbus A320-200 to GB Airways and one Boeing 737-400 aircraft was stood-down pending return to lessors. Deliveries comprised six Airbus A321 aircraft.

Financing

A total of six new aircraft were delivered during the year ended March 31, 2005. Two of these were financed on balance sheet through US Dollar denominated mortgage loans and four were purchased for cash.

In addition the Company entered into one sale and leaseback transaction relating to owned aircraft. This was a Boeing 777-200 for a period of ten years and was carried out as part of the Company's management of its residual exposure to this fleet type.

As at March 31, 2005, the Company had cash and deposits, which in total amounted to £1,682 million. In addition, the Company had undrawn long-term committed aircraft and general financing facilities totalling approximately US\$460 million and undrawn money market lines totalling £46 million.

The Company believes that its cash and long-term deposits, together with the facilities which are available to be drawn for aircraft deliveries will be more than sufficient to cover its outstanding aircraft purchase commitments.

Capital Expenditures

See Item 5 Operating and Financial Review and Prospects Year by Year Analysis Year ended March 31, 2005 compared with year ended March 31, 2004 Capital expenditures and Item 5 Operating Financial Review and Prospects Year by Year Analysis Year ended March 31, 2004 compared with year ended March 31, 2003 Capital expenditure .

Operations

Operational Centers

Heathrow is BA's principal base, and BA carries an estimated 39.7% of the airport's passengers. In addition, BA has a second base of operations at Gatwick. The construction of a fifth passenger terminal (Terminal 5) at Heathrow has commenced and BA expects to consolidate substantially all of its operations into Terminal 5. UK airport policy is discussed below under Item 4 Information on the Company Regulation UK and International Airport Policy .

Offices, maintenance hangars and other support facilities used by BA at Heathrow, Gatwick and other UK airports are either owned freehold or held under long-term leases from the respective airport owners, principally BAA plc or its subsidiaries. In addition, BA occupies space and desks under lease or license in airports throughout the UK including (but not limited to) Manchester, Birmingham, Newcastle, Edinburgh and Glasgow.

BA's most important overseas base is at New York's John F. Kennedy International Airport (JFK), where it leases its terminal building. At other overseas airports, BA generally obtains premises as required on a short-term basis from the relevant authorities.

Details of BA's principal non-aircraft properties are given under Item 4 Information on the Company Property, Plant and Equipment .

Operational Services

In the UK, BA itself provides most of the operational services it requires for the handling of passengers and cargo. At overseas airports, BA subcontracts the provision of the majority of its ground handling requirements.

Runway, ramp and terminal facilities are provided by airport operators that charge airlines for the use of these facilities, principally through landing, parking and passenger charges. Navigation services are provided to aircraft by countries through whose airspace they fly or by international bodies such as Eurocontrol. Navigation charges are generally based on distance flown and weight of aircraft.

BA's ability to obtain slots at airports for the purpose of producing schedules attractive to passengers is very important. Allocation of slots at a significant number of airports where BA operates, including Heathrow and Gatwick, is decided by the Airport Coordinator, who acts in accordance with guidelines laid down by the International Air Transport Association (IATA), sometimes supported by the local Scheduling Committee or Co-ordination Committee. These committees include representatives from the carriers flying to the relevant airport who may mediate disputes over slots. The Airport Coordinator makes the initial slot allocations within IATA guidelines, which give priority to the historic rights of existing users. Pursuant to Council Regulation (EC) No. 793/2004, which is implemented in accordance with UK regulations, the UK government must ensure the Airport

Coordinator advises BA at the biannual IATA Schedule Co-ordination Conference of their slot allocations. These provide the basis for slot negotiations with the Airport Coordinator and other airlines. Most congested airports in the world apply IATA guidelines. Co-ordination of European airports is governed by the Council Regulation. Pursuant to the Council Regulation, the UK government must ensure that the Airport Coordinator acts independently and in a non-discriminatory manner. Regulations governing the allocation of slots in the US are different, but the US has stated that it is committed by its international obligations to treat all carriers in a non-discriminatory manner.

Fuel

BA obtains aviation fuel, which is priced mostly in US Dollars, from a number of sources and locations throughout its network. In most countries, aviation fuel is supplied under term contracts, generally with major oil companies. Most fuel is purchased from suppliers under contracts, which have a duration of one or two years. Prices under these contracts are determined either by formulae applicable for the duration of the contract or are subject to review by the parties in light of market conditions. If agreement on a price adjustment is not reached, the contracts can normally be terminated. BA also enters into forward contracts and other hedging arrangements in an attempt to counter fluctuations in the price of jet fuel. See Item 11 Quantitative and Qualitative Disclosures about Market Risk Fuel Risk . In the UK and US, BA is a member of a number of consortia that own or lease fuel distribution facilities at certain airports so that aviation fuel may be purchased from a wide range of suppliers. In both the UK and the US, BA also buys aviation fuel in the spot market and in the futures market. In certain countries, aviation fuel is only obtainable through government sources.

Aircraft Maintenance

The Group's engineering and maintenance facilities are centered at Heathrow, Gatwick, Glasgow and at three facilities in South Wales: the Boeing 747 maintenance facility at Cardiff Airport, an avionics repair operation in Llantrisant and an aircraft seat and interior repair operation at Blackwood. In addition, maintenance capability exists at most airports served by BA.

Marketing and Sales

Longhaul Products

On longhaul services, BA has a portfolio of four cabins to suit the needs of different customers: First, Club World with its award-winning flat beds, World Traveller Plus, which offers more space and legroom for premium economy customers, and World Traveller, the standard economy cabin.

During fiscal 2004, BA continued to roll out its Club World flat bed, and World Traveller Plus cabin. By March, 2005 103 of the longhaul fleet were fully embodied with the new products, including all of the Heathrow Boeing 747 and Boeing 777 fleets together with all ten longhaul aircraft operating out of Gatwick.

Over the course of the year BA improved meal service in the Club World cabin and introduced a new Chiva Som spa-cuisine menu in First. Improvements in World Traveller targeted at families included a new family-friendly menu and entertainment pack.

Shorthaul Products

On shorthaul services BA provides a choice of two cabins: Club Europe, its business class cabin, and Euro Traveller, its economy cabin. On UK domestic services one cabin is available.

BA's premium shorthaul travellers have enjoyed improvements to their in-flight experience with the launch of a new onboard service and range of meals in Club Europe. The airline has also successfully increased the number of leisure travellers in the Club Europe cabin with the introduction of special upgrade fares on targeted routes.

During Fiscal 2004, BA's shorthaul customers saw a series of new services offered on the airline's website, ba.com. These included improved booking, the ability to change tickets online and clearer, simpler fare rules being displayed. In addition to our online check-in service, BA introduced online boarding pass at Edinburgh in February, 2004, allowing customers to print their own boarding pass at home or in the office and go straight to the gate upon arrival at the airport. By March, 2005 there were 36 European and UK locations that offered online boarding pass.

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Updated and relocated Self-Service Check-in kiosks have ensured increased usage by customers and helped them move more quickly and efficiently through the airport. In March, 2005, 23% of all customers checking-in at self-service European and UK airports used such a kiosk, a notable growth on the previous year.

Executive Club

The Executive Club is BA's worldwide customer loyalty program for recognizing, retaining and communicating with our most valuable customers. The Executive Club seeks to provide an exceptional level of service, preferential treatment, enhanced travel related benefits, as well as mileage awards on eligible fares.

Sales

British Airways has built and maintains relationships with all its key customer groups around the world (both in countries where it flies as well as selected other countries). This includes large corporations, small and medium sized enterprises, governments, tour operators, individual customers, etc. Relationships are also maintained with business and leisure travel agents and the computer reservation systems and the credit card companies. In addition, BA itself operates contactBA call centers around the world, airport ticket desks, BA Travel Shops and our on-line booking channel, ba.com.

Franchising

As at March 31, 2005, BA had six franchise partner airlines: Loganair, GB Airways, British Mediterranean Airways, Sun Air of Scandinavia, Comair of South Africa and Regional Air of Kenya. However the franchise with Regional Air of Kenya ended in April, 2005 following Regional Air's suspension of operations.

These six carriers carried approximately 4.23 million passengers during the fiscal year to 83 destinations (65 destinations in addition to the mainline network) in the UK, continental Europe, the Middle East and Africa, using BA flight numbers. In addition to providing connecting passengers to BA's mainline services, the franchisees pay a franchise fee and pay for any services provided to them by British Airways.

Other Alliance relationships

In addition to the above mentioned activities BA maintained alliance relationships with Cathay Pacific, America West, Lan Chile, JAL and SN Brussels Airlines. There were no events of note during the year with these relationships.

Computer Systems

High performing IT and telecommunications systems are vital to the running of the Group's business. Most areas of British Airways business are facilitated by IT systems, which are closely interconnected.

Many of these systems have been developed, and most of them integrated, by BA's Information Management (Im) department. The majority of systems are operated within BA's two data centre facilities at Heathrow. Major exceptions to this are Reservations, Departure Control (check-in), Inventory, Flight Planning and other transaction processing facility (TPF) platform systems, which are operated by Amadeus SA in Germany.

The following major technical infrastructure elements are provided to BA by third party suppliers:

The wide-area data network provided by SITA and other telecommunications suppliers

The campus network in London provided by Affiniti Limited

Desktop, provision and support provided by Specialist Computer Centres (SCC) in the UK and SITA for overseas.

Over the last year a core element of the IT strategy has been to support simplification of the airline's business processes through effective use of IT. We have achieved this through a number of initiatives including the customer enabled BA (ceBA) program, providing on-line selling and check in, the ability to upgrade and manage booking facilities. The Customer enabled program is about making BA so easy to do business with that our customers actively choose to serve themselves. We apply the same principles internally for our employees through our Employee Self Service programme.

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For instance the *Manage My Booking* feature gives our customers the ability to be more prepared for their journey *before* coming to the airport. They can complete their APIS (Advanced Passenger Information Service) data in advance, check-in online and print their boarding pass, exercise upgrade options and know their baggage allowance.

Another important element is the use of e-ticket and the introduction of self-service kiosks at key airports around the world. The airline has now installed over 200 kiosks in airports such as Heathrow, New York JFK and Charles De Gaulle. e-ticket continues in its growth. As at March 31, 2005 76% of all worldwide passenger journeys ticketed by BA worldwide were issued on e-tickets.

In February this year we were the second airline in the world to implement the Amadeus Altea Plan system which gives airlines control over their inventory and seat planning, providing the tools to maximise the yield on every seat, while recognising the value of each customer. This system is now fully integrated with our selling capability Altea Sell also provided by Amadeus.

As a company listed on the New York Stock Exchange, BA has to comply with the US Sarbanes-Oxley Act of 2002. As a foreign issuer, the deadline for Section 404 compliance has been extended to March 31, 2007. We have completed a full gap analysis of all the requirements for Section 404 compliance and have a number of projects underway to support compliance.

Cargo

BA's cargo business is operated as a contribution center. The majority of its cargo is carried in the holds of passenger aircraft, the balance on leased or part-chartered freighter aircraft where market conditions allow their deployment. This allows the Group to maximize the use of its scheduled route network to provide a worldwide cargo service. In Europe, the Group utilizes trucks to feed cargo from continental Europe to BA's Heathrow and Gatwick based intercontinental services.

Ancillary Airline Activities

Other Services

The Group provides a variety of services to other airlines. The most important of these are cargo handling at airports, airframe maintenance, computer and communications services and consultancy services.

Eurostar

In 1999, BA took a 10% equity stake in Inter-Capital & Regional Rail Limited (ICRRL), a consortium company jointly held with National Express Group plc along with the French and Belgian railway companies, SNCF and SNCB, which was selected by the UK government to manage Eurostar UK Ltd (EUKL). EUKL is responsible for operating Eurostar trains between London, Lille, Paris and Brussels. The contract expiry date is December 31, 2010.

Under the terms of the contract with EUKL, ICRRL receives an annual management fee and is subject to a mechanism allowing it to share in the upside or downside of EUKL's performance by reference to a pre-determined forecast. In February 2005, ICRRL shareholders were required to contribute additional funding to the company to enable it to satisfy its obligations under the performance mechanism for its year ended December 31, 2004. In 2005 BA's share of this funding requirement was £558,052. In February, 2004, BA's share of the funding requirement was £968,000.

Seasonal Variations

Traditionally, the Group earns most of its operating profit between April and October each year, as demand is higher during this period, whilst the majority of the Group's costs are incurred more evenly throughout the year. Accordingly, as a result of seasonality of demand, operating results have and are expected to vary significantly from period to period within the financial year. Various other factors, including those set forth in this report, can also cause operating results to vary significantly from period to period and year to year. These variations in results and other factors may cause the price of the Company's securities to fluctuate significantly.

Health Concerns: Occupational Health Service

Health concerns are one of the factors that can adversely affect demand for air travel. For example, in the Spring of 2003, an outbreak of SARS caused concerns among many travelers about the spread of the disease and related health issues. This resulted in a decline in demand for certain of the Group's routes, most notably in

routes involving the Far East. Future health concerns that affect the demand for air travel generally, or the demand for air travel involving a geographic area, could have an adverse affect on the Group's operations and financial results.

BA maintains an occupational health service whose responsibilities include the analysis of health-related issues for passengers and staff and the provision of advice to the Group on appropriate measures to take in response to such issues. British Airways Health Services remains constantly vigilant to the threat of emerging diseases. Experts in communicable diseases have warned of the risk of a pandemic flu outbreak and the airline has set up a contingency planning group to address this specific risk. Members of the group are working with government and non-government organizations, including the WHO, UK Government and IATA, to ensure a co-ordinated response.

Regulation

The international airline industry is subject to a high degree of global, European and UK government regulation covering most aspects of airlines' operations. This framework governs commercial activity (for example route flying rights, fare setting and access to airport slots) as well as operational standards (relating to areas such as safety, security, aircraft noise, immigration and passenger rights). British airlines are also affected by wider EU and UK policies, laws and regulation, particularly in relation to competition, airports and air traffic control.

The UK civil aviation industry is regulated by the Secretary of State for Transport and the Civil Aviation Authority (CAA), an independent statutory body. Under the UK Civil Aviation Act 1982 and various statutory instruments, the CAA has a wide range of functions in relation to British airlines, including supervision of many aspects of their financial condition, management and operations. European airlines are also subject to a number of EU regulations, drawn up under the provisions of the European Treaty (chiefly Article 71). Responsibility for enforcement is shared between the European Commission and the relevant Member States.

The present basis for international regulation of airline operations derives from the Chicago Convention of 1944, to which nearly all countries are parties. The Convention also established the International Civil Aviation Organization (ICAO), a specialized agency of the United Nations, to foster the planning and development of international air transport. Under the auspices of ICAO, rules establishing minimum operational standards are normally agreed on a multilateral basis. Airlines' rights to fly over, or make stops in, foreign countries for technical reasons in operating their international scheduled services are generally derived from the International Air Services Transit Agreement of 1944, to which most countries are parties. However, rights to carry traffic between countries and the regulation of fares are normally agreed on a bilateral basis between governments. A notable exception is the multilateral single market arrangements which apply within the EU.

Route Flying Rights

BA's traffic rights to carry scheduled passengers and cargo on particular international routes outside Europe generally derive from air services agreements between the UK government and the governments of foreign states concerned. Under these agreements, each government grants to the other the right to designate an airline or airlines of its state to operate scheduled services between specified points in their respective countries, and sometimes to or from points in third countries, although this also requires the agreement of the third country's government.

In order to comply with EU law, all new or revised bilateral agreements should now contain a community designation clause in place of the nationality clause (which requires that designated airlines are substantially owned and effectively controlled by the government or its nationals). This will allow any EU airline, not just those with the nationality of the EU State, to apply for available traffic rights on a non-discriminatory basis. Currently, most UK agreements still reserve traffic rights to UK airlines, but this is likely to change over time as the agreements are renegotiated and updated.

Once an agreement has been reached, it is for the UK government to designate the airline or airlines which will operate the agreed services. As well as being designated, an airline must obtain the necessary operating permits from the foreign governments concerned. These are unlikely to be withheld so long as the Group meets the required international safety standards. One ground on which a contracting government usually has the right to prevent a designated airline from operating the agreed services is if it is not satisfied that the Group is substantially owned and effectively controlled by the other government or its nationals (or by EU citizens if there is a Community clause). For this reason, BA's Memorandum and Articles of Association (the Articles) contain provisions that could be used to limit the rights of non-UK and non-European nationals who own shares in the Company. For more information, see Item 10 Additional Information Memorandum and Articles of Association Limitations on Voting and Shareholding.

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The Council of the EU decided in June 2003 to begin the process of transferring responsibility for third country relations in air transport to the European Commission. The Council then gave a mandate to the Commission to negotiate a liberal agreement with the US on behalf of all EU Member States. A general framework was developed covering all other third country relationships and the processes whereby Member States may continue to negotiate bilaterally whilst remaining within EU law as clarified by the Judgment of the European Court of Justice of November, 2002. This judgment made it clear that Member States could no longer negotiate bilaterally with third countries on any subject which is covered by EU law. These subjects include ownership and control of airlines, pricing on intra-community routes and rules concerning computer reservation systems.

The European Commission has been in active negotiations with the US government to agree the terms of a new multilateral agreement covering air services between the whole EU and the US. So far, it has not proved possible to conclude a balanced deal, but both sides are determined to reach such an agreement, making the prospect of doing so a high probability. However, the timing and content of the new agreement cannot be predicted. A new agreement is likely to affect BA's position on North Atlantic markets.

In the EU, there is a single internal market for air transportation. The most significant elements of the single market legislation are a liberal pricing regime, free access to all routes within the EU for airlines and a carrier licensing procedure. Certain constraints continue to apply for infrastructure reasons. Under a separate agreement, EU single market policies have been extended to the European Economic Area (EEA) comprising all the countries of the EU and the countries of the European Free Trade Area (EFTA) except Switzerland. Agreement has been reached between Switzerland and the EU which has the effect of bringing Switzerland into the same arrangements.

Under the UK Civil Aviation Act 1982, the CAA must balance a number of objectives in making air transport or route licensing decisions where applications to operate a particular route are contested. These include encouraging British airlines to provide air services at the lowest fares consistent with safety; an economic return to efficient operators and the sound development of the UK air transport industry; furthering the reasonable interests of users; ensuring that British airlines compete as effectively as possible with other airlines on international routes; and securing the most effective use of UK airports.

The CAA will grant global route licenses for scheduled and charter air services. The absence of the necessary bilateral rights will not result in refusal to grant a license application. If scarce bilateral capacity arises, this will be addressed through a process designed to deal with such a situation.

In its June, 2002 policy review, the CAA said that the interests of users will be best served if airlines are free to operate air services in competition with one another according to their commercial judgments, subject only to the application of normal competition policy.

Specific route licenses are no longer required with respect to routes to, from and within the EU.

Charter operations are not generally covered by air services agreements. The CAA adopts a broadly liberal policy towards applications from British airlines for charter flying rights. It is then for the airline to seek the consent of the other government. Within the EEA no distinction is drawn between charter and scheduled operations.

Fare Setting

It is a provision of some bilateral air services agreements that the fares, rates and charges for scheduled services on the agreed routes must be filed with, and approved by, both governments concerned or their agencies. These requirements are increasingly being relaxed in accordance with UK Government policy. It is a condition of the air transport and route licenses granted to British airlines by the CAA that the tariffs to be charged for international carriage and the commissions to be paid by the airline to any agent shall be filed with and approved by the CAA. In practice, the CAA only regulates a limited number of fares and does not require commissions to be filed. Under some air services agreements, airlines are required to co-ordinate fares through IATA, (whose role in setting fares is described under Item 4 Information on the Company Competition below), though this is now rare. Pricing on intra-Community air routes is covered by EU Regulation.

Notwithstanding this regulatory position, it is a widespread practice among airlines to sell a substantial proportion of their seats and cargo space in many parts of the world at tariffs lower than the approved levels or on other unapproved special terms. BA is no exception. See Item 4 Information on the Company Competition below. The Group responds competitively to market conditions and a large proportion of its revenue is derived from such sales.

Safety

Safety standards are generally agreed on a multilateral basis under the auspices of ICAO. The country of registration of an aircraft is generally responsible for ensuring that the aircraft and its crew meet these guidelines, leading to variations and differences on specific requirements between States. European countries first attempted to harmonize their safety requirements through the Joint Aviation Authorities and non-binding Joint Aviation Requirements. Certification of compliance by the state of registry is normally recognized by all other members of ICAO.

In September, 2003, airworthiness and maintenance standards, based largely on ICAO and JAA standards, were adopted into EU law and a new independent European Aviation Safety Agency was set up to advise the Commission and Member States on safety matters. The new safety framework is consistent with ICAO requirements. Member States are still responsible for supervision and compliance but they can no longer unilaterally vary standards in these areas except to respond to an immediate safety problem or to facilitate a short term operational need provided that safety is not compromised. Other areas of aviation safety, starting with operations and licensing, are expected to come under the new EU framework within the next few years.

British airlines are still required, except in limited circumstances, to operate British registered aircraft. All British airlines are required to hold a CAA air operator's certificate confirming the competence of the holder to operate and maintain its aircraft safely. Each aircraft operated under an air operator's certificate may only be flown if it has a certificate of airworthiness confirming compliance with the EU regulations. The aircraft's engines, equipment and all maintenance procedures must also be certificated, and flight crew and certain maintenance staff must be licensed.

To continue to improve high safety standards is a primary objective of the Group. All departments, especially engineering and flight operations, pay continual attention to operational safety and the health and safety of employees. Specific responsibility for advising on safety matters rests with a separate department under the Director of Safety, Security and Risk Management. A formal safety management system is in place, and a comprehensive monitoring system exists within BA to ensure that incidents are reported and action is taken whenever appropriate.

Security

In the UK, the Secretary of State for Transport has the power to direct the aviation industry to take measures to prevent acts of criminal violence. The measures so directed often exceed both the international standards developed by ICAO and the regulations adopted in the EU following September 11, 2001 which set minimum required standards across the EU for the first time. Responsibility for implementing the measures and meeting their costs falls on both airlines and airport authorities. A number of foreign countries have also developed aviation security programs which place an onus on BA to meet specified security standards. BA's own security department continuously assesses the threat to its operations, develops policies for the protection of BA's operations and assets, and directs its staff or agents to implement appropriate countermeasures while monitoring their effectiveness. There are also circumstances in which governments may seek to prevent airlines from flying to or from various destinations or otherwise hinder their operation. Similarly changes in customs, immigration or other regulation may have the same effect.

Widespread passenger disclosure requirements are being introduced by different governments as a means of helping to control terrorism and illegal immigration. This creates conflicts with EU data protection laws designed to protect personal privacy. BA has introduced passenger disclosure arrangements as required by the US. These have been approved by the European Commission and the Council, but the arrangements are still likely to be challenged in the European Court of Justice. EU airlines have asked their governments and the Commission to ensure that security arrangements avoid the industry being caught between conflicting legal requirements in different jurisdictions.

Passenger Rights

The Montreal Convention is given effect for EU registered airlines by an EU regulation. This governs the maximum compensation to be paid for loss, delay or damage to baggage and also governs liability to passengers in the event of an accident. Airlines are required to carry sufficient insurance to cover their liability.

New EU denied boarding compensation rules came into force in February, 2005, extending compensation to cancelled flights and imposing passenger care requirements for long delays and cancelled flights. The new legislation has been challenged by the International Air Transport Association (IATA) in the European Court of Justice. An opinion is expected from the Advocate General in September, 2005.

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Domestic US disabled passenger legislation has been extended to foreign airlines. The EU also published legislative proposals for disabled passengers in February, 2005. There are conflicts between the EU and US approaches.

Environmental Regulation and Noise

BA's environmental management system commits the Group to working constructively with those concerned for the environment and to observing rules and regulations aimed at protection of the environment. The Group's activities are covered by a comprehensive network of regulations at local, national and international levels, affecting emissions to the atmosphere, disposal of solid waste and aqueous effluents, aircraft noise and other relevant parameters. The Group's strategy takes compliance as the baseline of environmental performance and aims to exceed standards and regulations.

The BA fleet meets existing noise standards and is subject to departure noise and night flight restrictions. The current night noise restrictions expire at the end of the Summer 2005 season. The Government is currently consulting on a new regime to operate from 2005 through 2010. As with the current regime, this is expected to impose significant operating restrictions between the hours of 2300 and 0700 at BA's main bases at Heathrow and Gatwick. Any major changes to current arrangements are subject to a consultation process and must meet the requirements of an EU operating restrictions regulation designed to ensure that noise restrictions are balanced and well targeted. The Group is proactively involved in other efforts to mitigate the effect of aircraft noise, including measures to reduce noise on approach to airports.

The Group is playing an active role in development of the understanding of the effects of aircraft emissions to the atmosphere. This has included involvement in the work of the Intergovernmental Panel on Climate Change, co-operating with research programs and promoting discussion of possible ways in which to control emissions of greenhouse gases. The Group is involved in work within ICAO aimed at developing mechanisms to control and mitigate the effect of aircraft engine exhaust emissions. BA is also a member of the UK emissions trading scheme and supports the inclusion of aviation in the EU emissions trading scheme.

Social and Environmental Report

Each year, the Group publishes an environmental report that details progress with particular reference to measurement against headline indicators. In 2000, the report was extended to include both social and economic considerations. In March 2004, the BA Board adopted a new Code of Business Conduct and Ethics, applicable to all employees and the previous Code, adopted in 2000, was replaced by a new Statement of Business Principles. The new Code of Conduct and the Statement of Business Principles are two of the British Airways Standing Instructions, which set out policies with which all employees should comply. They were communicated throughout the Company in Summer 2004 and are available, externally through the BA website.

UK and International Airport Policy

Responsibility for airport policy in the UK lies with the UK Government and is defined in 'The Future of Air Transport' White Paper published in December 2003. This paper encouraged the sustainable development of commercial air transport and supported the expansion of several UK airfields over a 30 year period. In South East England, new runway developments were supported at both Stansted and Heathrow, provided they met certain environmental requirements, chiefly relating to noise and air quality limits and the provision of new public transport links. These requirements are challenging and may necessitate action by airlines to reduce noise and/or emissions if Heathrow is to get a new runway by 2014, which is likely to be the earliest date possible (subject also to securing planning permission). The costs of airport expansion must be paid for by the users of each airport through user charges, which are likely to increase over the long term to pay for growth. It was agreed that Stansted should continue to cater for its local market and should not be developed as a second hub for London.

Obtaining slots is a necessary condition for providing service to many airports. The availability of slots generally is often beyond the control of a carrier and can be subject to capacity limits, government regulation and market conditions, including the actions of competitors. BA believes that it has sufficient slots to operate its existing routes and generally has been able to obtain slots in connection with its previous route changes and expansions. However, BA can provide no assurance that it will be able to maintain its existing slots or obtain desired slots in the future.

Slots at UK airports are allocated under EU rules. Technical revisions came into effect in July, 2004 and more substantive changes are still under consideration by the European Commission, following an unsuccessful

earlier attempt at change. BA is attempting to ensure that a market oriented approach is maintained under any new rules, so that essential flexibility and the possibility of exchanges between carriers remains. Although the Commission is unsure that slot exchanges in the UK are consistent with existing EU rules, the UK Government has written to the Commission defending the UK system and pointing to a ruling from the UK High Court.

Competition

Most of the markets in which BA operates are highly competitive. BA faces competition from other airlines on the same city-pair routes, from indirect flights, from charter services and from other forms of transport. The intensity of the competition varies from route to route, depending on the number and nature of the competitors, particularly whether or not they are state-owned or state-supported, and on the regulatory environment and other factors. At one extreme, there are a few international routes on which competition is limited to the other state designated airline and fares are regulated. At the other extreme, there is a free market for internal flights within the whole of Europe allowing any European airline to operate on any route, setting whatever fares they wish, subject only to infrastructure constraints and competition law.

On many of the routes with multiple carriers, BA's pricing decisions are affected by competition from other airlines, some of which have cost structures that are lower than BA's or other competitive advantages and could therefore operate at lower fare levels.

It has been UK government policy since at least 1984 to liberalize markets progressively and to encourage fair and equal competition wherever possible. The presence of State Aid, in all its forms, and in several different markets, distorts competition and is generally incompatible with policies and regulations designed to open up markets.

The CAA from time to time issues statements of the policies it intends to carry out in pursuit of its statutory licensing role. The current statement came into force in June, 2002. This confirmed that the CAA would give greater weight to the interests of users in balancing the interests of the users on the one hand and the airlines on the other. Additionally, the CAA considered that competition, where possible, is the most effective way of ensuring that passengers' interests are met. The new policy also removed the requirement for air carriers to be licensed on individual routes.

Since March, 2000, the UK's Competition Act has been in force. It outlaws agreements and business practices which have a damaging effect on competition in the UK. Its provisions mirror EU competition rules and can be applied to competition cases within the UK. The Enterprise Act which came into force in June, 2003 introduced a new enforcement regime that includes disqualification of directors and criminal liability for individuals for certain serious infringements of the Competition rules.

Tariff Co-ordination

Certain air services agreements require airlines to co-ordinate fares before approval by the governments concerned. IATA, the trade association for international airlines, provides a forum for tariff co-ordination on international routes by convening traffic conferences. Many international airlines take part in these conferences although, partly reflecting the increase in competition, fewer than in the past.

BA attends traffic conferences and discusses tariffs bilaterally when it is lawful to do so and tariff co-ordination is required under the relevant air services agreement or is commercially necessary.

Commercial Arrangements

BA has commercial arrangements with other airlines covering scheduled passenger and cargo services on a small number of its international routes. Commercial arrangements can govern, among other things, capacity offered by each airline over flight approvals, the apportionment of revenues between airlines and the co-ordination of schedules. In very few cases, some commercial arrangements are necessary under the relevant air services agreement.

US

While the US domestic airline industry has been largely deregulated, routes between the UK and the US are still subject to regulation of market access, capacity and fares under an air service agreement known as Bermuda 2. However, both countries have adopted a relatively liberal approach to fare approval and other regulatory matters. In addition, BA faces further competition from airlines operating other routes between the US and continental Europe, including a number of carriers operating on these routes with antitrust immunity. BA has responded with both price and service initiatives and has continued to carry more passengers between the UK and the US than any other carrier.

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The European Commission has been granted a mandate to negotiate with the US government a liberal set of air services arrangements to replace the bilateral agreements concluded by the EU Member States as discussed above (under Route Flying Rights). The outcome is expected to provide a better environment for industry consolidation, especially in Europe.

Organizational Structure

The business and operations of the BA Group are conducted within BA Plc and its subsidiaries. The following table sets forth the principal undertakings of the Group as at March 31, 2005.

Subsidiary undertakings	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Ltd*	Airline marketing	England
BA & AA Holdings Ltd* (90 per cent of equity owned)	Holding Company	England
Britair Holdings Ltd*	Holding Company	England
British Airways 777 Leasing Ltd*	Aircraft financing	England
British Airways Capital Ltd*	Airline finance	Jersey
British Airways Holdings Ltd*	Airline finance	Jersey
British Airways Holidays Ltd*	Package holidays	England
British Airways Leasing Ltd*	Aircraft financing	England
British Airways Maintenance Cardiff Ltd*	Aircraft maintenance	England
British Airways Regional Ltd*	Air travel services	England
British Airways Travel Shops Ltd*	Travel agency	England
CityFlyer Express Ltd*	Aircraft financing	England
British Regional Air Lines Group Plc	Holding Company	England
Speedbird Insurance Company Ltd*	Insurance	Bermuda
British Airways CitiExpress Ltd	Airline operations	England
The Plimsoll Line Ltd* (Holding Company of British Regional Air Lines Group Plc)	Holding Company	England

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

Associated undertakings	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Iberia, Lineas Aéreas de España, S.A. (Iberia)	8.76	Airline operations	Spain
Comair Ltd	18.3	Airline operations	South Africa

Trade investments	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
The Airline Group*	16.7	Air traffic control holding company	England

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Opodo Ltd*	5.9	Internet travel agency	England
WNS (Holdings) Ltd*	16.8	Flight Services Holding Company	Jersey

* Owned directly by British Airways Plc

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Property, Plant and Equipment

The following table sets forth the principal property, plant and equipment of the Group. The table does not include the Group's fleet of aircraft, which are described under Item 4 Information on the Company Airline Fleet .

Principal Properties	Description	Nature of Title	Approximate Gross Size (square feet)
Heathrow Airport, London			
No. 1 Maintenance Area East	offices, hangars, workshops	Lease(1)	2,400,000
No. 1 Maintenance Area West	offices, hangars, workshops	Lease(1)	1,300,000
Ascentis New Cargo Centre	warehouse and offices	Lease	1,000,000
Perishables Warehouse	warehouse and offices	Lease	70,000
Compass Centre	offices for crew reporting and operations center	Lease	250,000
Waterside, Harmondsworth	combined business center	Freehold	570,000
Cranebank	technical training center	Freehold	440,000
Speedmarque	workshops and offices	Lease	140,000
Link	warehouse and offices	Lease	170,000
Gatwick Airport, London			
Maintenance Area East	offices, hangars and workshops	Lease(2)	495,000
Jubilee House	offices	Lease	130,000
Gatwick Cargo	warehouses	Lease	200,000
UK Regions			
Newcastle Business Park	offices	Lease	200,000
Pioneer House, Manchester	offices	Lease	64,000
Cardiff Airport, Wales			
Maintenance Area	offices, hangars and workshops	Lease	460,000
New York			
Terminal Building, John F. Kennedy International Airport	passenger terminal	Sublease	535,000

(1) Leasehold interest held from Heathrow Airport Limited for 150 years from April 1995 without restriction on disposal and with wide use provisions.

(2) These leasehold interests which are held from Gatwick Airport Limited contain restrictions on the disposal and use of the properties.

The BA Group also has other freehold and leasehold interests in real estate in numerous countries throughout the world, that are less significant to the Group as a whole. See Note 16 to the Financial Statements.

Item 5 Operating and Financial Review and Prospects**Introduction**

The following discussion covers the three years ended March 31, 2005 and is based on the Group's Financial Statements prepared in accordance with UK GAAP which differ in certain respects from US GAAP.

The differences between UK GAAP and US GAAP as applicable to the Group are set out in Note 43 to the Financial Statements.

Group profits before tax for the fiscal year 2005 were £415 million, compared with a £230 million profit in the previous year. Operating profit in the year, at £540 million, was £135 million better than last year. The operating margin of 6.9% was 1.5 points better than last year. The improvement in operating profit primarily reflects improvements in turnover up 3.3% - partially offset by increased operating costs, in particular fuel. Passenger yields (pence/RPK) for the year were down 4.4%; seat factor was up 1.8 points at 74.8% on capacity 2.1% higher in ASKs.

Cargo volumes (CTKs) for the full year were up 11.1% compared with last year, with yields down 6.3% due to the negative impact of exchange rates. Overall load factor for the full year was up 2.1 points at 69.7%.

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

The number of shares issued and fully paid as at June 30, 2005 was 1,130,882,404. The increase over March 31, 2005 reflects principally the conversion of capital bonds on maturity which resulted in the issue of 46 million shares.

Results of Operations

The following table sets out the year-over-year percentage changes in Group operating revenue and selected operating statistics (volume, capacity and yield) for the three-year period ended March 31, 2005:

	Year ended March 31		
	2005	2004	2003
	(Change %)		
Group operating revenue	3.3	(1.7)	(7.8)
Group operations:			
Volume (RTKs)	6.5	3.9	(2.9)
Capacity (ATKs)	3.2	2.5	(6.7)
Yield (Revenue/RPK) (1)	(4.4)	(4.3)	(1.3)

(1) Scheduled services (passenger and cargo) and non-scheduled passenger services revenue divided by RPKs

Year by Year Analysis

Year ended March 31, 2005 compared with year ended March 31, 2004

Revenue

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

Passenger traffic (RPKs) increased by 4.7%, whilst capacity (ASKs) was 2.1% higher; as a result passenger load factor increased by 1.8 points compared with fiscal 2004 to 74.8%. Passenger yield (pence per RPK) deteriorated by 4.4% for the full year.

Cargo volumes (CTKs) were up 11.1% compared with fiscal 2004 but yields fell by 6.3%. Cargo revenue was up 4.1% from £463 million to £482 million.

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

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Expenditure

Net operating expenditure (total operating expenditure less other revenue), decreased by 1.6% compared to fiscal 2004. Unit costs (net operating expenditure per ATK) were 4.7% lower than fiscal 2004.

See footnote (6) to the operating statistics in Item 3 for the calculation of total operating expenditure per RTK and per ATK.

The table below summarizes total Group operating expenditure and year on year changes in expenditure over the three financial years ended March 31, 2005:

	Year ended March 31					
	2005	2004	2003	2005	2004	2003
	(% Increase / (decrease))			(£ million)		
Employee costs	4	4	(13)	2,273	2,180	2,107
Depreciation and amortization	1	(8)	(5)	687	679	734
Aircraft operating lease costs	(22)	(29)	(5)	106	135	189
Fuel and oil costs	22	10	(18)	1,128	922	842
Engineering and other aircraft costs	(2)	(14)	(12)	502	511	592
Landing fees and en route charges	1	(5)	(6)	556	549	576
Handling charges, catering and other operating costs	0	(3)	(13)	930	934	961
Selling costs	(12)	(22)	(14)	488	554	706
Accommodation, ground equipment costs and currency differences	(13)	1	(17)	603	691	686
Total Group operating expenditure	2	(3)	(13)	7,273	7,155	7,393

Employee costs increased by 4.3% compared with fiscal 2004 to £2,273 million as pension and wage increases and the cost of the Employee Reward Plan were only partially offset by manpower reductions and other efficiencies. The average number of employees in the Group, in manpower equivalents (MPE), fell by 3.3% to 47,472 and productivity (ATKs per MPE) improved by 6.7%.

Depreciation costs increased by 1.2% compared with fiscal 2004 to £687 million reflecting a £16 million charge relating to the impairment of the BAe 146 aircraft at British Airways CitiExpress, following the decision to exit the fleet in 2005. This was partially offset by the favorable impact of changes in foreign currency exchange rates due to the weaker US Dollar.

Aircraft operating lease costs reduced by 21.5% compared with fiscal 2004 to £106 million as a result of the return to lessors of two Boeing 737-400s and one de Havilland Canada DHC-8, and due to favorable exchange impacts. The previous year included an onerous lease charge of £11 million (relating to the withdrawal of the British Airways CitiExpress ATP fleet).

Fuel and oil costs increased by 22.3% compared with fiscal 2004 to £1,128 million due to a 44.4% increase in fuel price (partially offset by hedging benefits) and the impact of the increased flying schedule. These were partially offset by the favorable exchange impact of the weaker US Dollar.

Engineering and other aircraft costs reduced by 1.8% compared with fiscal 2004 to £502 million reflecting lower hull insurance costs and the favorable impact of changes in foreign currency exchange rates, partially offset by the cost of additional cargo freighter activity and additional engine sub-contract and lease costs.

Landing fees and en route charges increased by 1.3% compared with fiscal 2004 to £556 million. This principally reflects increases in price and the impact of the larger flying program, partially offset by the favorable impact of exchange rates.

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Handling charges, catering and other operating costs decreased by 0.4% compared with fiscal 2004 to £930 million, primarily due to the impact of exchange, partially offset by additional freighter and trucking costs, and the full year effect of the British Airways Holidays package business costs.

Selling and marketing costs fell by 11.9% compared with fiscal 2004 to £488 million. The impact of the restructuring of travel agent commissions and the increase in online sales were partially offset by volume related costs.

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Accommodation, ground equipment costs and currency differences decreased by 12.7% compared with fiscal 2004 to £603 million. This was due to reductions in information management spend, property costs, legal costs and favorable exchange impacts of £55 million, primarily due to the impact of the weaker US Dollar on the balance sheet retranslation.

Geographical analysis

See Item 4 Information on the Company Segmental Information Geographical Analysis and Note 3 to the Financial Statements.

Operating results improved in each area. For longhaul, this reflected increased revenue partially offset by rising costs, in particular fuel. In Europe, losses continued to fall due to continued focus on cost reductions the total loss of £26 million compared to £60 million in fiscal 2004 includes an impairment charge of £16 million due to the planned retirement of the BAe 146 fleet.

Share of operating profit in associates

British Airways share of operating profits from associated undertakings reduced by £17 million to £41 million during fiscal 2005, principally due to the sale of the investment in Qantas in September, 2004.

Profit/loss on disposal of fixed assets and investments

Losses on disposals of fixed assets and investments for fiscal 2005 were £26 million, compared with losses of £46 million in fiscal 2004, which included an £83 million loss on disposal of dba.

The losses on disposal in fiscal 2005 primarily reflect the disposal of the investment in Qantas in September, 2004 (£11 million).

Net interest payable

Net interest expense for fiscal 2005 was £157 million, £43 million lower than in fiscal 2004. This included a credit relating to the revaluation of Yen debts (used to fund aircraft acquisitions) of £31 million, compared to a credit the previous year of £16 million. The revaluation a non cash item required by standard accounting practice results from the weakening of the Yen against Sterling.

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

Other finance income and related fees

Other finance income and related fees were £14 million in fiscal 2005. This compares to a credit of £13 million in fiscal 2004.

Taxation

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

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

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Earnings per share

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

Aircraft fleet

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

Capital expenditure

During the three-year period ended March 31, 2005, capital expenditure and investments totaled approximately £937 million for the Group, principally related to the acquisition of aircraft and other equipment.

The following table summarizes Group capital expenditure in the three-year period ended March 31, 2005:

	2005	2004	2003
	(£ million)		
Aircraft, spares, modifications and refurbishments (net of refund of progress payments)	257	154	225
Property and equipment	37	67	95
Landing rights	32	14	32
	326	235	352
Investments	6	0	18
	332	235	370

See Notes 13, 14 and 17 to the Financial Statements.

Working capital

At March 31, 2005, net current liabilities were £136 million, down £95 million on last year. This change principally reflects lower creditors (£128 million) and an increase in debtors due to higher sales volumes, and a £12 million increase in cash, short-term loans and deposits, partially offset by the Convertible Capital Bonds that matured in June, 2005.

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

The Company believes its working capital is sufficient for its current requirements.

Cash flow

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

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

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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 three year period ended March 31, 2005 (see also Note 26 to the Financial Statements):

	Bank and other loans	Finance leases and hire purchase arrangements	Total		
			2005	2004	2003
(£ million)					
Balance at April 1	1,225	4,491	5,716	6,689	7,401
New loans raised	116		116	81	13
Non-cash refinancing		(9)	(9)	(32)	
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft and other assets		12	12	97	221
Repayment of amounts borrowed	(168)	(1,103)	(1,271)	(915)	(797)
Effect of exchange rate changes	(5)	(67)	(72)	(204)	(149)
Balance at March 31	1,168	3,324	4,492	5,716	6,689

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

For the purposes of the financial statements foreign currency debt is translated into Sterling at year-end exchange rates. Gains and losses on translation are recognized in the profit and loss account except for changes in the Sterling value of US Dollar denominated debt that finances US Dollar denominated fixed assets. These gains or losses are taken to reserves, together with the differences arising on the translation of the related assets. The debt translation gain taken to reserves amounted to £21 million (2004: £169 million gain).

Net debt/total capital ratio

Net debt at March 31, 2005 amounted to £2,922 million, a reduction of £1,236 million compared with fiscal 2004. This included convertible bonds of £112 million and is net of cash and short-term loans and deposits totaling £1,682 million.

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

Share capital

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

Year ended March 31, 2004 compared with year ended March 31, 2003

Revenue

Group turnover fell in the year by 1.7% to £7,560 million in fiscal 2004. Passenger and cargo revenue (turnover from airline operations scheduled and non-scheduled services) accounted for approximately 92% of Group operating revenue. For the year, airline operations revenue fell by 1.7% to £6,953 million on a flying program 2.5% larger in ATKs.

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Compared with fiscal 2003, in fiscal 2004 airline operations passenger traffic (RPKs) increased by 3%, while capacity (ASKs) was 1.5% higher. As a result passenger load factor increased by 1.1 points compared with fiscal 2003 to 73%. Passenger yield (scheduled and non-scheduled passenger revenue per RPK) declined by 4.3% for the year.

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Cargo (i.e. freight and mail) volumes (CTKs) were up 6% compared with fiscal 2003 but yields fell by 9.7%. Cargo revenue was down 4.3% from £484 million to £463 million.

Other revenue fell 1.1% to £607 million.

Expenditure

Net operating expenditure (total operating expenditure less other revenue), decreased by 3.4% compared to fiscal 2003. Unit costs (net operating expenditure per ATK) were 5.7% lower than fiscal 2003.

The table below summarizes total Group operating expenditure and year on year changes in expenditure over the three financial years ended March 31, 2004:

	Year ended March 31					
	2004	2003	2002	2004	2003	2002
	(% Increase / (decrease))			(£ million)		
Employee costs	4	(13)	1	2,180	2,107	2,409
Depreciation and amortization	(8)	(5)	8	679	734	770
Aircraft operating lease costs	(29)	(5)	(10)	135	189	199
Fuel and oil costs	10	(18)	(7)	922	842	1,028
Engineering and other aircraft costs	(14)	(12)	2	511	592	673
Landing fees and en route charges	(5)	(6)	(5)	549	576	615
Handling charges, catering and other operating costs	(3)	(13)	(15)	934	961	1,110
Selling costs	(22)	(14)	(27)	554	706	824
Accommodation, ground equipment costs and currency differences	1	(17)	11	691	686	822
Total Group operating expenditure	(3)	(13)	(5)	7,155	7,393	8,450

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 took place on October 24, 2003.

In fiscal 2004, employee costs increased by 3.5% 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. Total Manpower Equivalents (MPEs) at Group level were down by 3,798 (7.4%) compared with March, 2003.

Depreciation and amortization costs reduced by 7.5% compared with fiscal 2003 to £679 million reflecting primarily the £58 million prior year charge relating to the impairment of Concorde capitalized engineering modifications and rotatable inventory. Increases in depreciation relating to the continuing embodiment of new products on the Boeing 777 fleet were offset by the favorable exchange impact of the weaker US Dollar.

Aircraft operating lease costs reduced by 28.6% to £135 million compared with fiscal 2003 as a result of the return to lessors of Boeing 737-300s, 737-400s and Boeing 757s, the disposal of dba (which 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 fiscal 2003 when the sub-lease of the J41 fleet resulted in a charge of £27 million.

Fuel and oil costs increased by 9.5% compared with fiscal 2003 to £922 million due to a 9.9% 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 favorable exchange impact of the weaker US Dollar and the disposal of dba.

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Engineering and other aircraft costs reduced by 13.7% to £511 million compared with fiscal 2003, 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.

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Landing fees and en route charges fell by 4.7% compared with fiscal 2003 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% compared with fiscal 2003 to £934 million, as a result of a 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% compared with fiscal 2003 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% compared with fiscal 2003 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.

Geographical analysis

See Item 4 Information on the Company Segmental Information Geographical Analysis and Note 3 to the Financial Statements.

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.

Share of operating profit in associates

BA's 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% stake in Opodo. This resulted in the dilution of the Group's shareholding from 22.86% to 19.05%, 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 fiscal 2004 were £46 million, compared to fiscal 2003 when profits of £60 million were generated from disposals of aircraft and rationalization 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% holding in China Aircraft Services, the Speedwing Mobile Communications business and the sale and leaseback of two Boeing 777-200 aircraft.

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Net interest payable

Net interest expense for fiscal 2004 was £200 million, £55 million lower than fiscal 2003. This included a credit relating to the revaluation of Yen debts (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 UK GAAP 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 finance income and related fees

Other income of £13 million for fiscal 2004 primarily relates to lease transfer consent fees. This compares to a charge of £4 million in fiscal 2003.

Tax

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

In fiscal 2004, as in fiscal 2003, there is no tax payable on operating results in the UK, as adjusted for taxation. During the fiscal 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 year ended March 31, 2004, 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 in the prior year.

Capital expenditure

During the three-year period ended March 31, 2004, capital expenditure and investments totaled approximately £1,527 million for the Group, principally related to the acquisition of aircraft and other equipment.

The following table summarizes Group capital expenditure in the three-year period ended March 31, 2004:

	2004	2003	2002
	(£ million)		
Aircraft, spares, modifications and refurbishments (net of refund of progress payments)	154	225	739
Property and equipment (net of refund of progress payments)	67	95	121
Landing rights	14	32	12
	235	352	872
Investments	0	24	44
	235	376	916

See Notes 13, 14 and 17 to the Financial Statements.

Working capital

At March 31, 2004, net current liabilities were £231 million, up £52 million on the prior 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.

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Cash flow

Net cash inflow from operating activities totaled £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 flow before management and 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 three-year period ended March 31, 2004 (see also Note 26 to the Financial Statements):

	Bank and other loans	Finance leases and hire purchase arrangements	Total		
			2004	2003	2002
			(£ million)		
Balance at April 1	1,332	5,357	6,689	7,401	7,043
New loans raised	81		81	13	495
Assumed from subsidiary acquired during the year					117
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	512
Repayment of amounts borrowed	(339)	(576)	(915)	(797)	(712)
Effect of exchange rate changes	(42)	(162)	(204)	(149)	(54)
Balance at March 31	1,225	4,491	5,716	6,689	7,401

Three A320 aircraft were delivered during the year ended March 31, 2004. 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 recognized 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 March 31, 2004 amounted to £4,158 million, including convertible bonds of £112 million and net of cash and short-term loans and deposits totaling £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%, a 6.9 point reduction versus last year mainly due to the reduction in net debt. Including operating leases, net debt was 58.2%, 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 ended March 31, 2004, 50,000 shares were issued on the exercise of options under Employee Share Option schemes.

Outlook

For the year to March, 2006, total revenue is expected to improve by 4.5% - 5.5%, including the impact of both cargo and passenger fuel surcharges. Capacity and volumes are expected to increase by about 3% with total yield flat. Fuel costs, net of hedging, are expected to be about £450 million more than last year. As announced in our latest Business Plan, our focus is on preparing for the move to Terminal 5 in 2008, investing in products for our customers and continuing to drive simplification to deliver a competitive cost base.

See the Introductory Note regarding forward looking statements and the discussion of Risk Factors in Item 3.

Other matters

Business Plan

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

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

British Airways CitiExpress

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

Alliance benefits

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

Qantas

The relationship with Qantas, now in its twelfth year, is British Airways' longest standing and deepest alliance relationship. Under the Joint Services Agreement (JSA) there is full strategic, tactical and operational co-operation on all of British Airways' and Qantas' flights that serve markets between the United Kingdom/Continental Europe and Southeast Asia/Australia. This co-operation continues to strengthen and provides customers with improved flight departure times, routings and value for money, offering the very best of customer service to all passengers. In February 2005, the Australian Competition and Consumer Commission extended permission for both carriers to co-operate in this way for a further five years. Application has also been made to the UK Office of Fair Trading and the EU competition authorities and their ruling is outstanding at this time.

British Airways and Qantas continue to co-ordinate sales and marketing activities worldwide and to share all costs and revenues on the JSA routes, giving both companies an incentive to improve the joint business.

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

Iberia

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

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

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

Franchising

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

Pension Deficit

Under FRS 17, the pension deficit after deferred tax increased by 205 million to 1.4 billion (due mainly to lower long-term interest rates), despite the doubling of company contributions to 250 million. The deficit is not consolidated into the accounts as we continue to report under SSAP 24. Next year, under International Financial Reporting Standards (IAS 19), the pension deficit will be included in the balance sheet. This will have a significant adverse impact on reserves (in particular distributable reserves).

Liquidity and investments

The Group maintained high liquidity throughout the year. Cash generated from operations together with continued low capital expenditure and the disposal of our share in Qantas for 427 million, allowed us to make scheduled repayments of 542 million and to repay 729 million of debt early whilst maintaining the closing cash balances at last year's level. Early debt repayment in 2004/2005 has been focused on aircraft leases where we have repaid the debt on 24 aircraft early; this increased the number of unencumbered aircraft to 70 at the year-end. The Group continually reviews liquidity requirements and will continue to repay debt early to utilize surplus liquidity.

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

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

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

Management of financial and fuel price risks

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

Responsibility for ensuring that treasury practices are consistent and compatible with the agreed governance statement is vested in a Finance Committee that is chaired by the Chief Financial Officer.

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

Group Treasury implements the agreed policies on a day-to-day basis to meet the Treasury objectives in a risk averse though cost effective manner. These objectives include ensuring that the Group has sufficient liquidity to meet its day-to-day needs and to fund its capital investment program and other investments; deploying any surplus liquidity in a prudent and profitable manner; managing currency, fuel, interest rate and credit exposures to minimize group risk; and managing the Group's relationship with a large number of banks and other financial institutions world-wide.

See also Item 11 Quantitative and Qualitative Disclosures about Market Risk .

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 25 to the Financial Statements. Low capital expenditure has meant that the requirements for new financing have been limited. In April 2004, a Boeing 777 aircraft was sold and leased back. Other financing transactions have been met by the drawdown on existing committed facilities or from surplus liquidity.

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

The Group's borrowings are predominantly denominated in Sterling, US Dollars and Japanese Yen. Sterling represents the Group's natural home currency, whilst a substantial proportion of the Group's fixed assets are priced and transacted in US Dollars. The Japanese Yen liabilities arise as a result of the Group's substantial Japanese cross-border hire purchase arrangements entered into during the period 1990 to 1999. Details of the currency mix of the Group's gross borrowings are shown in Note 25 to the Financial Statements.

See also Item 11 Quantitative and Qualitative Disclosures about Market Risk .

Foreign currency risk

The Group generates a surplus in most of the currencies in which it does business. The US Dollar can be an exception to this as capital expenditure, together with ongoing operating lease and fuel payments denominated in US Dollars, can create a deficit. In the year to March 31, 2005, the group had more US Dollar payments than US Dollar revenues, principally as a result of fuel purchased in US Dollars.

As a result, the Group can experience adverse or beneficial effects arising from exchange rate movements. For example, the Group is likely to experience beneficial effects from a strengthening of foreign currencies and an adverse effect from a strengthening in Sterling. The Group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US Dollars or Sterling.

The Group has substantial liabilities denominated in Yen, which consist mainly of purchase option payments falling due under various Japanese leveraged lease arrangements maturing between 2005 and 2011. The Group utilizes its stream of Yen traffic revenues as a natural hedge against these maturing Yen liabilities as they fall due. At times, the Group will also purchase and hold Yen as a partial hedge against future Yen maturities.

The Group's forward transactions in foreign currency are detailed in Note 36 to the Financial Statements.

See also Item 11 Quantitative and Qualitative Disclosures about Market Risk .

Fuel price risk

The company's fuel risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in a serious way in the event of a substantial fall in the price of fuel.

This strategy has moderated the impact of recent increases in the price of jet fuel and the company enters 2005/2006 with a substantial fuel hedging portfolio which was valued at \$523 million at March 31, 2005.

Derivative financial instruments

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

As part of its treasury risk management activities, the company has entered into a number of swap agreements in order to hedge its direct exposure to interest rates. The majority of these swaps are embedded in lease and loan agreements. A smaller number of interest rate swaps are not associated with specific loans and leases and are disclosed in Note 34 to the Financial Statements.

Forward foreign exchange contracts and collars are used to cover near term future net revenues in a variety of currencies. Forward foreign exchange contracts outstanding at March 31, 2005 are summarized in Note 36 to the Financial Statements

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.

See also Item 11 Quantitative and Qualitative Disclosures about Market Risk .

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Interest cover

The Group's interest cover for fiscal 2005 was 3.2 times. The increase in interest cover from fiscal 2004 (2.1 times) reflects the improvement in the profitability of the Group between fiscal 2005 and fiscal 2004 and a reduction in net interest payable. This reduction principally reflects the lower level of net debt of the Group.

See Item 3 -footnote (3) on page 9 for the calculation of interest cover.

Debt and other contractual obligations

The Group has amounts falling due, excluding interest payable, under various debt and other contractual obligations as follows:

	Total	Less than one year	Payments due by period		More than 5 years
			1-3 years	3-5 years	
	(£ millions)				
Long-term debt Obligations	1,168	63	168	203	734
Capital lease Obligations	3,324	384	767	777	1,396
Operating lease Obligations	2,119	172	272	163	1,512
Total	6,611	619	1,207	1,143	3,642

See also Notes 16 and 25 to the Financial Statements.

Capital expenditure commitments authorized and contracted for, but not provided for in the Group's fiscal 2005 Financial Statements, amounted to £143 million for the Group (2004: £347 million), and £142 million for the Company (2004: £346 million), in each case as at March 31, 2005. The outstanding commitments include £132 million which relates to the acquisition of Airbus A320 family aircraft scheduled for delivery over the next three years. It is intended that these aircraft will be financed partially by cash holdings and internal cash flow and partially through external financing, including committed facilities arranged prior to delivery.

Off-Balance Sheet Arrangements

As part of its Treasury and fuel risk management program, the Group selectively uses derivative financial and commodity instruments in order to reduce its exposure to fluctuations in market rates and prices. The Group uses derivatives only for the purposes of hedging identified exposures, where appropriate, and does not invest in derivatives for trading or speculative purposes. The instruments used include swaps, futures and forward contracts, options, collars in the currency, interest rate and fuel markets.

The Group's accounting policy for derivatives under UK GAAP is to defer and only recognize in the consolidated Statements of Income, gains and losses on hedges of revenues or operating payments as they are realized. Amounts payable or receivable in respect of interest rate swap agreements are recognized 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 accounted for 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 that hedge capital expenditure commitments are recognized as part of the total Sterling carrying cost of the relevant tangible asset as the contracts mature or are closed out.

Under US GAAP the notional gains or losses derivatives are included within net income as the contracts have not been designated hedges under SFAS 133.

See also Item 11 Quantitative and Qualitative Disclosures about Market Risk .

Critical Accounting Policies and New Accounting Standards

Introduction

The discussion and analysis of the Company's financial condition and results of operations are based on the consolidated Financial Statements, which have been prepared in accordance with UK GAAP. The preparation of these Financial Statements requires the development of estimates and judgments that affect the reported amount of assets and liabilities, revenues and costs and related disclosure of contingent assets and liabilities at the date of the Financial Statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. It is believed that the Company's critical accounting policies are limited to those described below. The Company's management has discussed the development of the estimates and disclosures related to each of these matters with the Audit Committee.

Note 1 to the Financial Statements provides additional discussion of the application of these estimates and other accounting policies. The critical accounting policies defined below include those used in the reconciliation of the Financial Statements under UK GAAP to US GAAP where relevant; Note 43 to the Financial Statements provides additional discussion of the application of the policies under US GAAP.

Passenger revenue

Passenger revenue is initially recorded as a liability for sales in advance of carriage, with revenue from ticket sales recognized at the time that BA provides the transportation. In respect of unused ticket revenue recognized, the Group makes estimates based on historical trends regarding liability for tickets sold but not yet processed, the timing and amount of tickets used for travel on other airlines and the amount of tickets sold that will not be used. These are used to determine the timing and amount of unused ticket revenue recognized. Changes to these estimation methods could have a material effect on the presentation of the Group's financial results.

Periodic evaluations are performed of the estimated liability for tickets sold but not yet processed; any adjustments, which can be significant, are included in results of operations for the periods in which the evaluations are completed. These adjustments relate primarily to differences between the statistical estimation of certain revenue transactions and the related sales price as well as refunds, exchanges, interline transactions and other items for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the original sales price. These amounts have been generally consistent from year to year.

Frequent flyer programs

The Company operates two principal frequent flyer programs. The Executive Club scheme allows travelers to accumulate BA Miles that entitle them to various awards, including free travel. The AirMiles scheme allows companies to purchase AirMiles from the Group for use in promotional incentives.

The Group utilizes various estimates in accounting for the frequent flyer schemes. The direct incremental cost of providing free redemption services, including free travel, is accrued as participants accumulate mileage, based on expected redemptions. The accrued cost is based on various estimates with respect to the incremental fuel, food and other costs incurred in providing such schemes. Additional assumptions are made, based on general customer behavior, regarding the likelihood of a customer redeeming the miles on BA, redeeming the miles for non-travel benefits, or redeeming the miles on partner carriers. Changes in cost estimates or accrual methods, among other factors, could have a significant effect on the Group's presentation of financial results.

The total number of BA Miles outstanding at March 31, 2005 was 117,982,563,998 and the total number of AirMiles outstanding was 7,224,643,645. BA has recorded a liability for the awards relating to these mileage credits of £112 million.

The number of frequent flyer RPKs as a percentage of total RPKs for the years ended March 31, 2005, 2004 and 2003 was 3.2%, 4.0% and 4.4%.

BA believes that the displacement of revenue passengers by those traveling on frequent flyer awards is minimal based on the low percentage of frequent flyer RPKs to total RPKs and the Company's ability to manage frequent flyer capacity.

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Under UK GAAP, the Company recognizes revenue from the sale of AirMiles and BA Miles to other companies when the miles are issued to participants in the various schemes. US GAAP specifically requires a proportion of revenue relating from the sale of mileage credits to partners to be deferred and recognized over the period in which the credits are expected to be redeemed for travel. The proportion of revenue that is recognized at the time of sale represents amounts in excess of the fair value of the tickets to be redeemed.

Tangible fixed assets

The Group has a net book value of approximately £8.2 billion in aircraft, property, equipment and other tangible assets as of March 31, 2005. These assets are held at cost, subject to the property revaluations carried out on March 31, 1995, which are being retained in accordance with the transitional provisions of applicable accounting standards. The Group now, however, has a policy of not revaluing tangible assets. Depreciation is calculated to write off the cost or valuation, less the estimated residual value, on a straight-line basis. Changes to the Group's policies relating to the revaluation of assets, estimation of useful lives, residual values or other policies could have a material effect on the presentation of the Group's financial position and results of operations. Further information relating to the Group's accounting for tangible assets is provided in Note 1 to the Financial Statements.

The carrying value of tangible assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill and other intangible fixed assets

Under UK GAAP, prior to April 1, 1998, goodwill arising on the acquisition of subsidiary undertakings, and investments in associated undertakings, was set off directly against retained earnings. From April 1, 1998, goodwill has been capitalized and amortized over its useful economic life.

Under US GAAP, in accordance with FAS 142 *Goodwill and Intangible Assets*, goodwill is capitalized and not amortized, but tested for impairment on an annual basis or on an interim basis when a triggering event occurs. As a result of the annual impairment test undertaken at March 31, 2003, the Group recognized at that date an impairment charge representing the outstanding balance of goodwill arising in respect of the acquisition of subsidiary undertakings.

Intangible assets with finite lives continue to be capitalized and amortized over their useful economic lives under both UK GAAP and US GAAP. The Group's landing rights have definite useful lives and will continue to be amortized over their useful economic lives not exceeding 20 years. The carrying value of finite-lived intangible assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Changes to the Group's valuation methods used for the purposes of impairment reviews, or estimation of useful economic lives for finite-lived intangible assets could have a material effect on the presentation of the Group's financial position and results of operations.

Pensions and other post-retirement benefits

Accounting for pensions and other post-retirement benefits involves judgment about uncertain events, including, but not limited to, discount rates, expected rate of return on plan assets and expected health care cost trend rates. Determination of the projected benefit obligations for the Group's defined benefit pension scheme and post-retirement plans are important to the recorded amount of benefit expense in the profit and loss account (and also the balance sheet under US GAAP).

Under UK GAAP, actuarial valuations on the UK pension schemes are required to be carried out every three years – these determine the assumptions to be used and therefore the expense recorded in the profit and loss account. The latest actuarial valuations were made at March 31, 2003. Details of the assumptions used are included in Note 30 to the Financial Statements.

Details of the US GAAP adjustment relating to pensions and other post-retirement benefits are included in Note 43 to the Financial Statements. 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 unrecognized actuarial gains and losses in determining the pension cost or credit for the year; determination of this obligation is therefore important to the recorded amounts for such obligations on the balance sheet and to the amount of benefit expense

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in the profit and loss account. The assumptions used may vary from year to year, which may affect future results of operations. Any differences between these assumptions and the actual outcome will also affect future results of operations.

Effect of new US accounting standards required to be adopted in year to March 31, 2005

There were no new US accounting standards required to be adopted in the year.

Impact of new US accounting standards not yet adopted

In November, 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 151 Inventory Costs an amendment of ARB No. 43, Chapter 4 (SFAS 151). SFAS 151 clarifies the accounting treatment for certain types of overheads incurred in the production of inventory. Previously, these overheads were required to be expensed only when they met a criterion of being so abnormal as to justify this. SFAS 151 requires the allocation of fixed production overheads to inventory to be based on normal productive capacity, with unallocated overheads being expensed regardless of whether they meet the so abnormal criterion. SFAS 151 is effective for accounting periods beginning after June 15, 2005. The FASB does not anticipate significant changes in accounting treatments as a result of SFAS 151, which is intended to reduce differences with International Accounting Standards. Adoption of SFAS 151 is not anticipated to generate a material impact to the Group.

In December, 2004, the FASB issued SFAS No. 152, Accounting for Real Estate Time-Sharing Transactions an amendment of FASB Statements No. 66 and 67 (SFAS 152). The Statement references earlier guidance included in FASB Statement No. 66, Accounting for Sales of Real Estate to AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions . SFAS 152 also amends Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, highlighting that guidance therein that relates to incidental operations and costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. SFAS 152 is effective for accounting periods beginning after June 15, 2005. Adoption of SFAS 152 is not anticipated to generate a material impact to the Group.

In December, 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 153 Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 (SFAS 153). SFAS 153 amended one of the exceptions to the principle that exchanges be based on the fair values of the items exchanged. SFAS 153 eliminated the exception provided for the nonmonetary exchange of similar productive assets, and replaced this with an exception for the nonmonetary exchange of items that lack commercial substance. SFAS 153 is effective for accounting periods beginning after June 15, 2005, and is intended to reduce differences with International Accounting Standards. Adoption of SFAS 153 is not anticipated to generate a material impact to the Group.

In December, 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123(R) Accounting for Stock-Based Compensation (SFAS 123(R)). SFAS 123(R) requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). SFAS 123(R) is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. FAS 123(R) eliminates the alternative to use Opinion 25's intrinsic value method of accounting, that was provided as an alternative option in Statement 123 as originally issued. The Group currently accounts for stock-based compensation using the intrinsic method and provides a pro forma disclosure in Note 43 of amounts that would arise under the fair value method. The effective date for implementation SFAS of 123(R) by public entities with a year end of March 31, is April 1, 2006. A program of work is underway in the Group to review the detailed provisions and implications of the Standard, and has yet to determine the impact of adopting its requirements on the financial statements.

In May, 2005, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154 Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods financial statements of changes in accounting principle, and provides guidance where this is impractical. The Statement carries forward certain other guidance from Opinion 20, including the treatment of changes in estimate and the correction of errors. SFAS 154 is effective for accounting years beginning after December 15, 2005, and is intended to reduce differences with International Accounting Standards. SFAS 154 will be adopted on a prospective basis.

Impact of new UK accounting standards

In December, 2003, the Urgent Issues Task Force (UITF) of the Accounting Standards Board issued Abstract 38 Accounting for ESOP Trusts. The effect of this UITF Abstract is to require investments held in an entity's own shares through an ESOP trust to be treated as a deduction in equity rather than recorded as an asset. At March 31, 2005 the Group held £26 million of own shares, treated as a deduction from equity as required under the UITF Abstract.

International Financial Reporting Standards

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

The adoption of IFRS will result in changes to the presentation of the financial statements (including disclosures analysis) and to the amount and timing of the recognition of profits and losses, and assets and liabilities. The main impacts on BA will be as follows:

IAS 16 Property, Plant and Equipment

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

IAS 18 Revenue Recognition

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

IAS 19 Employee Benefits (defined benefit pension schemes)

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

IAS 32 Financial Instruments Disclosure and Presentation

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

IAS 39 Financial Instruments, Recognition and Measurement

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

IAS 12 Taxation

Deferred tax will be provided on temporary differences rather than timing differences as under UK GAAP. As a result, additional tax will be provided.

Item 6 Directors, Senior Management and Employees

During fiscal 2005 the business of BA was directed by a Board of Directors which reduced in number from 12 to 11 members. All Directors are subject to retirement every three years and are eligible for re-election by the shareholders. Significant changes to the membership of the Board took place at the Annual General Meeting on July 19, 2005. The Directors of BA immediately prior to the meeting (and their respective ages) were:

CHAIRMAN

Martin Broughton (58)

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

CHIEF EXECUTIVE

Roderick Eddington (55)

Executive Board member since 2000. Rod Eddington joined the airline as Chief Executive in May, 2000. He is a non-executive director of News Corporation and of John Swire & Son Pty Limited. Rod will be retiring from British Airways on September 30, 2005.

CHIEF EXECUTIVE DESIGNATE

William Walsh (43)

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

CHIEF FINANCIAL OFFICER

John Rishton (47)

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

DIRECTOR OF CUSTOMER SERVICE AND OPERATIONS

Michael Street OBE (57)

Executive Board member since December, 2000. Mike Street has been Director of Customer Service and Operations since 1997. He sits on the Council of Buckinghamshire Chiltern University College and is a director and trustee of The ACT Foundation Limited. He is a non-executive director of WSH Group Ltd and Kempton Park Racecourse Company Limited. Mike will be retiring from British Airways on September 30, 2005.

NON-EXECUTIVE DIRECTORS

Maarten van den Bergh (63)

Independent non-executive director since 2002 and senior independent non-executive director since July, 2004. Audit, Nominations and Remuneration Committees. He is Chairman of Lloyds TSB Group Plc and a non-executive director of BT Group plc, Royal Dutch Shell PLC and a member of the Supervisory Board of Akzo Nobel, having previously been President of Royal Dutch Petroleum Company and Vice-Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of companies.

Dr Ashok Ganguly (69)

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

Captain Michael Jeffery (60)

Non-executive director since October, 2001. Chairman of the Safety Review Committee. Captain Jeffery was Director of Flight Operations from 1995 until his retirement from British Airways in June, 2001. He was a member of the West Michigan University College of Aviation Advisory Board until June, 2005.

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Denise Kingsmill (58)

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

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Dr Martin Read (55)

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

Alison Reed (48)

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

Lord Renwick of Clifton (67)

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

Board Committees

The Audit Committee meets at least quarterly under the chairmanship of Alison Reed and consists solely of independent non-executive directors. At the beginning of the year the members were Martin Broughton, Maarten van den Bergh, Ashok Ganguly, and Alison Reed, who succeeded Martin Broughton as chairman of the Committee on July 20, 2004, the date on which Martin Broughton left the Committee on becoming Chairman of the Company. Denise Kingsmill joined the Committee on November 1, 2004. The external and internal auditors, the General Counsel and the Company Secretary normally attend meetings of the Committee and have rights of access to it. Executives attend as required. In addition, the Committee has held closed meetings and has also met privately with each of the external and internal auditors. The Committee reviews the company's financial statements to ensure that its accounting policies are the most appropriate to the company's circumstances and that its financial reporting presents a balanced and understandable assessment of the company's position and prospects. It also keeps under review the company's system of internal control, including compliance with the company's codes of conduct and the scope and results of the work of internal audit and of external audit, together with the independence and objectivity of the auditors. The Committee is responsible for overseeing the performance, as well as the objectivity and independence, of the auditor which it does by requiring reports from the auditor, a requirement to pre-approve fees for non-audit work and by ensuring that fees for non-audit work remain lower than those for audit work. The Committee is also responsible for oversight of the company's policy on whistleblowers and the Risk Group (see Internal Control below).

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

The Remuneration Committee of the Board meets at least twice a year and additionally if required to determine the company's policy on remuneration for the executive directors, senior executives below Board level, the Chairman and the Company Secretary, to review that remuneration and to consider and decide grants under the company's long term incentive plans. The Committee consists solely of independent non-executive directors and is chaired by Dr Martin Read, its other members were Martin Broughton (until July 20, 2004), Lord Renwick (from July 20, 2004) and Maarten van den Bergh. No director is involved in deciding his or her own remuneration. The fees for the non-executive directors are fixed by the executive directors on the recommendation of the Chairman.

The Safety Review Committee meets at least five times per year under the chairmanship, in the year under review, of Captain Michael Jeffery, a former Director of Flight Operations. Its other members were Martin Broughton, (until July, 2004) Baroness O Cathain (until December, 2004), Dr. Ganguly, Lord Renwick and, from November, 2004, Denise Kingsmill. The Committee considers matters relating to the operational safety and security of the airline and subsidiary airlines as well as health and safety issues. The Committee is advised by an external expert, Sir Michael Alcock GCB KBE FREng.

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Service Contracts of Executive Directors

Each of the three executive directors who served during the year under review has a rolling contract with a one-year notice period. As a matter of policy, in the event of new external appointments, the length of service contracts would be determined by the Remuneration Committee in the light of the then prevailing market practice. However, the Remuneration Committee recognises that, in some cases, it may be necessary to offer a contract with a notice period in excess of one year in order to attract a new executive director. In these circumstances, the Remuneration Committee acknowledges that the notice period should reduce to one year after the initial period in accordance with paragraph B.1.6 of the Combined Code. There is no express provision for compensation payable upon early termination. The service contract for Willie Walsh provides for an initial notice period of two years reducing month-by-month to a period of one year. The Company's Commercial Director, Martin George, was elected a director by shareholders at the Annual General Meeting on July 19, 2005. He also has a rolling contract with a one year notice period. The service contracts include the following terms:

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

Service Agreements of Non-Executive Directors

Except where appointed at a general meeting, directors stand for election by shareholders at the first annual general meeting following appointment and stand for re-election every three years thereafter under Article 87. There is no express provision for compensation payable upon early termination. None of the Chairman or the non-executive directors has any right to compensation on the early termination of their appointment. The letters of engagement for the Chairman and the non-executive directors, were reviewed after the publication of the revised Combined Code and new letters of engagement were entered into in March, 2004, copies of which have been filed as exhibits to the Company's annual report on Form 20-F and are also available at www.bashareholders.com. As at the end of the Annual General Meeting held on July 19, 2005, the dates of the Chairman's and current non-executive Directors' appointments are as follows:

Non-executive	Date of appointment	Date of election/ last re-election	Expires at the Annual General Meeting in
Martin Broughton	May 12, 2000	July 15, 2003	2006
Maarten van den Bergh	July 16, 2002	July 19, 2005	2008
Denise Kingsmill	November 1, 2004	July 19, 2005	2008
Dr Martin Read	May 12, 2000	July 15, 2003	2006
Alison Reed	December 1, 2003	July 20, 2004	2007
Ken Smart	July 19, 2005	July 19, 2005	2008
Baroness Symons	July 19, 2005	July 19, 2005	2008

In addition to Rod Eddington, Willie Walsh, John Rishton, Mike Street and Martin George above, the executive officers of the BA Group listed below each have service contracts.

Robert Boyle (40), Director of Commercial Planning. Joined the airline in 1993 in Corporate Finance, becoming General Manager, Network Development in 1998, taking on responsibility for Fleet Planning in 2002.

Paul Coby, (49), Chief Information Officer. Joined the airline in 1996 as IT Systems Supply Board Manager becoming Chief Information Officer in 2000.

Lloyd Cromwell Griffiths, (60), Director of Flight Operations. Joined the airline in 1973 as a pilot becoming Director of Flight Operations in 2001.

Alan McDonald, (55), Director of Engineering. Joined the airline in 1966 as an Apprentice Engineer becoming Director of Engineering in 2001.

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Roger Maynard, (62), Director of Investments and Alliances. Joined the airline in 1987 as Vice-President Commercial Affairs North America, becoming Director of Corporate Strategy in May 1991.

Neil Robertson, (52), Director for People. Joined the airline in 1976 as a graduate trainee becoming Director for People in 2002.

Robert Webb QC, (56), General Counsel. Joined the airline in 1998 and has responsibility for Legal, Government and Industry Affairs, Safety, Security, Risk Management, Community Relations and the Environmental departments of the airline.

Alan Buchanan, (47), Company Secretary. Joined the airline in 1990 as Principal Legal Adviser Finance becoming Company Secretary in April 2000.

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.

Compensation of Directors and Officers

The remuneration of the executive Directors for the year ended March 31, 2005 was:

	Rod Eddington	John Rishton	Mike Street
	2005	2005	2005
	(£ 000)		
Basic salary	592	340	345
Bonus	300	110	86
Taxable benefits*	25	16	22
Total	917	466	453

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

The remuneration of the three executive directors has been adjusted as reflected above from the amounts listed in the previously filed service contracts.

The remuneration (fees and taxable benefits) paid to non-executive directors for the year ended March 31, 2005 were:

	Fee	2005 Taxable benefit*
	(£ 000)	
Martin Broughton	208	21
Maarten van den Bergh	38	0
Dr. Ashok Ganguly	35	0
Captain Michael Jeffery	48	15
Denise Kingsmill (1)	15	1
Dr Martin Read	37	0
Alison Reed	37	0
Lord Renwick	33	1
Total	451	38

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

(1) Appointed to the Board of Directors in November, 2004.

The Chairman's fee is determined by the Remuneration Committee. Fees for the non-executive directors are determined by the executive directors on the recommendation of the Chairman. At the beginning of the year in question, the fees were £27,500 per annum plus £600 for each Board Committee separately attended. The fees were subsequently reviewed in September, 2004, having last been reviewed in April, 2001. From October 1, 2004 the fees were £35,000 per annum, with the chairmen of the Audit and Remuneration Committees and the senior independent non-executive director each receiving £7,500 per annum in addition to these fees. No other fees are now paid for attendance at Board committees. The current Chairman of the Safety Review Committee receives £15,000 in addition to these fees and is provided with a company car and fuel. The Chairman and the non-executive directors are not eligible to participate in the long term incentive plans. Their fees are not pensionable.

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They are also eligible for non-contractual travel concessions. Captain Jeffery, being a former executive of the company, is in receipt of a pension under the Airways Pension Scheme. As a former executive, Captain Jeffery retained conditional share options under the long term incentive plan, granted whilst he was serving as an executive of the company, however, these lapsed on April 1, 2005.

For 2005, the aggregate compensation paid or accrued (excluding pension benefits) by BA to all members of the Board of Directors and its other executive officers named above during the year for services in all capacities was £2,524,084. Also during fiscal 2005, pension contributions of £366,951 were paid for the benefit of members of the Board of Directors and BA's other executive officers. For the year ended March 31, 2005 Rod Eddington earned an annual pension of £24,074, John Rishton earned an annual pension of £19,789, and Mike Street earned an annual pension of £13,374.

The Company has three main pension schemes. Two of these, Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS), are defined benefit schemes and are closed to new members. The new scheme, British Airways Retirement Plan (BARP) is a defined contribution scheme. 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 and Willie Walsh is a member of BARP.

Share Ownership

The interests in shares held by the Directors as of March 31, 2005 were as follows:

	British Airways Plc Ordinary Shares		% of issued share capital
	March 31, 2005	April 1, 2004	
Martin Broughton	24,090	24,090	0.002
Rod Eddington			0.000
Mike Street	6,678	6,678	0.000
John Rishton	2,039	2,039	0.000
Maarten van den Bergh	2,000	2,000	0.000
Dr. Ashok Ganguly	104	104	0.000
Captain Michael Jeffery	2,624	2,624	0.000
Denise Kingsmill			0.000
Dr Martin Read	8,000	8,000	0.000
Alison Reed	10,000		0.000
Lord Renwick	32,014	32,014	0.002
Total	87,549	77,549	0.010

No Director has any interest in the share capital of any of the Company's subsidiaries.

In addition to the Directors, as detailed below, the executive officers of BA held interests in 4,041,799 options as of June 30, 2005

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Options to Purchase Securities from Registrant or Subsidiaries

As of June 30, 2005 employees of the Company held options to purchase 54,163,811 Ordinary Shares at exercise prices ranging between 157p and 465p per Share.

The following Directors held options to purchase ordinary shares of British Airways Plc granted under the British Airways Share Option Plan 1999, as at June 30, 2005. Options awarded under the 1999 plan are subject to a performance condition as detailed below. The interests in options held by the Directors as of June 30, 2005 were as follows:

	Date of grant	Number of options	Exercise price	Exercisable for seven years from	Expiry Date
Rod Eddington	May 26, 2000	138,888	360p	May 26, 2003	May 26, 2010
	June 26, 2001	163,551	321p	June 26, 2004	June 26, 2011
	July 1, 2002	290,055	181p	July 1, 2005	July 1, 2012
	June 25, 2003	350,318	157p	June 25, 2006	June 25, 2013
	June 25, 2004	216,221	262p	June 25, 2007	June 25, 2014
	Total		1,159,033		
John Rishton	August 26, 1999	21,852	394p	August 26, 2002	August 26, 2009
	June 28, 2000	31,578	380p	June 28, 2003	June 28, 2010
	June 26, 2001	70,093	321p	June 26, 2004	June 26, 2011
	July 1, 2002	124,309	181p	July 1, 2005	July 1, 2012
	June 25, 2003	191,082	157p	June 25, 2006	June 25, 2013
	June 25, 2004	117,938	262p	June 25, 2007	June 25, 2014
	June 23 2005	126,811	276p	June 23 2008	June 23 2015
Total		693,539			
Mike Street	August 26, 1999	71,903	394p	August 26, 2002	August 26, 2009
	June 28, 2000	75,605	380p	June 28, 2003	June 28, 2010
	June 26, 2001	95,015	321p	June 26, 2004	June 26, 2011
	July 1, 2002	168,508	181p	July 1, 2005	July 1, 2012
	June 25, 2003	203,821	157p	June 25, 2006	June 25, 2013
	June 25, 2004	125,801	262p	June 25, 2007	June 25, 2014
Total		740,653			

Other than those options granted in June 2004, the performance condition attached to the options listed above requires the Remuneration Committee to be satisfied that there has been an increase in the earnings per share (EPS) of the company which is at least four per cent per annum more than the increase in the retail price index during any period of three consecutive financial years within the life of the grant. EPS is calculated as set out in the Statement of Investment Practice No. 1 of the Institute of Investment Management and Research (IIMR) as this is a recognised method in the market. In addition, the Remuneration Committee imposed a threshold of 17.3 pence as the minimum base year EPS before any such increase could qualify towards meeting the performance condition. The threshold was first introduced by the Remuneration Committee in 2000 because EPS in the financial year ending March 31, 2000 was negative, the Committee having determined that it would be inappropriate to attempt to measure EPS from a negative base year. The threshold was altered from 20.8 pence in the financial year 2002/03 to reflect the adoption of FRS 19 Deferred Tax .

For options granted in June 2004 and June 2005, there is a single opportunity to re-test performance over four years from the same fixed base.

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

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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:

The conditional awards of options held by the Directors as of June 30, 2005 were as follows:

	Date of award	Number of conditional awards
Rod Eddington	June 8, 2001	35,700
	June 9, 2003	294,643
	June 16, 2004	166,618
Total		496,961
Mike Street	June 8, 2001	20,740
	June 9, 2003	171,429
	June 16, 2004	96,941
Total		289,110
John Rishton	June 8, 2001	15,300
	June 9, 2003	160,714
	June 16, 2004	90,882
Total		266,896

In relation to awards made in 2000 and 2001, one third of each individual award may vest at the end of the third, fourth and fifth financial years from the year of the grant if the performance of the company, measured by TSR from the year of the grant through to the end of the year in question, places the company at or above the median percentile when compared with the TSR for each of the companies in the FTSE100 index. In relation to awards made from 2002 onwards the whole of the award may vest on the third anniversary of the start of the financial year in which the award was made. If the company's TSR for the period to that financial year end is at or below the 50th percentile, no awards will vest. If the company's TSR for the period is at the 50th percentile, 30 per cent of the award (or one third portion in the case of awards in 2000 and 2001) will vest. If the company's TSR is at the 75th percentile, 65 per cent of the award (or one third portion in the case of awards in 2000 and 2001) will vest. For performance between 50th and 75th percentile, the number of options will be determined on a straight-line basis. If the company's TSR for the period is at the 90th percentile all of the award (or one third portion in the case of awards in 2000 and 2001) will vest. For performance between 75th and 90th percentile, the number of options will be determined on a straight line basis.

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

British Airways Executive Share Option Scheme 1987

The Company adopted the Executive Share Option Scheme 1987 in 1987, and granted options under this scheme through 1995 to a selected group of key full-time executives. The maximum allocation per executive was four times the greater of the executives emoluments for the current or the preceding year of assessment.

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Options were granted at an option price which was not less than the greater of the market value of the shares and the nominal value thereof. Grants were made within 42 days of the preliminary announcement of the Company's final results and/or the preliminary announcement of the Company's half-yearly results in respect of any financial period. Options are exercisable between the third and tenth anniversary of the date of grant, conditional on the executive remaining in employment.

British Airways Long Term Incentive Plan 1996

Set out below is a summary of the principal features of the British Airways Long Term Incentive Plan 1996 (Incentive Plan), which was adopted at the Annual General Meeting on July 16, 1996. At the time it was intended to operate the Incentive Plan annually. All executive directors and employees of the Company and any subsidiaries (designated by the Directors) who were not within two years of compulsory retirement were eligible to participate in the Incentive Plan.

In relation to grants made in 1996, 1997 and 1998, all executive directors and employees of the Company and any subsidiaries (designated by the Directors) who were not within two years of compulsory retirement were eligible to participate in the Incentive Plan. Individual participation was linked to seniority and the maximum participation was limited to 75% of salary.

As a result of the introduction of the British Airways Share Option Plan 1999 (see below), grants made in 1999 and subsequent years are restricted to Executive Directors and the most senior group of executives who are not within two years of compulsory retirement. Maximum participation continues to be limited to 75% of salary.

Awards of shares are made to selected executives under the Incentive Plan at the discretion of the Remuneration Committee (which consists wholly of non-executive Directors). Awards will vest at the end of a performance period. In relation to the awards made in 1999, 2000 and 2001, achievement against the performance condition is tested for a one third tranche of each award on the third, fourth and fifth anniversary of the start of the financial year in which the award was made. In relation to awards made under the Incentive Plan from 2002 onwards, 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.

On the vesting of an award, the executive will be entitled to be granted an option to acquire some or all of the shares awarded depending on the extent to which the performance conditions, set at the time the award was made, have been satisfied.

An option granted in respect of an award is exercisable immediately and will lapse if not exercised within seven years of grant. No consideration is payable for the shares on the exercise of the option granted on the vesting of an award. No shares will be issued under the Incentive Plan. Entitlements will be satisfied from shares held in an employee benefit trust.

The performance condition set by the Remuneration Committee for the operation of the Incentive Plan in 1996 through 2004 was based on total shareholder return (TSR) over that relevant performance period. In addition, the Remuneration Committee will consider whether or not the Company's overall financial performance (for example growth in earnings per share) justifies the vesting of an award and the grant of an option. TSR will be measured by reference to the movement in the price of a share and the value of gross dividends paid in respect of the Company's Ordinary Shares.

Grants made in 1996, 1997, 1998, 1999, 2000 and 2002 failed to achieve the required TSR performance condition and have now lapsed.

In relation to grants made in 1999 and subsequent years, in order for an award to vest in full the TSR in respect of an Ordinary Share of the Company over the performance period must be such as to place it at or above the 90th percentile when compared with the TSR for each of the Comparator Companies over the same period. Where the TSR for the Company over the performance period is at or below the 50th percentile, no shares will be acquired. Where the TSR for the Company over the performance period is between the 50th and 90th percentiles, the number of shares over which an option will be granted will be calculated in accordance with a pre-determined formula.

No awards may be made under the Incentive Plan after the tenth anniversary of the date of the approval of Plan rules by the Company. The Remuneration Committee has determined that no further awards will be made under the Plan see Item 6 Directors, Senior Management and Employees New long term incentive arrangements .

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 ADS at an option price in Sterling or (in the case of ADS) 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 aggregate 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 4% 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 recognized 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 ended 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 was retained, after consultation with major shareholders, in order to recognize 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.

British Airways Savings-Related Share Option Scheme 1996

Set out below is a summary of the principal features of the British Airways Savings-Related Share Option Scheme 1996 (Savings-Related Scheme). The plan was last operated in the year ended March 31, 2000 and the resultant options became exercisable in June 2003 and remained exercisable for six months. The Company expects to launch a new operation of the plan when the commercial environment is appropriate, however, there are no options outstanding under the scheme at present.

All full-time executive directors and all employees (full-time or part-time) who have worked for the Company or a participating company for a qualifying period as determined by the Directors (but not to exceed five years) and any other employees nominated by the Directors are eligible to participate in the Savings-Related Scheme.

Employees granted an option under the Savings-Related Scheme must enter into a savings contract with a designated savings carrier under which they make monthly savings for a period of three years or, if the Directors determine, any other period permitted under the relevant legislation. The monthly savings must not exceed the limit imposed by the relevant legislation (currently £250 per month). A bonus determined by the Inland Revenue will be payable after three years. An option is granted to the employee which is normally exercisable within six months after the bonus is payable under the savings contract using the amount saved plus the bonus.

Options will be granted at an option price which is not less than 80% of the average of the market value of the shares for the three days following the 14th day after invitations are sent out (or some other date agreed with the Inland Revenue) or, where shares are to be subscribed their nominal value (if greater). Market value means on any day the average of the middle market quotation derived from the UK Financial Services Authority Daily Official List over the three preceding business days.

Options are normally exercisable for a six-month period following the bonus date under the relevant savings contract. If the option is not exercised within this six-month period, the option will lapse. Options may also, however, be exercised early in certain circumstances, for example on the option holder ceasing to be an employee due to death, injury, disability, redundancy, retirement or following change of control of the employing company and in the event of a takeover or winding-up of the Company. Exercise is also allowed where the employee leaves, if the option has been held for more than three years. If any option is exercised early, the option holder may only use the savings made under the savings contract (together with any interest) at that time to exercise the option.

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An overall limit is set on the number of shares which may be issued under the Savings-Related Scheme. In any ten-year period, not more than 10% of the issued Ordinary Share capital of the Company may, in aggregate, be issued or be issuable under the Savings-Related Scheme and any other employees' share scheme operated by the Company.

No options may be granted under the Savings-Related Scheme after the tenth anniversary of the date of the approval of the scheme rules by the Company.

British Airways All Employee Share Ownership Plans

In July, 2000, the Company obtained shareholders' approval to implement any aspect of the new all employee share plans now known as share incentive plans. The approval permits the Company to operate a partnership share plan which would allow employees in the UK to buy shares from their pre-tax salary and would allow the Company to give matching or free shares to those participants in the share plan. Financial limitations would apply to any new plan. The Company intends to launch the new plans when the commercial environment is appropriate.

For further information regarding the Company's employee share schemes, see Note 29 to the Financial Statements.

New long term incentive arrangements

No further grants will be made under the Long Term Incentive Plan, which has operated since 1996. It provided for conditional awards of shares worth up to 75% of salary each year, subject to a Total Shareholder Return condition measured against the companies comprising the FTSE100. In its place, the company proposes to introduce a Performance Share Plan, which was approved by shareholders at the annual general meeting on July 19, 2005, it is intended that awards will be made following the annual general meeting. The Committee considers that Performance Shares are more appropriate than share options since they should provide a more effective link between performance and reward and they are less volatile.

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

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

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

Operating margin is defined as Operating Profit/(Loss) divided by Turnover and is the key measure of financial performance in British Airways. The central corporate financial target, which was first approved by the Board under the 'Future Size and Shape' review, is a long-term operating margin of 10%. The initial target range proposed represents a challenging performance condition which is aligned to British Airways' objective of delivering a 10% operating margin across the business cycle.

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

Employees

In fiscal 2005, the Group employed an average of 49,490 employees and employee costs represented approximately 31% of total Group operating expenses. Employee ownership in the Company is encouraged. As at June 16, 2005, some 50% of employees owned 1.67% of the Company's shares.

The following table sets forth information regarding the Company's employees:

Fiscal Year	Average Number of Employees	Employee costs as a percentage of total Group operating expenditure
2005	49,490	31%
2004	51,939	30%
2003	57,014	28%
2002	61,460	28%
2001	62,175	27%

In 2005, approximately 86% of the Company's employees were based in the UK with the remainder based abroad, principally in Continental Europe and North America.

BA recognizes four trade unions in the UK with whom negotiations on pay and other terms and conditions of employment are conducted. With the exception of senior management, all BA staff in the UK are covered by collective bargaining agreements. The majority of overseas staff are covered by such agreements. As in most labor intensive industries, strikes, work stoppages and other organized labor activities can have significant adverse effects on operating and financial results.

Pensions

The actuarial valuation of Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS) as at March, 2003 showed that the £820 million surplus in APS at the last valuation at March, 2000 has fallen to a surplus of £45 million and the NAPS deficit at March, 2000 has risen from £221 million to £928 million at March, 2003.

Prior to the 2003 valuation, the Company paid around £118 million a year into NAPS. As a result of the valuation, contributions to NAPS have increased by £107 million to about £225 million a year. Contributions to APS were previously nil, and have increased to about £26 million per year. This effectively increased the Company's UK labor costs by some 9%.

APS has been closed to new members since March 31, 1984 and NAPS closed to new members on March 31, 2003. The defined contribution plan for UK employees, the British Airways Retirement Plan (BARP), commenced on April 1, 2003. The number of employees who have joined BARP as at March 31, 2005 was 2,701.

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Item 7 Major Shareholders and Related Party Transactions

No material transactions between BA and its Directors and officers have been entered into in the year ended March 31, 2005. See Item 6 Directors, Senior Management and Employees - Service Contracts of Executive Directors for a description of certain service contracts.

There were no loans or credit transactions with Directors or officers of the Company during the year which would be required to be disclosed in accordance with the requirements of the Companies Act or the requirements of SEC Form 20-F.

As far as is known to the Company, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government or any other entity or person.

As at June 30, 2005 the following companies held 5% or more of the issued share capital of the Company, these shareholders having the same voting rights as all shareholders:

Shareholder	2005		2004		2003	
	Percentage of issued capital held	Number of shares held	Percentage of issued capital held	Number of shares held	Percentage of issued capital held	Number of shares held
Franklin Resources Inc	5.94	64,276,358	5.91	64,098,448	7.03	76,108,893
Barclays PLC	5.01	65,532,098	5.07	54,997,945	N/A	N/A

As of June 30, 2005 the Directors and the Officers of the Company, listed on pages 48, 49, 50 and 51 as a group had a beneficial interest in 117,792 Ordinary Shares, which represents approximately 0.10% of the total issued share capital of the Company. See Item 6 Directors, Senior Management and Employees - Share Ownership.

As far as is known to the Company, no arrangements exist, the operation of which may at a subsequent date result in a change in control of the Company.

On June 30, 2005, 7,121,987 ADS (equivalent to 71,219,870 Ordinary Shares or 6.30% of the total Ordinary Shares outstanding) were held by 2,966 holders in the United States.

Item 8 Financial Information

Consolidated Statements and Other Financial Information.

See Item 18 Financial Statements.

Dividends(1)

	Year ended March 31				
	2005	2004	2003	2002	2001
<i>Pounds Sterling</i>					
Interim	0.00p	0.00p	0.00p	0.00p	5.10p
Final	0.00p	0.00p	0.00p	0.00p	12.80p
Total	0.00p	0.00p	0.00p	0.00p	17.90p
<i>US Dollars(1)</i>					
Interim	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.07

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Final	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.18
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.25

(1) Dollar amounts are translated at the Noon Buying Rate for pounds Sterling at each of the respective payment dates.

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Dividends are set forth in the above table under the year to which they relate rather than the year in which they were paid. Dividends shown have not been increased by certain tax credits relating to dividend payments as discussed under Item 10 Additional Information Tax .

In fiscal year 2005, no interim dividend was paid and the Board of Directors has recommended that no final dividend be paid, due to the financial conditions faced by the Company. Future dividends will be dependent upon the Company's cash flow, earnings, financial condition and other factors. The compulsory adoption of International Accounting Standards from April 1, 2005 will also impact the Company's ability to pay a dividend in the foreseeable future due to the material reduction of distributable reserves from applying the new accounting policies.

When financial and legal conditions allow, the Directors expect, in respect of subsequent years, to declare an interim dividend and to recommend a final dividend which will normally be payable in January and July, respectively. Final dividends are subject to approval by the shareholders of the Company at its annual general meeting.

Dividends paid by the Company will be in pounds Sterling and exchange rate fluctuations will affect the US Dollar amounts received by holders of the ADS on conversion by the Depository of such cash dividends paid. See Item 3 Key Information - Exchange Rates .

Legal Proceedings

Although BA usually has a number of lawsuits and regulatory investigations pending at any one time (currently including deep venous thrombosis claims, investigations by the Office of Fair Trading and the European Commission), BA is not engaged in any litigation or regulatory proceedings the outcome of which in the aggregate is expected to have a material effect on the Group's financial position or results of operations.

Significant Changes

There have been no significant changes since, March 31, 2005, the date of the Financial Statements included in Item 18 of this report, other than the Convertible Capital Bond maturity which gave rise to approximately a 4.4% increase in the issued share capital.

Item 9 The Offer and Listing

The principal trading market for the Company's Ordinary Shares is the London Stock Exchange.

ADS, each representing ten of the Company's Ordinary Shares, are listed on the New York Stock Exchange. Morgan Guaranty Trust Company of New York is the depository of the Ordinary Shares underlying the ADS.

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The following table sets forth for the periods indicated the highest and lowest middle market quotations for the Ordinary Shares as derived from the Daily Official List of the UK Financial Services Authority and the highest and lowest sales prices of the ADS as reported on the New York Stock Exchange composite tape.

	Ordinary Shares		ADS	
	High	Low	High	Low
	(Pence)		(US Dollars)	
Five-year data on an annual basis				
Year Ended March 31				
2001	463	265	67.87	39.25
2002	387	139	54.94	20.3
2003	244.75	86	35.5	14.4
2004	332.25	105.5	61.49	16.63
2005	305.25	199.5	55.75	36.10
Two-year data on a quarterly basis				
2004				
First Quarter	169.25	105.5	28.31	16.63
Second Quarter	206	147.75	33.10	25.07
Third Quarter	249	171.5	42.45	28.22
Fourth Quarter	332.25	229.5	61.49	41.37
2005				
First Quarter	305.25	243.25	55.75	43.08
Second Quarter	278.75	205.5	51.00	37.35
Third Quarter	235	199.5	45.61	36.10
Fourth Quarter	286.5	231	54.11	43.39
Six-month data on a monthly basis				
January	265.75	231	50.25	43.39
February	286.5	267.5	54.11	50.25
March	281	263.25	54.01	49.13
April	273.75	236.25	51.55	44.84
May	277	243.5	50.82	45.73
June	280.75	260.75	50.91	46.80

Item 10 Additional Information

Limitations on Voting and Shareholding

The Company's Articles of Association provide the board of directors of the Company the authority to limit the right of non-UK persons and of non-EEA nationals to hold or exercise votes in relation to Ordinary Shares of the Company (or ADS in respect thereof) in circumstances where not limiting such holdings or voting rights would adversely affect the Group's current or future operating rights.

At the Annual General Meeting in 2002, shareholders approved the introduction of a new special voting share (the "Special Share") into the capital of the Company. The Special Share has no economic value and is held by a special purpose subsidiary of the Law Debenture Trust p.l.c. The sole function of this arrangement is to protect the Company's operating rights by ensuring that the votes cast by the UK shareholders of the Company, taken as a whole, represent a majority of the votes cast.

Non-UK and non-EEA persons who hold Ordinary Shares (or ADS in respect thereof) are subject to the risk that their rights in respect of the Ordinary Shares may be limited. For more information, see Item 10 Additional Information Memorandum and Articles of Association Limitations on Voting and Shareholding.

Memorandum and Articles of Association

The following summarizes certain material rights of holders of the Company's Ordinary Shares under the provisions of the Company's Memorandum and Articles of Association and English law. This summary is qualified in its entirety by reference to the Companies Act and the Company's Memorandum and Articles of Association. Copies of the Company's Memorandum and Articles of Association have been filed as exhibits to the Company's annual report on Form 20-F and are also available at www.bashareholders.com. At the Annual General Meeting on

July 19, 2005, shareholders approved changes to the Articles of Association relating to the

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Company's adoption of IFRS and to new regulations and legislation regarding treasury shares and directors' indemnities, respectively, as well as other clarificatory changes. (A copy of the amended Articles of Association is attached to this Form 20-F as Exhibit 1.1.)

The Company's ordinary shares may be held in certificated or uncertificated form. Holders of the Company's ordinary shares may be required to make additional contributions of capital in respect of any amounts unpaid on their respective ordinary shares, subject to the terms of issue of such Ordinary Shares.

In the following description, a "member" is the person registered in the Company's register of members as the holder of the relevant share.

The Company is incorporated under the name "British Airways Plc" and is registered in England and Wales with registered number 1777777. The fourth clause of the Company's Memorandum provides that its objectives include: (i) to succeed to the undertaking of the British Airways Board (a corporation established by the Civil Aviation Act 1971 and constituted in accordance with the British Airways Board Act 1977), (ii) to carry on business as an airline and to provide air transport services and related businesses, (iii) to provide technical advice or assistance, including research services, as regards any matter in which the British Airways Board had or the Company has skill or experience, (iv) to act as an investment holding company and to acquire, dispose, manage and coordinate the business of any companies in which it has an interest, and (v) to carry on any other business or activity which in the opinion of the directors of the Company is or may be conveniently done in connection with the Company's activities or is likely directly or indirectly, to enhance the value of or render more profitable all or any part of the Company's undertaking, property or assets or otherwise to advance the interests of the Company or of its members. The Memorandum grants the Company a broad range of corporate capabilities to effect these objects.

Directors

Under the Company's Articles of Association, a director shall not vote in respect of any proposal in which the director or a person connected with the director has an interest which to the director's knowledge is a material interest other than by virtue of the director's interests in securities of, or otherwise in or through, the Company. This is subject to certain exceptions relating to: (i) a security, guarantee or indemnity to the director (or a third party) by the Company or any of its subsidiary undertakings in connection with any debts or obligations of the Company assumed by the director, (ii) an offer of securities of or by the Company or any of its subsidiary undertakings in which the director will be interested as an investor, participant or underwriter, (iii) a proposal concerning any other company in which the director is an interested party if the director does not have an interest in 1% or more of the issued Ordinary Shares or the voting rights available to members of the relevant company, (iv) certain benefits plans under which the director may benefit and which do not award any privileges or benefits not generally awarded to the other employees to which the agreement relates, provided that the director shall not vote with respect to the director's own participation in such plan and (v) liability insurance that the Company is empowered to purchase for the benefit of directors of the Company in respect of actions undertaken as directors (or officers) of the Company.

The quorum necessary for the transaction of business may be fixed from time to time by the directors and, unless so fixed at any other number, shall be two. A meeting of the directors at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the directors.

The directors are empowered to borrow money, subject to the limitation that the aggregate outstanding amount of funds borrowed by the Company and its subsidiaries from persons outside the Group shall not exceed the aggregate of the principal amount of the 9.75% Convertible Bonds issued by British Airways Capital Limited and an amount equal to two and one half times the Adjusted Capital and Reserves, as defined in the Company's Articles of Association.

Directors are not required to hold any Ordinary Shares of the Company by way of qualification. Each director shall retire from office at the third annual meeting after the annual meeting at which the director was last elected, but shall be eligible for re-election. If the office is not so filled, the retiring director shall be deemed to have been re-elected except in any of the following cases:

where at such meeting it is expressly resolved not to fill such office or a resolution for the re-election of such directors is put to the meeting and lost,

where such director has given notice in writing to the Company that he is unwilling to be re-elected,

where the failure to fill the office is due to the moving of a resolution in contravention of the Articles of Association, and

where such director has attained any retiring age applicable to him as a director.

At any meeting where a director retires, the office being vacated may, by ordinary resolution, be filled by the retiring director or some other person eligible for appointment.

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The ordinary remuneration of the directors shall not exceed a maximum determined from time to time by an ordinary resolution of the shareholders of the Company and shall (unless such resolution otherwise provides) be divisible among the directors as they may agree, or, failing agreement, equally, except that any director who holds office for only part of the period for which such remuneration is payable shall be entitled only to a pro-rated proportion of such remuneration. At the Annual General Meeting on July 15, 2003 shareholders approved a Special Resolution which replaces this provision with a new Article 78 reflecting a change in UK law requiring an annual shareholder vote on the Directors Remuneration Report.

A director who holds an executive office (including the office of chairman or deputy chairman whether or not such office is held in an executive capacity), or who serves on any committee of the directors or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, commission or otherwise as the directors may determine. Directors may be reimbursed for reasonable expenses incurred in connection with their services to the Company, including expenses of attending meetings.

Dividends

Under English law, dividends are payable on the Company's Ordinary Shares only out of profits available for distribution, as determined in accordance with accounting principles generally accepted in the UK and by the Companies Act. Holders of the Company's Ordinary Shares are entitled to receive such dividends as may be declared by ordinary resolution provided that the dividend does not exceed the amount recommended by the directors. The articles of association give the directors authority (should they deem it appropriate) to declare or pay dividends in any currency. The directors would decide the basis of any currency conversions and how any costs involved are met.

If and so far as in the opinion of the directors the profits of the Company justify such payments, the directors may declare interim dividends, and may also declare fixed dividends on any class of Ordinary Shares that carry dividend rights. The board of directors may also direct dividend payments in whole or in part by the distribution of specific assets, if authorized by an ordinary resolution of the shareholders.

All dividends shall be apportioned and paid pro rata according to the amounts paid on the ordinary shares during the portion of the period in which the dividend is paid, unless the rights attached to any ordinary shares provide otherwise. No amount paid on a share in advance of calls shall be treated as paid on the share.

Any dividend unclaimed may be invested or otherwise made use of by the directors for the benefit of the Company, and after 12 years from the date the dividend was declared, or became due for payment, will revert to the Company.

The directors did not recommend that any dividend should be paid in relation to the year ended March 31, 2005. No dividends were paid in relation to the year ended March 31, 2004.

Voting Rights/Meetings

At any general meeting of members, a resolution shall be decided on a show of hands unless a poll, which is a written vote, is duly demanded. On a show of hands, every member who is present in person or by proxy shall have one vote. On a written vote, every member who is present in person or by proxy shall have one vote for every share held by the member. A written vote may be demanded by any of the following:

the chairman of the meeting;

not less than five members present in person or by proxy and entitled to vote;

a member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; and

a member or members present in person or by proxy and holding Ordinary Shares in the Company conferring a right to vote at the meeting being ordinary shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the ordinary shares conferring that right.

All resolutions put to the annual general meeting since 2001 have been put to a poll. In relation to subsequent general meetings, the Chairman has indicated his intention to demand a poll. An instrument appointing a proxy shall be deemed to include the right to demand or join in demanding a poll and to speak at the meeting. Two members present in person or by proxy and entitled to vote shall be a quorum for all purposes.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting is entitled to cast the deciding vote.

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An annual general meeting shall be held once in every year, at such time (within a period of not more than fifteen months after the holding of the last preceding annual general meeting) and place as may be determined by the directors. All other general meetings shall be called extraordinary general meetings. An annual general meeting shall be convened by advanced written notice of at least 21 days, or a shorter notice period if agreed upon by all of the members of the Company entitled to vote on the matter. An extraordinary general meeting shall be convened upon advanced written notice of at least 14 days, or a shorter notice period if agreed upon by a majority in number of the members having a right to attend holding not less than 95% in nominal value of the Ordinary Shares giving that right. The dates of the meeting, delivery and receipt of notice are not included in determining whether notice is adequate.

Every notice calling a general meeting shall specify the date, time and place of the meeting. The notice shall also state with reasonable prominence in every such notice a statement that a member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of the Company. Notice for any meeting shall state the business to be transacted at the meeting, except for certain routine business set forth in the Company's Articles of Association such as declaring dividends. Notice for an annual general meeting shall specify the meeting as such.

Variation of Rights

If, at any time and from time to time, the share capital of the Company is divided into different classes, the rights attached to any class may, subject to the provisions of the Companies Act, may be varied or abrogated either with the consent in writing of the holders of three-quarters of the issued Ordinary Shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the Ordinary Shares of the class and may be so varied or abrogated either while the Company is a going concern or during or in contemplation of a winding-up. At every such separate meeting all the provisions of the Articles of Association relating to general meetings of the Company shall apply, except that the necessary quorum shall be at least two persons holding or representing by proxy at least one-third in nominal value of the issued Ordinary Shares of the class and that any holder of Ordinary Shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him. These provisions apply to the variation or abrogation of the special rights attached to some only of the Ordinary Shares of any class as if each group of Ordinary Shares of the class differently treated formed a separate class the special rights of which are to be varied.

The Government is consulting on proposed changes which would vary the law relating to annual general meetings.

Rights in a Winding-Up

In the event of a winding-up, after the payment of all creditors, including certain preferential creditors, whether statutorily preferred creditors or normal creditors, a liquidator may, with the authority of an extraordinary resolution:

set such value as the liquidator deems fair upon the property of the Company and may determine how such division shall be carried out as between the members or different classes of members;

vest any part of the assets in trustees upon such trusts for the benefit of members; and

divide among the members in specific or in kind the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds.

Limitations on Voting and Shareholding

Rights of BA to operate, in particular on international routes, could be withdrawn if the Company ceased to be substantially owned and effectively controlled by UK nationals or, in some cases, non-EEA nationals. Accordingly, the Articles of Association of the Company contain powers which may be used to limit the number of voting rights of Ordinary Shares in which non-UK or non-EEA nationals own interests or, if necessary, to require their compulsory disposal, or to restrict the transferability of Ordinary Shares. Holders of ADS will generally be considered to be interested in the Ordinary Shares underlying their ADS.

These powers include the power to impose an overall limit of not less than 25% on the number of Ordinary Shares (Relevant Shares) in which non-UK or non-EEA nationals have any direct or indirect interest, as broadly defined in the Articles. However, these powers are only exercisable if the Directors determine that it is necessary to use such powers to protect BA's operating rights because action affecting such rights has occurred or is contemplated, threatened or intended or may occur because of the ownership or control of the Company by non-UK or non-EEA nationals or because of the aggregate number of Relevant Shares.

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There is no accepted international agreement as to what level of ownership or control must be retained by UK or EEA nationals but, in the absence of intervention from a foreign government or large interests of single or associated non-UK or Non-EEA nationals, the Directors would not generally expect to have to apply any restriction unless the proportion of Relevant Shares threatens to exceed 50% or to have to set a limit on Relevant Shares below that level, although no assurance can be given that this would be the case. All Ordinary Shares represented by ADS will generally be deemed by the Directors to be Relevant Shares unless the contrary is established to the satisfaction of the Directors. The Directors will publish the level of Relevant Shares from time to time. As of July 1, 2005, the proportion of Ordinary Shares held by non-UK nationals was 36.05%; and by non-EEA nationals, 22.77%. Having regard to all relevant factors, including the fact that there are no large interests of single or associated non-UK or non-EEA nationals, and in the absence of unforeseen developments, BA does not at present expect (but without limiting its freedom to act) to seek to exercise its power to restrict non-UK or non-EEA Ordinary Share ownership.

If an overall limit on Relevant Shares is set and were or would be exceeded, the Directors would be entitled to refuse to register transfers of Ordinary Shares which would become Relevant Shares, holders of Ordinary Shares in excess of the limit could lose the right to attend and vote at general meetings and, as a last resort, the Directors could require disposals to reduce the number of Relevant Shares to the limit. The Directors could also, if they make a determination, exercise all or any of such powers in respect of certain Relevant Shares either without setting an overall limit or when the proportion of Relevant Shares is less than 25%. In selecting Relevant Shares to be affected, the Directors would have regard to those which in their opinion caused their determination but would otherwise have regard to those last registered as Relevant Shares except where they consider that would be inequitable. A person interested in such Ordinary Shares could make representations as to why his Ordinary Shares should not have been selected.

To enable the Directors to identify Relevant Shares, each transferee of Ordinary Shares (but not ADS) will generally have to provide a declaration as to the nationality of persons having interests in those Ordinary Shares and each shareholder will be obliged to notify the Company if any of his Ordinary Shares become Relevant Shares.

At the Company's 2002 Annual General Meeting, on July 16, 2002, the Special Share was introduced into the capital of the Company. This Special Share has no economic value and is held by a special purpose subsidiary of The Law Debenture Trust p.l.c.

The sole function of this arrangement is to ensure that the votes capable of being cast by the UK shareholders of the Company, taken as a whole, never falls below a majority. The voting rights of the special share would only be triggered by a notice given by the Board of Directors. Following such a notice, the Special Share would provide its holder with a variable number of votes at any general meeting. That number of votes would depend on the number of shares owned solely by UK shareholders at any time, since the Special Share will always have attached to it sufficient votes to ensure that, when aggregated with the votes attaching to such solely UK owned shares, the total is 50% + 1 vote. The votes of the Special Share would be made by the holder in a wholly mechanical manner and will simply depend on the proportion of UK owned shares being voted for or against a particular resolution and the proportion of UK owned shares not being voted on such resolution. No third party would have any discretion to change these proportions. The Board of Directors would publicize any use of the Special Share's voting rights in accordance with the rules of each exchange on which it is listed.

The UK government is currently considering the extent to which the EU Takeover Directive will be introduced into UK law, the operation of which could have an adverse impact on the operation of the Special Share. The Company has made representations to the government in this regard and a favorable decision is hoped for.

Other Restrictions

There are no other limitations on holding or voting applicable to foreign owners of Ordinary Shares in the Company, other than those restrictions which apply equally to UK and European owners of such shares. Below is a summary of certain significant restrictions on holding or voting which apply to all holders of Ordinary Shares.

Disclosure of Interests and Restrictions on Voting

The Directors may by a disclosure notice require any member or other person appearing to be or to have been interested in Ordinary Shares to disclose such information as the Directors shall require relating to the ownership of or interests in the Shares in question. If any member or person appearing to have an interest in any Shares fails to give to the Company, within 28 days of the service on him of a disclosure notice, the information required, the registered holder of those Shares shall not be entitled to attend or vote at any general meeting of the Company or any meeting of holders of any class of shares of the Company. The 28-day period is reduced to 14 days in the case of a member holding not less than 0.25% of the issued Shares of any class and, in addition, the payment of any

dividend to such a member will be withheld and his Shares will not be transferred except pursuant to a take-over offer, a sale at arm's length or a sale through a recognized investment exchange. A shareholder shall also not be entitled to attend or vote in the circumstances described under Limitations of Voting and Shareholding above. In addition, a shareholder shall not be entitled, in respect of any Shares, to vote at any general meeting or separate class meeting unless all amounts presently payable by him in respect of his Shares have been paid.

Under the Companies Act 1985 (as amended) of Great Britain (the Companies Act), any person who acquires (alone or, in certain circumstances, with others) a material interest in the voting share capital of the Company in excess of 3% or a non-material interest in excess of 10% comes under an obligation to disclose prescribed particulars to the Company in respect of those shares. An obligation of disclosure also arises where such person's notifiable interests subsequently fall below the notifiable percentage, or where, above that level, the percentage of the Company's voting share capital in which he is interested (expressed in whole numbers) increases or decreases. In addition, the Company may require persons who it believes to be, or to have been within the previous three years, interested in its voting shares to disclose prescribed particulars of those interests. Failure to supply the information required may lead to disenfranchisement of the relevant shares and a prohibition on their transfer and on dividend and other payments in respect of them.

Material Contracts

See Item 6 Directors, Senior Management and Employees Compensation of Directors and Officers.

Exchange Controls

There are currently no UK foreign exchange control restrictions on the payment of dividends on BA's Ordinary Shares or on the conduct of the BA Group's operations.

Tax

The Company did not pay a dividend to shareholders during fiscal 2005 on either its Ordinary Shares or ADS.

The following discussion is intended only as a descriptive summary of the material UK and US federal income tax consequences of owning Ordinary Shares or ADS and it does not purport to be a complete technical analysis or listing of all potential tax effects relevant to the Ordinary Shares or ADS. The statements of UK and US tax law set forth below are based (i) on the laws and the UK Inland Revenue practice and published Statements of Practice in force as of the date of this report, (ii) on existing US federal income tax law, including legislation, regulations, administrative rulings and court decisions as of the date of this report and (iii) on representations of the Depositary and the assumption that each obligation in the deposit agreement among BA, the Depositary and the holders from time to time of ADS and any related agreement will be performed in accordance with its terms. The statements herein are subject to any changes occurring after the date of this report in UK or US law, or in the double tax conventions between the US and the UK with respect to income and capital gains taxes (the Income Tax Convention) and with respect to estates and gifts taxes (the Estate Tax Convention).

UK Income Tax

Beneficial owners of ADS who are resident in the US are treated as the owners of the underlying Ordinary Shares for purposes of the Income Tax Convention and US federal income tax.

Under the current Income Tax Convention, a US resident individual or corporate holder of an Ordinary Share or ADS who or which satisfies the following conditions (an Eligible US Holder):

- (i) is resident in the US for the purposes of the Income Tax Convention (and, in the case of a corporation, not also resident in the UK for UK tax purposes);
- (ii) is not a corporation which, alone or together with one or more associated corporations, controls, directly or indirectly, 10% or more of the voting stock of BA;
- (iii) whose holding of the Ordinary Shares or ADS is not effectively connected with a permanent establishment in the UK through which such holder carries on a business or with a fixed base in the UK from which such holder performs independent personal services; and

- (iv) under certain circumstances, is not an investment or holding company 25% or more of the capital of which is owned, directly or indirectly, by persons that are neither individual residents nor citizens of the US will generally be entitled under the current Income Tax Convention to receive, in addition to any dividend paid by BA, an amount equal to the tax credit available to UK resident shareholders in respect of such dividend (currently equal to one ninth of the dividend paid), but subject to a notional withholding tax equal to 15% of the sum of the dividend paid and the tax credit. The withholding tax will exceed the tax credit and therefore no additional payment will result.

The amount of withholding tax is restricted to the amount of the tax credit and no additional withholding tax is due in situations where the withholding tax is more than the tax credit.

For example a dividend of 80 will entitle the holder to receive a tax credit of 8.89 (i.e. one-ninth of 80) and the amount of withholding tax will be limited to 8.89 (even though 15% of the gross dividend would be 13.33). The result is that no refund entitlement exists and there is no withholding tax due. As a consequence the payment will equal 80.

It is anticipated that almost all ADS holders will be subject to the above arrangements.

US shareholders who own less than 10% of the voting stock as portfolio investors, and who are entitled to a tax credit under the Income Tax Convention may elect to be treated as receiving an amount equal to the credit without affirmatively making a claim to the UK or obtaining a receipt therefrom. This election is made on Line 5 of Form 8833, which is to be filed with the portfolio investor's income tax return. Such an investor making this election will be treated as having received an additional dividend equal to the gross tax credit payment and as having paid the UK withholding tax on such tax credit payment.

UK Tax on Capital Gains

Under the current Income Tax Convention, the US and the UK each may, in general, tax capital gains in accordance with the provisions of its domestic law. Under current UK law, residents of the US who are not resident or ordinarily resident in the UK will not be subject to UK tax on capital gains made on the disposal of their ADS or Ordinary Shares unless those ADS or Ordinary Shares are held in connection with a trade carried on through a permanent UK establishment. A US holder of an ADS or Ordinary Share will be liable for US federal income tax on such gains in the same manner and to the same extent as on any other gains from the sale or exchange of stock.

UK Inheritance Tax

Under the current Estate Tax Convention, ADS or Ordinary Shares held by an individual who for the purpose of the convention is domiciled in the US and is not a national of the UK will not, provided any tax chargeable in the US is paid, be subject to UK inheritance tax on the disposal of ADS or Ordinary Shares by way of gift or upon the individual's death unless the ADS or Ordinary Shares are part of the business property of a permanent UK establishment of the individual or, in the case of a holder who performs independent personal services, pertain to a fixed base situated in the UK. In the exceptional case where the ADS or Ordinary Shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for double tax to be relieved by means of credit relief.

UK Stamp Duty and Stamp Duty Reserve Tax

Transfer of ADS will not be subject to UK stamp duty provided that the transfer instrument is not executed in, and at all times remains outside the UK.

Under the Finance Act 1986, a stamp duty reserve tax (SDRT) of 1 ½% is payable on all transfers to the Depositary, or its nominee, of Ordinary Shares for inclusion in ADS. Such SDRT is calculated on the purchase price or market value of the Ordinary Shares so transferred.

US Federal Income Tax

For purposes of this discussion, a US holder is a beneficial owner of Ordinary Shares or ADS that is (a) a citizen or resident of the US, (b) a domestic corporation, (c) an estate whose income is subject to US federal income tax regardless of its source, or (d) a trust if a US court can exercise primary supervision over the trust's administration and one or more US persons are authorized to control all substantial decisions of the trust. This section does not apply to US holders if members of a special class of holders subject to special rules, including a dealer in securities, a trader in securities that elects to use a mark-to-market method of account for securities holdings, a tax-exempt organization, a life insurance company, a person liable for alternative minimum tax, a person that actually or constructively owns 10% or more of the Company's voting stock, a person that holds

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Ordinary Shares or ADS as part of a straddle or a hedging or conversion transaction, or a US holder whose functional currency is not the US dollar.

Dividends

Under the US federal income tax laws, the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for US federal income tax purposes) to a US holder is subject to US federal income taxation. Dividends paid to a non-corporate US holder in taxable years beginning before January 1, 2009 that constitute qualified dividend income will be taxable to the US holder at a maximum tax rate of 15% provided that the Ordinary Shares or ADS are held by such US holder for more than 60 days during the 121-day period beginning 60 days before ex-dividend date and the US holder meets other holding period requirements. Dividends paid by the Company with respect to Ordinary Shares or ADS generally will be qualified dividend income.

The US holder must include any UK tax withheld from the dividend payment in this gross amount even though the amount withheld is not in fact received by the US holder. The dividend is taxable to the US holder when the holder, in the case of Ordinary Shares, or the Depositary, in the case of ADS, receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. The amount that the US holder must include in income will be the US Dollar value of the dividend received (plus, if the holder is an electing US holder, the dividend that it is deemed to receive) in pounds Sterling, determined at the spot pounds Sterling/US Dollar rate on the date the dividend distribution is includible in the holder's income, regardless of whether the payment is in fact converted into US Dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the holder includes the dividend payment in income to the date the holder converts the payment into US Dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the US for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the holder's basis in the Ordinary Shares or ADS and thereafter as capital gain.

Subject to certain limitations, UK tax withheld will be creditable against the holder's US federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% rate.

Dividends will be income from sources outside the US. Dividends paid in taxable years beginning before January 1, 2009 generally will be passive or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on circumstances, be passive or general. Income which, in either case is treated separately from other types of income for purposes of computing the foreign tax credit allowable to a US holder.

Capital Gains

A US holder that sells or otherwise disposes of Ordinary Shares or ADS will recognize capital gain or loss for US federal income tax purposes equal to the difference between the US Dollar value of the amount realized and the holder's tax basis, determined in US Dollars, in the Ordinary Shares or ADS. Capital gain of a non-corporate US holder that is recognized before January 1, 2009, is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the US for foreign tax credit limitation purposes.

Documents on Display

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 450 Fifth Street, NW, Washington DC. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. In addition, some of the Company's SEC filings, including all those filed on or after November 4, 2002, are available on the SEC's website at www.sec.gov.

Item 11 Quantitative and Qualitative Disclosures about Market Risk

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

Responsibility for ensuring that Treasury practices are consistent and compatible with the agreed governance statement is vested in a Finance Committee that is chaired by the Chief Financial Officer.

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

Group Treasury implements the agreed policies on a day-to-day basis to meet the Treasury objectives in a risk averse though cost effective manner. These objectives include ensuring that the Group has sufficient liquidity to meet its day-to-day needs and to fund its capital investment program and other investments; deploying any surplus liquidity in a prudent and profitable manner; managing currency, fuel, interest rate and credit exposures to minimize Group risk; and managing the Group's relationship with a large number of banks and other financial institutions world-wide.

As part of its Treasury and fuel risk management program, the Group selectively uses derivative financial and commodity instruments in order to reduce its exposure to fluctuations in market rates and prices. The Group uses derivatives only for the purposes of hedging identified exposures, where appropriate, and does not invest in derivatives for trading or speculative purposes. The instruments used include swaps, futures and forward contracts, options, collars in the currency, interest rate and fuel markets.

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 marked to market based credit limits.

Foreign Currency Risk

The Group generates a surplus in most of the currencies in which it does business. The US Dollar can be an exception to this as capital expenditure, together with ongoing operating lease and fuel payments denominated in US Dollars, can create a deficit. In the year to March 31, 2005, the Group had more US Dollar payments than US Dollar revenues, principally as a result of fuel purchased in US Dollars.

As a result, the Group can experience adverse or beneficial effects arising from exchange rate movements. For example, the Group is likely to experience beneficial effects from a strengthening of foreign currencies and an adverse effect from a strengthening in Sterling. The Group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US Dollars or Sterling.

The Group has substantial liabilities denominated in Yen, which consist mainly of purchase option payments falling due under various Japanese leveraged lease arrangements maturing between 2005 and 2011. The Group utilizes 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 future maturing Yen liabilities.

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Forward foreign exchange contracts are used to cover to a limited extent near-term future revenues and operating payments in a variety of currencies. The Group had outstanding forward transactions to hedge foreign currencies as follows:

Expected to mature						
		Before March 31	After March 31			
		2006	2007	2007	Total	
		(millions)			2005	2004
					Notional gain/(loss)	Notional gain/(loss)
					(£ millions)	
to hedge future operating payments against Sterling						
Pound Sterling equivalents						
to hedge future currency revenues against Sterling						
		57			57	1
to hedge future operating payments against US Dollars						
		255			255	
to hedge future currency revenues against US Dollars						
		87			87	(2) (5)
to hedge debt against Japanese Yen						
		9,719			9,719	4
		49			49	

The unrealized gain/(loss) on forward currency transactions has been calculated as the change in the marked to market value between inception and the reporting date.

The notional loss on forward foreign exchange contracts represents a decrease in the hedges of future currency revenues and costs outstanding at the end of fiscal 2004 compared to fiscal 2003, and movements in the pounds Sterling, US Dollar and South African Rand exchange rates at the end of fiscal 2005 compared to the date the contracts were entered into.

Under US GAAP the notional gains or losses on forward foreign exchange contracts are included within net income as the contracts have not been designated hedges under SFAS 133. Under UK GAAP none of such notional gains and losses are recognized within net income.

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. Low capital expenditure has meant that the requirements for new financing have been limited. In April 2004, a Boeing 777 aircraft was sold and leased back. Other financing transactions have been met by the drawdown on existing committed facilities or from surplus liquidity.

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

The Group's borrowings are predominantly denominated in Sterling, US Dollars and Japanese Yen. Sterling represents the Group's natural home currency, whilst a substantial proportion of the Group's fixed assets are priced and transacted in US Dollars. The Japanese Yen liabilities arise as a result of the Group's substantial Japanese cross-border hire purchase arrangements entered into during the period 1990 to 1999.

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The currency and interest rate mix of the Group's gross borrowings, including the Convertible Capital Bonds 2005, is as follows:

	Expected final maturity date before March 31					After March 31, 2010	2005	2004		
	2006	2007	2008	2009	2010		Total	Fair value	Total	Fair value
(£ million, except percentages)										
Fixed rate principal (Pounds Sterling)	170	52	31	68	15	963	1,299	1,363	1,373	1,474
Weighted average fixed rate	8.3%	9.9%	6.8%	10.5%	6.9%	6.6%	7.2%		7.0%	
Floating rate principal (Pounds Sterling)	(45)	106	70	219	575	779	1,704	1,704	2,448	2,448
Weighted average floating rate	4.8%	5.2%	5.8%	5.2%	5.3%	5.1%	5.2%		4.4%	
Fixed rate principal (US Dollars)			128			147	275	269	286	311
Weighted average fixed rate			3.5%			5.4%	4.5%		6.4%	
Floating rate principal (US Dollars)	32		(128)		17	650	571	571	767	767
Weighted average floating rate	3.4%				3.1	3.5%	4.3%		1.9%	
Fixed rate principal (Japanese Yen)	30	73	110	62	258	223	756	756	954	954
Weighted average fixed rate	2.4%	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%		1.4%	
Floating rate principal (Euro)						207	207	190	954	954
Weighted average fixed rate						6.8%	6.8%		1.4%	

Floating rates of interest are based on LIBOR (London Interbank Offered Rate) and fixed rates of interest are based on the contract rates. Fair values of bank and other loans, finance leases and the non Japanese Yen denominated portions of hire purchase arrangements carrying fixed rates of interest have been calculated by discounting the repayments which the Group is committed to make at the relevant interest rates applicable at March 31, 2005. Fair values of the Euro-Sterling notes, Convertible Capital Bonds 2005 and Euro-Sterling Bond 2016 are based on the quoted market values at March 31, 2005. The fair values of floating rate borrowings are deemed to be equal to their carrying values.

The Japanese Yen denominated portions of hire purchase arrangements carrying fixed rates of interest 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 has therefore been included as the fair value above.

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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 below.

	Expected to mature before March 31					After March 31, 2010	Total	2005	2004
	2006	2007	2008	2009	2010			Unrealized profit	Unrealized loss
	(millions, except percentages)						(\$millions)		
Single currency interest rate swap agreements									
Notional principal balance	£ 53					£ 53		(1)	
weighted average fixed rate payable	5.3%					5.3%			
weighted average variable rate receivable	4.9%					4.9%			
Notional principal balance			\$ 240			\$ 240	2	(4)	
weighted average fixed rate payable			3.5%			3.5%			
weighted average variable rate receivable			2.7%			2.7%			

The unrealized profit on the interest rate swaps was calculated using discounted cash flow analysis, to determine the amount the Group would receive or pay to terminate the agreements.

Fuel Price Risk

The Group'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 program 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.

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Set out below are the outstanding fuel contracts at March 31, 2005, which all mature on or before March 31, 2008.

	2005			2004	
	2006	Expected to mature before 2007	2008	Total	
Swaps					
volume (barrels millions)	4.1	2.1	0.9	7.1	3.7
- open acquisition value (\$ millions)	169	85	28	282	96
- unrealized gain (\$ millions)	323	39	2	364	19
Collars					
volume (barrels millions)	17.6	3.6	0.2	21.4	12.3
- open acquisition value (\$ millions)	800	177	10	987	365
- unrealized gain (\$ millions)	104	41	14	159	34
Total					
volume (barrels millions)	21.7	5.7	1.1	28.5	16.0
- open acquisition value (\$ millions)	969	262	38	1,269	461
- unrealized gain (\$ millions)	427	80	16	523	53
- unrealized gain (Sterling equivalent millions)	227	43	8	278	29

The unrealized gains on off-balance sheet fuel derivatives have been calculated using the marked to market value of the instruments quoted.

Under UK GAAP the unrealized value of swaps, calls and puts is not reported on the Group balance sheet. All gains/losses arising on any of these transactions are recognized in the Group income statement in the period for which the instrument was taken out. Under SFAS 133 the fair value of outstanding fuel contracts are reported as part of shareholders' equity with any changes in the fair value reported through income in the period in which it arises as none of the contracts have been designated as hedges.

The movement in the unrealized gain between the two periods reflects the movements in the oil price at the end of fiscal 2005 against when the contracts were entered into.

Accounting Policy

The Group's accounting policy for derivatives under UK GAAP is to defer and only recognize in the consolidated Statements of Income, gains and losses on hedges of revenues or operating payments as they are realized. Amounts payable or receivable in respect of interest rate swap agreements are recognized 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 accounted for 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 that hedge capital expenditure commitments are recognized as part of the total Sterling carrying cost of the relevant tangible asset as the contracts mature or are closed out.

Item 12 Description of Securities Other Than Equity Securities

Not applicable.

PART II**Item 13 Defaults, Dividend Arrearages and Delinquencies**

None

Item 14 Material Modifications to the Rights of Security Holders and Use of Proceeds

None

Item 15 Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of March 31, 2005. Based on that evaluation, the Company's management, including the Chief Executive and Chief Financial Officer, have concluded that these disclosure controls and procedures were effective as of March 31, 2005.

In designing and evaluating our disclosure controls and procedures, our management, including the Chief Executive and Chief Financial Officer, recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. No reasonable system of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

There were no changes in the Company's internal control over financial reporting during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 16 [Reserved]**Item 16A Audit Committee Financial Expert**

Pursuant to Section 407 of the Sarbanes-Oxley Act of 2002, the Board of Directors has determined that one member of its Audit Committee, Alison Reed, is an audit committee financial expert. She is an independent non-executive director for the purposes of Section 303A.02 of the New York Stock Exchange's Listed Company Manual.

Item 16B Code of Ethics

Available on the Company website, www.bashares.com, corporate governance section.

Item 16C Principal Accountant Fees and Services

Auditors' remuneration

Fees for professional services provided by Ernst & Young LLP, the Group's independent auditors, in each of the last two fiscal years are set out in the table below:

£ 000

	2005	2004
Group Auditors		
- Audit fees	2,342	1,650
- Further assurance services	519	243
- Tax services	94	265
- Other services	82	

3,037 2158

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Audit fees are defined as the remuneration for professional services rendered for the audit of the Group consolidated financial statements, and the audit of local statutory financial statements. This category also includes services that can only be provided by the Group auditor, such as auditing the application of new accounting policies, audits of consent and comfort letters and any other audit services required for US Securities and Exchange Commission regulatory filings.

Further assurance services include other assurance services that are related to the performance of the audit of the financial statements. It comprises amounts for due diligence services and assurance services on corporate reporting systems.

Tax services include tax compliance, tax advice and tax planning services.

Other services comprises advisory services in relation to the disposal of the investment in Qantas.

All fees payable to the auditor, Ernst & Young, require the approval of the Audit Committee. This expressly includes any fees for non-audit work carried out by the auditor. This policy covered all fees in each of the last two fiscal years as set out above. Finance Standing Instruction No 17 regulates the services which the auditor may and may not provide to the Group. The contracting of permitted services from the auditor must be approved in advance by the Chief Financial Officer up to a limit of £100,000 for an individual service. The Chief Financial Officer reports the level, cost and nature of such services to the Audit Committee quarterly. For projects in excess of £100,000 (or which do not fall within the list of audit and audit related services specified in the Finance Standing Instruction), the prior approval of the Audit Committee is required.

Item 16D Exemptions from the Listing Standards for Audit Committees.

Available on the Company website, www.bashares.com, corporate governance section.

Item 16E Purchases of Equity Securities by the Issuer and Affiliated Purchaser

Neither the Company nor any affiliated purchaser purchased any of the Company's equity securities during the year ended March 31, 2005.

PART III

Item 17 Financial Statements

Not Applicable

Item 18 Financial Statements

The following Financial Statements and schedule, together with the report of Ernst & Young LLP thereon, are filed as part of this Annual Report:

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Report of Independent Registered Public Accounting Firm	F-1
Consent of Independent Registered Public Accounting Firm	F-2
Consolidated Financial Statements	
Consolidated Profit and Loss Accounts for the years ended March 31, 2005, 2004 and 2003	F-3
Consolidated Statements of Total Recognized Gains and Losses for the years ended March 31, 2005, 2004 and 2003	F-4
Consolidated Balance Sheets as at March 31, 2005 and 2004	F-5
Consolidated Statements of Cash Flows for the years ended March 31, 2005, 2004 and 2003	F-6
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BRITISH AIRWAYS Plc AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS
BRITISH AIRWAYS Plc

We have audited the accompanying consolidated balance sheets of British Airways Plc as of March 31, 2005 and 2004, and the related consolidated profit and loss accounts and statements of total recognized gains and losses, changes in shareholders' funds and cash flows for each of the three years in the period ended March 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 18. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with United Kingdom auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of British Airways Plc at March 31, 2005 and 2004, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States (see Note 43 of Notes to the Financial Statements). Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

London, England

July 26, 2005

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-15663, 33-67242 and 33-10716 pertaining to the employee share plans of British Airways Plc listed on the facing sheets thereof and in the related Prospectuses of the reference to our firm under 'Item 3 Key Information Selected Financial Data' and of our report dated May 12, 2005, with respect to the consolidated financial statements and schedule of British Airways Plc both included in the Annual Report (Form 20-F) for the year ended March 31, 2005.

ERNST & YOUNG LLP

London, England

July 26, 2005

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Year ended March 31		
	2005	2004	2003
		Restated	Restated
(£ millions, except per Ordinary Share amounts)			
Turnover (Note 2)	7,813	7,560	7,688
Cost of sales (Note 4)	(7,136)	(7,008)	(7,263)
Gross profit	677	552	425
Administrative expenses (Note 4)	(137)	(147)	(130)
Operating profit	540	405	295
Share of operating profit in associates (Note 7)	41	58	39
Total operating profit including associates	581	463	334
Income and charges relating to fixed asset investments (Note 8)	3		(11)
(Loss)/profit on sale of fixed assets and investments (Note 9)	(26)	(46)	60
Net interest payable (Note 10)	(143)	(187)	(248)
Profit before tax	415	230	135
Tax (Note 11a)	(149)	(85)	(50)
Profit after tax	266	145	85
Equity minority interest	(1)	(1)	
Non-equity minority interest (Note 33)	(14)	(14)	(13)
Profit for the year (1)	251	130	72
Retained profit for the year	251	130	72
Earnings per share (Note 12)			
Basic earnings per share	23.4p	12.1p	6.7p
Diluted earnings per share	23.0p	12.1p	6.7p

- (1) A summary of the significant adjustments to profit for the year which would be required if United States generally accepted accounting principles had been applied instead of those generally accepted in the United Kingdom is given in Note 43 of Notes to Financial Statements.

The Notes to Financial Statements are an integral part of these Financial Statements.

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF TOTAL RECOGNIZED GAINS AND LOSSES

	Year ended March 31		
	2005	2004	2003

Year ended March 31

	(£ millions)		
Profit for the year	251	130	72
Other recognized gains and losses relating to the year:			
Exchange and other movements	(37)	16	(38)
Total recognized gains and losses relating to the year	214	146	34

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

- (1) The statement of comprehensive income required by United States generally accepted accounting principles is given in Note 43 of Notes to Financial Statements.

The Notes to Financial Statements are an integral part of these Financial Statements.

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31	
	2005	2004
		Restated
	(£ millions)	
Fixed assets		
Intangible assets (Note 13)		
Goodwill	88	93
Landing rights	102	75
	190	168
Tangible assets (Note 14)		
Fleet	6,748	7,104
Property	959	1,042
Equipment	445	491
	8,152	8,637
Investments (Note 17)		
Associated companies	120	501
Trade investments	30	30
	150	531
	8,492	9,336
Current assets		
Stocks (Note 20)	84	76
Debtors (Note 21)	1,078	1,019
Short-term loans and deposits	1,604	1,606

	March 31	
Cash at bank and in hand	78	64
	2,844	2,765
Creditors: amounts falling due within one year (Note 23)	(2,868)	(2,996)
Convertible Capital Bonds 2005 (Note 31)	(112)	
	(2,980)	(2,996)
Net current liabilities	(136)	(231)
Total assets less current liabilities	8,356	9,105
Creditors: amounts falling due after more than one year		
Borrowings and other creditors (Note 24)	(4,346)	(5,374)
Convertible Capital Bonds 2005 (Note 31)		(112)
	(4,346)	(5,486)
Provision for deferred tax (Note 27)	(1,243)	(1,137)
Provisions for liabilities and charges (Note 28)	(83)	(85)
	2,684	2,397
Called up share capital	271	271
Reserves		
Share premium account	788	788
Investment in own shares	(26)	(31)
Revaluation reserve	255	262
Profit and loss account	1,177	897
Total equity shareholders funds (1)	2,465	2,187
Minority interest		
Equity minority interest	12	10
Non-equity minority interest (Note 33)	207	200
	219	210
	2,684	2,397

- (1) A summary of the significant adjustments to total equity shareholders funds which would be required if United States generally accepted accounting principles had been applied instead of those generally accepted in the United Kingdom is given in Note 43 of Notes to Financial Statements.

The Notes to Financial Statements are an integral part of these Financial Statements.

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended March 31		
	2005	2004	2003
Cash inflow from operating activities (Note 5a)	1,192	1,093	1,185

(£ millions)

	Year ended March 31		
Dividends from associates	20	25	23
Returns on investments and servicing of finance			
Interest received	78	62	72
Interest paid on bank and other loans	(101)	(83)	(86)
Interest paid on finance leases and hire purchase arrangements	(141)	(182)	(222)
Other finance income and related fees	5	7	
Dividends received from trade investments	3	1	
Non equity minority interest	(14)	(14)	(13)
Net cash outflow from returns on investments and servicing of finance	(170)	(209)	(249)
Tax			
Overseas taxation		(4)	(7)
Net cash outflow from tax	0	(4)	(7)
Capital expenditure and financial investment			
Intangible assets purchased for cash	(32)	(14)	(32)
Tangible fixed assets purchased for cash (Note 14e)	(301)	(198)	(293)
Refund of progress payments		42	230
Sale of tangible fixed assets and investments	57	212	351
Investment in own shares			(6)
Net cash (outflow)/inflow for capital expenditure and financial investment	(276)	42	250
Acquisitions and disposals			
Sale of interests in subsidiary undertakings	(12)	(80)	30
Sale of interests in associated undertakings	427	7	12
Purchase of interests in associated undertakings			(13)
Net cash inflow/(outflow) for acquisitions and disposals	415	(73)	29
Equity dividends paid			
Net cash inflow before management of liquid resources and financing	1,181	874	1,231
Management of liquid resources	(16)	(198)	(289)
Financing			
Changes in borrowings (Note 26)			
Bank and other loans raised	116	81	13
Bank and other loans repaid	(168)	(339)	(189)
Capital elements of finance leases and hire purchase arrangements repaid	(1,103)	(576)	(608)
	(1,155)	(834)	(784)
Exercise of share options	4		
Increase/(decrease) in cash (Note 22)	14	(158)	158

- (1) The significant differences between the cash flow statements presented above and those required under United States generally accepted accounting principles are described in Note 43 of Notes to Financial Statements.

The Notes to Financial Statements are an integral part of these Financial Statements.

BRITISH AIRWAYS Plc AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY SHAREHOLDERS FUNDS

	Share Capital Ordinary Shares of 25 pence each				Reserves				
	Authorized		Issued		Share Premium Account	Investment in own shares	Revaluation Reserve	Profit and Loss Account	To Equity Share Funds
	Shares	Amount	Shares	Amount					
(£ millions, except number of shares)									
2002 (1)	1,508,000,000	377	1,082,757,107	271	788	(25)	270	687	1,9
nd profit for the year								72	
r relating to revalued assets							7	(7)	
ge and other movements							(7)	(31)	
e of share options through ent in own shares							(6)		
ll written back on disposal ion of Convertible Bonds			24,014						8
ee Share Option Schemes			3,197						
31, 2003 (1)	1,508,000,000	377	1,082,784,318	271	788	(31)	270	729	2,
nd profit for the year								130	
r relating to revalued assets							(8)	8	
ge and other movements								16	
e of share options through ent in own shares									
ll written back on disposal ion of Convertible Bonds			10,949						14
ee Share Option Schemes			49,945						
31, 2004 (1)	1,508,000,000	377	1,082,845,212	271	788	(31)	262	897	2,
nd profit for the year								251	2
r relating to revalued assets							(7)	7	
ge and other movements								(37)	
e of share options through ent in own shares							5		
ll written back on disposal ion of Convertible Bonds			39,460						59
ee Share Option Schemes			18,246						
31, 2005 (1)	1,508,000,000	377	1,082,902,918	271	788	(26)	255	1,177	2,

- (1) (a) The profit and loss account at March 31, 2005 was decreased by cumulative exchange and other adjustments of £181 million (2004: decreased by £144 million; 2003: £160 million).
- (b) Cumulative goodwill set off against reserves at March 31, 2005 in respect of subsidiaries was £421 million (2004: £421 million; 2003: £433 million).

- (c) Cumulative goodwill set off against reserves at March 31, 2005 in respect of associated companies was £nil million (2004: £59 million; 2003: £61 million).
- (d) Effective from April 1, 2004 the Group applied the provisions of 'UITF Abstract 38 Accounting for ESOP Trusts' and, as a result, the Group's investment in own shareholders' equity. Comparative periods have been restated by the amounts included above under 'Investment in own Shares' to reflect the adoption of UITF Abstract 38.

The Notes to Financial Statements are an integral part of these Financial Statements.

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1 Accounting policies

Accounting convention

The Financial Statements 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 UK accounting standards and the Companies Act 1985. The principal accounting policies have been applied consistently with those applied in the previous years with the exceptions noted below.

Effective from April 1, 2004 the Group applied the provisions of 'UITF Abstract 38 Accounting for ESOP Trusts' and, as a result, the Group's investment in own shares held for the purpose of employee share ownership plans has been reclassified from fixed asset investments and is now recorded as a reduction in shareholders' equity. Comparative periods have been restated to reflect the adoption of UITF Abstract 38 and as a result £31 million for the period ending March 31, 2004 and March 31, 2003 have been reclassified.

For the year ending March 31, 2004 and March 31, 2003, other finance income and related fees were shown within 'other income'. For the year ended March 31, 2005 such income is shown within net interest payable. As a result £13 million of income for the year ended March 31, 2004 and £7 million of income for the year ended March 31, 2003, has been reclassified to net interest payable.

Basis of consolidation

The consolidated Financial Statements include the accounts of the Company and its subsidiary undertakings (together, the Group), each made up to March 31, together with the attributable share of results and reserves of associated undertakings, adjusted where appropriate to conform with British Airways' accounting policies. The Group's share of the profits less losses of associated undertakings is included in the Group profit and loss account and its share of the post-acquisition results of these companies is included in interests in associated undertakings in the Group balance sheet. Certain associated undertakings make up their annual audited accounts to dates other than March 31. In the case of Iberia, published results up to the year ended December 31 are included. In other cases, results disclosed by subsequent unaudited management accounts are included. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership. In the case of the Group's investment in Qantas, results up to the year ended June 30, 2004 are included. Where an entity, though not fulfilling the legal definition of a subsidiary or subsidiary undertaking, gives rise to benefits for the Group that are, in substance, no different than those that would arise were that entity a subsidiary or subsidiary undertaking, that entity is classified as a quasi-subsidiary. In determining whether the Group has the ability to enjoy the benefits arising from such entities' net assets, regard is given as to which party is exposed to the risks inherent in the benefits and which party, in practice, carries substantially all the risks and rewards of ownership. The Group currently accounts for its investment in The London Eye Company Limited as a quasi-subsidiary, and therefore consolidates its results within the Group accounts as if it were a subsidiary undertaking. In accordance with section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company only is not presented.

Turnover

Passenger ticket and cargo waybill sales, net of discounts, are recorded as current liabilities in the 'sales in advance of carriage' account until recognized as revenue when the transportation service is provided. Commission costs are recognized at the same time as the revenue to which they relate and are charged to cost of sales. Unused tickets are recognized as revenue using estimates regarding the timing of recognition based

on the terms and conditions of the ticket and historical trends. Other revenue is recognized 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.

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

1 Accounting policies (Continued)

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.

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 capitalized and amortized over a period not exceeding 20 years.

b Landing Rights

Landing rights acquired from other airlines are capitalized at cost and amortized 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 Capitalization of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. Interest capitalized 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.

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

1 Accounting policies (Continued)

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 Financial Statements 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 rotatable spares purchased separately, are carried as tangible fixed assets and generally depreciated in line with the fleet to which they relate. Replacement spares and all other costs relating to the maintenance and overhaul of aircraft and engines are charged to the profit and loss account on consumption and as incurred respectively.

Stocks

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

Cash and liquid resources

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

Pension and other post-retirement benefits

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

Frequent flyer programs

The Group operates two principal frequent flyer programs. The Airline scheme, 'Executive Club', allows frequent travelers to accumulate 'BA Miles' mileage credits which entitle them to a choice of various awards, including

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

1 Accounting policies (Continued)

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 recognized 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 recognized 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.

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

Derivatives and financial instruments

The Group's accounting policy for derivatives is to defer and only recognize in the Group profit and loss account gains and losses on hedges of revenues or operating payments as they crystallize. Amounts payable or receivable in respect of interest rate swap agreements are recognized 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 recognized 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 35 on currency exposures.

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

2 Turnover

	Year ended March 31		
	2005	2004	2003
	(£ millions)		
Traffic revenue			
Passenger Revenue			
Scheduled	6,484	6,460	6,545
Non-scheduled	16	30	45
	6,500	6,490	6,590
Cargo	482	463	484
	6,982	6,953	7,074

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	Year ended March 31		
Other revenue (including aircraft maintenance, package holidays and other airline services)	831	607	614
	7,813	7,560	7,688

3 Geographical analysis of turnover and operating profit

(a) Turnover

By area of original sale:

	Year ended March 31		
	2005	2004	2003
	(£ millions)		
United Kingdom	3,922	3,731	3,634
Continental Europe	1,175	1,209	1,269
Europe	5,097	4,940	4,903
The Americas	1,383	1,347	1,482
Africa, Middle East and Indian sub-continent	751	717	733
Far East and Australasia	582	556	570
	7,813	7,560	7,688

By area of destination:

	Year ended March 31		
	2005	2004	2003
	(£ millions)		
United Kingdom	609	664	725
Continental Europe	1,861	1,975	2,113
Europe	2,470	2,639	2,838
The Americas	2,884	2,767	2,763
Africa, Middle East and Indian sub-continent	1,412	1,253	1,201
Far East and Australasia	1,047	901	886
	7,813	7,560	7,688

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BRITISH AIRWAYS Plc AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

3 Geographical analysis of turnover and operating profit (Continued)

(b) Operating profit

By area of destination

	Year ended March 31		
	2005	2004	2003
	(£ millions)		
Europe	(26)	(60)	(117)
The Americas	347	294	223
Africa, Middle East and Indian sub-continent	224	210	168
Far East and Australasia	(5)	(39)	21
	540	405	295

It is impractical to separate United Kingdom and Continental Europe operating loss on a meaningful basis since the day to day operations are fully integrated. The operating profit of these services is therefore combined under the heading 'Europe'.

4 Analysis of operating expenditure

	Year ended March 31		
	2005	2004	2003
	(£ millions)		
Employee costs	2,273	2,180	2,107
Depreciation and amortization	687	679	734
Aircraft operating lease costs	106	135	189
Fuel and oil costs	1,128	922	842
Engineering and other aircraft costs	502	511	592
Landing fees and en route charges	556	549	576
Handling charges, catering and other operating costs	930	934	961
Selling costs	488	554	706
Accommodation, ground equipment costs and currency differences	603	691	686
Total operating expenditure	7,273	7,155	7,393
Total operating expenditure comprises:			
Cost of sales	7,136	7,008	7,263
Administrative expenses	137	147	130
	7,273	7,155	7,393

BRITISH AIRWAYS Plc AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

5 Operating profit

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

	Year ended March 31		
	2005	2004	2003
	(£ millions)		
Group operating profit	540	405	295
Depreciation and amortization	687	679	734
Other items not involving the movement of cash		11	
(Increase)/decrease in stocks	(5)	8	27
(Increase)/decrease in debtors	(68)	(31)	211
Increase/(decrease) in creditors	40	43	(62)
(Decrease)/increase in provisions for liabilities and charges	(2)	(22)	(20)
Cash inflow from operating activities	1,192	1,093	1,185

(b) Operating income has been determined after charging:

	Year ended March 31		
	2005	2004	2003
	(£ millions)		
Depreciation of tangible fixed assets			
Owned assets	286	262	275
Finance leased aircraft	141	159	145
Hire purchased aircraft	168	187	191
Other leasehold interests	66	61	57
Impairment	16		58
	677	669	726
Operating lease costs			
Lease rentals aircraft	106	120	162
property	139	133	146
Hire of equipment and charter of aircraft and crews	122	98	92
Onerous lease costs		15	27
	367	366	427

BRITISH AIRWAYS Plc AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

5 Operating profit (Continued)

	Year ended March 31		
	2005	2004	2003
	(£ thousands)		
Auditors remuneration			
Group auditors			
Audit fees	1,792	1,650	1,561
Other professional fees			
United Kingdom			
Other assurance services	1,151	156	377
Taxation	33	26	183
	1,184	182	560
Overseas			
Due diligence		87	
Taxation	61	239	372
	3,037	2,158	2,493

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

	Year ended March 31		
	2005	2004	2003
	(£ thousands)		
Directors emoluments			
Fees	597	532	516
Salary and benefits	1,340	1,250	1,137
Bonus	496		
	2,433	1,782	1,653

Included in the amounts above are emoluments of £917,000 (2004: £584,000; 2003: £553,000) in respect of the highest paid director.

Other items

Fiscal 2004 includes the release of revenue provisions totaling £35 million as a result of system enhancements that have enabled a more accurate assessment to be made of certain balances.

NOTES TO FINANCIAL STATEMENTS (Continued)

6 Employee costs and numbers

The average number of persons employed in the Group and their aggregate payroll costs were as follows:

	Year ended March 31		
	2005	2004	2003
	(Number)		
United Kingdom	42,360	43,942	47,162
Overseas	7,130	7,997	9,852
	49,490	51,939	57,014
	(£ millions)		
Wages and salaries	1,517	1,463	1,472
Social security costs	165	158	148
Contributions to pension schemes	239	214	149
	1,921	1,835	1,769
By location:			
United Kingdom	1,720	1,623	1,514
Overseas	201	212	255
	1,921	1,835	1,769

7 Share of operating profit in associates

Year ended March 31	
2005	&n