

BRITISH AIRWAYS PLC
Form 20-F
August 02, 2004

**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, 2004

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 Ordinary Shares of 25p each	New York Stock Exchange 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.

Ordinary Shares of 25p each

1,082,845,212

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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.

Itemo Itemx
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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 British Airways, its subsidiaries and its quasi-subsidiary. Airline refers to British Airways Plc, British Airways CitiExpress Limited, dba (formerly Deutsche BA Luftfahrtgesellschaft mbh) (until June 30, 2003), and for historical comparatives Air Libert . Qantas refers to Qantas Airways Limited and Iberia refers to Iberia Lineas A reas 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 \$1.8400 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, 2004. 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, 2004 was \$1.8124 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.

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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, intend 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 Future Size and Shape (FSAS) program, cost reductions, aircraft financing, expected future revenues, financing plans and expected expenditures and divestments. All forward-looking statements in this report are based upon information known to the Company at the time of such statement. 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.

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SPECIALIST TERMS

Available seat kilometers (ASK)	the number of seats available for sale multiplied by the distance flown
Available tonne kilometers (ATK)	the number of tonnes of capacity available for the carriage of passengers and cargo multiplied by the distance flown
Revenue passenger kilometers (RPK)	the number of revenue passengers carried multiplied by the distance flown
Cargo tonne kilometers (CTK)	the number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown
Revenue tonne kilometers (RTK)	the number of revenue tonnes of cargo and passengers carried multiplied by the distance flown
Load factor	the percentage relationship of revenue passengers and/or cargo carried to capacity available
Passenger load factor	RPK expressed as a percentage of ASK
Overall load factor	RTK expressed as a percentage of ATK
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 miles in the year
Passenger yield	passenger revenue from airline operations divided by RPK
Total traffic revenue per RTK	revenue from total traffic (passenger scheduled and non-scheduled and cargo) divided by RTK
Total traffic revenue per ATK	revenue from total traffic (passenger scheduled and non-scheduled and cargo) divided by ATK
Codesharing	co-operation between two airlines where one airline sells tickets using its own flight code for the other airline's flight

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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 canceled for commercial reasons
Unduplicated route kilometers	all scheduled flight stages counted once, regardless of frequency or direction
Manpower equivalent (MPE)	number of employees adjusted for part-time workers, overtime and contractors

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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					
	2004	2004	2003	2002	2001	2000
	(in millions, except per Ordinary Share amounts)					
	\$ (1)	£	£	£	£	£
Amounts in accordance with UK GAAP						
Turnover	13,910	7,560	7,688	8,340	9,278	8,940
Cost of sales	(12,895)	(7,008)	(7,263)	(8,291)	(8,757)	(8,679)
Gross profit	1,015	552	425	49	521	261
Administrative expenses	(270)	(147)	(130)	(159)	(141)	(177)
Operating profit/(loss)	745	405	295	(110)	380	84
Share of operating profit in associates	107	58	39	22	64	75
Total operating profit/(loss) including associates	852	463	334	(88)	444	159
Other income and charges	24	13	(4)	21	1	5
	(85)	(46)	60	145	(69)	249

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(Loss)/profit on sales of fixed assets and investments

Net interest payable	(368)	(200)	(255)	(278)	(226)	(408)
Profit/(loss) before tax	423	230	135	(200)	150	5
Tax	(156)	(85)	(50)	71	(69)	(56)
Profit/(loss) after tax	267	145	85	(129)	81	(51)
Equity minority interests	(2)	(1)		(1)	(2)	
Non-equity minority interests	(26)	(14)	(13)	(12)	(12)	(11)
Profit/(loss) for the year	239	130	72	(142)	67	(62)
Dividends					(193)	(195)
Retained profit/(loss) for the year	239	130	72	(142)	(126)	(257)
Earnings/(loss) per Ordinary Share (2)						
Basic	0.22	12.1p	6.7p	(13.2)p	6.2p	(5.8)p
Diluted	0.22	12.1p	6.7p	(13.2)p	6.2p	N/a
Basic weighted average number of shares	1,070	1,070	1,073	1,076	1,075	1,075
Diluted weighted average number of shares	1,070	1,070	1,073	1,078	1,085	1,075

Amounts in accordance with US GAAP (3):

Net income/(loss) for the year before cumulative effect of change in accounting principle	729	396	(115)	(123)	244	(371)
Cumulative effect on prior years of adopting SAB 101						(80)
Net income/(loss) for the year	729	396	(115)	(123)	244	(451)

Per Ordinary Share (3)

Basic						
Net income/(loss) for the year before cumulative effect of change in accounting principle	0.68	37.0p	(10.7)p	(11.4)p	22.7p	(34.5)p

Foot note page 8

Cumulative effect on prior years of adopting SAB 101 (7.4)p

Net income/(loss) for the year 0.68 37.0p (10.7)p (11.4)p 22.7p (41.9)p

Diluted

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Net income/(loss) for the year before						
cumulative effect of change in accounting principle	0.66	36.1p	(10.7)p	(11.4)p	22.5p	(34.5)p
Cumulative effect on prior years of adopting SAB 101						(7.4)p
Net income/(loss) for the year	0.66	36.1p	(10.7)p	(11.4)p	22.5p	(41.9)p
Per American Depositary Share (4)						
Basic						
Net income/(loss) for the year before						
cumulative effect of change in accounting principle	6.80	370p	(107)p	(114)p	227p	(345)p
Cumulative effect on prior years of adopting SAB 101						(74)p
Net income/(loss) for the year	6.80	370p	(107)p	(114)p	227p	(419)p
Diluted						
Net income/(loss) for the year before						
cumulative effect of change in accounting principle	6.64	361p	(107)p	(114)p	225p	(345)p
Cumulative effect on prior years of adopting SAB 101						(74)p
Net income/(loss) for the year	6.64	361p	(107)p	(114)p	225p	(419)p

Footnote on page 8

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Balance Sheet

At March 31

	2004	2004	2003	2002	2001	2000
	\$ (1)	£	£	£	£	£
Amounts in accordance with UK GAAP						
Fixed assets						
Intangible assets						
Goodwill and landing rights	309	168	164	140	84	87
Tangible assets						
Fleet, property and equipment	15,892	8,637	9,487	10,474	10,638	10,202
Investments	1,034	562	524	489	426	567
	17,235	9,367	10,175	11,103	11,148	10,856

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Current assets	5,088	2,765	2,725	2,559	2,550	2,659
Creditors: amounts falling due within one year	(5,513)	(2,996)	(2,904)	(3,201)	(3,308)	(3,366)
Net current liabilities	(425)	(231)	(179)	(642)	(758)	(707)
Total assets less current liabilities	16,810	9,136	9,996	10,461	10,390	10,149
Creditors: amounts falling due after more than one year	(10,094)	(5,486)	(6,553)	(7,097)	(6,901)	(6,728)
Provisions for deferred tax	(2,092)	(1,137)	(1,062)	(1,031)	(1,094)	(1,047)
Provisions for liabilities and charges	(156)	(85)	(107)	(126)	(70)	(81)
	4,468	2,428	2,274	2,207	2,325	2,293
Capital and reserves						
Called up share capital	499	271	271	271	271	270
Reserves	3,582	1,947	1,787	1,745	1,850	1,830
Total equity shareholders funds	4,081	2,218	2,058	2,016	2,121	2,100
Equity minority interest	19	10	10	9	18	16
Non equity minority interest	368	200	206	182	186	177
	387	210	216	191	204	193
	4,468	2,428	2,274	2,207	2,325	2,293
Amounts in accordance with US GAAP (3)			<i>Restated (3)</i>	<i>Restated (3)</i>	<i>Restated (3)</i>	<i>Restated (3)</i>
Fixed assets						
Intangible assets						
Goodwill and landing rights	171	93	91	434	395	464
Tangible assets						
Fleet, property and equipment	15,871	8,626	9,264	10,073	10,209	9,985
Investments..	1,049	570	530	505	488	706
	17,091	9,289	9,885	11,012	11,092	11,155
Current assets	6,773	3,681	3,370	2,983	2,687	2,607
Creditors: amounts falling due within one year	(5,976)	(3,248)	(3,117)	(3,378)	(3,326)	(3,371)

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Net current assets/(liabilities)	797	433	253	(395)	(639)	(764)
Total assets less current liabilities	17,888	9,722	10,138	10,617	10,453	10,391
Creditors: amounts falling due after more than one year	(11,800)	(6,413)	(7,058)	(7,103)	(6,911)	(6,743)
Provision for deferred tax	(2,282)	(1,240)	(1,120)	(1,117)	(937)	(1,077)

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Provisions for liabilities and charges	(156)	(85)	(107)	(126)	(70)	(81)
	3,650	1,984	1,853	2,271	2,535	2,490
Capital and reserves						
Called up share capital	499	271	271	271	271	270
Reserves	2,765	1,503	1,366	1,809	2,060	2,027
Total equity shareholders funds	3,264	1,774	1,637	2,080	2,331	2,297
Equity minority interests	18	10	10	9	18	16
Non-equity minority interest	368	200	206	182	186	177
	386	210	216	191	204	193
	3,650	1,984	1,853	2,271	2,535	2,490

- (1) Translations of pounds Sterling into US Dollars have been made at the Noon Buying Rate on March 31, 2004 of £1.00 = US\$1.8400.
- (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) BA prepares 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 45 to the Financial Statements.

Fiscal 2003 to Fiscal 2000 amounts restated to reflect the adoption of FIN 46 Consolidation of Variable Interest Entities. Fiscal 2003 Balance Sheet restated to reflect minimum pension liability and related intangible asset and deferred tax. See Note 45 to the Financial Statements.

- (4) Each ADS represents ten Ordinary Shares.

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Group Operating Statistics (1)

	Year ended March 31				
	2004	2003	2002	2001	2000
Airline Operations					
Traffic and capacity					
Revenue passenger km (RPK)(m)	103,092	100,112	106,270	123,197	127,425
Available seat km (ASK)(m)	141,273	139,172	151,046	172,524	183,158
Passenger load factor (%)	73	72	70	71	70
Cargo tonne km (CTK)(m)	4,461	4,210	4,033	4,735	4,584
Revenue tonne km (RTK)(m)	14,771	14,213	14,632	16,987	17,215
Available tonne km (ATK)(m)	21,859	21,328	22,848	25,196	25,840
Overall load factor (%)	68	67	64	67	67
Passengers carried (000)	36,103	38,019	40,004	44,462	46,578
Tonnes of cargo carried (000)	796	764	755	914	909
Frequent flyer RPKs as a percentage of total RPKs (%) (2)	4	4	4	3	2
Financial					
Passenger yield see definition under specialist terms (p)	6	7	7	6	6
Cargo revenue per CTk (p)	10	12	12	12	12
Average fuel price (US cents/US gallon)	94	86	81	104	71
Operations					
Unduplicated route km (000)	657	693	814	755	751
Punctuality (% within 15 minutes)	81	76	81	79	81
Regularity (%)	99	98	99	98	99
Total Group Operations					
Financial					
Interest cover (times)(3)	2.1	1.5	0.4	1.5	1.0
Operating margin (%) (4)	5.4	3.8	(1.3)	4.1	0.9
Net debt/total capital ratio (%) (5)	53.8	60.7	66.0	64.5	63.9
Scheduled (passenger, freight and mail) and non scheduled services					
revenue per RTK (p)	47	50	52	50	47
Scheduled (passenger, freight and mail) and non scheduled services					
revenue per ATK (p)	32	33	33	33	31
Net operating expenditure per RTK (p)(6)	44	48	52	47	47
Net operating expenditure per ATK (p)(6)	30	32	34	32	31
Operations					
Average manpower equivalent (MPE)	49,072	53,440	60,468	62,844	65,640
RTKs per MPE (000)	301.0	266.0	242.0	270.3	262.3
ATKs per MPE (000)	445.4	399.1	377.9	400.9	393.7
Aircraft in service at year end	291	330	360	338	366
Aircraft utilization					
(average hours per aircraft per day)	9.21	8.91	8.32	8.79	9.79

- (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). On October 31, 2003 Maersk (UK) ceased to operate as a franchisee.
- (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) 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 excluding translation charges/(credits) and the interest cover ratio (before adjustment for retranslation charges/(credits)) for each of the five most recent financial years:

	Year ended March 31				
	2004	2003	2002	2001	2000
	(£ millions (except ratios))				
Profit before tax	230	135	(200)	150	5
Net interest payable	(200)	(255)	(278)	(226)	(408)
Add back :					
Retranslation charges/(credits)	(16)	8	(46)	(71)	136
	(216)	(247)	(324)	(297)	(272)
Interest cover (before adjustment for retranslation charges/(credits))	2.1	1.5	0.4	1.5	1.0

- (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.

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- (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 24 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				
	2004	2003	2002	2001	2000
	(£ millions (except ratios))				
Net debt	4,158	5,149	6,294	6,223	5,916
Capital and reserves	2,218	2,058	2,016	2,121	2,100
Add minority interests	210	216	191	204	193
	2,428	2,274	2,207	2,325	2,293
Total shareholders funds	2,428	2,274	2,207	2,325	2,293
Add back :					

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Net debt	4,158	5,149	6,294	6,223	5,916
Provision for deferred tax	1,137	1,062	1,031	1,094	1,047
Total capital	7,723	8,485	9,532	9,642	9,256
Net debt/capital percentage	53.8	60.7	66.0	64.5	63.9

- (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				
	2004	2003	2002	2001	2000
	(£ millions (except ratios))				
Total operating expenditure	7,155	7,393	8,450	8,898	8,856
Less: other revenue	(607)	(614)	(769)	(846)	(848)
Net operating expenditure	6,548	6,779	7,681	8,052	8,008
RTKs	14,771	14,213	14,632	16,987	17,215
ATKs	21,859	21,328	22,848	25,196	25,840
Total operating expenditure per RTK	48	52	58	52	51
Total operating expenditure per ATK	33	35	37	35	34

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Exchange Rates

The Noon Buying Rate expressed in US Dollars to pounds Sterling as of June 30, 2004 was \$1.8124. 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 and Item 11 Quantitative and Qualitative Disclosures about Market Risk Foreign currency risk.

Fiscal year	Period End	Average(1)	High	Low
	\$	\$	\$	\$
2000	1.59	1.61	1.65	1.58
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	1.84	1.71	1.90	1.55

Month

January 2004	1.85	1.78
February 2004	1.90	1.82
March 2004	1.87	1.79
April 2004	1.86	1.77
May 2004	1.84	1.75
June 2004	1.84	1.81

(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 that could affect the Group's business and results of operations. These factors should be considered in conjunction with 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 the Group expects will continue to experience, significant changes. In addition, the Group's future performance is subject to a variety of factors over which it has little or no control, including adverse governmental regulation in the UK, the European Union (EU) or elsewhere, fluctuations in jet fuel prices, terrorism, adverse changes in economic conditions, adverse changes in the demand for air travel, the availability of financing and fluctuations in currency and interest rates. The Company's results may also be affected by operational and information technology (IT) risks as well as by labor relations and pension costs. There are likely to be other risks that the Group has not identified in this report that could have an adverse effect on the Group's business, revenues, operating profit, net assets, liquidity and capital resources, such as war and changes in the insurance market. Changes in accounting standards may also affect the Company's reported results. Beginning with the fiscal year 2006, the Company expects to shift from UK GAAP to IFRS for financial reporting purposes. This shift could affect the Company's reported results and could cause the price of the Company's securities to fluctuate.

Competition in the Airline Industry

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. The Group's pricing decisions are affected by many factors, including competition from other airlines, some of which have cost structures that are lower than the Group's or have other competitive advantages and therefore may be able to operate at lower fare levels. Fare discounting by competitors has historically had a negative effect on the Group's financial results because the Group is generally required to respond to competitors' fares to maintain passenger traffic. There can be no assurance that the adverse effects of any future fare reduction or other competitive factors would be offset by increases in passenger traffic, reductions in costs or changes in the mix of traffic that improve yields.

Government Regulation

The Group's operations are subject to a high degree of EU, UK and foreign government regulation covering most aspects of the airlines operations, including route flying rights, fare setting, operational standards (the most important relating to safety, security and aircraft noise), airport access and arrival and departure times at airports (slots) availability. Furthermore, British airlines are affected by more general EU, UK and foreign governmental policies and their implementation. Future operating and financial results may vary based upon the effects of such regulation, including the granting and timing of certain governmental approvals needed for new and existing alliances, codesharing agreements and other arrangements with other airlines, restrictions on

competitive practices, and the costs of meeting customer service standards and aircraft noise restrictions. For example BA and AA have been unable to secure US antitrust and EU competition law immunity to further the extent of their co-operation through the oneworld alliance while certain US and EU based airlines in other alliances have received limited immunity.

Changes in the regulation of aviation may also affect the airline's performance. The UK and other Member States have recently ceded competence to the European Commission for negotiation of route rights to countries outside the EU. It is not possible to predict the terms on which the EU might conclude on an open skies agreement with the US and therefore it is not possible to predict its impact on the airline. In relation to slots, the EU is reviewing the slot regulation and has indicated that it does not support the current position under English law. This could affect the Company's ability to trade in slots in the future.

Government Support for the Group and Competing Airlines

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In response to the events of September 11, 2001, the UK government, under the European Union's program of exceptional support for airlines, granted the Group £22 million in compensation and acted as insurer of last resort for 13 months. The Group is not permitted to conduct many of its operations without insurance. If market conditions similar to those following September 11, 2001 recur, the Group might require further government assistance to avoid impairment or interruption of its operations. A failure to obtain such assistance could have a material adverse effect on the Group's operations and financial condition. In addition, other governments, including the US government, have and may continue to provide financial and other support for their domestic airlines that is more significant than the government support provided to the Group. State aid for the aviation industry, whilst not technically lawful in Europe, remains on the political agenda, as does the differing nature of the insolvency laws of different countries. Disparate levels of government assistance between the Group and other airlines could place the Group at a competitive disadvantage and have an adverse effect on the Group's operating and financial results.

Jet Fuel Prices

Jet fuel prices are a significant component of the Group's cost structure and have been and could be highly volatile. While the Group endeavors to hedge part of the jet fuel price volatility, due to the competitive nature of the airline industry and other factors, including the price-sensitivity of the demand for air travel, increases and fluctuations in the price of jet fuel may have an adverse effect on the Group's operations and financial performance.

Effects of Terrorist Activities and Similar Events

The events of September 11, 2001 had, and continue to have, an adverse effect on the Group's operating and financial results. Following these events, the Group experienced significant decreases in turnover, increases in security and other costs, higher ticket refunds, lower yield and load factors and higher insurance costs. The airline industry has not recovered from these shocks and suffered further setbacks with the Iraq war in the spring of 2003. The effects of the events of September 11, 2001, the threat or occurrence of other terrorist attacks or the commencement or escalation of hostilities (or the threat thereof) have had and could continue to have an adverse effect on the demand for air travel and the Group's operating and financial results.

Following the events of September 11, 2001, airlines found it impossible to obtain adequate insurance cover without government support. Similar disruptions in the insurance market or withdrawal of cover for key risks could have an adverse impact on the Group's operating and financial results.

Other catastrophic events or natural disasters, not necessarily related to aviation, could also have an adverse impact on the Group's operating and financial results.

Economic and Other Conditions

The demand for air travel and, accordingly, the Group's operating and financial results may be affected by changes in local, regional, national and international economic conditions. Significant and prolonged downturns in economic conditions would be likely to have an adverse effect on the Group. In addition, other demand-related factors such as health concerns, perceptions of airline safety and adverse weather conditions could have an adverse effect on the operations and financial results of the Group. For example, the outbreak of SARS in 2003, and the foot and mouth epidemic in 2001, caused declines in demand for certain of the Group's routes. Claims against the Company and other airlines in relation to deep venous thrombosis are currently subject to litigation in the UK and other countries.

Availability of Future Financing: Interest Rate and Other Financing Risks

In the wake of the events of September 11, 2001, the subsequent war in Iraq and the Severe Acute Respiratory Syndrome (SARS) outbreak and because of the resulting adverse operating environment and uncertainty, the Group raised additional funds to increase its liquidity. The Group had, at March 31, 2004, over £2 billion in cash and deposits and committed facilities. Although the Group believes that it would be able to return to the capital markets to raise additional funds, there can be no assurance that the airline industry, fleet and other assets will continue to be as attractive to lenders. In addition, the Group's ability to access one of its committed facilities of US\$393 million is subject to the Group's Standard & Poor's corporate credit rating. However, the Group's corporate rating stands at BB+ (stable), which is well above the lowest level B-, at which the facility can be drawn. Once the facility is drawn there are no ratings covenants.

The airline industry is capital intensive and the Company has significant debt and capital commitments. The Company's ability to finance its operations and capital needs, and the cost to the Company of financing, may be affected adversely by various factors including financial market conditions. For example, 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. In addition, a

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significant portion of the Company's debts are subject to floating interest rates. To manage interest rate risks, the Company enters into swap and other hedging arrangements. Nonetheless, the Company could experience adverse effects from interest or currency rate volatility. The Company's financing activities are also subject to exchange risks as borrowings and related expenditures may not be denominated in the same currency. For discussion of the Company's outstanding debt obligations, capital commitments and other obligations as well as interest rate and foreign currency risk, see Item 5 Operating and Financial Review and Prospects Other Matters Debt and other contractual obligations, Item 5 Operating and Financial Review and Prospects Other Matters Foreign currency risk and Item 11 Quantitative and Qualitative Disclosures about Market Risk.

Uncertainty of Future Collective Bargaining Agreements and Events

The airline industry is labor intensive. The Group's operations could be adversely affected in the event that the Group were not to reach agreement with any labor union representing the Group's employees or by an agreement with a labor union representing the Group's employees that contains terms that would prevent the Group from competing effectively with other airlines. As in most labor intensive industries, strikes, work stoppages and other organized labor activities could also have significant adverse effects on operating and financial results.

Pensions

The Group operates two main defined benefit pension schemes in the UK, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS). Both are now closed to new members.

Under current UK GAAP and applicable UK pension law, actuarial valuations of the schemes are required to be carried out every three years. These determine the assumptions to be used in valuing the scheme assets and liabilities together with the contributions to be made and the expense to be recorded in the profit and loss account. At the date of the actuarial valuation the market value of the assets of APS and NAPS amounted to £5,421 million and £3,184 million respectively. The value of the assets represented 101% (APS) and 78% (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. The actuary determined that annual contributions of £26 million for APS were required from November, 2003. For NAPS, contributions increased by £107 million per year, with effect from January, 2004 plus Retail Price Index inflation in future years. The Group has continued to account for pensions in accordance with SSAP 24. On an FRS17 basis the net pension liability for APS and NAPS together as at March 31, 2004 was £1,067 million (2003: £1,037 million). British Airways remains committed to its existing pension schemes but the funding increases present a substantial additional cost burden. The Company and its unions have engaged in discussions regarding the deficit.

Operational and IT Risks

The Group's operations, including its ability to deliver customer service, are dependent on the effective operation of its equipment, including its aircraft, maintenance systems and reservation systems, and the commitment of its personnel. BA's operations are also dependent on the effective operation of the UK National Air Traffic Control Service (NATS), BAA plc and other airport authorities worldwide, and the air traffic control infrastructure in the markets in which the Group operates. Equipment failures, personnel shortages, air traffic control problems, and other factors that could interrupt operations could adversely affect the Group's operating and financial results and its reputation. The Group is also dependent on its IT systems and strategic suppliers such as Amadeus for the performance of its reservations and other critical systems. The Company's systems

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often suffer attacks from hackers and viruses. Failure of these systems or suppliers could have an adverse impact on the Group's operating and financial results and its reputation.

Uncertainty in International Operations

A substantial portion of the Group's business is international. In addition to the effects of, among other factors, terrorism, hostilities and health scares, the Group's current international activities and prospects could be adversely affected by factors such as reversals or delays in the opening of foreign markets, exchange controls, currency and political risks, tax and changes in international government regulation of the Group's operations. For further discussion of the foreign currency risks the Group faces, 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.

Franchise Operations

Franchisees are subject to similar operational risks, terrorist and other threats and uncertainty in their operations internationally as described above. Any such events, which have an adverse impact on one of the Company's franchisees, could also have an adverse impact on the

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Company. The safety and security of franchise operations are reviewed as appropriate, though the Company can give no absolute assurance in this regard.

Seasonal and Other 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.

Environmental Matters

The Group's operations are covered by a wide range of environmental regulations at local, national and international levels. These regulations cover, among other things, emissions to the atmosphere, disposal of solid waste and aqueous effluents, aircraft noise and other activities incidental to the Group's business. Future operations and financial results may vary as a result of such regulations. Compliance with these regulations is costly and new regulations could increase the Group's cost base and adversely affect its operating and financial results. In addition, failure to comply with these regulations could adversely affect the Group in a variety of ways, including adverse effects to the Group's reputation.

Limitations on Foreign Ownership

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 the rights of non-European Economic Area (EEA) persons to hold or exercise votes in relation to Ordinary Shares of the Company (or ADS in respect thereof) in circumstances where not limiting such holding or voting rights would adversely affect the Group's current or future operating rights. Non-EEA persons mean persons or entities that are not nationals of a State in the EEA (comprising all the countries of the European Union and of the European Free Trade Area) (non-EEA).

At the Company's 2002 Annual General Meeting, a special voting share (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 protect further 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.

The UK government is currently considering the extent to which the EU's Takeover Directive will be introduced into UK law, the operation of which could have an adverse effect on the operation of the Special Share.

Accordingly, 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 .

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 154 destinations in 75 countries at March 31, 2004. In fiscal 2004, the Group carried more than 36 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 and are now substantially complete. 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 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. In fiscal 2004 the number of aircraft in service was reduced by 39 to 291, of which 16 related to the disposal of the Company's German subsidiary, dba, and five related to the retirement of its fleet of Concorde aircraft during the year. The decision to retire Concorde was made for commercial and operational reasons with passenger revenue falling steadily against a backdrop of rising maintenance costs for the aircraft.

The Company's overhaul of its wide-bodied aircraft is complete. Currently the Group has no further orders for wide-bodied aircraft. In shorthaul, three Airbus A320 aircraft were delivered during the year, replacing Boeing 737 aircraft. During the year the Group rationalized its turboprop operations, reducing from a fleet of 28 aircraft of three different types to a fleet of ten aircraft of a single type.

BA has confirmed future deliveries for three Airbus A319s, three A320s and ten A321s; of these, six A321s will be delivered in fiscal 2005.

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, 2004 has halved since 1999. The Company now operates a fleet of 44 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, more work needs to be done to make the business less complex for both our customers and our staff.

Current Initiatives

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. As expected, this program was approximately 50% complete by March, 2004. The second program aims to remove £300 million of employee costs across the business by March, 2006. The delivery of these measures remains crucial to the delivery of the Company's stated target of achieving a 10% operating margin through the business cycle.

British Airways CitiExpress

The Company continues to simplify and strengthen its UK regional operation. British Airways CitiExpress, the wholly owned regional airline subsidiary, operates regional domestic and European services from 13 airports across the British Isles. The airline carries approximately 4.1 million passengers a year on 64 routes with a fleet of 59 aircraft (down from 92 in 2001). In December 2003, British Airways CitiExpress announced its Business Plan targets, including further cost reductions by fiscal 2006.

Alliance Benefits

American Airlines

In November, 2002, BA and American Airlines (American) concluded a codeshare agreement for points behind and beyond the US gateways and Heathrow, respectively. This agreement was filed with the US Department of Transportation and approved in a final order issued on May 30, 2003. Implementation was completed in Autumn 2003 and resulted in a roll-out across the two networks. BA now places its code on 104 American routes. At the same time, American applies its code to 68 BA routes across 34 countries. BA and AA have been unable to secure US antitrust and EU competition law immunity to further the extent of their co-operation through the **oneworld** alliance while certain US and EU based airlines in other alliances have received limited immunity.

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oneworld

oneworld was launched in February 1999 and includes eight members: Aer Lingus, American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Lan Chile and Qantas. The benefits of **oneworld** include: greater rewards and recognition for frequent flyers (for example, earning and redeeming miles on all airlines, access to all lounges in the member network), people from each of the airlines supporting the passengers of any of the member airlines, flexible round the world travel products and smoother transfers between carriers.

Qantas

The BA/Qantas partnership is now entering its eleventh year. Initial approval from the Australian Trade Practices Commission for operation of joint services on the Kangaroo Routes (routes between Europe and Australia) expired in May 2000. BA and Qantas received approval from the Australian Competition & Consumer Commission (ACCC) to continue the agreement for a further three years until July 21, 2003 and to expand the route group over which the two carriers can co-operate to include the worldwide networks of both airlines. An application has been made to the ACCC to continue joint operations under the Joint Services Agreement beyond July 21, 2003. Interim approval has been received, which allows the parties to continue uninterrupted co-operation until the ACCC reaches a final determination. Application has also been made to the UK Office of Fair Trading and the EU competition authorities.

Iberia

Following the acquisition of a 9% stake in Iberia in March, 2000, various commercial codeshare arrangements were put in place. Further routes were added on three separate occasions during fiscal 2003 and codesharing has been extended to include routes operated by BA franchise partner GB Airways. All routes between London and Spain operated by BA, GB Airways and Iberia (IB) now carry the BA and IB flight

designator codes.

In July 2002, BA, GB Airways and Iberia notified their co-operation agreement under EU competition rules. The carriers now co-operate in many areas, including codeshare on parallel routes, joint selling and schedule co-ordination.

Cathay Pacific

During February 2003, codeshare arrangements were implemented with Cathay Pacific on services between Hong Kong and Seoul. Cathay Pacific has also placed its code on selected BA services between London and Copenhagen and Lisbon.

dba (formerly Deutsche BA)

The sale of dba, which was a wholly-owned subsidiary of BA, was completed on June 30, 2003. The entire share capital of dba was sold to Intro Verwaltungsgesellschaft mbH (Intro GmbH), a German aviation consultancy and investment company for 1. As part of the transaction, the Group invested £25 million in dba and agreed to guarantee lease payments in respect of dba's fleet of 16 aircraft for one year, at a cost of £2 million per month. In exchange, the Group will receive 25% of any dba profits, or 25% of any profit on disposal of dba, to June 2006, up to a maximum of £300 million.

Franchise Partnerships

As at March 31, 2004, the Group had a total of six franchise partners providing feeder traffic onto the BA network of services. See Marketing and Sales Franchising below.

SN Brussels Airlines

BA entered into an alliance relationship with SN Brussels Airlines in July, 2002. As part of the agreement, codesharing was introduced between London and Brussels in October, 2002. Extensive codesharing between UK regional points and Brussels continues between the Group's wholly owned subsidiary British Airways CitiExpress and SN Brussels.

In July, 2002, BA and SN Brussels Airlines notified their co-operation under EU competition rules. The carriers' request to co-operate in many areas, including codeshare on parallel routes, joint selling and schedule co-ordination, was subsequently approved for a period of six years.

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America West

BA expanded the number of routes in the America West network to which it applies its code. A further nine points were added in November, 2003, bringing the total number carrying the BA code to 21.

Swiss International Air Lines

A commercial agreement with Swiss International Air Lines was concluded in September, 2003, involving the transfer of eight slot pairs to BA and codesharing on the Heathrow Geneva route. A proposal that Swiss would merge its frequent flyer program into the BA Executive Club and go on to join oneworld was rejected by Swiss on June 21, 2004.

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 85% of Group turnover in the year ended March 31, 2004.

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 turnover by business activity:

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	Year ended March 31			
	2004	2004	2003	2002
	(in millions)			
	\$	£	£	£
Traffic revenue				
Passenger revenue	11,941	6,490	6,590	7,088
Cargo	852	463	484	483
	12,793	6,953	7,074	7,571
Other revenue (including aircraft maintenance, package holidays and other airline services)	1,117	607	614	769
	13,910	7,560	7,688	8,340

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Geographical Analysis

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

	Year ended March 31			
	2004	2004	2003	2002
	(in millions)			
	\$	£	£	£
Turnover by area of original sale(1)				
UK	6,865	3,731	3,634	4,101
Continental Europe	2,225	1,209	1,269	1,301
	9,090	4,940	4,903	5,402
Europe				
The Americas	2,478	1,347	1,482	1,549
Africa, Middle East and Indian sub-continent	1,319	717	733	789
Far East and Australasia	1,023	556	570	600
	13,910	7,560	7,688	8,340
Turnover by area of destination(2)				
UK	1,222	664	725	863
Continental Europe	3,634	1,975	2,113	2,345
	4,856	2,639	2,838	3,208
Europe				
The Americas	5,091	2,767	2,763	2,863
Africa, Middle East and Indian sub-continent	2,305	1,253	1,201	1,262
Far East and Australasia	1,658	901	886	1,007
	13,910	7,560	7,688	8,340
Operating profit/(loss) by area of destination(3)				
Europe	(110)	(60)	(117)	(244)
The Americas	541	294	223	144
Africa, Middle East and Indian sub-continent	386	210	168	91

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Far East and Australasia	(72)	(39)	21	(101)
	<u>745</u>	<u>405</u>	<u>295</u>	<u>(110)</u>

- (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, 2004 compared with year ended March 31, 2003 Geographical Analysis and Item 5 Operating and Financial Review and Prospects Year By Year Analysis Year ended March 31, 2003 compared with year ended March 31, 2002 - Geographical Analysis.

Route Network

BA's scheduled route network forms the basis of its business and is one of the world's most extensive. As of March, 2004, BA (including subsidiary carrier British Airways CitiExpress) served some 154 destinations in 75 countries. Including codesharing and franchise arrangements, flights with BA codes served some 337 destinations in 107 countries. Adding the services of BA's alliance partners, the global network served some 551 destinations in 131 countries.

During the year ended March 2004, BA introduced services to Algiers, Bari, Dubrovnik and Turin and reintroduced services to Islamabad. Services to Bremen, Guernsey, Lilongwe, Liverpool, Newquay, Plymouth, San Diego and Zagreb were discontinued.

A major new codesharing agreement with American commenced during September, 2003 which involves BA codesharing on 104 American routes in the Americas, adding 72 new destinations to the BA marketed network. American has placed its code on 68 BA routes in Europe, Africa and the Middle East.

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Airline Fleet

Details of the Group's fleet at March 31, 2004 are set out below:

Number in service with Group companies at March 31, 2004

	On balance sheet aircraft	Off balance sheet aircraft	Total	Future deliveries	Options	2003-04 revenue hours flown	Average hours per aircraft/ day	Average age (years)
Airline operations (1)								
Concorde (2)						1,579	1.53	
Boeing 747-400 (3)	57		57			264,486	12.68	9.8
Boeing 777	41	2	43			192,037	12.20	5.3
Boeing 767-300 (4)	21		21			69,067	9.60	11.1
Boeing 757-200	13		13			34,003	7.15	9.5
Airbus A319 (5)	21	12	33	3	51	100,461	8.32	3.4
Airbus A320	9	18	27	3		77,320	8.00	6.7

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Airbus A321			10					
Boeing 737-300 (6)		5	5		14,271	7.80	14.7	
Boeing 737-400 (7)	19	4	23		70,988	7.51	11.6	
Boeing 737-500		10	10		28,012	7.65	11.7	
Turboprops (8)		10	10		39,893	4.62	8.0	
Embraer RJ145	16	12	28	17	73,988	7.22	4.0	
Avro RJ100		16	16		41,471	7.06	4.0	
BAe 146	5		5		12,557	6.86	17.6	
Hired aircraft					15,744			
Group total	202	89	291	16	68	1,035,877	9.21	7.7

- (1) Includes those operated by British Airways Plc and British Airways CitiExpress Limited.
- (2) The Concorde fleet was retired from service on October 24, 2003.
- (3) Includes the return to service of one Boeing 747-400 aircraft previously sub-leased to Qantas.
- (4) Includes one Boeing 767-300 aircraft temporarily stood down at year end but returned to service on April 30, 2004.
- (5) Certain future deliveries and options include reserved delivery positions and may be taken as any A320 family aircraft.
- (6) Excludes 16 Boeing 737-300s disposed of with dba (formerly Deutsche BA) and associated utilization data.
- (7) Excludes 4 Boeing 737-400s stood down pending return to lessor.
- (8) Comprises 10 de Havilland Canada DHC-8s. Excludes 5 British Aerospace ATPs stood down pending return to lessor and 3 British Aerospace ATPs sub-leased to Loganair. Excludes 12 Jetstream 41s sub-leased to Eastern Airways.

In the five-year period ended March 31, 2004, 61 new (British Airways Plc, British Airways CitiExpress) aircraft were purchased or acquired under finance leases representing a total capital investment of approximately \$3,719 million. 36 new aircraft with an initial purchase price to the lessors of approximately \$855 million were obtained under operating leases, and a further 10 used aircraft, with an approximate market value of \$320 million, were obtained under short-term operating leases. In the same period, 135 aircraft were disposed of from the BA fleet.

Future Fleet Commitments

During fiscal 2004, 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.

BA has confirmed future deliveries for three Airbus A319s, three Airbus A320s and ten Airbus A321s. BA also has 51 option positions / purchase rights on the Airbus family and British Airways CitiExpress has 17 option positions for Embraer RJ145 aircraft.

Aircraft fleet

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

Financing

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A total of three new aircraft were delivered during the year ended March 31, 2004. These were all financed on balance sheet through US Dollar denominated cross border finance leases.

In addition the Company entered into a total of seven sale and leaseback transactions relating to owned aircraft. Of these, five related to the Company's older A320 aircraft and were carried out to give effect to the Company's decision to retire these aircraft at the end of the five-year lease period. The other two sale and leaseback transactions were of two newer Boeing 777-200 for a period of ten years and were carried out as part of the Company's management of its residual exposure to this fleet type.

As at March 31, 2004, the Company had cash and deposits, which in total amounted to £1,670 million. In addition, the Company had undrawn long-term committed aircraft and general financing facilities totaling approximately US\$761 million, a committed short-term unsecured revolving credit facility of US\$100 million and undrawn money market lines totaling £46 million.

The committed long-term facilities of US\$761 million consist of US\$421 million, which may be drawn against future aircraft deliveries and US\$340 million, which are for general purposes.

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 aircraft purchase commitments.

Cash generation during the fiscal year allowed the Company to accelerate debt repayments of £344 million during the year.

Capital Expenditures

See Item 5 Operating and Financial Review and Prospects Year by Year Analysis Year ended March 31, 2004 compared with year ended March 31, 2003 Capital expenditures and Item 5 Operating Financial Review and Prospects Year by Year Analysis Year ended March 31, 2003 compared with year ended March 31, 2002 Capital expenditure .

Operations

Operational Centers

Heathrow is BA's principal base, and BA carries an estimated 38% 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 its operations into Terminal 5, in 2008. The strategy at Gatwick is now focused towards direct (point-to-point) business. As a result, BA has significantly reduced longhaul destinations at Gatwick, cancelled certain unprofitable routes and moved others to Heathrow. As at May 31, 2004, BA served 12 longhaul destinations from Gatwick, compared to a peak of 48 destinations served in

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1999. 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 other 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.

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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. 95/93, 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. This regulation remains under review by the European Commission and a revised regulation is expected in the future. 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 entirely 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 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.

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The engineering department is a cost center within the Group and approximately 90% of its airframe maintenance capacity is dedicated to maintaining BA aircraft. In addition to supporting BA's needs, the engineering department pursues third party business with respect to certain maintenance services.

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 space-efficient 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, the new World Traveller Plus cabin and the refurbishment of First. By March 31, 2004, 88% of the longhaul fleet was fully embodied with new products in every cabin, including all of the Heathrow 747 and 777 fleets. These investments have helped BA to maintain market share in a severely depressed business travel market.

Shorthaul Products

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

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Pricing and inventory management strategies for economy fares were refined on European and UK domestic routes during the year, supported by value advertising campaigns to enable us to compete vigorously with no frills competitors. Further improvements to our website booking engine were also implemented, including the acceptance of debit cards for payment. As a result, market share on these routes has stabilized against aggressive growth by competitors.

The overall European business class market has remained severely depressed but the investment in an improved product in fiscal 2001 has continued to help defend Club Europe market share through fiscal 2004 against other full service carrier competition.

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, 2004, 17% of all customers checking-in at self-service European and UK airports used such a kiosk, being almost double the rate of the prior year.

As part of BA's FSAS program, BA improved the cost efficiency of all of its products and services with the objective of minimizing delivery costs while maintaining quality standards. This was achieved successfully while maintaining or in some cases increasing customer satisfaction scores.

Concorde

Due to the severe economic downturn and the view of Airbus that technical support for Concorde was no longer economically viable, Concorde was retired from service in October, 2003.

Executive Club

The Executive Club is BA's worldwide customer loyalty program for recognizing, retaining and communicating with our most valuable customers. For people who travel frequently, 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.

As part of the FSAS program, work took place to simplify the Executive Club from five regional programs to a single global program. This improved customer understanding will make it easier and less costly to develop in the future. It is also more cost efficient to run. This was launched to customers in March, 2003 and went live on July 1, 2003.

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, 2004, 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.

During the year, Maersk Air UK ceased to be a BA franchise.

These six carriers carried approximately 3.86 million passengers during the fiscal year to 84 destinations (66 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.

Computer Systems

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IT and telecommunications systems are vital to the running of the Group's business. Most areas of BA's 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 some other telecommunications

The campus network in London provided by Omnetica Limited

Desktop, provision and support provided by Specialist Computer Centres (SCC)

Over the last year a core element of the IT strategy has been supporting simplification of the airline's business processes through IT. We have achieved this through a number of initiatives including the customer enabled BA (ceBA) program. The vision of this program is to make BA so easy a company to do business with that customers can choose to serve themselves. The same principles are being applied internally for our employees through our employee self-service program.

Over the last year we have increased the capability and functionality of ba.com. In July, 2003 we made the core Executive Club transactions available online and, with the introduction of manage my booking, we have introduced the ability for our customers to request a seat and, in many countries, offer our customers the opportunity to check in at home and then pick up their boarding pass at the airport. In certain trial cities customers can also print their boarding pass at home.

Another important element has been the use of e-ticket and the introduction of upgraded 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 Paris Charles De Gaulle. E-ticket continues in its growth. By July 1, 2004 e-tickets were being issued on approximately 60% of all BA tickets worldwide, approximately 85% of all journeys are eligible for e-ticket.

Simplifying the way our employees do their business within BA is as important as how our customers do business with us. We have developed a self-service portal, as part of our business plan to reduce our paper based processes. For example, we are replacing payslips with online forms. 85% of staff go online from the workplace or home for a variety of functions including updating personal records, booking training courses, logging faults, asking questions and procurement.

Within BA we have substantially completed a desktop computer refresh program, which has improved speed and reliability. This has resulted in substantial savings by standardizing hardware and software utilized at BA locations around the world. We also achieved savings by reducing the number of laptops by a quarter. The replacement of legacy networks with simpler, internet-based networks has also reduced maintenance support costs. Other improvements introduced include the provision of standardized, licensed software packages with upgrades performed remotely out of office hours. Another key element of this program is that the new desktop PCs also have improved security.

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IT security and control has been an increasing area of management focus over the last two years and the IM department is working closely with BA's Internal Control department to protect BA's systems, processes and data.

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

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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 2004, 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, 2003. BA's share of this funding requirement was £968,000. In February 2003, BA's share of the funding requirement was £1,030,000.

Seasonal Variations

See Item 3 Key Information Risk Factors Seasonal and Other Variations.

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 such as the SARS virus.

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

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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 may 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.

The Council of the EU decided on June 5, 2003 to begin the process of transferring responsibility for third country relations in air transport to the European Commission. The first major manifestations of this are a mandate from the Council to the Commission to negotiate a liberal agreement with the US on behalf of all EU Member States and a general framework covering all other third country relationships and the processes whereby Member States may continue to negotiate bilaterally with them 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 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.

Enlargement of the EU in May 2004 extended the scope of the single market to the ten new Member States, effectively eliminating previous competitive restrictions contained in the bilateral air service agreements between these countries and EU States. As a result, new services are being launched, especially by no-frills airlines looking for growth opportunities.

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 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.

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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 most 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. 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. 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 (JAA) and non-binding Joint Aviation Requirements (JARs). 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 Aviation Safety Agency (ASA) 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.

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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 came into effect via an EU regulation affecting all airlines registered in the EU, on June 28, 2004. The main practical effect of this is to increase the baggage claim limit for loss, delay or damage to bags.

New EU denied boarding compensation rules are due to come into force in February 2005 which extend compensation to cancelled as well as delayed flights and which impose passenger care requirements for long delays and cancelled flights.

Domestic US disabled passenger legislation has been extended to foreign airlines. The EU is also developing regulations for disabled passengers and these are expected to be published later in 2004. It is not yet clear whether these will be consistent with US requirements.

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 will shortly consult 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 June, 2002, BA issued a new standard for bribery and corruption and an accompanying educational primer. In March 2004, the BA Board adopted a new Code of Business Conduct and Ethics, applicable to all employees. The previous Code, adopted in 2000, will be replaced by a new Statement of Business Principles. Both the new Code of Conduct and the Statement of Business Principles will be incorporated as BA Standing Instructions, which set out policies with which all employees should comply. They will be communicated throughout the Company in summer 2004 and will be 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.

However, leave for judicial review of the White Paper was granted recently by the UK Courts to a coalition of anti-airport expansion groups, although no date has yet been set for a hearing. If the Government were to lose the case, they would have to reconsult and might have to change their policy in some respects.

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 will come into effect in July, 2004 and more substantive changes are expected to be proposed soon by the European Commission, following an unsuccessful earlier attempt. 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 UK High Court has ruled that slot exchanges in the UK are consistent with EU slot rules, we understand that the Commission has written to the UK Government contesting this.

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 s

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

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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. Some of these are necessary under the relevant air services agreement. 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.

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.

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.

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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, 2004:

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 Capital Ltd* (89 per cent of founders' shares owned)	Airline finance	Jersey
British Airways Holdings Ltd*	Airline finance	Jersey
British Airways Holidays Ltd*	Package holidays	England
British Airways Maintenance Cardiff Ltd*	Aircraft maintenance	England
British Airways Regional Ltd*	Airline operations	England
British Airways Travel Shops Ltd*	Travel agency	England
CityFlyer Express Ltd*	Airline Leasing	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
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Associated undertakings	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Qantas Airways Ltd	18.25	Airline operations	Australia
Iberia, Lineas Aéreas de España, S.A. (Iberia)	9.0	Airline operations	Spain
Comair Ltd	18.3	Airline operations	South Africa
Opodo Ltd*	19.05	Internet travel agency	England
Trade investments	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
The Airline Group*	16.7	Air traffic control holding company	England
WNS (Holdings) Ltd*	16.8	Holding Company	Jersey

* Owned directly by British Airways Plc

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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
Atrium Court, Glasgow (3)	offices	Lease	90,000

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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

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- (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.
- (3) Notice has been served by BA of its intent to surrender this lease during March 2005. 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 17 to the Financial Statements.

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Item 5 Operating and Financial Review and Prospects

Introduction

The following discussion covers the three years ended March 31, 2004 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 45 to the Financial Statements.

Group profits before tax for the fiscal year 2004 were £230 million, against a £135 million profit in the previous year.

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

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

Cash inflow before financing was £874 million for the twelve month period. The closing cash balance of £1,670 million was up £18 million versus last year. Net debt fell by £991 million during the year to £4,158 million - its lowest level since December 31, 1997 - and is down £2.4 billion from the December, 2001 peak.

Results of Operations

The following table sets out the year-over-year percentage changes in Group turnover and selected Group operating statistics (volume, capacity and yield) for the three-year period ended March 31, 2004:

	Year ended March 31		
	2004	2003	2002
	(Change %)		
Group operating revenue	(1.7)	(7.8)	(10.1)
Group operations:			
Volume (RTKs)	3.9	(2.9)	(13.9)

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Capacity (ATKs)	2.5	(6.7)	(9.3)
Yield (Revenue/RTK) (1)	(5.4)	(3.8)	4.2

(1) Scheduled services (passenger and cargo) and non-scheduled passenger services revenue as a percentage of RTKs
Year by Year Analysis

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.

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.

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.

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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.

See footnote (7) 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, 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

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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	<u>(3)</u>	<u>(13)</u>	<u>(5)</u>	<u>7,155</u>	<u>7,393</u>	<u>8,450</u>

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.

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.

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The short-haul 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 short-haul 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 Opodot. 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 income/charges

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.

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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.

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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.

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 28):

	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

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Repayment of amounts borrowed	(339)	(576)	(915)	(797)	(712)
Effect of exchange rate changes	(42)	(162)	(204)	(149)	(54)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at March 31	1,225	4,491	5,716	6,689	7,401
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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.

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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.

Year ended March 31, 2003 compared with year ended March 31, 2002

Revenue

Group turnover fell by 7.8% to £7,688 million in fiscal 2003. Passenger and cargo revenue (turnover from airline operations scheduled and non-scheduled services) accounted for approximately 92% of Group turnover. For the year, traffic revenue fell by 6.6% to £7,074 million on a flying program 6.7% smaller in ATKs.

Compared with fiscal 2002, in fiscal 2003 airline operations passenger traffic in RPKs declined 5.8%, while capacity in ASKs was reduced by 7.9%. Passenger load factor (RPKs/ASKs) increased by 2 points compared with fiscal 2002 to 72%. Passenger yield (scheduled and non-scheduled passenger revenue per RPK) declined by 1.3% for the full year.

Cargo (i.e. freight and mail) volumes (CTKs) were up 4.4% compared with fiscal 2002 but yields (cargo revenue per CTK) fell by 4.0%. Cargo revenue was almost flat, up 0.2% from £483 million to £484 million.

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

Expenditure

Net operating expenditure (total operating expenditure less other revenue) decreased by 11.7% as compared to fiscal 2002. Unit costs (net operating expenditure per ATK) were 5.5% lower than fiscal 2002 (total Group operating expenditure was 12.5% lower than in fiscal 2002).

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See footnote (7) to the operating statistics in Item 3 for the calculation of total operating expenditure per RTK and per ATK.

The operating expenditure for the year ended March 31, 2003 includes a charge of £84 million relating to the retirement of the Concorde fleet. See Note 4 to the Financial Statements and Item 4 Information on the Company Marketing and Sales Concorde .

In fiscal 2003, employee costs fell by 13% to £2,107 million, primarily reflecting reduced staff numbers due to the FSAS program and other efficiency actions, as well as the FSAS restructuring charge of £80 million in 2002 (see Note 30 to the Financial Statements). Total Manpower Equivalents (MPEs) at Group level, were down by 4,854 at March 2003 compared with March 2002 and by 11,880 compared with August 2001. Compared with fiscal 2002, in fiscal 2003 the average number of employees in the Group, in manpower equivalents (MPE), fell by 11.6% to 53,440 and productivity (ATKs per MPE) improved by 5.6%.

Depreciation and amortization costs reduced by 5% compared with fiscal 2002 to £734 million reflecting primarily the withdrawal of the Boeing 747-200 fleet (including the prior year accelerated depreciation), partially offset by the £58 million charge relating to the impairment of capitalized Concorde engineering modifications and rotatable inventory.

Aircraft operating lease costs reduced by 5% compared with fiscal 2002 to £189 million as a result of the return to lessors of Embraer 145s and Dash 8s, as well as Boeing 737-300s. These were partially offset by a £27 million onerous lease provision relating to the sub-lease of the British Airways CitiExpress Limited Jetstream 41 fleet (12 aircraft) to Eastern Airways.

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Fuel and oil costs fell by 18% compared with fiscal 2002 to £842 million due to hedging benefits, reduced flying, efficiencies from smaller, newer aircraft and the exchange rate effect of the weaker US Dollar, which more than offset the increase in spot price.

Engineering and other aircraft costs reduced by 12% compared with fiscal 2002 to £592 million, reflecting a volume related reduction in subcontract costs, cost efficiencies and exchange benefits, partially offset by the charge of £26 million relating to the write-down of Concorde stock and committed spend, together with increased costs of hull insurance post September 11, 2001.

Landing fees and en route charges fell by 6% compared with fiscal 2002 to £576 million. This principally reflects benefits from reduced flying and the recovery of passenger service charges from transfer passengers, as well as efficiencies.

Handling charges, catering and other operating costs decreased by 13% compared with fiscal 2002 to £961 million, as a result of reduced passenger numbers, reduction in subcontract costs and efficiencies across the operational areas.

Selling costs fell by 14% compared with fiscal 2002 to £706 million. The introduction of the new agent commission structures, reduced sales volume and exchange rate effects were the main reasons for this reduction, partially offset by increases in advertising and promotional activity to support the launch of the new short-haul pricing model.

Accommodation, ground equipment costs and currency differences fell by 17% compared with fiscal 2002 to £686 million. This reflected a reduction in contractors, reduced information systems spend, reduced property costs, exchange differences and lower bad debt provisions, partially offset by increases in insurance.

Geographical analysis

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

Operating profit improved in all regions compared with the prior year as cost reductions more than offset the deterioration in revenue. Traffic was down in all areas except in the UK where lower prices throughout fiscal 2003, stimulated demand.

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

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

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

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Short-haul prices fell, reducing yields in an intensely competitive environment, but an 11% reduction in capacity (measured in ASKs) out of London cut volume-related costs and raised passenger load factors. Combined with aggressive cost initiatives and lower fuel prices, this halved the fiscal 2002 loss in Europe.

Share of operating profit from associates

BA's share of operating profit from associated undertakings improved by £17 million to £39 million during fiscal 2003, principally due to improvement in the operating profits of Qantas.

In November 2002, BA sold its 50% shareholding in *accoladia*, the joint venture between Thomas Cook Limited and the outbound tour business of British Airways Holidays as the partnership no longer fitted the strategies of either company. The British Airways Holidays brand reverted to the Company's control. In December, 2002, BA sold its stake in the Australian travel businesses Concorde International Travel and World Aviation Services.

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Profit on sale of fixed assets and investments

Profit on disposals of fixed assets and investments for the year ended March 31, 2003 was £60 million, down £85 million from the prior year when our disposal of Go Fly Limited in June, 2001 generated £98 million.

Disposals during fiscal 2003 included Boeing 777-200, 737-400, 757-200 and the sale and leaseback of Airbus A320 aircraft as well as GE90 engines. There was also significant rationalization of our property portfolio including the sale of the New York crew hotel, Astral Towers Crawley and Odyssey Business Park. Where necessary, these property sales were accompanied by the leasing of space from the purchaser for differing periods depending on future business requirements.

Net interest payable

Net interest payable for the year ended March 31, 2003 was £255 million, £23 million lower than the previous year. This included a charge for the retranslation of the Yen debt (used to fund aircraft acquisitions) of £10 million, compared to a credit the previous year of £49 million. The retranslation results from the movement of the Yen against Sterling. See Note 10 to the Financial Statements.

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

Other income/charges

Other charges of £4 million for the year ended March 31, 2003 primarily related to the write-down of our investments in the trade exchange Cordiem and The Airline Group (NATS), partially offset by £7 million of lease transfer income.

The £5 million write-down in the value of NATS equity to £7.3 million reflected revised estimates of the future long-term benefits of the investment.

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

Tax

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

There was no tax payable on operating results in the UK. During the year ended March 31, 2003, the Group remitted profits to the UK from subsidiaries and associates including those in Australia and Spain. The UK tax charge arising on such profits was offset partially by credits for taxes paid overseas and by other loss surrenders. No tax arose on profits on disposals as such profits were covered by tax losses from current and prior periods.

Earnings per share

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Profit for the year attributable to shareholders was £72 million, equivalent to net earnings per Ordinary Share of 6.7 pence, compared with a loss for the year of £142 million equivalent to a net loss per Ordinary Share of 13.2 pence in the prior year.

Aircraft fleet changes

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

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

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Cash flow

Cash inflow from operating activities in fiscal 2003 totaled £1,185 million, an improvement of £319 million on the prior year principally due to the improvement in operating profit. Tangible fixed assets purchased for cash amounted to £293 million, £452 million less than the prior year and the sale of tangible fixed assets and investments generated proceeds of £351 million. The reduction in capital spend and the continuing asset disposals reflected the ongoing implementation of the FSAS program.

Leases and other financing arrangements

Eleven A320 aircraft were delivered during the year ended March 31, 2003. Five of the aircraft were financed through US Dollar denominated operating leases and two aircraft were financed through UK operating leases. The remaining four aircraft were financed on balance sheet; two through US Dollar denominated cross border finance leases and two through UK finance leases.

Three A319 aircraft that were delivered in the previous year were financed during fiscal 2003, through US Dollar denominated cross border finance leases. Five short-haul Airbus aircraft that had been delivered and financed on operating leases shortly after September 11, 2001 were refinanced during fiscal 2003, at lower rates on US Dollar denominated operating leases. A Boeing 777-200 which had also been delivered and financed in the previous year was refinanced at lower rates through a cross-border US Dollar denominated finance lease.

In June, 2002, US\$85 million was raised by way of a 30-year New York municipal bond issue to finance the recently completed renovation of the JFK terminal in New York. The bond represents an unsecured debt obligation of the Company and carries interest at 7.⁵/₈%.

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 £139 million (2002: £4 million loss).

Share capital

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

Outlook

Additional security expenditure is expected to continue and our fuel costs for the year ahead are projected to be approximately £150 million higher than 2004. At the same time intercontinental premium travel volumes are recovering steadily, while short-haul premium traffic remains at lower levels. Demand for non premium travel is meeting expectations with the help of competitive offers in most major markets. We continue to forecast a small revenue improvement in the current year. We expect that small yield declines during the year will be more than offset by volume.

Although FSAS is now a reality and that particular strategy phase is complete, competitive pressures emphasize the need to continue simplifying the business and reduce costs further. The ultimate objective is a sustainable annual operating margin of 10%, in order to achieve long-term stability and acceptable rewards for shareholders, employees and customers.

Other matters

Future Size and Shape

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.

Business Plan

The 2004/06 Business Plan was communicated internally on January 28, 2004 and includes a further savings in employment costs, together with the continuing delivery of the prior year's Business Plan programs of Customer Enable BA (ceBA), Employee Self Service and External Spend.

British Airways CitiExpress

BA is continuing to simplify and strengthen its UK regional operation.

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

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

Alliance benefits

The **oneworld** alliance includes eight members: BA, Aer Lingus, AA, Cathay Pacific, Finnair, Iberia, LanChile and Qantas. Co-operation across the alliance in a number of areas benefits the customer and increases the airlines' effectiveness. **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.

A commercial agreement with Swiss International Air Lines was concluded in September, 2003, involving the transfer of eight slot pairs to BA and codesharing on the Heathrow-Geneva route. A proposal that Swiss would merge its frequent flyer program into the BA Executive Club and go on to join **oneworld** was rejected by Swiss on June 21, 2004.

The final US Department of Transportation order, approving the American/BA behind and beyond codeshare, was issued on May 30, 2003. The codeshare commenced in September, 2003, and by February, 2004, all initial phases of the codeshare had been implemented. In total, American have placed their code on 68 BA routes to 58 destinations, spanning 34 countries and using nearly 300 flight numbers. In turn, BA have placed their code on 104 routes to 12 countries serving 85 destinations, of which 72 are new to the BA network. This includes the first transatlantic codeshares introduced – Manchester and Glasgow to Chicago and Manchester to New York.

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

Subsidiaries

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

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

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Qantas

Dating from 1993, the relationship with Qantas is BA's longest standing and deepest alliance relationship. Under the Joint Services Agreement (JSA) there is full strategic, tactical and operational co-operation on all of BA's and Qantas' flights that serve markets between the UK and Continental Europe, Southeast Asia and Australia. This co-operation continues to strengthen and provides customers with improved flight departure times, routings and value for money, offering the very best of customer service to all passengers.

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

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

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

Iberia

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

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

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

Franchising

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

Pensions

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

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

The triennial actuarial review of the main UK pension schemes (APS and NAPS) was completed in October, 2003 and confirmed the cash contributions required to be made into the schemes. For APS, the Company is required to restart contributions at the rate of £26 million per year from November 1, 2003. For NAPS, the increase in the deficit requires additional contributions of £107 million to be made per year commencing from January 1, 2004. As a result, total contributions to APS and NAPS for the year ended March 31, 2004, were £158 million (excluding augmentation payments). Contributions for the financial year ending March 31, 2005 are expected to be approximately £250 million.

Liquidity and investments

The Iraq war and the continuing risk of terrorist attacks led us to maintain high liquidity throughout the year. Cash flow was managed effectively through this period by achievement of the FSAS targets on capital and disposals.

This strong cash generation has allowed us to accelerate debt repayments. During the year ended March 31, 2004, the Group repaid £344 million of debt early and intends to continually review liquidity requirements and repay debt early to utilize long-term surplus liquidity.

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

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

Management of financial and fuel price risks

The Board of Directors sets the treasury policies and objectives of the Group, and lays down the parameters within which the various aspects of treasury risk management are operated. The Board has approved a treasury governance statement that outlines the Group's policies governing corporate and asset financing, interest rate risk, fuel price risk, foreign exchange risk and cash and liquidity management. The governance statement also lists the financial instruments that the Group's treasury function is 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 which is chaired by the Chief Financial Officer.

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

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

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 27 to the Financial Statements. The Group demonstrated its continuing ability to raise new financing by financing all aircraft deliveries during the year and maintaining committed facilities for all planned aircraft deliveries.

At March 31, 2004 approximately 66% of the Group's borrowings (after swaps), net of cash, short-term loans and deposits, were at fixed rates of interest and 34% were at floating rates. This proportion of fixed rate borrowings has increased from 58% at March 31, 2003 as the Group chose to focus its early debt repayments on floating rate debt, leaving fixed rate debt intact.

The Group's borrowings are predominantly denominated in Sterling, US Dollars and Japanese Yen. Sterling represents the Group's natural home currency, whilst a substantial proportion of the Group's fixed assets are priced and transacted in US Dollars. The Japanese Yen liabilities arise as a result of the Group's substantial Japanese cross-border hire purchase arrangements entered into during the period 1990 to 1999. Details of the currency mix of the Group's gross borrowings are shown in Note 27 to the Financial Statements.

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

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

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

The Group has substantial liabilities denominated in Yen, which consist mainly of purchase option payments falling due under various Japanese leveraged lease arrangements maturing between 2004 and 2011. The Group 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 balance sheet translation risk.

The Group's forward transactions in foreign currency are detailed in Note 38 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.

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.

Derivative financial instruments

BA 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, 2004 are summarized in Note 38 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 .

Economic and Monetary Union

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

International Financial Reporting Standards

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

Interest cover

The Group's interest cover for fiscal 2004 was 2.1 times. The increase in interest cover from fiscal 2003 (1.5 times) reflects the improvement in the profitability of the Group between fiscal 2004 and fiscal 2003 and a reduction in net interest payable. This reduction principally reflects the lower level of net debt of the Group.

The Group's interest cover for fiscal 2003 was 1.5 times. The increase in interest cover from fiscal 2002 (0.4 times) reflects the improvement in the profitability of the Group between fiscal 2003 and fiscal 2002 and a reduction in net interest payable. This reduction reflects both the lower level of net debt of the Group and the reduction in pounds Sterling and US Dollar interest rates between fiscal 2003 and 2002.

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	1,225	102	146	217	760
Capital lease Obligations	4,491	580	886	798	2,227
Operating lease Obligations	2,131	196	291	200	1,444
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	7,847	878	1,323	1,215	4,431
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See also Notes 16 and 27 to the Financial Statements.

Capital expenditure commitments authorized and contracted for, but not provided for in the Group's fiscal 2004 Financial Statements, amounted to £347 million for the Group (2003: £482 million), and £346 million for the Company (2003: £476 million), in each case as of March 31, 2004. These outstanding commitments include £323 million which relates to the acquisition of Airbus A320 family aircraft scheduled for delivery over the next four years. It is intended that these aircraft will be financed partially by cash holdings and internal cash flow and partially through external financing, including committed facilities arranged prior to delivery.

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 45 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, 2004 was 120,125,363,572 and the total number of Airmiles outstanding was 6,702,991,060. BA has recorded a liability for the awards relating to these mileage credits of £120 million.

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The number of frequent flyer RPKs as a percentage of total RPKs for the years ended March 31, 2004, 2003 and 2002 was 4.0%, 4.4% and 3.7%, respectively.

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 £8.6 billion in aircraft, property, equipment and other tangible assets as of March 31, 2004. 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, goodwill arising since April 1, 1998 and other intangible assets are capitalized and amortized over their useful economic lives.

For the purposes of US GAAP, the Group adopted Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Intangible Assets effective from April 1, 2002. In accordance with SFAS No. 142, goodwill and other assets with indefinite lives are capitalized and not amortized, but tested for impairment on an annual basis or on an interim basis when a triggering event occurs. The Group recognized a goodwill impairment charge of £399 million following its first annual impairment review (see Note 45 to the Financial Statements).

With respect to investments in associated undertakings, under UK GAAP goodwill is capitalized and amortized over its useful economic life. Under US GAAP, goodwill and intangible assets arising on the acquisition of an equity stake are capitalized but not amortized but tested for impairment in accordance with the requirements of Accounting Principles Board (APB) No. 18 The Equity Method of Accounting for Investments in Common Stock.

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 postretirement benefits

Accounting for pensions and other postretirement 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 32 to the Financial Statements.

Details of the US GAAP adjustment relating to pensions and other postretirement benefits are included in Note 45 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 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 adopted in year to March 31, 2004

In June 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 143 – Accounting for Asset Retirement Obligations (SFAS 143), SFAS 143 requires companies to record liabilities equal to the fair value of their asset retirement obligations when they are incurred, for example recognition of return lease conditions when the aircraft is first utilized. Over time, the liability accredited for the change in present value each period, and the initial capitalized cost is depreciated over the useful life of the related asset. SFAS 143 was effective for accounting periods beginning after June 15, 2002. The provisions of SFAS 143 are similar to the accounting policy used by the Group in preparing its Financial Statements under UK GAAP. There was no impact on the Group as a result of the adoption of SFAS 143.

In April 2003, the FASB issued SFAS No. 149, – Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149). The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. This Statement was effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The Company does not apply the hedge accounting provisions of Statement 133 and has not identified any embedded derivatives requiring separate accounting under Statement 133. As a result there was no impact on the Group as a result of the adoption of SFAS 149.

In February 2003, the FASB issued SFAS No. 150, – Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity (SFAS 150), which was effective for the year ending March 31, 2004. SFAS 150 establishes standards for the classification of liabilities in the Financial Statements that have characteristics of both liabilities and equity. The Group does not hold any financial instruments that are classified within equity and which require to be reclassified as a liability under the provisions of SFAS 150. As a result there was no impact on the Group as a result of the adoption of SFAS 150.

In January 2003, the FASB published Interpretation No. 46 – Consolidation of Variable Interest Entities (FIN 46). Under FIN 46 the party with the majority of the variability in gains and losses of a variable interest entity is the primary beneficiary of the entity and is required to consolidate the variable interest entity.

The Group has an investment in The London Eye Company Limited. The principal activity of the company is the operation of a visitor attraction, British Airways London Eye. Though not fulfilling the legal definition of a subsidiary undertaking, the Group carries substantially all the risk and rewards of ownership and therefore the Group's investment in The London Eye Company Limited is accounted for as a Quasi-subsidiary under UK GAAP and is therefore fully consolidated as described in the Note 1 Accounting policies.

Previously under US GAAP, the Group accounted for its investment as an associated undertaking. The Group's investment meets the definition of a variable interest entity under FIN 46 and as a result the assets and liabilities of The London Eye Company have been fully consolidated into the Group's net income and shareholders' equity as reported under US GAAP. Summarized financial information for The London Eye Company is set out in Note 20 to the Financial Statements.

The Group has financed eight aircraft through operating leases with third party lessors. Under UK GAAP these operating leases are accounted for as finance leases and recorded as assets and liabilities on the Group's balance sheet. Under US GAAP, the leases were accounted for as operating leases. At inception of the leases, substantially all of the risks and benefits of the assets were transferred to the Group, and as a result the assets and liabilities should be reflected within shareholders' equity under FIN 46.

In December, 2003, the FASB published a revised version of SFAS No. 132 Employers' Disclosures about Pensions and Other Postretirement Benefits (SFAS 132). Under the revised SFAS 132, additional disclosures are required on types of plan assets, investment strategy, measurement date, plan obligations, cashflows and components of net periodic benefit cost recognized during interim periods. The Group has included the additional disclosures as part of the notes to the Financial Statements.

Impact of new US accounting standards not yet adopted

There are currently no US accounting standards that have been issued but have yet to be adopted by the Group.

Impact of new UK accounting standards not yet adopted

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, 2004 the Group held £31 million of own shares classified as a fixed asset investment. These shares would be treated as a deduction from equity under the UITF.

Impact of new UK accounting standards not yet adopted

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

Item 6 Directors, Senior Management and Employees

During fiscal 2004 the business of BA was directed by a Board of Directors which consisted of 12 members. All Directors are subject to retirement every three years and are eligible for re-election by the shareholders. The Directors of BA as at July 20, 2004 (and their respective ages) were:

CHAIRMAN

Lord Marshall of Knightsbridge (70)

Board Member since 1983, Chief Executive 1983-1993, Executive Chairman 1993-1996; Non-executive Chairman since 1996. Chairman of the Nominations Committee until July 20, 2004. He is Chairman of Pirelli UK plc. Lord Marshall retired as Chairman of BA at the Annual General Meeting held on July 20, 2004.

Martin Broughton (57)

Independent non-executive director since May, 2000. Chairman of the Audit Committee and senior independent non-executive director until July 20, 2004. Chairman of the Nominations Committee. Martin Broughton retired as Chairman of British American Tobacco p.l.c during June, 2004. He was appointed Deputy Chairman of British Airways on November 7, 2003 and succeeded Lord Marshall as Chairman on July 20, 2004.

CHIEF EXECUTIVE

Roderick Eddington (54)

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

CHIEF FINANCIAL OFFICER

John Rishton (46)

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

DIRECTOR OF CUSTOMER SERVICE AND OPERATIONS

Michael Street OBE (56)

Executive Board member since December, 2000. Mike Street has been Director of Customer Service and Operations since 1997. He sits on the

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Council of Buckinghamshire Chiltern University College and is a director and trustee of Airways Charitable Trust Limited. He is a non-executive director of WSH Group Ltd and Kempton Park Racecourse Company Limited.

NON-EXECUTIVE DIRECTORS

Maarten van den Bergh (62)

Independent non-executive director since 2002. Audit, Nominations and Remuneration Committees. He is Chairman of Lloyds TSB Group Plc and a non-executive director of BT Group plc and Royal Dutch Petroleum Company, having previously been President of Royal Dutch Petroleum Company and Vice-Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of companies. Maarten van den Bergh was appointed senior independent non-executive director with effect from July 20, 2004.

Dr Ashok Ganguly (68)

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

Captain Michael Jeffery (59)

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

Baroness O Cathain OBE (66)

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

Dr Martin Read (54)

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

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Alison Reed (47)

Independent non-executive director since December, 2003. Chairman of the Audit Committee from July 20, 2004 having served as a member since December 2003. Alison Reed is Finance Director of Marks & Spencer Group plc, and a Trustee of Whizz-Kidz.

Lord Renwick of Clifton (66)

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

Service Contracts of Executive Directors

Each of the three executive Directors has a rolling contract with a one-year notice period. There are no express provisions for compensation payable upon early termination of any of the executive Directors' service contracts other than payments due during the notice period. The service contracts include the following terms:

Executive Director	Date of contract	Unexpired term/notice period
Rod Eddington	July 7, 2000	terminable on 12 months notice or upon reaching retirement age, which is 60 in his case
Mike Street	July 1, 2001	terminable on 12 months notice or upon reaching retirement age, which is 65 in his case
John Rishton	September 1, 2001	terminable on 12 months notice or upon reaching retirement age, which is 63 in his case

Service Agreements of Non-Executive Directors

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Except where appointed at a general meeting of shareholders of the Company, non-executive Directors stand for election by shareholders at the first Annual General Meeting of shareholders following appointment and stand for re-election every three years thereafter. Lord Marshall's letter of engagement was amended in June, 2003 to remove a one year notice provision, and he subsequently indicated his intention to retire at the annual general meeting on July 20, 2004. None of the non-executive directors has any right to compensation on the early termination of their appointment. The letters of engagement for non-executive directors, other than Lord Marshall, were reviewed after the publication of the revised Combined Code and new letters of engagement were entered into in March, 2004. As at July 20, 2004, the dates of the Chairman's and current non-executive Directors' appointments are as follows:

Non-executive	Date of appointment	Date of election/ last re-election	Expiry date
Lord Marshall	December 13, 1983	July 16, 2002	July 20, 2004
Maarten van den Bergh	July 16, 2002	July 16, 2002	July 19, 2005
Martin Broughton	May 12, 2000	July 15, 2003	July 18, 2006
Dr Ashok Ganguly	April 12, 1996	July 16, 2002	July 19, 2005
Captain Michael Jeffery	October 1, 2001	July 16, 2002	July 19, 2005
Baroness O Cathain	May 27, 1993	July 20, 2004	July 19, 2005
Dr Martin Read	May 12, 2000	July 15, 2003	July 18, 2006
Alison Reed	December 1, 2003	July 20, 2004	July 17, 2007
Lord Renwick	March 1, 1996	July 16, 2002	July 19, 2005

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

Robert Boyle (39), 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, (48), Chief Information Officer. Joined the airline in 1996 as IT Systems Supply Board Manager becoming Chief Information Officer in 2000.

Lloyd Cromwell Griffiths, (59), Director of Flight Operations. Joined the airline in 1973 as a pilot becoming Director of Flight Operations in 2001.

Martin George, (42), Commercial Director. Joined the airline in 1987 as a Brand Manager becoming Director of Marketing in 1997, taking on responsibility for Commercial Development in 2002.

Alan McDonald, (54), Director of Engineering. Joined the airline in 1966 as an Apprentice Engineer becoming Director of Engineering in 2001.

Roger Maynard, (61), 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, (51), Director for People. Joined the airline in 1976 as a graduate trainee becoming Director for People in 2002.

Robert Webb QC, (55), 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, (46), 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

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The remuneration of the executive Directors for the year ended March 31, 2004 was:

	Rod Eddington	John Rishton	Mike Street
	2004	2004	2004
	(£ 000)		
Basic salary	558	305	325
Bonus*	0	0	0
Taxable benefits**	26	15	21
	584	320	346

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

** 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.

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The remuneration (fees and taxable benefits) paid to non-executive directors for the year ended March 31, 2004 were:

	Fee	2004 Taxable benefit*
	(£ 000)	
Lord Marshall	250	13
Maarten van den Bergh	30	0
Martin Broughton	36	1
Dr. Ashok Ganguly	34	0
Captain Michael Jeffery	46	15
Baroness O Cathain	34	1
Dr Martin Read	29	1
Alison Reed (1)	10	0
Lord Renwick	31	1
	500	32

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

(1) Appointed to the Board of Directors in December, 2003.

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

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For 2004, 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 £3,463,189. Also during fiscal 2004, pension contributions of £354,973 were paid for the benefit of members of the Board of Directors and BA's other executive officers. For the year ended March 31, 2004 Rod Eddington earned an annual pension of £21,229, John Rishton earned an annual pension of £17,050, and Mike Street earned an annual pension of £16,315.

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 as directors. Mike Street is a member of NAPS which will provide 1/56th of pensionable pay for each year of service.

The Audit Committee meets at least quarterly. The Committee consists solely of independent non-executive directors. At the beginning of the year the members were Martin Broughton, Maarten van den Bergh, Ashok Ganguly and Baroness O' Cathain. Alison Reed joined the Committee on December 1, 2003 and succeeded Martin Broughton as Chairman of the Audit Committee on July 20, 2004. Baroness O' Cathain left the Committee on March 31, 2004. The external and internal auditors, the General Counsel and the Company Secretary normally attend meetings of the Committee and have rights of access to it. In addition, the Committee has held closed meetings and has also met privately with each of the external and internal auditors. Executives attend as required. The Committee reviews the Company's Financial Statements to ensure that its accounting policies are the most appropriate to the Company's circumstances and that its financial reporting presents a balanced and understandable assessment of the Company's position and prospects. It also keeps under review the Company's system of internal control, including compliance with the Company's codes of conduct and the scope and results of the work of internal audit and of external audit, together with the independence and objectivity of the auditors. The Committee is also responsible for oversight of the Company's policy on whistleblowers and the Risk Group.

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The Remuneration Committee of the Board meets at least twice a year and additionally if required to determine the Company's policy on remuneration for the executive directors, senior executives below Board level, the Chairman and, with effect from April 1, 2004, the Company Secretary to review that remuneration and to consider and decide grants under the Company's long term incentive and share option plans. The Committee consists solely of independent non-executive directors and is chaired by Dr Martin Read. Its other members during fiscal 2004 were Martin Broughton and Lord Renwick. On July 20, 2004 Martin Broughton was replaced on the Committee by Maarten van den Bergh. No director is involved in deciding his or her own remuneration. The fees for the non-executive directors, other than the Chairman, are fixed by the executive directors on the recommendation of the Chairman.

The executive directors of the Company receive options pursuant to the Company's performance incentive plans in relation to which corporate performance targets set at the beginning of each financial year by the Remuneration Committee.

Options to Purchase Securities from Registrant or Subsidiaries

As of June 30, 2004 employees of the Company held options to purchase 51,234,796 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 Executive Share Option Scheme 1987 and the British Airways Share Option Plan 1999, as at June 30, 2004. In line with market practice at the time, options awarded under the 1987 scheme are not subject to any performance condition. 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, 2004 were as follows:

	<u>Date of grant</u>	<u>Number of options</u>	<u>Exercise price</u>	<u>Exercisable for seven years from</u>	<u>Expiry Date</u>
Lord Marshall	July 1, 1994	12,903	372p	July 1, 1997	July 1, 2004
	August 11, 1994	95,465	419p	August 11, 1997	August 11, 2004
Total		108,368			
Rod Eddington	May 26, 2000	138,888	360p	May 26, 2003	May 26, 2010

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	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

Total 556,842

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

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Long Term Incentive Plan 1996

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, 2004 were as follows:

	<u>Date of award</u>	<u>Number of conditional awards</u>
Rod Eddington	June 5, 2000	35,028
	June 8, 2001	70,350
	June 12, 2002	185,731
	June 9, 2003	294,643
	June 16, 2004	166,618
Total		752,370
Mike Street	June 5, 2000	20,128
	June 8, 2001	40,870
	June 12, 2002	107,901
	June 9, 2003	171,429
	June 16, 2004	96,941
Total		437,269

John Rishton	June 8, 2001	30,130
	June 12, 2002	79,599
	June 9, 2003	160,714
	June 16, 2004	90,882
Total		361,345
Captain Michael Jeffery	June 5, 2000	11,364
Total		11,364

Employees

In fiscal 2004, the Group employed an average of 51,939 employees and employee costs represented approximately 30% of total Group operating expenses. Employee ownership in the Company is encouraged. As at May 12, 2004, some 52% of employees owned 1.95% 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
2004	51,939	30%
2003	57,014	28%
2002	61,460	28%
2001	62,175	27%

In 2004, approximately 85% of the Company's employees were based in the UK with the remainder based abroad, principally in Continental Europe and North America.

As at March 31, 2004, the workforce in the targeted divisions of the Group (including British Airways CitiExpress, British Airways Travel Shops and British Airways Holidays) had been reduced by the manpower equivalent of 13,082 employees pursuant to cost control measures arising from the general economic downturn and the events of September 11, 2001. These reductions would amount to a total manpower equivalent reduction of approximately 23% since August 2001.

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, 2003 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.

The Company previously 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. Previously no contributions were made into APS but now the contributions will be £26 million per year. This will effectively increase the Company's UK labor costs by some 9%.

APS and NAPS were closed to new members as at March, 31 2003. The defined contribution plan commenced on April 1, 2003. The number of employees who have joined the new defined contribution plan as at March 31, 2004 was 637.

Share Ownership

The interests in shares held by the Directors as of March 31, 2004 were as follows:

	British Airways Plc Ordinary Shares		British Airways Capital Limited Convertible Capital Bonds		% of issued share capital
	March 31, 2004	April 1, 2003	March 31, 2004	April 1, 2003	
Lord Marshall	69,225	69,225	11,304	11,304	0.006
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
Martin Broughton	24,090	24,090			0.002
Dr. Ashok Ganguly	104	104			0.000
Captain Michael Jeffery	2,624	2,624			0.000
Baroness O Cathain	10,000	10,000			0.000
Dr Martin Read	8,000	8,000			0.000
Alison Reed					0.000
Lord Renwick	32,014	32,014			0.002
Total	156,774	156,774	11,304	11,304	0.010

No Director has any interest in the share capital of any of the Company's subsidiaries other than Lord Marshall in the 9.75% Convertible Capital Bonds 2005 of British Airways Capital Limited.

In addition to the Directors, the executive officers of BA held interests in 4,453,265 options as of June 30, 2004.

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.

Of the Board members only Lord Marshall retains options under this scheme.

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 and 1999 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.

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 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

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will measure performance of the Company over the four-year period commencing with the year in which the grant was made. This retest has been retained, after consultation with major shareholders, in order to 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.

Future Long Term Incentive Schemes

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

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.

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.

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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.

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

On July 11, 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 33 to the Financial Statements.

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, 2004. See Item 6 Directors, Senior Management and Employees Service Contracts of Executive Directors for a description of certain service contracts.

No loans or credit transactions were outstanding with Directors or officers of the Company at the end of the year which need to be disclosed in accordance with the requirements of the Companies Act.

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, 2004 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	2004		2003		2002	
	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	5.91	64,098,448	7.03	76,108,893	6.11	66,205,587
The Capital Group Companies Inc Wellington Management Company	N/A	N/A	7.03	76,108,800	7.98	86,349,654
Barclays PLC	5.52	59,784,185	10.98	118,831,978	6.29	68,061,923
	5.07	54,997,945	N/A	N/A	N/A	N/A

As of June 30, 2004 the Directors and the Officers of the Company, listed on pages 51, 52 and 53 as a group had a beneficial interest in 184,847 Ordinary Shares, which represents approximately 0.017% of the total issued share capital of the Company. See Item 6 Directors, Senior Management and Employees Share Ownership .

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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, 2004, 7,315,910 ADS (equivalent to 73,159,100 Ordinary Shares or 6.75% of the total Ordinary Shares outstanding) were held by 3,391 holders in the US.

Item 8 Financial Information**Consolidated Statements and Other Financial Information.**

See Item 18 Financial Statements .

Dividends(1)

	Year ended March 31				
	2004	2003	2002	2001	2000
<i>Pounds Sterling</i>					
Interim	0.00p	0.00p	0.00p	5.10p	5.10p
Final	0.00p	0.00p	0.00p	12.80p	12.80p

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Total	0.00p	0.00p	0.00p	17.90p	17.90p
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
<i>US Dollars(1)</i>					
Interim	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.07	\$ 0.08
Final	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.18	\$ 0.19
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.25	\$ 0.27
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

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

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 2004, 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.

When financial 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, 2004, the date of the Financial Statements included in Item 18 of this report.

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				
2000	553.5	261.25	88.5	43.75
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
Two-year data on a quarterly basis				
2003				
First Quarter	245	178	35.5	27.26
Second Quarter	184	96	27.6	14.87
Third Quarter	167	95	26.1	14.52
Fourth Quarter	145	86	23.74	14.4
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
Six-month data on a monthly basis				
January	305.0	229.5	56.15	41.37
February	327.0	287.3	61.49	52.69
March	332.3	259.8	61.30	47.90
April	305.3	282.5	55.75	50.63
May	283.8	243.3	50.95	43.08
June	278.75	248.00	51.00	45.73

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

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Company's annual report on Form 20-F and are also available at www.bashareholders.com. At the Annual General Meeting on July 15, 2003, shareholders approved a minor change to the Articles of Association.

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.

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, 2004. No dividends were paid in relation to the year ended March 31, 2003.

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.

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.

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.

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 2, 2004, the proportion of Ordinary Shares held by non-UK nationals was 32.14%; and by non-EEA nationals, 22.45%. 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.

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 2004 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 Depository, 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 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 December 31, 2002 and 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 120-day period beginning 60 days before ex-dividend date and the US holder meets other holding period requirements. On February 19, 2004, the IRS announced that it will permit taxpayers to apply a proposed legislative change to the holding period requirement described in the preceding sentence as if such change was already effective. This legislative technical correction would change the minimum required holding period, retroactive to January 1, 2003, to more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. 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

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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, but generally will be passive income or financial services income which 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 on or after May 6, 2003 and 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, which outlines the Group's policies governing corporate and asset financing, interest rate risk, fuel price risk, foreign exchange risk and cash and liquidity management. The governance statement also lists the financial instruments that the Group's treasury function is authorized to use in managing financial risk. The governance statement is under on going review to ensure best practice in the light of prevailing conditions.

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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; 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.

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

As a result, the Group can experience adverse or beneficial effects arising from exchange rate movements. The Group is likely to experience beneficial effects from a strengthening of foreign currencies and an adverse effect from a strengthening of Sterling.

The Group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US Dollars and Sterling. The Group has substantial liabilities denominated in Yen, which consist mainly of purchase option payments falling due under various Japanese leveraged lease arrangements maturing between 2004 and 2011. The Group 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 balance sheet translation risk.

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				2004	2003		
	Before March 31		After March 31				Notional gain/(loss)	Notional gain/(loss)
	2005	2006	2006	Total				
	(millions)				(£ millions)			
to hedge future operating payments against Sterling								
Pound Sterling equivalents	--	--	--	--	--	--		
to hedge future currency revenues against Sterling								
Pound Sterling equivalents	35	--	--	35	--	(5)		
to hedge future operating payments against US Dollars	2	--	--	2	--	--		

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US Dollars						
to hedge future currency revenues against						
US Dollars						
US Dollars	80	--	--	80	(5)	(4)
to hedge debt against Japanese Yen						
Japanese Yen	27,238	--	--	27,238	4	--
Pound Sterling equivalents	140	--	--	140	--	--

The unrealized gain/(loss) on forward currency transactions has been calculated as the difference between the marked to market rate at the reporting date and the forward contract rate.

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 2004 compared to the date the contracts were entered into. The notional loss on these contracts was partially offset by additional contracts held to purchase Japanese Yen to hedge the future repayments of Japanese Yen denominated debt.

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.

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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 Group demonstrated its continuing ability to raise new financing by financing all aircraft deliveries during the year and maintaining committed facilities for all planned aircraft deliveries.

At March 31, 2004, approximately 66% of the Group's borrowings (after swaps), net of cash, short-term loans and deposits, were at fixed rates of interest, and 34% were at floating rates. This proportion of fixed rate borrowings has increased from 58% at March 31, 2003 as the Group chose to focus its early debt repayments on floating rate debt, leaving fixed rate debt intact.

The Group's borrowings are predominantly denominated in Sterling, US Dollars and Japanese Yen. Sterling represents the Group's natural home currency, while 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.

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

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, 2009	2004		2003	
	2005	2006	2007	2008	2009		Total	Fair value	Total	Fair value
(£ million, except percentages)										
Fixed rate principal (Pounds Sterling)	40	118	61	41	334	779	1,373	1,474	1,536	1,530
Weighted average fixed rate	6.4%	9.7%	9.9%	7.6%	9.0%	5.8%	7.0%		7.1%	
Floating rate principal (Pounds Sterling)	62	23	162	65	287	1,849	2,448	2,448	2,825	2,825
Weighted average floating rate	4.4%	4.9%	4.7%	4.6%	4.5%	4.4%	4.4%		4.0%	

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Fixed rate principal (US Dollars)	--	19	15	1	--	251	286	311	265	329
Weighted average fixed rate	--	8.7%	8.3%	11.0%	--	5.7%	6.4%		6.3%	
Floating rate principal (US Dollars)	68	51	--	--	--	648	767	767	1,165	1,165
Weighted average floating rate	1.7%	1.7%	--	--	--	1.9%	1.9%		2.1%	
Fixed rate principal (Japanese Yen)	91	37	76	116	54	580	954	954	1,010	1,010
Weighted average fixed rate	2.0%	2.4%	1.3%	1.2%	1.3%	1.3%	1.4%		1.5%	

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, 2004. 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, 2004. 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

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accordingly, a fair value cannot be determined. The carrying value has therefore been included as the fair value above.

The increase in the excess of fair value over carrying amount of the Group's fixed rate Pounds Sterling borrowings between fiscal 2003 and fiscal 2004 is substantially attributable to the increase in the fair value of the Group's marketable debt instruments between March 2003 and March 2004.

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

The table above excludes certain single currency interest rate swap arrangements which have not been designated against specific borrowings. These interest rate swap arrangements, their maturity and related fair values, are disclosed below.

Outstanding single currency interest rate swap agreements are summarized as follows:

	Expected to mature before March 31					After March 31, 2009	Total	2004	2003
	2005	2006	2007	2008	2009			Unrealized loss	Unrealized loss
	(\$ millions, except percentages)						(£ millions)		
Single currency interest rate swap agreements									
Notional principal balance (US Dollars)				240			240	(4)	(5)
weighted average fixed rate payable				3.5%			3.5%		
weighted average variable rate receivable					1.1%		1.1%		

The unrealized loss 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.

Set out below are the outstanding fuel contracts at March 31, 2004, which all mature on or before March 31, 2005.

	2004		2003	
	Volume	Open acquisition value	Unrealized gain	Unrealized gain
	(barrels millions)	(\$ millions)	(\$ millions)	(\$ millions)
Futures Closed	--	--	--	--
Futures Open	--	--	--	--
Swaps	3.7	96	19	19
Collars	12.3	362	34	9
Puts	--	--	--	--
Total	16.0	458	53	28
Total (pounds Sterling equivalent millions)			29	18

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The unrealized gains/(losses) 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 2004 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, 2004. 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, 2004.

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.

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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

	2004	2003
Group Auditors		
- Audit fees	1,634	1,552
- Audit-related fees	162	386
- Tax fees	273	555
- All other fees	89	-
	<u>2,158</u>	<u>2,493</u>

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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.

Audit-related fees 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 fees include tax compliance, tax advice and tax planning services. All other fees comprises advisory services in relation to the disposal of dba.

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

Not applicable until British Airways annual report on Form 20-F for the year ending March 31, 2005.

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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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<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consent of Independent Registered Public Accounting Firm</u>	F-1
Consolidated Financial Statements	
<u>Consolidated Profit and Loss Accounts for the years ended March 31, 2004, 2003 and 2002</u>	F-2
<u>Consolidated Statements of Total Recognized Gains and Losses for the years ended March 31, 2004, 2003 and 2002</u>	F-3
<u>Consolidated Balance Sheets as at March 31, 2004 and 2003</u>	F-3
<u>Consolidated Statements of Cash Flows for the years ended March 31, 2004, 2003 and 2002</u>	F-5
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<u>Notes to Financial Statements</u>	